

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2009 Q1

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Overview¹

Productive activity at the non-financial corporations reporting their data to the Central Balance Sheet Data Office Quarterly Survey (CBQ) contracted sharply in 2009 Q1, bringing gross value added (GVA) down 13%. This negative rate of growth contrasts with the increase of 2.3% recorded in 2008 Q1 (see Table 1 and Chart 1)² and is higher than the decline seen in 2008 overall (-2.6%). It is, however, consistent with the events of the closing months of the year. This negative performance affected all sectors of the sample, although the most negative rates were seen at corporations in the wholesale and retail trade and industrial sectors, against a backdrop of declining consumption and investment in capital goods. The contribution of the external sector to non-financial corporations' results improved in 2009 Q1 as opposed to a year earlier, due to the notable decrease in imports, which was more acute than the decline in exports, against the backdrop of a collapse in international trade.

Personnel costs fell slightly (-0.2%) in 2009 Q1, in comparison with a 4.3% increase a year earlier, as headcount reductions intensified (-2.8%) and growth in average compensation moderated (2.6% against 3.4% in 2008 Q1; see Table 2.A). The decline in the average number of employees affected only temporary contracts, which were down 16.2% at firms reporting to the CBQ. The number of employees with permanent contracts remained unchanged, although this also represents deterioration on a year earlier (+0.7%). Employment fell across all sectors, with the exception of energy. Among the firms reporting to the CBQ, employment fell most notably in industry and in the wholesale and retail trade (-5% and -8.6%, respectively), in line with their weak productive activity figures. The energy sector was the only one to see its average headcount rise (+1.7%), although to a lesser extent than in 2008 Q1 (+2.1%). The contained growth in average compensation of 2.6%, almost 1 pp lower than a year earlier, is a result of the lower wage rises negotiated in the latest collective bargaining agreements, against the backdrop of the economic crisis and the falling rate of inflation (1.4% at end-2008). In fact average compensation even declined in some sectors: in industry, for example, where wage costs recorded a negative rate of change (-0.2%). The rate of growth of personnel costs per employee also decelerated considerably in the wholesale and retail trade in 2009 Q1, standing at 0.2%; this figure may be connected with the sharp cut in performance-related variable compensation at large corporations.

The decline in personnel costs offset only a minimum part of the negative rate of change of GVA; this thus passed through to gross operating profit (GOP), which fell by 22% in 2009 Q1, in comparison with growth of 0.8% a year earlier, reflecting the extent of the impact of the slowdown in activity on earnings at Spanish non-financial corporations. By contrast, financial costs declined at a rate of 5.3% in 2009 Q1, representing a turnaround in comparison with previous quarters. This improvement is a result of the lower interest rate scenario, as debt levels rose slightly, due to a number of corporate restructuring operations via purchase and sale of shares that entailed extra financing. On the whole, however, investment activity was sluggish in the quarter. Financial revenue fell sharply in 2009 Q1 (-10.3%), as firms received fewer dividends in the period, in contrast to the exceptional growth seen in this heading in

1. The information which serves as a basis for this article is that sent by the 656 corporations that had reported their quarterly data to the Central Balance Sheet Data Office as at 17 June. The GVA generated by this aggregate accounts for 11% of the total GVA of non-financial corporations. 2. These rates, obtained from the figures supplied directly by the non-financial corporations in their accounting statements, are affected by the fact that Easter fell in Q2 in 2007 and 2009 but in Q1 in 2008.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS
Growth rates of the same corporations on the same period a year earlier

TABLE 1

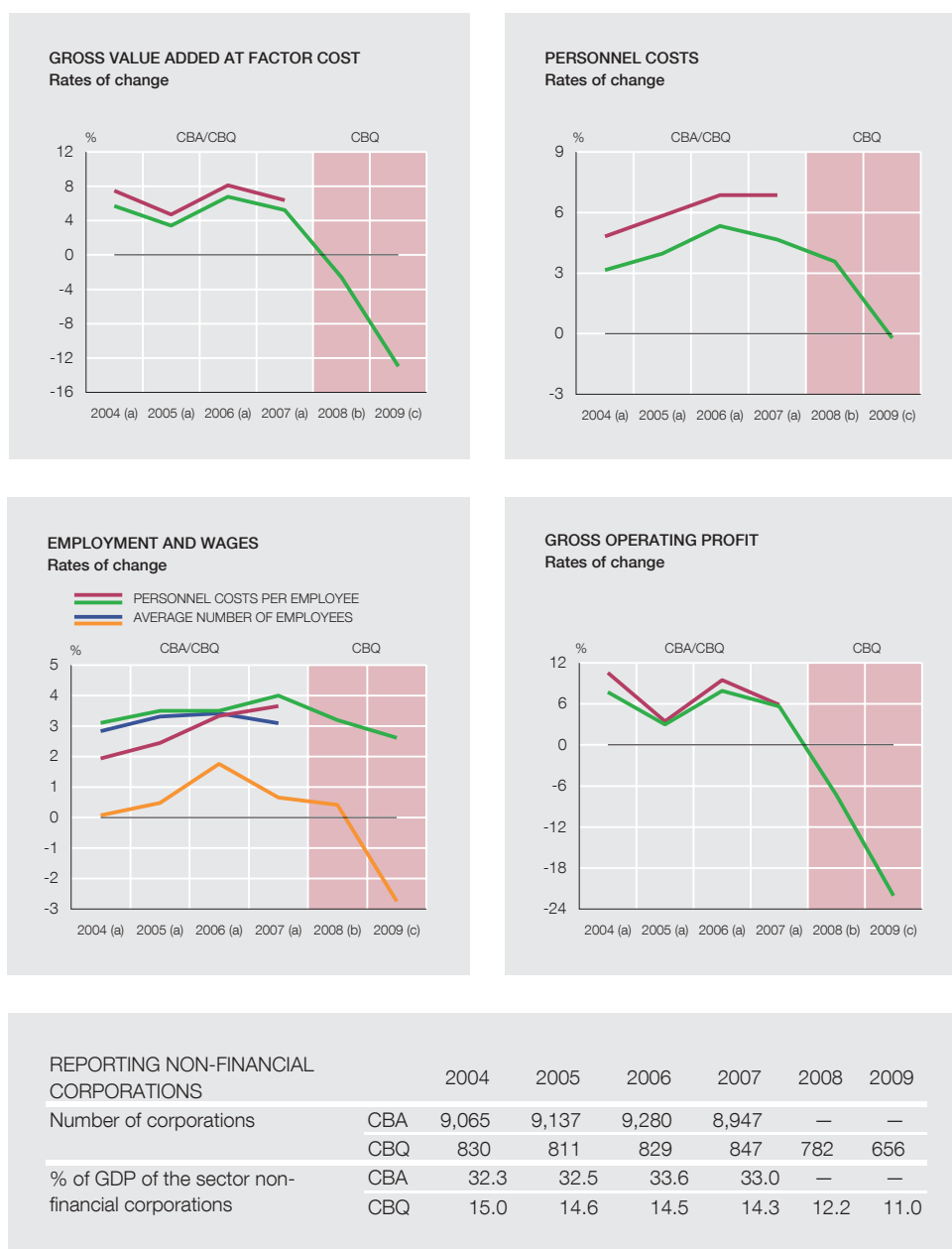
	CBA STRUCTURE	CBA		CBQ		
	2007	2006	2007	08 Q1-Q4/ 07 Q1-Q4 (a)	08 Q1/ 07 Q1	09 Q1/ 08 Q1
DATABASES						
Number of corporations		9.280	8.947	782	852	656
Total national coverage		33.6%	33.0%	12.2%	14.0%	11.0%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidiaries)	100.0	9.5	7.5	3.0	8.1	-20.2
<i>Of which:</i>						
— Net amount of turnover and other operating income	139.0	9.7	5.8	3.3	7.2	-19.6
2. INPUTS (including taxes)	68.9	10.2	8.0	5.6	11.1	-23.8
<i>Of which:</i>						
— Net purchases	39.9	12.3	6.9	4.4	16.1	-32.0
— Other operating costs	29.4	7.8	8.5	5.4	4.0	-2.7
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.1	8.1	6.4	-2.6	2.3	-13.0
3. Personnel costs	16.4	6.9	6.9	3.6	4.3	-0.2
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.8	9.5	5.9	-7.3	0.8	-22.0
4. Financial revenue	4.0	17.0	23.2	2.7	20.2	-10.3
5. Financial costs	4.0	34.3	39.0	16.4	24.0	-5.3
6. Net depreciation, impairment and operating provisions	5.2	9.9	0.0	0.7	-0.6	-8.4
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.5	5.1	4.8	-16.5	-1.4	-30.5
7. Gains (losses) from disposals and impairment (c)	-1.0	82.0	(b)	(b)	(b)	(b)
7'. As a percentage of GVA (7/S.1)		5.6	-3.1	-3.3	-1.2	5.8
8. Changes in fair value and other gains (losses) (c)	1.2	54.9	(b)	56.1	96.5	(b)
8'. As a percentage of GVA (8/S.1)		-2.9	4.0	-3.9	-0.2	-3.0
9. Corporate income tax	1.9	36.9	-14.9	-68.6	13.2	-30.3
S.4. NET PROFIT [S.3 + 7 + 8 – 9]	7.8	28.3	8.6	-28.5	-4.2	-21.5
S.4'. As a percentage of GVA (S.4/S.1)		24.3	25.1	25.9	27.4	25.0
PROFIT RATIOS						
	Formulas (d)					
R.1 Ordinary return on investment (before taxes)	(S.3 + 5.1)/NA	9.1	8.9	7.7	5.7	5.1
R.2 Interest on borrowed funds/interest-bearing borrowing	5.1/IBB	4.1	4.8	4.9	4.7	4.1
R.3 Ordinary return on equity (before taxes)	S.3/E	13.5	12.5	10.2	6.6	6.0
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	5.1	4.1	2.8	1.0	1.0

SOURCE: Banco de España.

- a. All the data in these columns have been calculated as the weighted average of the quarterly data.
b. Rate not significant or not calculable because the relevant figures are of opposite sign.
c. New P&L headings resulting from application of the new general chart of accounts (PGC 2007). Box 2 reports on the scope of the changes made. Data assimilated for 2007 and previous.
d. NA = Net Assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-Bearing Borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2). NB: In calculating rates, internal accounting movements have been edited out of items 4, 5 and 7.

2008 Q1. As financial revenue declined by more than financial costs, ordinary net profit (ONP) fell somewhat more sharply than GOP, recording a negative rate of change of -30.5% in 2009 Q1. This is the highest decline seen in this figure throughout the CBQ's data series.

As activity contracted sharply, and with it the main corporate surpluses, ordinary returns also headed down again in 2009 Q1. Thus, return on investment (ROI) stood at 5.1%, down slightly more than 0.5 pp on 2008 Q1 (5.7%), and return on equity (ROE) at 6%, down 0.6 pp on a year earlier (6.6%). The decline in the ratio that measures the cost of debt borne by firms reflects the lower interest rates: the ratio stood at 4.1% in 2009 Q1, in comparison with 4.7% a year earlier, offsetting the decline in returns. Accordingly, the differential between ROI and the cost of debt remained positive (albeit marginally, at 1 pp) across the entire sample, unchanged

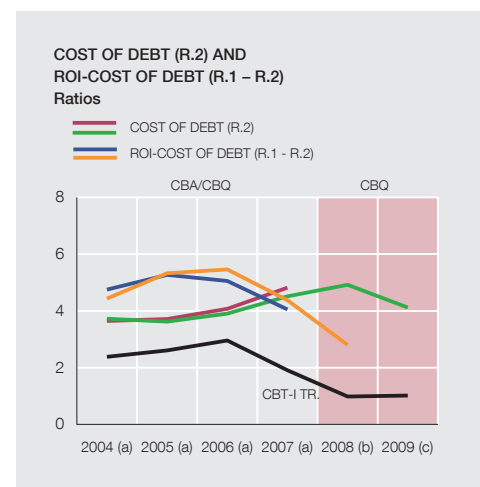
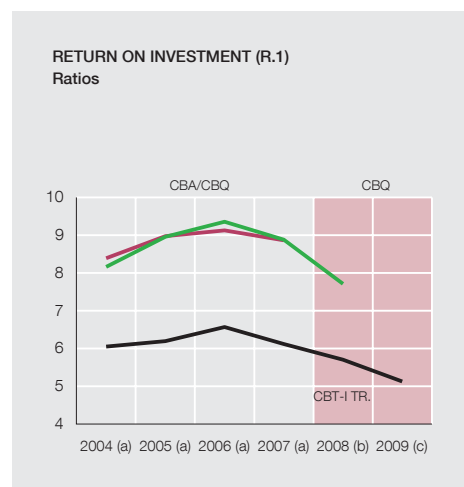
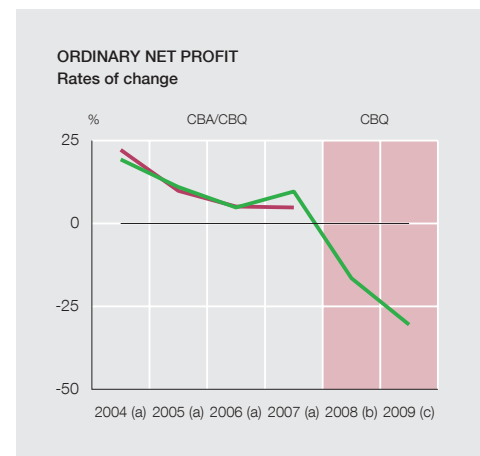
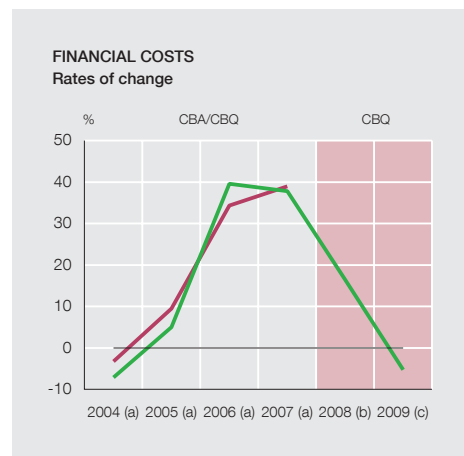


SOURCE: Banco de España.

- a. 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
- b. Average of the four quarters of 2008 relative to the same period of 2007.
- c. Data for 2009 Q1 relative to the same period of 2008.

on a year earlier. Returns declined in all sectors, although most notably in industry, which posted a negative differential with the cost of debt (-2.3), evidencing the extent of deterioration of the financial position at industrial firms.

Lastly, extraordinary transactions virtually offset each other in 2009 Q1 and thus had little impact on profit for the period, although they did mean that this surplus declined somewhat less than ONP. Accordingly, the firms in the sample saw their profits fall by 21.5% in 2009 Q1. However, as GVA also fell, when profit is expressed as a percentage of GVA the decline in



REPORTING NON-FINANCIAL CORPORATIONS		2004	2005	2006	2007	2008	2009
Number of corporations	CBA	9,065	9,137	9,280	8,947	—	—
	CBQ	830	811	829	847	782	656
% of GDP of the sector non-financial corporations	CBA	32.3	32.5	33.6	33.0	—	—
	CBQ	15.0	14.6	14.5	14.3	12.2	11.0

SOURCE: Banco de España.

a. 2004, 2005, 2006 and 2007 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).

b. Average of the four quarters of 2008 relative to the same period of 2007.

c. Data for 2009 Q1 relative to the same period of 2008.

comparison with 2008 Q1 was little more than 2 pp (from 27.4% to 25%) and the ratio remained relatively high.

To sum up, productive activity at non-financial corporations contracted sharply in 2009 Q1, prompting major reductions in all ordinary surpluses and job losses, as the average number of workers with temporary contracts declined. This adverse performance affected all sectors of activity, but most especially industry and wholesale and retail trade which were directly influenced by consumption and investment, both of which showed strong signs of recession in the

**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE.
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**
Growth rates of the same corporations on the same period a year earlier

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2007	08 Q1- Q4 (a)	08 Q1	09 Q1	2007	08 Q1- Q4 (a)	08 Q1	09 Q1	2007	08 Q1- Q4 (a)	08 Q1	09 Q1	2007	08 Q1- Q4 (a)	08 Q1	09 Q1
Total	6.4	-2.6	2.3	-13.0	3.1	0.4	0.9	-2.8	6.9	3.6	4.3	-0.2	3.7	3.2	3.4	2.6
SIZE																
Small	3.4	—	—	—	-0.4	—	—	—	4.8	—	—	—	5.2	—	—	—
Medium	5.6	-0.3	1.8	-14.0	1.7	-1.5	-0.2	-5.2	6.6	3.0	4.9	-4.7	4.8	4.6	5.1	0.5
Large	6.6	-2.7	2.3	-12.9	3.4	0.5	1.0	-2.6	7.0	3.6	4.3	0.0	3.4	3.1	3.3	2.7
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	1.4	4.1	10.9	-13.8	0.2	2.0	2.1	1.7	5.0	4.5	4.5	3.5	4.8	2.5	2.3	1.7
Industry	8.4	-12.4	-2.5	-29.5	0.3	-1.1	-0.9	-5.0	4.2	1.7	2.7	-5.2	3.8	2.8	3.6	-0.2
Wholesale and retail trade	7.1	-6.4	-1.5	-14.5	3.5	1.3	2.0	-8.6	7.0	4.5	3.6	-8.5	3.4	3.2	1.6	0.2
Transport and communications	6.9	-1.8	1.2	-7.6	1.8	-0.9	-0.9	-1.4	5.6	1.8	3.2	1.8	3.7	2.7	4.1	3.3

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

EMPLOYMENT AND PERSONNEL COSTS
Breakdown based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 2009 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	656	270	386
PERSONNEL COSTS			
Initial situation 2008 Q1 (€m)	6,461.3	2,259.2	4,202.1
Rate 2009 Q1 / 2008 Q1	-0.2	7.4	-4.3
AVERAGE COMPENSATION			
Initial situation 2008 Q1 (€)	11,625.1	13,360.5	10,866.2
Rate 2009 Q1 / 2008 Q1	2.6	1.3	2.5
NUMBER OF EMPLOYEES			
Initial situation 2008 Q1 (000s)	556	169	387
Rate 2009 Q1 / 2008 Q1	-2.8	6.0	-6.6
Permanent			
Initial situation 2008 Q1 (000s)	462	132	330
Rate 2009 Q1 / 2008 Q1	0.0	5.3	-2.2
Non-permanent			
Initial situation 2008 Q1 (000s)	94	37	57
Rate 2009 Q1 / 2008 Q1	-16.2	8.5	-32.1

SOURCE: Banco de España.

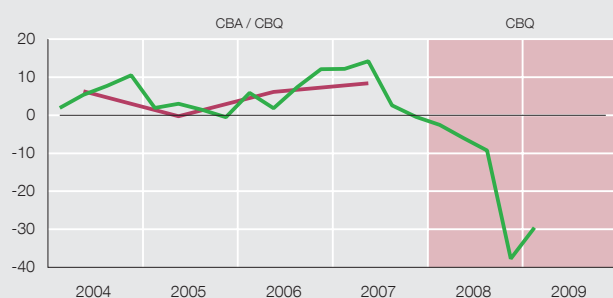
Activity contracted sharply at the industrial firms in 2009 Q1, reflected in the decline of -29.5% in their GVA. This is the largest decline in this sector in the quarterly series that began in 1994, confirming the significant impact that the decline in exports and in investment in capital goods has had on industrial firms, and the impact the deterioration in construction activity has had on auxiliary industry. Thus, although all industrial aggregates saw their GVA decrease significantly, the sharpest declines were in glass, ceramic and metal products (-54%), chemical industries (-32%) and other manufacturing industries (-25.8%). Net external demand (exports less imports) performed favourably, making a positive contribution as imports declined more than exports, against a backdrop of notable sluggishness in international trade. The deterioration in industrial activity led to a deterioration in employment: the average number of employees in the sector fell at a rate of -5% in 2009 Q1, which is, as in the case of activity, the largest decline in this aggregate since the launch of the CBQ's data series. Personnel costs

per employee recorded a very moderate performance, practically flat (-0.2%) in 2009 Q1, as opposed to growth of 3.6% a year earlier. This moderation in average compensation is due to the lower wage increases set in collective bargaining agreements, against a backdrop of uncertainty and low inflation rates, and to the sharp cuts seen in performance-related variable compensation. In fact, average personnel costs even declined in some sub-sectors: -2% in food, beverages and tobacco; -2.5% in glass, ceramic and metal products; and -3.5% in other manufacturing industries. As a result of the performance of employment and average compensation, personnel costs fell at a rate of -5.2% in 2009 Q1, but this was insufficient to prevent a major adjustment in gross operating profit (-60.6%), reflecting the sharp contraction in industrial activity in the period. In contrast to the rest of the sample, the industrial sector saw its financial revenue and financial expenses increase in 2009 Q1. However this was due, in both cases, to one-offs (new borrowings, on the expenses side, and receipt of dividends, on the

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

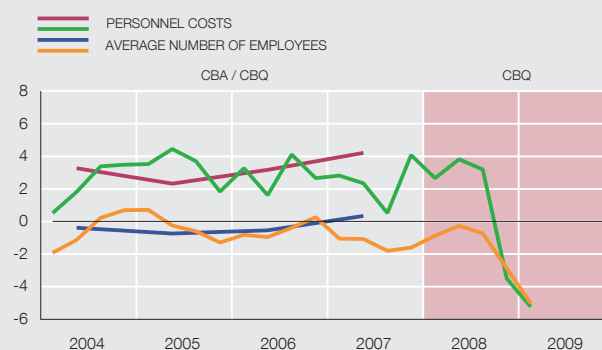
GROSS VALUE ADDED AT FACTOR COST

Rates of change



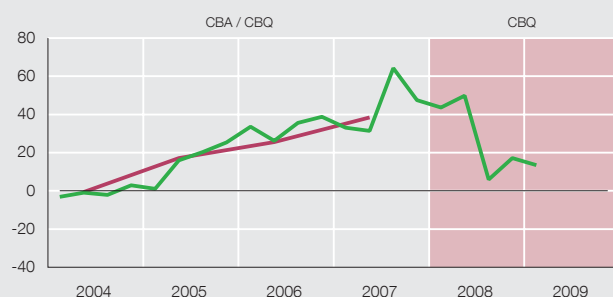
EMPLOYMENT AND WAGES

Rates of change



FINANCIAL COSTS

Rates of change



RETURN ON INVESTMENT

Ratios



REPORTING INDUSTRIAL CORPORATIONS

		2004				2005				2006				2007				2008				2009		
Number of corporations	CBA	2,538				2,476				2,471				2,345				-				-		
	CBQ	353	343	336	334	325	313	306	298	321	305	292	283	316	305	290	286	291	276	254	234	207	-	-
% of GDP of the sub-sector industrial corporations	CBA	29.4				28.8				31.5				33.0				-				-		
	CBQ	20.0	20.3	18.3	19.7	19.5	20.2	17.2	17.7	18.9	18.0	16.5	17.6	19.8	19.9	16.4	17.2	17.3	16.5	12.1	8.2	8.4	-	-

SOURCE: Banco de España.

revenue side), with no significant impact on the declining profit trajectory. Accordingly, ordinary net profit fell sharply (-68.2%), at a similar rate to gross operating profit. Return on investment and return on equity also fell considerably: ROI declined by 4 pp to 2.3% in 2009 Q1, while ROE dropped to 0.3%, well below the 7.9% recorded a year earlier. As in the rest of the sample, the ratio that measures the cost of debt reversed, down to 4.6% in 2009 Q1 (0.3 pp lower than in 2008 Q1), as a result of the lower interest rates. Nevertheless, this decrease was not sufficient to prevent the

differential between ROI and the cost of debt from turning negative (-2.3), for the first time in this aggregate since 1996 when interest rates were considerably higher (around 10%). This confirms and sums up the difficult situation faced by the industrial sector, which has been more directly affected than other aggregates by the adverse international developments and the general climate of uncertainty and which has seen contraction in its activity and its returns, along with a marked decrease in its capacity to generate profit and create jobs.

quarter. The resultant decline in ordinary returns was accompanied by a decline in the cost of debt, which offset the impact on the differential between the two (ROI - cost of debt), although this differential remains very narrow.

Activity

In 2009 Q1, productive activity at the non-financial firms reporting to the CBQ declined significantly, continuing in the adverse pattern seen in the closing months of 2008 and leading to a decline of 13% in gross value added (GVA) in the period, in comparison with growth of 2.3% a year earlier (see Table 1 and Chart 1). The sharp decline in intermediate consumption and production (-23.8% and -20.2%, respectively) is further evidence of how the contraction in activity heightened in 2009 Q1. The contribution of the external sector improved as net external demand (exports net of imports) rose (see Table 3), as a result of the sharp deceleration in imports, which was more acute than that of exports, against the backdrop of a severe downturn in world trade.

A more detailed breakdown by sector (see Table 2.A) shows, first, that GVA contracted in all the aggregates, although with a varying degree of intensity. Thus, the wholesale and retail trade and industrial sectors posted the most negative rates of change in productive activity. Industrial firms' GVA fell at a rate of -29.5% in 2009 Q1, primarily as a result of the decline in investment in capital goods and another poor performance from the sub-sectors most closely connected to the construction industry. Activity also declined considerably in the wholesale and retail trade sector, with GVA falling at a rate of -14.5%, as a result of weak consumption against a backdrop of great uncertainty. In the transport and communications sector, GVA fell at a rate of -7.6% in 2009 Q1, in comparison with growth of 1.2% a year earlier. Within this aggregate, telecoms and air traffic, which are the sub-sectors most directly affected by the present downturn, recorded the most negative performance. Lastly the energy sector saw its GVA fall at a rate of -13.8% in 2009 Q1, in comparison with growth of 10.9% a year earlier. In this case, GVA declined sharply in the two main sub-sectors, that is, in electricity, gas and water utilities and, especially, in refining. Thus GVA fell at a rate of -30.8% in the oil refining companies, due largely to shrinking corporate margins as oil prices headed sharply downwards (see Chart 2). In the utilities sub-sector, GVA fell at a rate of -8.8%, in comparison with growth of 5.9% a year earlier, mainly as a result of the fall-off in demand (demand for electricity declined by 6.5% in 2009 Q1, according to data from Red Eléctrica).

Finally Chart 3, which depicts the distribution of corporations by rate of change in GVA, irrespective of their size or economic sector, shows a very significant increase in the percentage of corporations posting a decline in this variable in the period analysed, in comparison with a

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure and rates of change

TABLE 3

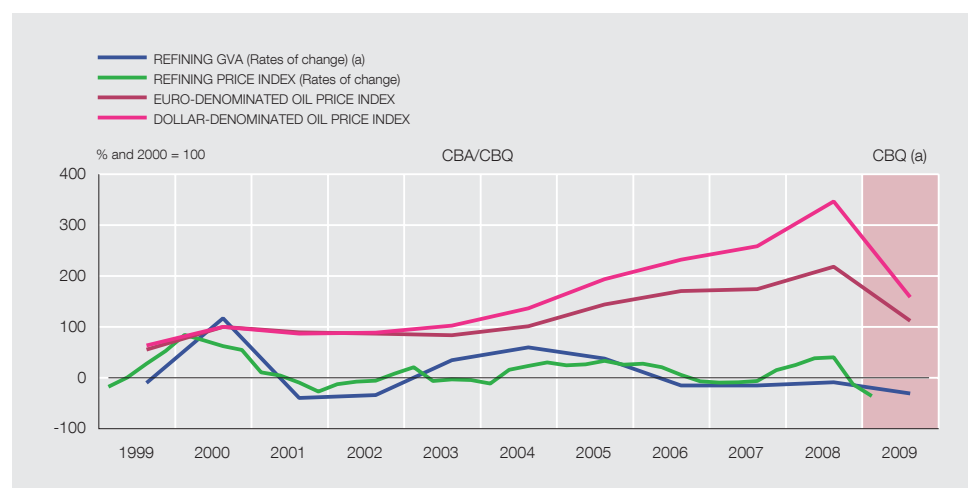
		CBA	CBQ (a)		
		2007	08 Q1-Q4 (a)	08 Q1	09 Q1
Total corporations		8,947	782	656	656
Corporations reporting source/destination		8,947	732	615	615
Percentage of net purchases according to source	Spain	67.1	77.5	79.0	81.9
	Total abroad	32.9	22.5	21.0	18.1
	<i>EU countries</i>	19.2	15.6	14.3	13.0
	<i>Third countries</i>	13.8	6.9	6.7	5.2
Percentage of turnover according to destination	Spain	84.8	90.2	91.5	90.8
	Total abroad	15.2	9.8	8.5	9.2
	<i>EU countries</i>	10.5	6.9	6.5	6.5
	<i>Third countries</i>	4.7	2.8	2.0	2.7
Net external demand (exports less imports), rate of change	Industry	-10.5	65.1	73.1	(b)
	Other corporations	-6.3	23.2	5.0	60.3

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the relevant quarterly data.

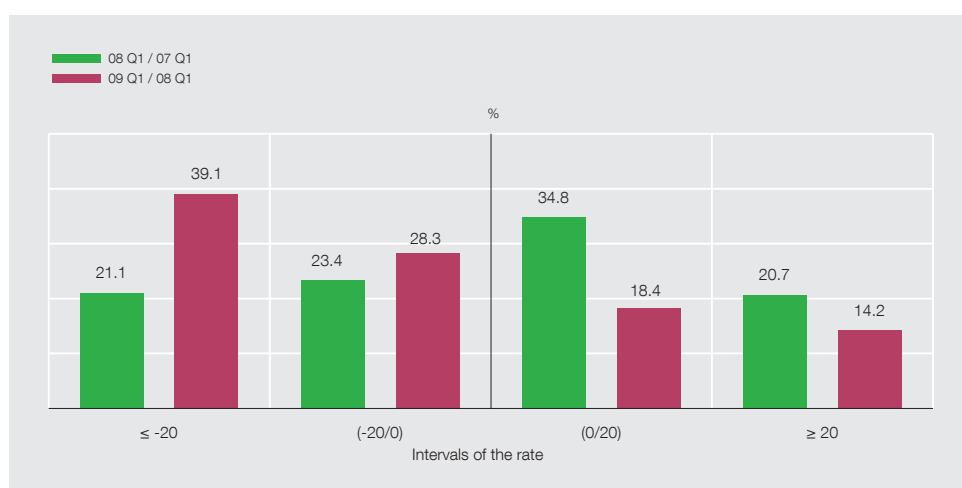
IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2



SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2009 data relate to the CBQ.



SOURCE: Banco de España.

year earlier. This signifies that the decline in activity has intensified and spread to the majority of corporations in the sample. Thus, while 44.5% of corporations recorded contraction in GVA in 2008 Q1, this figure rose to 67.4% in 2009 Q1. Furthermore, there is a clear increase in the percentage of corporations recording a decline in GVA in excess of 20%: 39.1% in 2009 Q1 as opposed to 21.1% in 2008 Q1.

Employment and personnel costs

In 2009 Q1 personnel costs fell at a rate of -0.2% , against an increase of 4.3% in 2008 Q1; this is due to the negative employment performance and to the greater moderation seen in average compensation growth in 2009 Q1.

In effect, average employment at CBQ sample firms fell at a rate of -2.8% in 2009 Q1, as opposed to growth of 0.9% in 2008. The deterioration in productive activity was seen in temporary employment, which bore the brunt of workforce restructuring, declining at a rate of -16.2% (see Table 2.B). Permanent employment was unchanged, although this represents deterioration on a year earlier when it grew by 0.7% . The sectoral breakdown (see Table 2.A) shows that employment figures worsened overall, although the industry and wholesale and retail trade aggregates reflect the most job destruction, in line with their extremely weak productive activity figures. Thus, the average number of employees in the industrial firms in the CBQ sample fell at a rate of -5% , accentuating the pattern of job destruction seen in 2008 in this aggregate (-0.9% in 2008 Q1 and -1.1% in the full year). Workforce restructuring was more severe in the wholesale and retail trade sector, as the average number of employees fell at a rate of -8.6% , as opposed to an increase of 2% a year earlier (although the comparison is affected by the retail outlet openings seen in 2008). The transport and communications sector also destroyed employment in 2009 Q1 (-1.4% , marginally higher than the -0.9% recorded a year earlier). In fact the energy sector was the only one that created employment ($+1.7\%$), although the rate of growth was short of that seen in 2008 Q1 ($+2.1\%$). Lastly, Table 4 shows how job destruction has spread to most of the sample firms: the average number of employees fell in 61% of these firms in 2009 Q1, in comparison with 39.8% in 2008 Q1.

Average compensation grew at a contained pace in 2009 Q1, rising by 2.6% as opposed to 3.4% a year earlier. A certain degree of wage cost moderation was seen in general across all the sample sectors, as the downturn and extremely low inflation rates prompted lower in-

Percentage of corporations in specific situations

	CBA		CBQ			
	2006	2007	07 Q1-Q4 (a)	08 Q1-Q4 (a)	08 Q1	09 Q1
Number of corporations	9,280	8,947	847	782	852	656
PERSONNEL COSTS	100	100	100	100	100	100
Falling	25.4	26.1	28.8	32.8	26.3	54.3
Constant or rising	74.6	73.9	71.2	67.2	73.7	45.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	31.4	38.7	45.8	39.8	61.0
Constant or rising	69.1	68.6	61.3	54.2	60.2	39.0
AVERAGE COMPENSATION PER EMPLOYEE RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	38.5	38.1	44.8	48.7	48.1	50.9
Higher or same growth (b)	61.5	61.9	55.2	51.3	51.9	49.1

SOURCE: Banco de España.

a. Weighted average of the relevant quarters for each column.

b. Year-on-year rate of change in the CPI in December of the previous year.

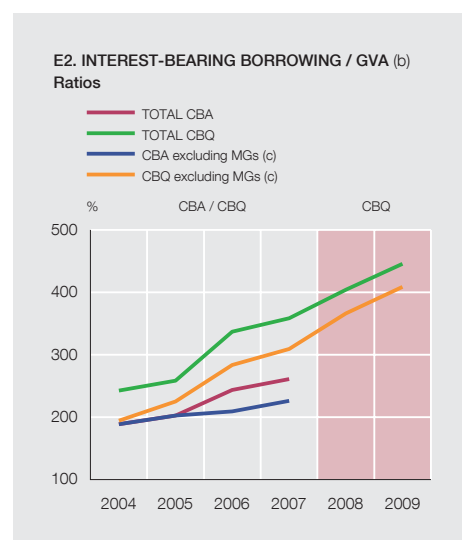
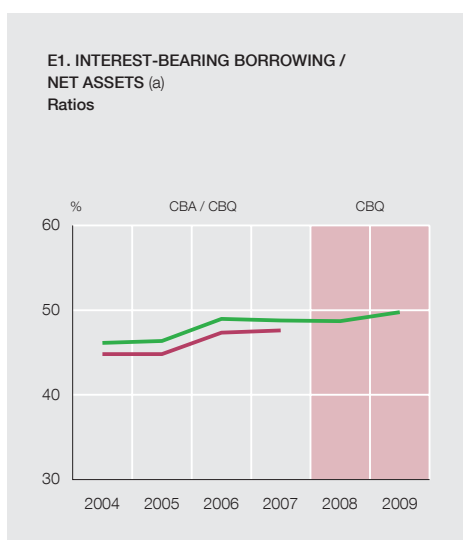
creases in wage bargaining agreements. Table 4 confirms this development, showing that the percentage of corporations in which the rate of change of compensation per employee was below inflation rose in 2009 Q1 to 50.9%, from 48.1% a year earlier. By sector, industry and the wholesale and retail trade saw the most intense slowdown in average compensation growth (in fact the industrial sector posted negative rates of change (-0.2%)), primarily as a result of the sharp reductions in performance-related variable compensation at some large corporations. Lastly Table 2.B, which distinguishes between corporations that have maintained or raised their average number of employees and those that have destroyed employment, shows that, as is customary, the firms that created employment were those with the most contained growth in average compensation (+1.3%). It also shows that the firms that destroyed employment recorded more contained wage cost growth (+2.5%) than in the past.

Profits, rates of return and debt

Despite the decline in personnel costs, the sharp contraction in productive activity meant that gross operating profit fell at a rate of -22% in 2009 Q1, in comparison with minor growth of 0.8% a year earlier. Financial costs also declined in 2009 Q1, at a rate of -5.3%, in this case for the first time since 2004. As shown in Chart 4, which depicts the ratio of interest to GOP plus financial revenue, this enabled firms to ease their debt burden somewhat (down to 27%, a drop of 0.7 pp in comparison with 2008 Q1), even though the ratio's denominator also declined. The table below permits analysis of the reasons behind the decline in financial costs in 2009:

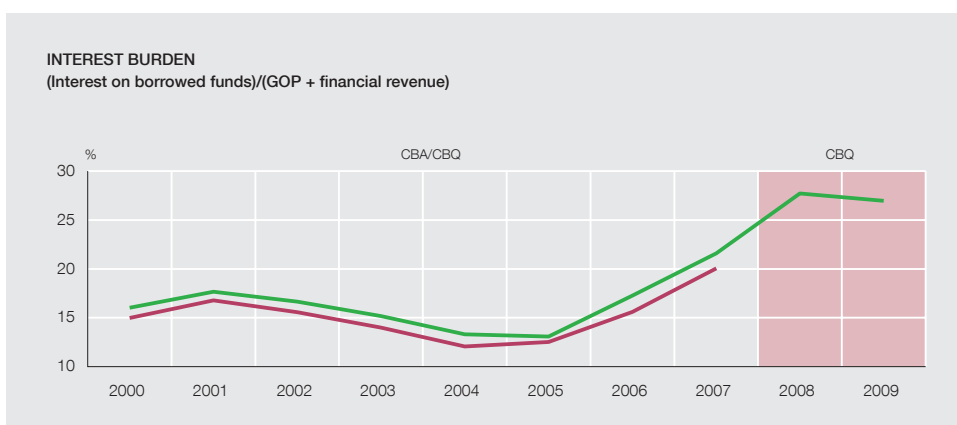
	<i>09/08 Q1</i>
Change in financial costs	-5.3%
A. <i>Interest on borrowed funds (1 + 2)</i>	-4.8%
1. <i>Due to the cost (interest rate)</i>	-16.6%
2. <i>Due to the amount of interest-bearing debt</i>	11.8%
B. <i>Commissions and cash discounts</i>	-0.5%

The table shows that these costs declined as a result of the interest rate cuts that were gradually passed through to firms' financial costs. This decline was partially offset by the change due to the amount of debt, which rose moderately in 2009 Q1, although this aggregate change was due to



	2004	2005	2006	2007	2008	2009
CBA	44.8	44.8	47.3	47.6	48.7	49.8
CBQ	46.2	46.4	49.0	48.8	48.7	49.8

	2004	2005	2006	2007	2008	2009
CBA	188.6	202.3	243.4	261.2	404.2	445.7
CBQ	242.6	258.5	337.0	358.6	404.2	445.7
CBA excl. MGs	188.6	202.3	209.0	226.0	366.3	408.6
CBQ excl. MGs	194.1	225.1	283.6	309.3	366.3	408.6



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CBA	15.0	16.8	15.6	14.0	12.1	12.5	15.6	20.0	27.7	27.0
CBQ	16.0	17.7	16.7	15.2	13.3	13.1	17.3	21.6	27.7	27.0

SOURCE: Banco de España.

- a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
- b. Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).
- c. MGs: Sample corporations belonging to the main reporting multinational groups. These do not include the large construction sector companies.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT (ROI) AND ROI-COST OF DEBT (R.1 - R.2).

TABLE 5

BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

Ratios and rates of change of the same corporations on the same period a year earlier

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1	2007	08 Q1 - Q4 (a)	08 Q1	09 Q1
Total	5.9	-7.3	0.8	-22.0	4.8	-16.5	-1.4	-30.5	8.9	7.7	5.7	5.1	4.1	2.8	1.0	1.0
SIZE																
Small	1.1	—	—	—	-1.5	—	—	—	7.4	—	—	—	2.5	—	—	—
Medium	4.4	-4.2	-2.0	-25.5	-3.9	-2.5	-6.5	-42.0	8.0	7.7	6.8	4.1	3.2	1.7	2.1	0.3
Large	6.1	-7.4	0.9	-21.9	5.8	-16.9	-1.2	-30.2	9.0	7.7	5.7	5.1	4.1	2.8	1.0	1.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	0.4	4.0	12.5	-17.7	1.1	-0.7	6.9	-19.2	8.9	8.2	7.5	5.4	4.6	3.5	3.0	1.7
Industry	14.0	-28.4	-8.2	-60.6	13.6	-52.8	-37.1	-68.2	10.1	5.4	6.4	2.3	5.0	0.4	1.5	-2.3
Wholesale and retail trade	7.3	-23.1	-7.3	-22.8	4.0	-22.7	-1.5	-37.7	10.9	4.9	9.6	6.2	6.0	0.6	5.0	1.8
Transport and communications	7.8	-4.2	-0.2	-14.2	23.7	-4.3	1.4	-23.0	10.3	10.7	10.1	8.4	5.8	6.0	5.6	4.6

SOURCE: Banco de España.

a. All the data in these columns have been calculated as the weighted average of the quarterly data.

STRUCTURE OF REPORTING CORPORATIONS' RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 6

		CBQ			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		08 Q1	09 Q1	08 Q1	09 Q1
Number of corporations		852	656	852	656
Percentage of corporations by profitability bracket	R ≤ 0%	24.4	36.6	32.5	42.8
	0% < R ≤ 5%	23.4	25.8	14.4	18.1
	5% < R ≤ 10%	17.6	14.3	13.6	9.1
	10% < R ≤ 15%	10.2	4.7	8.9	5.8
	15% < R	24.4	18.6	30.5	24.1
MEMORANDUM ITEM: Average return		5.7	5.1	6.6	6.0

SOURCE: Banco de España.

certain large share transactions made within the framework of a restructuring process in the energy sector that entailed additional borrowing by the firms involved. In any case, the rate of growth of debt moderated in general; this is consistent with the sluggish investment conditions in the sample firms and the uncertainty that prompted most firms to postpone their investment decisions. The data compiled by the CBQ to approximate business investment show a decline of -7.8% in 2009 Q1. The E1 ratio (see Chart 4) reflects a minor increase in debt levels in 2009 Q1, as net equity (which forms part of the denominator, together with borrowed funds) remained virtually unchanged and interest-bearing borrowing (the numerator) rose slightly. The E2 ratio, which approximately measures the debt burden relative to firms' repayment capacity, continued to head upward, as in previous quarters, driven by the minor increase in interest-bearing debt and, above all, by the decline in ordinary revenue.

As a result of the entry into force of the new chart of accounts (PGC 2007) in 2008 Q1, the non-financial corporations have had to apply new valuation criteria including, in particular, "fair value" accounting for a number of financial assets. The Central Balance Sheet Data Office (CBSO) has regularly informed of the potential impact of this change on the quarterly data reported by the CBQ sample firms,¹ although to date this impact has been limited. With a view to reducing the reporting burden, as from 2008 the CBSO has been collecting information from the CBQ reporting corporations via a questionnaire that is fully adapted to the new chart of accounts, entailing changes in the data breakdown. As a result of these changes, adjustments have had to be made to the profit and loss account in Table 1 of this article and to the time data series published in Chapter XV of the Banco de España's *Boletín Estadístico*. This is the first time these

adjustments are included, now that two consecutive observations (2008 Q1 and 2009 Q1) are available under the new format.

As the accompanying table shows, the change in format only affects the extraordinary profit and loss headings. The table also shows the highest level of detail available in the questionnaires that serve as a basis for the data, to reflect the content and the analytical limitations of these new data, as noted below. The following aspects of these changes should be highlighted:

- As indicated above, the changes only affect the extraordinary profit and loss headings; accordingly, ordinary net profit (ONP), the heading on which the CBSO's profit analysis is fundamentally based, is not significantly different from the data obtained previously. Nevertheless, when the time series were reviewed, it was decided to include amortisation of capital grants in ONP, to enhance its calculation: hereafter, ONP includes fixed asset depreciation net of capital grants, a change that does not represent a break in the series. The change means that returns increase by a few decimal points throughout the data series.

1. This impact has been quantified in successive quarterly articles on results of non-financial corporations, the first published in the *Economic Bulletin* of July 2008 relating to 2008 Q1 (see Box 1: "Implementation of the new Spanish general chart of accounts. Effects on corporations' accounting data").

CBQ QUESTIONNAIRE HEADINGS UNDER PGC 1990

	Sign	Absolute values (€m)		% GVA	Rate
		07 Q1-Q4	08 Q1-Q4		
7. Extraordinary revenue and expenses		15,322	5,841	9.7	-61.9
1. Capital gains and extraordinary revenue	+	20,408	11,883	19.7	-41.8
2. Capital losses and extraordinary expenses	-	5,087	6,042	10.0	18.8
8. Other headings (provisions and taxes)		18,191	10,220	16.9	-43.8
1. Provisioning expense (net)	+/-	14,498	8,577	14.2	-40.8
2. Corporate income tax	-	3,693	1,643	2.7	-55.5

CBQ QUESTIONNAIRE HEADINGS UNDER PGC 2007

	Sign	Absolute values (€m)		% GVA	Rate
		08 Q1	09 Q1		
7. Gains (losses) from disposals and impairment		46	788	5.8	(a)
1. Fixed assets	+/-	128	-25	-0.2	(a)
2. Financial instruments	+/-	-82	814	6.0	(a)
8. Changes in fair value and other gains (losses)		-118	-401	-3.0	(a)
1. Change in fair value of financial instruments	+/-	252	-120	-0.9	(a)
2. Overprovisioning	+	31	64	0.5	105.2
3. Exchange differences	+/-	-28	-181	-1.3	(a)
4. Severance pay	-	138	157	1.2	13.4
5. Other extraordinary gains (losses)	+/-	-235	-7	0.0	97.1
9. Corporate income tax	-	1,313	916	6.8	-30.3

SOURCE: Banco de España.

a. Rate impossible to calculate

- Extraordinary revenue and expenses, which are not included under this name in the new chart of accounts, are no longer booked separately (capital losses and extraordinary expenses, on the one hand, and capital gains and extraordinary revenue, on the other), but as a net amount (revenue less expenses). This presentation option, defined in the PGC 2007, affects the explanatory power of the rates of change and makes them more volatile, as it adds together positive and negative headings in the numerators and denominators. In fact there will be many cases in which it will be impossible to calculate the rates of change (when the headings go from negative to positive or vice versa, as in the case of the 2009 Q1 data), and others in which the rates of change go beyond double-digit, as they are calculated on the basis of very low (net) figures, and thus lose all their analytical value. For this reason, Table 1 of this article will hereafter include not only the rates of change but also the structure of these headings relative to GVA.
- The accompanying table sets out the items contained in the summary headings included in Table 1, and their relative importance in 2009 Q1:
 - a) Heading 7, "Gains (losses) from disposals and impairment", is identical to the same heading in the profit and loss account under the new chart of accounts. It includes gains and losses from the sale of fixed assets and financial instruments and impairment, that is, the valuation adjustment made at the end of the period for reversible deterioration in these asset balances. This heading totalled 5.8% of GVA in 2009 Q1.
 - b) Heading 8, "Changes in fair value and other gains (losses)", is a group of extraordinary items created by the CBSO for analytical purposes, including severance pay, exchange differences, overprovisioning income, other extraordinary gains (losses) and, lastly, changes in fair value.
 - c) The key new feature here is precisely the presence of "Changes in fair value of financial instruments", which records changes in the value of financial assets that may be fair value accounted. For 2009 Q1, the combined impact of exchange differences and fair value adjustments was negative and limited (-1.3% and -0.9% of GVA, respectively). Nevertheless, this valuation should be reviewed when the data for full-year 2008 become available (in November 2009) and, in future years, when the new valuation procedure is more established and the doubts expressed by some firms regarding its application have been settled.

Financial revenue fell sharply in 2009 Q1 (-10.3%), as firms received fewer dividends (these fell at a rate of -24.3% in the period analysed, although the comparison is based on exceptionally high dividend revenue in 2008 Q1). Accordingly, the decline in ordinary net profit (ONP) heightened, falling at a rate of -30.5%, an unprecedented figure in a first quarter throughout the CBQ's data series and the result of generalised deterioration across all areas of activity (see Table 5). The combined performance of ONP and financial costs meant that ordinary returns were notably lower than in previous quarters. Thus, return on investment (ROI) stood at 5.1% in 2009 Q1, down slightly more than 0.5 pp on 2008 Q1, and return on equity (ROE) stood at 6%, down 0.6 pp on a year earlier (6.6%). Financial costs borne by firms (the R.2 ratio) also declined in 2009, with average financial costs down from 4.7% a year earlier to 4.1%, due to the impact of the interest rate cuts. Accordingly, the differential between ROI and financial costs remained positive (albeit marginally, at 1 pp) and virtually unchanged on 2008. The differential narrowed across all sectors of activity (from 5 to 1.8 in wholesale and retail trade), but most noticeably in industry where it turned negative (-2.3).

To conclude, analysis of the extraordinary or non-recurrent items³ shows that no changes in 2009 Q1 had a significant impact on profit for the period. Capital gains obtained on asset sale transactions within the framework of reorganisation of some energy sector firms and the substantial drop in corporate income tax (-30.3%) both added to profit for the period, but share portfolio impairment charges detracted from firms' book profit. The combined impact of these

3. The profit and loss account format has been adapted to the new general chart of accounts. This has affected presentation of these extraordinary items, which include, as key new features since 2008 Q1, changes in fair value and net recording of extraordinary revenue and expenses. This makes analysis of these rates of change more difficult, given their increased volatility. The impact of these changes is analysed in more detail in Box 2.

impairment charges and capital gains (items which, under the new general chart of accounts, are reported together) was positive (5.8% in terms of GVA structure), while changes in equity due to fair value accounting and other extraordinary items were negative (representing -3% relative to GVA). In any case, as indicated above, the net effect of these changes on profit was negligible, meaning that profit for the period continued to decline sharply (-21.5%), in line with, although slightly less marked than, the decline in ONP. Lastly, the ratio between profit for the period and GVA also fell, from 27.4% in 2008 to 25% in 2009 Q1, although it remained quite high since GVA, which is the denominator, also declined in the period.

17.6.2009.