RESULTS OF NON-FINANCIAL CORPORATIONS IN 2009 AND IN THE FIRST THREE QUARTERS OF 2010

Overview[1]

In line with usual practice, this edition of the Banco de España's Economic Bulletin presents an analysis of the results for 2009 of the firms contributing to the Central Balance Sheet Data Office Annual Survey (CBA) and those for 2010 Q1-Q3, on the basis of the information from the Central Balance Sheet Data Office Quarterly Survey (CBQ). The latter can be considered a preliminary indicator of the results for the full year in the CBQ, which will be released in April 2011, and will be completed with annual data from the CBA in November of that year.

The CBA results for 2009 (see Table 1 and Chart 1) broadly confirm what has been anticipated by the CBQ sample for that period: that the productive activity of non-financial corporations contracted sharply in 2009, a period in which gross value added (GVA) dropped 7.2%, heightening the contractionary trend which had begun in 2008, when GVA fell 2.7%. This negative performance affected all sectors of activity without exception, against the backdrop of widespread crisis, although it proved particularly severe in the industrial sector, where GVA decreased by -15.4% (see Box 1).

Conversely, 2010 Q1-Q3 as a whole saw a recovery in the productive activity of the CBQ sample corporations, with 4.4% growth in GVA in nominal terms, in contrast with the decline of 11.8% in the same period of 2009. This change was evident in all sectors of activity, except for that of information and communication, the only one to continue to post negative rates of change in GVA (-4.3%) in 2010 Q1-Q3, although they are appreciably lower than those of the previous year (-7.8%). These changes in activity in 2010 reflect the performance of consumption and the rebound of external activity. However, the quarterly data point to a weakening of growth in activity in Q3 with respect to that posted in the first half of the year. These data were undoubtedly influenced by the expiry of the government's Plan 2000E to support new car purchases and by spending decisions being brought forward to the first half of the year, due to the rise in indirect taxes which came into force on 1July 2010.

Personnel costs decreased by -3.2% in 2009 and by -1.5% in 2010 Q1-Q3. In both cases, this decline was due to the behaviour of employment, which posted negative rates of change in the two periods, and to the gradual moderation of growth in average compensation, which recorded increases of 1.5% in 2009 and of 0.8% to 2010 Q3. Indeed, as regards employment, widespread cuts have been made by firms in staff levels since 2009. This adjustment has affected firms of all sizes and sectors without exception, although the hardest hit have been the smaller ones (where staff numbers declined by 8.3% compared with 4.4% at large corporations in 2009). Turning to the various sectors, the industrial sector saw a sharp contraction of activity in 2009, as indicated above, and the steepest decline in the number of jobs, which fell by -6.5% and -3.3% in 2009 and 2010, respectively. Finally, workforce reductions were considerably higher among temporary employees, with rates of decline of -13.2% for 2009 and -6.6% to September 2010, compared with lower decreases of -1.7% and -1.5%, respectively, for permanent employees.

1. This article was prepared on the basis of information provided by the non-financial corporations reporting to the Central Balance Sheet Data Office, which sent in their annual data to 2009 (Central Balance Sheet Data Office Annual Survey - CBA), and quarterly data to 2010 Q3 (Central Balance Sheet Data Office Quarterly Survey - CBQ) . The annual information is a summary of that included in the Banco de España publication *Central de Balances. Resultados anuales de las empresas no financieras, 2009*, released to the press on 29 November 2010. The annual survey included 6,910 corporations in 2009, and represents 26.2% of the GVA of the total non-financial corporations sector, while the quarterly survey comprises 743 corporations that, on average, reported their data to 2010 Q3 and account, in terms of GVA, for 12.8% of the sector total.

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

DATABASES	CBA STRUCTURE 2009	CBA 2008	CBA 2009	CBQ (a) 09 Q1-Q4/ 08 Q1-Q4	CBQ (a) 09 Q1-Q3/ 08 Q1-Q3	CBQ (a) 10 Q1-Q3/ 09 Q1-Q3
Number of corporations		9,535	6,910	798	811	743
Total national coverage		31.2%	26.2%	12.6%	12.9%	12.8%
PROFIT AND LOSS ACCOUNT:						
1 VALUE OF OUTPUT (including subsidies)	100.0	-0.2	-13.2	-13.5	-17.9	10.9
Of which:						
— Net amount of turnover and other operating income	*148.5*	*1.3*	*-13.8*	*-13.3*	*-16.6*	*12.1*
2 INPUTS (including taxes)	65.4	1.2	-16.1	-16.1	-21.1	14.8
Of which:						
— Net purchases	*90.7*	*0.8*	*-19.4*	*-22.5*	*-31.1*	*20.6*
— Other operating costs	*22.8*	*2.2*	*-6.6*	*-5.3*	*-4.7*	*7.2*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	34.6	-2.7	-7.2	-8.3	-11.8	4.4
3 Personnel costs	20.1	3.9	-3.2	-2.0	-1.8	-1.5
S.2 GROSS OPERATING PROFIT [S.1 – 3]	14.5	-10.2	-12.3	-13.5	-19.5	9.7
4 Financial revenue	5.5	6.8	-17.5	-11.6	-15.8	-11.3
5 Financial costs	4.5	14.0	-29.8	-31.6	-30.4	0.8
6 Net depreciation. impairment and operating provisions	6.6	7.5	-4.6	-1.2	-0.0	2.7
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	8.9	-21.5	-9.7	-6.6	-20.4	6.9
7 Gains (losses) from disposals and impairment (c)	1.9	(b)	(b)	(b)	-16.1	41.9
7' As a percentage of GVA (7 / S.1)		-6.8	5.6	7.6	7.6	6.8
8 Changes in fair value and other gains (losses) (c)	-1.7	(b)	1.3	-29.1	78.3	-37.5
8' As a percentage of GVA (8 / S.1)		-4.3	-4.9	-8.5	-1.5	-1.9
9 Corporate income tax	1.0	-66.6	55.8	(b)	-23.4	42.0
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	8.2	-56.8	63.8	55.4	-7.7	5.2
S. 4' As a percentage of GVA (S.4 / S.1)		12.5	23.6	29.6	32.8	33.0
PROFIT RATIOS	Formulas (d)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	7.6	6.3	6.2	5.3	5.5
R.2 Interest on borrowed funds / interest-bearing borrowing	5.1 / IBB	5.1	3.5	3.3	3.4	3.2
R.3 Ordinary return on equity (before taxes)	S.3 / E	9.9	8.9	8.9	7.0	7.6
R.4 ROI - cost of debt (R.1 - R.2)	R.1 – R.2	2.5	2.8	2.9	1.9	2.3

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).
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.

In 2009, gross operating profit (GOP) fell sharply, by -12.3%, because the decline in productive activity was considerably higher than the decrease in personnel costs. By contrast, in 2010 Q1-Q3 GOP benefited from the recovery in activity and the ongoing reduction in personnel costs, which led it to grow by 9.7%. This trajectory seems to have moderated in Q3 due to the effect of the trend in GVA.

Financial revenue showed a downward trend both in 2009, when it fell by -17.5%, and in 2010 Q1-Q3, when it decreased by -11.3%. These declines are mainly attributable to the lower dividends from foreign subsidiaries and the decrease in interest received as consideration for loans. Financial costs also dropped sharply in 2009, by -29.8%, and stabilised in 2010 Q1-Q3, posting a rate of change of 0.8%. These developments are a result of the strong impact in 2009 of the interest rate falls, in the form of lower financial costs. In 2010, however, this effect petered

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

REPORTING NON-FINANCIAL CORPORATIONS		2005	2006	2007	2008	2009	2010
Number of corporations	CBA	9,123	9,276	9,321	9,535	6,910	—
	CBQ	810	828	845	814	798	743
% of GDP of the sector non-financial corporations	CBA	32.6	33.5	33.9	31.2	26.2	—
	CBQ	14.6	14.4	14.1	13.1	12.6	12.8

SOURCE: Banco de España.

a. 2005, 2006, 2007, 2008 and 2009 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 first three quarters of 2010 relative to the same period of 2009.

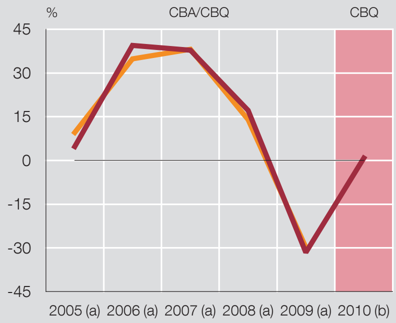
out, which, combined with the slight rise in borrowing by firms, led to financial costs remaining practically flat during the year. Relative debt levels remained stable in the two periods analysed and the slight increase in borrowing did not have a significant effect on the 2010 debt level. As a result of this performance of financial revenue and costs, ONP fell 9.7% in 2009, 2.6% less than GOP, whereas in 2010 the opposite occurred, when ONP grew 6.9%, 2.8% less than GOP. Investment fell both in 2009 and in the first three quarters of 2010.

The analysis of profit ratios also shows a mixed result in the two years. Thus, in 2009 the strong decrease in ONP resulted in a significant deterioration in return on investment and re-

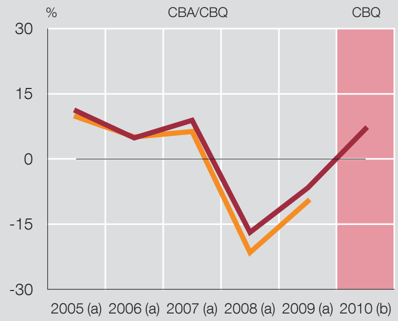
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd)

CHART 1

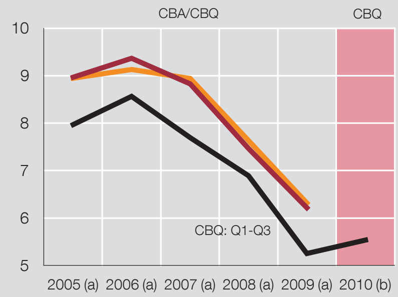
FINANCIAL COSTS
Rate of change



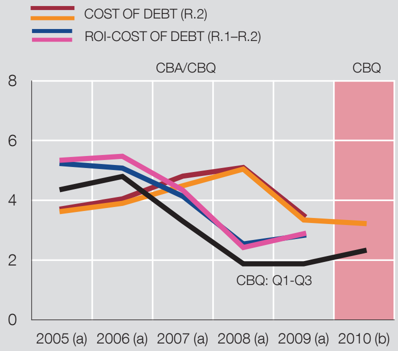
ORDINARY NET PROFIT
Rate of change



RETURN ON INVESTMENT (R.1)
Ratios



COST OF DEBT (R.2) AND
ROI - COST OF DEBT (R.1–R.2)
Ratios



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SOURCE: Banco de España.

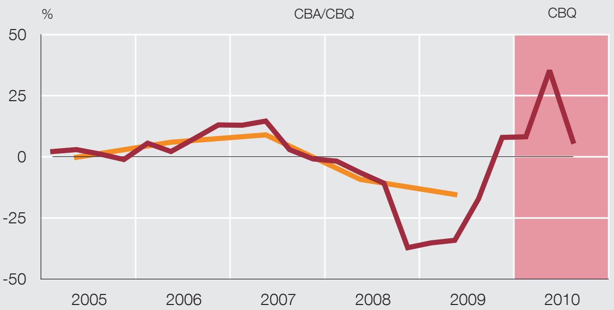
a. 2005, 2006, 2007, 2008 and 2009 data drawn from corporations reporting to the annual survey (CBA), and average data of the four quarters of each year in relation to the previous year (CBQ).
b. Average of the first three quarters of 2010 relative to the same period of 2009.

turn on equity, which fell by approximately 1 pp with respect to their values in 2008, to 6.3% and 8.9%, respectively. Ordinary profit picked up in 2010, enabling profitability levels to rise slightly with respect to the same period in 2009. Return on investment stood at 5.5% (0.2 pp higher than the value recorded to September 2009) and return on equity stood at 7.6%, slightly more than 0.5 pp higher than the figure posted one year earlier. The ratio R.2, which measures the cost of borrowing for firms, moved in line with the successive interest rate cuts in 2009 and declined to 3.5%, 1.5 pp lower than the previous year. In the first three quarters of 2010, the average cost of borrowing also fell back slightly to 3.2%, down 0.2 pp on the

The information from the Central Balance Sheet Data Office shows that the industrial sector's productive activity contracted sharply during 2009, with a 15.4% decline in GVA, which was offset by the increase in activity in 2010 Q1-Q3, when GVA rose by 16.7%. This change in trend occurred against a background of recovery in external activity which led to 23.4% growth of industrial sector exports to September 2010 compared with the decrease of –23.1% posted a year earlier. However, as also occurred in the total quarterly sample, analysis of activity in 2010 shows that the expansionary trend of the first two quarters slowed in Q3. This was extensive to all industrial sub-sectors, although it was more severe in the manufacture of transport equipment sub-sector, probably due to the end of the government assistance for car purchases (Plan 2000E). Personnel costs decreased very markedly in 2009 (–6.5%) and more smoothly in 2010 Q1-Q3 (–1.7%), essentially as a result of the decrease in employment in the industrial sector in recent years. For instance, the average number of employees declined in this sector by –6.5% in 2009 and by –3.3% to September 2010, as a result of the adjustment processes which have pervaded practically all industrial sub-sectors. In this setting, average compensation posted moderate rises, which were practically zero in 2009 and slightly lower than 2% in 2010 Q1-Q3, in line with the general pattern of lower wage increases, that were also recorded in the total sample. The changes in productive activity fed through to other ordinary surpluses, with the result that gross operating profit and ordinary net profit fell abruptly in 2009, then picked up in 2010 Q1-Q3, and that profit ratios also showed declines and recoveries in the two periods, although these were more contained. Thus, return on investment stood at 4.2% in 2009, down 3 pp from the previous year, which is the lowest level in the annual series for the industrial sector since 1993. During 2010 to date, profitability rose to 4.2%, nearly 2 pp higher than in the same period of the previous year. The ratio which

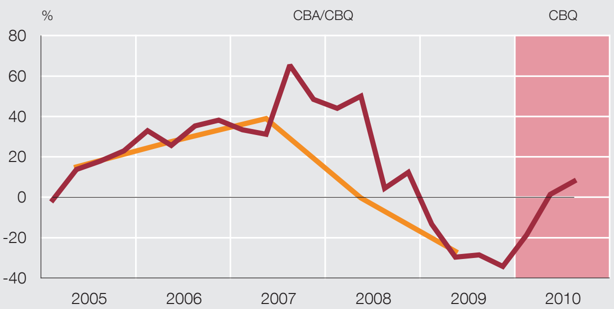
PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

GROSS VALUE ADDED AT FACTOR COST
Rate of change

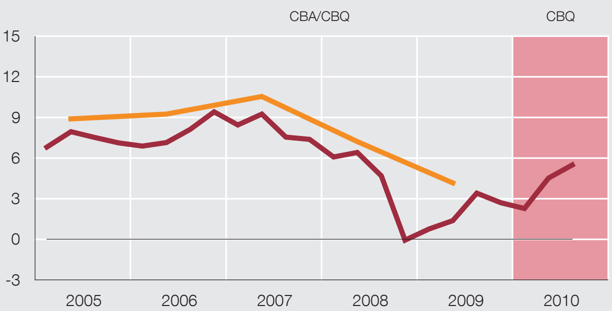


EMPLOYMENT AND WAGES
Rate of change

FINANCIAL COSTS
Rate of change



RETURN ON INVESTMENT
Ratios



REPORTING INDUSTRIAL CORPORATIONS		2005	2006	2007	2008	2009	2010
Number of corporations	CBA	2,408	2,397	2,376	2,400	1,749	—
	CBQ	320 309 302 294	315 300 288 279	309 299 285 280	284 273 259 246	247 243 237 222	226 218 173 —
% of GDP of the sub-sector industrial corporations	CBA	27.7	28.5	30.2	25.7	21.9	—
	CBQ	19.1 19.6 16.9 17.1	18.5 17.5 16.3 17.4	19.4 19.6 16.6 17.0	16.3 16.1 12.7 8.7	10.8 11.0 11.9 10.3	11.0 12.3 8.5 —

SOURCE: Banco de España.

measures the cost of debt decreased to 3.6% in 2009, down from 5.1% in the previous year, due to lower interest rates, while the quarterly data show a very stable performance in 2010 of this ratio which held at approximately 3.7%. As a result of the foregoing, the difference between the rate of return and the cost of debt contracted significantly by 1.5 pp in 2009, holding at positive values albeit very close to zero (0.6). Conversely, due to the increase in profitability levels in 2010 Q1-Q3, this difference stood at 0.5 pp, whereas a year earlier the industrial firms that make up the quarterly sample had shown a negative value of –1.4. This sums up developments in Spanish industry in the last two years, during which activity has gone from contracting sharply in 2009 to partially recovering in 2010. This enabled it to increase its surpluses and rates of return but not to resume the path of job creation. Furthermore, the data for Q3 have evidenced a slowdown in the expansionary trend shown until then.

same period in 2009. In this setting, the difference between the rate of return and the cost of debt performed stably and even grew slightly in 2009 and in 2010 Q1-Q3, although for different reasons in each of these two periods. In 2009, the difference stood at 2.8 pp, 0.3 pp higher than the previous year, due to the strong decrease in financial costs, which offset the fall in returns. In 2010, however, the slight rise in this indicator (2.3 to September 2010 compared with 1.9 in the same period in 2009) is due to a modest increase in returns and a reduction in the cost of borrowed funds.

Lastly, an analysis of extraordinary gains (losses) in 2009 identifies considerable changes, which offset the fall in ordinary profit and enabled strong growth in net profit. Specifically, in 2009 impairment decreased significantly with respect to 2008, when substantial unrealised losses were recorded on share portfolios and, furthermore, the value of inventories of construction and real estate firms fell. Furthermore, in 2009 substantial gains were generated on the disposal of financial and non-financial assets. As a result of the foregoing, net profit grew 63.8% and recovered approximately 50% of the previous year's decline due to these extraordinary transactions. As for 2010, the main feature of extraordinary results was the revenue growth due to gains on certain financial asset sales which, however, did not fully offset the increase in corporate income tax expense. This item grew on account of the increase in ordinary profit and because certain gains and extraordinary transactions in 2009 were exempt from corporate income tax. Thus, the changes in net profit in the first three quarters of 2010 were more moderate compared with those in ONP which grew by 5.2%. As a result of the declines in GVA (the denominator of the ratio) in the two previous years and the partial recovery of results in 2009 and their slight growth in 2010, net profit amounted to 33% of GVA, 0.2 pp higher than in the same period of the previous year.

In short, following a strong contraction in 2009, the productive activity of CBQ firms recovered somewhat in 2010 Q1-Q3. Furthermore, in 2010 they continued to undertake substantial work force adjustments which have enabled them to cut wage costs, generate surpluses and raise profit ratios slightly with respect to 2009.

Activity

The CBQ database information for the total reporting firms confirms that in the first three quarters of 2010 there was a recovery in productive activity, following the strong downturn in 2009, when value added fell in all the sectors of activity of the reporting firms. Thus, GVA for 2009 contracted by -7.2%, whereas it grew 4.4% up to 2010 Q3 (see Table 1 and Chart 1). Nevertheless, the quarterly rates of change in GVA for 2010 indicate that the recovery in 2010 Q1-Q2 moderated in Q3. The reasons for the slowdown in Q3 include the expiry of the government measures to support new car purchases (Plan 2000E) and the extent to which last July's

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND PERSONNEL COSTS PER EMPLOYEE. BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Growth rate 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				PERSONNEL COSTS PER EMPLOYEE			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2009	09 Q1-Q4	09 Q1-Q3	10 Q1-Q3	2009	09 Q1-Q4	09 Q1-Q3	10 Q1-Q3	2009	09 Q1-Q4	09 Q1-Q3	10 Q1-Q3	2009	09 Q1-Q4	09 Q1-Q3	10 Q1-Q3
Total	-7.2	-8.3	-11.8	4.4	-4.6	-3.5	-3.6	-2.2	-3.2	-2.0	-1.8	-1.5	1.5	1.6	1.9	0.8
SIZE:																
Small	-12.5	—	—	—	-8.3	—	—	—	-7.1	—	—	—	1.2	—	—	—
Medium	-7.6	-13.0	-14.2	5.5	-5.4	-5.9	-5.9	-3.3	-4.1	-5.0	-4.9	-1.6	1.3	1.0	1.1	1.7
Large	-7.1	-8.1	-11.7	4.4	-4.4	-3.4	-3.4	-2.2	-3.0	-1.8	-1.6	-1.5	1.5	1.6	1.9	0.7
BREAKDOWN BY ACTIVITY:																
Energy	-5.6	-7.1	-12.5	9.3	-1.8	-0.5	-0.3	-2.0	0.9	1.1	1.7	0.2	2.7	1.7	2.0	2.2
Industry	-15.4	-23.4	-29.5	16.7	-6.5	-6.8	-7.1	-3.3	-6.5	-6.8	-7.7	-1.7	0.0	-0.1	-0.6	1.6
Wholesale & retail trade and accommodation & food service activities	-6.4	-6.8	-7.6	6.1	-5.6	-5.6	-5.8	-1.1	-4.6	-4.8	-4.9	-0.7	1.0	0.9	1.0	0.4
Information and communication	-4.7	-6.9	-7.8	-4.3	-3.1	-1.0	-0.6	-1.7	-1.0	0.8	1.4	0.5	2.1	1.8	2.0	2.2
Other activities	-3.7	-4.1	-7.3	2.6	-3.9	-1.4	-1.3	-2.9	-1.9	0.1	0.8	-2.9	2.1	1.5	2.1	0.0

SOURCE: Banco de España.

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

indirect tax rises may have brought forward household spending decisions in the immediately preceding period.

The various sectors of activity showed uniform behaviour in both periods, although with a different sign (see Table 2.A). Whereas in 2009 activity declined and GVA fell in all sectors, in 2010 Q1-Q3 there was a clear improvement in the rates of change of GVA in nearly all sectors, which returned to positive values, except for information and communication. This sector posted negative rates in 2010, albeit less so than in the previous year (-4.3% in 2010 Q1-Q3, compared with -7.8% in the same period of 2009). Notably, the industrial sector underwent the steepest fall in GVA in 2009 (-15.4%) and, likewise, the sharpest recovery in 2010 Q1-Q3, with GVA growth of 16.7%, boosted by the greater buoyancy of external activity. The GVA of firms in the wholesale and retail (hereafter "distributive") trade and accommodation and food service activities sector increased by 6.1% in 2010, in contrast with the decrease of -6.4% the previous year, due to the negative performance of private consumption in 2009. However, the recovery of this sector slackened considerably in Q3 due to the above-mentioned effect of consumers bringing forward their spending decisions due to the higher indirect taxes from July 2010. The energy sector switched from declining activity in 2009 (-5.6%) to strong increases in GVA in 2010 Q1-Q3 (9.3%) as a result of the favourable performance of the electricity, gas and water sub-sector (in which GVA rose 6.9% during 2010 Q1-Q3) and of the refining subsector, where, against a backdrop of rising crude oil prices, selling prices continued to perform strongly and, accordingly, GVA rose by 44.3% (see Chart 2). The expansion of the electricity sector's GVA was based on growth in electricity demand (by 3% according to sources of Red Eléctrica de España) and the lower production costs of electricity generating companies, aided by the increased use of hydro-electric power stations in comparison with last year. Lastly, the "other activities" aggregate performed in a similar way to the sample total, with a negative

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

		TOTAL CBQ CORPORATIONS 2010 Q1 - Q3	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations		743	348	396
PERSONNEL COSTS:				
Initial situation 09 Q1-Q3 (€m)		21,226.3	7,830.8	13,395.5
Rate 10 Q1-Q3/ 09 Q1-Q3		-1.5	1.5	-3.2
AVERAGE COMPENSATION:				
Initial situation 09 Q1-Q3 (€)		33,557.4	35,955.4	32,401.2
Rate 10 Q1-Q3/ 09 Q1-Q3		0.8	-1.9	2.1
NUMBER OF EMPLOYEES:				
Initial situation 09 Q1-Q3 (000s)		631	218	413
Rate 10 Q1-Q3/ 09 Q1-Q3		-2.2	3.4	-5.2
Permanent	Initial situation 09 Q1-Q3 (000s)	542	191	351
	Rate 10 Q1-Q3/ 09 Q1-Q3	-1.5	2.1	-3.5
Non-permanent	Initial situation 09 Q1-Q3 (000s)	89	27	62
	Rate 10 Q1-Q3/ 09 Q1-Q3	-6.6	12.8	-15.0

SOURCE: Banco de España.

change in GVA in 2009, which contracted by -3.7%, and a subsequent recovery in 2010 to date, as a result of which this aggregate's GVA increased by 2.6%.

Finally, Chart 3 analyses the distribution of firms on the basis of the rate of change in their GVA, irrespective of their size and sector of activity. The main conclusion that can be drawn from this information is that the recovery in productive activity in 2010 was extensive to most firms. Thus, in 2010 Q1-Q3 the percentage of firms reporting GVA growth increased significantly to 51.2%, compared with 36.7% in the same period of the previous year. Furthermore, whereas in 2009 the segment with sharper falls in GVA (greater than 20%) accounted for 36.7% of firms, in 2010 to date this percentage has improved by 15 pp to 21.7%.

Employment and personnel costs

Personnel costs decreased in 2009 and in 2010 Q1-Q3 by -3.2% and -1.5%, respectively, continuing the downward trend that began in 2008. This performance is a consequence of lower growth in average compensation and of reductions in the average number of employees.

Indeed, the employment data evidence the widespread staff reductions which, against a backdrop of declining productive activity, have affected most firms in the two periods analysed. Thus, in 2009 the average number of employees dropped by -4.6%, compared with a slight increase of 0.9% in the previous year, and in the first three quarters of 2010 employment continued to fall (-2.2%), although slightly more slowly than in the same period of the previous year, when the quarterly sample posted a decline of -3.6%. These decreases affected all sectors (see Table 2.A), albeit to differing degrees, with the result that in 2009 the industry and the distributive trade and accommodation and food service activities aggregates experienced the most severe workforce reductions with rates of change of -6.5% and -5.6%, respectively. In 2010 to date the industrial sector continues to be the sector with the largest falls in average workforce (-3.3%), although the pace of job destruction has slowed considerably in comparison with the same period of 2009, when it was twice as high (-7.1%). In terms

ANALYSIS OF SMALL CORPORATIONS

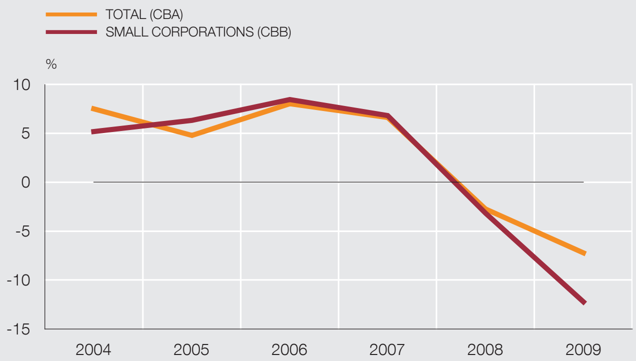
BOX 2

The information from the Central Balance Sheet Data Office's annual database (CBA) and quarterly database (CBQ) analyses larger non-financial corporations (the best represented firms in the related samples), however, it does not provide knowledge of the behaviour of small corporations, which is particularly important in the more segmented sectors of activity (such as the wholesale and retail trade, accommodation and food service activities, construction and real estate). Therefore, it is appropriate to complete the study performed using the two above-mentioned databases with another study based on the accounts lodged by smaller corporations with the Mercantile Registries. The Central Balance Sheet Data Office, thanks to an alliance with the Mercantile Registries, keeps a third database (CBBE/RM or CBB) with information on firms that have less than 50 employees, excluding those firms that report to the CBA in order to avoid duplication. Accordingly, a large amount of information is available on slightly less than 500,000 firms for 2008[1] and on approximately 120,000 firms for 2009. Data are still being received for 2009 (see the accompanying panel). However, this database has a constraint in that it is available with a certain time lag vis-à-vis the CBA database

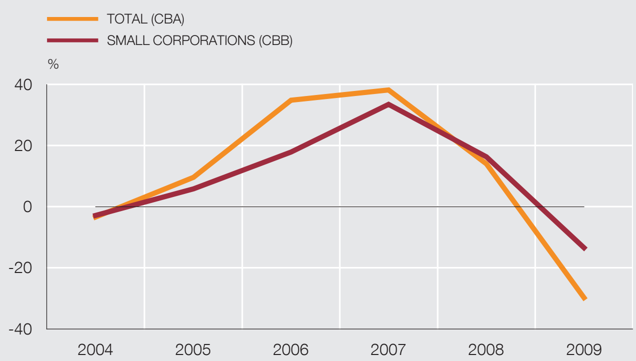
1. The number of firms' annual accounts available in the CBB at year-end stabilised at more than 600,000. However, for 2008 fewer firms suitable for analysis were available because there was no information for the first year of the database (2007 in this case). This was when firms prepared their annual accounts in accordance with the new Chart of Accounts (PGC 2007) for the first time and chose to omit the previous year's figures for comparison purposes.

RESULTS OF SMALL CORPORATIONS

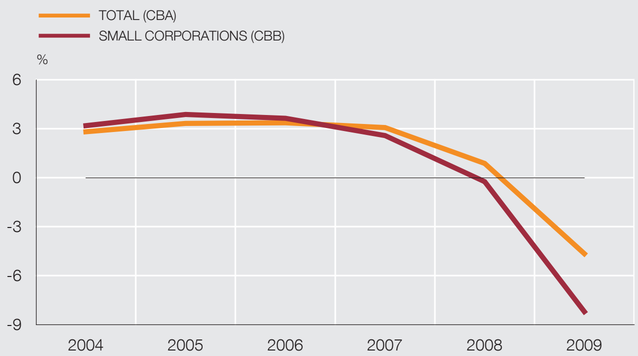
GROSS VALUE ADDED AT FACTOR COST
Rate of change



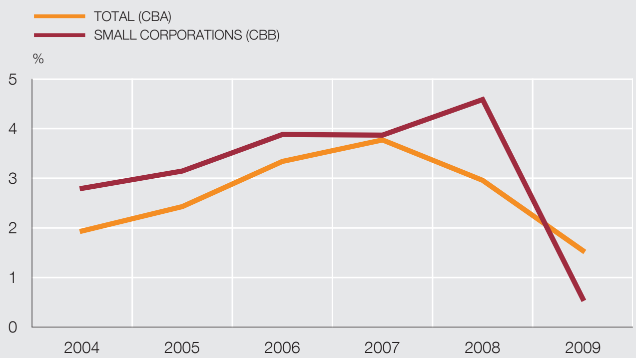
FINANCIAL COSTS
Rate of change



EMPLOYMENT
Rate of change



PERSONNEL COSTS PER EMPLOYEE
Rate of change



		2004	2005	2006	2007	2008	2009
Number of corporations	CBA	9,049	9,123	9,276	9,321	9,535	6,910
	CBB (a)	442,004	579,866	558,901	604,575	471,663	123,704
% of GDP of the sector non-financial corporations	CBA	32.3	32.6	33.5	33.9	31.2	26.2
	CBB (a)	16.4	21.7	19.3	20.1	13.6	3.1

SOURCE: Banco de España.

a. In the case of the "Employment" and "Personnel costs per employee" panels, the data relate to the sub-set of corporations with consistent employment figures (70% of the CBB total).

and the information it contains is not as detailed. In any event, together, the two databases (CBA and CBB) provide broad coverage of the total population of non-financial corporations, which in 2008 represented nearly 45% of the sector's total GVA (31.2% in the case of the CBA and 13.6% in the case of the CBB).

This box analyses the performance of Spanish SMEs based on a summary of the CBB information. According to the CBB's results, the activity of small Spanish corporations, as a whole, deteriorated sharply in 2009 by –12.2%. This was more pronounced than the deterioration of medium-sized and large corporations as a whole and thus resulted in a steeper decline than in the previous year when GVA decreased by –3.2%. This adverse performance, similar to that of CBA small firms, extended to almost all sectors of activity, but was particularly pronounced for certain sectors such as construction, which showed a contraction of –20.4% in GVA, and manufacturing industries, for which GVA fell –16.5%. Noteworthy was the utilities sector which bucked the trend of widespread declines and for the second year running showed strong growth of activity. This prompted its GVA to rise by 53.7% which, in any event, was lower than its growth rate of 89.1% in 2008. The upswing in this aggregate's activity is due to a high number of small firms coming into operation in the renewable energies sub-sector. Personnel costs recorded a fall of –7.9% in 2009, showing a negative rate of change for the first time in the CBB series. This was attributable to the sharp adjustment in employment at small corporations which caused a reduction of –8.2% in the average number of employees in 2009 and had a strong impact on non-permanent employment which decreased by –21.5% (nearly twice the figure recorded a year earlier), although permanent employment also declined notably by –4.1% in comparison with growth of 3.8% in 2008. The staff reductions pervaded almost all sectors of activity, in particular, the construction and manufacturing sectors, which saw their average workforce decrease by –14.3% and –11.1%, respectively. This was consistent with the strong deterioration of their productive activity. Financial revenue and costs recorded steep declines in 2009 (of –25.1% and –13.5%, respectively) due to the downward trend in interest rates. In any event, this decrease in financial revenue and costs did not have a significant influence on the performance of ordinary net profit which dropped by –81.2%. Consequently, profitability levels decreased significantly, which took the return on equity to 0.6%, almost 3 pp below the figure recorded a year earlier. The same downward trend in rates of return was seen in almost all sectors, notably certain sectors such as accommodation and food service activities and, once again, manufacturing and construction showed negative values (the return on equity stood at –6%, –2.7% and –2.1%, respectively).

In short, there was a severe contraction in 2009 in the activity of the aggregate of small corporations, which was steeper than the fall recorded in the previous year. This triggered a marked decrease in its generation of profits and rates of return as well as the vigorous destruction of permanent and, especially, temporary jobs. This adverse performance affected most sectors, although construction and manufacturing experienced the sharpest declines in all the areas analysed.

of type of contract, the staff reductions have affected most strongly the temporary jobs segment which contracted by -13.2% in 2009 and by -6.6% to September 2010. Permanent employment also decreased, generally less sharply, although the rate of change of -1.5% posted in 2010 is slightly worse than that of the previous year, when this type of employment fell by -0.9%.

The growth rate of average compensation fell. In this respect, the rate of change of 1.5% in 2009 was half the increase a year earlier, and that of 0.8% in 2010 Q1-Q3 was slightly more than 1 pp lower than the increase recorded in the same period of the previous year. In practically all sectors except industry, there was a similar trend of stability or containment of average compensation, although the data for 2010 allow two groups to be distinguished. On the one hand, the energy, industrial and information and communication sectors posted increases of approximately 2% in average wage costs to September 2010. On the other, the distributive trade and accommodation and food service activities aggregate recorded below-average growth of 0.4% (less than half that for the same period of 2009) and the aggregate comprising all other activities did not change. The stable compensation of firms in the other activities aggregate basically results from the impact of the downward revision in 2010 of the wages of certain large firms in the air transport sector. The information in Table 2.B shows the performance of firms, distinguishing between those which have increased or not changed average staff levels and those which have destroyed jobs in the period analysed. This table indicates

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

TABLE 3

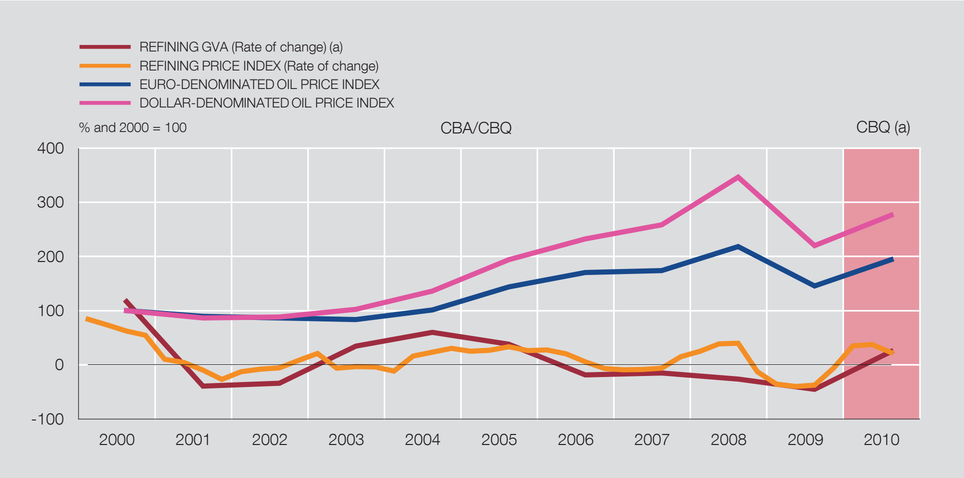
		CBA		CBQ (a)	
		2008	2009	09 Q1-Q3	10 Q1-Q3
Total corporations		6,910	6,910	743	743
Corporations reporting source/destination		6,910	6,910	695	695
Percentage of net purchases according to source	Spain	64.6	67.4	84.1	82.2
	Total abroad	35.4	32.6	15.9	17.8
	EU countries	*18.0*	*17.2*	*11.0*	*12.2*
	Third countries	*17.5*	*15.4*	*4.9*	*5.6*
Percentage of net turnover according to destination	Spain	84.4	84.9	92.0	90.5
	Total abroad	15.6	15.1	8.0	9.5
	EU countries	*10.5*	*10.2*	*5.5*	*6.7*
	Third countries	*5.1*	*4.9*	*2.5*	*2.8*
Change in net external demand (exports less imports), rate of change	Industry	-13.7	19.8	133.7	-38.1
	Other corporations	-5.0	39.8	40.9	56.6

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

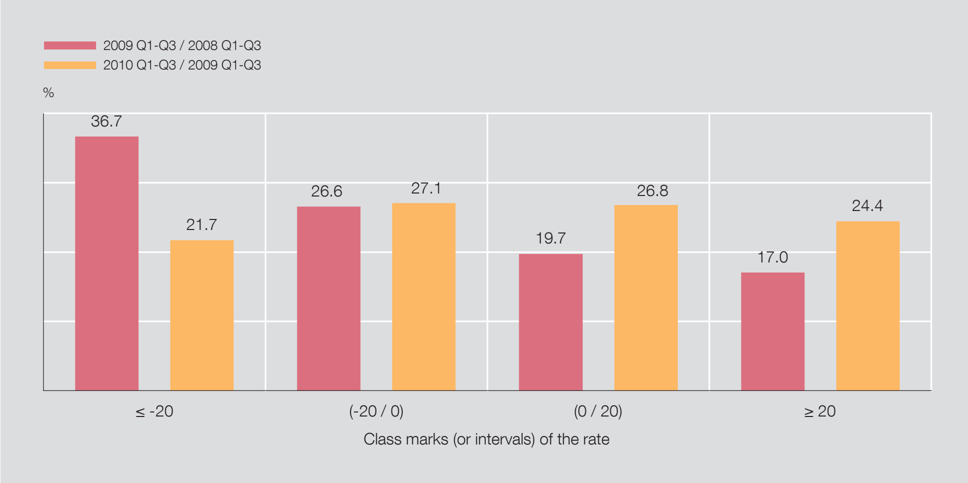


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (*Informe mensual de precios*).

a. 2010 data relate to the CBQ.

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA AT FACTOR COST

CHART 3



SOURCE: Banco de España.

PERSONNEL COSTS AND AVERAGE NUMBER OF EMPLOYEES
Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ (a)			
	2008	2009	08 Q1 - Q4	09 Q1 - Q4	09 Q1 - Q3	10 Q1 - Q3
Number of corporations	9,535	6,910	814	798	811	743
PERSONNEL COSTS	100	100	100	100	100	100
Falling	32.2	58.2	33.8	57.0	57.4	52.3
Constant or rising	67.8	41.8	66.2	43.0	42.6	47.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	42.0	54.6	46.6	62.8	62.4	56.6
Constant or rising	58.0	45.4	53.4	37.2	37.6	43.4

SOURCE: Banco de España.

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

that average compensation in 2010 was contained in both aggregates, although while firms which cut their average headcount saw wage costs grow by 2.1%, those which increased their headcount saw these costs fall by 1.9% in 2010 Q1-Q3, due to the lower wage levels associated with the new hires.

Lastly, the data in Table 4 confirm, firstly, that in 2009 the percentage of firms with staff reductions increased sharply compared with the previous year (on CBA data this percentage rises to 54.6%, up 14 pp on the previous year). Additionally, these data show that in 2010 Q1-Q3 the workforce adjustments continued to affect most of the firms in the quarterly sample (56.6%), although this percentage is somewhat lower than the figure of 62.4% a year earlier. In line with this, the percentage of firms which reported declines in personnel costs rose in 2009 by more than 25 pp to 58.2% in the annual sample and was slightly lower in 2010 at 52% of the sample.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2).
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS
Ratios and growth rates of the same corporations on the same period a year earlier

TABLE 5

	GROSS OPERATING PROFIT				ORDINARY NET PROFIT				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2009	09 Q1 - Q4	09 Q1 - Q3	10 Q1 - Q3	2009	09 Q1 - Q4	09 Q1 - Q3	10 Q1 - Q3	2009	09 Q1 - Q4	09 Q1 - Q3	10 Q1 - Q3	2009	09 Q1 - Q4	09 Q1 - Q3	10 Q1 - Q3
Total	-12.3	-13.5	-19.5	9.7	-9.7	-6.6	-20.4	6.9	6.3	6.2	5.3	5.5	2.8	2.9	1.9	2.3
SIZE:																
Small	-25.1	—	—	—	-46.3	—	—	—	2.9	—	—	—	-0.4	—	—	—
Medium	-13.6	-24.1	-26.6	17.0	-18.6	-37.2	-40.3	35.0	4.9	4.3	4.1	6.0	1.6	0.6	0.5	3.3
Large	-12.0	-13.2	-19.3	9.5	-8.8	-5.6	-19.8	6.2	6.4	6.3	5.3	5.5	2.9	2.9	1.9	2.3
BREAKDOWN OF ACTIVITIES:																
Energy	-8.9	-9.3	-16.0	12.1	-9.5	-3.7	-14.6	-2.4	6.9	7.1	6.1	5.8	3.3	3.7	2.6	2.5
Industry	-28.4	-49.7	-57.4	74.5	-49.2	-56.2	-75.3	(b)	4.2	2.6	2.3	4.2	0.6	-1.1	-1.4	0.5
Wholesale & retail trade and accommodation & food service activities	-9.4	-10.6	-12.6	19.9	-0.3	-16.8	-26.4	39.2	7.3	4.9	5.0	6.1	3.8	1.5	1.6	2.8
Information and communication	-6.4	-8.9	-10.2	-5.8	-13.1	-16.1	-16.3	-8.3	21.0	28.5	28.5	29.8	16.1	23.4	23.6	25.1
Other activities	-8.3	-13.0	-22.5	15.0	43.0	(b)	44.4	26.5	5.3	5.1	3.9	4.0	2.0	2.0	0.7	0.9

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.

Profits, rate of return and debt

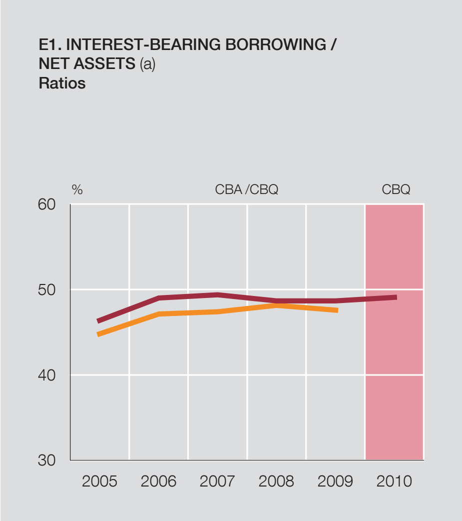
GOP decreased sharply by -12.3% in 2009 as a result of the much larger fall in productive activity than in personnel costs, whereas in 2010 Q1-Q3 this surplus grew by 9.7% due to the overall effect of the recovery of activity and the ongoing decrease in personnel costs (see Table 5). This path seems to have moderated in Q3 due to the behaviour of GVA. For their part, financial costs fell steeply in 2009 by approximately -30%, in contrast with the period to September 2010 during which they stabilised and posted a change that was even slightly positive (0.8%). The ratio that measures the interest burden (see Chart 4) shows, in keeping with the performance of financial costs described above, a sharp decline in 2009 and very stable behaviour in 2010, during which the ratio between interest on borrowed funds and income from ordinary activities (GOP plus financial revenue) stood at 22.3, down 0.6 pp on the figure for 2009. The following table shows in greater detail the reasons for the changes in financial costs:

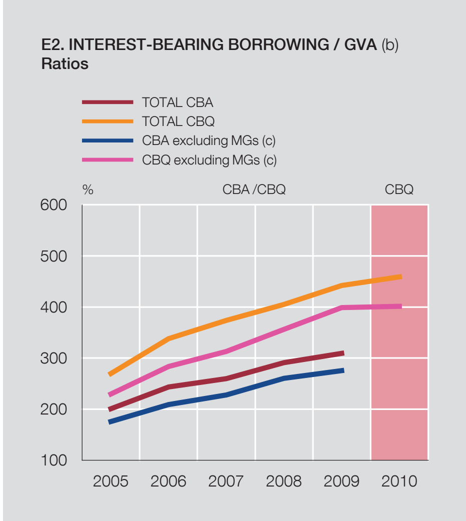
	2009/2008	*10 Q1-Q3/09 Q1-Q3*
Change in financial costs (%)	**-29.8**	**0.8**
A Interest on borrowed funds	*-31.2*	*0.3*
1 Due to the cost (interest rate)	-31.4	-4.5
2 Due to the amount of interest-bearing debt	0.2	4.8
B Other financial costs	*1.4*	*0.5*

As illustrated by the table above, the steep decline in financial costs in 2009 was due solely to interest rate falls which were progressively reflected in firms' financial costs, while the change in debt was non-existent in that period. In 2010 the virtually zero change in financial costs (+0.8%) is a consequence of slight falls in the cost of borrowing (-4.5%), which offset the effect of the increase in borrowed funds (4.8%). The ratio E1 (see Chart 4) of interest-bearing borrowing to total liabilities confirms that in 2010 debt levels have held at approximately 49% and

DEBT RATIOS

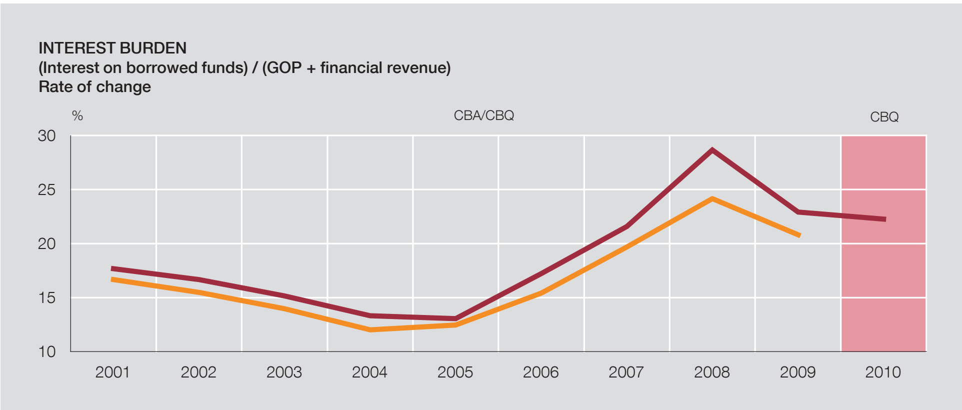
CHART 4





	2005	2006	2007	2008	2009	2010
CBA	44.8	47.1	47.4	48.2	47.6	
CBQ	46.4	49.0	49.4	48.7	48.7	49.1

	2005	2006	2007	2008	2009	2010
CBA	200.9	243.8	259.9	291.4	309.0	
CBQ	269.6	338.1	374.1	405.4	442.2	459.1
CBA excl. MGs	176.0	208.9	227.6	260.4	275.3	
CBQ excl. MGs	229.5	283.9	313.1	356.0	399.0	401.3



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CBA	16.7	15.5	14.0	12.0	12.5	15.4	19.7	24.2	20.8	
CBQ	17.7	16.7	15.2	13.3	13.0	17.2	21.6	28.7	22.9	22.3

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Net assets 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 companies.

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

TABLE 6

		CBQ (a)			
		RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)	
		09 Q1 - Q3	10 Q1 - Q3	09 Q1 - Q3	10 Q1 - Q3
Number of corporations		811	743	811	743
Percentage of corporations by profitability bracket	R <= 0	33.6	29.7	38.5	34.1
	0 < R <= 5	25.1	25.7	17.6	18.1
	5 < R <= 10	15.3	14.9	11.4	11.3
	10 < R <= 15	6.2	7.7	6.1	7.9
	15 < R	19.8	22.1	26.4	28.5
MEMORANDUM ITEM: Average return		5.3	5.5	7.0	7.6

SOURCE: Banco de España.

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

there have been no significant changes with respect to the average level in the last five years. This behaviour coincides with the ongoing sluggish investment by firms in the last two years according to the accounting data provided by the CBA and CBQ reporting firms. Thus in 2009 the CBA shows a clear decrease in gross fixed capital formation, which posted a rate of change of -27.2%. This trend continued in 2010 according to the CBQ data, which point to a fresh decline in the pace of investment, with a rate of change of -14.2% to September 2010. Finally, the ratio E2 completes the debt analysis. This ratio measures firms' ability to repay their debt out of the surpluses obtained from their ordinary activities (GVA). After worsening for several years (with sharp growth), it moderated its upward trend in 2010 as a result of debt containment and growth of GVA (the denominator of the ratio), which in this period increased at a similar rate to that of interest-bearing borrowing (the numerator).

Financial revenue trended downward in 2009 and in 2010 Q1-Q3 with rates of change of -17.5% and -11.3%, respectively. These declines are the result of lower dividends from foreign subsidiaries and, above all, the sharp decrease in interest receipts due to the change in interest rates mentioned in relation to financial costs. In 2009, although the overall positive effect of financial costs and revenue dampened the impact of the fall in GOP, it did not prevent a decrease in operating net profit (ONP), which fell by -9.7%. In 2010, however, the decrease in financial revenue to Q3 had a negative impact and reined in ONP growth slightly to 6.9%, below that of GOP in the same period (+9.7%). The behaviour of ONP and financial costs (the sum of which is the numerator of the return on investment ratio) in 2009 caused a sharp fall in ordinary profits, which in the case of return on investment fell to 6.3% from 7.6% in the previous year, and reined in the return on equity, which fell by 1 percentage point to 8.9% for 2009. By contrast, in 2010 Q1-Q3, the recovery of gross and ordinary profit raised profitability levels slightly with respect to the previous year (see Table 5). Thus return on investment stood at 5.5%, 0.2 pp higher than in 2009, and return on equity rose to 7.6%, slightly more than 0.5 pp higher than in the previous year. If the various productive sectors are analysed, a slight upward trend can generally be seen in profit ratios in 2010. For instance, in industry, in distributive trade and accommodation and food services activities and in information and communication there are clearer increases in return on investment than in the previous year, while in the other aggregates this ratio has remained practically stable or experienced small downward variations. The ratio that measures the cost of debt, denoted R.2 in Table 1, decreased sharply in 2009 from 5.1% to 3.5% as a result of the pass-through of interest rate falls to firms' costs during that year. In the first three quarters of 2010, by contrast, this ratio stabilised at 3.2%, down 0.2 pp on the same period a year earlier. The heavy fall in financial costs in 2009 offset the decline in rates of return that year and, consequently, the ratio that measures the difference between ROI and the cost of debt remained positive and was even slightly higher than in the previous year (2.8 compared with 2.5 in 2008). In 2010 to date, this difference also remained positive and slightly higher than in the previous year (2.3 percentage points, compared with 1.9 a year earlier) due, in this case, to the positive contribution of higher profitability levels and the gentle decline in financial costs.

Finally, the analysis of extraordinary results, the last component in the profit and loss account, shows their positive effect on net profit in 2009, a period in which the item that reflects asset impairment deceased sharply. The improvement, i.e. diminution, in this variable arises from the comparison with 2008, when there were sizeable losses on the financial asset portfolios and especially on the inventories of certain large construction and real estate firms. Along with this impairment respite, 2009 saw substantial gains from the sale of assets, mainly of a financial nature but also some tangible fixed assets, largely as a result of reorganisatios in the electricity sector. Thanks to these extraordinary transactions, net profit rose by 63.8% in 2009, recouping half of the previous year's decline. In 2010 significant gains arose on share sales, although they did not fully offset the strong growth in corporate income tax, which posted a rate of change of 42% as a result of the increase in ordinary profit and the tax effect of certain extraordinary operations in 2009 which were exempt from corporate income tax. All this meant that the growth of net profit moderated in relation to that of ONP and posted an increase of 5.2% to September 2010. Finally, if net profit is calculated as a percentage of GVA, it can be seen that in 2009 the combined effect of the partial recovery of profits and the decline in GVA raised this percentage to 23.6%. On CBQ data for 2010 Q1-Q3, this percentage stood at 33%, only 0.2 pp higher than the figure of 32.8% which was posted in the same period in the previous year.

17.11.2010.