RESULTS OF NON-FINANCIAL CORPORATIONS IN 2010 AND IN THE FIRST THREE QUARTERS OF 2011

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Overview[1]

In line with usual practice, this January edition of the Banco de España's *Economic Bulletin* presents an analysis of the results for the last but one year (in this case 2010) of the firms participating in the Central Balance Sheet Data Office Annual Survey (CBA) and those for 2011 Q1-Q3, based on information from the Central Balance Sheet Data Office Quarterly Survey (CBQ). The latter can be considered a preliminary indication of the results for the full year, which will be published in the April 2012 edition of the *Economic Bulletin.*

The CBA results for 2010 broadly confirm what has been anticipated by the CBQ sample for that period, i.e. that there was a slight recovery in the productive activity of non-financial corporations during this period, following the sharp declines during the two preceding years, which resulted in an increase in gross value added (GVA) of 2.1%. This expansionary trend was seen in most sectors, with the highest growth rate, of 9.2%, being recorded in industry. However, the GVA of small firms (with fewer than 50 workers) continued to contract last year, according to the CBA and the data compiled on the basis of the accounts filed with the Mercantile Registries, which is a much broader sample (see Box 1).

According to the CBQ data, the improvement in activity detected in 2010 has not continued in 2011. During the first three quarters of this year, against a background of weak national demand, GVA contracted by 0.5% in relation to the same period a year earlier. This deterioration was more pronounced in those sectors that depend most on private consumption developments, such as the wholesale and retail trade and accommodation and food service activities sector, and information and communication, in which GVA fell by 2.2% and 4.5%, respectively. Industry, by contrast, benefited from more buoyant exports, which enabled its activity to increase (by 2.4%, in terms of GVA), albeit by less than a year earlier.

Personnel costs changed very little, both in 2010 (when they fell by 0.4%) and in the first three quarters of 2011 (when they increased by 0.5%). In both periods, this behaviour was the result of two opposing effects; on one hand, the declines in employment, that have been recorded continuously since 2009 and, on the other, the rises in average compensation, which in the last two years have fluctuated around 1%. The adjustment in employment was concentrated in temporary employment, and affected practically all the sectors analysed, with certain notable exceptions, such as the wholesale and retail trade and accommodation and food service activities sector, in which, in the first nine months of 2011, the average headcount increased by 2.1%. For its part, average compensation rose by 0.8% in 2010, which was less than the 1.7% rate recorded a year earlier, while in 2011 it increased slightly, growing by 1.1%. The latest information on costs reveals, however, a high degree of dispersion across industries; in information and communication personnel costs per worker grew by 2.3%, while in other sectors, such as accommodation and food service activities, wages grew more moderately, by 0.5%.

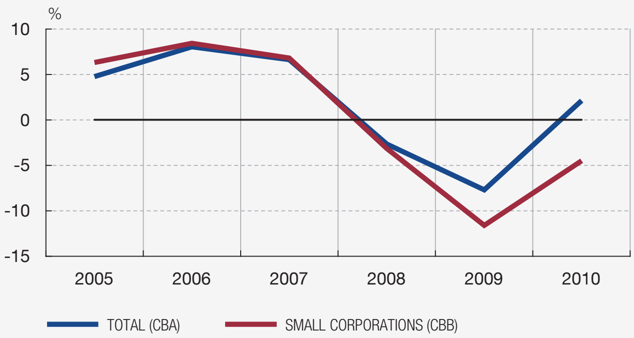
1 This article was prepared on the basis of the information supplied by the CBA for 2010 and by the CBQ for the first three quarters of 2011. In the case of the 2010 data, they come from a sample of 7,028 corporations that represent, in terms of GVA, 26.6% of the total non-financial corporations sector. The quarterly sample, meanwhile, is made up of the 749 corporations that had sent information to the CBQ by 15 November, which account for 12.6% of the GVA generated by the sector as a whole in this period.

The information in the CBA and in the CBQ provides for analysis of developments in the biggest non-financial corporations, since these are the best represented in these databases. However, smaller corporations are under-represented, which poses a significant drawback for the analysis of the more fragmented sectors, such as wholesale and retail trade and accommodation and food service activities, construction and real estate. This information deficit can be rectified to some extent by using the accounts filed by corporations in the Mercantile Registries. Drawing on the latter, the Central Balance Sheet Data Office has created a database (CBB) containing records of an extensive sample of small corporations, understood as those with fewer than 50 employees. Specifically, consistent data are available up to 2009 for somewhat more than 600,000 corporations, and on around 130,000 to 2010, for which year data continue to be received.

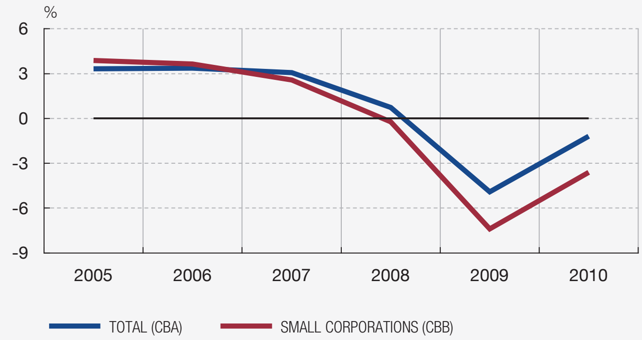
According to the CBB, in 2010 the activity of small corporations shrank once more, albeit at a more moderate rate than the previous year, showing a very similar pattern to that of the bigger CBA corporations in this same period. This trajectory is in contrast to that of the overall CBA sample (with medium-sized and large corporations accounting for a large weight), for which, as

RESULTS OF SMALL CORPORATIONS

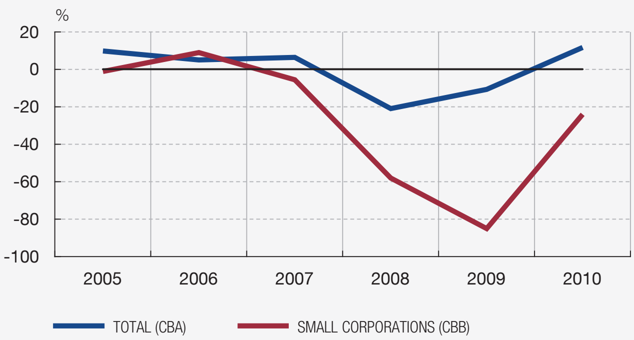
1 GROSS VALUE ADDED AT FACTOR COST
(Rate of change)



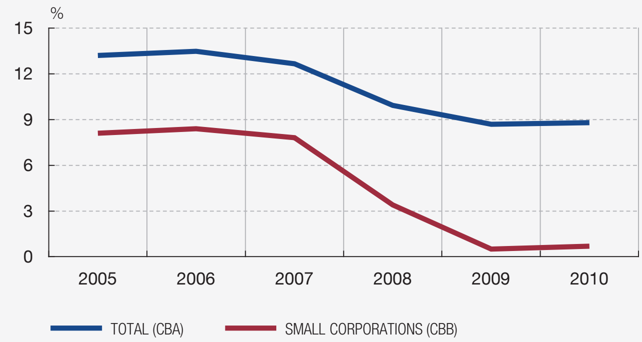
2 EMPLOYMENT
(Rate of change)



3 ORDINARY NET PROFIT



4 ROE (R.3)
Ratios



		2005	2006	2007	2008	2009	2010
Number of corporations	CBA	9,123	9,276	9,321	9,639	9,792	7,028
	CBB (a)	579,866	558,901	604,575	471,663	602,664	131,440
% of GDP of the sector Non-financial corporations	CBA	32.6	33.5	33.9	31.6	30.7	26.6
	CBB (a)	21.7	19.3	20.1	13.7	15.5	3.2

SOURCE: Banco de España.

a In the case of the “Employment” chart, the data relate to the sub-set of corporations with consistent employment figures (70% of the CBQ total).

discussed in the main body of the text, there was some increase in productive activity during this year (see Panel 1). Thus, GVA for the aggregate of small corporations in the CBB fell in 2010 by 4.5%, compared with the reduction of 11.6% in 2009. The decline was practically across the board, although it was sharper in some sectors, such as construction, in which this indicator fell by 14.2%. Among the branches that posted a bigger decline are manufacturing industry and wholesale and retail trade and accommodation and food service activities, with respective falls of 4.2% and 2.8%.

Personnel costs fell by 3%, somewhat less than half their related contraction in 2009 (7.2%). The main reason for these declines is the sharp staffing adjustments made by small corporations both in 2009, when the average number of employees fell by 7.4%, and, to a lesser degree of intensity, in 2010, when the average headcount contracted by 3.6% (see Panel 2). As in the CBA sample, the bulk of the decline was centred on temporary personnel, with falls of 19.6% and 7.2% in the past two years for which information is available. Permanent employment, meanwhile, though it also fell back, showed a less pronounced decline over the two years (3.4% and 2.6%, respectively). Across the different sectors the declines were generalised, proving most marked in those which recorded a bigger downturn in their productive activity. As an exception, mention should be made of the electricity supply branch, in which the average number of employees grew by 11.2%, as a result of the favourable impact exerted by small corporations coming on stream in recent years in the renewable energy sub-sector.

The financial costs and revenues of small corporations in the CBB fell heavily in 2010, by 21.6% and 22.4%, respectively, owing to the decline in average financing costs and to the average return on assets during this period. The ordinary net profit of these corporations declined by 24% in 2010, a fall lower than that recorded a year earlier, when the attendant reduction was 85.1%. But it is in contrast to the increase reflected in the CBA for the aggregate of reporting corporations (see Panel 3). Against this background, the ordinary rate of return on equity remained at a very low level (0.5%) in 2010, and one similar to that recorded the previous year (see Panel 4). The downturn in rates of return at smaller corporations in the last two years analysed has been sharper in some sectors, such as construction, manufacturing industry and accommodation and food service activities, which posted negative figures for this indicator for the second year running.

In sum, according to the CBB, small Spanish corporations' productive activity shrank in 2010. While this decline was less sharp than in the previous year, it is in contrast to the increase observed in the CBA, where the weight of larger corporations is much more salient. This led to a fresh decline in profit generation and to a continuation of employment adjustment processes, which bore particularly on temporary employment and which were much more acute than those reflected in the CBA for the same year. This negative performance continued to affect practically all the sectors analysed, although it was in construction, manufacturing industry and wholesale and retail trade and accommodation and food service activities where the declines were biggest.

The positive performance of productive activity enabled gross operating profit (GOP) to grow by 5.7% in 2010, while in the first three quarters of 2011 this surplus declined by 1.4%. Financial revenue has increased in the last two years, driven by the growth in dividends received, although the stronger increase in 2011 was also due to the higher interest received as a consequence of the rise in interest rates. As regards financial costs, they grew again in 2011 (by 10.3%), following two consecutive years of decline, which was much more pronounced in 2009 than in 2010 (29.1% and 1.4%, respectively). The course of this expenditure has been determined essentially by interest rate changes and by their progressive pass-through to firms' costs, while the impact of borrowing has been low since 2009. During the first nine months of 2011, the item net depreciation, impairment and operating provisions grew by 6.5%, as a consequence of the larger provisions set aside by some real-estate firms to recognise the lower value of their stocks.

Ordinary net profit (ONP) increased in 2010 by 11.8%, while in 2011 Q1-Q3 it contracted by 2.9%. The increase in ordinary profits in 2010 was sufficient to ensure that the profit ratios remained at similar levels to the previous year. This year, however, the decline in activity has led to a fall in ordinary profits in all sectors. The ratio that measures the average cost of borrowing, which had been falling since 2009, increased slightly in the first three quarters of 2011, to stand at 3.5%. Thus, following the mild improvement in 2010, the difference between the return on investment and the cost of debt has fallen once again (to 1.6%) for the CBQ sample as a whole.

Finally, extraordinary costs and revenues had a negative impact on profits in 2010 and in 2011 Q1-Q3. In 2010 this was due to the gains (losses) from disposals and impairment, which after being highly positive in 2009 (due to the significant capital gains generated by asset sale transactions that year) turned negative in 2010, as a consequence of the higher impairment allowances. In the first nine months of 2011, there was a notable decrease in the gains from disposals of financial assets, in comparison with the amounts recorded during the same period of the previous year. In addition there was a sharp decline in other extraordinary profits, due to the existence of high extraordinary provisioning charges associated with the redundancy programmes at some large firms. As a result of all this, the profits fell both in 2010 (by 15.5%) and in the first nine months of 2011, when they declined by 27.4% from the same period a year earlier.

In short, there was a mild pick-up in business activity in 2010, but it then contracted again slightly in 2011, owing to the weakness of domestic consumption. Against this background, firms have still not created employment (the latter has declined in most of the sectors analysed), while average compensation has increased by around 1%, with some significant sectoral differences. At the same time, the growth in 2011 in financial costs (owing to higher interest rates) and in depreciation and operating provisions offset the increase in financial revenues, leading to a decline in ordinary profit. All this has entailed a reduction in profit rates and a decline in the difference between such rates and the average cost of borrowing.

Activity

The GVA of the non-financial corporations that reported annual data to the Central Balance Sheet Data Office increased in 2010 by 2.1% (see Table 1 and Chart 1), after two consecutive years of decline (by 2.7% and 7.7% in 2008 and 2009, respectively). Conversely, the activity of small firms (with fewer than 50 employees) continued to contract, according to the CBA and the CBB data for such firms, the latter being based on a much broader sample of firms. In both cases, GVA shows a decline for 2010 of around 4%, less sharp in any event than that experienced by these corporations the previous year. CBQ data for the first nine months of 2011 reveal a resumption of negative changes in GVA, of 0.5%. This more unfavourable recent development has come about against the background of the notable sluggishness of domestic demand, and some buoyancy in exports. In line with this, Table 2 illustrates how, during the first nine months of 2011, exports - and especially those targeted on other European Union countries - gained in weight relative to the total sales by the sample of CBQ corporations.

Making a more detailed sectoral analysis (see Table 3), it can be seen that, among the best represented branches, the sharpest increase in productive activity was in industry, both in 2010, when GVA increased by 9.2%, and during the first nine months of 2011, when it rose by 2.4%. The strong dynamism of exports has benefited corporations in this sector, largely accounting for the growth in both periods. Nonetheless, whereas in 2010 all the industrial sub-sectors posted increases in activity, in the first three quarters of the current year the performance is discernibly more mixed, with significant increases in GVA in the manufacture of transport equipment sub-sector (19.8%) and declines in others, such as the food, beverages and tobacco industry, and the manufacture of computer, electronic and optical products (9.7% and 6.3%, respectively). The energy sector also showed increases in this variable in the two periods analysed, more clearly so in 2010 (7.7%) and to a much lesser extent in the first three quarters of 2011 (0.7%). The favourable

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 (a)		
DATABASES	2010	2009	2010	Q1-Q4 10/ Q1-Q4 09	Q1-Q3 10/ Q1-Q3 09	Q1-Q3 11/ Q1-Q3 10
Number of corporations		9.792	7.028	808	823	749
Total national coverage		30.7%	26.6%	13.2%	13.9%	12.6%
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT	100.0	-13.0	5.1	8.4	10.1	10.7
1 Of which:						
Net amount of turnover and other operating income	*148.4*	*-13.2*	*4.8*	*9.2*	*10.6*	*13.4*
2 INPUTS (including taxes)	66.3	-15.6	6.7	11.6	13.3	16.6
Of which:						
Net purchases	*95.1*	*-18.6*	*9.1*	*17.0*	*19.1*	*23.5*
Other operating costs	*22.2*	*-6.4*	*1.6*	*8.4*	*7.9*	*0.3*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	33.7	-7.7	2.1	2.7	4.5	-0.5
3 Personnel costs	19.0	-3.3	-0.4	-1.3	-1.2	0.5
S.2 GROSS OPERATING PROFIT [S.1 – 3]	14.6	-13.8	5.7	6.5	10.0	-1.4
4 Financial revenue	5.3	-14.9	3.7	5.2	-3.2	19.1
5 Financial costs	4.5	-29.1	-1.4	1.4	-0.2	10.3
6 Depreciation and operating provisions	6.4	-5.1	1.4	4.8	2.9	6.5
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.0	-10.8	11.8	9.4	12.2	-2.9
7 Capital gains and extraordinary revenue (b)	-0.6	—	—	—	13.5	-36.3
7' As a percentage of GVA (7 / S.1)		4.6	-1.9	-2.8	7.7	4.7
8 Changes in fair value and other gains (losses) (b)	-1.0	4.2	39.5	47.1	-25.5	—
8' As a percentage of GVA (8 / S.1)		-4.5	-2.9	-3.8	-0.7	-7.6
9 Corporate income tax	1.2	35.9	29.9	24.5	32.8	-25.6
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	6.3	54.7	-15.5	-12.6	9.0	-27.4
S. 4' As a percentage of GVA (S.4 / S.1)		20.8	18.7	26.3	34.9	25.5
PROFIT RATIOS	Formulas (c)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / AN	6.2	6.2	6.3	5.5	5.1
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / RAC	3.6	3.3	3.2	3.2	3.5
R.3 Ordinary return on equity (before taxes)	S.3 / PN	8.7	8.8	9.0	7.6	6.5
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.7	2.8	3.1	2.3	1.6

SOURCE: Banco de España.

a All the data in this column have been calculated as the weighted average of the quarterly data.
b New P&L headings resulting from application of the new General Chart of Accounts (PGC 2007).
c 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).

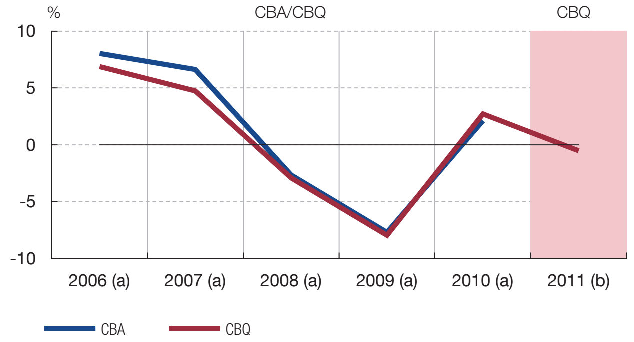
NB: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

performance of activity in this aggregate in 2010 has been much influenced by the behaviour of oil refining corporations (whose GVA increased by 66.1%), against the backdrop of the rising trend in oil prices (see Chart 2), while in 2011 the contraction in margins undergone by the corporations in this sub-sector accounts for the increase in GVA of only 2%. The other major energy aggregate, comprising the utilities, posted increases in GVA of 3.8% in 2010 and of 0.7% to September 2011. Corporations in the wholesale and retail trade and accommodation and food service activities sector were affected by the weakness of consumption. Evidencing this was the decline in their activity (2.2%), following

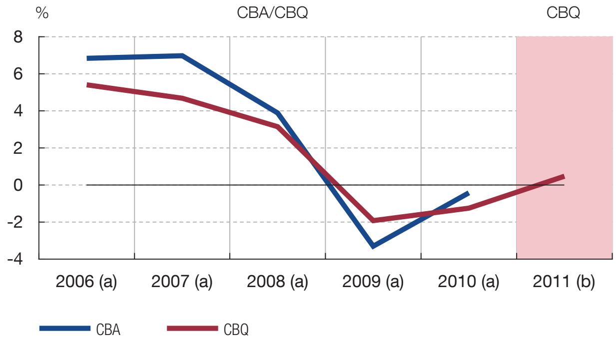
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE

CHART 1

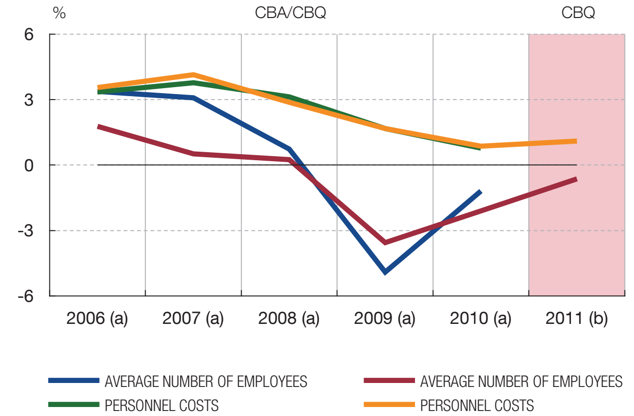
GROSS VALUE ADDED AT FACTOR COST
Rate of change



PERSONNEL COSTS
Rate of change



EMPLOYMENT AND WAGES
Rate of change



GROSS OPERATING PROFIT
Rate of change

REPORTING NON-FINANCIAL CORPORATIONS		2006	2007	2008	2009	2010	2011
Number of corporations	CBA	9,276	9,321	9,639	9,792	7,028	—
	CBQ	830	849	817	805	808	749
% of GDP of the sector Non-financial corporations	CBA	33.5	33.9	31.6	30.7	26.6	—
	CBQ	14.6	14.3	13.1	12.8	13.2	12.6

SOURCE: Banco de España.

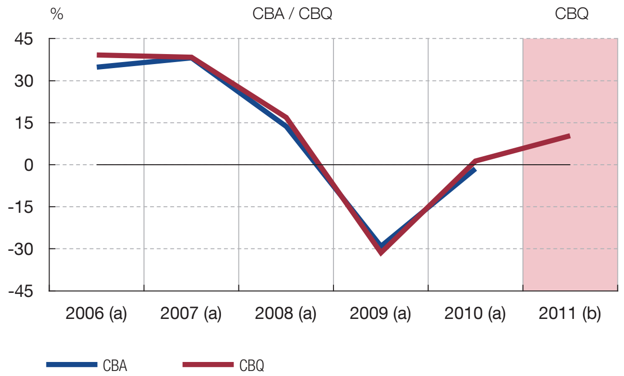
a 2006, 2007, 2008, 2009 and 2010 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b Data up to 2011 Q3 vis-à-vis the same period in 2010.

the increase recorded the previous year (1.9%). Activity in the information and communications sector held on a contractionary course in the two periods analysed, with reductions in GVA of around 4%. Accounting for this, in addition to the weakness of private consumption, is the environment of strong competition and diminishing margins in the telecommunications sub-sector. Lastly, GVA in the aggregate encompassing the remaining sectors declined in 2010 by 2.2%, largely due to the contractionary effect of construction and real estate corporations, while in the first nine months of 2011 it posted low growth (1.5%), although it should be borne in mind that these types of corporation are comparatively less represented in the CBQ.

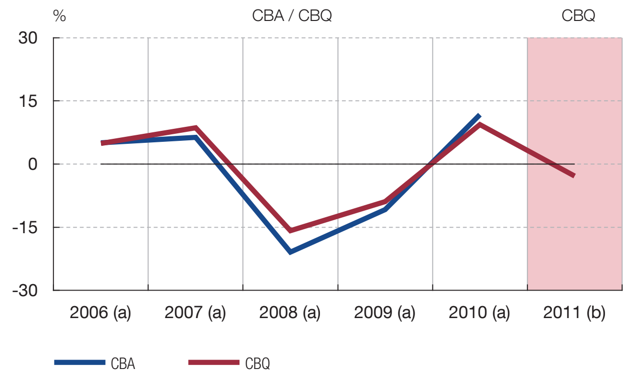
NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd)

CHART 1

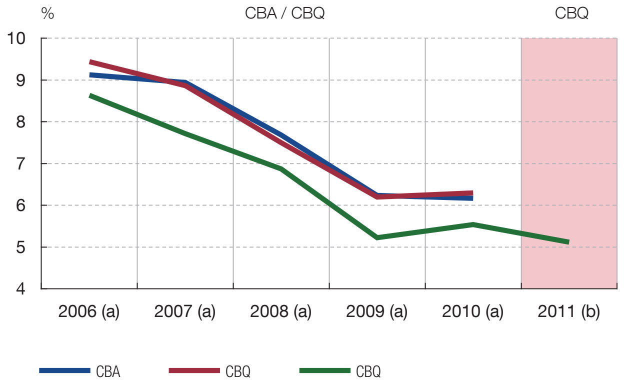
FINANCIAL COSTS
Rate of change



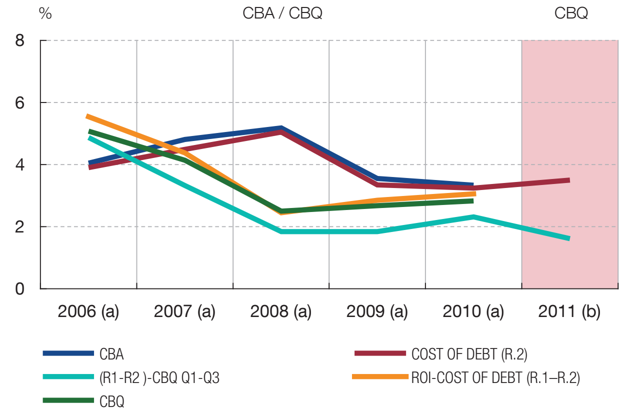
ORDINARY NET PROFIT
Rate of change



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 2006, 2007, 2008, 2009 and 2010 data are the average data of the four quarters of each year (CBQ) in relation to the previous year for the corporations reporting to the annual survey (CBA).
b Data up to 2011 Q3 vis-à-vis the same period in 2010.

Finally, Chart 3 shows the percentiles of the distribution of corporations on the basis of changes in GVA. It can be seen how the median corporation (50th percentile) posted, in the first three quarters of 2011, a slight decline in activity in year-on-year terms, albeit somewhat more moderately than what may be inferred from the aggregate indicators. The lesser dynamism in activity, compared with the same period a year earlier, is reflected essentially in the 75th percentile, which shows the situation of 25% of the corporations with higher increases in this variable. Conversely, in the lower part of the distribution, somewhat less sharp declines are seen. As a result, the dispersion among corporations declined in terms of the increase in GVA.

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS

Structure and rate of change

TABLE 2

		CBA		CBQ (a)	
		2009	2010	Q1-Q3 2010	Q1-Q3 2011
Total corporations		7,028	7,028	749	749
Corporations reporting source/destination		7,028	7,028	711	711
Percentage of net purchases according to source	Spain	68.5	65.5	81.3	82.1
	Total abroad	31.5	34.5	18.7	17.9
	EU countries	16.4	16.4	13.1	13.1
	Third countries	15.1	18.1	5.6	4.8
Percentage of net turnover according to destination	Spain	84.7	82.9	87.9	86.8
	Total abroad	15.3	17.1	12.1	13.2
	EU countries	10.3	11.4	8.4	9.6
	Third countries	5.0	5.8	3.7	3.6
Change in net external demand (exports less imports), rate of change	Industry	23.5	0.4	6.1	34.0
	Other corporations	39.9	-27.4	—	110.6

SOURCE: Banco de España.

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

VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE. BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS

Growth rate of the same corporations on the same period a year earlier

TABLE 3

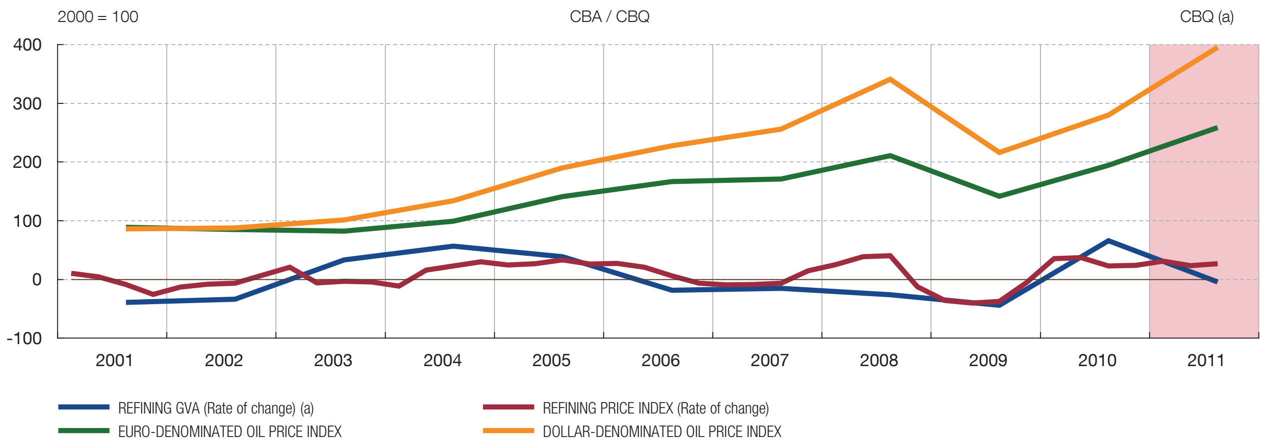
	Gross value added at factor cost				Employees (Average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011
TOTAL	**2.1**	**2.7**	**4.5**	**-0.5**	**-1.2**	**-2.1**	**-2.1**	**-0.6**	**-0.4**	**-1.3**	**-1.2**	**0.5**	**0.8**	**0.9**	**0.9**	**1.1**
SIZE:																
Small	-4.0	—	—	—	-4.3	—	—	—	-3.1	—	—	—	1.2	—	—	—
Medium	1.0	4.2	4.1	4.4	-2.1	-3.3	-3.7	-1.2	-0.6	-1.4	-1.8	0.8	1.5	2.0	2.0	1.9
Large	2.4	2.7	4.6	-0.7	-1.0	-2.0	-2.0	-0.6	-0.3	-1.2	-1.2	0.4	0.7	0.8	0.8	1.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	7.7	8.8	9.7	0.7	-2.1	-2.2	-2.4	-0.6	0.5	0.2	-0.4	0.4	2.6	2.5	2.1	1.0
Industry	9.2	18.2	15.6	2.4	-2.4	-2.3	-2.8	0.0	0.1	-0.9	-1.5	2.2	2.5	1.4	1.3	2.2
Wholesale & retail trade & accomodation & food service activities	1.9	3.3	5.4	-2.2	-0.8	-0.8	-1.3	2.1	0.5	0.2	-0.3	2.6	1.3	1.1	1.1	0.5
Information and communication	-3.6	-5.3	-4.4	-4.5	-2.5	-1.7	-1.9	-0.5	-1.0	0.5	0.3	1.7	1.5	2.3	2.2	2.3
Other activities	-2.2	-0.9	3.4	1.5	-0.5	-3.0	-2.4	-2.8	-1.3	-2.9	-2.1	-1.6	-0.7	-0.9	3.4	1.5

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

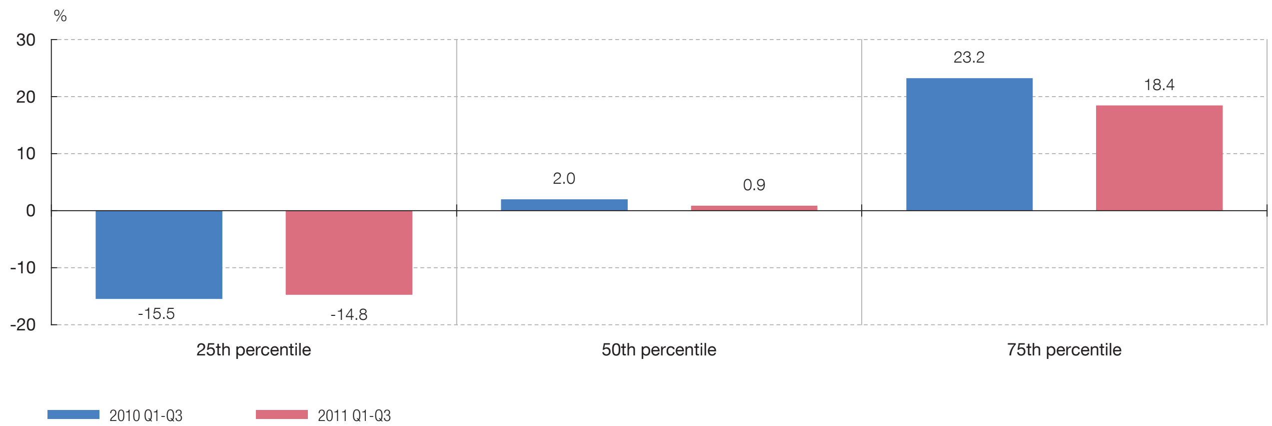


SOURCE: Banco de España and Ministerio de Industria, Turismo y Comercio (monthly price report).

a 2011 data relate to the CBQ.

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA

CHART 3



SOURCE: Banco de España.

Employment and personnel costs

There were scarcely any changes in personnel costs either in 2010, when they declined by 0.4%, or during the first three quarters of 2011, in which they increased by 0.5% (see Table 3). The behaviour of these costs is the result of two opposing effects; on one hand, employment continued to fall in the two periods analysed, whereas average compensation held at a growth rate of around 1%.

Indeed, employment remained firmly on a declining trend, dating back to 2009, meaning that both in 2010 and in the first nine months of 2011 average headcounts at corporations showed reductions (of 1.2% and 0.6%, respectively). The figures in Table 4 reveal how the declines in the average number of employees continued during 2011 to affect a majority of corporations in the sample (52.7%), although this percentage is somewhat lower than that recorded in the same period of 2010 (56.6%). The adjustments essentially affected temporary employment, while employees with a permanent contract trended more stably over these past two years, with the quarterly data for 2011 even showing a slight increase in permanent employment (0.5%). Analysis at the level of the productive branches shows that job destruction impacted aggregates across the board, affecting particularly sharply

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION
Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ (a)			
	2009	2010	Q1-Q4 2009	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011
Number of corporations	9,792	7,028	805	808	823	749
PERSONNEL COSTS	100	100	100	100	100	100
Falling	57.4	48.1	57.2	49.6	51.0	47.4
Constant or rising	42.6	51.9	42.8	50.4	49.0	52.6
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	54.7	46.2	62.6	55.7	56.6	52.7
Constant or rising	45.3	53.8	37.4	44.3	43.4	47.3

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

the sector encompassing other activities, which posted a decline of 2.8%, almost 0.5 pp up on the same period in the previous year for the CBQ sample. As an exception to the broad trend, the average number of employees in the wholesale and retail trade and accommodation and food service activities sector rose in 2011 by 2.1%.

The growth rate of average compensation fell in 2010 to 0.8%, almost 1 pp down on the previous year. Conversely, in the first three quarters of 2011, these costs quickened slightly, at a rate of 1.1%, compared with that of 0.9% recorded in the same period the previous year (see Table 3). This rise is more clearly discernible in certain branches, such as information and communications, which was the aggregate in which average personnel costs grew most sharply in 2011 (2.3%), or industry, where average compensation rose by 2.2%, almost 1 pp up on the same period a year earlier. At the other extreme, the wholesale and retail trade and accommodation and food service activities sector showed the smallest expansion in wage costs, with an increase of 0.5%. In an intermediate position is the energy aggregate and that encompassing other activities, which saw increases in average compensation of 1% and 1.2%, respectively, during the first nine months of 2011. The information in Table 5 shows sharper growth in employee wages (2.5%) at corporations with staff cuts, while those at which the average number of employees held or grew posted much lower growth in compensation (0.2%).

Profits, rates of return and debt

In line with the developments in productive activity, gross operating profit (GOP) also grew in 2010, by 5.7%, partially recovering from the strong declines recorded in the two previous years (10.2% in 2008 and 13.8% in 2009). In the first three quarters of 2011, GOP once again moved on a slightly contractionary course, with a decline of 1.4% year-on-year.

Financial revenue grew in the two periods analysed, albeit with greater intensity in 2011 (19.1%), as a result both of higher dividends, largely from foreign subsidiaries, and of the increase in interest received, against the background of interest-rate rises.

Financial costs fell by 1.4% in 2010, after having declined almost 30% in 2009. During the first nine months of 2011, in contrast, they increased by 10.3%, which has translated into a further rise in the ratio measuring the interest burden (see Chart 4). The latest growth in these costs has been basically due to the effect of the rise in interest

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 5

		Total CBQ corporations Q1-Q2 2011	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		749	381	368
PERSONNEL COSTS:				
Initial situation Q1-Q3 2010 (€m)		22,129.8	11,413.6	10,716.2
Rate Q1-Q3 2011 / Q1-Q3 2010		0.5	4.8	-4.2
AVERAGE COMPENSATION				
Initial situation Q1-Q3 2010 (€)		33,249.3	32,372.0	34,426.0
Rate Q1-Q3 2011 / Q1-Q3 2010		1.1	0.2	2.5
NUMBER OF EMPLOYEES				
Initial situation Q1-Q3 2010 (000s)		664	353	311
Rate Q1-Q3 2011 / Q1-Q3 2010		-0.6	4.6	-6.5
Permanent	Initial situation Q1-Q3 2010 (000s)	571	306	265
	Rate Q1-Q3 2011 / Q1-Q3 2010	0.5	4.1	-3.7
Non-permanent	Initial situation Q1-Q3 2010 (000s)	93	46	46
	Rate Q1-Q3 2011 / Q1-Q3 2010	-7.4	7.9	-22.9

SOURCE: Banco de España.

rates, while the impact associated with changes in debt was virtually negligible (see Table 6). In line with the lower recourse to fresh borrowed funds, the E1 debt ratio (which divides interest-bearing debt by net assets) has held virtually unchanged since 2009 (see Chart 4). The E2 ratio, which proxies repayment capacity, moved on a declining course over the past two years, to which the growth of GOP and, more recently, the buoyancy of financial revenue contributed in 2010. Developments in financing are consistent with slack investment by these corporations since the onset of the crisis. Thus, both the CBA information for 2010 and the more recent CBQ data to September 2011 show that gross fixed capital formation fell considerably: by 5.7% and 20.1%, respectively.

In this context, average supplier-payment periods, proxied using accounting data, tended to fall somewhat in 2010, while average collection periods scarcely changed (see Box 2). Nonetheless, the levels in both cases held above those prior to the crisis. The breakdown by size shows how the average term of net trade financing extended by small corporations increased once again last year.

Costs relating to net depreciation, impairment and operating provisions, which grew by scarcely 1.4% in 2010 for the CBA sample, climbed by 6.5% in the CBQ in the first nine months of 2011, largely owing to the provisions set aside by certain real estate corporations, so as to recognise the lower value of their stocks.

This led ONP to grow by 11.8% in 2010, in line with the expansionary trend shown by the previous profit figures analysed, while in the first three quarters of 2011 this aggregate has declined by 2.9%. The increase in ordinary profits in 2010 allowed rates of return to hold at similar levels to those of the previous year: 6.2% for ROI, and 8.8% for ROE. Conversely, in 2011, these indicators have clearly declined. In the case of ROI, the related

DEBT RATIOS

CHART 4

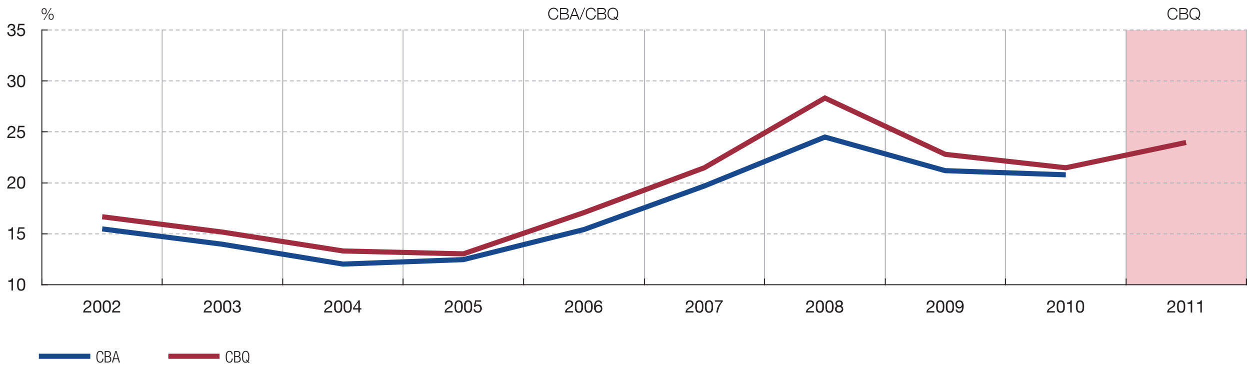
E1. INTEREST-BEARING BORROWING / NET ASSETS (a)
Ratios

	2006	2007	2008	2009	2010	2011
CBA	46.9	46.9	48.3	47.6	47.4	
CBQ	45.1	45.6	46.7	46.7	46.8	47.2

E2. INTEREST-BEARING BORROWING/(GOP + financial revenue) (b)
Ratios

	2006	2007	2008	2009	2010	2011
CBA	427.7	438.7	505.9	592.8	579.8	
CBQ	536.2	539.0	593.3	696.6	682.8	665.3

INTEREST BURDEN
(Interest on borrowed funds) / (GOP + financial revenue)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CBA	15.5	14.0	12.0	12.5	15.4	19.7	24.5	21.2	20.8	
CBQ	16.7	15.2	13.3	13.0	17.1	21.5	28.3	22.8	21.5	24.0

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).

ANALYSIS OF DEVELOPMENTS IN FINANCIAL COSTS

TABLE 6

	2009-2010	2011 Q1-Q3 / 2010 Q1-Q3
Change in financial costs	**-1.4**	**10.3**
A. Interest on borrowed funds	-1.8	11.0
1. Due to the cost (interest rate)	-6.3	11.3
2. Due to the amount of interest-bearing debt	4.5	-0.3
B. Other financial costs	0.4	-0.7

SOURCE: Banco de España.

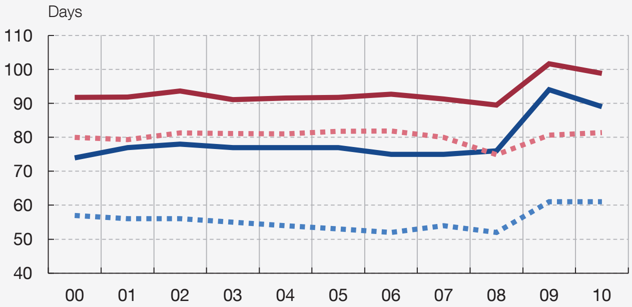
RECENT DEVELOPMENTS IN AVERAGE CUSTOMER-COLLECTION AND SUPPLIER-PAYMENT PERIODS AND IN NET TRADE FINANCING EXTENDED BY NON-FINANCIAL CORPORATIONS

BOX 2

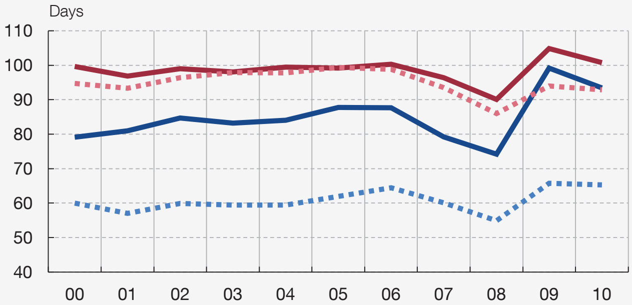
Analysis of the flows associated with trade credit is a key element, especially during periods of economic crisis, for assessing the financial pressure to which corporations may be subjected. Thus, a lengthening of average supplier-payment periods may be a sign of greater liquidity problems. Likewise, an extension of customer-collection periods that cannot be passed through to suppliers or offset with great resort to borrowing might affect investment decisions and, at the limit, the very survival of certain corporations.

AVERAGE COLLECTION AND PAYMENT PERIODS

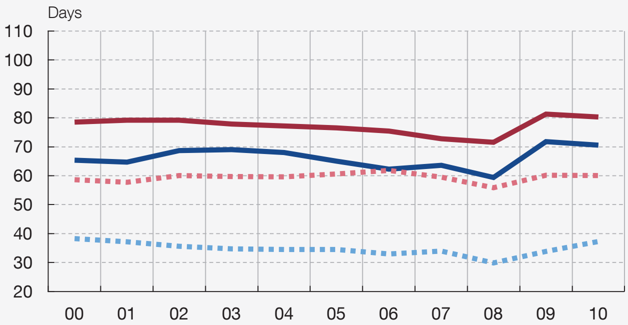
1 TOTAL



2 INDUSTRY



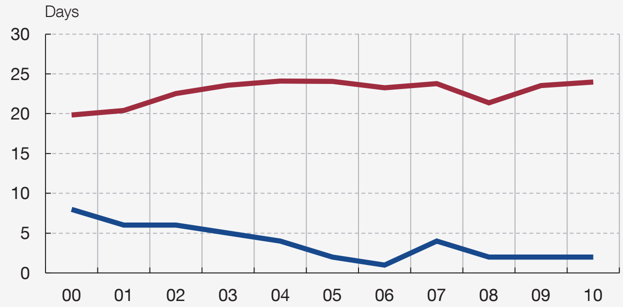
3 WHOLESALE AND RETAIL TRADE & ACCOMMODATION AND FOOD SERVICE ACTIVITIES



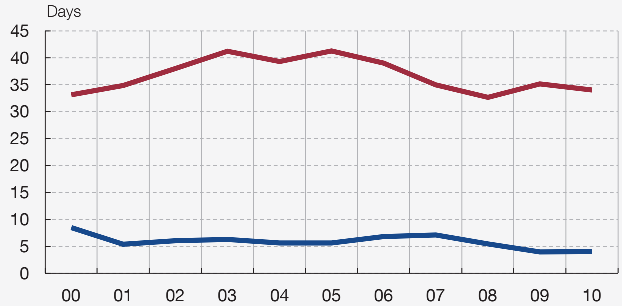
AVERAGE SUPPLIER-PAYMENT PERIOD (b). LARGE CORPORATIONS (CBA)
AVERAGE CUSTOMER-COLLECTION PERIOD (c). LARGE CORPORATIONS (CBA)
AVERAGE SUPPLIER-PAYMENT PERIOD (b). SMALL CORPORATIONS (CBA AND CBB)
AVERAGE CUSTOMER-COLLECTION PERIOD (c). SMALL CORPORATIONS (CBA AND CBB)

NET TRADE FINANCING EXTENDED (a)

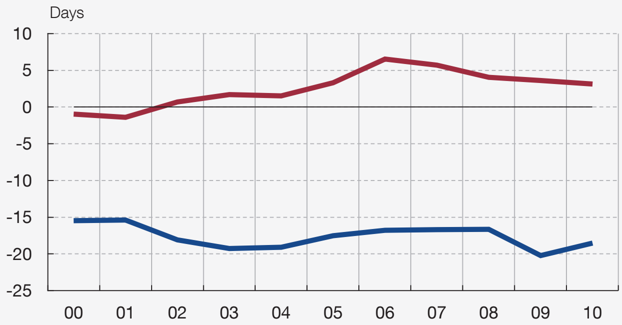
1 TOTAL



2 INDUSTRY



3 WHOLESALE AND RETAIL TRADE & ACCOMMODATION AND FOOD SERVICE ACTIVITIES



LARGE CORPORATIONS (CBA)
SMALL CORPORATIONS (CBB)

SOURCE: Banco de España.

a Ratio defined as the net balance of customers and suppliers divided by annual sales and multiplied by 365.
b Ratio defined as suppliers divided by annual purchases multiplied by 365.
c Ratio defined as customers divided by annual sales multiplied by 365.

The databases available to the Central Balance Sheet Data Office (CBSO) allow, drawing on aggregate accounting data, for the approximate calculation of average supplier-payment and customer-collection periods, along with the average period of net trade financing extended[1], which indicates the average number of days that the corporation grants (or receives, if the figure is negative) funds, in net terms, as a result of its commercial transactions. In any event, it should be stressed that the data thus obtained are approximations; they are useful for analysing changes and the trend in average periods, but they cannot be taken as a reference for verifying the degree of compliance with the legal limits set for these periods.[2] The accompanying panels show the figures obtained for these three ratios, between 2000 and 2010, for the total sample of CBSO corporations and for two sectors in particular, namely industry and wholesale and retail trade and accommodation and food service activities. A distinction is made between corporation size, presenting on one hand large corporations (those with more than 250 employees) and, on the other, small and medium-sized corporations (for which the information available in the CBA and that existing in the database created from filings with the Mercantile Registries, the CBB, has been aggregated).[3]

Firstly, it can be seen that, throughout the period under analysis, average supplier-payment and customer-collection periods are higher for small corporations than for larger corporations, the difference between both being smaller for supplier-payment periods (see left-hand panels). Further, it is revealed that the corporations in the sample tend to extend, in net terms, financing to other agents (general government, households and the external sector), at average terms which are substantially longer for small corporations (see right-hand panels). In the wholesale and retail trade and accommodation and food service activities sector, by contrast, the bigger corporations obtained funds, in net terms, as a result of their commercial transactions.

The economic recession in 2009 had a most considerable impact on average customer-collection and supplier-payment periods, which lengthened notably during that year, revealing corporations' greater liquidity difficulties. The rise was particularly marked in the industrial sector and, to a lesser extent, in the wholesale and retail trade and accommodation and food service activities sector, which were two of the branches that were most affected by the economic crisis. The average term of net financing extended by small corporations also lengthened, while that relating to large corporations hardly changed.

In 2010, against the backdrop of some recovery in productive activity, average supplier-payment periods tended to shorten somewhat, although they held above pre-crisis levels, whereas customer-collection periods scarcely changed. The biggest decline in average payment periods was detected in the industrial sector, which was one of those that most forcefully recovered in terms of its GVA and profits. The average period of net trade financing extended by small corporations continued to lengthen.

In conclusion, the findings in this Box show that, during 2009, there was a significant lengthening in non-financial corporations' average customer-collection and supplier-payment periods, suggesting greater liquidity difficulties for the corporations, against the background of a contraction in activity. Some shortening of average supplier-payment periods is detected in 2010, perhaps resulting from an improvement in corporations' treasury position, although the reduction in the legal maximum terms may also have contributed here. As a result of commercial transactions, the average period of financing extended by small corporations increased during the past two years, a situation which suggests that this type of company may be experiencing a growing degree of financial pressure in this connection.

1 Specifically, the average supplier-payment period is calculated as the ratio of this variable to annual purchases, multiplied by 365. The average customer-collection period is calculated similarly (customers divided by annual sales multiplied by 365), and the average period of net trade financing extended is obtained as the difference between the balance of customers and of suppliers, divided by total annual sales, multiplied by 365.

2 With the aim of restricting average supplier-payment periods, a European Directive (2000/35/EC) was promulgated in 2000. It proposed measures to combat late payment in commercial transactions. The Directive has been transposed into Spanish legislation through Law 15/2010 (amending Law 3/2004), which sets, for at the latest by 1 January 2013, a maximum payment term covering commercial transactions, both between companies and with the general government sector. In this connection a transitory period establishing progressive reductions is set, obtaining by 2013 a maximum supplier-payment period of 60 days in the case of transactions between corporations, and of 30 days if they are with the general government sector.

3 The figures for the different ratios are linked taking into account the changes in a sample of corporations common to each of the years of the period analysed.

figure was 5.1%, compared with 5.5% in the first nine months of 2010, while ROE fell to 6.5%, more than 1 pp down on the figure for the same period the previous year (7.6%). This adverse performance affected all sectors without exception (see Table 7). However, the recent decline in rates of return for the overall CBQ sample has proven compatible with an increase in the related return at medium-sized corporations and with a shift in the distribution of this indicator towards somewhat higher levels of profitability (see Table 8). That suggests that the aggregate data are greatly influenced by the behaviour of bigger

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 **TABLE 7**
Ratios and growth rates of the same corporations on the same period a year earlier

	Gross operating profit				Ordinary net profit				ROI (R.1)				ROI-Cost of debt (R.1-R.2)			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011	2010	Q1-Q4 2010	Q1-Q3 2010	Q1-Q3 2011
TOTAL	**5.7**	**6.5**	**10.0**	**-1.4**	**11.8**	**9.4**	**12.2**	**-2.9**	**6.2**	**6.3**	**5.5**	**5.1**	**2.8**	**3.1**	**2.3**	**1.6**
SIZE:																
Small	-6.1	—	—	—	6.0	—	—	—	3.5	—	—	—	0.0	—	—	—
Medium	3.8	13.8	13.8	9.5	16.1	35.8	33.5	17.9	5.2	5.6	5.4	6.4	2.0	2.5	2.6	3.2
Large	6.0	6.3	9.9	-1.7	11.6	8.8	11.7	-3.5	6.2	6.3	5.5	5.1	2.9	3.1	2.3	1.6
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	11.3	11.3	12.7	0.8	6.1	1.7	9.2	-3.0	6.2	6.4	5.8	5.3	2.9	3.1	2.5	2.0
Industry	26.7	76.4	61.1	2.8	76.0	145.4	86.4	34.3	6.2	4.6	4.2	3.1	2.4	0.7	0.4	-0.9
Wholesale & retail trade & accomodation & food service activities	4.6	8.9	16.4	-9.9	4.5	14.8	27.4	-13.9	8.1	7.6	7.1	6.0	4.3	4.4	4.0	2.4
Information and communication	-5.0	-7.1	-6.0	-6.9	-4.8	-10.4	-8.4	-10.5	21.7	27.1	28.1	26.6	17.7	22.7	23.5	22.1
Other activities	-4.7	4.1	17.3	8.5	7.6	40.2	45.9	27.7	4.8	5.1	4.1	3.9	1.7	2.0	1.1	0.5

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 8**

		CBQ (a)			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		2010 Q1-Q3	2011 Q1-Q3	2010 Q1-Q3	2011 Q1-Q3
Number of corporations		823	749	823	749
Percentage of corporations by profitability bracket	R <= 0	30.0	29.6	34.4	33.8
	0 < R <= 5	25.8	23.2	18.1	15.8
	5 < R <= 10	14.9	16.5	10.8	11.4
	10 < R <= 15	7.1	8.1	7.8	9.2
	15 < R	22.2	22.5	28.9	29.8
MEMORANDUM ITEM: Average return		5.5	5.1	7.6	6.5

SOURCE: Banco de España.

corporations, which have evidenced a comparatively less favourable performance. The ratio measuring the cost of debt turned around in 2011, driven by interest rate rises, which have progressively passed through to corporate costs, leading this ratio to rise slightly in 2011 (to 3.5%), following the low recorded the previous year (3.3%). The upward course of these costs, combined with the downturn in the ROI, meant that the difference between both ratios declined in 2011 to 1.6%, compared with 2.3% a year earlier. The worsening of this difference was evident in all sectors of activity, even turning negative in some, such as industry (-0.9%).

Lastly, the analysis of extraordinary gains (losses) highlights the negative influence that these results have had on the growth of final profit in the two periods analysed. Thus, in 2010 it can be seen how the gains (losses) from disposals and impairment (the most significant item under this heading) declined strongly, as a result of the lower gains recorded in 2010 compared with the previous year, and of the presence of certain high provisions recorded by corporations in the valuation of their financial asset portfolios, which has led this heading to show a negative figure in this period. During the first three quarters of 2011, the declining trend of gains associated with asset sales, chiefly of shares and other equity, has continued, leading the heading of gains (losses) from disposals and impairment to show a reduction of 36.3%. To this must be added the impact arising from redundancy programmes, which has obliged some large corporations to set aside significant extraordinary provisions which have been recorded, as an expense, under the heading of changes in fair value and other extraordinary gains (losses). Accordingly, profit for the year posted significant declines: 15.5% in 2010 and 27.4% to September 2011. Expressed as a percentage of GVA, this profit fell in 2010 to 18.7%, 2 pp less than the previous year, while in 2011 to date it declined by more than 9 pp compared with the same period the previous year, for the CBQ sample, standing at 25.5%.

15.11.2011.