RESULTS OF NON-FINANCIAL CORPORATIONS IN 2012 Q1

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Overview[1]

The information compiled by the Central Balance Sheet Data Office Quarterly Survey (CBQ) reveals that corporations' activity continued contracting during 2012 Q1, furthering the declining trend observed throughout the previous year. This was apparent in a year-on-year reduction in gross value added (GVA) of 4.2%, while in 2011 Q1 this variable had scarcely shown any appreciable changes. The deterioration had an across-the-board effect on all sectors, against a background of falling national demand and slowing exports.

Personnel costs fell by 1.4% during the first three months of the year, compared with virtually zero growth in the same period in 2011. This was the result of the decline in employment[2] (1.7%) stepping up, which was partly offset by a 0.3% increase in average compensation, 0.7 pp down on 2011 Q1. By contract type, the decline in employment was centred mainly on the temporary segment, which contracted strongly (by 12.4%), while permanent employment held practically stable, falling slightly by 0.2%.

Gross operating profit (GOP) shrank by 6.5%, compared with growth of 0.1% a year earlier. Financial revenue fell appreciably, mainly due to the lower dividends received, which declined strongly (81.3%), following their exceptional increase during 2011 Q1. Financial costs increased by 2.8%, owing to the rise in interest rates, which fed through progressively to corporations' financial outlays, since there was scarcely any change in debt. The overall effect of the deterioration in productive activity and of the adverse developments in financial costs (and especially in financial revenue) led ordinary net profit (ONP) to fall by 40.9%, a movement in contrast to the 21.2% increase in this variable in the same period a year earlier. The fall in ordinary profits prompted a downturn in corporations' profit ratios: both the return on investment and that on equity posted figures of 3.6%, 0.6 pp and 1.3 pp down, respectively, on 2011 Q1. The financial cost of borrowed funds rose slightly to 3.5%, 0.1 pp up on the level recorded in the same period in 2011. That means the spread between the return on investment and this indicator narrowed by 0.8 pp, posting a value of practically zero in 2012 Q1 and even turning negative in some sectors, such as industry.

Lastly, an analysis of extraordinary gains (losses) reveals that they exerted a strongly negative impact during 2012 Q1 on profits for the year. This was due to the recognition of significant capital losses and the impairment of financial asset portfolios, which made the decline in corporate profits steeper. Indeed, in the period under study, these fell by 64.2% compared with the profits generated in 2011 Q1. If final profit is expressed as a percentage of GVA, to March 2012 it accounted for only 10%, far below the figure a year earlier (26.6%) and, within the attendant CBQ series, it marked the minimum value recorded for a first quarter since 1994.

1 This article is based on the quarterly information, to 12 June, sent by the 712 corporations reporting to the Central Balance Sheet Data Office. In terms of GVA, this sample accounts for 12.3% of the total non-financial corporations sector.

2 The CBQ's employment data are an average calculated by taking into account the hours actually worked and, consequently, variations in this item may include changes in the number of employees and in the average working day.

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

TABLE 1

	CBA Structure	CBA		CBQ		
DATABASES	2010	2009	2010	11 Q1-Q4/ 10 Q1-Q4 (a)	11 Q1/ 10 Q1	12 Q1/ 11 Q1
Number of corporations		9.836	8.347	802	841	712
Total national coverage (% of GVA)		31.0	29.1	12.8	14.2	12.3
PROFIT AND LOSS ACCOUNT						
1 Value of output (including subsidies)	100.0	-12.9	4.8	8.7	9.1	4.7
Of which:						
Net amount of turnover and other operating income	*147.7*	*-13.2*	*4.5*	*10.4*	*9.7*	*7.9*
2 Inputs (including taxes)	65.8	-15.5	6.5	13.8	14.0	8.8
Of which:						
Net purchases	*93.4*	*-18.6*	*8.8*	*20.3*	*22.3*	*11.5*
Other operating costs	*22.6*	*-6.6*	*1.5*	*-0.6*	*0.7*	*0.7*
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	34.2	-7.8	1.6	-1.4	-0.1	-4.2
3 Personnel costs	19.7	-3.3	-0.3	0.1	-0.2	-1.4
S.2 GROSS OPERATING PROFIT [S.1 – 3]	14.5	-13.7	4.3	-2.8	0.1	-6.5
4 Financial revenue	5.0	-19.3	2.4	6.9	91.8	-54.9
5 Financial costs	4.3	-29.0	-2.2	10.8	16.8	2.8
6 Depreciation and operating provisions	6.5	-5.1	1.5	2.0	3.9	2.3
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	8.7	-13.9	8.9	-6.6	21.1	-40.9
7 Gains (losses) from disposals and impairment	-0.5	-	-	-	-	-
7' As a percentage of GVA (7 / S.1)		4.5	-1.5	-4.9	0.0	-3.6
8 Changes in fair value and other gains (losses)	-0.9	3.8	38.5	-99.9	-	-
8' As a percentage of GVA (8 / S.1)		-4.5	-2.7	-6.5	0.0	-3.7
9 Corporate income tax	1.1	31.2	30.2	-54.3	-1.4	-44.8
S.4 NET PROFIT [S.3 + 7 + 8 - 9]	6.2	44.6	-15.7	-26.7	24.1	-64.2
S. 4' As a percentage of GVA (S.4 / S.1)		20.4	18.0	19.5	26.6	10.0
PROFIT RATIOS	Formulas (b)					
R.1 Return on investment (before taxes)	(S.3 + 5.1) / NA	6.2	6.1	5.7	4.2	3.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1 / IBB	3.5	3.3	3.6	3.4	3.5
R.3 Ordinary return on equity (before taxes)	S.3 / E	8.7	8.8	7.5	4.9	3.6
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.7	2.9	2.1	0.8	0.1

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

a All the data in this column have been calculated as the weighted average of the quarterly data.
b NA = Net assets 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).

In sum, the activity of the CBQ reporting corporations continued to contract during the first three months of 2012, against a background of declining domestic demand and slowing exports. The deterioration was fairly widespread, extending to all productive sectors, and it also translated into a step-up in job destruction, essentially affecting temporary employment. Financial revenue fell back significantly, as a result of lower dividends received compared with the same period the previous year. The reflection of all these developments was a significant slump in corporate profits and in ROI levels which, combined with the slight rise in the cost of borrowed funds, led to a further decline in the spread between these two indicators.

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

TABLE 2

		CBA	CBQ		
		2010	2011 Q1-Q4 (a)	2011 Q1	2012 Q1
Total corporations		8,347	802	712	712
Corporations reporting source/destination		8,347	763	671	671
Percentage of net purchases according to source	Spain	65.6	82.6	81.3	81.5
	Total abroad	34.4	17.4	18.7	18.5
	EU countries	17.0	12.5	13.8	13.2
	Third countries	17.4	4.8	4.9	5.3
Percentage of net turnover according to destination	Spain	83.3	86.3	86.2	85.2
	Total abroad	16.7	13.7	13.8	14.8
	EU countries	11.2	9.5	10.2	10.3
	Third countries	5.5	4.2	3.6	4.5
Change in net external demand (exports less imports), rate of change	Industry	1.1	29.0	32.0	30.4
	Other corporations	-24.8	35.6	18.5	18.2

SOURCE: Banco de España.

a All the data in this column have been calculated as the weighted average of the relevant quarterly data.

Activity

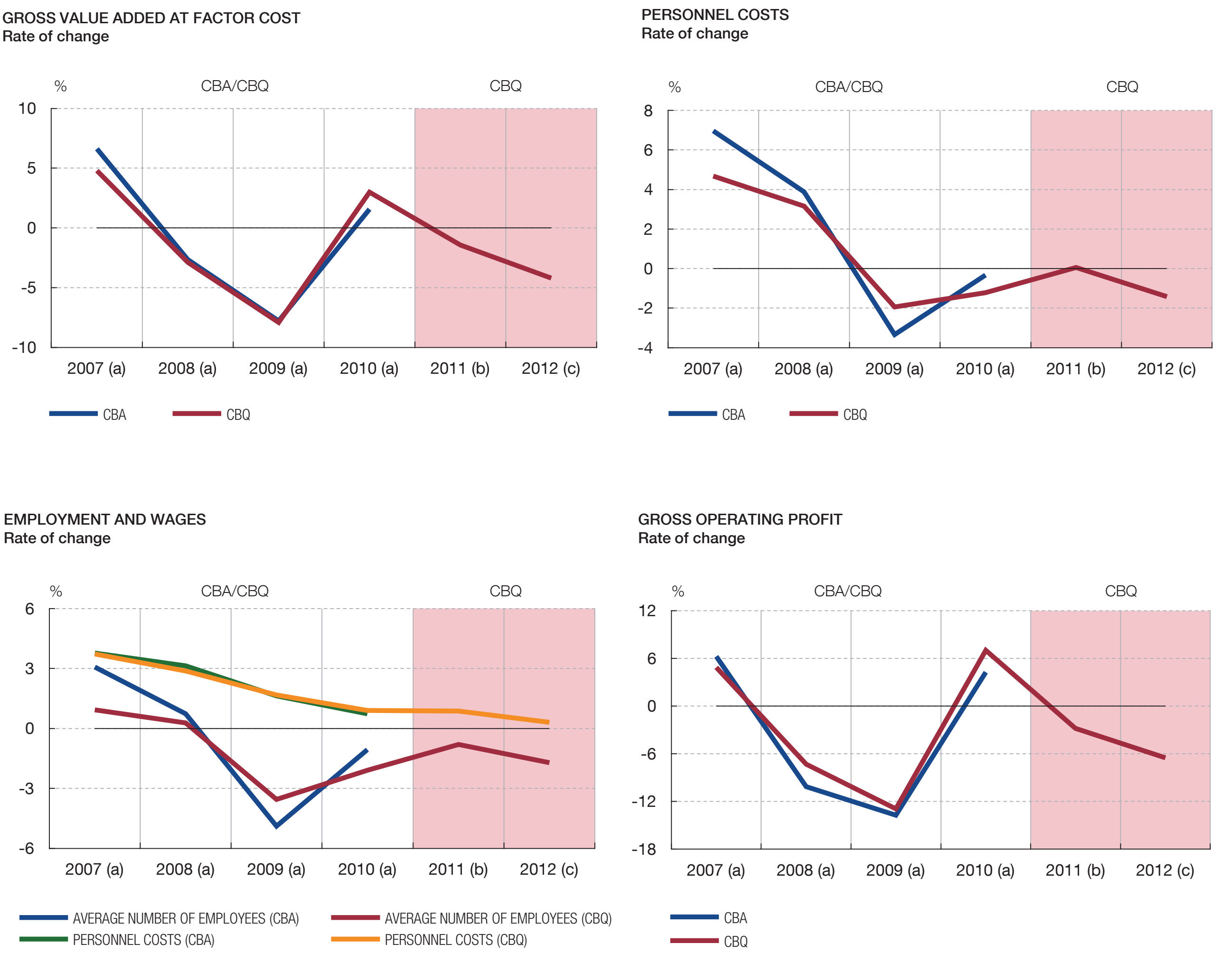
The information compiled by the CBQ highlights the fact that GVA fell by 4.2% in 2012 Q1 (see Table 1 and Chart 1), compounding the negative trend observed over the course of 2011. The breakdown of turnover by sector shows that foreign transactions remained the most dynamic item, increasing by 5.1%, which nevertheless marks a slowdown on the 14.3% increase a year earlier. However, this meant that the relative weight of this component increased, accounting for 14.8% of total sales (1 pp up on the previous year), to the detriment of domestic transactions, which fell by 3% to 85.2% (see Table 2).

The sectoral breakdown shows the downturn in activity was across the board, extending to all productive sectors (see Table 3). Of these, it was in industry where GVA fell sharpest (12.5%), in contrast to its 15% rise a year earlier. This negative pattern can be seen in all the industrial sub-sectors, without exception, although it is apparent to a greater extent in other manufacturing, the manufacture of mineral and metal products and the chemical industry, with reductions of 20.1%, 15.3% and 14.3%, respectively. The information and communications sector also contracted sharply, with a decline in GVA of 7%, reflecting the sluggishness of consumption. This factor likewise explains the behaviour of firms in the wholesale and retail trade and accommodation and food services activities, which led to a fall of 1.3% in this aggregate. The energy sector fell back by 1.5%, the outcome of the decline in the sub-sector of electricity, gas and water production, in which GVA fell by 2%. This development was partly offset by the increase in oil refining companies (7.8%). Finally, the group encompassing other activities showed a decline in productive activity of 3.1%, where it was the transport and the construction and real estate development companies that trended most unfavourably.

Chart 2 shows the distribution of firms according to their changes in GVA. The main conclusion drawn is that the deterioration in productive activity affected the firms comprising this sample across the board; all the quartiles fell, with a notable decline in the

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

CHART 1



NON-FINANCIAL CORPORATIONS		2007	2008	2009	2010	2011	2012
Number of corporations	CBA	9,321	9,639	9,836	8,347	—	—
	CBQ	851	819	805	811	802	712
% of GVA of the sector non-financial corporations	CBA	33.7	31.4	31.0	29.1	—	—
	CBQ	14.2	13.0	12.7	13.2	12.8	12.3

SOURCE: Banco de España.

a The 2007, 2008, 2009 and 2010 data are for the corporations reporting to the annual survey (CBA) and the average for the four quarters of each year in relation to the previous year (CBQ).
b Average of the four quarters of 2011 relative to the same period in 2010.
c Data of 2012 Q1 relative to the same period in 2011.

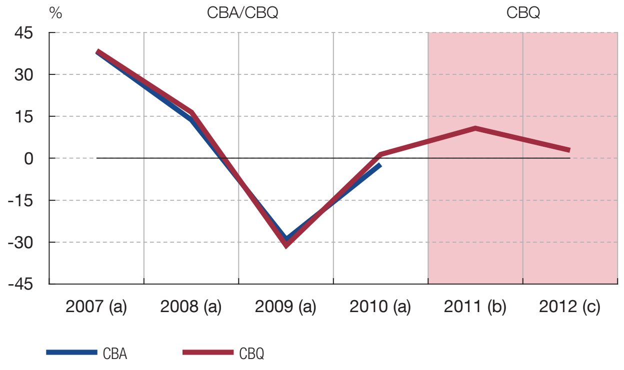
75th percentile (a level above which there are 25% of the firms in the sample with bigger increases in GVA), which stood in 2012 Q1 at 10.1%, more than 9 pp below the figure recorded a year earlier.

Employment and personnel costs

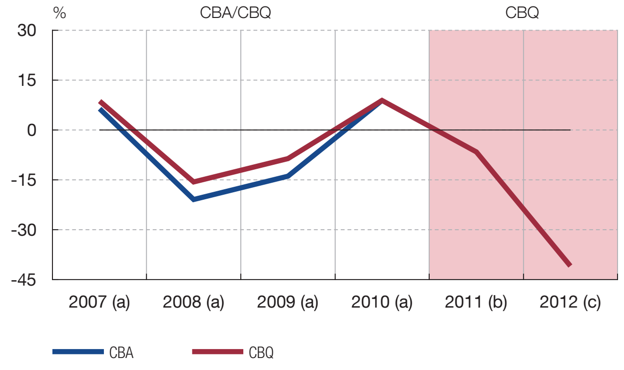
Personnel costs fell 1.4% in 2012 Q1, compared with the practically zero change in the same period the previous year. The reduction in this item is the result of the decline in average employment at the CBQ reporting firms, offset in part by the 0.3% growth in average compensation (see Table 3).

NON-FINANCIAL CORPORATIONS REPORTING TO THE CENTRAL BALANCE SHEET DATA OFFICE (cont'd) CHART 1

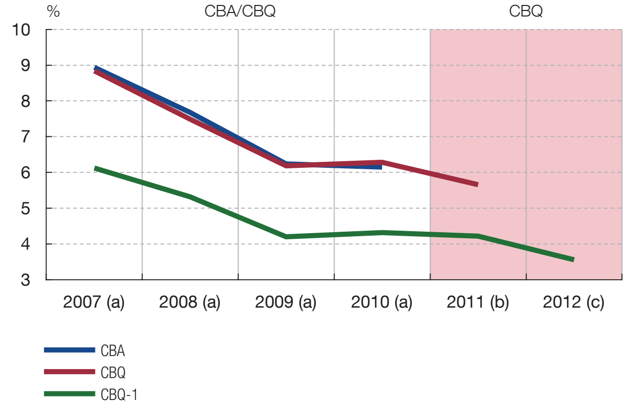
FINANCIAL COSTS
Rate of change



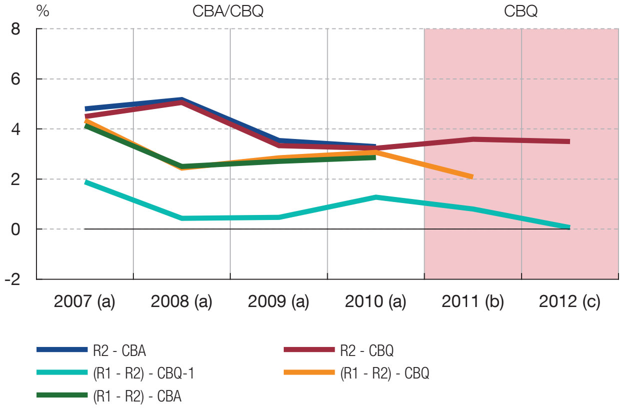
ORDINARY NET PROFIT
Rate of change



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 The 2007, 2008, 2009 and 2010 data are for the corporations reporting to the annual survey (CBA) and the average data of the four quarters of each year (CBQ). The rates are calculated relative to the previous year.
b Average of the four quarters of 2011. The rates are calculated relative to the same period in 2010.
c Data of 2012 Q1. The rates are calculated relative to the same period in 2011.

Indeed, during the first three months of the year the decline in average employment intensified, with a 1.7% reduction, 0.5 pp above that observed during the same period in 2011 and almost 1 pp up on the figure recorded over 2011 as a whole. In line with these developments, Table 4 shows that the number of corporations destroying jobs increased significantly in 2012 Q1, rising to 55.8% of the quarterly sample, more than 5 pp above the percentage of companies that were in this situation in the same period the previous year. This further reverses the trend, observed in the past two years, of a progressive rise in the proportion of companies that had managed to maintain or increase

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. Percentages

TABLE 3

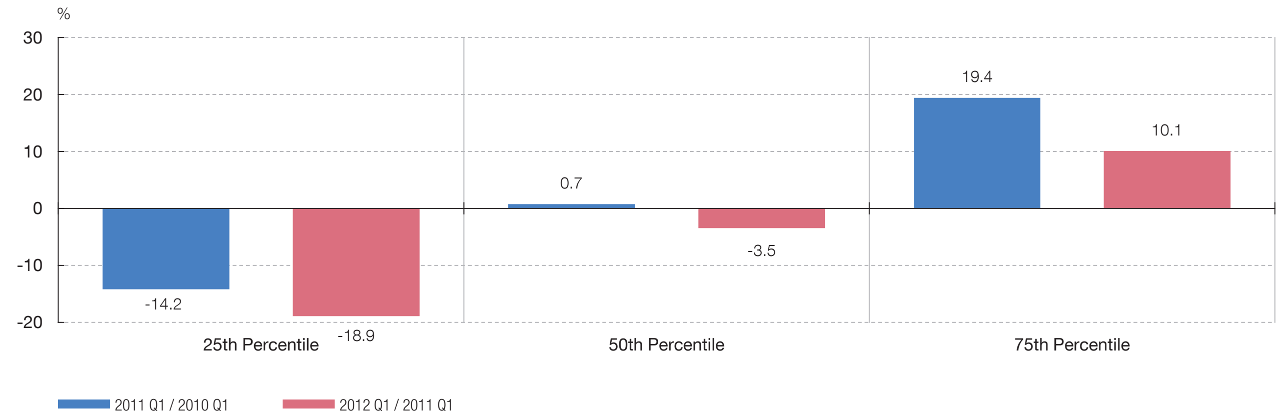
	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2010	11 Q1-Q4 (a)	11 Q1	12 Q1	2010	11 Q1-Q4 (a)	11 Q1	12 Q1	2010	11 Q1-Q4 (a)	11 Q1	12 Q1	2010	11 Q1-Q4 (a)	11 Q1	12 Q1
TOTAL	**1.6**	**-1.4**	**-0.1**	**-4.2**	**-1.1**	**-0.8**	**-1.2**	**-1.7**	**-0.3**	**0.1**	**-0.2**	**-1.4**	**0.7**	**0.9**	**1.0**	**0.3**
Size																
Small	-3.8	—	—	—	-4.3	—	—	—	-3.1	—	—	—	1.3	—	—	—
Medium	0.9	-0.4	10.1	-9.1	-2.0	-1.6	-1.4	-3.8	-0.7	-0.4	-0.1	-2.4	1.3	1.2	1.3	1.4
Large	1.8	-1.5	-0.4	-4.0	-0.8	-0.8	-1.2	-1.6	-0.2	0.1	-0.2	-1.4	0.6	0.9	1.0	0.3
Breakdown of activities																
Energy	7.6	-0.5	3.4	-1.5	-2.1	-1.9	-1.7	-0.5	0.5	0.1	1.6	-2.2	2.6	2.1	3.4	-1.7
Industry	8.6	1.0	15.0	-12.5	-2.4	0.0	-0.8	-2.4	-0.1	1.9	2.4	-1.1	2.3	1.9	3.2	1.4
Wholesale & retail trade & accommodation & food service activities	1.8	-1.7	-3.6	-1.3	-0.5	1.7	1.4	0.9	0.5	2.0	1.4	1.5	1.0	0.2	0.0	0.6
Information & communication	-4.9	-5.4	-6.4	-7.0	-1.7	-0.1	0.0	-4.6	-0.3	2.2	2.9	-3.4	1.4	2.3	2.9	1.3
Other activities	-2.3	-0.1	-2.1	-3.1	-0.6	-2.7	-3.4	-2.8	-1.1	-2.2	-3.5	-2.0	-0.5	0.5	-0.1	0.8

SOURCE: Banco de España.

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

DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE IN GVA

CHART 2



SOURCE: Banco de España.

the average number of employees. By type of contract, the bulk of the adjustment continued to be centred on temporary employment, with a decline of 12.4% (see Table 5), while the number of employees with a permanent contract scarcely changed (the related rate of change was slightly negative, at -0.2%). The sectoral breakdown reveals that the reductions in employment were fairly widespread, with the sharpest decline in information and communications (4.6%, see Table 3). Conversely, the wholesale and retail trade and accommodation and food services sector was the only aggregate where

PERSONNEL COSTS AND EMPLOYEES
Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ			
	2009	2010	10 Q1 - Q4 (a)	11 Q1 - Q4 (a)	11 Q1	12 Q1
Number of corporations	9,836	8,347	811	802	841	712
Personnel costs	100	100	100	100	100	100
Falling	57.4	48.6	47.4	47.1	46.5	54.5
Constant or rising	42.6	51.4	52.6	52.9	53.5	45.5
Average number of employees	100	100	100	100	100	100
Falling	54.7	46.6	53.7	51.1	50.2	55.8
Constant or rising	45.3	53.4	46.3	48.9	49.8	44.2

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

EMPLOYMENT

TABLE 5

		Total CBQ corporations 2012 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		712	315	397
Number of employees				
Initial situation 11 Q1 (000s)		652	247	405
Rate 12 Q1/ 11 Q1		-1.7	5.6	-6.2
Permanent	Initial situation 11 Q1 (000s)	571	221	350
	Rate 12 Q1/ 11 Q1	-0.2	5.6	-3.9
Non-permanent	Initial situation 11 Q1 (000s)	81	27	55
	Rate 12 Q1/ 11 Q1	-12.4	5.3	-21.1

SOURCE: Banco de España.

the average number of employees grew (0.9%), a rate in any event lower than that recorded a year earlier (1.4%).

Average compensation grew by 0.3%, a lower increase than both that recorded in 2011 Q1 (1%) and that in 2011 as a whole (0.9%). A more detailed analysis by productive sector shows that there was a notable fall in wages of 1.7% in energy, a development affected by the decline in the variable component of compensation in certain large corporations in this sector. In the remaining aggregates, personnel costs per employee evidence a relatively uniform increase, with growth rates oscillating around 1%.

Profits, rates of return and debt

In line with the contractionary course of activity in 2012 Q1, gross operating profit (GOP) also declined (by 6.5%), while in the same period a year earlier it had grown slightly (0.1%).

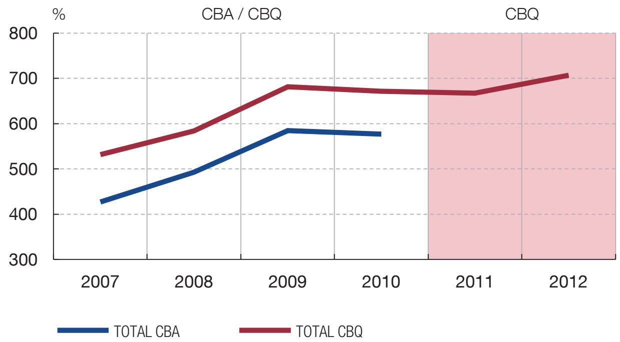
DEBT RATIOS

CHART 3

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

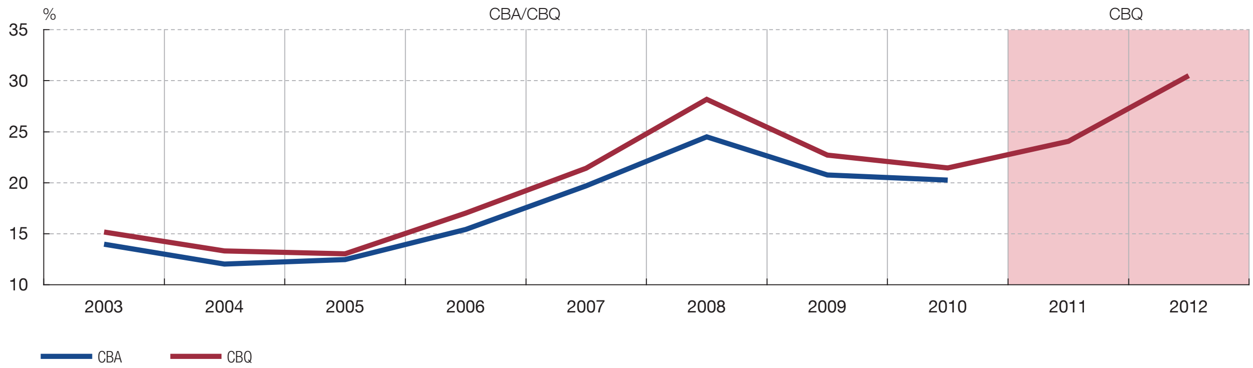
	2007	2008	2009	2010	2011	2012
CBA	46.8	48.2	47.5	47.2		
CBQ	45.8	46.9	46.8	46.8	47.2	47.5

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



	2007	2008	2009	2010	2011	2012
CBA	427.0	492.6	584.5	576.7		
CBQ	531.5	583.8	681.6	671.1	667.2	707.0

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



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CBA	14.0	12.0	12.5	15.4	19.7	24.5	20.8	20.2		
CBQ	15.2	13.3	13.0	17.0	21.4	28.2	22.7	21.4	24.1	30.5

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).

Financial revenue fell by 54.9%, influenced by dividends received, which declined by more than 80% after the exceptional increase they had posted in 2011 Q1. Conversely, revenue relating to interest received grew by 20.1%.

Financial costs increased by 2.8%, far from their growth of 16.8% a year earlier. Despite the slowdown in these costs, the ratio that measures the interest burden increased by more than 6 pp compared with a year earlier, standing at 30.5% of GOP and of financial revenue (see Chart 3). This is due to the significant contraction in revenue (the denominator of this ratio). The information in Table 6 shows that the interest borne by corporations increased by 2.7%, raising the average cost of borrowed funds to 3.5%, 0.1 pp up on the same period in

ANALYSIS OF DEVELOPMENTS IN FINANCIAL COSTS
Percentages

TABLE 6

	CBA	CBQ	
	2010 / 2009	2011 Q1-Q4 / 2010 Q1-Q4	2012 Q1 / 2011 Q1
Change in financial costs	-2.2	10.8	2.8
A Interest on borrowed funds	-2.8	11.9	3.0
1 Due to the cost (interest rate)	-6.9	12.0	2.7
2 Due to the amount of interest-bearing debt	4.1	-0.1	0.3
B Other financial costs	0.6	-1.1	-0.2

SOURCE: Banco de España.

2011. The changes in financial costs due to changes in interest-bearing debt did not exert in this case significant influence on this item, since these liabilities scarcely altered. This behaviour is also consistent with the context of slack investment in the Spanish economy, which is also confirmed by the data offered by the CBQ sample, according to which gross fixed capital formation fell by 21.9% in the first three months of 2012.

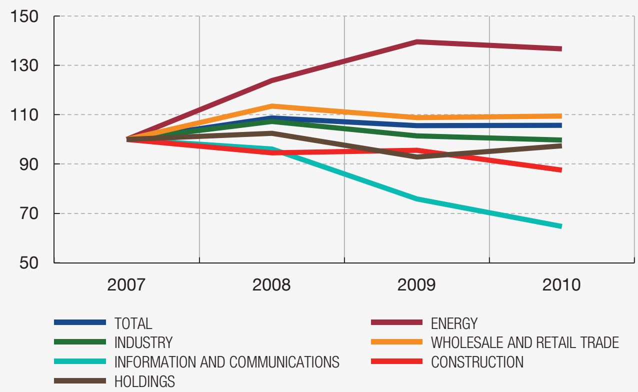
The slight growth in debt led the E1 ratio, which measures the level of debt in terms of total net assets, to rise slightly too by 0.3 pp to 47.5%, although it held at similar levels to the two previous years (see Chart 3). The apparent stability of this ratio over recent years for the whole of the sample nevertheless masks notable sectoral dispersion, since while in certain sectors, such as information and communications, debt has fallen from its 2008 peak, in others, such as wholesale and retail trade, a rising trend has been observed over the same period (for greater details see Box 1). The flatness of debt in 2012 Q1, along with the fall-off in ordinary profits, translated into a rise in the E2 ratio, which relates interest-bearing borrowed funds to GOP and financial revenue, which reveals the increase in the degree of financial pressure borne by the sector.

The course of operating activity and of financial costs and revenue led the ordinary net profit (ONP) obtained by the reporting corporations to decline by 40.9% in 2012 Q1, the consequence of which was a fall in ordinary profitability levels (see Table 7). Thus, the ratio approximating the return on net investment fell by 0.6 pp to 3.6%, while the return on equity also declined to 3.6%, 1.3 pp down on a year earlier. The sectoral breakdown highlights the fact that this negative performance was centred particularly on industry and on the sector encompassing other activities, placing the ROI ratio at 1.9% and at 1.4%, respectively, compared with 4.1% and 2.3% a year earlier. Conversely, in energy, wholesale and retail trade, and information and communications, this ratio held stable or even increased slightly. Table 8 presents the distribution of corporations in terms of their levels of profitability. It shows that in 2012 Q1 there was a shift towards the lowest profitability segments (below 5%), which suggests that the deterioration was fairly generalised. The decline in the ROI, along with the slightly rising trend in the cost of borrowed funds, meant that the difference between both indicators narrowed once more, giving a practically zero value for the sample as a whole. The sectoral data further show that, in the case of the aggregates for industry and other activities, this difference stood at negative values (of around -2%), owing to the marked impact that the downturn in economic situation had on these two productive sectors.

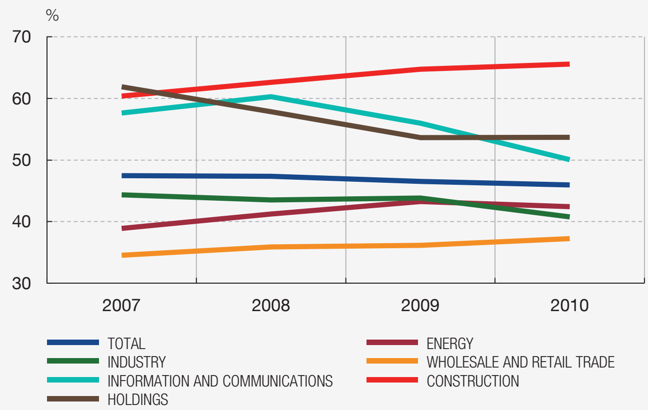
Lastly, an analysis of extraordinary gains (losses) shows that these exerted a negative influence on final profits. Behind this behaviour lies the recognition of significant capital

Non-financial corporations' borrowed funds grew at a very high rate in the pre-crisis years. As a result, their debt climbed to very high levels both from a time perspective and in comparison with other developed countries. The deleveraging process started in 2009, when this sector's financing began to contract slightly following a process of sharp deceleration.

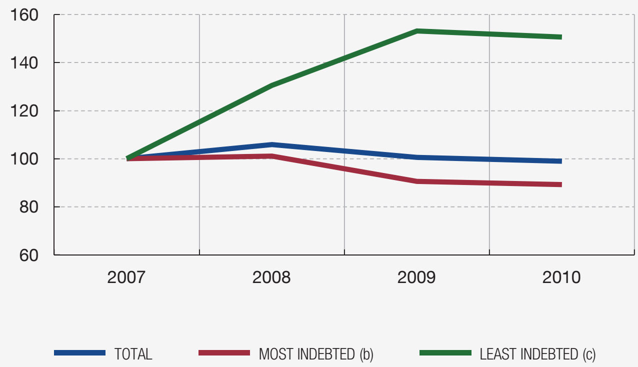
1 DEBT LEVEL BY SECTOR
100 = 2007



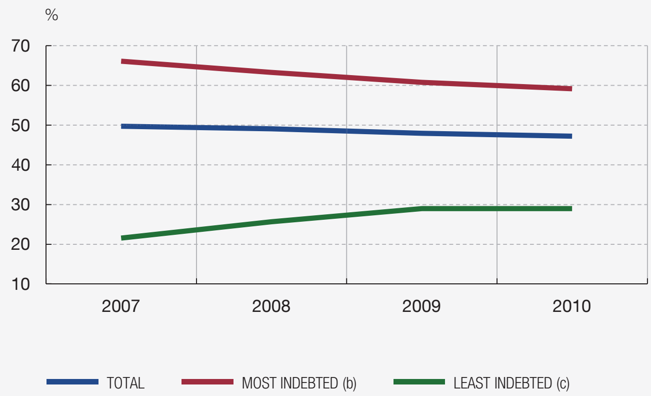
2 DEBT RATIO BY SECTOR (a)



3 DEBT BY LEVEL OF INDEBTEDNESS
100 = 2007



4 DEBT RATIO BY LEVEL OF INDEBTEDNESS (a)



5 DEBT LEVEL BY SIZE

6 DEBT RATIO BY SIZE (a)

SOURCE: Banco de España.

a Ratio defined as total interest-bearing debt divided by net assets.
b Corporations whose debt ratio in 2007 was higher than the median ratio of the sector to which they belong.
c Corporations whose debt ratio in 2007 was lower than or the same as the median ratio of the sector to which they belong.

This box reviews the recent changes in non-financial corporations' debt, with a breakdown by sector, company size and level of leverage (debt as a percentage of assets), in order to study the main characteristics of their deleveraging process. For this purpose, the Central Balance Sheet Data Office's (CBSO) databases (CBA and CBB[1]) were used, forming a sample of the 180,000 corporations in existence throughout the period analysed from 2007 to 2010, the last year for which this information is available.

Changes in debt levels for the whole sample replicate quite well the developments in this variable for the business sector which are obtained from the Financial Accounts of the Spanish Economy. These developments show: growth in 2008, a slight contraction in 2009 and stabilisation in 2010. The breakdown by sector shows considerable heterogeneity which is seemingly related to the initial debt level (see Panels 1 and 2). Thus, in the sectors of activity that prior to the crisis (in 2007) showed a comparatively higher leverage ratio – such as construction,[2] the information and communications sector and holdings – borrowed funds tended to decrease from 2008 (and in some cases from 2007). Conversely, in the other sectors analysed, which started out with much more modest debt ratios, these liabilities have shown more buoyancy and, in the case of energy, have even increased.

These developments in debt between 2007 and 2010 resulted, generally, in a gradual reduction of leverage ratios of the productive sectors that were most indebted at the beginning of the period and a certain stabilisation or slight increase in those which started out with lower levels of said ratio, thus there was some sectoral convergence in terms of this indicator. The exception to this pattern is construction; the reduction in its debt levels has been insufficient to counter the decline in its net assets (the denominator of the ratio) which is linked to the considerable losses built up by these corporations and, as a result, their leverage ratio has tended to rise.

The information available in the CBSO Quarterly Survey which, unlike the sample above, essentially includes large companies and in which certain sectors, such as construction are not well represented, indicates that in 2011 and in 2012 Q1 the pattern seen in previous years will likely continue with a trend towards debt reduction in the most highly leveraged sectors and remain the same or increase in the least indebted sectors. Thus, for example, the borrowed funds of firms in the information and communications sector continued to contract, while these liabilities increased somewhat for corporations in the wholesale and retail sector.

This relationship between changes in debt and the initial degree of leverage also seems to be observed if, in each sector, firms are separated on the basis of the latter. Thus, as shown in Panels 3 and 4, companies with a leverage ratio in 2007 below the median for their sector considerably increased their borrowed funds during the period analysed, while those with higher levels reduced them. The result of the foregoing is a slight convergence between the debt ratios of the two groups of corporations.

Lastly, the breakdown by company size also shows some differences in developments in debt and in the leverage ratio based on this characteristic (see Panels 5 and 6). Thus, although during 2008 and 2009 the profile of borrowed funds showed a similar pattern at large corporations and SMEs (an increase in 2008 and a contraction in 2009), the rise in 2008 was more moderate and the decline in 2009 was sharper among the smallest SMEs. As a result, the debt levels of the smallest SMEs were lower in 2009 than in 2007, whereas for large corporations these liabilities increased throughout this period. This occurred even though the smaller companies had lower leverage ratios, most likely reflecting the greater impact of the crisis on their economic and financial situation. This situation was partly corrected in 2010, since the debt of SMEs rose, whereas that of large companies stalled. Due to these developments, together with those in assets, the leverage ratio of the larger corporations, with systemically higher values, tended to decrease gradually during the period analysed, while this indicator showed a more stable path for small and medium-sized enterprises.

In short, the evidence presented in this box shows that recent developments in non-financial corporations' indebtedness are highly heterogeneous on the basis of sector of activity, company size and the level of leverage. In particular, companies which started out with a higher proportion of borrowed funds in their balance sheets are the ones that have reduced these liabilities more sharply, most likely reflecting their greater need for adjustment in general since they are subject to more financial pressure. Conversely, the least indebted corporations have seemingly been able to increase their use of borrowed funds during the period analysed since they have a wider margin to do so and, on average, are perceived as being more solvent by lenders.

1 The CBA (Central Balance Sheet Data Office Annual Survey) contains information on companies reporting annually to the CBSO; larger companies have a higher weight in this survey. The CBB includes information on small companies taken from the mercantile registers.

2 The construction sector includes real estate developers.

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. Percentages

TABLE 7

	Gross operating profit				Ordinary net profit				Return on investment (R.1)				ROI-Cost of debt (R.1-R.2)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2010	11 Q1-Q4 (a)	11 Q1	12 Q1	2010	11 Q1-Q4 (a)	11 Q1	12 Q1	2010	11 Q1-Q4 (a)	11 Q1	12 Q1	2010	11 Q1-Q4 (a)	11 Q1	12 Q1
TOTAL	**4.3**	**-2.8**	**0.1**	**-6.5**	**8.9**	**-6.6**	**21.1**	**-40.9**	**6.1**	**5.7**	**4.2**	**3.6**	**2.9**	**2.1**	**0.8**	**0.1**
Size																
Small	-5.9	—	—	—	6.2	—	—	—	3.7	—	—	—	0.2	—	—	—
Medium	4.1	-0.4	26.7	-17.3	18.2	8.5	47.6	-19.5	5.0	6.5	6.5	5.6	1.7	3.2	3.7	2.4
Large	4.5	-2.9	-0.6	-6.2	8.4	-7.0	20.4	-41.6	6.2	5.6	4.2	3.5	2.9	2.1	0.8	0.0
Breakdown of activities																
Energy	11.1	-0.7	4.0	-1.4	5.3	-11.1	-6.4	0.1	6.2	5.5	4.9	5.3	2.9	2.1	1.7	1.7
Industry	25.5	-0.8	43.7	-30.7	73.4	53.9	-	-92.4	6.1	4.8	4.1	1.9	2.4	0.6	0.0	-2.4
Wholesale & retail trade and accommodation & food service activities	4.4	-8.0	-10.0	-5.3	5.2	-8.7	-11.5	0.4	7.9	5.9	8.5	8.5	4.2	2.1	4.8	4.5
Information & communication	-7.2	-8.4	-10.2	-8.6	-8.7	-11.6	-16.5	-10.4	23.3	24.4	22.2	23.4	19.1	20.0	17.4	19.9
Other activities	-5.8	4.4	1.4	-5.6	1.7	-6.9	-	-	4.8	4.8	2.3	1.4	1.6	0.1	-1.0	-1.9

SOURCE: Banco de España.

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

STRUCTURE OF RETURN ON INVESTMENT AND ORDINARY RETURN ON EQUITY

TABLE 8

		CBQ			
		Return on investment (R.1)		Ordinary return on equity (R.3)	
		11 Q1	12 Q1	11 Q1	12 Q1
Number of corporations		841	712	841	712
Percentage of corporations by profitability bracket	R <= 0	30.9	32.9	34.7	39.7
	0 < R <= 5	25.7	27.5	17.4	17.3
	5 < R <= 10	16.1	13.6	12.2	10.4
	10 < R <= 15	6.3	8.0	8.4	8.0
	15 < R	21.0	18.0	27.2	24.6
MEMORANDUM ITEM: Average return		4.2	3.6	4.9	3.6

SOURCE: Banco de España.

losses, associated essentially with financial assets. Such losses have emerged both via losses arising on disposals and through negative changes in fair value. As a consequence, profit for the year fell back in 2012 Q1 by 64.2%. Expressing this profit as a percentage of GVA also shows a strong decline, to 10% in the period under study, far below the figure of 26.6% a year earlier. In terms of the CBQ series, this marks the lowest percentage recorded by this ratio for a first quarter since 1994.

12.6.2012.