

## RESULTS OF NON-FINANCIAL CORPORATIONS IN 2011 AND IN THE FIRST THREE QUARTERS OF 2012

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### Overview<sup>1</sup>

In line with usual practice, this November edition of the Banco de España's *Economic Bulletin* presents an analysis of the annual results for the previous year (in this case 2011) of the corporations participating in the Central Balance Sheet Data Office Annual Survey (CBA) and those for the year 2012 to September, 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 March 2013 edition of the *Economic Bulletin*.

The annual results for 2011 broadly confirm what was anticipated by the CBQ sample. During that period there was a fall in activity, following the slight recovery experienced the previous year, which translated into a decline in gross value added (GVA) of 1.1%. This negative pattern was extensive to almost all sectors, with the biggest declines being recorded in information and communication, and in industry (4.3% and 1.8%, respectively). The breakdown by size reveals that it was in the small and medium-sized firms (SMEs; with fewer than 250 employees) that the sharpest fall-off in this indicator was seen last year, as reflected both in the CBA and in the data compiled on the basis of the accounts filed with the Mercantile Registries, which is a much broader sample (see Box 1).

The downturn in activity detected in 2011 has continued and heightened in 2012 to date, as highlighted by the CBQ data for Q3, according to which GVA has shrunk by 3.7% compared with the same period a year earlier. The deterioration has affected practically all sectors, against a background of sluggish national demand and slowing exports. However, as highlighted in previous reports, it is once again the external component that has remained the most buoyant, meaning that exports have continued to gain in relative weight compared with total sales.

Personnel costs grew slightly in 2011, by 0.3%, while in the first three quarters of 2012 they have fallen 2.4%. In both periods, this behaviour was the result of two opposing effects. On one hand, it reflects the declines in employment, which have been recorded continuously in recent years and which have heightened in 2012.<sup>2</sup> On the other, they reflect the changes in average compensation which, though it has continued rising, indicates that its growth has eased during the current year.

The negative performance in productive activity led gross operating profit (GOP) to fall by 3% in 2011, with its decline stepping up in the first three quarters of 2012 to 4.9%. Financial revenue increased by 6.1% in 2011, driven by the higher interest received. Conversely,

1 This article was prepared on the basis of the information supplied by the CBA for 2011 and by the CBQ for the first three quarters of 2012. In the case of the 2011 data, they are drawn from a sample of 7,150 reporting corporations which account, in terms of GVA, for 26.4% of the total non-financial corporations sector. The quarterly sample, meanwhile, is made up of the 750 corporations that had reported information to the CBQ by 19 November, which account for 12.1% of the GVA generated by the sector as a whole, according to the figures furnished by National Accounts for this period.

2 The information on employment is an average figure calculated taking into account hours actually worked; accordingly, the changes in this item and may reflect changes both in the number of employees and in the average working day.

## DRAWING ON CBB DATA

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, small and medium-sized enterprises (SMEs) 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 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)<sup>1</sup> containing records of an extensive sample of

SMEs, understood as those with fewer than 250 employees. Specifically, consistent data up to 2010 are available for almost 630,000 corporations, and for almost 150,000 for 2011, for which year data continue to be received.

According to the CBB, the GVA of Spanish SMEs continued to shrink during 2011, at a rate of 3.6%, practically unchanged on the previous year and marking the fourth consecutive year of negative figures. The recessionary path of productive activity was once again sharper than that of the bigger corporations (0.9%, a figure

1 In the recent update of this database, information on medium-sized corporations has been included, entailing an increase of around 10,000 corporations

and an increase in coverage, both in terms of GVA and of employment, of over 5%. For further details, see Box 4 of the Central Balance Sheet Data Office's annual monograph.

## RESULTS OF SMEs

1 GROSS VALUE ADDED AT FACTOR COST  
(Rate of change)2 EMPLOYMENT  
(Rate of change)

## 3 ORDINARY NET PROFIT

4 ORDINARY RETURN ON EQUITY (R.3)  
Ratios

		2006	2007	2008	2009	2010	2011
Number of corporations	CBA	1,476	1,553	1,622	1,783	1,893	1,387
	CBB (a)	574,521	621,230	478,479	615,428	629,847	148,728
% of GVA of the sector non-financial corporations	CBA	29.2	29.7	27.8	27.0	27.9	23.9
	CBB (a)	27.7	28.6	17.6	21.5	21.1	4.8

SOURCE: Banco de España.

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

## DRAWING ON CBB DATA (cont'd)

obtained from the CBA sample), which has been a constant since the start of the recent crisis (see Panel 1). As a result, the cumulative decline in GVA since 2007 (the last year in which an increase in activity was recorded) now stands at over 20%. The decline was practically across the board, although it was sharper in some sectors, such as construction (in which this indicator fell by 14.8%), electricity (with a decline of 8.4%) and the aggregate of water supply, sewerage and waste management companies (in which the reduction amounted to 8.3%).

Personnel costs at SMEs were virtually unchanged in 2011, at a rate of -0.1%, compared with the decline of 2.2% the previous year. The explanation for these developments lies essentially in the smaller staffing adjustments made last year, in which the average number of employees fell by 1.1%, a similar figure to that for large corporations, and below the 2010 figure for SMEs of 2.7% (see Panel 2). As to the type of employment contract, and unlike previous years and in bigger corporations, the decline in employment in 2011 was split almost evenly between permanent employees (1.2%) and temporary workers (1%), with both performing less negatively than in 2010. Sector by sector, developments were mostly less than favourable, with the decline in the average headcount slackening, or even in some cases showing slight net increases, as was the case in information and communications, accommodation and food service activities, and transport and storage. The most marked declines were in those sectors in which productive activity turned down to a greater extent, as in con-

struction and electricity supply, with respective declines of 7% and 4.8%.

SMEs' financial costs and revenues posted similar increases in 2011 (of 5.3% and 5.4%, respectively), against a background of rising interest rates. The ordinary net profit of these corporations fell by 39.9%, a decline which was much greater both than that recorded a year earlier, when ONP had fallen by 12.3%, and that reflected by the CBA for the biggest corporations, which was 9.7% (see Panel 3). The downturn in ordinary profits translated into a decline in the profitability levels of SMEs. Thus, the ordinary return on equity continued to pose very low values in 2011, standing at 1.6%, 0.3 pp down on 2010 (see Panel 4). The decline in the profitability of SMEs in the past two years analysed was fairly generalised, although sharper in some sectors. Construction and mining and quarrying thus posted negative values for this indicator for the second year running, whereas positive values have not been recorded in accommodation and food service activities since 2007.

In sum, and according to the CBB, Spanish SMEs saw their productive activity contract in 2011 for the fourth year running. This decline was of a similar intensity to that of the previous year, although more acute than that recorded by bigger corporations over the same period. Against this background, employment data continued to fall, albeit less sharply so than in previous years. The outcome was a further reduction in profit-generation and in levels of ordinary profits, which have held at very low values since 2009, standing below 2%.

from January to September this year, this item has fallen by 26.5%, essentially as a result of lower dividends received. Financial costs grew in the two periods analysed, although in 2012 their growth was more contained (3%), slightly more than 8 pp below the previous year's figure. The course of this expenditure in 2011 was fundamentally influenced by interest rate changes and by their progressive pass-through to firms' costs. However, during the first nine months of 2012, their increase has been due in almost equal proportions to interest rate developments and to the impact arising from debt, posting positive though low rates of increase in both cases.

Ordinary net profit (ONP) fell by 9.7% in 2011, while the contraction in this variable in the first three quarters of 2012 has risen to 24.1%. The downturn in ordinary profits has prompted a reduction in ordinary profitability levels over the past two years. The ratio that measures the average cost of borrowing, which has been falling since 2009, increased slightly in 2011 and has stabilised over the course of 2012 at close to 3.5%. Thus, the difference between the return on investment and the cost of debt has continued falling, standing in 2012 at 0.9% for the CBQ sample as a whole.

Finally, extraordinary costs and revenues had an adverse effect on the growth of profits in the two periods analysed. In 2011 this was due both to impairments attributable to the lower value of financial assets and to the high extraordinary provisioning charges associated with the redundancy programmes applied at some large firms that year. In the first

nine months of 2012, there has been strong growth in capital losses and in financial asset impairments. This negative effect has been partly offset by lower severance payment expenses compared with the previous year. As a result, profits for the year posted sharp declines, both in 2011 (17%), and especially in the first three months of 2012 (57.2%). This has meant that, as a proportion of GVA, profit stands at 11.3% for the first nine months of 2012, far off the figure of 25.5% recorded in the same period a year earlier. The 2012 figure marks, moreover, the lowest level in the quarterly series since 2002, illustrating the low level at which corporate profits are running, following their unfavourable cumulative course in recent years.

In sum, business activity posted a decline in 2011 following its mild recovery the previous year, resuming a contractionary path which, on data available to September 2012, has extended into and intensified this year, influenced by weak domestic consumption and the slowdown in exports. Against this backdrop, employment-shedding processes have become more acute, with declines recorded in most of the sectors analysed, while the rate of increase of average compensation has eased. The decline in financial revenue in 2012, owing to lower dividends received, has further contributed to the strong deterioration in ordinary profit. That has entailed a drop in corporate profitability levels and a further narrowing of the spread between this ratio and the total cost of borrowing. The contraction in profits has also reduced the debt repayment ability of indebted companies and has increased the weight of financial costs relative to income generated, which illustrates the growing financial pressure to which these companies are being subjected.

## Activity

The GVA of the non-financial corporations that reported data to the CBA fell in 2011 by 1.1% (see Table 1 and Chart 1), after having recovered slightly the previous year. The activity of SMEs (with fewer than 250 employees) also contracted over this period, and did so more sharply than was the case at large corporations, as highlighted by both the CBA information for this type of firm and that of the CBB for a much broader sample. This is the fourth year running, moreover, in which this indicator has fallen for this corporate segment. The CBQ information for the first nine months of 2012 reveals a heightening of the recessionary pattern, with a negative rate of 3.7% being recorded. This recent more unfavourable trend has come about against a background of notably sluggish domestic demand, and the loss of momentum of exports which, however, have continued to be the most dynamic component. In line with these developments, Table 2 illustrates how, during the first three quarters of 2012, exports – and especially those targeted on non-EU countries – have 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 the downturn in activity was fairly generalised, both in 2011 and during the first nine months of 2012. In information and communications, GVA fell by 4.3% in 2011, and by 7.5% in the first three quarters of 2012, influenced by the weakness of private consumption against the background of strong competition in the telecommunications sub-sector. Corporations in the wholesale and retail trade and accommodation and food service activities sector were also harmed by the slackness of domestic spending, which was reflected in a negative rate of change in GVA both in 2011 (-0.1%) and especially in 2012 to date (-2.1%). In industry, despite the greater buoyancy of exports in 2011 (which in this sector have a proportionately higher weight than in the others), GVA fell by 1.8%, a decline which has steepened in 2012 to date (to 10.2%). This figure is the result of the negative performance by all the industrial sub-sectors, more markedly so in the manufacture of mineral and metallic products, the chemical industry and other manufacturing industries, where there were declines of 14.5%, 11.1% and 11.2%, respectively. In the energy sector, however, GVA has increased

**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**

DATABASES	CBA STRUCTURE	CBA		CBQ (a)		
	2011	2010	2011	2011 Q1-Q4/ 2010 Q1-Q4	2011 Q1-Q3/ 2010 Q1-Q3	2012 Q1-Q3/ 2011 Q1-Q3
Number of corporations		10,038	7,150	818	828	750
Total national coverage (% of GVA)		31.1	26.4	12.8	13.3	12.1
<b>PROFIT AND LOSS ACCOUNT:</b>						
1 VALUE OF OUTPUT (including subsidies)	100.0	4.4	4.8	8.7	9.6	2.5
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	147.2	4.3	4.8	10.2	11.4	3.0
2 INPUTS (including taxes)	68.1	6.1	7.8	13.9	15.3	5.2
<i>Of which:</i>						
<i>Net purchases</i>	95.9	8.0	7.0	20.5	22.3	5.3
<i>Other operating costs</i>	21.3	1.8	0.0	0.0	0.5	4.8
S.1 GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.9	1.2	-1.1	-1.6	-1.1	-3.7
3 Personnel costs	18.6	-0.1	0.3	0.1	0.3	-2.4
S.2 GROSS OPERATING PROFIT [S.1 – 3]	13.3	3.2	-3.0	-3.1	-2.3	-4.9
4 Financial revenue	5.5	4.9	6.1	6.5	15.6	-26.5
5 Financial costs	4.9	-2.4	11.3	11.0	10.2	3.0
6 Net depreciation, impairment and operating provisions	6.4	1.8	3.7	2.5	4.7	-0.5
S.3 ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	7.5	8.5	-9.7	-7.8	-3.3	-24.1
7 Gains (losses) from disposals and impairment	-0.5	-	-32.0	-	-52.4	-
7' As a percentage of GVA (7/S.1)		-0.8	-1.5	-6.2	3.5	-6.7
8 Changes in fair value and other gains (losses)	-1.6	36.3	-76.9	-81.3	-	-1.7
8' As a percentage of GVA (8/S.1)		-2.6	-4.9	-6.6	-6.4	-7.4
9 Corporate income tax	0.5	35.5	-52.4	-57.8	-29.8	-57.6
S.4 NET PROFIT [S.3 + 7 – 8]	4.9	-11.8	-17.0	-33.5	-26.0	-57.2
S. 4' As a percentage of GVA (S.4/S.1)		17.7	15.5	17.3	25.5	11.3
<b>NET PROFIT</b>	<b>Formulas (b)</b>					
R.1 Return on investment (before taxes)	(S.3 + 5.1)/NA	5.9	5.6	5.6	5.1	4.3
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.3	3.6	3.5	3.5	3.5
R.3 Ordinary return on equity (before taxes)	S.3/E	8.3	7.5	7.5	6.5	5.1
R.4 ROI – cost of debt (R.1 – R.2)	R.1 – R.2	2.6	2.0	2.1	1.6	0.8

SOURCE: Banco de España.

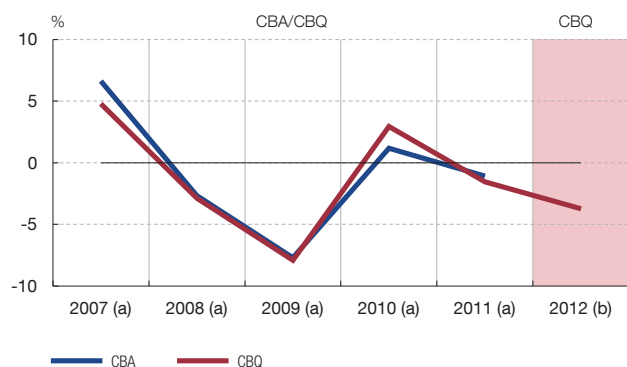
NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

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

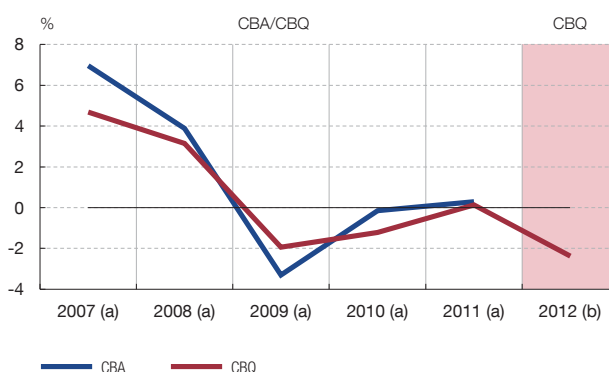
b NA = Net assets of non-interest-bearing borrowing; E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1) and not other financial costs (5.2).

slightly in 2012 (0.8%), following the reduction the previous year (-0.9%). The performance of this aggregate in the past two years has been greatly influenced by oil refining corporations, which posted a decline of 5.2% in 2011, whereas they have recorded growth of 10.3% in the first three quarters of 2012. The utilities, which constitute the other main energy sub-aggregate, posted substantially insignificant changes in GVA in both periods (practically zero in 2011 and 0.1% to September 2012). Lastly, in the group comprising the remaining activities, a slight increase (0.2%) was observed in 2011, while during the first nine months of 2012 there has been a decline of 3.1%. Notable in this latter group was the contraction in transport firms, and in construction and real estate companies.

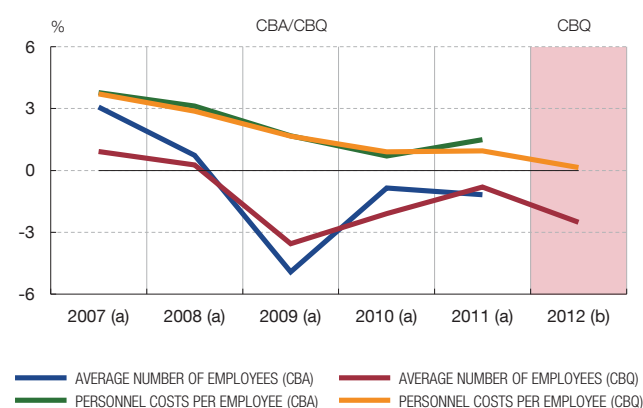
GROSS VALUE ADDED AT FACTOR COST  
Rate of change



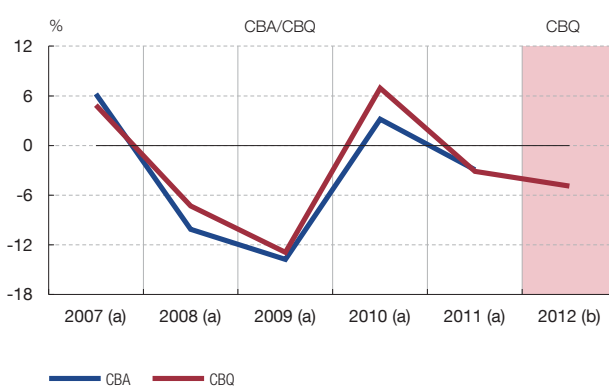
PERSONNEL COSTS  
Rate of change



EMPLOYMENT AND WAGES  
Rate of change



GROSS OPERATING PROFIT  
Rate of change



Non-financial corporations		2007	2008	2009	2010	2011	2012
Number of corporations	CBA	9,321	9,639	9,792	10,038	7,150	—
	CBQ	851	819	805	813	818	750
% of GDP of the sector non-financial corporations	CBA	33.7	31.3	30.2	31.1	26.4	—
	CBQ	14.2	12.9	12.6	13.0	12.8	12.1

SOURCE: Banco de España.

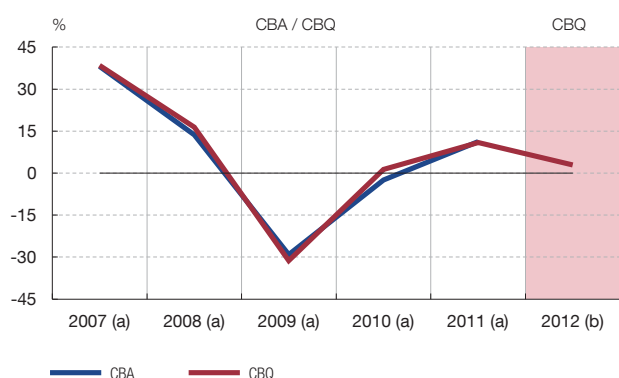
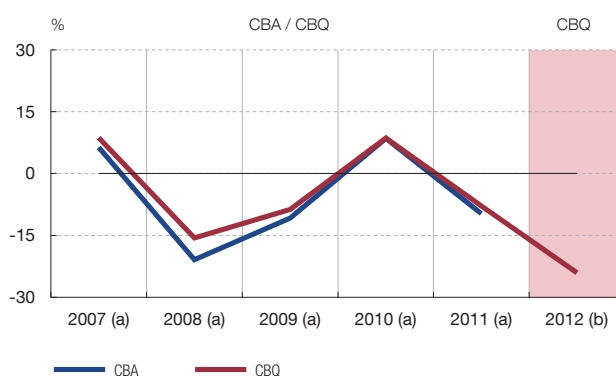
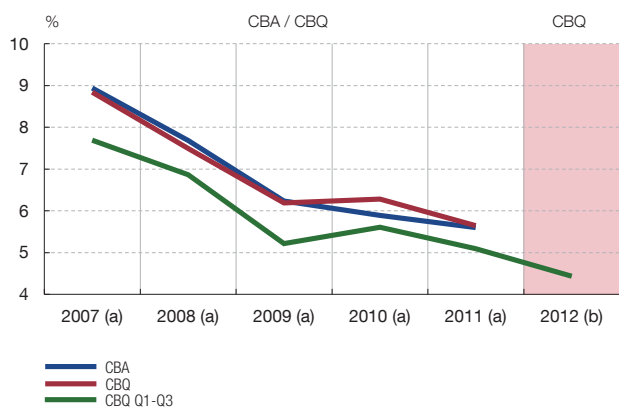
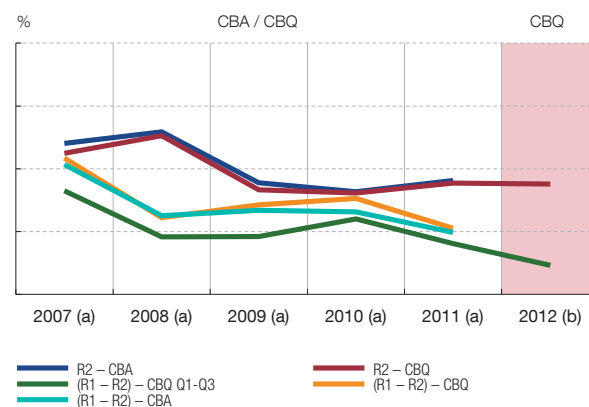
a The 2007, 2008, 2009, 2010 and 2011 data are for the corporations reporting to the annual survey (CBA) and the average for the four quarters of each year in relation to the previous year (CBQ).

b Data for 2012 Q3 vis-à-vis the same period in 2011.

Finally, Chart 2 shows the quartiles of the distribution of corporations on the basis of changes in GVA. A clear fall can be seen in all of them, with a strong decline in the 75th percentile (above which are 25% of the corporations with bigger increases in GVA), which stood in the first three quarters of 2012 at 9.8%, almost 8 pp down on the figure recorded a year earlier.

### Employment and personnel costs

Personnel costs increased slightly in 2011 (by 0.3%), while they have declined by 2.4% in the first three quarters of 2012 (see Table 3). The behaviour of these expenses is the result of two opposite effects: the reduction in employment, which has become more acute in 2012 to date, and the pace of average compensation which, though it has remained positive, has eased in the recent period.

FINANCIAL COSTS  
Rate of changeORDINARY NET PROFIT  
Rate of changeRETURN ON INVESTMENT (R.1)  
RatiosCOST OF DEBT (R.2) AND ROI - COST OF DEBT (R.1-R.2)  
Ratios

Non-financial corporations		2007	2008	2009	2010	2011	2012
Number of corporations	CBA	9,321	9,639	9,792	10,038	7,150	—
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SOURCE: Banco de España.

a The 2007, 2008, 2009, 2010 and 2011 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 Data for 2012 Q3 vis-à-vis the same period in 2011. The rates are calculated relative to the same period in 2011.

Having shrunk by 1.2% in 2011, average headcounts have fallen by 2.5% during the first nine months of 2012. The figures in Table 4 confirm these developments, showing how in the recent period the proportion of corporations with declines in the number of employees has increased to 56.6%, almost 6 pp up on the same period in 2011. The adjustment has essentially affected temporary employment, which fell by 4.3% in 2011 and by 14.9% on quarterly data to September 2012 (see Table 5). Employees with a permanent contract trended more stably, with slight reductions for the two years analysed (0.2% and 0.6%, respectively). Analysis at the level of the productive branches reveals that job destruction was virtually across the board. In 2012 to date, the sectors most affected have been information and communications, that encompassing other

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

**TABLE 2**

Structure and rate of change. Percentages

		CBA		CBQ (a)	
		2010	2011	05 Q2-Q1	05 Q2-Q1
Total corporations		7,150	7,150	750	750
Corporations reporting source/destination		7,150	7,150	701	701
Percentage of net purchases according to source	Spain	66.5	65.2	81.0	80.9
	Total abroad	33.5	34.8	19.0	19.1
	EU countries	15.6	15.7	14.9	14.7
	Third countries	17.9	19.1	4.1	4.3
Percentage of net turnover according to destination	Spain	83.5	82.0	86.4	84.8
	Total abroad	16.5	18.0	13.6	15.2
	EU countries	10.8	11.5	10.0	10.3
	Third countries	5.7	6.5	3.6	4.9
Change in net external demand (exports less imports), rate of change	Industry	-0.4	27.3	48.6	34.9
	Other corporations	-24.2	-16.5	32.8	47.8

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**

**TABLE 3**

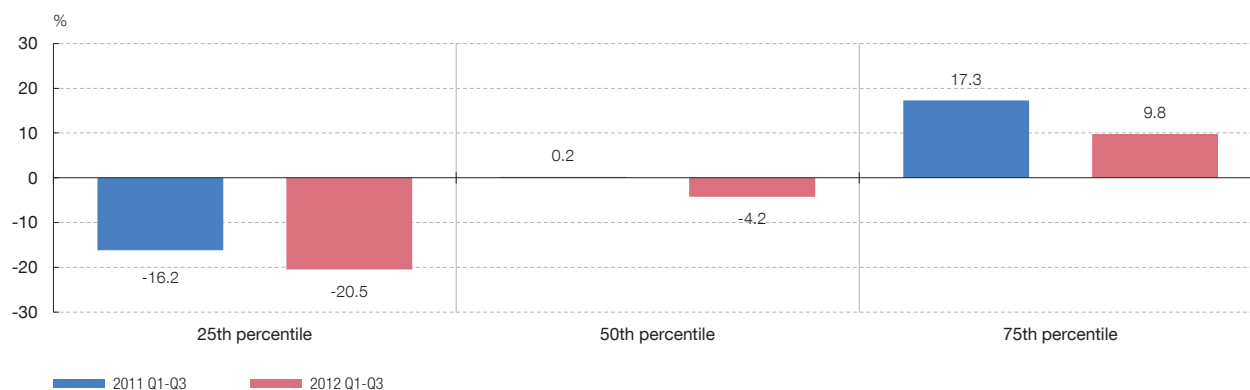
Growth rate of the same corporations on the same period a year earlier. Percentages

	Gross valued 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)	
	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3
<b>TOTAL</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-1.1</b>	<b>-3.7</b>	<b>-1.2</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-2.5</b>	<b>0.3</b>	<b>0.1</b>	<b>0.3</b>	<b>-2.4</b>	<b>1.5</b>	<b>0.9</b>	<b>1.0</b>	<b>0.1</b>
Size																
Small	-6.6	—	—	—	-3.9	—	—	—	-1.8	—	—	—	2.1	—	—	—
Medium	-1.2	0.0	1.6	-9.0	-1.6	-2.0	-1.8	-3.6	0.7	-0.6	-0.6	-2.7	2.4	1.5	1.2	1.0
Large	-0.9	-1.6	-1.2	-3.5	-1.0	-0.7	-0.6	-2.5	0.3	0.2	0.4	-2.4	1.4	0.9	1.0	0.1
Breakdown of activities																
Energy	-0.9	-0.8	0.1	0.8	-1.7	-2.0	-1.6	-1.5	0.6	0.8	0.5	-0.5	2.3	2.8	2.2	1.0
Industry	-1.8	1.2	3.5	-10.2	-1.4	-0.4	-0.1	-3.3	0.5	1.8	2.6	-0.9	2.0	2.2	2.7	2.5
Wholesale & retail trade & accommodation & food service activities	-0.1	-1.7	-2.1	-2.1	-0.3	1.7	1.8	0.4	1.8	1.9	1.9	0.9	2.0	0.1	0.1	0.5
Information & communication	-4.3	-5.5	-4.3	-7.5	0.7	-0.1	-0.2	-5.4	1.4	1.8	2.0	-3.2	0.7	1.9	2.2	2.4
Other activities	0.2	-0.4	-1.0	-3.1	-1.9	-2.6	-2.5	-3.7	-0.9	-2.0	-1.8	-4.8	0.9	0.5	0.6	-1.1

SOURCE: Banco de España.

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





SOURCE: Banco de España.

### PERSONNEL COSTS AND EMPLOYEES Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ (a)			
	2010	2011	2010 Q1-Q4	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3
Number of corporations	10,038	7,150	813	818	828	750
Personnel costs	100	100	100	100	100	100
Falling	49.1	44.1	47.5	46.5	45.0	54.8
Constant or rising	50.9	55.9	52.5	53.5	55.0	45.2
Average number of employees	100	100	100	100	100	100
Falling	46.9	43.9	53.7	51.4	50.9	56.6
Constant or rising	53.1	56.1	46.3	48.6	49.1	43.4

SOURCE: Banco de España.

a Weighted average of the relevant quarters for each column.

activities and industry, with respective reductions in average numbers of employees of 6%, 3.4% and 2.7%, in all cases showing a worse performance than a year earlier.

The pace of expansion of average compensation rose slightly in 2011 to 1.5%, over twice the related growth rate for the previous year (0.7%). In the first three quarters of 2012 the increase in these costs has eased to some extent, with an average rise of 0.1%, compared with the rate of 1% recorded in the same period a year earlier for the CBQ sample (see Table 3). This moderating pattern is discernible in almost all the branches of activity, most notably in energy and in wholesale and retail trade and accommodation and food service activities, where average compensation was up 1% and 0.5%, respectively, and above all in the sector encompassing other activities, where there was a reduction of 1.1%. Conversely, in industry and in information and communications, average personnel costs have grown appreciably above the mean for the sample as a whole (2.5% and 2.4%, respectively).

### Profits, rates of return and debt

In line with the fall-off in productive activity, gross operating profit (GOP) declined by 3% in 2011 after having picked up mildly the previous year. In the first three quarters of 2012 the contractionary pattern of GOP has intensified, with a year-on-year decline of 4.9%.

## EMPLOYMENT

TABLE 5

	Total CBQ corporations 2012 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	750	331	419
Number of employees			
Initial situation 2011 Q1-Q3 (000s)	678	253	425
Rate 2012 Q1-Q3/2011 Q1-Q3	-2.5	4.7	-6.8
Permanent			
Initial situation 2011 Q1-Q3 (000s)	589	223	365
Rate 2012 Q1-Q3/2011 Q1-Q3	-0.6	5.6	-4.5
Non-permanent			
Initial situation 2011 Q1-Q3 (000s)	89	30	59
Rate 2012 Q1-Q3/2011 Q1-Q3	-14.9	-1.7	-21.6

SOURCE: Banco de España.

ANALYSIS OF DEVELOPMENTS IN FINANCIAL COSTS  
Percentages

TABLE 6

	CBA	CBQ	
	2011/2010	2011 Q1-Q4/ 2010 Q1-Q4	2012 Q1-Q3 2011 Q1-Q3
<b>Change in financial costs</b>	<b>11.3</b>	<b>11.0</b>	<b>3.0</b>
A. Interest on borrowed funds	12.6	11.4	3.5
1. Due to the cost (interest rate)	10.7	11.5	1.6
2. Due to the amount of interest-bearing debt	1.9	-0.1	1.9
B. Other financial costs	-1.3	-0.4	-0.5

SOURCE: Banco de España.

Financial revenue grew by 6.1% in 2011, chiefly as a result of the increase in interest received, against a background of interest-rate rises. In the nine months to September 2012, however, this variable has fallen notably (by 26.5%), owing principally to the heavy decline in dividends received, essentially from foreign subsidiaries.

Financial costs increased by 11.3% in 2011, due fundamentally to the effect of the rise in interest rates. During the first nine months of 2012, this item has increased by 3%, which is attributable both to the growth of interest rates (1.6%) and to the impact associated with the increase in debt (1.9%), although in both cases the changes have been limited (see Table 6). The moderate recourse to fresh borrowed funds is consistent with the slack investment by corporations in recent years. Thus, both the CBA information for 2011 and the more recent CBQ data for 2012 show that gross fixed capital formation fell substantially: by 12.3% and 15.3%, respectively.

The E1 debt ratio (which is calculated as the ratio of interest-bearing debt to net assets) held virtually unchanged in 2011 and has shown a slight increase, of around 1 pp, to September 2012 (see Chart 3). The increase in this indicator this year is due both to the slight growth of debt claims and to the reduction in own funds, which is part of the denominator of the above-mentioned ratio. The E2 ratio (which is calculated as the ratio of interest-bearing borrowing and the sum of GOP and financial revenue) increases in 2011 for the CBA sample, and more sharply so in the first three quarters of 2012 for the CBQ sample,

## DEBT RATIOS

CHART 3

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



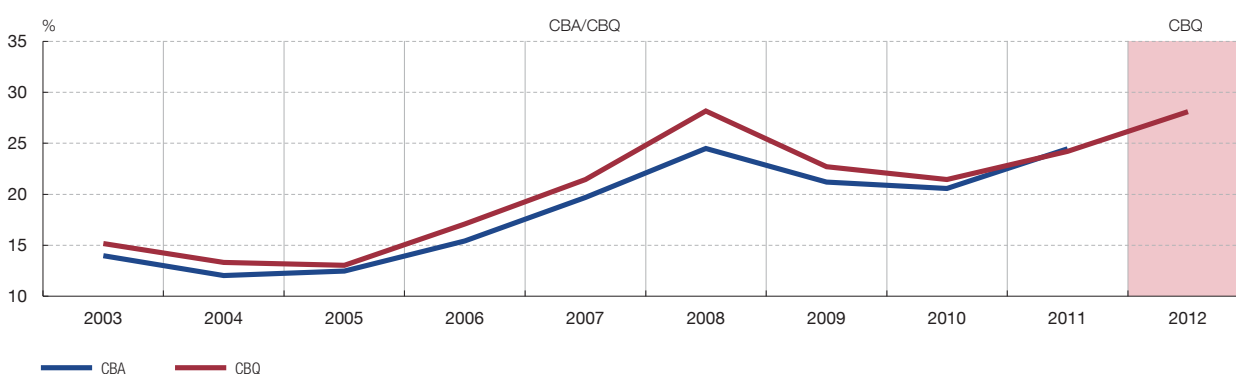
E2. INTEREST-BEARING BORROWING/GOP + financial revenue (b)  
Ratios



	2007	2008	2009	2010	2011	2012
CBA	47.5	48.9	48.1	48.1	48.2	48.9
CBQ	46.1	47.2	47.2	47.3	47.9	48.9

	2007	2008	2009	2010	2011	2012
CBA	462.1	533.0	624.5	619.2	630.8	630.8
CBQ	541.3	594.4	694.7	685.1	681.5	761.0

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	21.2	20.6	24.5	28.1
CBQ	15.2	13.3	13.0	17.1	21.4	28.2	22.7	21.4	24.2	28.1

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).

essentially reflecting the decline in ordinary profits (the denominator of this indicator). The ratio that measures the interest burden rose in 2011, following the declines it had posted in the two previous years, owing to the increase in financial costs. This trend has continued in the first nine months of 2012, placing the ratio at 28.1%, almost 4 pp up on the previous year, chiefly as a result of the sizeable contraction in revenue in this period. Overall, the course of the three indicators reveals an increase in the degree of financial pressure borne by corporations.

In parallel, both average customer-collection periods and especially supplier-payment periods (both proxied using accounting information) declined in 2011, furthering the trend

initiated the previous year (see Box 2). The declining course of these indicators may be linked in part to the application of the regulations on maximum periods set for payments between companies.<sup>3</sup>

Costs relating to net depreciation, impairment and operating provisions grew by 3.7% in 2011, largely owing to the provisions set aside by certain real estate corporations, so as to recognise the lower value of their stocks. In contrast, in the first nine months of 2012 this item has been practically unchanged, declining by only 0.5%.

In step with the contractionary pattern shown by the foregoing profit variables analysed, ONP declined both in 2011 (by 9.7%) and in the first three quarters of 2012 (by 24.1%). The decline in ordinary profit translated into a worsening of profitability levels, meaning that the return on net assets stood at 5.6% in 2011, 0.3 pp down on the previous year, while the return on equity fell to 7.5%, compared with 8.3% the previous year. In the first three quarters of 2012 these indicators have fallen further, taking the return on net assets to 4.4%, compared with 5.1% in the related period in 2011, and the return on equity to 5.3%, more than 1 pp down.

By sector of activity, some heterogeneity is discernible in the course of the ordinary return on investment. In 2011 this indicator declined in energy and, above all, in information and communications, holding or even rising slightly in the remaining aggregates. By contrast, in the first three quarters of 2012 the negative trend of this ratio has essentially affected industry, the wholesale and retail trade, and accommodation and food service activities, as well as the sector encompassing the remaining activities (see Table 7).

The figures in Table 8 show that in 2012 to date there has been an increase in the proportion of corporations with lower levels of profitability (less than 5%) compared with the situation prevailing a year earlier. In this segment, this proportion has come to account for almost 60% of the CBQ reporting corporations.

The ratio measuring the cost of debt rose in 2011, driven by interest-rate rises, which progressively passed through to corporations' costs, and which raised the ratio to 3.6%, 0.3 pp up on the previous year's figure. So far in 2012, the quarterly data have shown this ratio stabilising at levels close to 3.5%. The trajectory of these costs, combined with the deterioration of the return on investment, meant that the difference between both ratios narrowed in 2011 and, above all, in the first nine months of 2012, in which period it came to stand at 0.9%, 0.7 pp below its level a year earlier (1.6%). The effect of the decline in this difference in 2012 has been that figures have turned negative in some sectors, such as in industry or in that encompassing the remaining activities (-0.8% and -0.7%, respectively).

Lastly, the analysis of extraordinary gains and losses highlights the markedly negative influence that these results have had on the growth of final profit in the two periods analysed. In 2011 there was a considerable increase in valuation corrections for asset impairment, essentially of a financial nature, which meant that the item encompassing results on asset sales and impairment was strongly negative last year. Further, as a result of the presence of sizeable provisions associated with redundancy processes, the item "Changes

<sup>3</sup> Law 15/2010 of 5 July 2010, establishing measures to combat late payment in commercial transactions, set a timetable to progressively lessen maximum payment periods between companies. The aim is that, from 1 January 2013, these periods may not exceed 60 days, with certain exceptions, including most notably, in the case of public-sector payments, that the maximum period will be 30 days.

Analysis of the flows associated with trade credit is useful for assessing the degree of financial pressure to which corporations may be subjected. Thus, for instance, 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 by increased financing from other sources might prove to be a factor of tension for the companies affected.

The databases available to the Central Balance Sheet Data Office (CBSO) allow, drawing on accounting data, for the approximate calculation of average supplier-payment and customer-collection periods, along with the average period of net trade financing extended<sup>1</sup>, 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.

Panel 1 shows recent developments in average supplier-payment and customer-collection periods for two different aggregates, comprising the major corporations (with over 250 employees) and SMEs, respectively. In the first case, the data are drawn from the CBA and, in the second case, from both the CBA and the Mercantile Registries, or CBB. It can be seen how, in 2011, average supplier-payment periods continued to shorten, more markedly so than in 2010, in the two groups of corporations analysed. According to these indicators, it is estimated that SMEs took, on average, seven days less, and the major corporations 10 days less, to pay their suppliers than during the current year. As a result, this indicator tended to draw closer to pre-crisis levels, while still standing somewhat above the average observed during those years. Average collection periods shortened for the two sizes of corporation, although the reduction was more moderate than that in payments (by around two or three days). These changes were scarcely apparent in the aggregate indicators of net trade financing extended. Thus, in SMEs the average term over which trade financing was granted held practically unchanged (at 25 days), whereas at major corporations it increased slightly to stand at six days (see Panel 2).

These aggregate indicators mask the possible heterogeneity of corporations' collection and payment periods in commercial transactions. To illustrate the differences between corporations in

<sup>1</sup> The definition of these ratios may be consulted in the footnotes to the panels illustrating this Box.

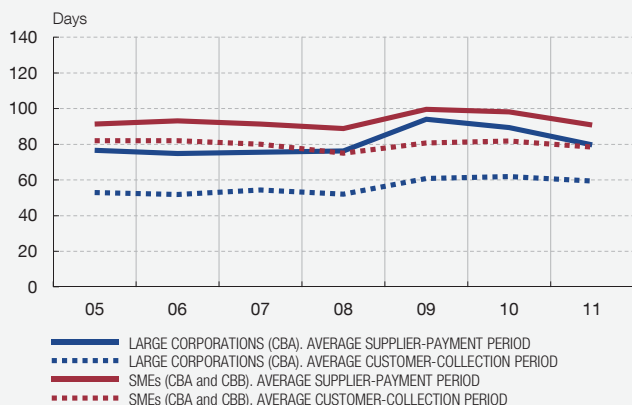
this respect, Panels 3, 4 and 5 present the top and bottom quartiles of the distribution of the foregoing ratios. The sample data display marked dispersion, which is somewhat greater in the case of the SMEs. As to recent developments, the shortening of average payment and collection periods is estimated to have been concentrated in the upper part of the distribution (75th percentile) (see Panels 3 and 5). This behaviour would suggest that corporations with longer payment periods are those that have made a greater effort to shorten them, probably to progressively adjust to the new legal requirements in this area, since in these cases the new regulations are more binding.<sup>2</sup>

Panel 4 shows that the distribution of average terms of trade financing extended also evidences high dispersion. In the 75th percentile (which shows the situation of corporations undergoing greater financial pressure in this connection), no significant changes can be seen in the recent period for SMEs, while in bigger corporations a slight shortening is detected. The high dispersion of this indicator is partly linked to the fact that a notable proportion of corporations obtained funds, in net terms, as a result of their commercial transactions, while for another significant portion the opposite was the case. Specifically, in the case of SMEs the weight in sales of those corporations that raise funds through this means stands at around 35%, and in major corporations this figure rises to approximately 50% (see Panel 6). These percentages have not undergone significant changes in recent years, except in 2011 for the smallest corporations, in which the percentage dipped slightly.

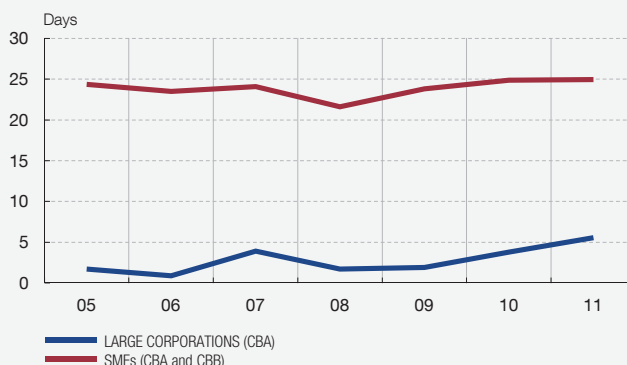
To conclude, the evidence in this Box suggests that average supplier-payment and customer-collection periods shortened last year, which would have affected transactions with longer terms to a greater extent. This result suggests that one potential explanation for this development may have been the regulations restricting these periods. These changes scarcely affected the terms for net trade financing extended by corporations. For the biggest corporations with longer terms for funding extended (those situated above the 75th percentile), there was a slight reduction in these periods, while in SMEs in the same situation no significant changes were detected.

<sup>2</sup> Law 15/2010 of 5 July 2010, amending law 3/2004 of 29 December 2004, establishing measures to combat late payment in commercial transactions. This legislation sets as an ultimate objective, for 1 January 2013, a maximum payment period in commercial transactions of 60 days in the case of transactions between companies, and of 30 days in transactions with general government.

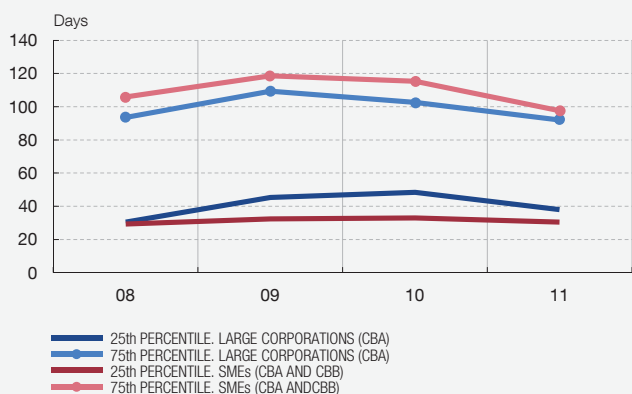
1 AVERAGE COLLECTION AND PAYMENT PERIODS. AGGREGATED RATIOS (a)



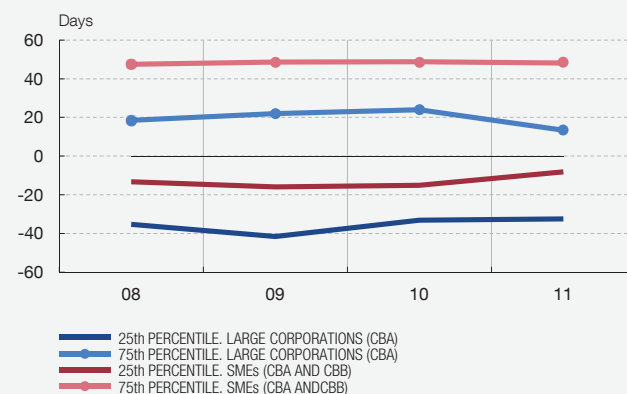
2 NET TRADE FINANCING EXTENDED. AGGREGATED RATIOS (b)



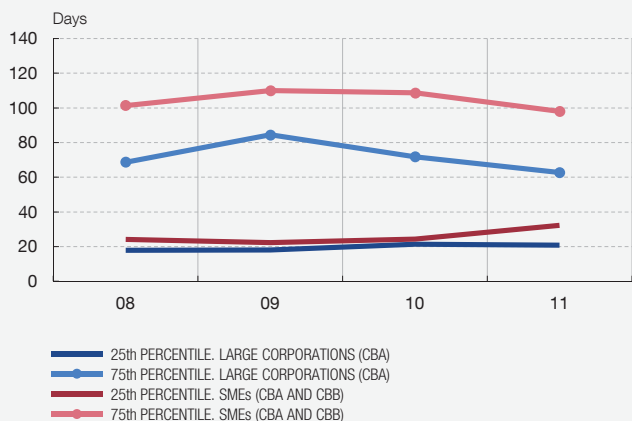
3 DISTRIBUTION OF THE AVERAGE PAYMENT PERIOD (c)



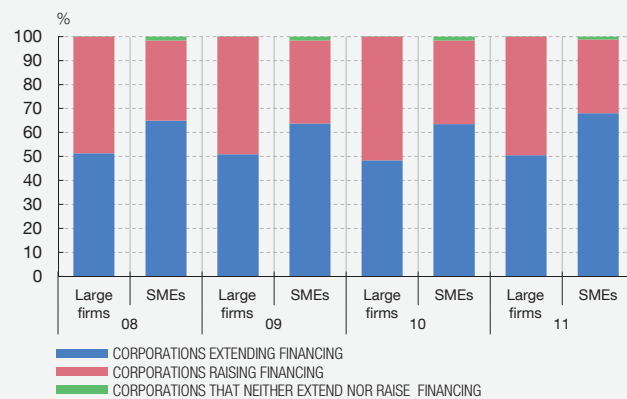
4 DISTRIBUTION OF NET TRADE FINANCING EXTENDED (d)



5 DISTRIBUTION OF THE AVERAGE COLLECTION PERIOD (d)



6 WEIGHT IN SALES BASED ON SIGN OF NET TRADE FINANCING



SOURCE: Banco de España.

- a The average customer-collection period is defined as the ratio of customers to annual sales, multiplied by 365. The average supplier-payment period is defined as the ratio of suppliers to annual purchases, multiplied by 365.
- b The ratio is that of customers less suppliers to annual sales, multiplied by 365.
- c For the calculation of percentiles, the weight of the corporation's purchases relative to the total purchases corresponding to its group and period has been taken into account.
- d For the calculation of percentiles, the weight of the corporation's sales relative to the total sales corresponding to its group and period has been taken into account.

**GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 – R.2). TABLE 7  
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**

Ratios and growth rates of the same corporations on the same period a year earlier. Percentages

	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)	
	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3	2011	2011 Q1-Q4	2011 Q1-Q3	2012 Q1-Q3
<b>TOTAL</b>	<b>-3.0</b>	<b>-3.1</b>	<b>-2.3</b>	<b>-4.9</b>	<b>-9.7</b>	<b>-7.8</b>	<b>-3.3</b>	<b>-24.1</b>	<b>5.6</b>	<b>5.6</b>	<b>5.1</b>	<b>4.4</b>	<b>2.0</b>	<b>2.1</b>	<b>1.6</b>	<b>0.9</b>
<b>Size</b>																
Small	-19.0	—	—	—	-34.5	—	—	—	3.1	—	—	—	-0.6	—	—	—
Medium	-4.6	0.9	4.8	-17.1	-1.7	8.7	14.3	-29.9	5.5	6.5	6.5	5.1	1.9	3.2	3.4	1.8
Large	-2.6	-3.2	-2.5	-4.5	-10.0	-8.3	-3.8	-23.9	5.6	5.6	5.1	4.4	2.0	2.1	1.6	0.9
<b>Breakdown of activities</b>																
Energy	-1.5	-1.3	-0.1	1.1	-11.2	-11.0	-2.9	0.4	5.7	5.5	5.2	5.9	2.2	2.2	1.9	2.4
Industry	-5.2	0.2	5.1	-26.0	2.8	39.3	59.4	-45.7	6.3	5.0	4.5	3.4	2.4	0.9	0.4	-0.8
Wholesale & retail trade and accommodation & food service activities	-3.6	-7.7	-8.6	-8.0	-1.0	-10.1	-12.0	-1.8	8.4	5.8	6.0	5.2	4.3	2.0	2.4	1.6
Information & communication	-7.4	-8.5	-6.9	-9.3	-10.7	-11.9	-8.9	-11.4	19.7	24.0	25.2	25.5	15.8	19.9	21.1	22.1
Other activities	3.6	3.2	0.8	0.1	-30.0	-10.7	-8.9	-75.6	4.2	4.8	3.9	2.8	0.7	1.3	0.5	-0.7

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				
	Return on investment (R.1)		Ordinary return on equity (R.3)		
	2011 Q1-Q3	2012 Q1-Q3	2011 Q1-Q3	2012 Q1-Q3	
Number of corporations	828	750	828	750	
Percentage of corporations by profitability bracket	R ≤ 0	29.2	31.7	34.1	37.6
	0 < R ≤ 5	25.5	27.6	16.9	17.9
	5 < R ≤ 10	15.9	13.9	11.6	11.1
	10 < R ≤ 15	8.2	8.3	8.7	7.8
	15 < R	21.2	18.5	28.7	25.5
MEMORANDUM ITEM: Average return	5.1	4.4	6.5	5.3	

SOURCE: Banco de España.

in fair value and other extraordinary gains (losses)" declined notably in 2011. During the first nine months of 2012, the results relating to asset sales and impairment once again fell substantially, as a result of the existence of capital losses and of certain high provisions set aside by corporations when valuing their financial asset portfolios. This negative effect has been partly offset by the growth recorded in other extraordinary gains (losses), owing fundamentally to the lesser impact derived from redundancy programmes compared with the previous year. Consequently, profit for the year has posted substantial declines in the two periods analysed, falling by 17% in 2011 and by 57.2% in the first nine months of 2012.

Expressed as a percentage of GVA, profits fell in 2011 to 15.5%, somewhat over 2 pp below the previous year's level, while in 2012 to date it has fallen off by more than 14 pp compared with the same period a year earlier for the CBQ sample, standing at 11.3%, a figure that marks a low in the quarterly series since 2002.

14.11.2012.