Results of non-financial firms in 1997 and in the first three quarters of 1998 (1)

1. INTRODUCTION

This article offers provisional CBA results for 1997 and CBQ results for the first three quarters of 1998. The CBA data confirm, as anticipated by the article on the CBQ for the fourth quarter of 1997 published in the March 1998 *Economic bulletin,* the recovery in activity in the period in question, in contrast to the slowdown detected in 1996 as a whole. This recovery firmed during the first three quarters of 1998, with productive activity holding at a good pace, although it slowed slightly over the year. Healthy investment and consumption demand in the domestic and European market continued to explain the positive trend in activity, despite signs of a decline in sales to third countries. What is most notable from a qualitative point of view, however, given that the firms reporting to the CBQ are large industrial and services firms, is that, for the first time, employment grew at positive rates in the quarterly series in 1998 (in the CBA employment has been growing at positive rates since 1995). These developments explain, to a large extent, the increase in personnel costs in the third quarter of 1998, in relation to the same period of 1997. Compensation per employee, the other item that affects the path of this heading, grew in the same period by more than inflation and at a higher rate than in 1997. However, as explained below, the restructuring processes that affect certain large firms, of singular importance in the total aggregate, continue to have a large impact on the trend. Experience shows that the gradual inclusion of small and medium-sized firms in the 1997 database, up to its closure at end-1999, will give rise to higher employment growth rates and a flattening of the growth in compensation per employee. These rates will be more in line with what really happened, since they will correct, at least partially, the excessive weight that large firms have in the sample.

As a result of the improvement in productive activity, the funds generated by the firms' productive activity (gross operating results or sur-

(1) The data included in this article refer to the firms that have reported to the Central Balance Sheet Office their annual data (CBA survey) to October 31st 1998 and quarterly data (CBQ survey) to November 18th 1998. In all 5,854 firms collaborated in the CBA survey, accounting for 32.5% of the total GVA of all Spanish non-financial firms. Likewise, the 735 firms which on average during the first three quarters reported to the CBQ account for 18.1% of the GVA generated by all non-financial firms. Besides their different periodicity, the CBA and CBQ differ in that the CBA data are received with greater delay but are of greater quality and more detailed than those of the CBQ. Despite these differences, according to the empirical evidence, the profiles of the two series link up fairly closely, so that the CBQ data can be considered a good indication of the main future results of the CBA.

TABLE 1

Profit and loss account. Year-on-year performance
(Growth rates of the same firms on the same period a year earlier/
% of GVA at factor cost in the case of the net result)

Data Bases	CBA			CBQ			
	1995	1996	1997	QI-IV 95/ QI-IV 94 (a)	QI-IV 96/ QI-IV 95 (a)	QI-IV 97/ QI-IV 96 (a)	QI-III 98/ QI-III 97 (a)
Number of firms / Total national coverage	8073/36.5 %	7659/36.9 %	5854/32.5 %	726/21.1 %	729/20.6 %	723/19.7 %	735/18.1 %
1. VALUE OF OUTPUT (including subsidies)	11.9	5.7	9.6	9.6	6.7	8.3	4.7
Of which:							
1. Net amount of turnover and other operating income	11.5	6.6	9.4	9.0	7.2	8.1	5.3
2. INPUTS (including taxes)	14.1	7.3	11.1	11.8	10.0	10.0	4.0
Of which:							
1. Net purchases	17.2	6.3	11.2	13.4	10.2	9.7	3.6
2. Other operating costs	9.7	8.7	10.4	10.3	8.5	9.0	6.2
S.1. GROSS VALUE ADDED AT FACTOR COST	8.1	2.6	6.8	6.7	2.2	5.8	5.9
3. Personnel costs	4.0	4.1	3.3	1.7	3.2	2.2	4.2
S.2. GROSS OPERATING RESULT	13.7	0.7	10.8	12.1	1.3	9.1	7.5
4. Financial revenue	11.0	4.2	16.3	15.6	13.3	19.4	2.0
5. Financial costs	–0.6	–13.3	–14.3	–1.5	–11.9	–14.7	–9.6
6. Corporate income tax	4.6	10.2	23.0	16.9	5.6	19.3	13.1
S.3. FUNDS GENERATED FROM OPERATIONS	22.7	4.7	17.5	18.8	7.7	16.5	10.0
7. Depreciation and provisions (b)	3.6	–3.9	16.9	2.5	3.9	4.6	–2.8
S.4. TOTAL NET RESULT (% of GVA at factor factor cost) (b)	7.4	10.9	15.9	10.6	12.9	19.6	23.6
PROFITABILITY RATIOS							
R.1. Return on net assets (before taxes) (b)	8.0	8.5	10.4	8.9	8.9	11.0	12.5
R.2. Interest on borrowed funds/ interest-bearing borrowing	9.0	8.0	6.8	9.0	8.3	7.3	6.2
R.3. Return on equity (before taxes) (b)	7.1	8.9	12.9	8.8	9.4	13.6	16.4
R.4. Debt ratio	45.6	42.5	40.8	46.5	42.9	40.7	38.2
R.5. Financial leverage (before taxes) (R.1 – R.2) (b)	–1.0	0.5	3.6	–0.1	0.6	3.7	6.3

Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.
(b) When calculating these items the effect of balance-sheet restatement under Royal Legislative Decree 7/1996 has been removed in order to homogenise the series.

CHART 1

Non-financial firms reporting to the Central Balance Sheet Office (a)

NUMBER OF FIRMS

CBA	7,336	7,832	8,073	7,659	5,854	
CBQ	696	616	726	729	723	735

% OF GDP OF NON-FINANCIAL FIRMS SECTOR

CBA	32.6	34.7	36.5	36.9	32.5	
CBQ	18.9	18.4	21.1	20.6	19.7	18.1

CBA data
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CBA data
CBQ data

Source: Banco de España.

(a) Information available to November 18th 1998 (CBA and CBQ).
(b) The 1993, 1994, 1995, 1996 and 1997 data are based on information from the firms included in the annual survey (CBA) and the average of the four quarters of each year in relation to the previous year (CBQ).
(c) Average of the four quarters of 1998 in relation to the same period in 1997.

plus) increased in 1997, as did the net income and receipts generated by the other items of the profit and loss account (see Box 3). This situation was sustained, with some moderation, throughout the first nine months of 1998, but it should be noted that this is in comparison with the first nine months of 1997, when there was a sharp recovery, and that it coincides with a scenario of stable prices. The decline in financial costs (which have been falling since 1995), stemming mainly from the favourable trend in interest rates, is still one of the main reasons for the change in the balances obtained after the operating surplus. The ultimate consequence of the above-mentioned trend was an across-the-board increase in the profitability of the firms in the periods analysed and, in the third quarter of 1998, new all-time highs for the financial leverage ratio (which measures the combined effect of the return on assets and the cost of financing liabilities).

Finally, as usual, the 1997 data included in this article summarise those published in the monograph *Banco de España. Central de Balances. Resultados anuales de las empresas no financieras, 1997* of November 1998. This publication includes an extensive methodological note, business analysis tables (Chapter II), general economic analysis tables (Chapter III) and other special Central Balance Sheet Office (2) analyses. The current edition has two new features: a) the tables in Chapter III.B, which are a first approximation to the combined accounts and balance sheets of the non-financial firm sector as a whole for the period 1994-1996, an extrapolation as part of the preparation of the financial accounts under the European System of Accounts (ESA 95), and which, although at a preliminary stage, is a new statistical source, and b) publication of the said monograph on CD-ROM, as well as in the traditional form. The CD-ROM also includes: 1) more details than in the conventional edition on aggregates, by sector, ownership status and size; 2) tools to facilitate analysis of the data and, finally, 3) two benefits exclusively for the reporting firms (1998 electronic questionnaire and an individual comparative study with the sector aggregates) (3).

(2) These include those carried out in collaboration with other European central balance sheet offices (the Bach project) and with the Spanish Mercantile Registries. The latter have enabled a data base consisting of a large number of small firms to be created (see Box 1).

(3) During 1998 software enabling the annual questionnaire to be completed on diskette (the “electronic questionnaire”) was made available to large firms. Of the firms invited to collaborate in this way 50 % have done so, thereby obtaining the benefits of validation of the data included on the diskette and the reduction to a minimum of revisions after the completed questionnaire has been sent to the central balance sheet office.

2. ACTIVITY

The data of the firms reporting to the CBA confirmed the recovery in activity in 1997, as anticipated by the CBQ. In 1996 a slowdown in output growth was detected. This affected gross value added (GVA) which, in the case of the firms considered grew by 2.6 %, mainly as a consequence of the low activity of the first half of that year. In 1997, the recovery in private consumption, especially domestic, led to growth in productive activity of 6.8 % (see Table 1 and Chart 1), a trend confirmed by the growth detected in purchases and sales in 1997. It was felt particularly intensely in purchases and sales in Spain, which grew significantly more briskly than in 1996. In the first nine months of 1998 productive activity continued to trend very positively; GVA rose by 5.8 %, according to the CBQ, as against 6.8 % in 1997, according to the CBA (very similar rates if the downward bias of the CBQ, evident in Table 1, is taken into account). If the data of the electricity sector, whose value added is affected – as mentioned in previous quarterly articles – by changes stemming from tariff reductions and more expensive inputs as a result of decisions relating to national coal consumption, are excluded, GVA grew by 8.8 % in the first three quarters of 1998, against 9.2 % in 1997. In any event, productive activity in all the firms continued to grow at a strong rate in 1998 consolidating the 1997 trend. This outturn is based on the healthy behaviour of domestic demand and can be expected to continue in the near future to the extent that the financial disturbances of recent months continue to die down or, at least, do not worsen.

By sector of activity (Table 2.a), growth in 1997 is seen to have been across-the-board, with the exception of the electricity sector. In 1998, however, the growth of GVA in the distributive sector stands out (12.2 %, as against 8.8 % in 1997), the best evidence of the vigour of the expansion in the domestic demand for consumer goods. In the rest of the sectors, with the exception of electricity – whose peculiar course over recent months has been referred to above – GVA continued to grow at high rates, albeit below those of 1997.

The manufacturing industry (see Box 2) was affected in the third quarter of 1998 by the lesser buoyancy in the market for capital goods as well as by the fall in industrial prices (in intermediate goods and equipment). The transport and communications sector also grew at slightly more moderate rates than in 1997, when its GVA grew by 8.7 %, a higher rate than in the first three quarters of 1998 (when it reached 6 %). Meanwhile, there is some evidence of the effects on the sample non-financial firms, of the crisis in some international economies during 1998

BOX 1

Results of small firms

As in the January 1998 Economic Bulletin, coinciding with the release of the 1997 Central Balance Sheet Office annual monograph, this box analyses the chapter on the performance and results of firms with less than 50 workers (small firms, according to the European definition), which summarises the information contained in the Central Balance Sheet Office data base of data obtained from Mercantile Registries (CBBE/RM). Although this data base lacks the detail of the annual (CBA) data base, it does enable valid conclusions to be drawn regarding trends in the main magnitudes of the aggregate profit and loss account, and certain details of the balance sheets, due to the significant number of firms it includes. As at the date of this article, it includes data on 172,053 firms for 1996 (covering 10.5 % of the GVA of all non-financial firms), and 46,559 for 1997 (which represent 2.7 % of said GVA) (1). The CBB data display similar profiles to the CBA and CBQ data, although with steeper slopes in the paths of its main aggregate variables (see charts).

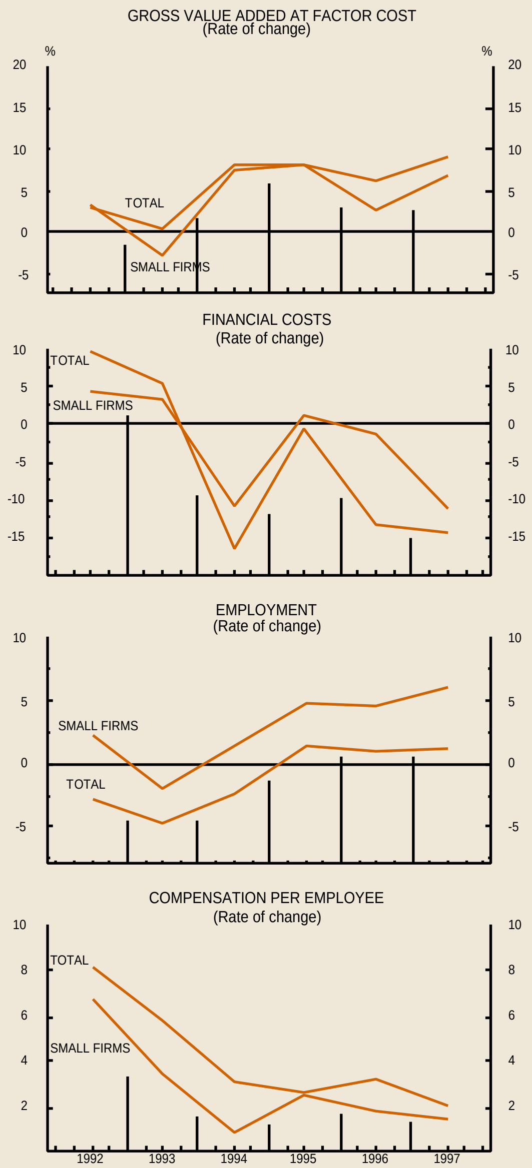
In 1997, the aggregate GVA of the firms grew in nominal terms by 9.1 %, as against 6.4 % in 1996. The expansionary path of output seen in 1994 and in 1995 was thus resumed. By major groups of activity the increase was across-the-board, although in the retail and hotel and catering sectors the rates in 1997 were similar to those of the previous year, as a consequence of the high level of activity recorded in 1996 (in fact, these were the only sectors to increase their level of activity in 1996).

If employment is analysed (2), it can be seen that for the fourth year running there was a net increase in average staffing levels, the increase being larger in 1997 than in previous years. By sector, the firms in the manufacturing, construction and hotel and catering industries were those which, in comparison with the previous year, increased the rate of generation of employment. Average wages and salaries, in line with the decline in inflation, grew by 1.7 %, against 2.2 % in 1996. By sector, it was precisely in those sectors in which the increases in staffing were largest, that the lowest rates of growth in average wages were recorded. Hiring (and, consequently, the change in the ratio of temporary to total employment) had a significant impact on the containment of average personnel costs.

Despite the increase in personnel costs (8.3 %), the gross operating result, or gross surplus, grew at a much higher rate than in 1996 (11.2 %, against 3.7 %), clearly manifesting the recovery in productive activity mentioned above. The successive reductions in interest rates in 1997 were reflected in the financial costs of firms, which fell by somewhat more than 11 %, permitting the funds generated by the firms to grow by 18 %. Finally, as a consequence of this behaviour in these variables, the net result obtained, in percentage terms, reached 10.5 % of GVA (the highest percentage in the whole CBB series), and the profitability ratios rose sharply. The return on equity (R.3) (the only profitability ratio whose definition is comparable to the CBA ratios) grew by somewhat more than two percentage points in 1997, from 8.8 % in 1996 to 11.1 % in 1997, with growth across all the major activity and size groupings.

It was thus confirmed that the performance of this particularly high number of small firms displays similar profiles to those deduced from the two alternative data bases. In 1997, this involved positive trends for activity and margins. The increases in employment, and especially in profitability, have also firmed, providing an additional confirmation of the current good health of the firms and, in short, of the Spanish economy.

(1) Nonetheless, its coverage in the national sphere (small firms) is very high, reaching 30.3 % in 1996.
(2) This heading has been studied only on the basis of those firms that submit consistent information on the number of workers and personnel costs (22,612 firms in the case of 1997).



NUMBER OF FIRMS (a)

	1992	1993	1994	1995	1996	1997	
CBA	7,176	7,336	7,832	8,073	7,659	5,854	
CBQ	5,929	30,091	49,481	129,320	172,053	46,559	(b)

% OF GDP OF NON-FINANCIAL FIRMS SECTOR

	1992	1993	1994	1995	1996	1997	
CBA	31.8	32.6	34.7	36.5	36.9	32.5	
CBQ	0.4	2.0	3.4	7.8	10.5	2.7	(b)

CBA data
CBB (CBBE/RM) data
Firms with less than 50 employees

Source: Banco de España.
(a) Data available to November 18th 1998 (CBA and CBB).
(b) In the case of the Employment and Compensation per employee charts, the data correspond to the sub-group of firms reporting consistent employment data (50 %-60 % of the CBB total).

TABLE 2.a

Value added, employees, personnel costs and compensation per employee
Breakdown by size, ownership status and main activity of firms
(Growth rates of the same firms on the same period a year earlier)

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Compensation per employee			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	1996	1997	QI-IV 97 (a)	QI-III 98 (a)	1996	1997	QI-IV 97 (a)	QI-III 98 (a)	1996	1997	QI-IV 97 (a)	QI-III 98 (a)	1996	1997	QI-IV 97 (a)	QI-III 98 (a)
Total	**2.6**	**6.8**	**5.8**	**5.9**	**0.9**	**1.2**	**–0.6**	**0.9**	**4.1**	**3.3**	**2.2**	**4.2**	**3.2**	**2.1**	**2.9**	**3.2**
Total, except electricity sector	**2.0**	**9.2**	**9.1**	**8.8**	**1.2**	**1.3**	**–0.4**	**1.5**	**4.3**	**3.6**	**2.5**	**4.4**	**3.1**	**2.3**	**3.0**	**3.2**
SIZE:																
Small	4.5	7.8	—	—	1.9	3.5	—	—	5.1	6.3	—	—	3.1	2.7	—	—
Medium	3.4	9.7	7.5	7.8	2.2	3.4	0.2	3.0	5.1	6.1	4.1	7.6	2.8	2.6	3.9	4.5
Large	2.4	6.4	5.6	5.6	0.6	0.7	–0.8	0.5	3.9	2.8	1.9	3.5	3.3	2.1	2.7	3.1
STATUS:																
Public-sector	0.2	–0.4	–0.1	7.4	–2.8	–3.7	–2.9	0.6	2.7	–0.5	–1.4	4.6	5.7	3.3	1.5	4.0
Private-sector	3.9	8.8	8.2	5.7	2.3	2.5	0.4	1.0	4.8	4.5	3.9	4.1	2.4	2.0	3.5	3.0
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	–1.1	11.4	14.1	10.3	–0.8	0.7	0.7	1.8	3.7	3.9	2.9	5.3	4.5	3.1	2.3	3.4
Production and distribution of electricity, gas and water	6.0	–4.6	–4.3	–3.2	–4.1	–1.6	–2.8	–4.6	1.8	–0.6	–0.2	0.4	6.1	1.1	2.7	5.3
Distributive trade	5.7	8.8	8.3	12.2	5.4	2.6	0.1	3.3	7.4	4.5	2.8	6.1	1.9	1.9	2.7	2.7
Transport, storage and communications	3.1	8.7	6.5	6.0	–1.6	–1.6	–2.4	–1.6	3.0	1.9	1.5	2.4	4.7	3.6	4.0	4.1

Source: Banco de España.
(a) All the data in these columns have been calculated as the arithmetic mean of the quarterly data.

TABLE 2.b

Employment and personnel costs
Detail according to changes in staff levels

	Total CBQ firms QI-III 1998	Firms inceasing (or not changing) staff levels	Firms reducing staff levels
Number of firms	**735**	**442**	**294**
Personnel costs			
Initial situation QI-III 1997 (billions of pesetas)	2,208.7	867.2	1,343.6
Rate QI-III 98 / QI-III 97	4.2	9.6	0.6
Average compensation			
Initial situation QI-III 1997 (thousands of pesetas)	4,236.5	3,809.5	4,574.7
Rate QI-III 98 / QI-III 97	3.2	1.6	5.4
Number of employees			
Initial situation QI-III 1997 (thousands)	521	228	294
Rate QI-III 98 / QI-III 97	0.9	7.9	–4.6
Permanent			
Initial situation QI-III 1997 (thousands)	*461*	*186*	*275*
Rate QI-III 98 / QI-III 97	*–0.2*	*4.9*	*–3.7*
Non-permanent			
Initial situation QI-III 1997 (thousands)	*60*	*41*	*19*
Rate QI-III 98 / QI-III 97	*9.3*	*21.2*	*–18.6*

Source: Banco de España.

(Table 3 shows the fall in the percentage of sales and purchases to/from countries outside the EU).

When analysing the information contained in Chart 2, which classifies the firms according to the growth in their GVA, the existence of a slight moderation in the growth of productive activity in 1998, compared with 1997, is confirmed. Thus, the GVA of 68.7 % of the firms rose in the third quarter of 1997, as against 67.5 % of firms in the same quarter of 1998. This circumstance is more clearly illustrated by the percentage of firms with increases in GVA of more than 20 %; while in the third quarter of 1997 35.6 % of the firms came within this bracket, in the same period of 1998 the percentage fell to 31.5 %.

3. PERSONNEL COSTS, EMPLOYMENT AND COMPENSATION PER EMPLOYEE (4)

Since 1995, employment in firms reporting to the CBA has trended positively. Unlike in the

(4) The employment data, which do not appear in the accounts, are edited firm by firm and compared with the personnel costs of the quarter, with the data of previous quarters and with the data declared by the firms themselves in the annual survey to ensure consistency, insofar as this is possible

TABLE 3

Purchases and turnover of firms reporting data on purchasing sources and sales destinations

	CBA		CBQ	
	1996	1997	QI-IV 97/QI-IV 96 (a)	QI-III 98/IQI-III 97 (a)
Total firms	**7,659**	**5,854**	**723**	**735**
Firms reporting source/destination	7,659	5,854	679	691
	%	%	%	%
Net purchases	**100.0**	**100.0**	**100.0**	**100.0**
SOURCE OF PURCHASES:				
Spain	65.9	64.5	62.7	66.4
Total abroad	34.1	35.5	37.3	33.6
EU countries	*22.7*	*23.0*	*20.1*	*25.5*
Third countries	*11.4*	*12.5*	*17.2*	*8.1*
Net turnover	**100.0**	**100.0**	**100.0**	**100.0**
SALES DESTINATIONS:				
Spain	80.1	80.0	85.5	85.1
Total abroad	19.9	20.0	14.5	14.9
EU countries	*14.7*	*15.0*	*9.9*	*11.3*
Third countries	*5.2*	*5.0*	*4.6*	*3.6*

Source: Banco de España

(a) All the data in these columns have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of firms.

case of the other variables, this development was not anticipated by the CBQ. As already mentioned on many occasions, the firms of the latter data base are large, industrial and services firms and, in certain important cases, still involved in staff restructuring processes. Precisely for this reason, the employment creation detected in the CBQ in the first three quarters of 1998 is especially significant. In 1997 as a whole, for the third year running the CBA data show a net increase in employment, of 1.2 %, stemming mainly from temporary employment, which grew by almost 4 % in 1997, as against a 0.6 % rise in permanent employment. The average increase in average staff levels was greater in medium and small firms than in large firms (5). Hence the relevance of the CBQ data for the first three quarters of 1998, showing a net increase in employment of 0.9 %, with respect to the same period a year earlier. As in the first three quarters of 1997, this increase was largely in temporary employment, which grew by 9.3 %, while permanent employment continued to grow at a negative rate, of –0.2 %. As regards sectors, the rises in employment in the distributive trade, with increases of 2.6 % in 1997 and 3.3 % to the third quarter of 1998, and in manufacturing, which increased its employment by 0.7 % in 1997 and by 1.8 % in the first nine months of 1998, stand out. These are also precisely the two sectors that recorded the fastest growth of GVA. The “electricity, water and gas production sector” and the “transport, storage and communications sector”, both in the midst of deregulation, continue to record falls in average employment, owing to the labour restructuring associated with these changes.

These employment developments partly explain the changes in personnel costs which, in 1997, grew at a rate of 3.3 % (see Table 1), significantly more slowly than in 1996 (4.1 %). This trend was not sustained over the first nine months of 1998, when personnel costs grew by 4.2 %, as a result of the increase in employment mentioned above, and the slight upturn in average compensation. In 1997, average compensation moderated significantly with respect to the previous year, growing by 2.1 %, against

(5) For the presentation of the 1997 annual results, the criteria for categorising firms by size (small, medium and large) have been revised, to adapt them to EC Recommendation 96/280/EC, with the nuances and results highlighted in Box 1 *(recuadro 1)* of the annual monograph. The same size-classification criteria have been used for this article (the basic criterion used is employment: small firms, less than 50 employees; medium, between 50 and 250; large, more than 250).

TABLE 4

Personnel costs, employees and average compensation
% of firms in specific situations

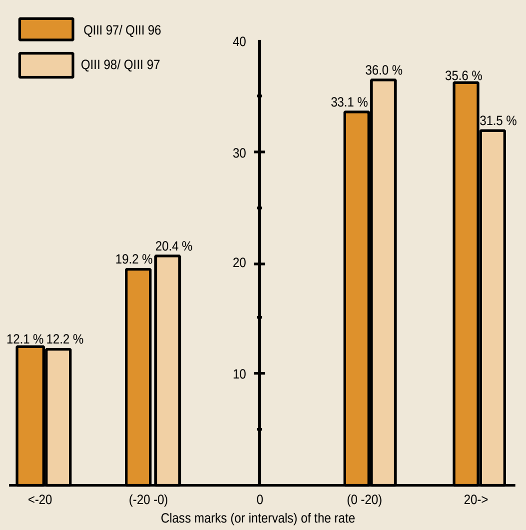
	CBA			CBQ		
	1995	1996	1997	QI-IV 96 (a)	QI-IV 97 (a)	QIII 98
Number of firms	**8,073**	**7,659**	**5,854**	**729**	**723**	**567**
Personnel costs	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	24.5	26.2	24.1	31.5	30.8	26.1
Constant or rising	75.5	73.8	75.9	68.5	69.2	73.9
Average number of employees	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Falling	31.4	32.7	28.4	54.0	49.8	39.9
Constant or rising	68.6	67.3	71.6	46.0	50.2	60.1
Average compensation (relative to inflation) (b)	**100.0**	**100.0**	**100,.**	**100.0**	**100,.0**	**100.0**
Lower growth	51.3	48.3	43.5	43.7	40.6	39.1
Higher or same growth	48.7	51.7	56.5	56.3	59.4	60.9

Source: Banco de España.
(a) Arithmetic mean of the four quarters.
(b) Twelve-month percentage change in the CPI.

3.2 % in 1996. In the first nine months of 1998, as anticipated above, compensation per employee grew by 3.2 %. This meant that the differential with respect to the inflation rate, which had practically disappeared in 1997, widened again. Nonetheless, as two samples of firms with different characteristics are being compared, it is likely that the rate recorded by the CBQ for 1998 will be revised downwards when the annual CBA data become available, owing to the incorporation of small and medium firms.

CHART 2

Distribution of firms by rate of change in GVA at factor cost (QIII 98/QIII 97, QIII 97/QIII 96) (CBQ)



Source: Banco de España.

Table 2.b, which gives figures for the firms that have generated employment and for those which have reduced their staff, seems to confirm this observation. It can be seen that the 442 firms which, in the third quarter of 1998, increased or did not change their average staff levels, recorded a well-below-average rise in average compensation of 1.6 %, the same as the rate of inflation to September 1998. This can be explained basically by the lower cost of the newly hired workers, on whom the impact of wage moderation is greatest. By contrast, the 294 firms which reduced their average employment levels, recorded a rise in average compensation of 5.4 %, basically owing to the costs associated with dismissals. If we consider all the firms reporting to the CBQ, the type of employment responsible for the rise in total employment continues to be temporary employment, although it is notable that, in the firms with net increases in employment, the permanent staff have grown by almost 5 %. As regards sectors, the conclusions are similar to those already stated. In the third quarter of 1998 the employment-creating sectors (especially the distributive trade) recorded more moderate rates of growth of average compensation. By contrast, in those sectors in which jobs continued to be lost, well-above-average increases in compensation per employee continued to be recorded, owing to the additional costs associated with staff restructuring.

BOX 2

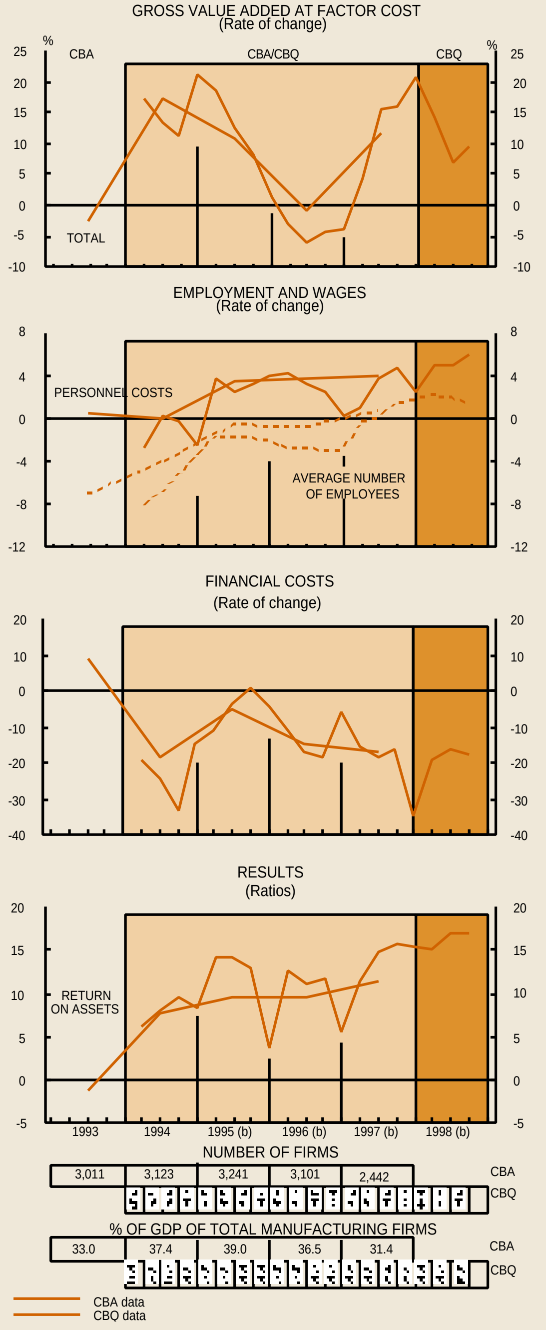
Performance of the manufacturing firms which report to the Central Balance Sheet Office

The importance and representativeness of manufacturing industry, both in the CBA and in the CBQ, justify its now customary separate treatment in this box. Activity in the manufacturing sector recovered strongly in 1997, as reflected in the substantial increase in its GVA (11.4 %), which in 1996 fell by –1.1 %. As already mentioned throughout this article, this spectacular change was caused by the improvement in domestic consumption and capital investment, the effects of which were felt throughout the manufacturing sector, but especially in oil refining, helped by the fall in crude oil prices, and in transport materials, where the Prever Plan prompted a strong increase in demand. In 1998, the quarterly data show that significant levels of activity were sustained, although slightly below those of 1997, with a certain moderation in growth. Notable for their growth in the latter period, at rates well above the average for the manufacturing sector as a whole, were oil refining, transport materials and electrical, electronic and optical material and equipment.

Personnel costs rose by 5.3 % in the first three quarters of 1998, as against 3.9 cent in 1997 as a whole. This is compatible with growth in employment and average compensation stabilising at above 3 % in the two periods analysed, i.e. between one and one-and-a-half percentage points above inflation. In the first nine months of 1998 average staffing levels rose in the different groupings which make up the sector, especially in the electrical, electronic and optical material and equipment industry, and in the glass, ceramic and metal conversion industries.

The recovery in business activity in 1997 bolstered the growth in the gross operating result, which rose by 23.5 % in 1997 and firmed in 1998, when the surplus continued to grow at a good rate (17.3 %). As in the case of the firms reporting to the CBQ as a whole, financial costs continued to fall, leading to a spectacular increase in funds generated in 1997 (28.5 %) and in the first three quarters of 1998 (16.8 %). In this setting, the good expectations and slight reduction in depreciation and provisions have enabled growing profitability ratios to be generated (the return on net assets reached 11.5 % in 1997 and 16.4 % in the first nine months of 1998). This, together with the reduction in the cost of borrowing, has produced the highest financial leverage recorded in the whole series. Once more, the healthy economic and financial position of the sector, and its excellent condition to take full advantage of the opening up of increasingly globalised and competitive markets, is clearly apparent.

Performance of the manufacturing firms which report to the Central Balance Sheet Office (a)



Source: Banco de España.

(a) Information available to November 18th 1998 (CBA and CBQ).

(b) The CBQ data are growth rates on the same quarter of the previous year.

TABLE 5

Gross operating result, funds generated, return on assets and leverage
Breakdown by size, ownership status and main activity of firms
(Ratio and growth rates of the same firms on the same period a year earlier)

	Gross operating result				Funds generated				Return on assets (R.1) (a)				Leverage (a)			
	CBA		CBQ		CBA		CBQ		CBA		CBQ		CBA		CBQ	
	1996	1997	QI-V 97 (b)	QI-III 98 (b)	1996	1997	QI-IV 97 (b)	QI-III 98 (b)	1996	1997	QI-IV 97 (b)	QI- III 98 (b)	1996	1997	QI-IV 97 (b)	QI- III 98 (b)
Total	**0.7**	**10.8**	**9.1**	**7.5**	**4.7**	**17.5**	**16.5**	**10.0**	**8.5**	**10.4**	**11.0**	**12.5**	**0.5**	**3.6**	**3.7**	**6.3**
Total, except electricity sector	**–1.4**	**17.6**	**17.1**	**13.9**	**2.5**	**23.8**	**22.4**	**14.1**	**8.0**	**10.5**	**10.8**	**12.6**	**–0.2**	**3.4**	**3.4**	**6.3**
SIZE:																
Small	3.6	10.2	—	—	5.3	16.3	—	—	12.8	13.5	—	—	1.7	4.7	—	—
Medium	0.8	15.4	12.3	8.5	7.1	20.3	15.1	11.5	11.6	13.8	11.0	11.9	2.3	6.5	3.8	6.0
Large	0.6	10.4	8.8	7.4	4.4	17.2	16.7	9.8	8.0	10.0	11.0	12.6	0.2	3.3	3.7	6.4
STATUS:																
Public-sector	–2.1	–0.2	2.0	15.5	7.5	7.3	10.5	75.5(c)	5.5	5.6	8.0	5.6	–2.1	–0.8	1.5	0.4
Private-sector	2.7	13.6	11.7	6.9	2.9	19.6	18.6	7.5	11.3	12.7	12.3	13.8	2.8	5.7	4.7	7.5
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Manufacturing industries	–8.1	23.5	33.1	17.3	–5.7	28.5	47.3	16.8	9.7	11.5	14.3	16.4	1.5	4.7	7.6	11.1
Production and distribution of electricity, gas and water	7.4	–5.9	–5.5	–4.2	12.3	0.2	5.5	–2.2	10.2	10.0	11.4	12.4	2.9	4.2	4.4	6.4
Distributive trade	3.2	15.3	18.1	20.9	6.5	15.4	15.6	24.2	13.5	14.5	11.7	13.8	4.8	8.0	4.8	7.4
Transport, storage and communications	3.2	14.5	10.3	8.6	9.4	21.4	14.5	14.0	6.0	8.3	9.4	10.4	–2.7	0.4	1.5	3.4

Source: Banco de España.
(a) When calculating the data in these columns the effect of the balance-sheet restatement under Royal Legislative Decree 7/1996 has been removed in order to homogenise the series.
(b) All the data in these columns have been calculated as the arithmetic mean of the quarterly data.
(c) Meaningless rate.

Finally, Table 4, in which all the firms in the sample are given the same weight, shows that the percentage of firms which created employment in the third quarter of 1998 rose by 10 percentage points (to 60.1 %) from the same period of 1997 (50.2 %). CBA data, likewise, show a significant increase in the number of firms creating employment, to 71.6 % of the sample in 1997. This percentage is notably higher than that in the sample used by the CBQ, owing to the inclusion of small and medium firms not included in the quarterly sample. Table 4 also reveals the rigidity of average compensation in the third quarter of 1998; the percentage of firms recording in that period growth in average compensation at rates equal to or higher than inflation held at around 60 %, similar to the 1997 CBQ figure.

4. RESULTS, MARGINS AND PROFITABILITY

According to the CBA, the recovery in activity in 1997, together with the greater moderation in personnel costs, enabled the gross operating result, or surplus, to grow by 10.8 % (see Table 5), a significantly higher rate than in 1996 (0.7 %). If the continuing positive trend in financial expenses (down 14.3 %) is also taken into account, then this explains the 17.5 % increase in funds generated from operations (a return to the double-digit growth in the annual sample of 1994 and 1995). As already made clear above, productive activity held at a good pace in 1998 (although it was more moderate than in 1997). This, in combination with the slight upturn in personnel costs led to a reduction in the growth in the gross operating result to 7.5 %, three per-

BOX 3

Structure of the profit and loss account

The CBQ quarterly questionnaire is made up of 23 different profit and loss account captions, compared with the 94 requested in the annual questionnaire (CBA). A summary presentation of the profit and loss account, like that in Table 1, is appropriate for this article, due to the differences in detail of the information and the need to link the two sources. The object of this box is to show, by presenting the structure of the profit and loss account that, for the 5,854 firms which had, at the time of writing, responded to the CBA, the weight in this account of the captions which have been omitted (those preceded by the letters a, b, c and d) in order to enable this link to be made is not significant, and that in no case does their absence preclude or distort the analysis and comparisons made.

Although full details of these captions can be found in the Central Balance Sheet Office annual monograph, it is perhaps worth detailing the contents of two of them here. The first is caption "c. Other income included in funds generated", which basically comprises extraordinary results, capitalised interest and other revaluations, and ordinary provisions for liabilities and charges. The other is caption "d. Other income not included in funds generated", which includes capital gains and losses, income and expenses relating to other years and deferred results.

Structure of the profit and loss account

		Number of firms / Total national coverage	**5854/32.5 %**
		YEAR	1997
1.		VALUE OF OUTPUT (including subsidies)	100.0
	1.	Net amount of turnover and other operating income	119.6
	a.	Other items	–19.6
2.		INPUTS (including taxes)	66.3
	1.	Net purchases	43.1
	2.	Other operating costs	22.3
	b.	Other items	0.9
S.1.		GROSS VALUE ADDED AT FACTOR COST (1 – 2)	33.7
	3.	Personnel costs	17.5
S.2.		GROSS OPERATING RESULT (S.1. – 3)	16.2
	4.	Financial revenue	2.5
	5.	Financial costs	3.4
	6.	Corporate income tax	1.7
	c.	Other income included in funds generated	0.1
S.3.		FUNDS GENERATED FROM OPERATIONS (S.2. + 4 – 5 – 6 + c)	13.6
	7.	Depreciation and provisions	11.2
	d.	Other income not included in funds generated	2.9
S.4.		TOTAL NET RESULT (S.3. – 7 + d)	5.3
	e.	Proposed distribution of dividends	3.1
	f.	Retained earnings	2.2
Memorandum item:			
S.5.		SELF-FINANCING (S.3. – e = f + 7 – d)	10.5

TABLE 6

Structure of reporting firms' returns on net assets and on equity

	CBQ			
	Return on net assets (R.1)		Return on equity (R.3)	
	QIII 97	QIII 98	QIII 97	QIII 98
Total firms	**100**	**100**	**100**	**100**
R ≤ 0 %	17.5	18.9	24.4	23.6
0 % < R ≤ 5 %	19.4	13.4	13.2	9.2
5 % < R ≤ 10 %	15.8	13.8	9.6	10.2
10 % < R ≤ 15 %	12.4	13.1	10.1	7.4
15 % < R	34.9	40.9	42.8	49.6
Number of firms	**711**	**567**	**711**	**567**
MEMORANDUM ITEM:				
Average return	12.8	13.0	16.7	17.3

Source: Banco de España.

centage points less than in 1997. Financial costs sustained their downward path in 1998, at a rate of –9.6 %. This was less than the previous year's fall, given the current levels and the recourse to foreign borrowing. Specifically:

	I-III 98/I-III 97
Change in financial costs	–9.6 %
A. Interest on borrowed funds	–10.3 %
A.1. Due to the cost (interest rate)	–17.8 %
A.2. Due to the amount of interest-bearing debt	7.5 %
B. Commissions and cash discounts	0.7 %

This analysis implies that the reduction in financial costs has been due to the fact that the successive reductions in interest rates have been passed through to the cost of debt. It also shows that the sample firms, having spent several years reducing their debts and relying on the self-financing generated by their productive activity, are now increasing their recourse to external sources of finance, taking advantage of the low interest rates. The level of capitalisation achieved by the large domestic firms (as a result of the high self-financing generated) has enabled them to finance their investment through borrowing without increasing their debt ratios, because their own funds have increased – through retained earnings – to a greater extent.

As explained above, the reduction in financial costs enabled funds generated from operations to rise by 17.5 % in 1997 and by 9.6 % in the first three quarters of 1998. Finally, "depreciation and provisions" fell slightly in the first nine months of 1998, basically as a result of depreciation. In contrast to its growth in 1997 (in the form of transfers to provisions for restructuring, coverage of the risk of losses in subsidiaries, etc.), depreciation fell as a consequence of the extension of the useful life of certain assets of the electricity sector. A net result of 23.6 % of GVA was thus achieved, significantly higher than in 1997(15.9 %).

The returns on net assets and on equity were both on a rising trend, in 1997 and in the first three quarters of 1998, in comparison with the preceding periods, reaching 12.5 % and 16.4 % in 1998, respectively. At the same time, the cost of debt has been falling continuously since 1990, reaching the historic low of 6.2 % in the first nine months of 1998. The result was a clearly positive financial leverage both in 1997(3.6) and 1998 (6.3). Positive leverage values were obtained across all of the sectors, especially in manufacturing and in the distributive trade, sectors that reflected the recovery and firming of business activity in 1997 and in the first nine months of 1998 particularly strongly.

Lastly, if the percentage of firms which, irrespective of their size, have seen the largest increases in their profitability is analysed on the basis of Table 6, it can be seen that there has been a gradual shift to higher levels of profitability. It is true that the comparison of the third quarters of 1997 and 1998 shows a stabilisation in the number of firms posting positive profits. Yet a significant increase is seen in the number

TABLE 7

Capital and financial flows
(Structure: GVA at market prices = 100)

	Structure		
Data Bases	1995	1996	1997
Number of firms / Total national coverage	8073/36.5 %	7659/36.9 %	5854/32.5 %
Year	1995	1996	1997
1. Capital resources	32.7	30.5	29.8
1. Gross saving	25.7	26.4	28.4
2. Net capital transfersl	6.9	4.1	1.4
2.1. Uses of capital	27.2	24.9	25.0
1. Gross capital formation	24.7	22.6	23.3
1. Gross fixed capital formation	19.1	20.2	20.3
2. Change in stocks	5.6	2.4	3.1
2. Other uses of capital	2.5	2.3	1.7
2.2. Uses of capital: sale of nuclear moratorium rights	…	–5.7	…
3. Financing capacity (+), Borrowing requirements (–) (1 – 2.1 – 2.2 = –4)	5.5	11.3	4.8
4. Net change in liabilities minus net change in assets	–5.5	–11.3	–4.8
1. Securities other than equity	–4.1	–1.8	–2.3
2. Equity capital	–0.7	–2.7	2.7
3. Credit from credit institutions	2.0	–7.2	3.2
4. Credit from abroad	–0.0	–2.3	–0.3
5. Trade credit and credit between other resident sectors	–0.8	0.7	–0.9
6. Pension funds	0.0	1.0	0.7
7. Other liabilities net of other financial assets	–1.9	0.9	–7.9
MEMORANDUM ITEM			
Investment in tangible fixed assets (a)	10.7	11.5	10.7

Source: Banco de España.

(a) With respect to net tangible fixed assets at the start of the year. This ratio, calculated within the conceptual scope of business accounting, is obtained from the subset of firms with more than 100 employees. The ratio for 1997 has been homogenised by removing the effect of balance-sheet restatement under Roya Legislative Decree 7/1996.

of firms reporting profit rates of more than 15 % (34.9 % in 1997, rising to 40.9 % in the third quarter of 1998).

5. INVESTMENT AND FINANCING

The above observations for 1997 are based on Chapter II of the annual monograph of the Central Balance Sheet Office, and those relating to the first three quarters of 1998 on CBQ data. Both these data bases are used to compile accounting statements and ratios from a business analysis viewpoint. However, to obtain balances and aggregates that are useful for macroeconomic analysis, such as gross saving, gross capital formation and financing capacity or borrowing requirements (surplus/deficit) an accounting framework is needed with a general economic analysis focus, specific to national accounts systems, such as that presented in Table 7. The latter summarises the capital and financial accounts included in Chapter III.A of the annual monograph of the Central Balance Sheet Office. This information can only be compiled from the CBA data, the shorter CBQ questionnaire being insufficiently detailed for these balances to be obtained.

In 1997, as has been the case since 1994, non-financial firms as a whole continued to be net lenders. The strong generation of funds, mainly due to the increase in gross saving, was sufficient to finance the year's investment and to generate a surplus of 4.8 % of GVA at market prices in 1997. Gross capital formation increased, basically as a result of the across-the-board increases in stocks. The discrepancies between the path of gross capital formation according to the Central Balance Sheet Office (very strong growth in 1995, a 6.3 % fall in 1996 and rises of around 5 % in 1997) and to the national aggregate of non-financial firms (less growth than according to the Central Balance Sheet Office in 1995 and positive rates of around 4.8 % and 5.3 % in 1996 and 1997) must be analysed taking into account the singular characteristics of the CBA and CBQ firm samples. Certain sectors are over represented in the CBQ, such as communications, in which there has been strong investment in recent years. Specifically, the firms in the communications sector reporting to the CBA invested PTA 730 billion in 1995, a figure which rose to PTA 840 billion in 1996 (somewhat more than 9 % of the total investment by the non-financial firm sector), 80 % of the total being accounted for by six firms. In 1997, this item held at PTA 805 billion, which, although less than in the previous year, is a clear sign that the investment drive has been sustained (in 1994 investment totalled PTA 560 billion in the sector considered). From 1993-1997 the firms of the sector reporting to the CBA invested PTA 3,500 billion.

The financing capacity generated in 1997 was clearly less than in 1996. However, if the sale of the rights arising from the nuclear moratorium (6) is excluded from the figure for 1996, this surplus becomes 4.7 % of GVA, practically the same level as in 1997.

This financing capacity was sufficient to finance the equity investments made by large domestic firms in transactions to reorganise corporate groups and in direct investment in external markets (mainly South America), which evidence a new external outlook on the part of Spanish firms. There were also sizeable capital gains arising from the sale of shares, mainly in privatisations, in the form of short-term financial assets (basically deposits). Finally, the strong increase in 1997 in trade credit – both to clients and from suppliers – in line with the increase in productive activity in 1997 discussed above, is notable.

In conclusion, the financial situation of the firms at end-1997 was very healthy, gross saving being the main source of funds and investment resuming the growth path of 1994 and 1995 which, in the case of the sample firms, was interrupted in 1996. The scant information available for these variables for the first three quarters of 1998 does not indicate any change in the situation as at end-1997.

27.11.1998.

(6) As a result of this transaction the firms concerned received more than PTA 700 billion (mainly used to repay loans from credit institutions).