
Results of non-financial corporations in fourth quarter of 1999 and summary year-end data (1)

1. INTRODUCTION

On the information collected in the Central Balance Sheet Office Quarterly Survey (CBQ) for the reference period, there was a pick-up during 1999 Q4 on the trend recorded in the three previous quarters of the year. However, the provisional year-end CBQ data for 1999 show a decline in activity compared with the related 1998 figures (2.8 % against 4.2 %). Evidently, though, once the annual (CBA) year-end data for 1999 are available, a trend for the period in keeping with the initial national accounts figures will be obtained. This is because the downward bias of the CBQ sample (2) (which, among other things, incorporates falls in prices that cannot be extrapolated to the national total into its nominal trend) will be rectified.

The favourable position of manufacturing industry in 1999 Q4 [gross value added (GVA) in this period was up 5.8 % on four quarters earlier] was due to the performance of exports and the continuing resilience of domestic demand. This position, which was shared by the distributive trade and, to a lesser extent, by other services, meant that positive growth rates were sustained for the whole of 1999, albeit at the aforementioned more moderate pace. Behind such moderation is the effect of price rises in oil inputs and, on the production side, the lower prices and tariffs resulting from the liberalisation of communications and the electricity sector. As these sectors are over-represented in the CBQ sample, they contribute to reducing the growth rate of the total aggregate of firms.

Personnel costs increased moderately in 1999 as a whole (1.4 %), although in the second half of the year they grew more briskly, in step with activity. The rise in Q4 was due both to the growth of staffing levels and of average remuneration. Nonetheless, in the year as a whole the wage restraint of prior periods was maintained. Testifying to this was the fact that the growth rate of costs per employee during the four quarters of 1999 compared with the same period a year earlier was 1.8 %. This containment of labour costs helped the sample firms to absorb the higher prices of inputs

(1) This article is based on data provided to 15th March 2000 by the firms that report to the CBQ (an average of 784 over the four quarters of 1999). In all, these firms account for 16.5% of the activity of the non-financial firms sector (measured in terms of this sector's coverage in relation to GVA).

(2) For 1998 the CBA figures reflected nominal growth in activity of 6.7%, compared with the figure of 4.2% predicted by the CBQ figures.

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 profit)**

| Data bases | CBA | | | CBQ | | | |
|--|-------------|-------------|-------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 1996 | 1997 | 1998 | 96 Q1-Q4 95 Q1-Q4 (a) | 97 Q1-Q4 96 Q1-Q4 (a) | 98 Q1-Q4 97 Q1-Q4 (a) | 99 Q1-Q4 98 Q1-Q4 (a) |
| Number of firms/Total national coverage | 8019/38.6 % | 7953/38.3 % | 6342/35.4 % | 727/20.9 % | 725/20.7 % | 832/19.9 % | 784/16.5 % |
| 1. VALUE OF OUTPUT (including subsidies) | 5.7 | 10.1 | 6.3 | 6.7 | 8.1 | 3.2 | 9.4 |
| Of which: | | | | | | | |
| 1. Net amount of turnover and other operating income | 6.6 | 10.0 | 6.9 | 7.2 | 7.8 | 3.5 | 10.2 |
| 2. INPUTS (including taxes) | 7.3 | 11.7 | 6.0 | 10.0 | 10.0 | 2.5 | 14.1 |
| Of which | | | | | | | |
| 1. Net purchases | 6.0 | 11.9 | 3.4 | 10.2 | 9.8 | 1.0 | 17.2 |
| 2. Other operating costs | 8.9 | 10.9 | 10.8 | 8.4 | 9.3 | 7.0 | 9.6 |
| S.1. GROSS VALUE ADDED AT FACTOR COST | <u>2.8</u> | <u>7.1</u> | <u>6.7</u> | <u>2.1</u> | <u>5.2</u> | <u>4.2</u> | <u>2.8</u> |
| 3. Personnel costs | <u>3.9</u> | <u>4.1</u> | <u>5.1</u> | <u>3.2</u> | <u>2.2</u> | <u>3.2</u> | <u>1.4</u> |
| S.2. GROSS OPERATING PROFIT | <u>1.5</u> | <u>11.0</u> | <u>8.6</u> | <u>1.1</u> | <u>7.8</u> | <u>5.1</u> | <u>3.9</u> |
| 4. Financial revenue | 5.1 | 11.2 | 10.0 | 13.3 | 19.4 | 15.3 | 24.8 |
| 5. Financial costs | -12.9 | -13.4 | -8.6 | -11.8 | -15.5 | -8.9 | -6.9 |
| 6. Corporate income tax | 9.8 | 21.8 | 31.9 | 5.7 | 20.4 | 17.7 | 21.3 |
| S.3. FUNDS GENERATED FROM OPERATIONS | 5.6 | 16.8 | 10.0 | 7.2 | 14.9 | 8.6 | 8.0 |
| 7. Depreciation and provisions | -4.0 | 25.7 | 18.0 | 3.6 | 16.5 | -5.2 | 5.5 |
| S.4. TOTAL NET PROFIT (% of GVA at factor costs) | 11.1 | 15.0 | 15.9 | 13.0 | 15.8 | 19.0 | 19.8 |
| PROFITABILITY RATIOS | | | | | | | |
| R.1. Ordinary return on net assets (before taxes) (b) | | | | | | | |
| R.2. Interest on borrowed funds/ interest-bearing borrowing | 7.3 | 7.6 | 8.4 | 7.6 | 8.0 | 8.9 | 8.7 |
| R.3. Ordinary return on equity/ (before taxes) (b) | 8.0 | 6.7 | 5.7 | 8.4 | 7.5 | 6.4 | 4.8 |
| R.4. Debt ratio | 6.9 | 8.1 | 9.7 | 7.2 | 8.2 | 10.0 | 10.6 |
| R.5. Leverage (R.1 – R.2) (b) | 42.6 | 38.9 | 39.3 | 42.2 | 37.2 | 37.3 | 38.4 |
| | -0.8 | 0.9 | 2.7 | -0.9 | 0.6 | 2.5 | 3.9 |

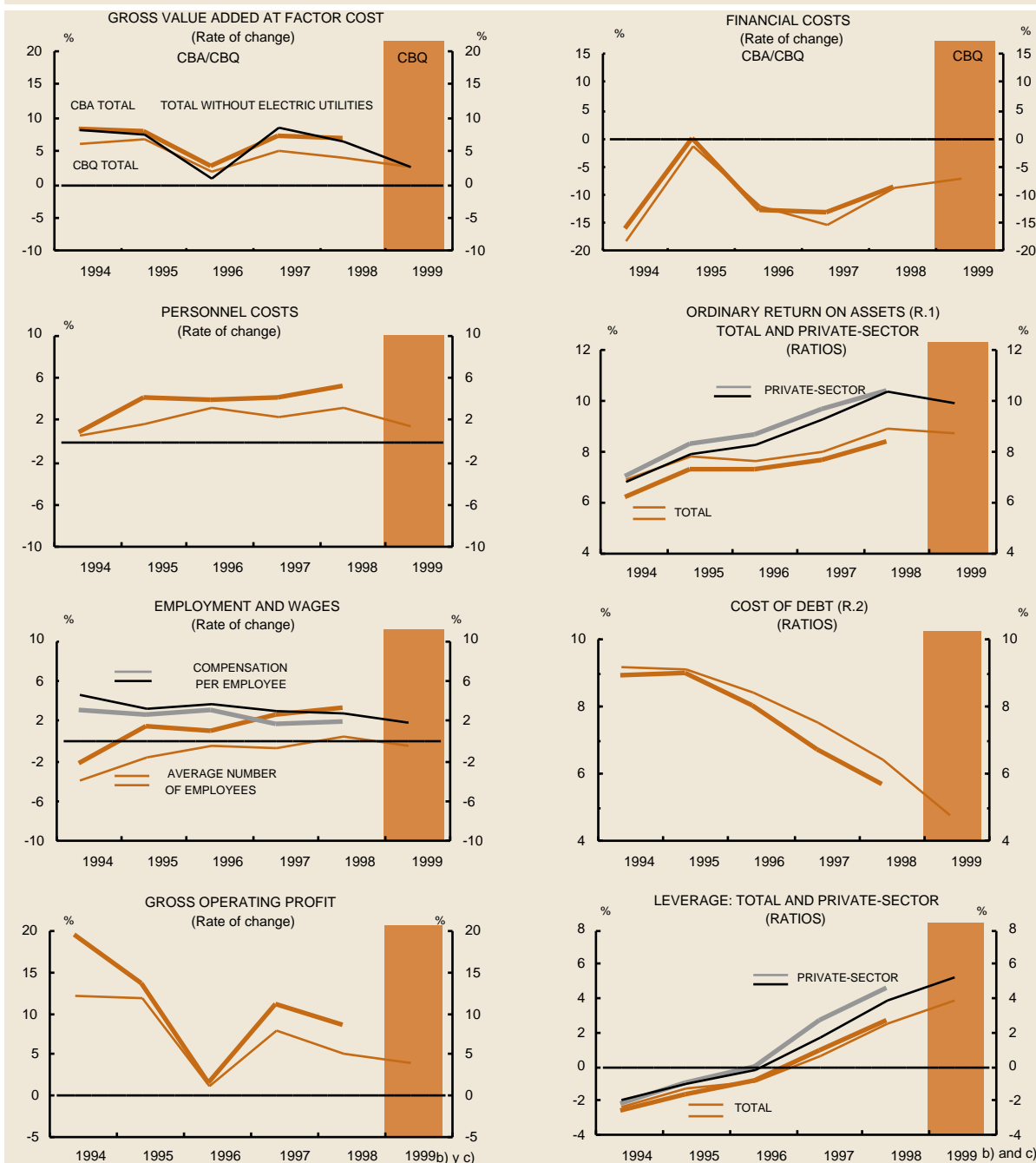
Source: Banco de España.

(a) All the data in this column have been calculated as the arithmetic mean of the quarterly data.

(b) Ratio calculated in accordance with the new methodology explained in this article and in the annual monograph of the Central Balance Sheet Office.

CHART 1

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



| | | NUMBER OF FIRMS | | | | | |
|-----|--|--|-------|-------|-------|-------|------|
| CBA | | 7,838 | 8,111 | 8,019 | 7,953 | 6,342 | |
| CBQ | | 615 | 722 | 727 | 725 | 832 | 784 |
| | | % OF GDP OF NON-FINANCIAL CORPORATION SECTOR | | | | | |
| CBA | | 34.6 | 36.9 | 38.6 | 38.3 | 35.4 | |
| CBQ | | 18.4 | 21.5 | 20.9 | 20.7 | 19.9 | 16.5 |

| | | NUMBER OF FIRMS | | | | | |
|-----|--|--|-------|-------|-------|-------|------|
| CBA | | 7,838 | 8,111 | 8,019 | 7,953 | 6,342 | |
| CBQ | | 615 | 722 | 727 | 725 | 832 | 784 |
| | | % OF GDP OF NON-FINANCIAL CORPORATION SECTOR | | | | | |
| CBA | | 34.6 | 36.9 | 38.6 | 38.3 | 35.4 | |
| CBQ | | 18.4 | 21.5 | 20.9 | 20.7 | 19.9 | 16.5 |

Source: Banco de España.

(a) Information available to March 15th 2000 (CBA and CBQ).

(b) The 1994, 1995, 1996, 1997 and 1998 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) The 1999 data are the average of the four quarters of 1999 in relation to the same period in 1998.

TABLE 2.a

Value added, employees, personnel costs and average compensation
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 | | | | Average compensation | | | |
|--|----------------------------------|------------|--------------|--------------|--------------------------------|------------|--------------|--------------|-----------------|------------|--------------|--------------|----------------------|------------|--------------|--------------|
| | CBA | | CBQ | | CBA | | CBQ | | CBA | | CBQ | | CBA | | CBQ | |
| | 1997 | 1998 | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) | 1997 | 1998 | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) | 1997 | 1998 | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) | 1997 | 1998 | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) |
| Total | 7.1 | 6.7 | 4.2 | 2.8 | 2.5 | 3.2 | 0.5 | -0.4 | 4.1 | 5.1 | 3.2 | 1.4 | 1.5 | 1.9 | 2.7 | 1.8 |
| Total, except electricity sector | 9.1 | 7.9 | 6.3 | 2.6 | 2.7 | 3.6 | 1.2 | 0.3 | 4.4 | 5.6 | 3.9 | 2.3 | 1.6 | 1.9 | 2.8 | 2.0 |
| SIZE: | | | | | | | | | | | | | | | | |
| Small | 8.3 | 8.3 | — | — | 4.0 | 4.3 | — | — | 6.5 | 7.3 | — | — | 2.4 | 2.9 | — | — |
| Medium | 10.3 | 10.2 | 8.6 | 6.0 | 3.8 | 5.7 | 3.4 | 5.3 | 7.1 | 8.8 | 6.9 | 7.0 | 3.1 | 2.9 | 3.3 | 1.6 |
| Large | 6.6 | 6.2 | 4.0 | 2.5 | 2.2 | 2.7 | 0.2 | -1.0 | 3.5 | 4.5 | 2.9 | 0.9 | 1.2 | 1.7 | 2.7 | 1.8 |
| OWNERSHIP STATUS: | | | | | | | | | | | | | | | | |
| Public-sector | -0.9 | 5.2 | 4.5 | 5.7 | -2.8 | -1.3 | 0.2 | 0.7 | -0.2 | 2.0 | 2.9 | 3.9 | 2.6 | 3.4 | 2.7 | 3.2 |
| Private-sector | 9.2 | 6.9 | 4.1 | 2.4 | 4.0 | 4.3 | 0.6 | -0.7 | 5.3 | 5.8 | 3.3 | 0.6 | 1.2 | 1.5 | 2.7 | 1.3 |
| BREAKDOWN OF INDUSTRIES BEST REPRESENTED IN THE SAMPLE: | | | | | | | | | | | | | | | | |
| Manufacturing | 11.0 | 6.7 | 6.9 | 0.5 | 1.0 | 2.2 | 1.6 | -0.8 | 4.0 | 5.6 | 4.9 | 1.8 | 3.0 | 3.3 | 3.3 | 2.7 |
| Production and distribution of electricity, gas, and water | -4.3 | 0.1 | -3.2 | 3.6 | -1.5 | -5.9 | -6.1 | -7.4 | -0.4 | -1.9 | -2.4 | -5.8 | 1.1 | 4.3 | 3.9 | 1.8 |
| Distributive trade | 9.5 | 14.2 | 12.7 | 8.7 | 3.1 | 8.2 | 3.5 | 6.3 | 4.9 | 9.4 | 5.9 | 8.1 | 1.8 | 1.1 | 2.3 | 1.7 |
| Transport, storage and communications | 8.5 | 5.6 | 4.0 | 1.2 | -1.1 | -0.5 | -1.6 | -5.5 | 2.1 | 3.2 | 1.3 | -1.3 | 3.2 | 3.7 | 3.0 | 4.6 |

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
Breakdown according to changes in staff levels

| | Total CBQ firms 1999 Q1-Q4 | Firms increasing (or not changing) staff levels | Firms reducing staff levels |
|---|----------------------------|---|-----------------------------|
| Number of firms | 784 | 466 | 318 |
| Personnel costs | | | |
| Initial situation 1998 Q1-Q4 (EUR millions) | 18,429.8 | 7,945.2 | 10,484.6 |
| Rate 99 Q1-Q4 / 98 Q1-Q4 | 1.4 | 9.5 | -4.8 |
| Average compensation | | | |
| Initial situation 1998 Q1-Q4 (EUR) | 34,866.5 | 31,403.9 | 37,579.2 |
| Rate 99 Q1-Q4 / 98 Q1-Q4 | 1.8 | 1.2 | 3.8 |
| Number of employees | | | |
| Initial situation 1998 Q1-Q4 (thousands) | 532 | 253 | 279 |
| Rate 99 Q1-Q4 / 98 Q1-Q4 | -0.4 | 8.3 | -8.3 |
| Permanent | | | |
| Initial situation 1998 Q1-Q4 (thousands) | 466 | 203 | 263 |
| Rate 99 Q1-Q4 / 98 Q1-Q4 | -1.2 | 7.0 | -7.5 |
| Non-permanent | | | |
| Initial situation 1998 Q1-Q4 (thousands) | 66 | 51 | 15 |
| Rate 99 Q1-Q4 / 98 Q1-Q4 | 5.0 | 13.2 | -21.6 |

Source: Banco de España.

and the lower prices of finished goods, moderating the impact of both effects on operating margins or surpluses which, as in the two previous years, continued to outgrow personnel costs. As has been reported in previous editions of this article, the growth in recent years has had a clear bearing on the employment figures of the sample firms, which have shown net increases since 1995 in the CBA and during 1998 in the CBQ. The growth in staffing levels during 1999 in most of the firms of the CBQ sample is not reflected in the total rate, which posted a decline of 0.4 %, although it is apparent in that of non-permanent employees, which grew by 5 %. The performance of total employment in the sample highlights the persistence of isolated processes of restructuring in certain large corporations belonging to sectors undergoing liberalisation (communications and electricity), as discussed in preceding articles. Further, the moderation of average compensation during 1999 is evidently influenced by the lower cost of newly hired workers. That said, the quarterly series reveals a rise in average compensation in Q4 that may reflect the course of con-

TABLE 3

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

| | CBA | | CBQ | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 1997 | 1998 | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) |
| Total firms | 7,953 | 6,342 | 832 | 784 |
| Firms reporting source/destination | 7,953 | 6,342 | 779 | 735 |
| | % | % | % | % |
| Net purchases | 100.0 | 100.0 | 100.0 | 100.0 |
| SOURCE OF PURCHASES: | | | | |
| Spain | 66.2 | 65.4 | 68.4 | 74.5 |
| Total abroad | 33.8 | 34.6 | 31.6 | 25.5 |
| <i>EU countries</i> | 22.1 | 23.9 | 23.6 | 16.8 |
| <i>Third countries</i> | 11.7 | 10.8 | 8.0 | 8.7 |
| Net turnover | 100.0 | 100.0 | 100.0 | 100.0 |
| SALES DESTINATIONS: | | | | |
| Spain | 80.3 | 79.7 | 85.7 | 88.4 |
| Total abroad | 19.7 | 20.3 | 14.3 | 11.6 |
| <i>EU countries</i> | 14.6 | 15.2 | 10.8 | 7.8 |
| <i>Third countries</i> | 5.1 | 5.1 | 3.5 | 3.7 |

Source: Banco de España.

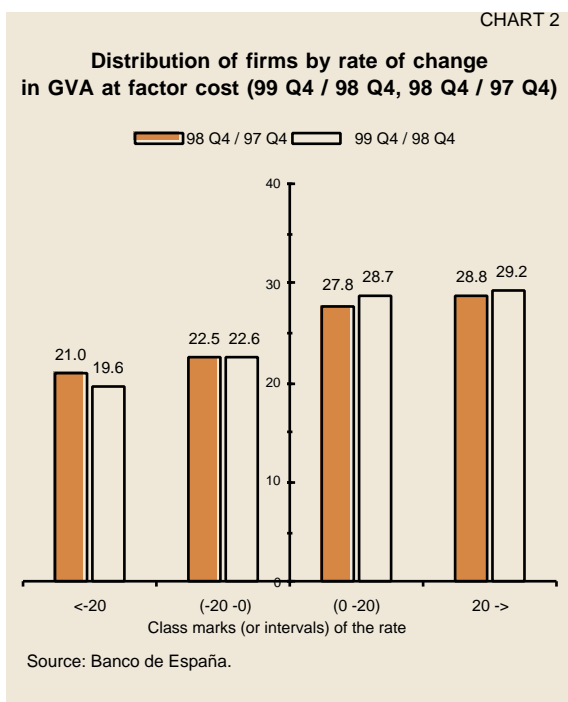
(a) All the data in this column have been calculated as the arithmetic mean of the relevant quarters, including the figure for the total number of firms.

sumer prices and which should be analysed in the light of the data arising in the coming quarters.

In 1999 as a whole, the expansion of activity and the containment of personnel costs led to an increase in the operating surplus or margin of the firms of the sample, albeit at a lesser rate than the previous year. Financial costs continued to fall gradually (they declined by 6.9 %) which, as has habitually been the case in recent years, allowed the profitability levels secured in 1998 to be maintained and contributed to the favourable trend of funds generated. Lastly, the final section of the profit and loss account highlights a considerable decline in «other net revenue» (capital gains less capital losses and extraordinary revenue less extraordinary costs), and growth in depreciation and provisions. The negative trend of both headings compared with the previous quarter is due to extraordinary costs being incurred and to fresh provisioning to cover restructuring and modernisation costs, which affect few firms but ones that are nevertheless large and in sectors undergoing liberali-

sation. In any event, and despite this increase in extraordinary expenditure and the rise in provisions, net profits held at a slightly higher level than in 1998 (representing approximately 20 % of GVA).

In sum, the close of 1999 saw an acceleration in the growth rate of the activity of CBQ firms, which had been losing momentum during the first three quarters of the year. This recovery has essentially been due to the performance of manufacturing industry and the distributive sector, which accurately reflects exports and domestic demand, as evidenced by other indicators. The firming of this course largely depends on how productive factor prices trend and on the continuing moderation of wages and of operating margins. Profitability ratios remain at high levels, as does the level of leverage (return on assets less cost of borrowing). Foreseeably, however, given the course of interest rates, the fall in financial costs is tending to level off following the uninterrupted decline since 1996 Q1.



2. ACTIVITY. NOMINAL GROSS VALUE ADDED

The information obtained by the CBQ survey on 1999 confirms that corporate activity continued to grow, albeit at a more moderate rate than in 1998 (the nominal growth rate of GVA for 1999 was 2.8 %, compared with 4.2 % for 1998; see Table 1 and Chart 1). The 1999 figure has been affected by several opposing factors. First, the sound performance of output earmarked for domestic demand, which ran at a sustained growth rate throughout the year and acted as the driving force of production in the opening quarters of the year, when the effects of the international crisis were being felt. Next, the pick-up in exports, which was particularly marked in Q4 when turnover and value added were notably buoyant in manufacturing companies (their GVA grew by 5.8 % in nominal terms in Q4; see Table 2.a and Box 1). And finally, the decline in selling prices for certain productive sectors (the prices applied in those sectors being opened up to the market were reduced) set against the increase in the price of oil and other imported inputs had a contractionary effect on GVA. Illustrating this was the nominal increase in purchases in 1999, which ran at 17.2 % (33.5 % in Q4) compared with 1 % in 1998. If the firms in the oil refining sector were stripped out of the sample, the 1999 rates would fall drastically (by eight percentage points in terms of the annual rate and twenty points in that of the final quarter). The increases in inputs have come about against a background of greater

integration with foreign markets and of liberalisation, meaning that they have not been reflected in full in the turnover of these companies: in terms of output, GVA fell by more than two points over the whole of the year. Table 3 provides some structural information on these variables. Sector by sector, the distributive trade grew vigorously and outpaced its counterparts, albeit with a lower rate than in 1998 (8.7 % in 1999 compared with 12.7 % a year earlier). As to the production and distribution of electricity, gas and water, there was a surge in the demand for electric power in 1999 (6.5 %) (3), providing further evidence of the economy's buoyancy. Value added in this sector duly increased (3.6 %), despite the contraction arising from the cuts in tariffs and lower rainfall for 1999 as a whole. Finally, the transport and communications sector grew slightly, by 1.2 % in nominal terms, as a result of expanding activity (in real terms), although this was not evident in the associated nominal figures. During 1999 the sector progressively opened up to competition, with new operators emerging both in fixed and mobile telephony, which had a bearing on prices.

In terms of size, the activity of medium-sized firms – traditionally the most flexible and dynamic companies – was seen to increase most forcefully. In addition, Chart 2, which depicts the firms on the basis of their GVA growth rate without considering their size and weight in the sample, shows the generalised expansion of business in 1999 Q4. A majority of firms continue to expand their productive activity (GVA increased in 57.9 % of firms in Q4), the percentage being slightly higher than in the same quarter a year earlier. Moreover, this same increase is apparent in the proportion of firms whose GVA grew by more than 20 %, thereby confirming the momentum the recovery in productive activity is gathering.

3. EMPLOYMENT AND PERSONNEL COSTS

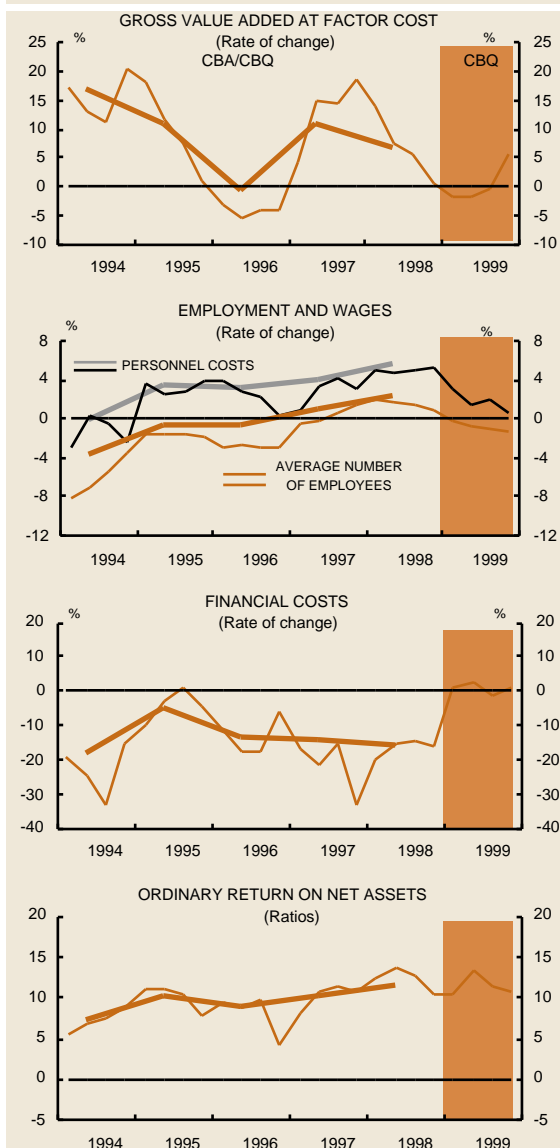
A highlight of the available 1999 data is the firming of the employment creation process. This is the case for most of the firms making up the sample analysed (see Tables 2.b and 4), and furthers what was already seen in preceding quarters. Only certain short-term economic factors have been able to cloud employment creation, to the point of turning the rate of change negative for the sample as a whole even though, as indicated, growth was positive

(3) According to data from Red Eléctrica de España.

Analysis of the manufacturing sector

Owing to its significance, representativeness and explanatory power, the manufacturing sector merits a detailed analysis. The nominal growth rate of GVA in this sector was 0.5 %, notably down on that of the previous year (6.9 %). This change over the course of the year is the outcome, however, of differing behaviour from the first to the second half of the year. In the first six months foreign activity was clearly affected by the international crisis. This affected some trading partners that were buyers of Spanish domestic manufactures. As the year unfolded, and especially in 1999 Q4, the pick-up in exports became clearly apparent, in parallel with the regained stability in the international economy. Thus, the Q4 growth rate for GVA was 5.8 %. In addition, the strong uptrend throughout the year in international crude prices and the rise in the euro price of other imports affected manufacturing industry and, in particular, the oil refining sector. Regarding this latter sector, the 18.4 % reduction in its GVA in 1999 bore most substantially on the performance of the overall manufacturing sector. Among the remaining sub-sectors there was an increase in business at firms engaged in food, beverages and tobacco and in the manufacture of transport equipment (the latter has benefited greatly from the unremitting growth of new passenger car registrations). The staff restructuring that has affected certain large companies in different sub-sectors and the adverse performance of activity in the opening quarters of the year impacted manufacturing companies as a whole. In aggregate terms, these saw a slight reduction in employment in 1999. Average compensation, for its part, grew by 2.7 %, somewhat down on the previous year's figure of 3.3 %, and practically the same as the 1999 inflation rate. Against a background of liberalisation, internationalisation and global competition, in which price increases in inputs cannot be passed through to finished products, wage settlements should advisably enable a suitable balance to be maintained in the structure of productive costs and in the operating surplus. Indeed, the growth rate of the operating surplus was negative of the order of -0.6 % in 1999, compared with 1998 growth of 9.8 %. At the same time, firms' fund-generating capacity was affected (funds generated grew by 1.9 % in 1999). Nonetheless, the course of these indicators in Q4, when highly positive growth rates were posted, means the immediate future can be viewed with optimism. Also as a result of the greater moderation in productive activity, profitability ratios were somewhat down on the previous years, although they held at high values. Thus, the ordinary return on net assets for manufacturing industry as a whole was 11.5 % in 1999, against 12.8 % for 1998. The reduction in financial costs entailed a decline in the ratio calculating the cost of borrowing which, for the period under study, stood at 4.8 %, one point down on the related ratio a year earlier. This reduction, registered across the board for all sub-sectors, led once again to highly positive values for the leverage ratio, which rose to 6.8 %, marginally up on the aggregate manufacturing sector figure (6.6 %) for the previous year. In sum, the manufacturing sector, having seen business activity clearly slow in the opening quarters of the year, appears to have emerged from this situation. It is once again exhibiting great buoyancy, driven by the pick-up in exports. This will no doubt be conducive to boosting surpluses and returns and, in turn, to resuming a path of employment creation.

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



| | | NUMBER OF FIRMS | | | | |
|-----|--|---------------------------------------|-------|-------|-------|-------|
| CBA | | 3,127 | 3,258 | 3,225 | 3,309 | 2,617 |
| CBQ | | 3,127 | 3,258 | 3,225 | 3,309 | 2,617 |
| | | % OF GDP OF TOTAL MANUFACTURING FIRMS | | | | |
| CBA | | 37.2 | 39.3 | 38.2 | 38.5 | 31.7 |
| CBQ | | 37.2 | 39.3 | 38.2 | 38.5 | 31.7 |

Source: Banco de España.

(a) Information available to March 15th 2000 (CBA and CBQ). The CBQ data are growth rates on the same quarter of the previous year.

TABLE 4

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

| | CBA | | | cbq | | | |
|---|--------------|--------------|--------------|-----------------|-----------------|-----------------|--------------|
| | 1996 | 1997 | 1998 | 97 Q1-Q4 (a) | 98 Q1-Q4 (a) | 99 Q1-Q4 (a) | 99 Q4 |
| Number of firms | 8,019 | 7,953 | 6,342 | 725 | 832 | 784 | 541 |
| Personnel costs | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Falling | 26.4 | 24.1 | 21.0 | 31.6 | 27.7 | 30.0 | 30.0 |
| Constant or rising | 73.6 | 75.9 | 79.0 | 68.4 | 72.3 | 70.0 | 70.0 |
| Average number of employees | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Falling | 32.8 | 28.4 | 25.4 | 50.4 | 40.1 | 40.0 | 37.3 |
| Constant or rising | 67.2 | 71.6 | 74.6 | 49.6 | 59.9 | 60.0 | 62.7 |
| Average compensation (relative to inflation) (b) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Lower growth | 48.4 | 44.0 | 40.5 | 41.3 | 42.1 | 48.7 | 47.1 |
| Higher or same growth | 51.6 | 56.0 | 59.5 | 58.7 | 57.9 | 51.3 | 52.9 |

Source: Banco de España.

(a) Arithmetic mean of the four quarters.

(b) Twelve-month percentage change in the CPI.

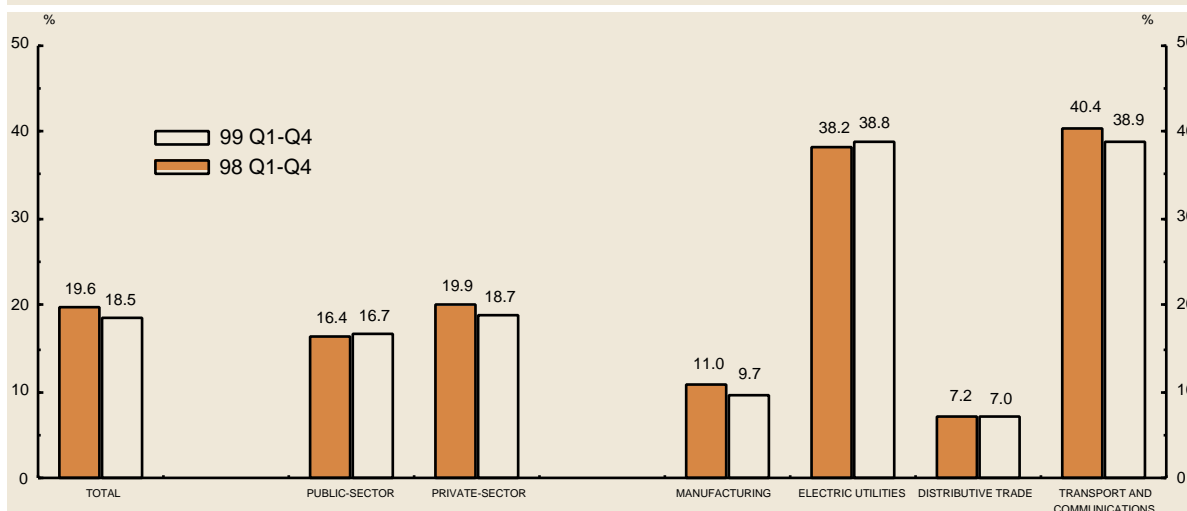
in most of the reporting firms. These factors were, namely: the impact of the crisis besetting some international economies on the aggregate of manufacturing firms; the subsequent deterioration in foreign trade in the first half of the year; and the existence of highly specific labour restructuring processes in sectors undergoing reorganisation and liberalisation. Thus, shifting the analysis to the sectoral level (which is more significant in this case for the reasons set out), different performances are apparent. The distributive trade, in keeping with what was stated in the section on business activity, showed most considerable employment-creation capacity throughout 1999, with employment growth running at a rate of 6.3 %, up even on 1998. Notable in the services sector was the highly positive figure throughout 1999 for advisory and consultancy firms, along with other corporate services companies, whose business increased most forcefully in response to the demand arising from the Y2K effect. Manufacturing industry, however, sustained marginally negative figures over the course of 1999, as a result of the restructuring processes affecting some companies in certain sub-sectors (food, beverages and tobacco, oil refining and shipbuilding) and of the slackness of business activity in the opening quarters of the year. Nonetheless, once the effects of these particular processes disappear, expectations are very sound for the coming quarters as regards business forecasts for the sector. Transport and communications

companies along with firms engaged in the production and distribution of water, gas and electricity were notable for their negative contribution to the trend of employment. Both sectors are undergoing liberalisation and being opened up to competition, and the major companies are restructuring with, in most cases, substantial staffing adjustments. The weight of these firms within the sample explains why the overall figure does not reflect the trend seen in most of the companies. Table 2.b provides an analysis segregating firms creating jobs from those destroying them, and Table 4 shows the generalised nature of the recovery in employment. The firms creating employment (60 % of the sample in 1999) did so at a high rate in the period considered (when their employment rose by 8.3 %). If the final quarter of the year is taken in isolation, the percentage of firms creating or maintaining employment rises to 62.7 %, which gives an idea of how the phenomenon is spreading.

Personnel costs rose moderately in 1999, at a rate of 1.4 %, as against 3.2 % in 1998. This reduction is explained by the employment developments described above and by the containment during the year of average compensation, due to the lower cost of newly hired workers. Moreover, the staff adjustments made by certain major firms in the sample did not affect personnel costs, as provisions had already been set aside to cover the full costs of com-

CHART 3

Operating margins (a)



Source: Banco de España.

(a) Gross operating profit/net amount of turnover and other operating income.

pensation (4). Average compensation (approximated by personnel costs per worker) was fairly restrained, growing by 1.8 % in 1999, which was significantly below the 2.7 % rate of growth of the previous year. The explanation for this moderation is to be found in the difference between the wages paid to newly hired workers and to existing staff, as can be seen in Table 2.b, discussed above. A sectoral analysis (Table 2.1) shows that those sectors which clearly generated employment, such as the distributive trade, had rates of growth of average compensation below those of the rest of the aggregate. This was also the case in consultancy and computer firms, as a consequence of the strong generation of employment seen therein. Table 4 provides qualitative data on the extent of this phenomenon. More than half of the firms still recorded above-inflation increases in average compensation. Considering also that the firms which reduced their staff increased their average compensation by 3.8 % (a rate which, as mentioned above, does not include a large part of the compensation paid during the year), and that the final quarter of 1999 showed, for the aggregate of all the firms, a clear upturn in this growth rate, this variable will need to be closely monitored in forthcoming quarters. If the capacity to create employment is to be pre-

(4) The quarterly data only extend to "personnel costs", which do not include the application of these provisions. When the CBA data for this period become available in November 2000, these costs will be included as part of compensation of wage-earners, giving a better indication of average total staff costs.

served in a liberalised and globalised environment, then firms' competitiveness must not deteriorate.

4. PROFITS, MARGINS AND RATES OF RETURN (5)

The expansion of productive activity and the containment of personnel costs in 1999 led to growth in gross operating profits during the year, although at a slower pace than in 1998 (3.9 % in 1999, as against 5.1 % in 1998). This more moderate performance is explained by the effect of the international crisis on external activity in the first half of the year, along with the reductions in selling prices in certain sectors, and the increase in oil prices. In any event, the gross operating surplus still grew at a higher rate than value added. That said, it should not be forgotten that the gross surplus (gross operating profit), expressed as a percentage of turnover (approximation to the concept of the operating margin), fell sharply in the period considered. In a more liberalised environment, it has not been possible for non-financial firms to

(5) The calculation of the profitability ratios was changed with the publication of the annual monograph with the results for 1998 and of the article which analysed the data to the third quarter of 1999 in the January 2000 *Economic bulletin*. Summary indicators of the capacity to generate ordinary operating profits are obtained from the profitability ratios so calculated. At the same time, the new profitability ratios use an approximation of current prices, rather than historical prices, as the latter are affected by balance sheet restatement operations.

TABLE 5

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

| | Gross operating profit | | | | Funds generated | | | | Ordinary return on assets (R.1) (a) | | | | Leverage (a) | | | |
|--|------------------------|-------------|-----------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------------------------------|------------|-----------------|-----------------|--------------|------------|-----------------|-----------------|
| | CBA | | CBQ | | CBA | | CBQ | | CBA | | CBQ | | CBA | | CBQ | |
| | 1997 | 1998 | 98 Q1-Q4 (b) | 99 Q1-Q4 (b) | 1997 | 1998 | 98 Q1-Q4 (b) | 99 Q1-Q4 (b) | 1997 | 1998 | 98 Q1-Q4 (b) | 99 Q1-Q4 (b) | 1997 | 1998 | 98 Q1-Q4 (b) | 99 Q1-Q4 (b) |
| Total | 11.0 | 8.6 | 5.1 | 3.9 | 16.8 | 10.0 | 8.6 | 8.0 | 7.6 | 8.4 | 8.9 | 8.7 | 0.9 | 2.7 | 2.5 | 3.9 |
| Total, except electricity sector | 16.8 | 11.0 | 9.0 | 2.9 | 22.0 | 11.3 | 12.7 | 9.1 | 7.9 | 8.7 | 9.3 | 8.9 | 1.0 | 2.8 | 2.7 | 4.1 |
| SIZE: | | | | | | | | | | | | | | | | |
| Small | 11.3 | 10.1 | — | — | 18.6 | 14.8 | — | — | 10.4 | 10.4 | — | — | 1.6 | 3.3 | — | — |
| Medium | 15.7 | 12.2 | 11.2 | 4.8 | 18.0 | 13.1 | 12.8 | 14.1 | 10.1 | 11.2 | 10.4 | 10.6 | 2.9 | 5.1 | 4.5 | 6.2 |
| Large | 10.4 | 8.1 | 4.9 | 3.8 | 16.6 | 9.6 | 8.4 | 7.9 | 7.3 | 8.1 | 8.8 | 8.6 | 0.7 | 2.5 | 2.4 | 3.8 |
| STATUS: | | | | | | | | | | | | | | | | |
| Public-sector | -2.0 | 18.9 | 8.4 | 11.5 | 6.6 | 10.8 | 33.8 | 20.4 | 3.3 | 0.9 | 3.1 | 3.6 | -2.9 | -4.6 | -3.2 | -1.2 |
| Private-sector | 13.9 | 8.0 | 4.8 | 3.7 | 18.6 | 10.0 | 6.8 | 7.0 | 9.6 | 10.4 | 10.4 | 9.9 | 2.6 | 4.6 | 3.9 | 5.2 |
| BREAKDOWN OF INDUSTRIES BEST REPRESENTED IN THE SAMPLE: | | | | | | | | | | | | | | | | |
| Manufacturing | 22.0 | 8.3 | 9.8 | -0.6 | 24.7 | 9.1 | 8.8 | 1.9 | 10.1 | 11.5 | 12.3 | 11.5 | 3.2 | 5.7 | 6.6 | 6.8 |
| Production and distribution of electricity, gas, and water | -5.5 | 0.8 | -3.6 | 6.6 | 0.5 | 5.2 | -1.0 | 6.9 | 6.8 | 7.6 | 8.2 | 8.4 | 0.7 | 2.4 | 2.2 | 3.6 |
| Distributive trade | 17.1 | 21.3 | 22.5 | 9.9 | 18.6 | 19.5 | 24.1 | 11.0 | 10.5 | 12.3 | 10.8 | 11.4 | 3.6 | 6.8 | 4.7 | 6.6 |
| Transport, storage and communications | 14.7 | 7.7 | 6.0 | 2.9 | 21.4 | 10.6 | 14.8 | 7.1 | 6.1 | 7.1 | 8.0 | 6.9 | -1.3 | 0.8 | 0.9 | 1.9 |

Source: Banco de España.

(a) Ratio calculated in accordance with the new methodology explained in this article and in the annual monograph of the Central Balance Sheet Office

(b) The data in these columns have been calculated as the arithmetic mean of the quarterly data.

pass the increase in the prices of productive factors through to their customers. Consequently, the margin has narrowed by somewhat more than one percentage point (the gross operating profit as a percentage of turnover fell from 19.6 % in 1998 to 18.5 % in 1999). Chart 3 shows how this reduction affected the various kinds of firms.

Financial costs continued to fall in 1999, at a rate of -6.9 %. This item has been progressively declining in importance in the profit and loss account (currently representing 2.7 % of total output, half its 1995 level), but it has played a significant part (against the above-mentioned backdrop of restrained growth in the surplus and even its decline in weight in structural terms) in

maintaining the firms' capacity to generate funds and their profitability ratios. The factors explaining the fall in financial costs in 1999 with respect to 1998, on CBQ data, are as follows:

| | |
|---|---------|
| <i>Change in financial costs</i> | -6.9 % |
| <i>A Interest on borrowed funds (1+2)</i> | -7.6 % |
| 1. Due to the cost (interest rate) | -30.8 % |
| 2. Due to the amount of Interest-bearing debt | +23.2 % |
| <i>B. Commissions and cash discounts</i> | +0.7 % |

These figures confirm that the reductions in interest rates have continued to be passed

TABLE 6

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

| | CBQ | | | |
|------------------------|--|--------------|------------------------------------|--------------|
| | Ordinary return on net assets (R.1) | | Ordinary return on equity (R.3) | |
| | 98 Q4 | 99 Q4 | 98 Q4 | 99 Q4 |
| Total firms | 100.0 | 100.0 | 100.0 | 100.0 |
| R 0 % | 27.1 | 24.4 | 30.7 | 26.1 |
| 0 % < R 5 % | 14.3 | 14.4 | 11.7 | 12.4 |
| 5 % < R 10 % | 15.5 | 15.9 | 10.7 | 12.4 |
| 10 % < R 15 % | 12.1 | 12.0 | 10.4 | 11.1 |
| 15 % < R | 31.0 | 33.3 | 36.6 | 38.1 |
| Number of firms | 796 | 541 | 796 | 541 |
| MEMORANDUM ITEM: | | | | |
| Average return | 8.8 | 8.2 | 9.8 | 9.9 |

Source: Banco de España.

through to corporate costs, at the same time as firms have been increasingly resorting to external funds to finance new investment, capitalising on the favourable conditions offered in the market. This investment includes the moves made by large Spanish firms to penetrate foreign markets, basically in strategic sectors in South America (telecommunications, gas, electricity, etc.), which demonstrate the ability of Spanish firms to rise to the challenge of globalisation.

The increase in the operating surplus (3.9 % in 1999) and the reduction in financial costs caused funds generated to grow sharply, at a rate of 8 %, practically the same as in 1998 (see Table 5). As regards sectors, once again the strong increases in the distributive trade, with growth of 11 %, and in firms providing corporate services (advisory, consultancy and computing firms) were notable.

The strong increase in extraordinary costs affected the final net profit (19.8 % of GVA). These extraordinary costs are attributable to the need for certain large firms carrying out major reorganisations to set aside provisions for the costs they will shortly have to incur to modernise their productive equipment. The new technologies hold out great business opportunities for firms, but they also pose considerable organisational and productive challenges, as equipment must be replaced more frequently and employees need to be more highly trained.

The ordinary rates of return (both on net assets and on equity) held at very high levels. In 1999, the ordinary return on net assets was 8.7 %, practically the same as in 1998. At the same time, the cost of borrowing, as made clear by the comments made when analysing financial costs, fell significantly; from 6.4 % in 1998 to a new historic low of 4.8 %. The conjunction of these figures gave rise to a strongly positive leverage (+3.9), which is unprecedented in the series studied by the Central Balance Sheet Office.

Finally, Table 6 enables conclusions to be drawn regarding the distribution of firms by profitability, irrespective of their size and ownership status. The most significant development observed is a slight increase in 1999 Q4 in the percentage of firms with positive ordinary returns on net assets (75.6 %, against 72.9 % in 1998). Moreover, a significant part of this increase occurred in the group of firms with the highest returns. Thus, while in 1998 Q4 31 % of the firms analysed earned returns of more than 15 %, in the same quarter of 1999 the percentage was 33.3 %. This is certainly the best indicator of the healthy position of Spanish non-financial firms: practically one third of the firms generated returns four times as high as those on financial assets; and two thirds of the firms posted positive ordinary returns.

In short, the firms ended the year with expectations of significant growth and expansion in all spheres (activity, employment and prof-

itability). They displayed an expansionary profile over the course of the year, once the uncertainty stemming from the international instability and its effects on foreign trade had been dispelled. The healthy outlook for the year 2000 is clouded, however, by the rise in international oil

prices. To the extent that its effects are controlled and corrected without damage to corporate competitiveness, the firms will be able to face the future with prospects of sustained buoyancy, rising investment and employment creation.