

---

# Results of non-financial corporations in 2002 Q1 (1)

## 1. INTRODUCTION

The CBQ data for 2002 Q1 show a path for the productive activity of the sample corporations in line with the slowdown during 2001 (see Table 1 and Chart 1). Following a second half marked by the uncertainty arising from the attacks of 11th September, the Argentine crisis and the US recession, the corporations began 2002 amid a subdued climate. Despite this, their gross value added rose by 2.2% in nominal terms during 2002 Q1, relative to the same period a year earlier. This growth is basically explained by the positive performance of wholesale and retail trade (in line with that of domestic consumption, which has proven to be the most resilient aggregate during the slowdown) and of transport and communications, while industrial corporations continued to suffer the effects of the slowdown to a greater extent, primarily as a consequence of the slackness of foreign trade and the deterioration in investment in capital goods.

The conclusions drawn from the performance of employment are similar to those based on productive activity. Employment continued to increase in aggregate terms during Q1 (at a rate of 0.6%), although somewhat more slowly than a year earlier (1.3%), with the rise in employment in wholesale and retail trade playing a fundamental role in this performance. Employment in this sector has remained on a positive trend in recent quarters, buoyed by private consumption. Notable at the other extreme, along with the sectors in which employment has been destroyed as a result of reorganisation and opening up to competition (electricity and, to a lesser extent, transport and communications), was industry, which recorded negative growth rates for the third consecutive quarter, in line with the contraction of its activity. Meanwhile, average compensation increased by 2.9%, a significant decline from the 4% rate recorded in 2001 Q1 (3.7% in the year as a whole). This would seem to show that the inflationary surge which pushed up wage settlements in 2001 has given way to a situation of greater moderation, which may help to improve the corporations' competitiveness.

Gross operating profit slowed to record a slight increase in 2002 Q1 (1.3%). This did not affect the profitability of the sample corporations however, because the falls in interest rates in the last twelve months reduced financial costs,

---

(1) This article is based on the 704 corporations that had on average responded voluntarily to the CBQ survey as at 14 June 2002. This sample represents 14% of the total activity of the sector non-financial corporations (as measured by the gross value added at basic prices of this sector).

TABLE 1

**Profit and loss account. Year-on-year performance**  
**Growth rates of the same corporations on the same period a year earlier**

Databases	CBA		CBQ		
	1999	2000	01 Q1-Q4/00 Q1-Q4 (a)	01 Q1/00 Q1	02 Q1/01Q1
Number of corporations / total national coverage	8249/31.6%	7750/28.3%	829/15.0%	895 / 16.0%	704 / 14.0%
1. VALUE OF OUTPUT (including subsidies)	9.2	16.0	1.5	7.0	0.6
Of which:					
1. Net amount of turnover and other operating income	10.7	17.4	2.6	8.2	2.7
2. INPUTS (including taxes)	11.5	20.1	0.2	8.9	-0.4
Of which:					
1. Net purchases	12.9	23.8	-2.3	7.5	-0.7
2. Other operating costs	9.2	13.8	4.3	9.7	0.1
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	4.7	7.6	3.8	3.9	2.2
3. Personnel costs	6.4	7.3	4.4	5.4	3.5
S.2. GROSS OPERATING PROFIT [S.1 - 3]	2.9	7.8	3.4	2.8	1.3
4. Financial revenue	5.2	26.6	13.8	33.5	-5.4
5. Financial costs	-2.2	25.8	14.1	35.0	-6.9
6. Corporate income tax	-2.6	-3.0	7.5	6.9	-13.8
S.3. FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 6]	2.2	4.8	3.7	-1.2	4.8
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	12.3	3.5	6.4	44.8	-3.2
7.1. Depreciation and operating provisions	9.0	6.1	0.4	-2.8	2.1
7.2. Capital losses and extraordinary expenses	5.3	-6.0	-13.6	15.5	143.9
7.3. Capital gains and extraordinary revenue	-0.2	-6.6	-30.4	-54.4	241.2
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	0.1	9.7	6.6	2.4	2.1
MEMORANDUM ITEM:					
TOTAL NET PROFIT [S.3 - 7]	-4.1	17.6	0.0	-34.1	14.5
PROFIT RATIOS					
R.1 Ordinary return on net assets (before taxes)	7.5	7.5	8.4	7.1	7.5
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.0	5.0	5.3	5.4	4.6
R.3 Ordinary return on equity (before taxes)	9.1	9.3	10.9	8.4	9.7
R.4 Financial leverage (R.1 - R.2)	2.6	2.5	3.1	1.7	2.9
R.5 Debt ratio	43.5	47.4	50.0	49.7	48.8

Source: Banco de España.

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

Note: internal accounting movements have been edited out of items 4, 5, 6, 7.2 and 7.3 in the calculation of rates.

TABLE 2.a

**Value added, employees, personnel costs and compensation per employee  
Breakdown by size, ownership status and main activity of corporations  
(Growth rates of the same corporations 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		
	2000	01 Q1- Q4 (a)	01 Q1	02 Q1	2000	01 Q1- Q4 (a)	01 Q1	02 Q1	2000	01 Q1- Q4 (a)	01 Q1	02 Q1	2000	01 Q1- Q4 (a)	01 Q1	02 Q1
<b>Total</b>	<b>7.6</b>	<b>3.8</b>	<b>3.9</b>	<b>2.2</b>	<b>4.6</b>	<b>0.7</b>	<b>1.3</b>	<b>0.6</b>	<b>7.3</b>	<b>4.4</b>	<b>5.4</b>	<b>3.5</b>	<b>2.6</b>	<b>3.7</b>	<b>4.0</b>	<b>2.9</b>
<b>SIZE:</b>																
Small	9.7	—	—	—	4.8	—	—	—	9.3	—	—	—	4.4	—	—	—
Medium	8.7	5.4	2.3	4.0	5.9	2.7	2.9	2.4	9.8	7.5	8.2	4.2	3.7	4.7	5.1	1.7
Large	7.3	3.7	4.0	2.1	4.3	0.5	1.2	0.4	6.8	4.1	5.2	3.4	2.4	3.6	4.0	3.0
<b>STATUS:</b>																
Public-sector	7.4	7.9	9.0	3.5	-0.3	1.4	0.5	0.4	3.9	6.6	6.8	6.2	4.2	5.1	6.3	5.8
Private-sector	7.6	3.3	3.3	2.1	5.7	0.6	1.6	0.6	8.1	3.9	5.1	2.9	2.3	3.3	3.5	2.2
<b>BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:</b>																
Energy	13.6	-6.5	-6.5	-1.7	-3.4	-3.6	-3.3	-3.3	0.0	2.5	1.2	3.0	3.5	6.3	4.6	6.5
Industry	6.1	-2.9	-0.2	-1.8	2.9	-0.6	1.0	-1.6	6.5	2.6	4.7	1.3	3.5	3.2	3.7	3.0
Wholesale and retail trade	6.6	17.8	10.3	7.3	9.6	6.2	6.5	5.7	11.2	9.5	10.6	5.8	1.5	3.1	3.9	0.1
Transport and communications	2.8	9.6	10.2	4.3	0.0	-2.5	-3.2	-0.3	4.9	1.6	2.0	3.1	4.9	4.2	5.4	3.4

Source: Banco de España.

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

freeing up resources and helping the ordinary net profit to grow by 2.1%. Nonetheless, the ordinary return on assets fell slightly relative to 2001 as a whole, although the comparison with 2001 Q1 is favourable to the present year. The combination of a mild decline in profitability and a fall in the cost of borrowing in the first three months of 2002 entailed a mild decline in leverage (the difference between these two ratios), relative to 2001, and a small increase with respect to 2001 Q1. Net profit which, since it is affected by instances of capital gains/losses unrelated to the business cycle, may be highly variable, grew by somewhat more than 14% in 2002 Q1, with respect to the same period of 2001. This increase was a result of the significant capital gains generated on the share sales made by certain large firms more than offsetting the extraordinary transfers made by other large firms to provisions for their investments in Argentina.

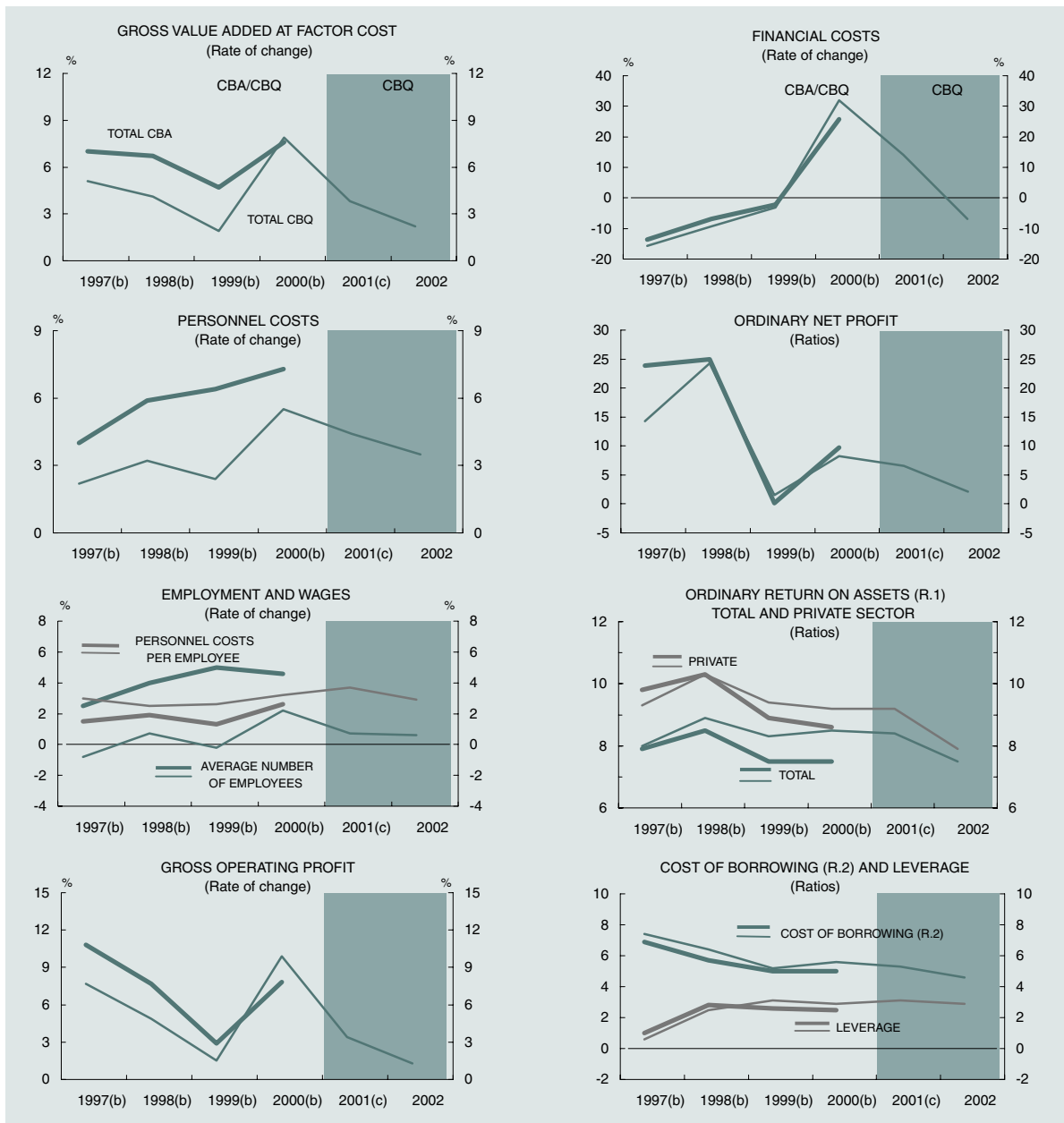
In short, the slowdown in productive activity that started in 2001 continued in 2002 Q1. The CBQ data still do not reflect the signs of recov-

ery discerned in alternative sources (slight improvement in the international setting, improvements in business confidence and in certain industrial indicators). Apart from wholesale and retail trade, which is performing very positively, activity in the other sample corporations grew at moderate rates in the first three months of the year, and although employment rose slightly, most of the sectors analysed recorded declines in aggregate terms. However, the reduction in the cost of borrowing has led to a slight increase in the profitability of the corporations and an improvement in their leverage.

## 2. ACTIVITY

As already mentioned in the introduction, business activity in 2002 Q1 increased moderately in nominal terms, in line with the slowdown in activity that began in 2001. In fact, according to the CBQ, GVA grew by 2.2% in 2002 Q1, compared with 3.8% in 2001 as a whole. Removing the effects of changes in oil prices (upward in 2002 Q1, relative to the previous

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



		NUMBER OF CORPORATIONS					
CBA		8,054	8,135	8,249	7,750		
CBQ		722	835	883	899	829	704
		% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS					
CBA		33.6	33.5	31.6	28.3		
CBQ		18.7	18.0	16.9	16.4	15.0	14.0

		NUMBER OF CORPORATIONS					
CBA		8,054	8,135	8,249	7,750		
CBQ		722	835	883	899	829	704
		% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS					
CBA		33.6	33.5	31.6	28.3		
CBQ		18.7	18.0	16.9	16.4	15.0	14.0

— CBA data

— CBQ data

Source: Banco de España.

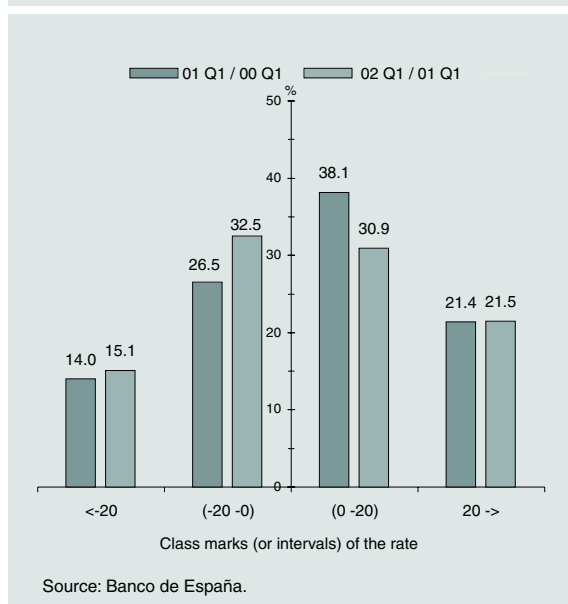
(a) Information available to 14 June 2002 (CBA and CBQ).

(b) The 1997, 1998, 1999 and 2000 data are based on information from the corporations 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 2001 over the same period of 2000.

CHART 2

**Distribution of corporations by rate of change in GVA at factor cost  
(01 Q1 / 00 Q1, 02 Q1 / 01 Q1)**



quarter, but less than in 2001 Q1 and in the year as a whole) makes the slowdown in the rate of activity milder (from 5% in 2001 to 4.3% in 2002 Q1). However, the rates recorded for output and inputs (0.6% and -0.4%, respectively) confirm that activity continued to show clear signs of slackness in 2002 Q1 as well. It was foreign trade though that most clearly reflected the effects of the slowdown since, as Table 3 shows, although imports held constant in 2002 Q1 as a percentage of all sales, exports recorded a clear decline relative to total sales (from 13% in 2001 to 11.5% in 2002).

Other sources indicate that the growth in the GVA generated by the corporations was sustained by domestic consumption and investment. The CBQ data confirm that wholesale and retail trade was the most dynamic sector, with growth of 7.3%. This rate was, nonetheless, significantly below those recorded by the same sector the previous year (17.8%) and in 2001 Q1 (10.3%). One of the reasons for this disparity in the growth of corporations in the wholesale and retail trade in the two periods lies in the fact that the corporations selling fuel, which are classified in the wholesale and retail trade, were strongly favoured in 2001 by the downward path of oil prices, which led to a substantial recovery in their GVA, margins and surpluses during that period. If the corporations selling fuel are excluded from wholesale and retail trade, this sector recorded GVA growth of 5.8%, only two percentage points down on the rate in 2001 Q1. Besides wholesale and retail

TABLE 2.b

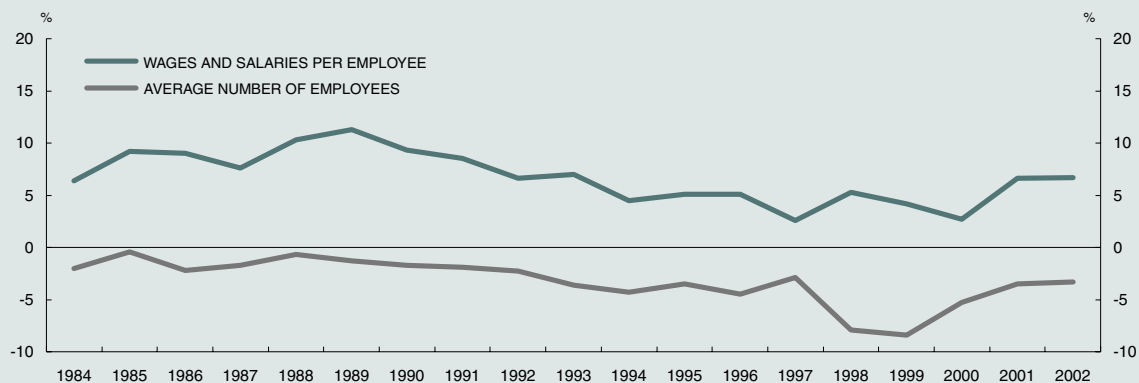
**Employment and personnel costs  
Detail according to changes in staff levels**

	Total CBQ corporations 02 Q1	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
<b>No. of corporations</b>	<b>704</b>	<b>390</b>	<b>314</b>
<b>Personnel costs</b>			
Initial situation 01 Q1 (EUR million)	4,818.0	1,980.0	2,838.0
Rate 02 Q1 / 01 Q1	3.5	10.8	-1.6
<b>Average compensation</b>			
Initial situation 01 Q1 (EUR)	9,009	8,330	9,553
Rate 02 Q1 / 01 Q1	2.9	3.1	3.5
<b>Number of employees</b>			
Initial situation 01 Q1 (000s)	535	238	297
Rate 02 Q1 / 01 Q1	0.6	7.4	-4.9
<b>Permanent</b>			
Initial situation 01 Q1 (000s)	441	182	259
Rate 02 Q1 / 01 Q1	1.1	9.0	-4.4
<b>Non-permanent</b>			
Initial situation 01 Q1 (000s)	94	56	38
Rate 02 Q1 / 01 Q1	-2.2	2.1	-8.4

Source: Banco de España.

trade, the other aggregates that make up «market services» also recorded significant increases in GVA in nominal terms. In particular, transport and communications was notable, with an increase of 4.3% in GVA, basically owing to the performance of telephony corporations in the mobile sector, which had begun in 2001 to record significant increases in revenues linked to the new range of services provided to their clients (such as messaging). At the opposite extreme was the industrial sector, which recorded negative rates of change in GVA for the fifth consecutive quarter (-1.8%). As mentioned above, this sector has been particularly affected by the deterioration in the performance of the international economy and by the reduction in investment in capital goods. However, corporations classified in the food, the metal, glass and ceramic products and the electrical, electronic and optical equipment sub-sectors showed positive rates of change. For its part, the energy sector contracted in 2001 Q1 (its GVA fell by 1.7%), owing primarily to refined petroleum products which, as a consequence of the changes in oil prices, continued to record large decreases in GVA, compared with 2001 Q1 (Box 1 gives other details of the performance of industrial activity). The electricity utilities recorded significant increases in their activity (their GVA grew by 6.3%), basically owing to the increases in demand which, corrected for climate and calendar effects, increased by

Electricity, gas and water supply. Compensation and employment (a)



Source: Banco de España.  
(a) Rates.

3.9% in 2002 Q1, according to information provided by the sector itself, which shows that the corporations using this source of energy had an acceptable level of activity. The average increase in tariffs for 2002 (0.412%, as set by Decree 1483 of 27 December 2001) also contributed to the rise in the electricity utilities' GVA.

The scene described for the activity of the various sectoral aggregates highlights the broad-based nature of the slowdown and the inertia that seems to have continued to mark the events of last year. This did not rule out different behaviour in some sectors and sub-sectors. The greater vigour which, according to other sources, is discernible in certain foreign economies and the positive performance that, as indicated, some sectors have been recording means that the economic recovery can be expected to spread gradually to the other sectors of the economy. In any case, the CBQ data confirm the continuity of the slowdown, as seen in Chart 2, in which the corporations are distributed according to the rate of growth of their GVA. This chart shows a clear shift towards the segments including corporations that obtained lower growth in their GVA. Whereas in 2001 Q1 40% of the corporations recorded declines in GVA, 48% of the corporations were in this situation in the same quarter of 2002.

### 3. EMPLOYMENT AND PERSONNEL COSTS

In line with activity, the rate of growth of the workforces of the corporations reporting to the CBQ decelerated in 2002 Q1, although rates remained positive. Given the characteristics of the

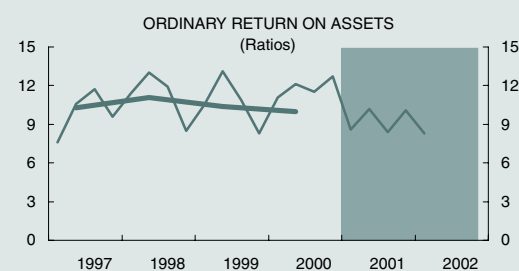
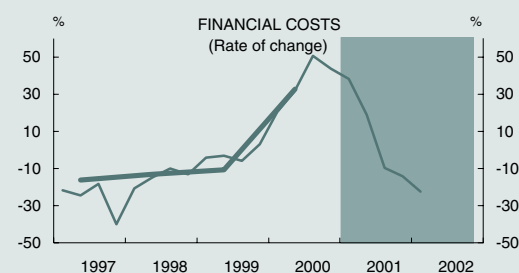
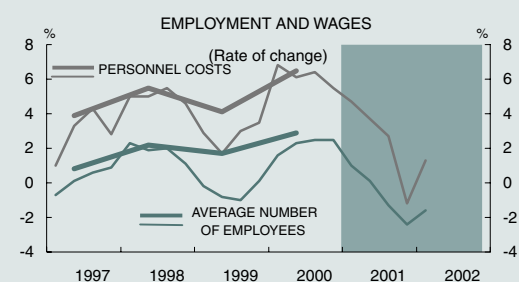
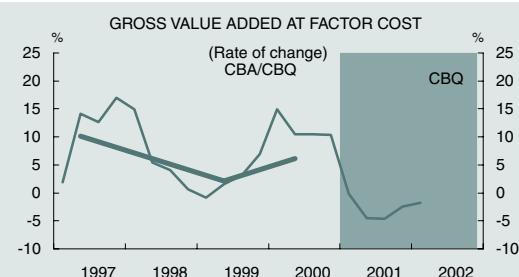
CBQ corporations (the sample is dominated by very large firms, industrial firms, public-sector firms, recently privatised firms and certain sectors undergoing reorganisation) this is a favourable performance. The rate of growth of employment in 2002 Q1 (0.6%) is slightly lower than that in 2001 as a whole (0.7%), and accurately reflects the slackness and uncertainty afflicting the economy since 2001 Q2. In terms of contract type, it was temporary employment that was most affected by the slowdown in activity. It declined for the fourth consecutive quarter, although in this case by 2.2%, only one third of the decline in 2001 Q4. According to Table 2.a and the detailed information available in the CBQ it was the market services corporations that created most jobs and, among them, those in the wholesale and retail trade sector, in which employment increased at a rate of 5.7% during the first three months of the year, a similar rate to that of 2001 Q1. In the other sectors well represented in the CBQ sample the performance of employment was very different. Transport and communications again recorded a negative rate of change, albeit close to zero (-0.3%). When this rate is compared with that for the previous year (-2.5%) the process of labour shedding in this sector appears to be coming to a halt.

The behaviour of the energy sector was strongly influenced by that of the electricity utilities. As a result of the restructuring to adapt to a competitive environment, they again reduced their workforces, by -3.3% in Q1, very similar to the rates recorded in previous quarters. The electricity industry has seen constant reductions in employment in the last 15 years, although they have intensified since 1998 with liberalisation (Chart 3 puts the changes in workforces

## Analysis of the industrial sector

Industry is a key sector for gaining a more accurate picture of developments in the Spanish corporate fabric. Moreover, its weight and representativeness in the quarterly sample make it indispensable for any short-term economic analysis. As regards its activity, in the first three months of 2002 the performance of the Spanish industrial corporations reporting to the CBQ was clearly negative, their GVA falling by 1.8% in the period analysed. This was a relative improvement on the aggregate figures for 2001 (-2.9%) and, as can be seen in the adjoining chart, reflects a change in trend, that began in late 2001. The decline in external activity, strongly affected by the recession in certain international economies, and the slackness of investment in capital goods, explain the behaviour of activity in industry, which is more sensitive to the above-mentioned factors than other productive sectors, given its openness to the external sector. Considering the sector in greater detail it can be seen that it was the corporations of the chemicals, transport equipment and other manufacturing sub-sectors that were hardest hit by the slowdown. By contrast, food, drink and tobacco and the electrical, electronic and optical equipment industries managed to achieve sound GVA growth. The decline in the operating activity of these corporations was accompanied for the third consecutive quarter by workforce reductions. As a result the rate of growth of employment stood at -1.6% in the 2002 Q1. This rate was more negative than that of a year earlier (+1%) but was, nonetheless, an improvement on the 2.4% decline recorded in 2001 Q4. Average compensation in the industrial sector grew by 3%, practically the same rate as for the sample as a whole and 0.7 percentage points down on the rate in 2001 Q1. This seems to point to a trend towards wage moderation which, if sustained in the coming quarters, will help to maintain international competitiveness. The trend in personnel costs, together with that in the other ordinary cost and revenue items, requires little alteration to the comments already made with respect to activity, so that all the ordinary surpluses (gross operating profit, funds generated and ordinary net profit) showed negative rates of change, accurately reflecting the slowdown in productive activity. Against this background, ordinary returns fell relative to previous periods. Both the ordinary return on net assets and that on equity were one percentage point (0.3% and 9.6%) down on those obtained in 2001 (9.3% and 10.6%). In spite of this, leverage was higher than in 2001 (0.6 percentage points), due to the sharp reduction last year in the cost of borrowing. In short, the scenario described for Spanish industry in recent quarters reflects the conjunction of a slowdown in activity with the maintenance of high levels of profitability. The corporations, unlike in previous periods of slack business, have been bolstered by the favourable trend in the cost of borrowing.

## Performance of industrial corporations reporting to the Central Balance Sheet Office (a)



		NUMBER OF CORPORATIONS			
CBA		3,342	3,247	3,035	2,712
CBQ		352	343	335	329
		402	392	386	378
		419	403	394	385
		428	408	385	372
		404	391	372	339
		325			
		% OF GDP OF THE INDUSTRIAL SECTOR			
CBA		35.1	33.8	30.8	27.6
CBQ		25.7	28.2	26.4	26.1
		27.4	25.6	24.7	25.8
		26.2	24.1	24.2	25.4
		25.2	23.4	23.8	20.4
		19.4	18.5	18.5	16.2

— CBA data  
— CBQ data

Source: Banco de España.

(a) Information available to 14 June 2002 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

TABLE 3

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

	CBA	CBQ	
	2000	01 Q1-Q4 (a)	02 Q1 / 01 Q1
<b>Total corporations</b>	<b>7,750</b>	<b>829</b>	<b>704</b>
Corporations reporting source/destination	7,750	800	682
	%	%	%
<b>Net purchases</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
SOURCE OF PURCHASES:			
Spain	64.0	80.3	80.4
Total abroad	36.0	19.7	19.6
<i>EU countries</i>	22.4	14.8	14.4
<i>Third countries</i>	13.6	4.9	5.1
<b>Net turnover</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
SALES DESTINATIONS:			
Spain	81.3	87.0	88.5
Total abroad	18.7	13.0	11.5
<i>EU countries</i>	14.1	8.0	7.6
<i>Third countries</i>	4.7	5.0	3.9

Source: Banco de España.  
(a) All the data in these columns have been calculated as the weighted average of the relevant quarters.

and average wages and salaries in the electricity, gas and water supply sector into an historical perspective). Finally, industry also recorded a negative rate of growth of employment (–1.6%) for the third consecutive quarter. This is lower than the rate for 2001 as a whole (–0.6%) and represents a turning point with respect to the figure for 2001 Q4, when the rate reached –2.4%. Employment developments in industry are considered in greater detail in Box 1.

Average compensation increased by 2.9% in 2002 Q1. This amounted to significant moderation when compared with 2001 Q1 (4%) and with the rate for the whole of 2001 (3.7%). Following 2001, when the surge in inflation exerted notable upward pressure on wages, the agreement reached by the employers and unions in December 2001 seems to have brought about a change in trend. A similar conclusion is reached when considering Table 2.b which analyses separately the aggregates of firms creating jobs, on one hand, and those shedding labour, on the other. This information confirms that the corporations generating employment continued to record lower wage increases (3.1%), although contrary to what had become normal, a certain moderation in the growth of average compensation was also discerned for the corporations reducing employment (3.5%). By sector

of activity, reductions in employment of varying importance were recorded across the board, except in the energy utilities (which increased their average compensation slightly as a consequence of the workforce restructuring referred to above).

Finally, Table 4, which shows the percentages of corporations in certain situations (eliminating the bias in the aggregates deriving from the differing sizes of the corporations), enable certain elements to be analysed which confirm and reinforce some of the remarks made above. On one hand, more than 44% of the corporations that make up the quarterly sample reduced their workforces in 2002 Q1, a higher percentage than in the same period of the previous year (38%). This confirms the downtrend in employment, albeit slight, mentioned above. Table 4 also shows that average compensation outpaced inflation in 51.1% of the corporations, slightly below the percentage recorded in 2001 Q1.

#### 4. PROFITS, MARGINS AND RATES OF RETURN

Reflecting the developments outlined above in relation to productive activity and employ-



TABLE 4

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

	CBA		CBQ			
	1999	2000	00 Q1-Q4 (a)	01 Q1-Q4	01 Q1	02 Q1
<b>Number of corporations</b>	<b>8,249</b>	<b>7,750</b>	<b>899</b>	<b>829</b>	<b>895</b>	<b>704</b>
<b>Personnel costs</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Falling	21.0	18.1	24.5	28.0	24.4	32.1
Constant or rising	79.0	81.9	75.5	72.0	75.6	67.9
<b>Average number of employees</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Falling	22.8	24.2	35.4	40.5	38.0	44.7
Constant or rising	77.2	75.8	64.6	59.5	62.0	55.3
<b>Average compensation (relative to inflation) (b)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Lower growth	51.4	47.3	47.3	46.6	47.2	48.9
Higher or same growth	48.6	52.7	52.7	53.4	52.8	51.1

Source: Banco de España.

(a) Weighted average of the relevant quarters for each column.

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

ment, the rate of growth of gross operating profit declined from 2.8% in 2001 Q1 to 1.3% in 2002 Q1. However, as in the case of GVA, this rate was influenced by the trend in oil and fuel prices. If the corporations refining and selling fuel are removed from the aggregate the rate for 2002 is approximately 4.9%, as against 1.8% in the same quarter of the previous year. By sector of activity, the trend in gross operating profit is similar to that of GVA (falling in the energy and industrial sectors and rising in wholesale and retail trade and in transport and communications). Financial costs, meanwhile, declined by 6.9% in 2002 Q1, a situation that had not occurred since 1999 and which highlights the delayed effect on financial costs of the cut in interest rates last year. The small increase in gross operating profit and the fall in financial costs caused ordinary net profit (which is used to calculate the rates of return given at the end of Table 1) and funds generated to grow by 2.1% and 4.8%, respectively, relative to 2001 Q1. The reduction in financial costs occurred in all the sectors of the sample and is explained by the reduction in interest rates between 2001 Q1 and 2002 Q1. It took place against the background of an increase in financing, albeit a small one, between the two periods considered. The following table shows the influence of each of the effects mentioned above on the final rate of change of financial costs:

	<u>02 Q1/01 Q1</u>
<b>Change in financial costs</b>	<b>-6.9%</b>
<i>A. Interest on borrowed funds</i>	
(1 + 2)	-7.4%
1. Due to the cost (interest rate)	-13.3%
2. Due to the amount of interest-bearing debt	+5.9%
<i>B. Commissions and cash discounts</i>	+0.5%

As mentioned above, the reduction in financial costs occurred as a consequence of the lower interest rates prevailing on the market compared to a year earlier. Chart 4 shows the time series for changes in costs and financing, and highlights both the fall in these two variables in 2002 Q1 and the reduction in the weight of financial costs in the profit and loss account. The increase in interest rates in 2001 has been followed by a period of reductions which have enabled the corporations to maintain their levels of profitability and to increase their disposable income. The conditions arising from the macroeconomic stability that has been maintained since the period prior to the start of Stage Three of Economic and Monetary Union thus continue to prevail.

The above-mentioned trend in ordinary net profit (the variable that explains the results corporations obtain from their normal activities and therefore the one used to calculate rates of re-

CHART 4

## Financial costs and their components



turn), of moderate growth in the period analysed (2.1%), led to a slight rise in profitability relative to the same quarter a year earlier. Relative to the whole of 2001, the return on net assets fell (from 8.4% in 2001 to 7.5% in 2002 Q1). By sector (see Table 5), wholesale and retail trade stands out once again with the highest rates of return (its return on net assets stood at

13.5% in this quarter, higher even than the 12.9% rate in 2001 Q1). As the cost of financing was sharply reduced (to 4.6% from 5.4% in 2001 Q1), leverage (the difference between the two ratios) stood at 2.9%, similar to the level in 2001. These ratios confirm that high levels of profitability are being maintained even in the present scenario of slowing activity, indicating

TABLE 5

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

	Gross operating profit				Funds generated				Return on assets (R. 1)				Leverage			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2000	01 Q1- Q4 (a)	01 Q1	02 Q1	2000	01 Q1- Q4 (a)	01 Q1	02 Q1	2000	01 Q1- Q4 (a)	01 Q1	02 Q1	2000	01 Q1- Q4 (a)	01 Q1	02 Q1
<b>Total</b>	<b>7.8</b>	<b>3.4</b>	<b>2.8</b>	<b>1.3</b>	<b>4.8</b>	<b>3.7</b>	<b>-1.2</b>	<b>4.8</b>	<b>7.5</b>	<b>8.4</b>	<b>7.1</b>	<b>7.5</b>	<b>2.5</b>	<b>3.1</b>	<b>1.7</b>	<b>2.9</b>
<b>SIZE:</b>																
Small	10.4	—	—	—	6.3	—	—	—	9.2	—	—	—	3.5	—	—	—
Medium	7.1	2.6	-5.0	3.8	7.3	1.6	-8.8	5.4	10.4	10.7	10.9	11.7	5.4	4.9	5.4	7.6
Large	7.8	3.4	3.2	1.2	4.5	3.7	-0.7	4.7	7.3	8.3	7.0	7.4	2.3	3.0	1.6	2.8
<b>STATUS:</b>																
Public-sector	25.7	10.9	14.1	-3.4	27.0	0.2	7.6	-5.7	1.0	2.5	1.8	2.1	-4.2	-2.7	-3.5	-1.0
Private-sector	7.1	2.9	2.1	1.6	4.0	3.9	-1.7	5.4	8.6	9.2	7.9	7.9	3.6	3.9	2.5	3.3
<b>BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:</b>																
Energy	18.5	-8.8	-8.4	-3.0	14.5	-5.4	-11.1	8.8	8.3	9.5	8.1	9.3	3.5	4.2	2.9	4.4
Industry	5.5	-9.1	-6.0	-5.6	4.0	-7.0	-14.5	-1.0	10.0	9.3	8.6	8.3	4.4	3.2	2.3	3.8
Wholesale and retail trade and repair services	0.8	29.1	10.0	8.9	-1.5	23.7	10.1	3.5	11.7	12.1	12.9	13.5	6.7	7.1	7.3	9.2
Transport and communications	1.0	15.3	16.4	5.1	2.4	13.4	13.0	3.5	6.3	9.9	8.7	11.4	0.8	4.5	3.2	6.7

Source: Banco de España.

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

TABLE 6

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

	CBQ			
	Ordinary return on net assets (R. 1)		Ordinary return on equity (R.3)	
	01 Q1	02 Q1	01 Q1	02 Q1
<b>Total corporations</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
R ≤ 0 %	21.1	21.4	25.3	25.6
0 % < R ≤ 5 %	18.5	19.7	14.3	14.8
5 % < R ≤ 10 %	15.2	17.8	11.4	13.2
10 % < R ≤ 15 %	10.5	12.1	9.9	10.5
15 % < R	34.7	29.0	39.1	35.9
<b>Number of corporations</b>	<b>895</b>	<b>704</b>	<b>895</b>	<b>704</b>
MEMORANDUM ITEM:				
Average return	7.1	7.5	8.4	9.7

Source: Banco de España.

the existence of favourable conditions for undertaking productive investment. Finally, the information in Table 6 complements that inferred from the aggregate data and shows that, in practice, the percentage of firms with positive returns held steady.

In sum, the first data for 2002 confirm that Spanish corporations maintained moderate rates of growth of productive activity during the period analysed, basically due to the favourable behaviour of domestic consumption. There are data (the recovery in the US economy, the change of trend in confidence indicators) that appear to imply that activity will recover in the coming quarters, but the information available

in the CBQ does still not unambiguously confirm the end of the current slowdown. It should be noted in any case that Spanish corporations have entered this downturn from a position of greater strength than in similar phases of previous cycles and that the deterioration in terms of activity and employment has been smaller, while high levels of profitability have been maintained. An improvement in developments in the international economy and reductions in the rate of change of the general price level (closely related to oil prices) can be expected to enable greater buoyancy to be recovered in the coming months.

24.6.2002.