

---

# Results of non-financial corporations in the first two quarters of 2002 (1)

## 1. INTRODUCTION

According to CBQ (Quarterly Survey of the Central Balance Sheet Office) data, productive activity in the first half of 2002 was subdued (with nominal GVA growth of 1.8%), so that the firms appear to have remained on the path followed since mid-2001, in keeping with the general uncertainty afflicting the world economy. However, it should be noted that the sample of firms reporting to the CBQ amplifies the effects of any weakness in activity owing to its small size (less than 800 firms), to the over-representation of very large firms (those most affected by crises) and to the low representation of medium and small-sized firms, which are usually more dynamic. Indeed, the results of the Annual Survey of the Central Balance Sheet Office (CBA), which includes large, medium and small firms (up to 8,000 in all), usually show, for any given year, a more favourable performance than that reflected by the preliminary CBQ results for the same period. However, this does not invalidate the CBQ as an indicator of trends in corporate results.

In fact, the less dynamic results of the CBQ for the first half of 2002 (see Table 1 and Chart 1) are consistent with QNA estimates for investment and exports. Also, the performance of the sample firms in the distributive trade seems to stem from the slowdown in private consumption from the beginning of 2002. However, at the same time, there are signs of improvement in the performance of industrial firms (see Box 1), especially in the Q2 data (with growth rates exceeding those for the same period a year earlier), which might be signalling a turning point. The overall performance of the CBQ firms reflects the failure of the expectations for recovery in some European economies to materialise, while the deterioration in the situation in certain Latin American countries in which Spanish firms have strategic investments has been confirmed. Also, there seem to be signs that the fall in share prices is bearing on agents' spending decisions. Finally, the decline in oil prices in the first six months of 2002, relative to the same period a year earlier also contributed to the subdued GVA performance of the CBQ sample, basically on account of the impact on the output of refining firms (2).

---

(1) The information on which this article is based is obtained from the 748 firms that, on average, reported their data voluntarily to the Quarterly Survey of the Central Balance Sheet Office (CBQ) in the period to 18 September 2002. In terms of gross value added, this aggregate of firms accounts for 14.1% of all the activity of non-financial corporations.

(2) Experience with the CBQ shows that a fall in crude oil prices (rise in the price of oil) translates into a fall (rise) in the growth rate of the GVA of the refining firms (energy sector), which rapidly pass changes in the price of their inputs.

TABLE 1

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

Databases	CBA		CBQ (a)		
	1999	2000	01 Q1-Q4 / 00 Q1-Q4	01 Q1-Q2	02 Q1-Q2
Number of corporations / total national coverage	8249/31.9%	8045/28.9%	842 / 15.1%	882 / 15.7%	748 / 14.1%
1. VALUE OF OUTPUT (including subsidies)	9.2	16.0	1.8	5.7	3.5
Of which:					
1. Net amount of turnover and other operating income	10.7	17.4	2.7	6.7	2.5
2. INPUTS (including taxes)	11.5	20.1	0.6	6.5	4.5
Of which:					
1. Net purchases	12.9	23.8	-1.7	4.6	4.8
2. Other operating costs	9.2	14.2	4.3	6.5	5.0
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	4.7	7.5	3.9	4.2	1.8
3. Personnel costs	6.4	7.4	4.5	5.5	3.1
S.2. GROSS OPERATING PROFIT [S.1 - 3]	2.9	7.6	3.4	3.3	0.7
4. Financial revenue	5.2	26.3	11.3	34.7	-1.4
5. Financial costs	-2.2	26.0	13.6	32.7	-9.7
6. Corporate income tax	10.3	-12.2	7.4	-5.5	0.2
S.3. FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 6]	2.2	5.0	3.0	5.2	3.1
7. Depreciation and provisions and other [7.1 + 7.2 - 7.3]	7.4	5.7	5.4	19.1	63.3
7.1. Depreciation and operating provisions	9.0	6.3	0.4	-1.2	1.5
7.2. Capital losses and extraordinary expenses	-0.2	-3.1	-14.6	13.8	303.0
7.3. Capital gains and extraordinary revenue	-0.2	-5.5	-30.4	-25.1	188.2
S.6. ORDINARY NET PROFIT [S.2 + 4 - 5 - 7.1]	0.1	8.9	5.6	7.7	3.5
MEMORANDUM ITEM:					
TOTAL NET PROFIT [S.3 - 7]	-0.5	15.3	-0.3	-6.0	-47.6
PROFIT RATIOS					
R.1 Ordinary return on net assets (before taxes)	7.5	7.5	8.4	7.9	8.6
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.0	5.1	5.3	5.4	4.6
R.3 Ordinary return on equity (before taxes)	9.1	9.3	10.8	9.8	11.7
R.4 ROI - cost of debt (R.1 - R.2)	2.6	2.4	3.1	2.5	4.0
R.5 <i>Debt ratio</i>	43.5	47.3	50.0	49.8	49.8

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 (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2
<b>Total</b>	<b>7.5</b>	<b>3.9</b>	<b>4.2</b>	<b>1.8</b>	<b>4.3</b>	<b>0.8</b>	<b>1.0</b>	<b>0.3</b>	<b>7.4</b>	<b>4.5</b>	<b>5.5</b>	<b>3.1</b>	<b>3.0</b>	<b>3.7</b>	<b>4.5</b>	<b>2.8</b>
<b>SIZE:</b>																
Small	9.9	—	—	—	4.8	—	—	—	9.5	—	—	—	4.5	—	—	—
Medium	8.4	5.5	0.9	5.2	5.9	2.4	2.5	2.5	9.9	7.0	7.5	4.1	3.7	4.5	4.9	1.6
Large	7.3	3.8	4.5	1.6	3.9	0.6	0.8	0.1	7.0	4.3	5.3	3.1	2.9	3.7	4.5	3.0
<b>STATUS:</b>																
Public-sector	7.4	7.4	8.5	3.4	-0.3	1.5	0.9	0.4	3.9	6.6	7.6	5.0	4.2	5.0	6.6	4.6
Private-sector	7.6	3.4	3.7	1.6	5.3	0.6	1.0	0.3	8.3	4.0	5.0	2.7	2.8	3.4	4.0	2.4
<b>BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:</b>																
Energy	13.5	-6.5	-4.2	-6.5	-3.4	-3.7	-3.7	-3.5	0.0	2.5	3.2	-1.0	3.5	6.4	7.2	2.6
Industry	6.0	-2.7	-1.9	0.5	2.9	-0.4	0.7	-1.8	6.5	2.8	4.4	1.4	3.5	3.2	3.7	3.3
Wholesale and retail trade	6.8	18.2	11.7	10.4	9.1	6.1	6.0	5.5	11.3	9.3	9.1	7.7	2.0	3.0	2.9	2.1
Transport and communication	2.7	9.6	10.2	4.7	0.3	-2.4	-3.3	-0.6	5.3	1.6	2.6	2.5	5.0	4.1	6.1	3.1

Source: Banco de España.

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

In line with the moderate activity growth, the rate of growth of employment fell to 0.3%. However, it was particularly positive that a group of firms as undynamic in terms of job creation as the CBQ sample should not have destroyed jobs when activity showed signs of deceleration. As has become the norm in recent quarters, it was again the contribution of the *wholesale and retail trade* that was decisive in ensur-

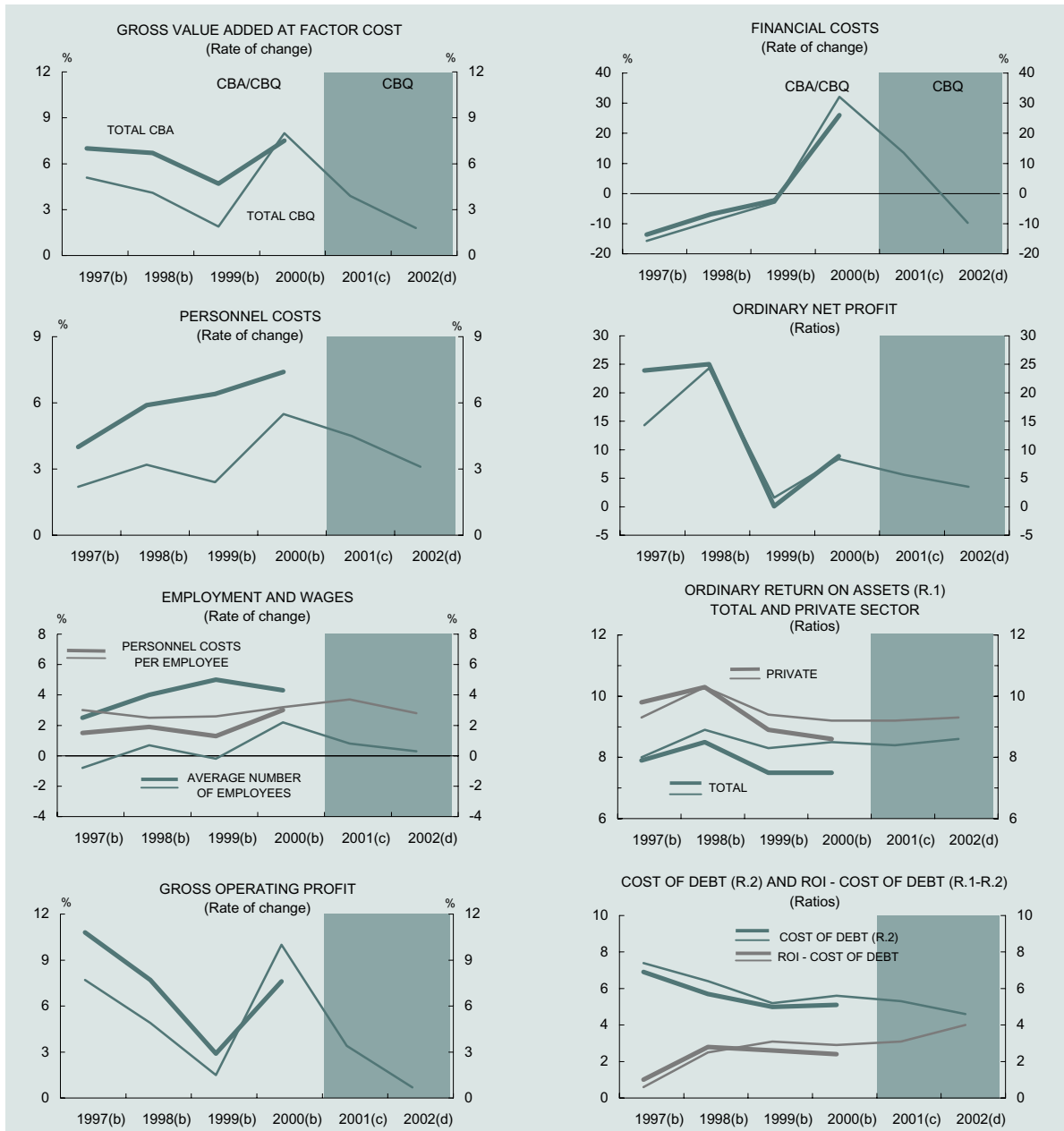
through to their selling prices. The final output of the refineries is the main input of firms marketing fuel (distributive trade), which do not immediately pass through the full change in the price of their inputs to their customers, possibly owing to the rigidity implicit in a system of regulated prices and because very sharp rises in oil prices have not always been passed through to customers (the rises of over 50%, both in oil prices and in the prices charged by the refineries in 2000, translated into petrol price increases of less than 20% in the same period). This is why changes in oil prices affect refineries and fuel sellers with certain lags and why, as in the first half of 2002, falls in the rate of growth of GVA of the refineries, due to a reduction in oil prices, can even coexist for a time with rises in the GVA of the firms selling fuel. It should also be noted that practically all the refining firms report to the CBQ, while only some of the selling firms do, perhaps because many of them are small.

ing a positive growth rate for total CBQ employment. As regards average compensation, the slight downtrend that commenced in 2002 Q1 was confirmed by moderate growth of 2.8% in the first half of 2002, compared with 4.5% in the first half of 2001. This trend needs to continue in the present setting, marked by low activity and a declining operating surplus, to ensure that average compensation does not have an adverse impact on the course of prices and to ease the absorption of Spain's inflation differential with respect to the other EU countries.

As indicated above, the operating surplus (or gross operating profit), an indicator of the non-wage incomes generated in the production process, grew at a low rate (0.7%) in the first half of 2002, in step with the slowdown in productive activity. Ordinary net profit, however, grew at a higher rate (3.5%), owing to the trend in financial expenses, which fell by almost 10% in the first half of 2002, with respect to the same period of the previous year. This reduction was basically due to the fall in interest rates, since the level of indebtedness continued to grow

CHART 1

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



NUMBER OF CORPORATIONS						
CBA	8,054	8,135	8,249	8,045		
CBQ	722	835	882	902	842	748
% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS						
CBA	33.7	33.7	31.9	28.9		
CBQ	18.7	18.0	16.9	16.5	15.1	14.1

NUMBER OF CORPORATIONS						
CBA	8,054	8,135	8,249	8,045		
CBQ	722	835	882	902	842	748
% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS						
CBA	33.7	33.7	31.9	28.9		
CBQ	18.7	18.0	16.9	16.5	15.1	14.1

— CBA data

— CBQ data

Source: Banco de España.

- (a) Information available to 18 September 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.
- (d) Average of the first two quarters of 2002 over the same period of 2001.

TABLE 2.b

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

	Total CBQ corporations 02 Q1-Q2	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
<b>No. of corporations</b>	<b>748</b>	<b>417</b>	<b>331</b>
<b>Personnel costs</b>			
Initial situation 01 Q1-Q2 (EUR million)	10,300.2	4,462.5	5,837.7
Rate 02 Q1-Q2 / 01 Q1-Q2	3.1	9.9	-2.1
<b>Average compensation</b>			
Initial situation 01 Q1-Q2 (EUR)	18,177	16,968	19,203
Rate 02 Q1-Q2 / 01 Q1-Q2	2.8	3.1	3.2
<b>Number of employees</b>			
Initial situation 01 Q1-Q2 (000s)	567	263	304
Rate 02 Q1-Q2 / 01 Q1-Q2	0.3	6.6	-5.1
<b>Permanent</b>			
Initial situation 01 Q1-Q2 (000s)	469	205	264
Rate 02 Q1-Q2 / 01 Q1-Q2	1.2	8.2	-4.1
<b>Non-permanent</b>			
Initial situation 01 Q1-Q2 (000s)	98	58	40
Rate 02 Q1-Q2 / 01 Q1-Q2	-3.9	1.3	-11.7

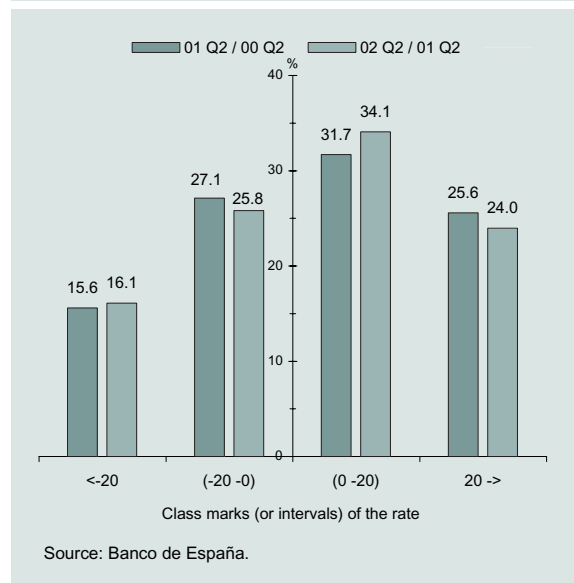
Source: Banco de España.

moderately. The behaviour of financial expenses explains the fall in the ratio that measures the cost of debt (R.2) and, as the ordinary return on net assets (R.1) is standing at a high level, above the rate recorded for 2001 as a whole, the spread (R4) between R1 and R2 has reached a high. This favourable behaviour by ordinary profit, and hence by the profit ratios, has not been reflected by total net profit, which declined by 47.6%. Despite the positive developments under the heading of capital gains and extraordinary revenue, some large firms have had to make provisions for very significant capital losses and extraordinary expenses. These provisions have arisen from investments in Latin America and in Europe, in the latter case as a result of the restructuring undertaken by large telecommunications firms worldwide.

It can be concluded from all the foregoing that in the first half of 2002 the activity of the firms reporting to the CBQ (a sample that is biased towards large firms) grew at moderate rates. This confirms the trend recorded by other data sources, although there was a certain pick-up among industrial firms in Q2 that could signal a turning point. The trend in employment is consistent with that in the activity of the aggregate of all the firms, although it should be stressed that this variable and the surplus continue to show a positive performance. Also, once again on account of the decline in interest rates, businesses continued to record growth in

CHART 2

**Distribution of corporations by rate of change in GVA at factor cost**  
(01 Q2 / 00 Q2, 02 Q2 / 01 Q2)



their results on ordinary activities, earning high rates of return, although total net profit is being adversely affected by heavy provisioning. In the medium term, however, if profit rates and the buoyancy of employment are to be sustained activity will have to recover, and this requires Spanish firms to be more competitive and to control the upward pressure on prices arising from their costs and margins.

## 2. ACTIVITY

As mentioned in the introduction, the productive activity of Spanish firms in the first half of 2002 grew at a very moderate rate. On CBQ data there was a nominal increase in GVA of 1.8% in the first half of 2002, compared with 4.2% in the same period of 2001 (see Table 1 and Chart 1). This confirms the slowdown in productive activity that has been affecting Spanish firms since mid-2001, which extends to practically every sector of activity (see Table 2.a). On the demand side, it is reflected by the slackness of investment in capital goods and the stagnation of imports and exports (Table 3).

For yet another quarter the *wholesale and retail trade* was the most dynamic sector among those analysed by the CBQ (its GVA grew in the first half of 2002 by 10.4%). If the effect that the strong growth in the GVA of firms selling fuel (owing to the knock-on effect of the fall in the price of oil) has had on the performance of this sector is stripped out, then the sector continued to grow at a rate of 6.3% in 2002, a more

TABLE 3

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

	CBA	CBQ (a)	
	2000	01 Q1-Q4 / 00 Q1-Q4	02 Q1-Q2 / 01 Q1-Q2
<b>Total corporations</b>	<b>8,045</b>	<b>842</b>	<b>748</b>
Corporations reporting source/destination	<b>8,045</b>	<b>813</b>	<b>720</b>
	%	%	%
<b>Net purchases</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
SOURCE OF PURCHASES:			
Spain	64.1	80.2	80.5
Total abroad	35.9	19.8	19.5
<i>EU countries</i>	22.3	14.9	14.5
<i>Third countries</i>	13.6	4.9	5.0
<b>Net turnover</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
SALES DESTINATIONS:			
Spain	81.3	87.1	88.1
Total abroad	18.7	12.9	11.9
<i>EU countries</i>	14.0	7.9	7.8
<i>Third countries</i>	4.7	5.0	4.1

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

moderate rate than in the previous year (8%), with a downward quarter-on-quarter profile (3). Private consumption which, together with construction investment, has driven economic growth in recent quarters began to display signs of deceleration in 2002 Q2 which, as mentioned above, are reflected in the performance of the firms in this sector. The other sector that recorded notable increases in activity in the first half of 2002 is *transport and communication*, whose GVA rose by 4.7% on the same half of 2001, assisted by mobile telephony (which has introduced new services) and air transport, when it had overcome some of the problems caused by the attacks of 11 September 2001.

At the other extreme, one of the poorest performing sectors was *energy*, with a decline in GVA of around 6.5% in the first six months of 2002. However, if the *oil refining* subsector, which suffered sharp contractions in its nominal GVA owing to the effects of the fall in oil prices, is stripped out (3), then the GVA of the energy sector grew by 1.3%, in line with the moderate growth recorded in the economy as a whole. The subsector *electricity, gas and water supply*, which has a large weight in the sample, record-

(3) See Note 2 on the different behaviour of the GVA of the refining firms and the firms selling fuel in the same period.

ed GVA growth of 0.8%. This growth is certainly very low, but it is higher than the -2.9% rate recorded in the first half of the previous year. The main reason for the scant GVA growth was not weakness in the demand for electricity (which in the first half of 2002 grew by 3.9%) or the trend in prices (average tariffs were not revised downwards for the first time in recent years, enabling revenues to level out), but the rise in production costs caused by the low generation of hydro-electricity, which meant that greater recourse was had to higher cost conventional power stations. *Industrial* firms (discussed in detail in Box 1), affected by the contraction of external trade and the adverse international environment, recorded GVA growth of 0.5% in the first half of 2002, a better performance than in the first six months of 2001 (-1.9%). However, Q2 seems to show a change of trend in the aggregate of industrial firms, with growth in their quarter-on-quarter profile which extends to practically all subsectors, and in particular the *electrical, electronic and optical equipment* ones and the *transport equipment* ones.

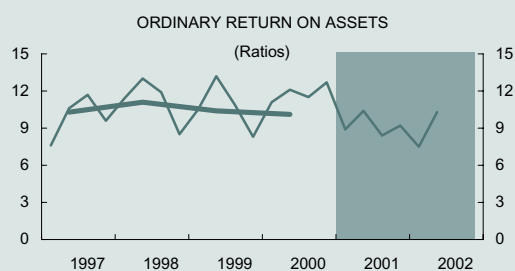
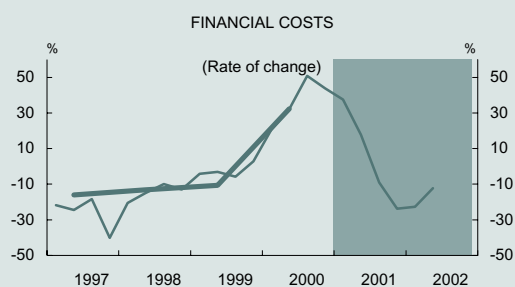
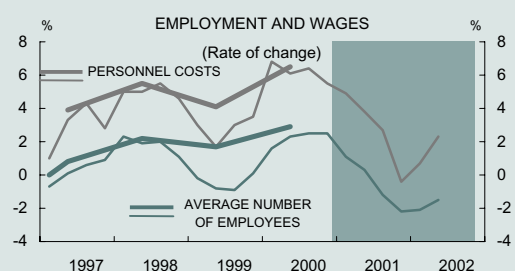
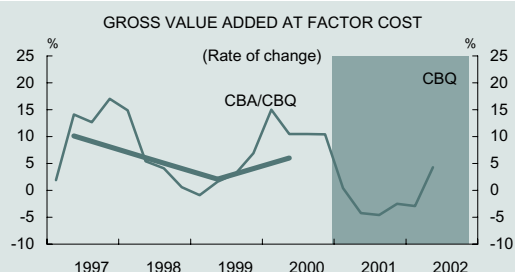
Chart 2, which shows the distribution of the sample of firms by the rate of growth of their GVA, seems to confirm what was stated above regarding the change in trend among industrial firms, although on this occasion in relation to all firms. It

## Analysis of the industrial sector

Activity in the industrial sector, which is well represented in the CBQ sample and one of the main engines of Spanish business, was stagnant in the first half of 2002. GVA grew by 0.5%, as a result of the contraction stemming from adverse developments in foreign trade and in investment in capital goods in recent quarters. However, this rate represents a significant improvement on the same period of 2001 (-1.9%). Amid the current uncertainties, which preclude any clear signs of recovery in the world economy in the short term, it is difficult to distinguish to what extent this apparent improvement in the Spanish industrial sector signifies the beginnings of a slow recovery. That said, the profile of the quarter-on-quarter series shown in the adjoining chart would appear to indicate that such a recovery has commenced. In 2002 to date, activity has shown clear signs of slackness, especially in subsectors such as *transport equipment* (in which GVA fell by 8%) and *other manufacturing* (-5.6%). At the other extreme, the subsector *electrical, electronic and optical equipment* was the most buoyant, with GVA growth of 7.8%. In step with activity, employment also fell, by -1.8% in the first half of 2002, in contrast to the growth recorded a year earlier (0.7%). Average compensation increased by 3.3%, which was above the rate for the sample as a whole (2.8%). Although the industrial sector also saw greater wage moderation (average compensation grew by 3.7% in the first half of 2001), this trend was not so pronounced as in other sectors, doubtless because the costs associated with dismissals raised average costs, while the downward effect of the lower wages earned by recently hired employees is not discernible in the aggregate figures. As a result of the changes in these two headings (employment and average compensation) personnel costs rose by 1.4% in the period analysed. All this meant that both gross operating profit and funds generated or ordinary net profit increased very slightly or even fell (-0.6% in the case of gross operating profit and 2.3% in that of ordinary net profit). Also, although rates of return held at acceptable levels, the contraction of activity had a discernible effect on them. Thus the return on net assets of the aggregate was 8.9%, as against 9.7% in the first half of the previous year. The clear reduction in financial costs, as a consequence of lower interest rates was reflected in a significant fall in the cost of debt for industrial firms, to 4.8% on average. As a result, despite the unfavourable performance of activity in this sector in the year to date, the spread between ROI and the cost of debt was still positive, and even somewhat wider than in the first half of 2001.

In short, Spanish industrial firms, like those in other sectors, have been going through a period of deceleration. However, in the case of the former signs of a change in trend are discernible. Owing to their greater exposure to the international situation, they have been more seriously affected than firms in other sectors by the unfavourable performance of foreign activity, so that other economies need to recover their buoyancy if industrial activity is to pick up in Spain.

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



		NUMBER OF CORPORATIONS			
CBA		3,342	3,247	3,035	2,827
CBQ		352	343	335	329
		402	392	386	378
		418	402	393	384
		429	409	386	373
		403	390	377	349
		367	307		
		% OF GDP OF THE INDUSTRIAL SECTOR			
CBA		35.1	33.8	30.8	27.9
CBQ		25.7	28.2	26.1	26.8
		26.4	26.1	27.4	25.6
		24.7	24.7	25.8	24.2
		25.8	26.3	24.1	24.2
		25.4	25.2	23.5	23.8
		20.6	19.5	18.8	19.5
		18.9	18.9	18.9	15.1

Source: Banco de España.

(a) Information available to 18 September 2002 (CBA and CBQ). The CBQ data are growth rates in relation to the same quarter a year earlier.

TABLE 4

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

	CBA		CBQ			
	1999	2000	00 Q1-Q4 (a)	01 Q1-Q4 (a)	01 Q2	02 Q2
<b>Number of corporations</b>	<b>8,249</b>	<b>8,045</b>	<b>902</b>	<b>842</b>	<b>863</b>	<b>679</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	18.0	24.5	28.0	25.1	32.8
Constant or rising	79.0	82.0	75.5	72.0	74.9	67.2
<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	24.5	35.3	40.4	40.6	44.8
Constant or rising	77.2	75.5	64.7	59.6	59.4	55.2
<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	47.2	47.3	46.7	46.1	50.1
Higher or same growth	48.6	52.8	52.7	53.3	53.9	49.9

Source: Banco de España.

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

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

can be seen that in 2002 Q2 the percentage of firms recording increases in GVA rose by one percentage point (to 58.1% of the sample), albeit with a shift towards the lower growth segment. The positive performance of medium-sized firms, in terms of productive activity (which, according to Table 2.a, grew by 5.2% in 2002, as against 5.5% in the whole of 2001), could imply that the change in trend may affect industrial and small firms, whatever their activity, large firms and those in the energy sector (influenced by the performance of refining firms) being the ones that are dragging the general performance down.

### 3. EMPLOYMENT, AVERAGE COMPENSATION AND PERSONNEL COSTS

As described in the introductory section, *employment* grew at a rate of 0.3%, as compared with a rate of 1% in the first half of 2001 and 0.8% in 2001 as a whole. However, this is a positive result since, as repeatedly pointed out in previous editions of this article, the CBQ sample includes certain large firms belonging to sectors that have been making systematic staff adjustments (such as the electricity sector), which now appear to be in their final stages. The CBA employment data for 2002, due to be released in November 2003, will be more in line with the EPA data (EPA employment grew by 2.3% in 2002 Q2).

As regards the type of employment, *temporary employment* was hardest hit by the slowdown in activity, recording a rate of -3.9% in the first six months of the year. *Permanent employment*, by contrast, increased at a rate of 1.2%, a positive steady performance relative to the first half of 2001. By sector (see Table 2.a), the importance of the *wholesale and retail trade* in the favourable performance of this variable is again apparent, this being the only sector in which employment clearly grew (at a rate of 5.5%), albeit at a lower rate than in the same period of last year (6% in the first half of 2001). Employment fell in the other sectors, but a detailed analysis shows a positive performance in some of them. First, although the *transport and communication* sector recorded a fall in employment of 0.6% in the first half of 2002, this represented a significant decline in the rate of job destruction, when compared with the rate for the first half of 2001 (a fall of 3.3%). Meanwhile, in the *energy* sector, and more specifically in *electricity, gas and water supply*, firms are continuing to shed labour in response to the opening up to competition. The rate for the first half of 2002 (-3.5%) is practically identical to that for the first half of 2001, although somewhat lower than those recorded by the electricity utilities in previous years. Despite the positive, albeit modest, growth in its activity, employment in *industry* fell by 1.8% in the period analysed, a faster rate than in 2001 as a whole (-0.4%).



TABLE 5

**Gross operating profit, funds generated, ordinary return on assets and ROI - cost of debt**  
**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)				ROI - cost of debt			
	CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)			CBA	CBQ (a)		
	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2	2000	01 Q1- Q4	01 Q1- Q2	02 Q1- Q2
<b>Total</b>	<b>7.6</b>	<b>3.4</b>	<b>3.3</b>	<b>0.7</b>	<b>5.0</b>	<b>3.0</b>	<b>5.2</b>	<b>3.1</b>	<b>7.5</b>	<b>8.4</b>	<b>7.9</b>	<b>8.6</b>	<b>2.4</b>	<b>3.1</b>	<b>2.5</b>	<b>4.0</b>
<b>SIZE:</b>																
Small	10.5	—	—	—	5.8	—	—	—	9.3	—	—	—	3.5	—	—	—
Medium	6.5	3.3	-7.2	6.6	6.9	2.5	-8.6	6.9	10.4	10.4	11.0	10.9	5.5	4.6	5.3	6.2
Large	7.7	3.4	3.9	0.5	4.8	3.0	6.0	2.9	7.2	8.3	7.8	8.6	2.2	3.0	2.4	4.0
<b>STATUS:</b>																
Public-sector	25.7	9.3	10.6	-0.6	27.1	-1.0	4.9	-14.8	1.0	2.4	2.6	2.4	-4.2	-2.8	-2.8	-1.2
Private-sector	6.9	3.0	2.8	0.8	4.1	3.3	5.3	4.4	8.6	9.2	8.7	9.3	3.6	3.9	3.2	4.7
<b>BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:</b>																
Energy	18.4	-8.8	-6.1	-8.1	14.6	-5.5	1.7	-4.1	8.3	9.3	8.8	9.6	3.5	4.1	3.5	5.1
Industry	5.4	-8.8	-8.8	-0.6	3.2	-10.4	-12.3	2.9	10.1	9.3	9.7	8.9	4.4	3.4	3.4	4.1
Wholesale and retail trade and repair services	1.1	30.8	15.1	13.7	-1.6	26.3	14.1	8.2	12.0	11.8	10.7	10.8	6.9	6.7	5.4	6.3
Transport and communication	0.4	15.3	15.7	6.2	4.0	13.4	11.5	7.1	5.9	9.9	9.5	12.5	0.4	4.5	3.9	7.6

Source: Banco de España.

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

However, the quarter-on-quarter rates, which have been negative since 2001 Q3, have begun to improve. This would be in keeping with the change in trend in the quarter-on-quarter series for industrial activity. Finally, Table 4 shows how the phenomenon of job destruction has gradually extended to more firms, although those in which employment is constant or rising are still in the majority (55.2% of firms). In 2002 Q2 44.8% of firms reduced their staff, 4 percentage points more than in 2001 Q2, when the percentage was 40.6%.

Average compensation (calculated as personnel costs per worker) increased in the first half of 2002 by 2.8%, a significantly lower rate than in the same period last year (4.5%). As in Q1, average wages grew more moderately. Table 4 gives information of a qualitative nature on average wage developments, confirming that the slowdown extends to the majority of the reporting firms. While in 2001 Q2, 53.9% of firms increased their average compensation, this percentage was down to 49.9% in 2002 Q2. By

sector of activity (Table 2.a), average compensation appears to have moderated in all the sectors analysed. The *wholesale and retail trade* recorded the lowest rate of growth of average compensation (2.1%), in keeping with its notable contribution to job creation.

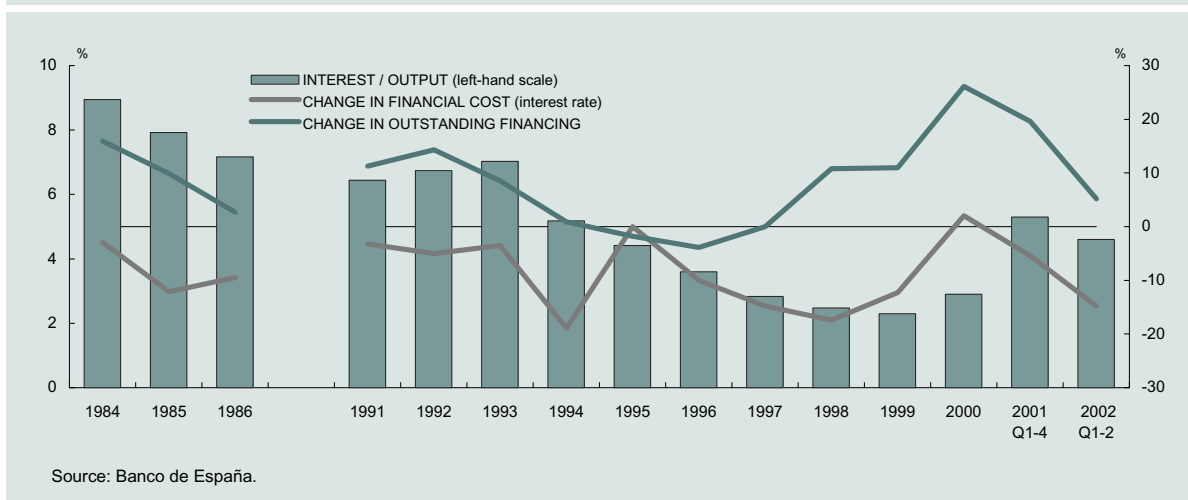
The fall in the rate of growth of average compensation and the subdued employment growth among the CBQ firms meant that *personnel costs* grew at a lower rate than in the previous period (3.1% in the first half of 2002, as against 5.5% in the same period of 2001). This trend was repeated across all the groupings analysed (sectors of activity, size and status categories).

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

As a result of the scenario described above, the rate of growth of gross operating profit fell to 0.7% in the first half of 2002, from 3.3% in the

CHART 3

## Financial costs and their components



same period of 2001, which brought it back down to 1999 levels. This decline was partly offset by the fall in financial costs, which fell once again by around 10%, adding to the reduction in 2001 Q3 and linking up with an earlier period of declining financial costs, which ran from 1994 to 2000. A sector-by-sector analysis of gross operating profit shows that although the rate of growth fell in both the wholesale and retail trade and in transport and communication with respect to the preceding period, the rates recorded in the first half of 2002 were clearly positive (13.7% and 6.2%, respectively).

The fall in financial costs was basically due to the fact that interest rates were lower than in the first half of 2001. The following table, as usual in these articles, breaks down the change in financial costs into its components:

	02 Q1-Q2/ 01 Q1-Q2
<b>Change in financial costs</b>	<b>-9.7%</b>
A. Interest on borrowed funds (1+2)	-9.6%
1. Due to the cost (interest rate)	-14.8%
2. Due to the amount of interest-bearing debt	+5.2%
B. Commissions and cash discounts	-0.1%

This information, along with Chart 3, shows that the fall in financial costs, while the recourse to external sources of financing increased slightly, was due to the reduction in interest rates. This decrease in financial costs is helping to establish the conditions for a recovery in investment, which will occur when the outlook for sustained profitability improves. Recently, these conditions have not been met in certain geographical areas and in particular markets. In fact, the profit and loss accounts for the first half

of 2002 of certain large Spanish firms with foreign investments have in some cases had to bear losses arising from investments in Latin American economies in critical situations and, in others, losses arising from the restructuring of third generation telephony (UMTS), the launch of which has been delayed. The restructuring of third generation telephony has been carried out by all the European firms in the sector, which borrowed heavily to finance their investments in this technology. This could have undesirable repercussions on their ability to generate funds and may delay pending investment. The extraordinary circumstance that these losses on Latin-American and UMTS investments should occur at the same time explains the behaviour of the heading "capital losses and extraordinary expenses" in Table 1 and, ultimately, why the total net profit of the CBQ firms fell by 47.6% in the first half of 2002, despite the positive impact of capital gains arising from the sale of cross-holdings in the energy sector, recorded under the heading "capital gains and extraordinary revenue", also in Table 1.

This behaviour of total net profit, strongly influenced by the extraordinary events referred to above, shows once again that this extremely volatile variable is not the most suitable one for analysing profitability. This is why the Central Balance Sheet Office uses ordinary net profit (ONP), without this involving any downplaying of the extraordinary events mentioned above, or of the possible effect they might have on the financing, management and investment decisions of the firms. ONP, which only takes account of those items of expenses and revenue essentially linked to the firm's ordinary activities, grew by 3.5% in the first half of 2002, a more moderate rate than in pre-

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 Q2	02 Q2	01 Q2	02 Q2
<b>Total corporations</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
R ≤ 0 %	19.1	17.4	23.7	20.3
0 % < R ≤ 5 %	16.1	18.7	12.5	14.9
5 % < R ≤ 10 %	16.6	15.1	11.0	10.8
10 % < R ≤ 15 %	14.2	12.7	12.4	10.6
15 % < R	34.0	36.1	40.4	43.4
<b>Number of corporations</b>	<b>863</b>	<b>679</b>	<b>863</b>	<b>679</b>
MEMORANDUM ITEM:				
Average return	<b>8.6</b>	<b>10.2</b>	<b>11.1</b>	<b>14.3</b>

Source: Banco de España.

ceding periods. Even so, the growth of ONP enabled the ordinary return on net assets to hold at very similar levels to the previous year (8.6% in the first half of 2002, as against 8.4% in 2001 as a whole). Notable at the sectoral level (see Table 5) were the *wholesale and retail trade*, with virtually the same rate of return as in 2001 (10.8%), and *transport and communication* (12.5%), the latter bolstered by the good spell currently being enjoyed by telephony firms in the second-generation mobile segment and by the clear improvement in the air transport subsector. Also the *electricity utilities* achieved a good rate of return, while *industrial firms* saw their profitability decline. Table 6 shows the favourable returns earned by the almost 80% of firms analysed which reported positive returns in 2002 Q2, 3.4 percentage points higher than in the same period of the previous year. To sum up, an increase in profitability (ratio R1) has coincided in the same quarter with a reduction in the cost of debt (ratio R2). This has meant that the spread between these two ratios (ratio R4), i.e. ROI less the cost of debt (R1 – R2), is clearly positive (4 points) and even larger than in 2001 (3.1).

Finally, despite the questions that remain open, the picture described above seems to confirm that Spanish firms are continuing to earn high returns, supported by the positive trend in financial costs, which is a consequence in turn of the low level of interest rates. Even though the aggregate data show a relative weakening of activity, the latest results for industrial firms and the profitability and healthy balance sheets of Spanish firms in general means that they are well placed for a future recovery. Clearly international events over the coming months (the development of the crisis in Latin America and the effect that a possible war involving oil producing countries might have on oil prices) will shape the expected recovery in the Spanish economy, which will be all the more durable the greater the progress made in improving the competitiveness of Spanish firms. And this requires persisting with policies that promote restraint in respect of prices, costs and margins and, in short, that are conducive to a pick-up in investment and employment growth.