
Results of non-financial corporations in 2003 Q1 (1)

1. INTRODUCTION

The data gathered by the Central Balance Sheet Data Office (CBSO) show that business activity sustained a pattern of gradual recovery in 2003 Q1, in line with the performance in the second half of 2002. Compared with 2002 Q1, the data currently available reflect a significant acceleration in the growth rate of activity (see Table 1 and Chart 1), although it should be taken into account, on the one hand, that these results were affected by the sharp oil price rises on international markets and, on the other, that the calendar effect introduced an upward bias (Easter fell in the second quarter of 2003 and in the first quarter of 2002). Evidently, however, the firms included in the sample have considerably stepped up the pace of their activity, as can be seen from the fact that the GVA growth rate in 2003 Q1 (7.2%) is clearly higher than that calculated by the CBQ for the whole of 2002 (4.6%), this latter figure being an upward revision of the first estimate released in the April 2003 Economic Bulletin (4.3%).

This favourable trend in the aggregate data of the reporting corporations encompasses, in addition, an appreciable recovery in industrial activity growth rates as compared with those of 2002 Q1 and indeed with those for the whole of last year. Any assessment of this performance must take into account the uncertainty in the early months of 2003, which were marked by the Iraq conflict and the pessimism dominating the international economic scene. The growth of activity has continued to be underpinned by private consumption (despite a slight dip in its rate of expansion after the recovery seen at the end of 2002) and by the incipient improvement in investment in capital goods in the industrial sector. Personnel costs grew faster than in 2002 Q1 and in 2002 as a whole, due to an increase of nearly 1% in the average number of employees and to the growth in average compensation (4.3%), which were higher than in the previous year. As usual, the favourable performance of employment in the reporting corporations is attributable to the buoyancy of the distributive trade, although a new development here is the recovery, albeit still modest, of employment in industrial corporations, reversing the recent trend. The rise in permanent and, in particular, temporary employment provides further confirmation of the signs of recovery cited above in the discussion of how activity has varied during this period.

(1) This article is based on the data provided to 13 June 2003 by the 689 corporations which have voluntarily reported information to the CBSO Quarterly Survey (CBQ). The gross value added at basic prices (GVA) of these corporations accounts for 14.3% of the total GVA of the "Non-financial corporations" sector in the Spanish national accounts.

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

Databases	CBA structure	CBA		CBQ (a)		
	2001	2000	2001	02 Q1- Q4/	02 Q1/ 01 Q1	03 Q1/ 02 Q1
Number of corporations / Total national coverage		8053/28.9%	7081/26.0%	835/15.6%	897/16.0%	689/14.3%
1. VALUE OF OUTPUT (including subsidies)	100.0	16.0	2.9	4.6	-0.8	8.5
Of which:						
1. Net amount of turnover and other operating income	130.0	17.4	5.6	4.6	1.3	7.2
2. INPUTS (including taxes)	69.0	20.1	2.3	4.6	-1.9	9.3
Of which:						
1. Net purchases	42.9	23.8	-2.0	5.0	-2.3	8.8
2. Other operating costs	25.6	14.4	7.9	4.3	-1.1	11.3
S.1. GROSS VALUE ADDED AT FACTOR COST [1 - 2]	31.0	7.5	4.1	4.6	1.1	7.2
3. Personnel costs	15.9	7.5	5.2	4.0	3.6	5.1
S.2. GROSS OPERATING PROFIT [S.1 - 3]	15.1	7.5	3.0	5.1	-1.0	8.8
4. Financial revenue	5.3	26.3	25.8	-1.2	-15.4	-2.0
5. Financial costs	4.1	26.3	14.4	-4.2	-10.4	1.0
6. Depreciation and operating provisions	6.8	6.6	-0.2	0.4	0.2	5.5
S.3. ORDINARY NET PROFIT [S.2 + 4 - 5 - 6]	9.5	8.3	12.2	10.4	-1.4	12.6
7. Capital gains and extraordinary revenue	4.5	-10.3	2.6	45.6	166.1	59.9
8. Capital losses and extraordinary expenses	3.7	11.0	2.9	92.7	44.2	23.9
9. Other net provisioning	3.3	-21.1	46.2	100.0	275.9	-85.2
10. Income tax	1.7	-15.4	1.9	2.8	-9.6	20.5
S.4. NET PROFIT [S.3 + 7 - 8 - 9 - 10]	5.3	15.3	-0.8	(b)	-1.1	151.5
Memorandum item:						
FUNDS GENERATED FROM OPERATIONS [S.2 + 4 - 5 - 10]	14.7	10.5	7.2	6.4	1.0	7.4
PROFIT RATIOS						
R.1 Ordinary return on net assets (before taxes)		7.4	7.6	8.9	5.9	6.5
R.2 Interest on borrowed funds/ interest-bearing borrowing		5.0	5.1	4.6	4.4	4.2
R.3 Ordinary return on equity (before taxes)		9.1	9.5	12.8	7.2	8.6
R.4 ROI - cost of debt (R.1-R.2)		2.4	2.5	4.3	1.5	2.3
R.5 Debt ratio		47.3	49.0	52.8	51.6	52.2

Source: Banco de España.

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

(b) Rate not calculable. The most complete information at this time for 2002 Q1-Q4 (arising from the inclusion of data reported late and the revision of provisional data contributed by corporations) leads to an additional deterioration of the rate published for that period in the March 2003 article (-31.2%), to such an extent as to make it incalculable (the reporting corporations as a whole went from positive net results in 2001 to negative net results in 2002 due to the provisions recorded for their investments in Latin America and for failed investments in technology firms).

Note: Internal accounting movements have been edited out of items 4, 5, 7, 8, 9 and 10.

TABLE 2.a

Value added, employees, personnel costs and compensation per employee
Breakdown by size 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			
	2001	02 Q1-Q4 (a)	02 Q1	03 Q1	2001	02 Q1-Q4 (a)	02 Q1	03 Q1	2001	02 Q1-Q4 (a)	02 Q1	03 Q1	2001	02 Q1-Q4 (a)	02 Q1	03 Q1
Total	4.1	4.6	1.1	7.2	2.5	0.1	0.2	0.8	5.2	4.0	3.6	5.1	2.7	3.9	3.4	4.3
SIZE:																
Small	7.6	—	—	—	2.0	—	—	—	7.5	—	—	—	5.4	—	—	—
Medium	8.5	5.5	4.3	1.0	3.7	1.5	1.0	1.7	9.1	4.4	4.4	6.4	5.2	2.9	3.3	4.6
Large	3.4	4.6	0.9	7.5	2.3	0.0	0.1	0.7	4.6	4.0	3.5	5.0	2.2	4.0	3.5	4.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-5.9	-0.2	-1.8	15.1	-2.5	-3.1	-2.9	-2.4	3.0	0.0	1.2	6.4	5.7	3.2	4.2	8.9
Industry	-0.9	2.2	-4.6	8.2	-1.0	-1.7	-2.7	0.5	2.9	2.3	0.3	4.4	3.9	4.1	3.0	3.9
Wholesale and retail trade	10.5	9.4	8.0	5.6	7.2	4.4	5.7	3.4	9.1	6.8	6.1	8.3	1.7	2.3	0.4	4.8
Transport and communications	9.2	7.2	3.4	3.1	0.1	-1.1	-0.7	-0.2	3.1	4.4	3.8	3.5	3.0	5.6	4.5	3.6

Source: Banco de España.

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

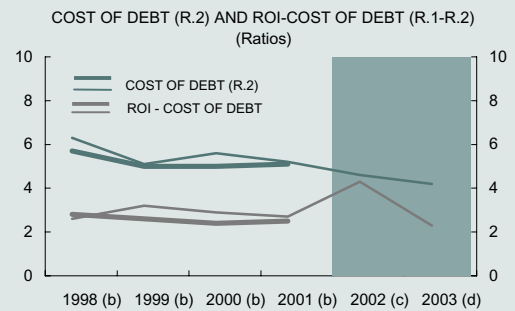
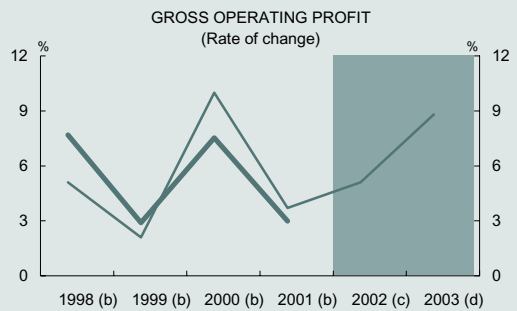
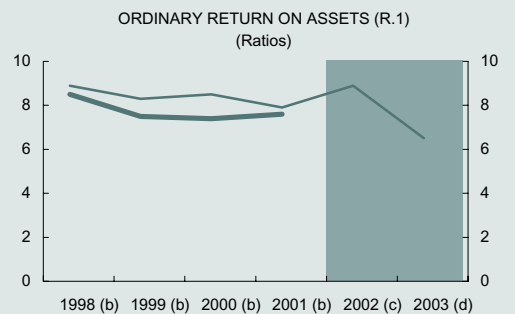
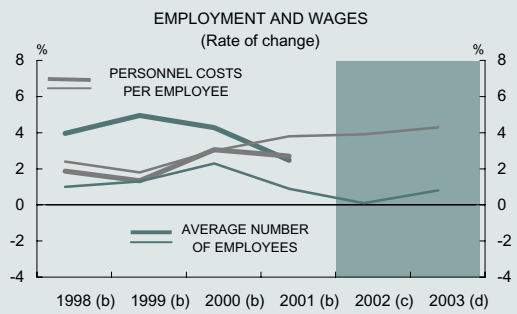
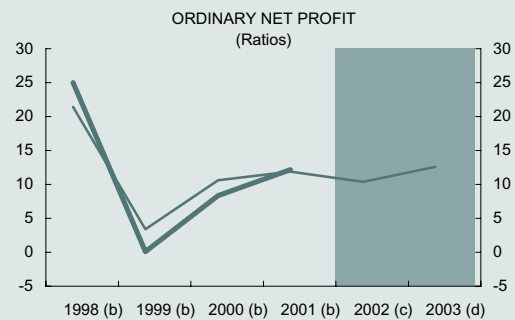
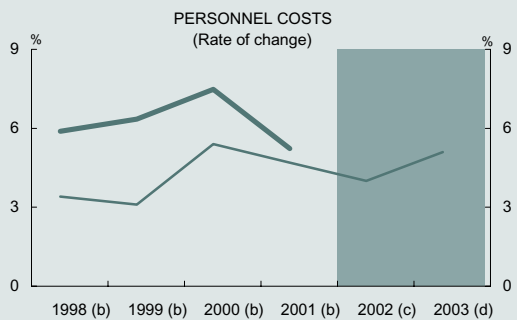
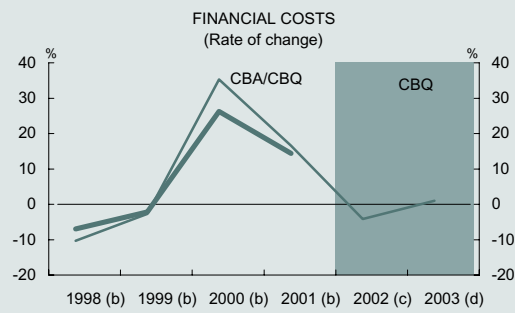
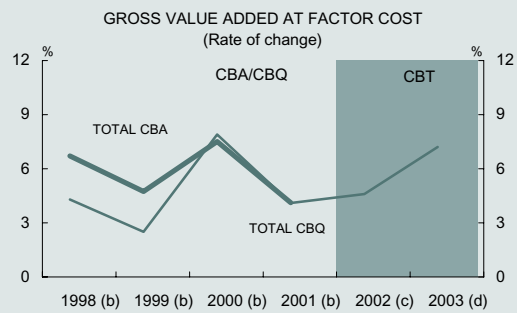
GVA outgrew personnel costs, which explains the higher growth rates of the surplus, or gross operating profit – and also of the ordinary net profit – compared with 2002 as a whole and, more particularly, with the first quarter of that year. Ordinary net profit, which is the variable used to calculate profit ratios, performed favourably despite the slight fall in financial revenue and the small rise (a new phenomenon in this recent period) in financial costs as a result of the increase in indebtedness and in commissions. The extraordinary transactions carried out in 2003 to date contrast with the high net provisioning in 2002 to cover the loss in value of the investments made in Argentina by Spanish groups. The provisioning is reflected in the 2002 Q1 figures, which explains why this item has behaved differently in the two periods (up by 276% in 2002 Q1 and down by 85% in 2003 Q1). This differing behaviour is the basic reason for the exceptional growth in net profit in 2003 Q1 compared with the preceding period. The erratic course of this variable, which is particularly pronounced over short time intervals due to the impact of extraordinary factors like those mentioned above (mostly beyond the control of corporations), is the reason why it is not taken into account as representative of the true result of business activity when it comes to calculating returns. Lastly, the slight decrease of 0.2 percentage points in the borrowing cost ratio in

2003 Q1 meant that the spread between return and cost remained positive in this period, at levels slightly above those in 2002 Q1, and that the ordinary return on equity held at a level (8.6%) which continued to stimulate renewed productive investment.

2. ACTIVITY

In the first three months of 2003, the CBQ reporting corporations gradually stepped up their productive activity, continuing the trend initiated in the second half of 2002. However, the nominal increase in GVA for 2003 Q1 (appreciably higher at 7.2% than the 1.1% posted in the same quarter of 2002) was influenced by the effect that rising oil prices had on the GVA of refining corporations and by the calendar effect (Easter fell in the first half of 2002 and in the second half of 2003). To evaluate the impact of oil price movements on the total aggregate, it must be taken into account that, if the effect of refining corporations and fuel distributors (which are the two groupings most directly affected by oil price movements) is disregarded, the GVA growth rate of the total was 4.2%, against 2.8% in the same period of 2002. These figures confirm the solid response of business activity in a quarter in which the international situation was not favourable. Thus the heightened geopolitical

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



		NUMBER OF CORPORATIONS					
CBA		8,135	8,248	8,053	7,081		
CBQ		840	892	906	867	835	689
		% OF GDP OF THE SECTOR NON-FINANCIAL CORPORATIONS					
CBA		33.5	31.6	28.9	26.0		
CBQ		18.3	17.9	16.7	15.7	15.6	14.3

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— CBA data.

— CBQ data.

Source: Banco de España.

- (a) Information available to 13 June 2003 (CBA and CBQ).
- (b) The 1998, 1999, 2000 and 2001 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 2002 relative to the same period of 2001.
- (d) First quarter of 2003 relative to the same period of 2002.

TABLE 2.b

Employment and personnel costs
Details based on changes in staff levels

	Total CBQ corporations 2002 Q1-Q4	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations	689	386	303
Personnel costs			
Initial situation 2002 Q1 (€ m)	5,293.1	2,482.6	2,810.5
Rate 03 Q1/02 Q1	5.1	9.8	0.9
Average compensation			
Initial situation 2002 Q1 (€)	9,138	8,060	10,371
Rate 03 Q1/02 Q1	4.3	4.1	6.0
Number of employees			
Initial situation 2002 Q1 (thousands)	579	308	271
Rate 03 Q1/02 Q1	0.8	5.6	-4.7
Permanent			
Initial situation 2002 Q1 (thousands)	483	246	237
Rate 03 Q1/02 Q1	0.1	3.5	-3.4
Non-permanent			
Initial situation 2002 Q1 (thousands)	96	62	34
Rate 03 Q1/02 Q1	3.8	13.6	-14.5

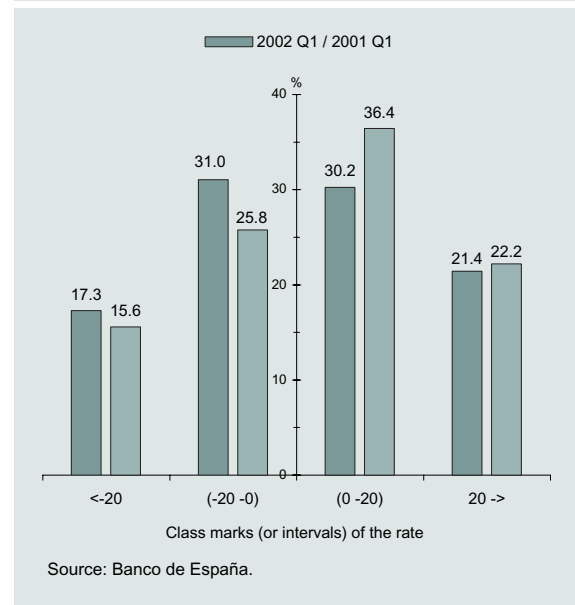
Source: Banco de España.

tension in the Middle East during these months which culminated in the Iraq war, along with financial market instability and the persistent deceleration besetting certain other European economies, make for a situation that is scarcely conducive to the recovery of world economic activity. In these circumstances, Spanish firms have proven themselves capable of sustaining notable momentum, as evidenced by their purchases and sales figures, which in 2003 grew by 8.8% and 7.2%, respectively, appreciably more than in 2002. This performance continues to depend largely on buoyant private consumption, which continued to grow, albeit slightly more slowly than in previous periods, and on improvement in investment in capital goods, which after several extremely slack quarters, has started to show signs of recovery. External activity, as measured by exports, continued to grow in 2003 Q1, according to alternative sources. This performance is to some extent also reflected in the data reported by corporations to the CBQ (see Table 3).

With regard to sectors of activity, the corporations in the energy and industrial sectors recorded higher GVA growth in 2003 Q1 than in the same quarter of 2002. An analysis of the *energy sector* has to take into account that, although strong growth was shown by oil *refining corporations*, the rises in GVA at *electricity corporations* were more moderate than in 2002 Q1 (2.5% as against 6.2%), mainly due to substan-

CHART 2

Distribution of corporations by rate of change in GVA at factor cost
(2002 Q1 / 2001 Q1, 2003 Q1 / 2002 Q1)



tial cuts in wholesale prices, which coincided with growth in demand of 3.2% (adjusted for temperature and work calendar effects) and with a decrease in production costs, since more hydroelectricity was generated than in the same period of 2002. The *distributive trade* sustained its notable buoyancy of recent years and GVA increased by 5.6% with respect to 2002 Q1, compared with the 8% rise in 2002 Q1. This apparent slowdown reflects the vicissitudes of fuel distributors, whose margins narrowed due to the higher price of their main input (oil). Excluding fuel distributors, distributive trade grew by 8.4% in 2003 Q1, as against 7% in 2002 Q1. Finally, corporations in both the industrial and the transport and communications sectors also recorded notable growth in GVA. The GVA of *industrial corporations* grew by 8.2% in the first three months of the year due to the positive performance of investment in capital goods. As a result, for the fourth quarter running this aggregate of corporations has shown positive rates of change; furthermore, this figure represents a significant change in trend if it is taken into account that the rate in 2002 Q1 was -4.6%. Meanwhile, the GVA of *transport and communications corporations* rose by 3.1%, similar to the 3.4% posted in 2002 Q1. Mobile telephony corporations were mainly responsible for this increase, attributable to the expansion of this segment due to the widespread popularity of additional new services generating substantial increases in value added.

Lastly, it is of interest to analyse the information in Chart 2, which is a breakdown of corpo-

TABLE 3

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

	CBA	CBQ	
	2001	02 Q1-Q4 (a)	03 Q1/02 Q1
Total corporations	7,081	835	689
Corporations reporting source/destination	7,081	806	662
	%	%	%
Net purchases	100.0	100.0	100.0
SOURCE OF PURCHASES:			
Spain	65.3	79.0	78.7
Total abroad	34.7	21.0	21.3
<i>EU countries</i>	20.8	15.8	15.8
<i>Third countries</i>	13.9	5.2	5.5
Net turnover	100.0	100.0	100.0
SALES DESTINATIONS:			
Spain	81.4	87.4	87.0
Total abroad	18.6	12.6	13.0
<i>EU countries</i>	13.5	8.4	9.4
<i>Third countries</i>	5.1	4.2	3.6

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

rations by GVA growth rate. It shows that the growth of value added has become a more general phenomenon among corporations, irrespective of their size. Thus in 2002 Q1 51.6% of corporations recorded rises in GVA, while in 2003 Q1 this percentage was 7 percentage points higher at 58.6%, thereby confirming that most of the CBQ reporting corporations have shared in the recovery.

3. EMPLOYMENT AND PERSONNEL COSTS

In 2003 Q1 the personnel costs of the aggregate of corporations making up the quarterly sample grew by 5.1%, appreciably more than the 3.6% rise posted in 2002 Q1. This increase was due to growth in average compensation and to rising employment.

Average compensation grew by 4.3% in 2003 Q1. This was slightly above the figure in 2002 as a whole (3.9%) and somewhat higher than that in 2002 Q1 (3.4%), which seems to indicate that the pressure exerted by price rises in 2002 is feeding through to wages via wage indexation clauses. Although compensation rose in all sectors, the rises particularly affected the *energy* sector, where the coinci-

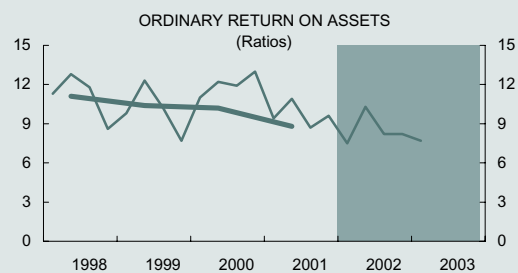
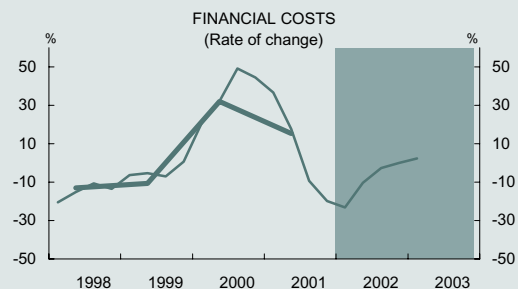
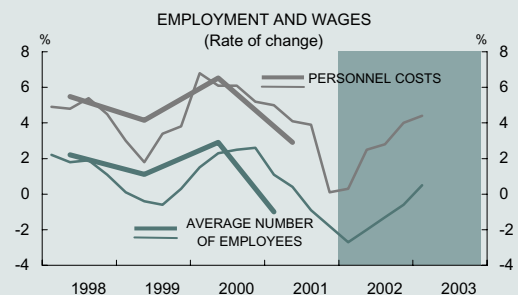
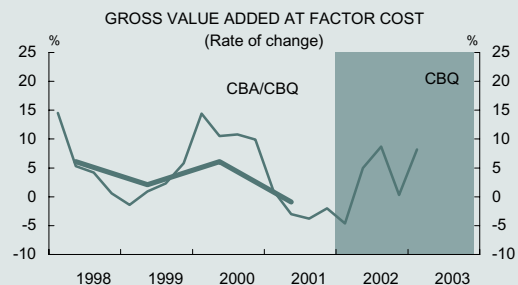
dence of various factors (significant net reductions in employment, increases in variable compensation in some of the main companies and the above-mentioned wage indexation clauses, among others) meant that average compensation grew by 8.9% in 2003. Table 2.b also confirms that the aggregate of corporations that destroyed jobs was the one in which average compensation grew most, while the corporations that created jobs saw wage costs rise by 4.1%, slightly below the growth for the total sample and nearly 2 percentage points under the growth rate recorded by the aggregate of corporations with layoffs (6.0%). Besides the energy sector, the other aggregates analysed by the CBQ also exhibit high growth rates of average compensation, all around 4%. This widespread growth shows that in some cases the rises are not based on the efficiency and productivity of each sector, which may detract from the competitiveness of some sectors. Finally, Table 4 shows that in this period 56% of CBQ reporting corporations maintained or augmented their average workforces in 2003 Q1 (practically the same proportion as in 2002 Q1) and that nearly 60% of the sample corporations saw wage costs rise by more than inflation, 8 percentage points higher than that in the same period of the previous year; these developments further confirm what has been said above.

Analysis of the industrial sector

The productive activity of the industrial corporations reporting to the CBQ, as measured by the change in their GVA, grew by 8.2% in 2003 Q1, thereby confirming the recovery already apparent in the second half of 2002. This performance can be explained by the slight improvement in investment in capital goods, along with the recovery in margins and in sales in some of the main sub-sectors of this aggregate. More detailed analysis reveals that the chemicals industry and transport equipment manufacturing were the groupings that recorded the highest increases in GVA, although the output of all industrial sub-sectors increased, except for that of "Other manufacturing", the GVA of which fell by 2.3%. The recovery of activity in this sector was accompanied by a return to positive rates of change in employment. In 2003 Q1 industrial corporations increased their average workforce by 0.5%, which, although not very high, represents a significant change in trend after six consecutive quarters of workforce reductions. Average compensation, which moved in parallel with the total sample, grew at a high rate (3.9%). This was similar to that in 2002 (4.1%), although significantly higher than that in 2002 Q1. Inflationary pressure affected these developments via the wage indexation clauses included in collective labour agreements, and constitutes a risk factor for a sector with such a high exposure to external activity. As a result of the changes in employment and compensation, personnel costs grew by 4.4%. This figure was in any event lower than GVA growth, thus allowing gross operating profit and ordinary net profit to grow by 13.6% and 13.8%, respectively. Consequently, the ordinary profit levels, both for the ordinary return on net assets (7.7%) and for the return on equity (9.2%), showed moderate increases on those in 2002 Q1 (7.5% and 8.8%, respectively); that said, as in the case of the total aggregate of corporations discussed in the main text of this article, they were lower than those for 2002 as a whole, given the poorer results usually obtained in the first two quarters of the year. In addition, the ratio that measures the cost of external financing fell by 0.3 percentage points in the first quarter of the year compared with the same period of 2002, which meant that the spread between the return on investment and the cost of debt remained positive (3.6%) and higher than a year earlier (3.1%).

In sum, the performance of industry in 2003 Q1 means that the picture is relatively favourable. Thus activity has grown and surpluses have recovered in comparison with those a year earlier. Employment and profitability have also grown, albeit moderately. However, risks persist, particularly on the international front, and are a threat to the industrial sector's continued growth in the future. The fact that industry is a more sensitive aggregate than others to external activity means that it is more vulnerable to international developments. Although the international financial markets have apparently resumed a course of higher stability and growth, and while the prompt resolution of the Iraq war may contribute to renewed confidence, there are still not sufficiently clear signs of recovery in some of the world's main economies. The uncertain course of oil prices also introduces an additional factor of uncertainty that prevents any clear definition of the most likely scenario in coming months. All these factors would advise the implementation of policies of investment in research and technological development which, along with efficient management and control of costs, will be the means of growth in output, investment and employment.

Performance of industrial corporations reporting to the CBSO (a)



NUMBER OF CORPORATIONS

CBA	3,247	3,035	2,830	2,397
CBQ	402	392	386	378
	421	405	396	387
	432	412	390	377
	405	395	383	364
	397	381	367	305

% OF GDP OF THE SUBSECTOR INDUSTRIAL CORPORATIONS

CBA	33.8	30.9	28.3	24.4
CBQ	27.4	26.0	25.2	24.4
	27.9	28.4	26.3	25.2
	26.3	24.9	25.2	22.2
	21.8	21.0	21.1	21.1
	21.5	21.9	20.4	18.2

— CBA data.

- - - CBQ data.

Source: Banco de España.

(a) Information available to 13 June 2003 (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
Percentage of corporations in specific situations

	CBA		CBQ			
	2000	2001	01 Q1-Q4 (a)	02 Q1-Q4 (a)	02 Q1	03 Q1
Number of employees	8,053	7,081	867	835	897	689
Personnel costs	100.0	100.0	100.0	100.0	100.0	100.0
Falling	18.0	22.0	38.9	33.4	31.8	24.6
Constant or rising	82.0	78.0	61.1	66.6	68.2	75.4
Average number of employees	100.0	100.0	100.0	100.0	100.0	100.0
Falling	24.5	28.0	40.3	43.7	43.7	44.0
Constant or rising	75.5	72.0	59.7	56.3	56.3	56.0
Average compensation (relative to inflation) (b)	100.0	100.0	100.0	100.0	100.0	100.0
Lower growth	47.2	39.2	46.8	49.6	48.9	40.8
Higher or same growth	52.8	60.8	53.2	50.4	51.1	59.2

Source: Banco de España.

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

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

Employment rose slightly in 2003 Q1, in line with the growth of activity, which may be a sign that corporations are confident of recovery strengthening in the next few quarters. Average employment grew by 0.8%. Although not very high, this is the best rate achieved since end-2001 and, furthermore, it results from increases in both permanent and temporary employment. The latter type of job creation shows positive rates of change for the second quarter running. The trend in all the sectors analysed was more favourable in 2003 Q1 than a year earlier, except in the *distributive trade* sector, which again recorded the highest rate (employment was up by 3.4%), although less than that in 2002 Q1 when employment here grew by 5.7% (2). This recent development is explained by the moderate course of private consumption in the last few months and the slowdown in construction of new hypermarkets and other large retail outlets due to difficulties in opening new facilities. Among the other sectors, *industry* was notable for its positive rate of 0.5%, which signified a return to job creation after six consecutive quarters of negative rates in this variable. Finally, the *energy* and the *transport and communications* sectors recorded net falls

(2) Another article published in the June edition of the *Boletín Económico* analyses the economic, financial and structural determinants of retail food distribution. It discusses certain behaviour patterns that may arguably be extrapolated to the rest of the distributive trade sector.

in employment in the first quarter of the year. Both were affected by corporate restructuring processes, which are usual in these two sectors. However, both aggregates improved on their figures a year ago, and at -0.2% the rate in transport and communications practically stabilised.

4. PROFITS, MARGINS AND RATES OF RETURN

The overall behaviour of GVA and personnel costs meant that in the first three months of the year corporations recorded notable growth of gross operating profit (8.8%) and of ordinary net profit (12.6%), the rates of which exceeded those in 2002 Q1 (when they even turned negative) and in 2002 as a whole. These growth rates, underpinned by the factors analysed in the preceding sections, confirm the positive performance of Spanish corporations in this period of uncertainty and international instability. Sectoral analysis indicates that the relative recovery of the *industrial* sector has fed through to gross operating profit (which rose from 2.0% in 2002 to 13.6% in 2003 Q1) and that the sharp increases in *energy* corporations are a result of the rates recorded by refining corporations. The other sectors shown in Table 5 (*wholesale and retail trade* and *transport and communications*) maintained a good pace, but the growth of both balances eased.

TABLE 5

**Gross operating profit, ordinary net profit, ordinary return on assets and ROI-cost of debt (R.1-R.2).
Breakdown by size and main activity of corporations
(Ratios and growth rates of the same corporations on the same period a year earlier)**

	Gross operating profit				Ordinary net profit				Ordinary return on assets (R. 1)				ROI-Cost of debt (R.1-R.2)			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2001	02 Q1-Q4 (a)	02 Q1	03 Q1	2001	02 Q1-Q4 (a)	02 Q1	03 Q1	2001	02 Q1-Q4 (a)	02 Q1	03 Q1	2001	02 Q1-Q4 (a)	02 Q1	03 Q1
Total	3.0	5.1	-1.0	8.8	12.2	10.4	-1.4	12.6	7.6	8.9	5.9	6.5	2.5	4.3	1.5	2.3
SIZE:																
Small	7.6	—	—	—	4.3	—	—	—	8.9	—	—	—	2.8	—	—	—
Medium	7.7	6.9	4.1	-6.2	4.7	2.7	5.0	-12.0	9.9	9.5	9.7	7.6	4.7	4.7	5.3	3.4
Large	2.3	5.0	-1.2	9.4	13.2	10.8	-1.8	13.8	7.4	8.9	5.8	6.5	2.4	4.3	1.4	2.3
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE:																
Energy	-8.6	-0.2	-2.6	17.6	-8.7	6.1	2.2	13.5	8.4	11.2	8.6	8.6	3.7	6.5	4.1	4.6
Industry	-5.9	2.0	-10.7	13.6	-7.4	0.1	-12.5	13.8	8.8	8.6	7.5	7.7	3.2	4.0	3.1	3.6
Wholesale and retail trade	12.5	12.5	10.0	2.5	20.8	14.8	21.5	5.0	12.5	11.8	12.5	12.1	7.4	7.0	8.1	7.0
Transport and communications	14.2	9.2	3.1	2.9	43.1	23.4	15.0	5.0	8.4	10.9	8.1	10.4	2.7	6.1	3.4	5.6

Source: Banco de España.

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

Turning to financial costs and revenue, their impact on the growth of ordinary net profit in the first quarter of the year was negative, although the amount was low. In effect, on the one hand, there was a slight decrease of 2% in financial revenue and, on the other, there was a 1% increase in financial costs (due to the change in commissions, since interest on borrowed funds held steady). Furthermore, the relative weight of financial costs (see the first column of Table 1) within the total corporate cost structure is now very low, basically because of the low interest rates. This means that the leeway for generating further surpluses by means of additional interest rate cuts has practically run its course, and that therefore future improvements in corporate results will have to be based on gains in competitiveness, reductions in operating costs and cost rationalisation measures in general.

As in past editions of this article, the following table lists the causes of the change in financial costs:

	<u>03 Q1/02 Q2</u>
Change in financial costs	+1.0%
A. <i>Interest on borrowed funds (1 + 2)</i>	+0.0%
1. Due to the cost (interest rate)	-4.5%
2. Due to the amount of interest-bearing debt	+4.5%
B. <i>Commissions and cash discounts</i>	+1.0%

This table shows that the change in financial costs in 2003 Q1 resulted from movements in opposite directions. On the one hand, the rate of change of financial costs due to the cost component, i.e. to the interest rates being applied, was -4.5% in 2003 Q1. This decrease was totally offset by the effect arising from the greater resort to sources of external financing (higher indebtedness) by corporations in the first quarter of the current year compared with a year earlier. In any event, the increases are fairly small. Also, it has to be kept in mind that this moderate change in borrowing has taken place in a context of very low interest rates, which shows that firms are not being very active in investment, but rather are waiting for the international situation to become clearer. Also contributing to this moderate resort to borrowing is the high level of indebtedness of some corporations and sectors.

Against this background, firms were able to maintain their returns at sufficient levels in the first three months of 2003, higher than in the same period of 2002 but not equal to those for 2002 as a whole. Thus the return on net assets in 2003 Q1 was 6.5%, up on the 5.9% posted in the same quarter a year earlier but still lower than the 8.9% recorded for 2002 as a whole. Mention can be made of the transport and com-

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)	
	02 Q1	03 Q1	02 Q1	03 Q1
Total corporations	100.0	100.0	100.0	100.0
R ≤ 0 %	23.2	25.8	26.9	29.1
0 % < R ≤ 5 %	21.0	20.4	15.4	15.9
5 % < R ≤ 10 %	17.8	13.7	14.2	10.6
10 % < R ≤ 15 %	10.5	13.5	9.4	10.0
15 % < R	27.6	26.6	34.1	34.4
Number of corporations	897	689	897	689
	02 Q1	03 Q1	02 Q1	03 Q1
MEMORANDUM ITEM:				
Average return	5.9	6.5	7.2	8.6

Source: Banco de España.

munications sector, with a return on net assets of 10.4%, up 2 percentage points on 2002 Q1, while the other sectors held steady at profitability levels similar to those in the previous year. Meanwhile, the ratio that approximates the cost of debt stood at 4.2% for 2003 Q1, just 0.2 percentage points less than in the same period of 2002. The overall effect of the two ratios, or in other words the difference between them, was, yet again in 2003 Q1, positive and clearly higher than in the first three months of 2002. Lastly, the information included in Table 6 permits analysis of behaviour as a function of the return obtained, without taking firm size into account. It can be seen that the situations described for the first quarters of 2002 and 2003 are very similar. They differ only in a significant shift, which shows up as a rise in the percentage of corporations whose return increased by more than 10%, to the detriment of those below this level. This confirms the slight improvement apparent throughout the analysis of this sample, which enables it to be concluded that the corporations that kept up a steady performance were able to maintain and moderately increase their profitability.

In summary, the data for 2003 Q1 speak of continuity and recovery with respect to the situation at end-2002. Productive activity continued

to grow mildly despite the unfavourable turn in the international situation. Similarly, employment began to show positive, albeit low, rates for a larger number of corporations and sectors, while average compensation in most of the aggregates of these corporations rose at rates above the inflation in the period. The influence of certain exogenous factors, such as international oil prices and the recovery of the international economy in the coming quarters, will be pivotal to clarifying the situation. At this juncture, Spanish corporations, with their good profit levels, are favourably poised to take advantage of a fresh expansionary phase which, in any event, will foreseeably make its appearance gradually and moderately. Therefore it is important to encourage new opportunities for firms to expand. These openings should be based to a greater extent on technological development and enable firms to compete on a sound footing in circumstances in which it is vital to combine appropriate cost control with the development of quality products for sale at competitive prices, because this is the fundamental means of gaining access to new markets, increasing external activity and initiating investment projects that will lead to processes generating returns and employment.

20.6.2003