

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2008 Q1

Overview¹

The information gathered by the Central Balance Sheet Data Office Quarterly Survey (CBQ) for 2008 Q1 confirms the gradual slowdown of activity of the sample non-financial corporations which began last year and which, in this period, has affected a growing number of companies and sectors. It is worth bearing in mind that the fact that Easter fell in 2008 Q1, whereas in 2007 it was in Q2, affected the comparison of activity data from the two periods. Gross value added (GVA) increased by 2% in 2008 Q1, considerably less than in the same period last year (6.9%). Most sectors of activity were less buoyant: market services were affected by the softening of private consumption and, following a year of clear growth, aggregate activity of the industrial sector contracted in the first three months of 2008 (the rate of change of GVA stood at -3.5%), most sharply in the industrial sub-sectors more closely linked to construction. These developments are consistent with the slowdown in investment in capital goods shown by alternative indicators to the CBQ, and with the greater uncertainty in the international arena. In the period under analysis, the energy sector alone posted higher increases in GVA than in 2007, essentially due to the extraordinary rise in the turnover of oil refining companies in a setting of rising international crude oil prices.

Personnel costs increased at a rate of 4.9% in 2008 Q1, slightly down on a year earlier (5.1%), as a result of the combined effect of a slowdown in job creation and a larger increase in average compensation. Thus, the average number of employees at firms reporting to the CBQ increased in 2008 Q1 by 0.8%, which is lower than the 1.3% recorded a year earlier. The sectoral analysis indicates that there was greater headcount restraint in industrial and in transport and communications firms. Compensation grew in 2008 Q1 by 4.1%, 0.3 pp up on the same period of the previous year (3.8%). Therefore, there was an ongoing trend of gradual upward adjustment of wage costs, which in the last three years have accelerated moderately (but uninterruptedly) in the CBQ data (3.4% in 2005, 3.5% in 2006 and 3.7% in 2007).

As a result of the slowdown of GVA and the rise in personnel costs, gross operating profit (GOP) did not change with respect to 2007 Q1, when it grew by 8.2%. In addition to this behaviour of GOP, financial costs once again increased strongly (26.7%) and financial revenue grew less sharply (11.8%) and, as a result, ordinary net profit fell with respect to 2007 Q1 (-6.3%). The strong growth of financial costs was due to the combined effect of an increase in the cost of debt and greater recourse to borrowing than in previous quarters (mainly due to certain transactions at large firms in 2007 Q2). Therefore, the sum of ONP and financial costs (the numerator used in profit ratios) remained stable, permitting the return on investment to reach positive values (5.9%), only slightly down on the same period of 2007 (6.3%). Return on equity also worsened slightly, and somewhat more sharply than return on investment, dropping from 8.2% in 2007 to 6.9% in 2008 Q1. Finally, the ratio which approximates the cost of

1. This article is based on the information from the 666 corporations that reported their data to 16 June 2008. The GVA of this aggregate accounts for 12.5% of the total GVA of the sector non-financial corporations (according to Spanish National Accounts data). This is the first quarter in which Spanish non-financial corporations have applied the new Spanish general chart of accounts (Plan General de Contabilidad 2007, "PGC" by its Spanish abbreviation) which explains why data are being sent in with a slight delay (5% of reporting firms will send their data in the next quarter). In any event, these delays do not affect the largest sample firms and, consequently, the results discussed in this article give an accurate picture of the situation in the sector. Box 1 describes the main ways in which the adaptation to the PGC 2007 is affecting the accounting information of firms and the analysis of this information. Notably the application of the new chart of accounts has not meant significant breaks in the main statistical series on which this article is based. However, since under the PGC 2007 capital gains and losses are no longer provided separately in official accounting forms but rather in net terms, Table 1 had to be adapted to this new format and from this article onwards the net amount of extraordinary revenue and expenses will be presented.

ACCOUNTING DATA

Changes in the "language" used with firms: the new Spanish general chart of accounts (PGC 2007)

The new Spanish general chart of accounts (PGC 2007, by its Spanish abbreviation), promulgated by Royal Decree 1514/2007 of 16 November 2007, is applicable to accounting periods beginning on 1 January 2008.¹ This new accounting framework in force in Spain for firms' individual accounts is in line with international financial reporting standards (IFRS), which have applied since 2005 to the consolidated accounts of listed companies.² As part of the process of adapting corporate and accounting law to IFRS, the regulatory body for accounting in Spain, the Spanish Accounting and Audit Institute (ICAC, by its Spanish acronym) reviewed the international standards and eliminated the various options envisaged by them for recording and valuing certain assets and liabilities.

The main new features of the PGC 2007 are as follows: firstly, the introduction of the fair value method of accounting for certain financial instruments (among others, assets and liabilities classified by the firm as held for trading, and available-for-sale financial assets). The variations arising from changes in fair value are recorded on the basis of the purpose of the financial instrument and affect the income statement (where specific captions have been created) and the balance

sheet (a specific caption has been created under equity for adjustments due to changes in value). Secondly, under the PGC 2007, corporations' accounting records must include information on certain types of assets and liabilities which were not regulated sufficiently or were not envisaged in the PGC 1990 (in force until 31 December 2007), such as, for example, information on investment properties a separate breakdown of investments in non-current assets held for sale and of the liabilities relating to these assets, and the recording in the balance sheet of financial assets and liabilities as a result of derivatives transactions. Thirdly, the traditional "extraordinary profit (loss)" item practically disappears from the income statement since it has been sharply reduced in scope, most of its content now being included under operating profit (loss).³ Finally, the PGC 2007 introduces two new accounting statements: the statement of changes in equity (compulsory for all firms) and the cash flow statement (only compulsory for firms of a certain size that use the standard accounting format, which is the one requesting the most detailed information).

The new CBQ questionnaire: impact of the PGC 2007 on reporting firms

In order to adapt to the above-mentioned regulatory changes, the Central Balance Sheet Data Office prepared two new questionnaires

1. There is a simplified version of the PGC 2007 for small firms, called the SME chart of accounts, which was promulgated by Royal Decree 1515/2007 of 16 November 2007. 2. A Box in the article "Results of non-financial corporations in 2005 Q1", published in the June 2005 Economic Bulletin, made a preliminary evaluation of the impact of the application of IFRSs on the consolidated accounts of listed firms.

3. Under the new chart of accounts, most extraordinary profit or loss must be classified in the income statement according to the nature of the revenue or expense. The Central Balance Sheet Data Office, in direct contact with corporations, identifies these transactions in order to isolate and exclude them from the calculation of ordinary net profit (the basis for the analysis of return on investment).

USE OF THE QUESTIONNAIRE ADAPTED TO THE PGC 2007 BY CBQ REPORTING FIRMS

Principal results

	Total firms	Questionnaire	
		PGC 1990	PGC 2007
1 Use of new questionnaire	668	130	538
	Total firms 08 Q1 (PGC 2007)	Reported having comparability problems	
		Number	Percentage
2 Comparability problems due to application of PGC 2007	538	36 (a)	6.7%
3 Impact of fair value	No. of firms	Adjustment/Equity (b)	Adjustment/Total assets (b)
	62	2.7%	1.0%
a) Balance sheet (adjustment to equity due to change of value)	666	0.9%	0.3%
	No. of firms	Adjustment/Turnover plus financial revenue (b)	Change/Net profit (b)
	24	7.4%	83.9%
b) Income statement (change in fair value)	666	0.5%	6.6%

a. After making the adjustments required to connect the time series, 34 firms which reported having comparability problems were included in the study (only two were excluded).

b. The weight of the adjustments is calculated, for the stated variables, both for the firms reporting these impacts due to fair value and as a percentage of the total firms included in the sample.

ACCOUNTING DATA (cont'd)

(an annual and a quarterly one) for 2008, in line with the guidelines of the PGC 2007. The survey for 2008 Q1 is the first experience of collecting information in the framework of the new chart of accounts. However, it was anticipated that some firms, at least during the initial quarters, would not have adapted to the new framework, and the possibility was left open of them completing the quarterly questionnaire using the old format (PGC 1990) and applying internally a conversion table and resolving the linkage problems encountered. The accompanying table shows the qualitative and quantitative impact of the PGC 2007 on the new CBQ questionnaire:

- Only 19% of firms continued to send their information using the old questionnaire, due to lack of time to adapt to the new chart of accounts.
- In the new questionnaire firms were asked if, as a result of application of the new accounting rules, changes had occurred which had a significant impact on comparability of their data. Slightly less than 6.7% of firms answered this question in the affirmative (36 out of the 538 firms which filled in the new questionnaire). The data were processed so as to preserve the consistency of the time series, which was possible in 34 cases (only two firms finally had to be excluded from the studies). In addition to the matter discussed in the following paragraph, the comparability problems mentioned by firms have been: the different classification of financial leases (which are no longer part of intangible fixed assets and are now included under tangible fixed assets), the elimination of the reversion fund and the inclusion of capital grants under equity.

- As expected, the main issue noted by firms, for data comparison purposes, arose from the application of the fair value method. The accompanying table provides information on the relative importance of the new valuation system in non-financial corporations reporting to the CBQ. The impact on their balance sheet is limited (62 firms reported an impact of 2.7% of their own funds, which amounts to 0.9% of the own funds of the total sample). The impact on the income statement is slightly larger. Thus, the 24 firms which reported that their income statement had changed due to carrying financial instruments at fair value stated that this change was for a positive amount (net income) which represents 83.9% of their net profit. This is an impact of 7.4% if compared with these firms' net sales (6.6% and 0.5% when this change is calculated using these same variables with respect to the total sample). Consequently, the main effect is that net profit will henceforth show higher volatility.

Lastly, as regards the presentation format of the financial statements included in this article (see Table 1), the decision was taken to keep publishing during the initial quarters of 2008 the same information as has been published so far, for two main reasons: first, practically all the captions and ratios used so far can still be calculated with the new information, thus guaranteeing a near perfect match with previous series; and, second, it was considered appropriate to wait until a longer data series is available (at least three quarters) to commence publication of the new breakdowns of information available within the framework of the new chart of accounts.

borrowing continued on the upward path of recent years (it rose 0.5 pp above the previous year's ratio to 4.8%) due to the effect of interest rate rises and, as a result, the difference between ROI and cost of debt narrowed significantly to 1.1 (in comparison with 2.0 in 2007).

Lastly, the most notable developments regarding extraordinary results are the considerable growth in revenue, due to substantial gains on share sales and the revaluation of certain financial assets (which were recorded for the first time using the fair value method), along with a sharp drop in control portfolio impairment charges.² Both effects contributed to a clearly more positive change in net profit than in previous periods. Thus the increase of 9.4% in 2008 Q1 clearly exceeds the rate posted one year earlier (3.6%). This increase in net profit, together with more contained growth of GVA, took the profit level of CBQ firms, expressed as a percentage of GVA, to 32%, almost 3 pp higher than in 2007 Q1.

Thus, the data collected by the CBQ for 2008 Q1 confirmed the slowdown in productive activity, which had begun the previous year, triggering a fall in ordinary profits and employment

² As indicated in Box 1, the information available in the Central Balance Sheet Data Office Survey on the impact of the use of the fair value method enables us to isolate its effects on the profit and debt ratios so that it can be analysed in the time series. However, in the case of the profit and loss account it was decided not to strip out the effect of fair value accounting, in order to give a true and fair view of final net profit, although that meant that its volatility increased and thus further reduced its analytical predictive significance. In any event, in view of this variable's high volatility, since 1998 profit ratios have been calculated in relation to ordinary net profit and not as a percentage of net profit.

PROFIT AND LOSS ACCOUNT. YEAR-ON-YEAR CHANGES AND PROFIT RATIOS
Growth rates of the same corporations on the same period a year earlier

TABLE 1

	CBA STRUCTURE	CBA		CBQ		
	2006	2005	2006	07 Q1-Q4/ 06 Q1-Q4 (a)	07 Q1/ 06 Q1	08 Q1/ 07 Q1
DATABASES						
Number of corporations		9,093	8,836	811	876	666
Total national coverage		32,6%	32,2%	13,9%	14,9%	12,5%
PROFIT AND LOSS ACCOUNT						
1. VALUE OF OUTPUT (including subsidiaries)	100.0	9.9	9.4	5.8	3.5	9.5
<i>Of which:</i>						
- Net amount of turnover and other operating income	139.8	11.9	9.6	4.0	0.4	9.4
2. INPUTS (including taxes)	68.5	12.5	10.0	6.2	1.8	13.4
<i>Of which:</i>						
- Net purchases	40.2	13.5	11.4	3.2	-2.7	19.2
- Other operating costs	28.4	12.2	8.1	7.3	7.1	4.5
S.1. GROSS VALUE ADDED AT FACTOR COST [1 – 2]	31.5	4.7	8.1	4.9	6.9	2.0
3. Personnel costs	16.7	5.8	6.9	4.5	5.1	4.9
S.2. GROSS OPERATING PROFIT [S.1 – 3]	14.9	3.6	9.4	5.2	8.2	0.0
4. Financial revenue	3.5	24.4	18.2	39.3	53.6	11.8
5. Financial costs	3.2	9.7	35.3	35.4	41.5	26.7
6. Depreciation and operating provisions	5.8	-0.1	9.7	-1.4	-1.0	0.0
S.3. ORDINARY NET PROFIT [S.2 + 4 – 5 – 6]	9.3	10.5	5.3	11.0	13.7	-6.3
7. Extraordinary revenue and expenses (b)	2.6	20.5	(c)	117.0	12.0	102.7
9. Other (net provisioning and income tax)	4.8	-5.2	64.7	83.8	48.5	-9.3
S.4. NET PROFIT [S.3 + 7 – 8]	9.0	20.0	36.4	13.9	3.6	9.4
NET PROFIT/GVA (S.4/S.1)		22.1	28.4	37.4	29.2	32.0
PROFIT RATIOS						
	Formulas (d)					
R.1 Return on investment (before taxes)	(S.3+5.1)/NA	8.7	8.9	8.9	6.3	5.9
R.2 Interest on borrowed funds/ interest-bearing borrowing	5.1/IBB	3.7	4.0	4.5	4.3	4.8
R.3 Ordinary return on equity (before taxes)	S.3/E	12.8	13.1	13.2	8.2	6.9
R.4 ROI - cost of debt (R.1 - R.2)	R.1-R.2	5.0	4.9	4.4	2.0	1.1

SOURCE: Banco de España.

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

b. Includes capital gains and capital losses.

c. Rate not significant or not calculable because the relevant figures are of opposite sign.

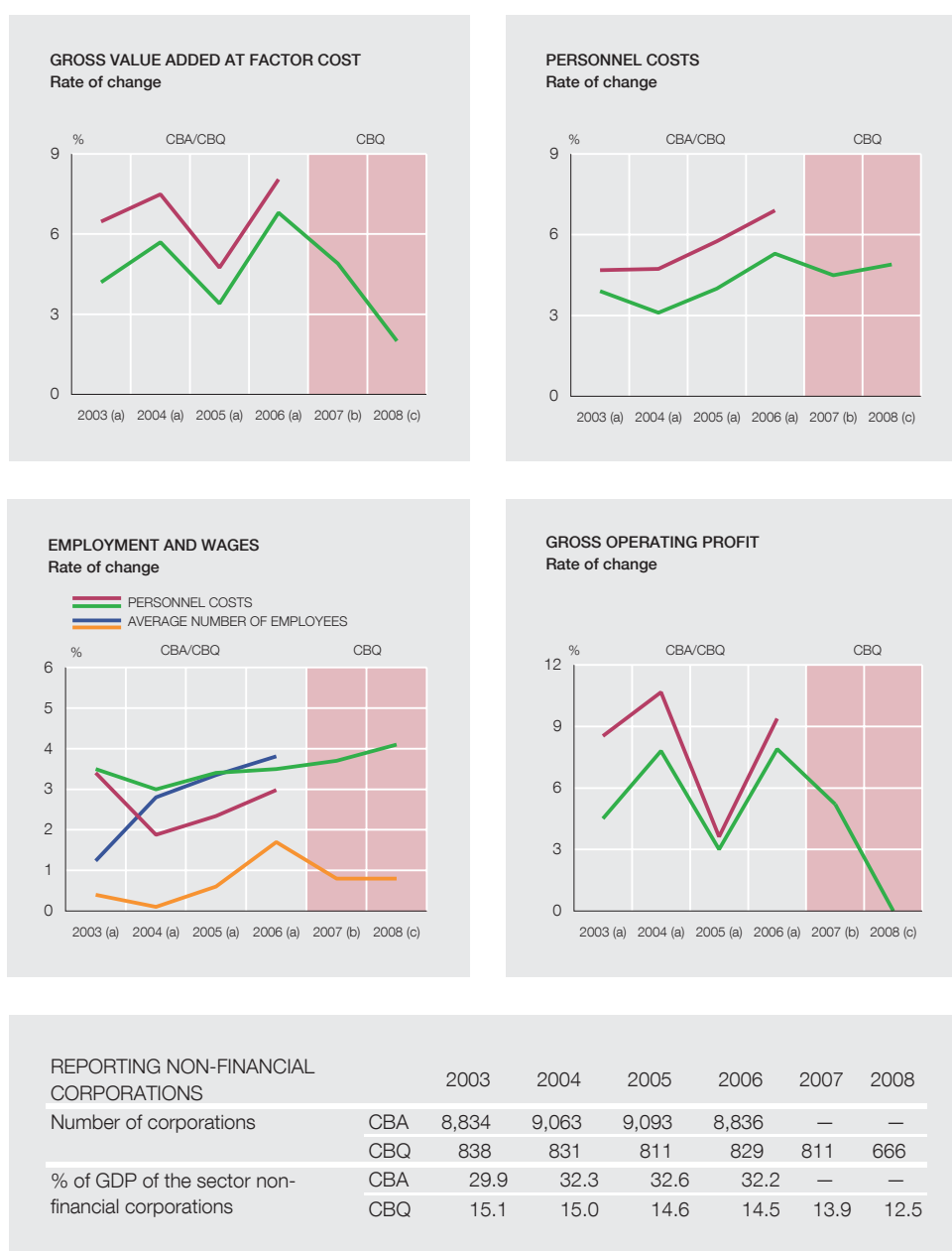
d. The items in the formulas are expressed as absolute values. NA = net assets (net of non-interest-bearing borrowing); E = Equity; IBB = Interest-bearing borrowing; NA = E + IBB. The financial costs in the numerators of ratios R.1 and R.2 only include that portion of financial costs which is interest on borrowed funds (5.1) and not commissions or cash discounts (5.2).

Note: in calculating rates, internal accounting movements have been edited out of items 4, 5 and 8.

data, against a backdrop of a rising trend in oil prices, inflation and wage costs. These developments affected most of the productive sectors as a result of weaker private consumption and the loss of momentum in investment and external activity. In addition, the higher increase in financial costs than in financial revenue resulted in the sample firms recording a decline in their profit levels and a narrowing of the spread with respect to financial costs which, nevertheless, continued to show positive values.

Activity

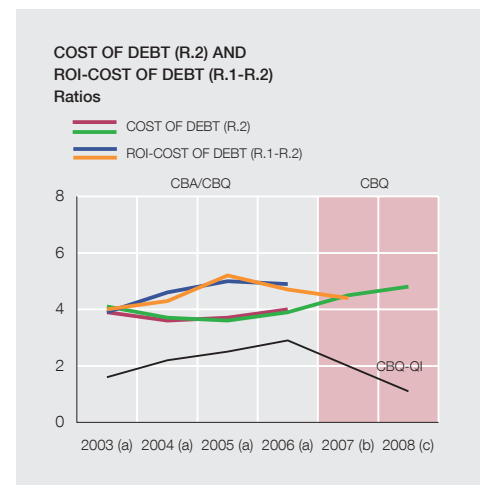
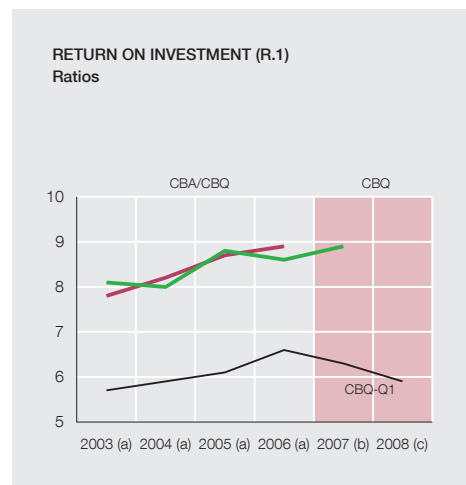
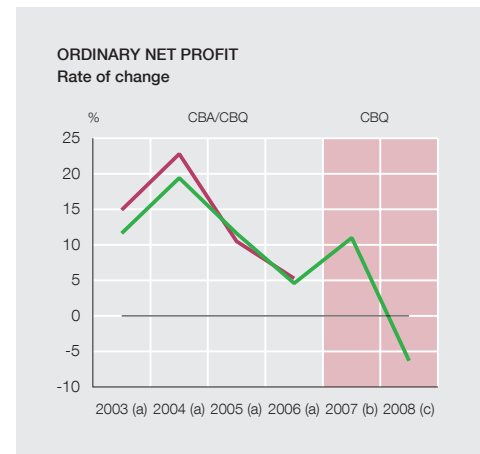
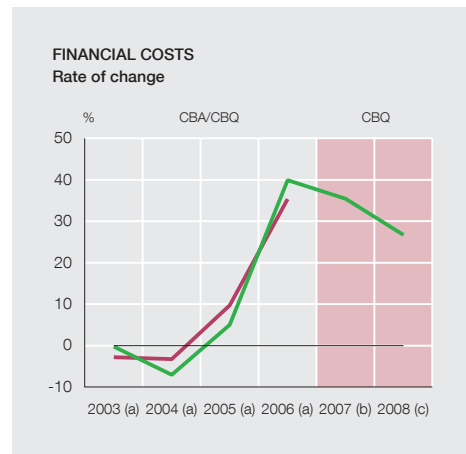
The non-financial corporations reporting to the CBQ posted a slowdown in their productive activity in 2008 Q1, giving rise to 2% growth in GVA in this period, in comparison with 6.9% recorded in 2007 (see Table 1 and Chart 1). The CBQ compares the data provided by non-financial corporations in their accounting records and does not subject this information to statistical processes to adjust the series for seasonal or calendar effects, and this must be considered when interpreting the results. In 2008 Easter fell in Q1, whereas in 2007 it was in



SOURCE: Banco de España.

- a. 2003, 2004, 2005 and 2006 data are the average data of the four quarters of each year (CBQ) relative to the previous year for the corporations reporting to the annual survey (CBA).
b. Average of the four quarters of 2007 relative to the same period of 2006.
c. Data for 2008 Q1 relative to the same period of 2007.

Q2, which may partially affect the comparison of data from the two periods. These negative developments affected practically all sectors of activity, except for energy, the only aggregate whose increases in GVA exceeded the previous year's, due mainly to the positive impact on oil refining companies' activity of the strong upward trend in the international prices of oil (the main input in their productive processes). In fact, if the impact of these firms on the GVA of the periods analysed were stripped out, an even greater slowdown would be seen in this variable for the sample total: the increase in GVA of 8.7% posted in 2007 would fall to 1% for 2008 Q1.



REPORTING NON-FINANCIAL CORPORATIONS		2003	2004	2005	2006	2007	2008
Number of corporations	CBA	8,834	9,063	9,093	8,836	—	—
	CBQ	838	831	811	829	811	666
% of GDP of the sector non-financial corporations	CBA	29.9	32.3	32.6	32.2	—	—
	CBQ	15.1	15.0	14.6	14.5	13.9	12.5

SOURCE: Banco de España.

- a. 2003, 2004, 2005 and 2006 data are the average data of the four quarters of each year (CBQ) relative to the previous year for the corporations reporting to the annual survey (CBA).
- b. Average of the four quarters of 2007 relative to the same period of 2006.
- c. Data for 2008 Q1 relative to the same period of 2007.

In a more detailed sectoral analysis, it can be seen that, although the downturn in activity had a strong effect on practically all the aggregates analysed, as mentioned in the introduction, the sharpest change of trend occurred in the industrial sector. It went from clear growth in 2007 Q1, when GVA was up by 15.1%, to posting a negative rate of -3.5% in 2008 Q1. However, analysis of the various sub-sectors which make up the industrial aggregate (see Box 2) seems to indicate that these developments have been marked by the performance of the industrial firms most closely linked to construction and of the transport equipment manufacturing firms. Other industrial sub-sectors continued to show increases in their GVA (this was the case of food, chemicals and electrical and optical

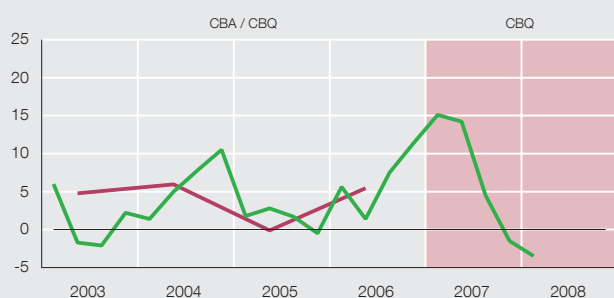
According to CBSO data, the activity of industrial firms contracted in 2008 Q1, when their GVA decreased by -3.5%. This performance, which contrasts with that recorded a year earlier, when this aggregate showed clearly expansionary behaviour with an increase of 15.1% in GVA, is due basically to certain industrial sub-sectors which are more closely linked to developments in construction activity. The loss of dynamism of this aggregate is also attributable to the progressive weakening of investment in capital goods, together with a sharper slowdown in exports than in imports, which led to a rate of change of -20% in net external demand (exports less imports) in this aggregate. The fall in productive activity was concentrated in glass, ceramics and metals, in other manufacturing industries and, finally, in the manufacture of transport equipment, in which GVA showed rates of change of -19.9%, -6.6% and -2.3%, respectively. By contrast, the sample corporations belonging to the food products, beverages and tobacco industries recorded, against a background of price escalation, GVA increases of 17.3%, well above the 5.4% posted in the

same quarter of the previous year. Similarly, the chemicals and the electrical and optical equipment manufacturing industries posted GVA increases of 16.4% and 10.6%, respectively. Employment fell back in 2008 Q1 by -1%, nearly twice the dip a year earlier (-0.6%). The contraction of this variable was concentrated in transport equipment manufacturing, which showed the largest drop in average number of employees (-4.9%), since they were especially affected by certain major staff reductions. By contrast, electronic equipment manufacturing posted sharp increases in employment (8.6% in the corporations surveyed). Average compensation accelerated in the early months of 2008 to 5.6%, well above the 2007 figure of 3.7%. The sharp increase in wage costs is explained, on one hand, by the effect of variable compensation, the impact of which was particularly strong in this quarter, and, on the other, by the greater costs associated with staff reductions, such as those seen in some large industrial firms in 2008. As a result of these developments in compensation and employment, personnel costs increased by 4.5% (nearly one-

PERFORMANCE OF THE INDUSTRIAL CORPORATIONS REPORTING TO THE CBSO

1 GROSS VALUE ADDED AT FACTOR COST

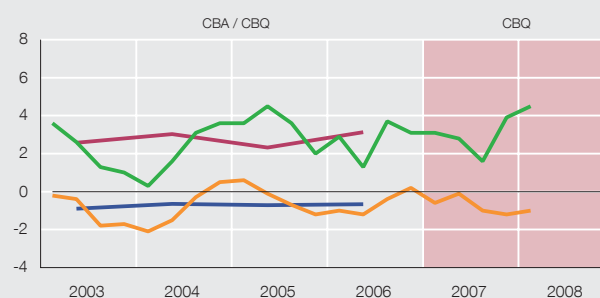
Rate of change



2 EMPLOYMENT AND WAGES

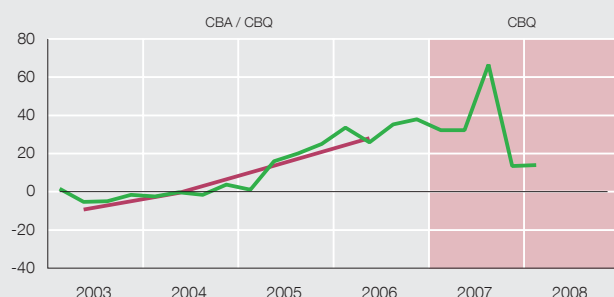
Rate of change

PERSONNEL COSTS
AVERAGE NUMBER OF EMPLOYEES



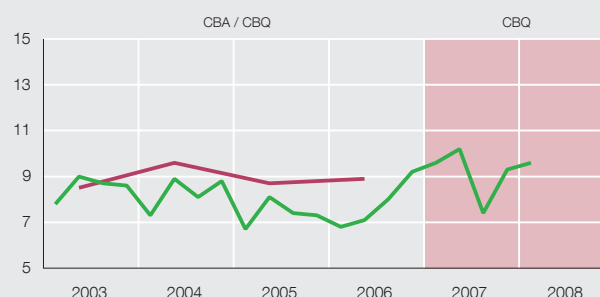
3 FINANCIAL COSTS

Rate of change



4 RETURN ON INVESTMENT

Ratios



REPORTING INDUSTRIAL CORPORATIONS

		2003				2004				2005				2006				2007				2008			
Number of corporations	CBA	2,624				2,530				2,457				2,355				—				—			
	CBQ	367	362	354	346	352	342	335	333	323	311	304	296	320	304	291	281	312	296	277	263	230	—	—	—
% of GDP of the sub-sector industrial corporations	CBA	28.5				29.0				28.6				30.1				—				—			
	CBQ	18.8	19.1	17.1	17.8	19.5	19.7	17.8	19.1	18.9	19.6	16.7	17.2	18.4	17.4	16.0	17.0	18.6	18.5	15.2	14.7	12.4	—	—	—

SOURCE: Banco de España.

and-a-half percentage points more than 2007), which, along with the growth in financial costs (14%), explains the sharp falls in both gross operating profit (-11.4%) and ordinary net profit (-18.8%) in 2008 to date. As a result of all this, the sum of GOP and financial costs, which is the numerator used to calculate return on investment, showed a positive rate of change, as for the total CBQ sample firms, and enabled this ratio to remain at a high level (9.4%). The return on equity deteriorated somewhat, standing at 12.3% in 2008 Q1, 3 pp less than in the same period of 2007. The ratio which approximates the

cost of debt continued to increase progressively in 2008, standing at 4.9% (1 pp more than in 2007), due to the effect of the higher interest rates on business costs. As a result of the changes in return on investment and cost of debt, the difference between them remained at positive values (4.7), although somewhat smaller than in the previous year. In sum, following a clearly expansionary year in 2007, the non-financial corporations in some industrial sub-sectors commenced 2008 by showing signs of weakness, which spread to the industrial aggregate covered by the CBQ.

equipment manufacturing). In any event, the slowdown in industry as a whole was seemingly a consequence of the weakening shown in alternative sources to the CBQ due to investment in capital goods and slacker external activity against a backdrop of international uncertainty. Table 3 confirms this by showing how net external demand (exports less imports) deteriorated further in 2008 Q1 (-20%) mainly due to the loss of momentum in exports in this sector. There was also a considerable slowdown in the activity of wholesale and retail trade and of transport and communications in the early months of 2008, which resulted in moderate GVA growth rates (0.4% and 1.4%, respectively, considerably lower than the rates of 6% and 6.3% recorded by the two sectors a year earlier). In the case of retail and wholesale trade corporations, these developments are mainly explained by the impact on them of slacker private consumption, while in the transport and communications aggregate, the easing of activity was mainly due to the negative effect of higher fuel prices on transport firms' costs. Lastly, the energy sector was the only one of the four major aggregates analysed in which GVA improved in 2008 Q1 (it increased 9.9% in comparison with a decrease of 3.6% posted one year earlier). The main explanation for this change in trend is, as mentioned above, the strong expansionary impact of higher oil prices on refining companies and their ordinary surpluses in 2008 (see Chart 2), which contrasts with the situation in 2007 Q1, when the opposite phenomenon occurred (there was a strong contraction of GVA). In any event, electricity, gas and water utilities, which make up the other major energy aggregate, also recorded an increase, albeit more moderate, in their productive activity; the sector's GVA rose by 5.4% in 2008 Q1 compared with 2.4% a year earlier, which is mainly accounted for by the higher growth in GVA at gas utilities in this period.

Finally, Chart 3 shows the distribution of firms according to the rate of change in their GVA, irrespective of size and sector of activity. The main conclusion which can be drawn from the data obtained for 2008 Q1 is that the percentage of corporations with a fall in GVA increased. This percentage stood at 43.3% of the sample in the first three months of 2008, compared with 37% a year earlier, and was at the expense of the segment of corporations with GVA increases of more than 20%, which fell by nearly 5 pp in comparison with the situation in 2007. All these factors confirm that the deceleration of productive activity has gradually spread and affected a growing number of corporations in the sample.

Employment and personnel costs

In the first three months of 2008 personnel costs increased by 4.9% (see Table 2.a), a slightly lower rate than in the same period of the previous year (5.1%). This restraint is the result of the combined effect of the smaller increase in employment in 2008 and the sharper growth in average compensation in 2008 relative to 2007.

The average number of employees at CBQ firms rose by 0.8% in 2008 Q1, 0.5 pp less than in the previous year (1.3%). Analysis by type of contract (see Table 2.b) shows that both permanent and

**VALUE ADDED, EMPLOYEES, PERSONNEL COSTS AND COMPENSATION PER EMPLOYEE.
BREAKDOWN BY SIZE AND MAIN ACTIVITY OF CORPORATIONS**
Growth rate of the same corporations on the same period a year earlier

TABLE 2.A

	GROSS VALUE ADDED AT FACTOR COST				EMPLOYEES (AVERAGE FOR PERIOD)				PERSONNEL COSTS				COMPENSATION PER EMPLOYEE			
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ		
	2006	07 Q1- Q4 (a)	07 Q1	08 Q1	2006	07 Q1- Q4 (a)	07 Q1	08 Q1	2006	07 Q1- Q4 (a)	07 Q1	08 Q1	2006	07 Q1- Q4 (a)	07 Q1	08 Q1
Total	8.1	4.9	6.9	2.0	3.8	0.8	1.3	0.8	6.9	4.5	5.1	4.9	3.0	3.7	3.8	4.1
SIZE																
Small	4.3	—	—	—	0.0	—	—	—	4.8	—	—	—	4.7	—	—	—
Medium	8.4	6.1	4.5	0.6	2.3	2.0	1.7	1.2	6.3	5.3	4.2	6.2	4.0	3.2	2.5	5.0
Large	8.1	4.8	7.0	2.1	4.1	0.7	1.3	0.7	7.0	4.4	5.2	4.9	2.8	3.7	3.9	4.1
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																
Energy	7.5	1.2	-3.6	9.9	-1.3	-0.4	-1.2	1.5	3.6	3.1	4.2	4.8	4.9	3.5	5.4	3.3
Industry	5.5	8.3	15.1	-3.5	-0.7	-0.7	-0.6	-1.0	3.1	2.8	3.1	4.5	3.8	3.5	3.7	5.6
Wholesale and retail trade	8.0	0.8	6.0	0.4	2.7	0.3	1.3	1.8	7.9	1.3	3.2	4.7	5.0	1.0	1.9	2.9
Transport and communications	4.0	5.8	6.3	1.4	1.3	-0.1	0.0	-0.8	4.8	5.4	5.0	3.8	3.5	5.5	4.9	4.7

SOURCE: Banco de España.

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

EMPLOYMENT AND PERSONNEL COSTS
Details based on changes in staff levels

TABLE 2.B

	TOTAL CBQ CORPORATIONS 08 Q1	CORPORATIONS INCREASING (OR NOT CHANGING) STAFF LEVELS	CORPORATIONS REDUCING STAFF LEVELS
Number of corporations	666	408	258
PERSONNEL COSTS			
Initial situation 07 Q1 (€m)	6,196.4	3,180.5	3,015.9
Rate 08 Q1 / 07 Q1	4.9	8.5	1.2
AVERAGE COMPENSATION			
Initial situation 07 Q1 (€)	11,235.0	11,577.7	10,894.8
Rate 08 Q1 / 07 Q1	4.1	2.9	5.3
NUMBER OF EMPLOYEES			
Initial situation 07 Q1 (000s)	552	275	277
Rate 08 Q1 / 07 Q1	0.8	5.5	-3.9
Permanent			
Initial situation 07 Q1 (000s)	460	222	238
Rate 08 Q1 / 07 Q1	0.6	4.3	-2.7
Non-permanent			
Initial situation 07 Q1 (000s)	92	53	39
Rate 08 Q1 / 07 Q1	1.3	10.4	-10.9

SOURCE: Banco de España.

PURCHASES AND TURNOVER OF CORPORATIONS REPORTING DATA ON PURCHASING SOURCES AND SALES DESTINATIONS
Structure and rate of change

TABLE 3

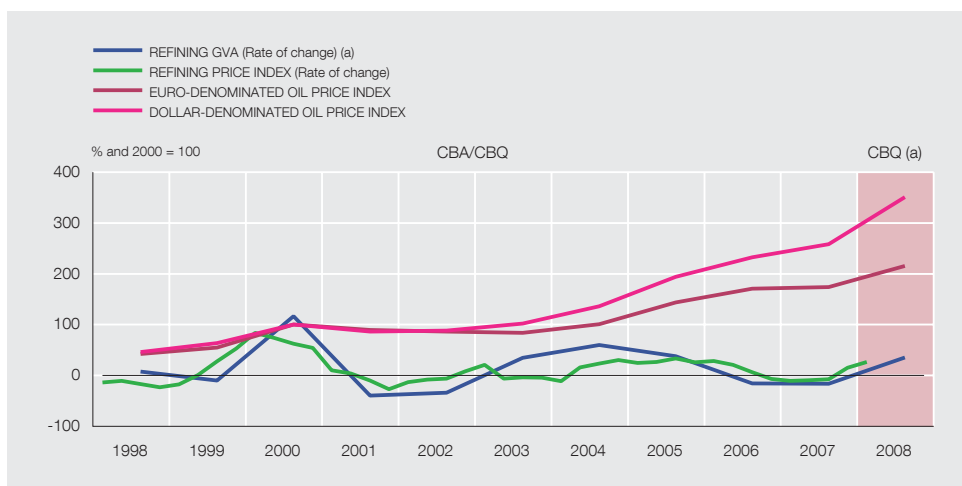
		CBA	CBQ (a)		
		2006	07 Q1-Q4 (a)	07 Q1	08 Q1
Total corporations		8,836	811	666	666
Corporations reporting source/destination		8,836	766	630	630
Percentage of net purchases according to source	Spain	68.8	80.7	78.2	79.8
	Total abroad	31.2	19.3	21.8	20.2
	<i>EU countries</i>	17.1	14.6	16.2	14.6
	<i>Third countries</i>	14.1	4.7	5.6	5.6
Percentage of net turnover according to destination	Spain	84.4	91.0	91.9	91.9
	Total abroad	15.6	9.0	8.1	8.1
	<i>EU countries</i>	10.3	6.6	6.0	6.3
	<i>Third countries</i>	5.3	2.4	2.1	1.8
Change in net external demand (exports less imports), rate of change	Industry	-7.7	10.8	4.2	-20.0
	Other corporations	-35.3	-13.0	-17.9	9.2

SOURCE: Banco de España.

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

IMPACT OF OIL PRICES ON THE REFINING SECTOR

CHART 2

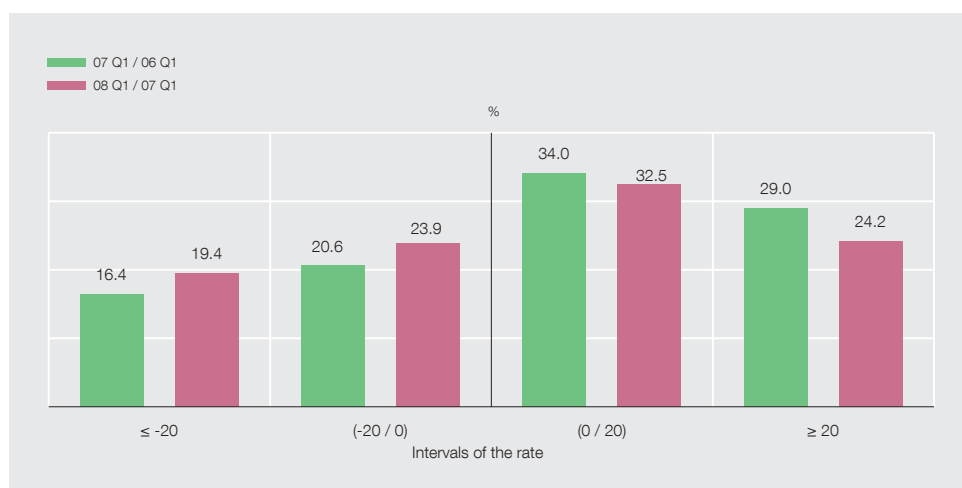


SOURCES: Banco de España and Ministerio de Industria, Turismo y Comercio (Informe mensual de precios).

a. 2008 data relate to the CBQ.

**DISTRIBUTION OF CORPORATIONS BY RATE OF CHANGE
IN GVA AT FACTOR COST**

CHART 3



SOURCE: Banco de España.

non-permanent employment posted net increases, although they were sharper for temporary employment (1.3%). Sectoral analysis shows that the wholesale and retail trade and energy sectors are worth noting due to their positive performance. Employment in the wholesale and retail trade sector grew by 1.8%, which is even higher than the 1.3% increase in 2007 Q1, as a result of new store openings at large retail outlets. The energy sector showed an increase of 1.5%, largely stemming from staff growth at corporations in the refining sector (6.4%) and, to a lesser extent, due to the slight increase in the number of employees in the utilities sector (0.7%). The latter rate, although low in quantitative terms, is particularly important from a qualitative standpoint since it is the first quarter of the whole series in which the electricity, gas and water aggregate has shown net increases in employment. Conversely, the negative trend in employment continued in the transport and communications and the industrial sectors (-0.8% and -1%, respectively). These data were heavily influenced in both cases by the impact of workforce restructuring focused on certain large corporations in these aggregates. It must also be pointed out that in the first three months of 2008, as in the previous year, the rise in the average number of employees was highest at firms in the other services sector, where it amounted to 5.9% (the tables in this article do not provide specific data for this aggregate.) Lastly, the data in Table 4 show that, in comparison with one year ago, in 2008 Q1 there was an increase of approximately 2 pp in the percentage of corporations whose average number of employees fell (up from 36.7% to 38.9%), which would confirm the slowdown in job creation.

Average compensation grew 4.1% in 2008 Q1, up 0.3% on the previous year. This figure confirms the trend of smooth, albeit progressive, growth in wage costs in recent years (the rate in the CBQ stood at 3.4% in 2005, 3.5% in 2006 and 3.7% in 2007), probably resulting from the pass-through to wages of the successive increases in inflation via the application of indexation clauses. By sector, salary increases were highest in industry and in transport and communications (5.6% and 4.7%, respectively), partly due to the existence of variable remuneration and to the higher costs associated with the above-mentioned staff restructuring. Conversely, the wholesale and retail trade and energy sectors posted more moderate increases in compensation (2.9% and 3.3%, respectively), coinciding with the more positive performance of employment in these aggregates.

**Profits, rates of return and
debt**

As a result of the slowdown of productive activity and the growth in personnel costs in 2008 Q1, gross operating profit held at the same level as in the previous year, when it grew 8.2%

PERSONNEL COSTS, EMPLOYEES AND AVERAGE COMPENSATION
Percentage of corporations in specific situations

TABLE 4

	CBA		CBQ			
	2005	2006	06 Q1 - Q4 (a)	07 Q1 - Q4 (a)	07 Q1	08 Q1
Number of corporations	9,093	8,836	829	811	876	666
PERSONNEL COSTS	100	100	100	100	100	100
Falling	26.6	25.6	26.9	27.3	27.1	23.3
Constant or rising	73.4	74.4	73.1	72.7	72.9	76.7
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	30.9	30.6	39.3	37.0	36.7	38.9
Constant or rising	69.1	69.4	60.7	63.0	63.3	61.1
AVERAGE COMPENSATION RELATIVE TO INFLATION	100	100	100	100	100	100
Lower growth (b)	43.3	42.6	48.3	45.8	41.9	51.4
Higher or same growth (b)	56.7	57.4	51.7	54.2	58.1	48.6

SOURCE: Banco de España.

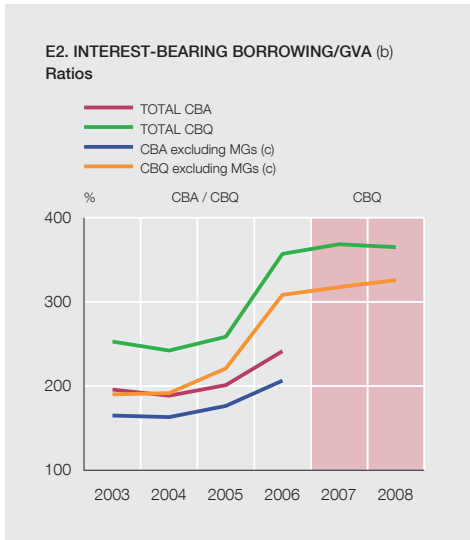
a. Weighted average of the relevant quarters for each column.

b. Twelve-month percentage change in the CPI for the CBA and quarter-on-quarter change in the CPI for the CBQ.

(see Table 5). Financial costs continued to rise in 2008, and the rate of 26.7% led this item to continuously increase its weight in corporations' profit and loss accounts to nearly 6% of total output. The strong growth of this variable is evident considering that in 2006 this profit and loss account item accounted for 3.7% of output. In any event, the increase in this percentage does not provide enough qualitative information about the underlying reasons for this trend. Consequently, the following table shows the portion of growth of financial costs attributable to the increase in borrowing and that attributable to interest rate developments in 2008:

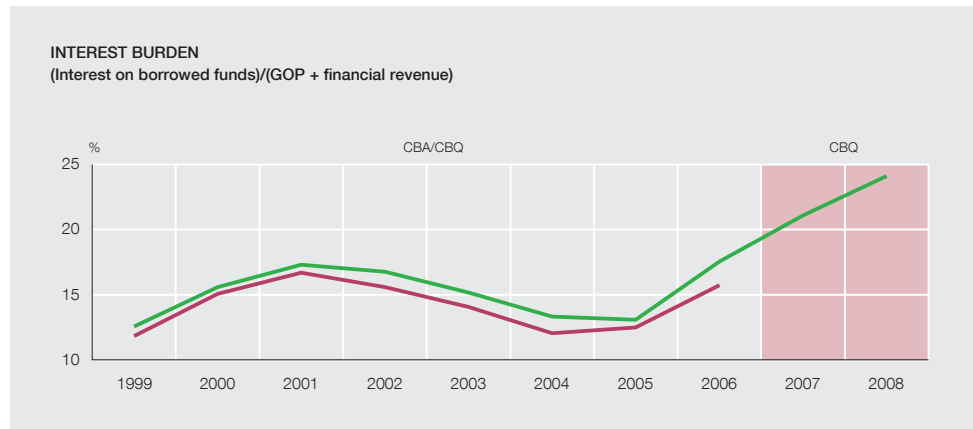
	<u>08 Q1/07 Q1</u>
Change in financial costs	26.7%
A. <i>Interest on borrowed funds (1+2)</i>	25.2%
1. Due to the cost (interest rate)	13.3%
2. Due to the amount of interest-bearing debt	11.9%
B. <i>Commissions and cash discounts</i>	1.5%

As shown by the table above, the increase in financial costs in 2008 Q1 is due to both interest rate rises and new borrowing. The portion of the change due to cost is linked to successive interest rate hikes in the latest period, which have gradually been passed through to corporations. The growth of debt is related to substantial acquisitions of equity holdings made basically by large corporations in 2007, which affect the comparison of end-2007 Q1 and end-2008 Q1 balance sheets. However, no further significant increases were recorded in the early months of 2008 and, consequently, this effect should begin to fade over the next few quarters. This trend in debt has gone hand in hand with ongoing investment activity by firms reporting to the CBQ. Thus, on the information available, there have been sizeable fixed asset acquisitions in energy firms (particularly refineries), industrial firms and wholesale and retail trade firms, in the latter case due to the opening of new shopping centres. The analysis of debt may be supplemented by the insight provided by the debt ratios included in Chart 4. The ratio E1 (interest-bearing borrowing to net assets) was slightly lower in 2008 than at the end of 2007, confirming that during the first three months of the current year there were no new significant transactions needing additional borrowing. The E2 ratio, which is used to analyse firms' ca-



	2003	2004	2005	2006	2007	2008
CBA	44.9	44.4	44.5	46.4	48.6	48.0
CBQ	47.0	46.2	46.3	49.0	48.6	48.0

	2003	2004	2005	2006	2007	2008
CBA	195.8	188.4	201.2	241.6	368.5	365.0
CBQ	252.9	242.3	258.5	357.0	368.5	365.0
CBA excl. MGs	165.0	163.0	176.3	206.3	317.6	326.0
CBQ excl. MGs	189.9	191.5	221.0	308.4	317.6	326.0



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CBA	11.8	15.1	16.7	15.6	14.0	12.0	12.5	15.7	21.1	24.1
CBQ	12.6	15.6	17.3	16.8	15.2	13.3	13.1	17.5	21.1	24.1

SOURCE: Banco de España.

a. Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.
 b. Ratio calculated from final balance sheet figures. Interest-bearing borrowing includes an adjustment to eliminate intragroup debt (approximation of consolidated debt).
 c. MGs: sample corporations belonging to the main reporting multinational groups. Excluding large corporations in the construction sector.

GROSS OPERATING PROFIT, ORDINARY NET PROFIT, RETURN ON INVESTMENT AND ROI-COST OF DEBT (R.1 - R.2).

TABLE 5

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				RETURN ON INVESTMENT (R.1)				ROI-COST OF DEBT (R.1-R.2)							
	CBA	CBQ			CBA	CBQ			CBA	CBQ			CBA	CBQ						
	2006	07 Q1	- Q4	07 Q1	08 Q1	2006	07 Q1	- Q4	07 Q1	08 Q1	2006	07 Q1	- Q4	07 Q1	08 Q1	2006	07 Q1	- Q4	07 Q1	08 Q1
Total	9.4	5.2	8.2	0.0	5.3	11.1	13.7	-6.3	8.9	8.9	6.3	5.9	4.9	4.4	2.0	1.1				
SIZE																				
Small	3.5	—	—	—	8.3	—	—	—	6.7	—	—	—	2.6	—	—	—				
Medium	11.6	7.1	4.9	-5.9	17.7	0.4	-7.8	-11.7	7.8	7.5	7.1	6.7	3.9	3.1	3.3	2.0				
Large	9.3	5.2	8.3	0.2	4.2	11.4	14.6	-6.1	9.0	9.0	6.3	5.9	5.0	4.5	2.0	1.1				
BREAKDOWN OF ACTIVITIES BEST REPRESENTED IN THE SAMPLE																				
Energy	8.6	0.7	-5.5	11.2	2.6	-0.2	-6.8	1.2	9.8	9.0	7.7	7.0	6.2	4.7	3.9	2.7				
Industry	8.8	14.4	28.9	-11.4	9.5	11.1	38.0	-18.8	8.9	9.7	9.6	9.6	4.7	4.9	4.8	4.7				
Wholesale and retail trade	8.3	0.2	9.3	-4.2	11.5	-4.9	10.0	1.4	11.4	7.0	9.5	9.9	6.8	2.6	5.5	4.9				
Transport and communications	3.3	6.1	7.3	-0.4	-4.9	12.5	13.4	-0.1	7.1	12.2	11.1	10.7	3.0	7.8	6.9	6.3				

SOURCE: Banco de España.

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

capacity to repay debt principal and relates it to their ability to generate value added, improved slightly (3.5 pp) for the total sample as a result of the impact on this ratio of large multinationals reporting to the CBQ. Lastly, the interest burden ratio (see Chart 4), which expresses interest on borrowed funds as a proportion of firms' income (gross operating profit plus financial revenue), shows that in 2008 Q1 the upward trend of the last two years continued, as a direct consequence, as mentioned above, of the higher weight of interest on borrowed funds in firms' profit and loss accounts. This weight currently stands at twice the figure of ten years ago (24.1% in 2008 in comparison with 12.6% in 1999).

Financial revenue increased by 11.8%, considerably lower than in 2007 as a whole (39.3%) and in 2007 Q1 (53.6%), periods in which the inflow of dividends from foreign subsidiaries was extraordinarily high. The above-mentioned rate for 2008 was based on higher interest earnings (up 17.7%) rather than on maintenance of the rate of inflow of additional dividends, precisely because in 2007 the amount of dividends was so high. In any event, the dividends earned continued to grow (by a further 6.8%) in the period considered. The higher increase in financial costs than in financial revenue was reflected in ordinary net profit (ONP) which decreased by -6.3% in comparison with growth of 13.7% in 2007 Q1. Nevertheless, the combined trend in ONP and financial costs (the numerator used to calculate ROI) enabled firms to maintain high levels of profitability, albeit slightly below those of the previous year (see Table 6). Thus, return on investment (R1) stood at 5.9% for 2008 Q1 (6.3% in 2007) and return on equity was 6.9% in 2008 (8.2% in 2007). By sector, there was a deterioration, albeit moderate, in rates of return practically across the board with the exception of the wholesale and retail trade sector, which was the only one to have slightly higher rates of return than a year earlier (9.9% in comparison with 9.5% in 2007). The ratio that approximates the cost of borrowing (R.2) continued on the upward path of recent years, to stand at 4.8% in 2008, half a point higher than in 2007 Q1, which led to a significant narrowing of the difference between ROI and the cost of debt to 1.1, which although it remains positive is almost half the value recorded a year earlier.

	CBQ				
	RETURN ON INVESTMENT (R.1)		ORDINARY RETURN ON EQUITY (R.3)		
	07 Q1	08 Q1	07 Q1	08 Q1	
Number of corporations	876	666	876	666	
Percentage of corporations by R ≤ 0%	23.5	24.7	28.3	31.4	
profitability bracket	0% < R ≤ 5%	19.4	21.7	13.7	13.7
	5% < R ≤ 10%	18.1	17.4	11.6	13.7
	10% < R ≤ 15%	11.3	11.7	10.7	9.9
	15% < R	27.7	24.5	35.7	31.3
MEMORANDUM ITEM: Average return	6.3	5.9	8.2	6.9	

SOURCE: Banco de España.

Finally, the analysis of extraordinary results³ shows a strong increase in extraordinary revenue, mainly due to the capital gains generated by share sales and the revaluation of certain financial assets which are now carried at their fair value in the balance sheet since they are part of the trading book. This occurred in particular at certain firms in the electricity sector. The expansion of extraordinary revenue was also influenced by the significant decrease in share portfolio impairment charges. As a result, there was a positive effect on final net profit, which was able to maintain positive rates of change and grow by 9.4% in 2008 Q1. This growth rate was higher than that in 2007 (3.6%) and enabled profit as a percentage of gross value added to rise to 32%, almost three points above its level in the same period of 2007. Therefore, in spite of a decline in income from ordinary activities, the CBQ firms were able to maintain, and even increase, their profit levels.

3. As indicated in note 1, as a result of the application of the new PGC 2007, capital gains and losses are no longer provided separately in official accounting forms but in net terms. For this reason, Table 1 had to be adapted to this new presentation format.