

3 December 2018

Results of non-financial corporations in 2017 and in the first three quarters of 2018

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Abstract

Central Balance Sheet Data Office Annual and Quarterly Survey data point to a continuation of the recovery in non-financial corporations' activity, both in 2017 and in the first nine months of 2018, giving rise to growth in ordinary profit and employment in the majority of sectors and firms. As a result of the good corporate earnings performance, rates of return rose in both periods and the spread over the cost of borrowing continued to widen. Extraordinary costs and revenue had a negative impact on net profit in 2017; however, in the first nine months of 2018 the impact was positive, resulting in very strong net profit growth in the period. Average debt ratios continued to decline in 2017, while in the first three quarters of 2018 the debt-to-asset ratio rose slightly and the debt-to-ordinary income ratio was practically unchanged. Lastly, the debt burden ratio fell in both periods, driven in particular by the lower cost of borrowing. The article includes two boxes analysing the recent economic and financial performance of Spanish SMEs and consolidated groups, respectively, on data up to 2017.

Keywords: activity, economic performance, financial situation, non-financial corporations.

JEL codes: L25, M21, M41.

RESULTS OF NON-FINANCIAL CORPORATIONS IN 2017 AND IN THE FIRST THREE QUARTERS OF 2018

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Overview¹

The information compiled by the Integrated Central Balance Sheet Data Office Survey (CBI) confirms, for 2017, the main features seen in the Quarterly Survey (CBQ).² Thus, the recovery in firms' productive activity continued in 2017, leading to nominal growth of 4.6% in the gross value added (GVA) of the sample, which is, however, 1 pp less than the growth recorded in 2016. Once again, this increase in GVA was most intense among smaller firms, as has been the case since 2013 (see Box 1). The CBQ, for its part, shows that in the first three quarters of 2018 GVA rose by 3.3% in nominal terms, compared with an increase of 0.5% a year earlier. And this, against a backdrop of stronger domestic demand momentum, which gave rise to an increase in the relative weight both of sales and purchases in Spain compared with a year earlier.

Employment continued to grow, both in 2017 (up 5.1%) and in the first three quarters of 2018 when it rose by 1.6%, somewhat less than in the quarterly sample a year earlier (2.5%). The growth in 2018 was mainly driven by the increase in permanent hires (up 2%).

Financial costs continued to decline and this, together with the increase in financial revenue (primarily owing to the higher dividends received) contributed to a high rate of growth in ordinary net profit (ONP), both in 2017 (13.8%) and in the first nine months of 2018 (11.1%). In 2017, extraordinary costs and revenue had an adverse impact on net profit, which fell by 13.3%; however, during the first three quarters of 2018 they had the opposite effect, prompting an increase of 59.5% in net profit. Expressed as a percentage of GVA, net profit in the first three quarters of 2018 amounted to 36.5%, some 12 pp more than in the same period of 2017.

The growth in ordinary profit gave rise to higher average rates of return, both in 2017 and in the first nine months of 2018, with a drop in the proportion of firms with negative rates of return. The average cost of borrowing continued to decline in both periods, so the spread between return on investment and the cost of borrowing widened again.

Regarding firms' financial position, in 2017 the average level of debt relative both to their assets and their ordinary profit fell. By contrast, in the first nine months of 2018 their debt relative to assets rose slightly, while relative to ordinary income it was practically unchanged. The debt burden ratio declined somewhat in both periods, driven by the increase in ordinary profit (denominator) and especially by the decrease in the cost of borrowing. All three indicators show how the financial pressure borne by firms continued to decline over the last two years.

¹ This article draws on the information on the 484,395 firms comprising the CBI sample for 2017, and on the 926 firms that had reported their 2018 9M data to the CBQ at 21 November. As a percentage, in terms of GVA, of the total of the non-financial corporations sector (according to National Accounts data), this is 37.9% in the case of the CBI and 12.8% in the case of the CBQ.

² See Analytical Article "[Results of non-financial corporations to 2017 Q4: preliminary year-end data](#)".

Activity

According to the data compiled by the CBI, the GVA of non-financial corporations rose by 4.6% in 2017 (see Table 1 and Chart 1), compared with the increase of 5.6% in 2016. For the fifth consecutive year, GVA growth was higher among SMEs (8.4%) than among larger corporations (2.8%). In turn, the CBQ data show that during the first three quarters of 2018 GVA rose by 3.3%, a considerably stronger rate of growth than a year earlier (0.5%). However, this higher pace of growth is more moderate in terms of the re-weighted rate³ of GVA, on the basis of the weight of the different sectors in the National Accounts, which rose by 0.5 pp to 3.1%, and especially in terms of the median rate, which reflects a slight slowdown, from 3.2% in 2017 to 3% in the current year (see Chart 2). In addition, the distance observed in the chart between the extreme percentiles (25th and 75th) shows that there is still a high degree of heterogeneity in GVA growth among the sample firms.

Productive activity in the first nine months of 2018 evolved against a backdrop of stronger domestic demand momentum, prompting some increase in the share both of sales and purchases in Spain as a percentage of total sales and purchases, amounting to 80.2% and 69.5%, respectively, in the first nine months of the year, compared with 79.3% and 67.2% in the same period of 2017 (see Table 2).

By sector, in the most recent period GVA rose in all branches of activity (see Table 3). Most notable are the increases in the energy sector (4%) and the wholesale and retail trade and accommodation and food service activities sector (6%), in both cases higher than the growth recorded in the previous year. In the industrial sector, GVA rose by 2.7%, as a result of increases in almost all the subsectors, with the exception of the chemical industry where GVA contracted by 8.1%. The strongest growth in the other industrial subsectors was observed in other manufacturing industries (8.3%) and in coke and refined petroleum (7.7%). In the information and communications sector, GVA rose by 1.1%, while in the group encompassing all other activities it increased by 2.7%, thanks in particular to the good performance of transport sector firms.

Employment and personnel costs

On CBI data, in 2017 personnel costs rose by 5.5%, mainly as a result of the favourable employment performance (see Table 3). During the first three quarters of 2018 personnel costs rose by 3.2%, owing both to workforce expansion and the rise in average compensation.

The average workforce of CBI firms grew by 5.1% in 2017, compared with 4.7% in 2016. For the first three quarters of 2018, the CBQ data also show an increase of 1.6% in the average number of workers, which is slightly less than the growth recorded in the same period of 2017 in the quarterly sample (2.5%). In 2017 the recovery in employment continued to be stronger in the case of temporary employment, which grew by 8.4%, while permanent contracts rose by 4%. In the first three quarters of 2018, employment growth was driven mainly by the increase in permanent hires (up 2%), which in keeping with the Spanish Labour Force Survey data grew at a quicker pace than in 2017. By contrast, growth in temporary employment was very low (0.3%), affected by the negative trends in some sample firms (see Table 4).

³ The re-weighted figure is obtained by applying, to the aggregate rate of each sector, the weight of each such sector in the economy, proxied using National Accounts data. For more information, see Box 1, “Re-weighting of GVA and GOP on the basis of the weight of the different sectors in the national economy”, in the Analytical Article “Results of non-financial corporations in 2018 Q1” published in the Economic Bulletin 2/2018.

	CBI structure	CBI		CBQ (a)		
	2017	2016	2017	2017 Q1-Q4 / 2016 Q1-Q4	2017 Q1-Q3 / 2016 Q1-Q3	2018 Q1-Q3 / 2017 Q1-Q3
Databases						
Number of corporations	684,324	484,395		991	1.006	926
Total national coverage (% of GVA)		50.1	37.9	13.3	13.6	12.8
PROFIT AND LOSS ACCOUNT						
1 VALUE OF OUTPUT (including subsidies)	100.0	2.2	6.3	6.1	6.9	6.5
<i>Of which:</i>						
<i>Net amount of turnover and other operating income</i>	148.4	1.0	6.7	7.5	8.6	7.5
2 INPUTS (including taxes)	64.0	0.2	7.2	8.9	10.2	8.0
<i>Of which:</i>						
<i>Net purchases</i>	41.6	-0.1	8.3	11.1	14.2	11.2
<i>Other operating costs</i>	22.7	1.0	4.9	4.5	3.6	5.8
S.1 GROSS VALUE ADDED AT FACTOR COST (1 – 2)	36.0	5.6	4.6	0.7	0.5	3.3
3 Personnel costs	22.9	4.6	5.5	2.9	2.5	3.2
S.2 GROSS OPERATING PROFIT (S.1 – 3)	13.2	7.5	3.0	-1.5	-1.4	3.5
4 Financial revenue	3.8	5.5	14.0	10.0	11.4	8.4
5 Financial costs	2.3	-8.6	-10.2	-11.7	-12.2	-5.4
6 Net depreciation, impairment and operating provisions	5.5	1.9	-0.1	0.5	-0.3	-1.6
S.3 ORDINARY NET PROFIT (S.2 + 4 – 5 – 6)	9.2	18.5	13.8	5.4	6.2	11.1
7 Gains (losses) from disposals and impairment	-1.2	—	—	—	—	—
7' As a percentage of GVA (7 / S.1)		0.8	-3.3	-5.4	-1.4	10.0
8 Changes in fair value and other gains (losses)	-0.5	24.1	32.1	56.8	42.7	—
8' As a percentage of GVA (8 / S.1)		-1.2	-1.3	-1.6	-1.3	-3.8
9 Corporate income tax	1.5	182.0	-30.0	-50.1	-10.7	-11.5
S.4 NET PROFIT (S.3 + 7 + 8 - 9)	6.0	46.1	-13.3	-32.2	-14.7	59.5
S.4' As a percentage of GVA (S.4 / S.1)		15.6	12.7	22.8	24.2	36.5
RATES OF RETURN						
	Formulas (b)					
R.1 Return on investment (before tax)	(S.3 + 5.1) / NA	5.1	5.4	5.9	4.5	4.7
R.2 Interest on borrowed funds/interest-bearing borrowing	5.1 / IBD	2.8	2.6	2.3	2.3	2.2
R.3 Return on equity (before tax)	S.3 / E	6.7	7.2	8.7	6.2	6.7
R.4 ROI – Cost of debt (R.1 – R.2)	R.1 – R.2	2.3	2.8	3.6	2.2	2.5
MEMORANDUM ITEM: TOTAL SAMPLE RE-WEIGHTED						
S.1 GROSS VALUE ADDED AT FACTOR COST (1 – 2)		5.6	5.0	2.9	2.6	3.1
S.2 GROSS OPERATING PROFIT (S.1 – 3)		7.5	4.8	3.0	2.7	2.2

SOURCE: Banco de España.

NOTE: In calculating rates, internal accounting movements have been edited out of items 4, 5, 7 and 8.

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

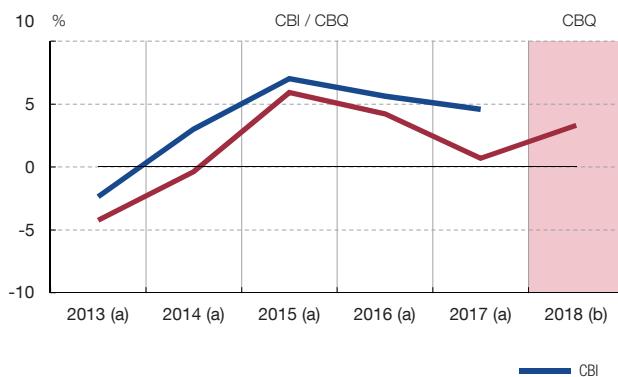
b NA = Net assets (net of non-interest-bearing borrowing); E = Equity; IBD = Interest-bearing debt; NA = E + IBD. The financial costs in the numerators of ratios R.1 and R.2 only include the portion of financial costs that is interest on borrowed funds (5.1).

FIRMS CONTINUED TO EXPAND THEIR BUSINESS AND CREATE EMPLOYMENT

CHART 1

Business activity continued to grow, in 2017 and in the first nine months of 2018, giving rise to increases in ordinary profit and employment. Average compensation rose slightly in the first three quarters of 2018.

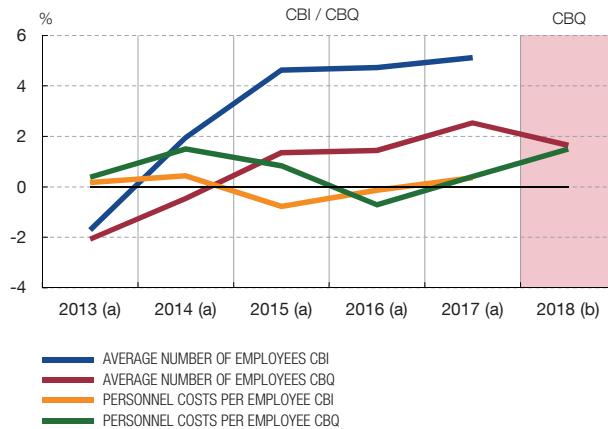
1 GROSS VALUE ADDED AT FACTOR COST Rate of change



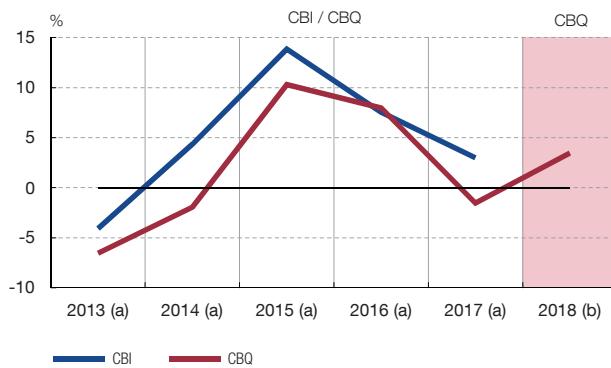
2 PERSONNEL COSTS Rate of change



3 EMPLOYMENT AND WAGES Rate of change



4 GROSS OPERATING PROFIT Rate of change



Reporting non-financial corporations

	2013	2014	2015	2016	2017	2018
Number of corporations	CBI 627,102	688,853	711,056	684,324	484,395	—
	CBQ 842	887	986	983	991	926
% of GVA of sector non-financial corporations	CBI 48.0	49.9	51.2	50.1	37.9	—
	CBQ 11.9	13.4	14.0	14.0	13.3	12.8

SOURCE: Banco de España.

a The 2013, 2014, 2015, 2016 and 2017 data for CBI firms and the average of the four quarters of each year in relation to the previous year (CBQ).
b Data up to 2018 Q3 relative to the same period of 2017.

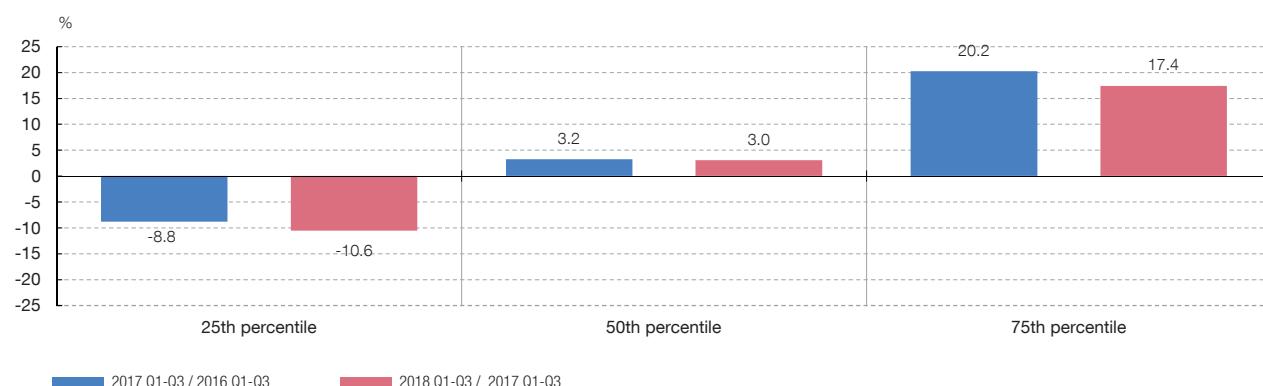


The percentage of firms that created employment also grew again in 2017, up to 44.2% (from 43.5% in 2016), as it has done uninterruptedly since 2014 (see Table 5). Moreover, for the fourth consecutive year, this figure was higher than the percentage of firms that destroyed jobs (28.1%). This positive pattern continued in the first nine months of 2018, as the proportion of firms creating employment continued to grow (up to 51.5%, 1.1 pp higher than in 2017), moving farther away from the percentage of those where the average number of workers fell (33.7%).

HIGH DEGREE OF HETEROGENEITY IN GVA GROWTH

CHART 2

For 2018, the median rate of GVA reflects a rather more moderate performance than the aggregate figure would suggest.



SOURCE: Banco de España.



FIRMS' DOMESTIC ACTIVITY IS GROWING

TABLE 2

	Central Balance Sheet Data Office Annual Survey (CBA)		Central Balance Sheet Data Office Quarterly Survey (CBQ) (a)	
	2016	2017	2017 Q1-Q3	2018 Q1-Q3
Total corporations	7,829	7,829	926	926
Corporations reporting source/destination	7,829	7,829	872	872
Percentage of net purchases according to source	Spain	65.2	65.1	67.2
	Total abroad	34.8	34.9	32.8
	EU countries	18.9	19.9	20.7
	Third countries	15.9	15.0	12.1
Percentage of net turnover according to destination	Spain	75.7	75.6	79.3
	Total abroad	24.3	24.4	20.7
	EU countries	15.8	15.9	13.6
	Third countries	8.4	8.4	7.1
Change in net external demand (exports less imports), rate of change	Industry	29.5	8.9	3.7
	Other corporations	49.3	14.5	-56.1
				16.6

SOURCE: Banco de España.

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

The employment performance was positive in all sectors. In the first nine months of 2018 all branches of activity recorded growth in the average workforce, ranging from 0.6% in the industrial sector to 2.5% in the group encompassing all other activities. The information and communications sector recorded notable growth, with employment up 2.4%, while in the energy sector and the wholesale and retail trade and accommodation and food service activities sector it grew by around 1%.

Average compensation remained on a gradual growth path in 2017 (0.4%), before rising somewhat more sharply (1.5%) in the first nine months of 2018 (see Table 3). The higher

BROAD-BASED GVA AND EMPLOYMENT GROWTH

TABLE 3

	Gross value added at factor cost				Employees (average for period)				Personnel costs				Average compensation			
	CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)		CBI		CBQ (a)	
	2017	2017	2017	2018	2017	2017	2017	2018	2017	2017	2017	2018	2017	2017	2017	2018
	2017	Q1-Q4	Q1-Q3	Q1-Q3	2017	Q1-Q4	Q1-Q3	Q1-Q3	2017	Q1-Q4	Q1-Q3	Q1-Q3	2017	Q1-Q4	Q1-Q3	Q1-Q3
Total	4.6	0.7	0.5	3.3	5.1	2.5	2.5	1.6	5.5	2.9	2.5	3.2	0.4	0.4	0.0	1.5
SIZE																
Small	8.8	—	—	—	6.8	—	—	—	8.5	—	—	—	1.6	—	—	—
Medium	6.5	5.7	6.0	7.5	5.0	4.8	4.4	5.0	6.4	5.6	5.7	6.5	1.4	0.8	1.2	1.5
Large	2.8	0.6	0.5	3.3	4.0	2.5	2.4	1.6	3.9	2.9	2.4	3.1	-0.1	0.4	0.0	1.5
BREAKDOWN BY ACTIVITY																
Energy	-6.5	-9.9	-11.6	4.0	3.2	2.8	2.8	1.0	3.0	2.5	1.3	1.3	-0.3	-0.2	-1.4	0.2
Industry	4.9	4.6	5.2	2.7	3.6	1.5	1.6	0.6	4.7	3.4	2.9	3.3	1.0	1.9	1.2	2.7
Wholesale & retail trade and accommodation & food service activities	5.1	-0.7	0.1	6.0	5.1	2.5	2.7	1.2	6.3	3.7	3.1	4.5	1.1	1.2	0.5	3.3
Information and communications	1.2	3.0	1.9	1.1	2.9	0.2	-0.6	2.4	2.2	-0.6	-1.2	1.6	-0.7	-0.8	-0.6	-0.8
Other activities	7.6	5.7	6.1	2.7	6.1	3.5	3.3	2.5	6.3	3.5	3.4	3.3	0.2	0.0	0.1	0.8

SOURCE: Banco de España.

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

EMPLOYMENT GROWTH DRIVEN BY INCREASE IN PERMANENT HIRES

TABLE 4

		Total CBQ corporations 2018 Q1-Q3	Corporations increasing (or not changing) staff levels	Corporations reducing staff levels
Number of corporations		926	612	314
NUMBER OF EMPLOYEES				
Initial situation 2017 Q1-Q3 (000s)				
Permanent	Initial situation 2017 Q1-Q3 (000s)	935	648	287
Non-permanent	Initial situation 2017 Q1-Q3 (000s)	755	525	230
	2018 Q1-Q3 / 2017 Q1-Q3	1.6	4.6	-5.1
Permanent	2018 Q1-Q3 / 2017 Q1-Q3	2.0	4.0	-2.7
Non-permanent	2018 Q1-Q3 / 2017 Q1-Q3	180	123	58
		0.3	7.4	-14.7

SOURCE: Banco de España.

growth in the more recent period was driven mainly by the wholesale and retail trade and accommodation and food service activities sector, and by the industrial sector, where compensation costs rose by 3.3% and 2.7% respectively. By contrast, the other branches of activity saw more moderate growth: 0.8% in the group encompassing all other activities and 0.2% in the energy sector, while in the information and communications sector there was even a slight decline (of 0.8%) in average compensation.

Profit, rates of return
and debt

Gross operating profit (GOP) continued to grow in 2017, rising by 3%, below the rate of growth recorded in 2016 (7.5%), while on CBQ data, GOP rose by 3.5% in the first three quarters of 2018, compared with a decline of 1.4% in the quarterly sample in the same

	CBI (a)		CBQ (b)			
	2016	2017	2016 Q1-Q4	2017 Q1-Q4	2017 Q1-Q3	2018 Q1-Q3
Number of corporations	684,324	484,395	983	991	1,006	926
PERSONNEL COSTS	100	100	100	100	100	100
Falling	34.6	31.7	38.3	32.7	32.7	30.9
Constant or rising	65.4	68.3	61.7	67.3	67.3	69.1
AVERAGE NUMBER OF EMPLOYEES	100	100	100	100	100	100
Falling	28.7	28.1	37.5	34.0	34.0	33.7
Constant	27.8	27.7	15.4	15.2	15.7	14.9
Rising	43.5	44.2	47.2	50.8	50.4	51.5

SOURCE: Banco de España.

a To calculate these percentages, corporations that had no staff in 2016 and in 2017 were excluded.**b** Weighted average of the relevant quarters for each column.

THE DECLINE IN FINANCIAL COSTS WAS ESSENTIALLY A RESULT OF THE LOWER AVERAGE COST OF DEBT

	CBI	CBQ	
	2017 / 2016	2017 Q1-Q4 / 2016 Q1-Q4	2018 Q1-Q3 / 2017 Q1-Q3
CHANGE IN FINANCIAL COSTS	-10.2	-11.7	-5.4
A Interest on borrowed funds	-8.9	-11.6	-6.4
1 Change due to cost (interest rate)	-7.2	-11.8	-6.9
2 Change due to amount of interest-bearing debt	-1.8	0.2	0.5
B Other financial costs	-1.2	-0.1	1.0

SOURCE: Banco de España.

period of 2017 (see Table 1 and Chart 1). However, as in the case of GVA, in re-weighted terms the acceleration in growth in GOP in 2018 is more moderate, at 2.2%, and is even a slowdown compared with the previous year when it rose by 2.7%.

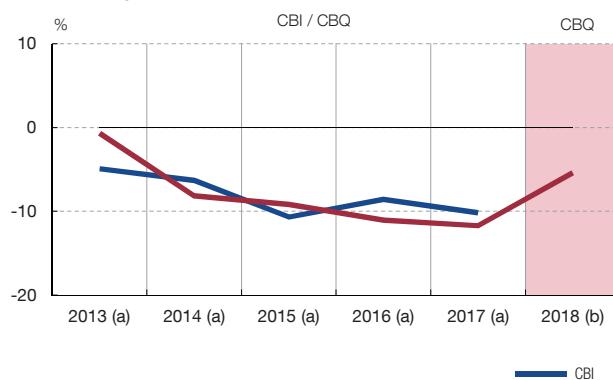
Financial revenue increased by 14% in 2017 and by 8.4% in the first three quarters of 2018, assisted in both cases by the higher dividends received, which rose by 21.7% and 12.4%, respectively. Financial costs continued to decrease, both in 2017, by 10.2%, and in the first nine months of 2018, by 5.4%, essentially as a result of the lower cost of borrowing borne by corporations, while the impact of the changes in interest-bearing debt was comparatively lower in both periods (see Table 6).

As a consequence of all the above, ordinary net profit posted strong growth: 13.8% in 2017 and 11.1% in 2018 9M (see Chart 3).

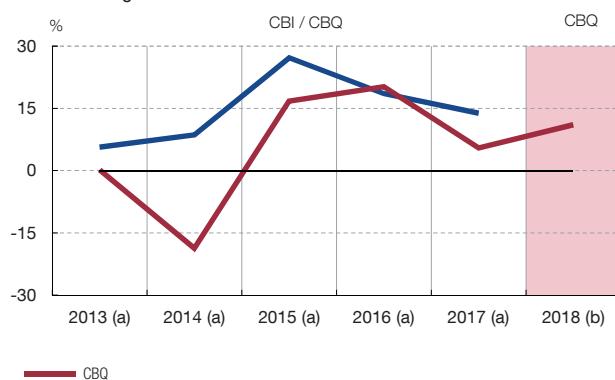
The adverse impact of extraordinary costs and revenue in 2017 drove down net profit, which fell by 13.3%. Specifically, high financial asset impairment charges were recorded in the year, in contrast to the capital gains recognised in 2016 on sales of financial assets.

Bouyant activity levels and the continued decline in financial costs prompted ordinary profit growth. This translated into higher rates of return, which together with the lower cost of borrowing gave rise to further widening of the spread between the two ratios.

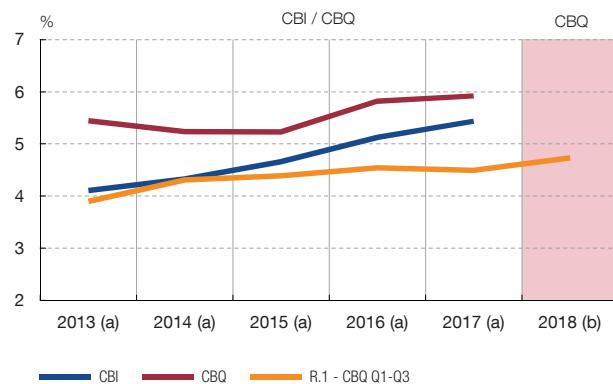
1 FINANCIAL COSTS Rate of change



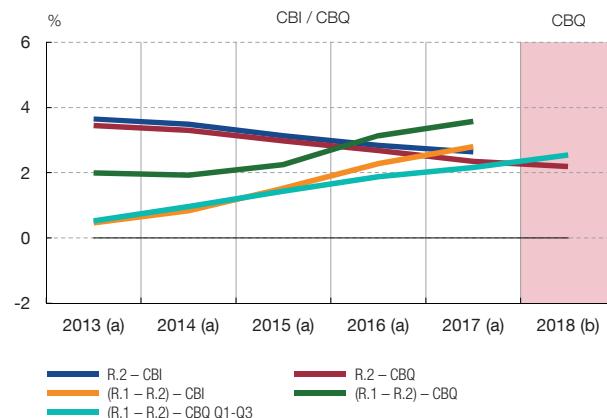
2 ORDINARY NET PROFIT Rate of change



3 RETURN ON INVESTMENT (R.1) Ratios



4 COST OF DEBT (R.2) AND ROI - COST OF DEBT (R.1 - R.2) Ratios



Reporting non-financial corporations

	2013	2014	2015	2016	2017	2018
Number of corporations	CBI	627,102	688,853	711,056	684,324	484,395
	CBQ	842	887	986	983	926
% of GVA of sector non-financial corporations	CBI	48.0	49.9	51.2	50.1	37.9
	CBQ	11.9	13.4	14.0	14.0	12.8

SOURCE: Banco de España.

a The 2013, 2014, 2015, 2016 and 2017 data for CBI firms and the average of the four quarters of each year (CBQ). The rates are calculated relative to the previous year.

b Data up to 2018 Q3. The rates are calculated relative to the same period of 2017.



However, during the first nine months of 2018, non-recurring items had a highly positive impact, mainly owing to financial asset sales that generated considerable capital gains. In consequence, net profit rose by 59.5% in the period January to September 2018. Expressed as a percentage of GVA, it amounted to 36.5% in the period (compared with 24.2% a year earlier).

Rates of return rose in 2017: return on investment by 0.3 pp and return on equity by 0.5 pp, to 5.4% and 7.2%, respectively. This increase was again higher than that recorded

FALL IN PROPORTION OF CORPORATIONS WITH NEGATIVE RATES OF RETURN

TABLE 7

	CBQ			
	Return on investment (R.1)		Return on equity (R.3)	
	2017 Q1-Q3	2018 Q1-Q3	2017 Q1-Q3	2018 Q1-Q3
Number of corporations	1006	926	1006	926
Percentage of corporations by rate of return bracket				
R < = 0%	23.5	22.9	25.9	25.7
0% < R < = 5%	24.3	24.4	17.0	17.4
5% < R < = 10%	16.2	15.4	11.6	10.8
10% < R < = 15%	10.1	10.7	9.0	9.7
15% < R	26.0	26.7	36.5	36.4
MEMORANDUM ITEM: Average return (%)	5.7	5.7	8.2	8.2

SOURCE: Banco de España.

GROWTH IN EARNINGS AND RATES OF RETURN

TABLE 8

	Gross operating profit						Ordinary net profit						Return on investment (R.1)						ROI-Cost of debt (R.1 – R.2)					
	CBI			CBQ (a)			CBI			CBQ (a)			CBI			CBQ (a)			CBI			CBQ (a)		
	2017	2017	2018	2017	2017	2018	2017	2017	2018	2017	2017	2018	2017	2017	2018	2017	2017	2018	2017	2017	2018	2017	2017	2018
Total	3.0	-1.5	-1.4	3.5	13.8	5.4	6.2	11.1	5.4	5.9	4.5	4.7	2.8	3.6	2.2	2.5	—	—	—	—	—	—	—	—
SIZE																								
Small	9.7	—	—	—	15.2	—	—	—	3.4	—	—	—	1.0	—	—	—	—	—	—	—	—	—	—	—
Medium	6.6	6.0	6.8	9.3	8.0	18.2	19.5	5.4	7.2	6.6	6.9	7.7	4.6	4.3	4.6	5.7	—	—	—	—	—	—	—	—
Large	1.2	-1.6	-1.4	3.4	13.9	5.3	6.1	11.1	5.9	5.9	4.5	4.7	3.3	3.6	2.2	2.5	—	—	—	—	—	—	—	—
BREAKDOWN BY ACTIVITY																								
Energy	-10.7	-14.6	-16.4	5.2	-5.8	-14.1	-20.5	18.3	5.2	5.4	4.0	4.1	2.3	2.8	1.4	1.8	—	—	—	—	—	—	—	—
Industry	5.4	6.0	8.1	2.0	7.3	3.3	-3.5	14.6	8.8	9.9	8.3	9.0	6.0	7.2	6.0	6.6	—	—	—	—	—	—	—	—
Wholesale & retail trade and accommodation & food service activities	2.5	-7.1	-4.4	8.2	2.0	-6.0	13.9	-0.8	8.5	12.5	11.6	10.3	6.0	10.6	9.7	8.6	—	—	—	—	—	—	—	—
Information and communications	0.3	5.2	3.8	0.9	0.7	5.7	8.1	3.5	11.5	17.2	16.2	16.7	9.2	15.7	14.8	15.3	—	—	—	—	—	—	—	—
Other activities	11.1	9.4	10.7	1.8	39.3	31.0	1.5	19.2	3.9	4.2	2.6	3.1	1.3	1.9	0.3	0.9	—	—	—	—	—	—	—	—

SOURCE: Banco de España.

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

by the main Spanish consolidated groups, although they continued to post higher rates of return than the CBI firms overall (see Box 2). In the first three quarters of 2018 these indicators continued to rise: thus, return on net investment, for the CBQ sample overall, stood at 4.7% (compared with 4.5% in the same period of 2017) and return on equity rose by 0.5 pp to 6.7%. In addition, the distribution by firm according to the value of these variables, depicted in Table 7, shows a decline in 2018 9M in the percentage of firms recording negative rates of return, suggesting an improvement among more vulnerable firms.

DEBT RATIOS FELL IN 2017, WHILE IN THE FIRST THREE QUARTERS OF 2018 THERE WERE ONLY MINOR CHANGES. THE DEBT BURDEN CONTINUED TO DECLINE IN BOTH PERIODS

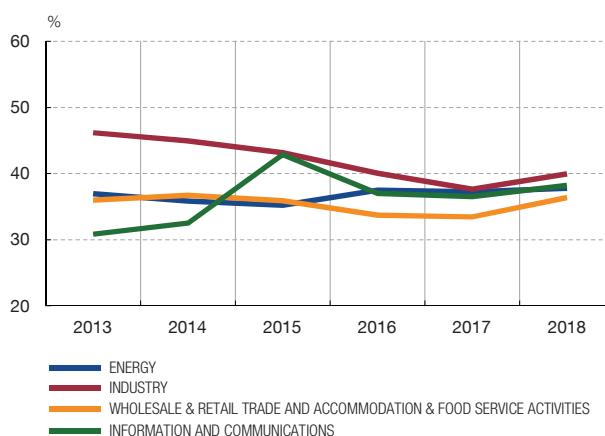
CHART 4

Debt levels continued to subside in 2017, while in the first three quarters of 2018 the debt-to-asset ratio rose slightly and the debt-to-ordinary income ratio steadied. By contrast, the debt burden continued to decline in both periods, driven by the continuing drop in financial costs.

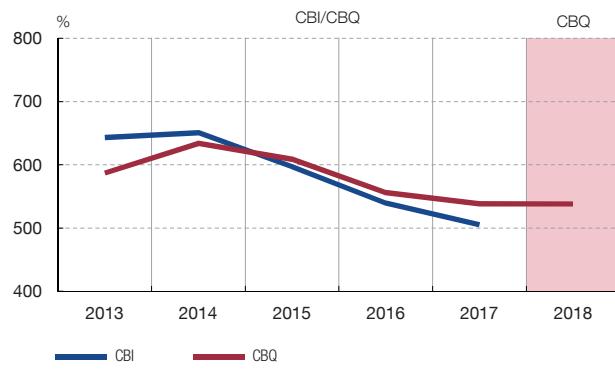
1 E1. INTEREST-BEARING DEBT / NET ASSETS (a)
TOTAL CORPORATIONS
Ratios



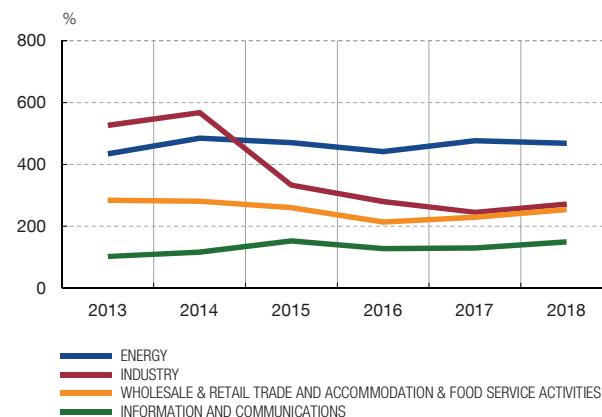
2 E1. INTEREST-BEARING DEBT / NET ASSETS (a)
BREAKDOWN BY SECTOR. CBQ
Ratios



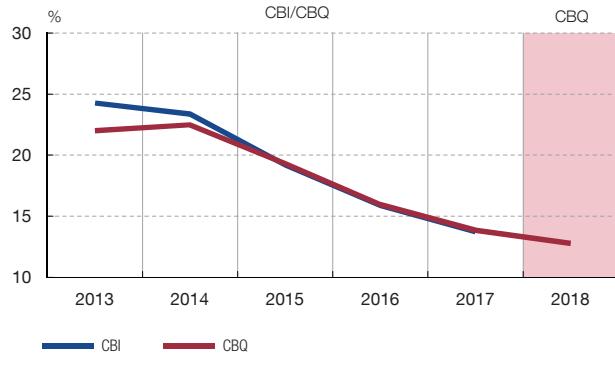
3 E2. INTEREST-BEARING DEBT (b) / (GOP + FR) (c)
TOTAL CORPORATIONS
Ratios



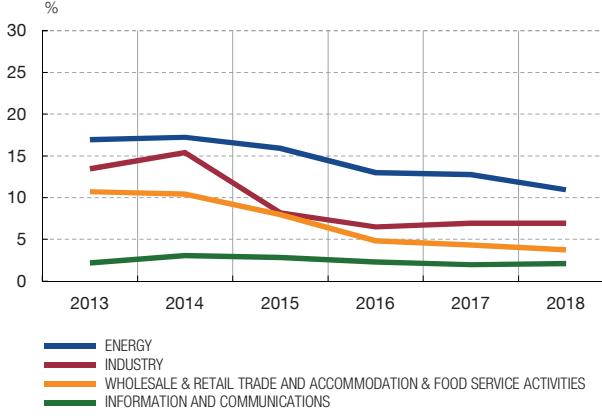
4 E2. INTEREST-BEARING DEBT (b) / (GOP + FR) (c)
BREAKDOWN BY SECTOR. CBQ
Ratios



5 INTEREST BURDEN
TOTAL CORPORATIONS
(Interest on borrowed funds) / (GOP + FR) (c)



6 INTEREST BURDEN
BREAKDOWN BY SECTOR. CBQ
(Interest on borrowed funds) / (GOP + FR) (c)



SOURCE: Banco de España.

a Ratio calculated from final balance sheet figures. Own funds include an adjustment to current prices.

b Calculated from final balance sheet figures. Includes an adjustment to eliminate intra-group debt (proxy of consolidated debt).

c The costs and revenue included in these ratios are calculated on the basis of cumulated four-quarter amounts.

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The breakdown of aggregate return on investment by sector shows a disparate performance in 2018 9M (see Table 8): decreases in the wholesale and retail trade and accommodation and food service activities sector (down by just over 1 pp to 10.3%), and increases in the industry sector (up 0.7 pp to 9%) and in the information and communications sector and the group encompassing all other activities (in both cases up 0.5 pp, to 16.7% and 3.1%, respectively). In turn, the energy sector posted a return of 4.1%, very similar to the previous year's figure (4%).

The average cost of borrowing fell by 0.2 pp in 2017, to 2.6%, and this pattern continued in the first three quarters of 2018, with a decline of 0.1 pp to 2.2% for the quarterly sample. The combined impact of the higher return on investment and the lower cost of borrowing prompted further widening of the spread between the two ratios in both periods, to 2.8 pp in 2017 (0.5 pp more than in 2016) and to 2.5 pp in the more recent period, an increase of 0.3 pp.

Lastly, the E1 ratio, which measures debt as a proportion of net assets, fell in 2017. However, it increased slightly in the first nine months of 2018, up 0.3 pp to 43.1%, an increase which, according to the sectoral data, reflected the growth recorded in industry, in information and communications and in wholesale and retail trade and accommodation and food service activities (see Chart 4). The E2 ratio, which measures debt as a proportion of ordinary income (measured as GOP plus financial revenue) fell in 2017, on the back of lower debt and higher profits, while in the first three quarters of 2018 it held virtually steady, as the different sectors recorded small changes of different signs. The interest burden ratio fell in both periods, owing to the increase in ordinary profit and, to a greater extent, to the decrease in financial costs. The breakdown by sector shows a decline in energy and in wholesale and retail trade and accommodation and food service activities, and relative stability in all other sectors.

3.12.2018.

This box analyses the activity and results of small and medium-sized enterprises in the CBI in 2017,¹ the latest data available, on around

1 The criterion applied by the Central Balance Sheet Data Office, in accordance with European Commission Recommendation 2003/361/EC, considers a firm to be an SME if it has no more than 250 employees and its assets or net turnover do not exceed a certain threshold (currently set at €50 million and €43 million, respectively). In addition, irrespective of the above criteria, neither public enterprises nor firms belonging to a group that exceeds those thresholds are considered SMEs.

469,000 such enterprises.² In 2017 the GVA of the SMEs in this sample rose for the fourth consecutive year, at a rate of 8.4%, up 0.5 pp on 2016 (see Chart 1). Also, as has been the case since 2013, GVA increased more sharply in SMEs than in the aggregate of large corporations, where it rose by 2.8% last year. The information by

2 The 2017 information is considered to be preliminary, since more data have to be entered in both the CBA and the CBB. Once this has been done, the final number of firms will probably exceed 700,000.

Chart 1
GROSS VALUE ADDED AT FACTOR COST
Rate of change



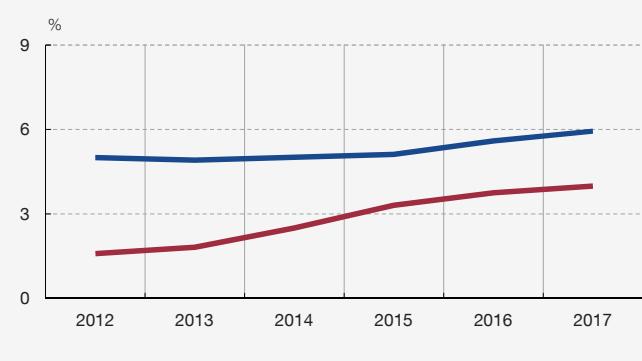
Chart 2
EMPLOYMENT
Rate of change



Chart 3
ORDINARY NET PROFIT
Rate of change



Chart 4
RETURN ON INVESTMENT (R.I.)
Ratios



		2012	2013	2014	2015	2016	2017
Number of corporations	Large (a)	20,165	22,881	24,185	24,202	23,356	15,364
	SMEs	609,761	604,221	664,668	686,854	660,968	469,021
% of GVA of the sector non-financial corporations	Large (a)	30.6	31.8	32.3	33.2	32.2	24.7
	SMEs	17.3	16.2	17.6	18.0	17.9	12.6

SOURCE: Banco de España.

a. In keeping with European Commission Recommendation 2003/361/EC, this segment includes public enterprises and firms belonging to large groups.

sector shows that the trend of recovery encompassed all sectors of activity, with rises in GVA similar to or greater than in the previous year in nearly all cases. Most notable were the strong performances in manufacturing, construction and wholesale and retail trade (with growth in GVA of 6.9%, 12.6% and 7.2%, respectively), which accounted for more than half the increase in GVA in the SME segment.

Personnel costs of SMEs grew by 8.1%, up 1 pp on the previous year. The larger rise in this item in 2017 was due to job creation, which was somewhat stronger than in the previous year, and, to a lesser extent, to an increase in remuneration. Thus average workforces grew by 6.5%, 0.2 pp more than in 2016, and average wages were up by 1.5%, compared with 0.7% in the previous year. In line with the trend in productive activity, employment in SMEs rose more quickly than in large corporations (4%, see Chart 2). The percentage of SMEs whose workforce grew was slightly higher at 44.1% in 2017 (compared with 43.4% in 2016), and the gap with respect to the proportion of SMEs which destroyed jobs (down 0.6 pp to 28.1%) became wider. The breakdown by type of contract shows that, although temporary staff continued to grow fastest (8.7%), permanent staff increased significantly at a rate of 5.7%, prolonging the upward trend in place for the last two years. The breakdown by industry shows that workforces expanded across the board, with increases similar to or slightly higher than in the previous year. As in the case of GVA, manufacturing, construction and wholesale and retail trade were again the industries which mainly accounted for the increase in employment at the total SMEs in the sample, with growth of 5.2%, 9% and 5.1%, respectively.

The financial costs of the SMEs in this sample fell by 6.5% in 2017, continuing the downward path shown by this item in recent years, although in this case the decrease was somewhat less sharp than in the previous year. The fall in financial costs was basically due to the lower average cost of debt, which dropped by 0.2 pp to 2.4%. Deleveraging also made a contribution in this respect, albeit to a lesser degree. This, along with the recovery in operating profit, resulted in growth of 13.4% in SMEs' ordinary net profit (ONP), which was high but more moderate than a year earlier when ONP rose by 18.4% (see Chart 3). On the back of this strong corporate earnings performance, the rate of return on investment at SMEs continued rising to stand at 4%, which was 0.3 pp more than in 2016 but still nearly 2 pp below that of large corporations (see Chart 4). The breakdown by industry shows that rates of return held steady or rose in all sectors of activity except transport and storage, the only one in which this ratio decreased, albeit only slightly. The higher return on investment, together with the lower cost of debt, gave rise to a further widening of the difference between these two ratios, which at 1.6 pp was 0.5 pp higher than a year earlier.

To sum up, on the CBI data available, SME activity continued to improve in 2017 and the expansionary trend in both ordinary profit and employment was extended. As in the past four years, SMEs performed more favourably than large corporations. This further boosted returns on investment and, given the lower cost of debt, prompted further widening of the difference between these two indicators.

The analysis of Spanish corporate groups has attracted increasing interest in recent years owing to the greater presence of Spanish firms in the international arena. Consolidated information allows us to analyse the economic and financial behaviour of these firms on an integrated basis, since all inter-company transactions, i.e. those between members of the same corporate group, are eliminated so as to present a view of the group as if it were a single enterprise. Moreover, analysis of this aggregate of firms provides a view which supplements that obtained from the CBI.¹ The sample of consolidated financial statements (CBC by its Spanish abbreviation) comprises more than 1,000 groups each year, whose activity, measured in terms of GVA, accounts for approximately 35% of the GVA generated by the total non-financial corporations sector in Spain² (see Chart 1).

Looking first at these groups' funding structure and its recent evolution, Chart 2 shows that in the last five years their equity³ has grown in importance relative to other sources of funds. In 2017 equity accounted for more than half (50.3%) of the total liabilities side of the balance sheet, 1.4 pp more than a year earlier, and hence became the main source of funds of these conglomerates (see Chart 2). This has come about as a result of both an increase in own funds, mainly derived from retained earnings, and a reduction in liabilities. Within liabilities, bank financing remained the main source of funds during the whole period analysed. However, its importance progressively decreased relative to that of bond issuance, which has been growing and in 2017 represented 40.6% of total liabilities, 6.4 pp more than a year earlier and just 5 pp below the percentage of bank debt last year. This reflects a disintermediation of the financing of Spanish firms, particularly that of large corporate

groups. In recent years these have preferred to seek finance on the capital markets so as to diversify their liability structure and take advantage of the easier financing conditions offered by debt instruments in these years.

Regarding the earnings of consolidated groups, Chart 3 shows that their ordinary profit grew in 2017 for the fourth year running, with ordinary net profit (ONP) up by 8.1% in that year, a figure which is, however, below that posted by CBI firms (13.8%) and by groups themselves in 2016 (13.4%). In any event, ordinary profit grew sufficiently to further lift profit levels in 2017, albeit only slightly, maintaining this indicator's upward trend of recent years (see Chart 4). Although the average level of aggregate profit in the CBC continues to stand above that of the CBI, the distance between them has been gradually shrinking due to the more dynamic behaviour of SMEs in the current economic recovery, after their sharp contraction in the crisis.

Lastly, an analysis of financial position reveals that, as a result of the process of deleverage that has predominated in these groups, their debt-to-net-assets ratio has decreased for the third year running, falling in 2017 by 1.7 pp with respect to the previous year to stand at 50% (see Chart 5). In any event, the average indebtedness of these conglomerates remained above that of the CBI firms as a whole throughout the entire period. Finally, Chart 6 shows that the debt burden ratio (defined as interest payments as a proportion of ordinary income) of consolidated groups continued to decline, falling in 2017 somewhat less than 2 pp to 14.5%, slightly above that of the CBI for that same year (13.9%). This indicator, lower in consolidated groups until 2015, began moving towards that of the CBI and in 2017 edged slightly above it because the growth of ordinary profit shown by the national sample outpaced that of corporate groups.

In summary, the most recent information on Spanish consolidated groups indicates that in 2017 their financial position continued to evolve favourably, resulting in an improvement in their profitability and a decrease in their debt and debt burden ratios. In addition to the continued growth of the proportion of own funds at firms in consolidated groups, a notable feature of their liability structure is that the financing raised directly on the securities markets continued to gain ground at the expense of bank financing.

¹ The CBI database is obtained by merging the CBA data with the information filed by companies in the mercantile registries. It contains more than 600,000 companies, on average, per year, representing around 50% of the GVA of non-financial corporations. The companies are mostly small firms operating almost exclusively in Spain.

² For 2017 there are fewer unlisted groups available, since the data of those not yet been processed are lacking; they will be progressively included as their data are processed.

³ Equity consists of own funds (mainly capital and reserves) and other items of lesser amount (valuation adjustments, minority interests, and subsidies and non-current deferred revenue).

Chart 1
NUMBER AND RELATIVE IMPORTANCE OF LISTED AND UNLISTED GROUPS (a)

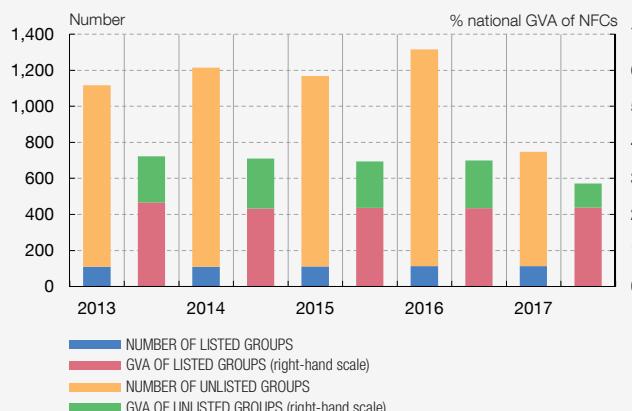


Chart 2
BALANCE SHEET. LIABILITIES-SIDE STRUCTURE

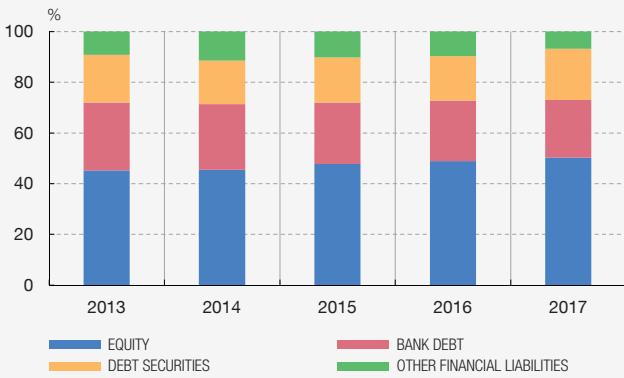


Chart 3
ORDINARY NET PROFIT. RATE OF CHANGE



Chart 4
RETURN ON INVESTMENT (book value) (b)

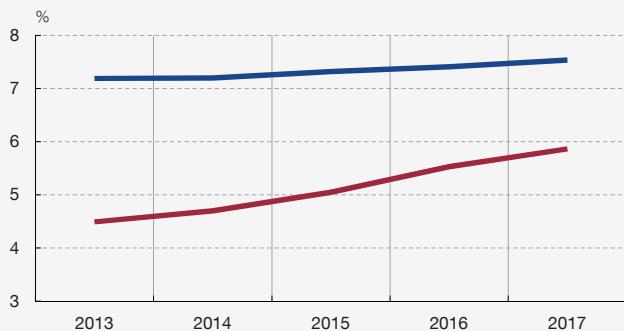


Chart 5
INTEREST-BEARING BORROWING/NET ASSET (book value)



Chart 6
INTEREST BURDEN (c)



SOURCES: CNMV, INE, mercantile registries and Banco de España.

- a GVA at basic prices with respect to total non-financial corporations. The numerator includes the GVA generated by non-resident subsidiaries; therefore, the indicator only provides a measure of the size or relative importance of the (listed and unlisted) non-financial corporate groups, rather than coverage relative to GVA.
- b Defined as (ordinary net profit + financial costs) / net assets.
- c Defined as financial costs / (gross operating profit + financial revenue).