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PRESS RELEASE

Results and financial situation of firms in 2011
(Article for the December 2012 Economic Review)

Over the full year 2011, the total value added of non-financial corporations rose 3.1% in current prices. This was a slowdown compared with 2010, when the figure rebounded by 5.5%. Two factors combined to cause the slowdown. On the one hand, purchases continued to increase robustly, due notably to the significant rise in commodity prices. As a reminder, energy commodity prices increased on average by 31.3% in 2011, and industrial commodity prices rose by an average of 14.3%. Furthermore, sales growth fell marginally, even though companies were able to pass on a portion of the higher costs in their selling prices.

At the same time, staff costs rose sharply in 2011 under the impact of job growth and higher hourly wages. Depreciation picked back up amid renewed investment. Overall, operating costs rose by 4.4% in 2011, a much faster pace than in either of the previous two years. This combination of rising costs and less robust activity caused a slight drop in net operating result in 2011 (-2.4%) following the vigorous recovery in 2010 (+28.7%). Overall, company performances were thus affected by the economic downturn, which got progressively worse from the second half of 2011.

An analysis by company size shows that trends were clearly more favourable to SMEs: their value added increased by 6.3% in 2011, compared with 2.0% for large firms. Similarly, large firms’ operating result fell by 6.8%, while that of SMEs rose by 9.7%. So, while large firms were much more affected by the economic downturn, it must be kept in mind that they benefited much more from the 2010 recovery. Large firms are generally more sensitive to economic cycles because they are more present in industrial activities and international trade.

These trends had implications for company profitability. By every available measure, SME profitability in 2011 continued the recovery that began in 2010. Over the past two years, SMEs’ recovery has been particularly notable with respect to globalised ratios, to the extent that in certain cases ratios are back to levels last seen before the 2008-09 recession. Conversely, the profitability of large firms contracted in 2011 to the extent that multiple ratios fell below the low point of 2009. Large firms notably saw their margins fall in 2011, especially in the branches most exposed to international conditions and higher commodity prices (i.e. the manufacturing industry, transport and wholesale trade).

Analysis of sector trends since the onset of the financial crisis shows that branches gained or lost ground largely as a function of their degree of exposure to fluctuations in world trade. For example, the two branches that have fallen the furthest since 2007 are textiles and metallurgy. Textiles have long had to deal with international competition, particularly from low-cost countries. Metallurgy, on the other hand, was especially affected by the impacts of the 2008-2009 recession, such as the closing of certain production units. Conversely, value added increased substantially in the pharmaceutical industry because of continued production growth and the branch’s high rate of value added. Building on long-term trends, cyclical fluctuations in recent years have generally been more favourable to the non-manufacturing branches. The biggest performance improvements were generated by the energy and water branches. To a lesser extent, business services, real estate, retail trade, hotels and restaurants also posted above-average growth. Overall, these branches have benefited from relatively firm domestic demand since 2008.

The article also discusses sector contributions to the growth of each of Belgium’s three regions over the period 2001-2011. This breakdown reveals a certain number of regional specificities. For example, Flanders stands out for the larger contributions made by transport, metallurgy, refining and trade in commodities and industrial goods. In Wallonia, the pharmaceutical industry and auxiliary financial services made much bigger contributions than in the other two regions. Lastly, owing to the specific nature of its economy, Brussels was supported solely by the services sector – particularly business services – energy, and, to a lesser extent, real estate, hotels and restaurants. By contrast, wholesale trade, transport and construction made much more limited contributions in the capital city.

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The last part of the article describes recent inventory developments. With respect to turnover, the most significant fluctuations in recent years have taken place in the manufacturing industry. Within this category, globalised turnover increased significantly between the end of the 1990s and the mid-2000s, meaning that for a given level of activity, inventories fell. This trend reflects stricter inventory management marked by, among other things, the rising popularity of strategies such as just-in-time. Turnover then declined as a result of the 2008-2009 recession and because companies had a hard time anticipating business trends. The recovery of globalised turnover in 2010 and 2011, however, shows that inventory management had adapted to the new economic conditions. In other branches of activity, inventory turnover remained fairly flat over the period.