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PRESS RELEASE

Results and financial situation of firms in 2012

(Article for the December 2013 Economic Review)

The net operating result of non-financial corporations in 2012 continued on its downward path (-6.3%), to stand at €30.3 billion. This further fall is a reflection of negative economic conditions, dominated by financial strain and sluggish demand in the euro area. As a general rule, companies were unable to reflect their higher costs in their sales prices. Although the operating result is still below the peak reached before the 2008-2009 recession (€35.5 billion), it should be remembered that it had more than doubled between 2001 and 2007.

The review according to firm size shows that operating result trends have also fared a lot better in the case of SMEs. Large firms are generally more sensitive to economic cycles as a result of being significantly more inclined towards industrial activities and international trade. As a reminder, 31.9% of value added of large firms is attributed to the manufacturing industry, compared with 11.6% for SMEs. These smaller businesses are, however, more involved in branches subject to domestic demand, including construction, the retail trade, the hotel and catering sector, real estate and business services. Accordingly, SMEs have been less exposed to cyclical fluctuations in recent years, as these have been primarily determined by the international environment.

The manufacturing branches were the main contributors to the slowdown in 2011, as a result of the loss of dynamism in trade and higher raw material prices. On the contrary, the further slowdown in 2012 was primarily attributable to domestic demand-driven branches. The retail trade has been particularly affected by weak household consumption since early 2011: this branch's value added and operating result in 2012 suffered their worst performance for over 15 years. The trade in motor vehicles was particularly affected by the propensity of households to postpone their purchases of durable goods and public authority decisions to axe some of the financial support granted for the purchase of environmentally friendly vehicles. The construction sector's activity also reflected sluggish domestic demand, and, more specifically, weak levels of investment in housing and a loss of momentum in corporate investment spending.

Analysis of profitability shows in particular that the lower margins since 2007 are seen to have affected most of the branches under consideration albeit to varying extents. Solely the pharmaceutical industry and certain technological industries reported an increase for this period. The branches with the highest margins in 2012 were real estate activities, the pharmaceutical industry and telecommunications. The significant real estate margins have to be qualified by other profitability measurements: expressed in relation to equity and total assets, the branch's profitability is a lot lower than the general average.

The final part of the article analysing recent corporate tax trends is based on the implicit tax rate concept, defined as the ratio between tax revenue and an aggregate representing corporate revenue. From a statistical point of view, the implicit tax rate is more suitable than, for instance, the nominal tax rate. The latter corresponds to the standard rate applied to the taxable amount and fails to offer a full picture of the tax burden, as the taxable amount may vary significantly owing to tax relief, depreciation methods or the availability of preferential systems. Two implicit tax rate measurements were chosen that differ according to the treatment of capital gains, write-downs and capital losses on shares. In the case of the first rate, these transactions are regarded as part of corporate profits. For the second one, they are deducted on the same basis as finally taxed income.

In globalised terms, the first rate stood at 17.5% in 2012, compared with 21.8% for the second one. In median terms, however, the two measurements, have reached the same level (23.7% in 2012), underscoring the fact that the correction for share transactions applies to a minority of firms. Meanwhile, extending the population to cover head office activities means a drop in the globalised rates. The distinctive feature of this branch is a tax rate well below the average, mainly because of a heavy reliance on notional interest.

The two tax rates examined have fallen sharply over the last 15 years: according to the measurement under consideration, the decline came to between 5.7 and 7.4 percentage points. Overall, these trends reflect the changes made to the corporation tax over the period. The downward trend clearly slowed in recent times, however. The rates even made a slight recovery, mainly because of the restrictions applied to the notional interest scheme.