German enterprises' profitability and financing in 2014

In 2014, non-financial corporations markedly increased their profitability in a predominantly smooth macroeconomic environment, with export markets and the domestic economy both stimulating demand. Following a slump in 2013, the pre-tax return on sales returned to the level of the period from 2010 to 2012 (4¼%). The higher profits were attributable, for one thing, to the fact that enterprises considerably increased the quantity of goods sold and services rendered during the reporting period. For another, the cost of materials fell, in particular due to a drop in crude oil prices in the second half of 2014. However, as in the previous years, personnel expenses increased perceptibly in the light of growing payrolls and higher compensation. Moreover, additional costs emerged as a result of higher write-downs.

For the most part, there were no unusual movements in asset and liability positions on non-financial corporations' balance sheets, which are prepared in accordance with German GAAP. Their long-term inclination to strengthen their capital base persisted; in 2014 it was not only small and medium-sized enterprises (SMEs) – as had mainly been the case in previous years – but also large enterprises which contributed to this trend. By contrast, the balance sheets of listed enterprises, which are prepared according to international accounting standards, showed substantial shifts between equity and debt. The difference is essentially that, to determine pension provision values in the context of consolidated financial statements, market rates as of specific reporting dates are used for discounting expected payment obligations, whereas under German reporting standards a seven-year average rate is applied. The interest-related increase in pension provisions was a major reason why the equity ratio of listed enterprises declined considerably in 2014 and fluctuated significantly in 2015.

The expansion strategy of firms in the reporting period was particularly reflected in the extensive increase in long-term equity investments, following a lull in 2013. Firms also expanded their own production capacities. In this context, employment growth once again appeared to play a greater role than the increase in fixed assets. Entrepreneurial activities in 2014 were largely financed using internal funds; the strong expansion in the cash flow was the main source of this funding. Borrowed funds were increasingly used in sectors such as vehicle manufacturing where firms invested in fixed assets and acquired other long-term equity in large quantities.

Underlying trends

Relatively favourable macroeconomic setting in 2014

In 2014, the German economy by and large developed without any disruptions, following two years of distinctly dampening influences that were predominantly attributable to recessionary tendencies in some parts of the euro area. At 1.6%, real gross domestic product (GDP) increased by a greater margin than potential output. The economy was bolstered by both foreign and domestic demand. Aggregate production capacity utilisation fluctuated within the normal range throughout the entire year. Given that the price of crude oil fell drastically in the second half of 2014, that other commodities, too, witnessed deflation and that wages increased perceptibly but not excessively, non-financial corporations inhabited a relatively favourable macroeconomic environment on the whole. The fact that firms used this to their advantage is reflected in their profit and loss accounts – however, not so much by a considerable increase in turnover, but in the form of profitability in 2014 returning to its level of the period from 2010 to 2012, following a decline in 2013.[1] The aggregated balance sheet of the non-financial corporations sector shows that broad-based yet moderate economic growth during the reporting year is reflected in the absence of sharp movements in asset and liability positions for the most part. At the same time, long-term trends such as the strengthening of the equity capital base and the increase in balance sheet links between enterprises persisted.

Non-financial corporations continued to pursue broad-based expansionary strategy

The medium-term expansionary strategy of firms, which was focused on external and internal growth in equal measure, continued in 2014. First, the increase in other long-term equity investments was again more substantial than the increase in total assets, after a lull in 2013 following similarly dynamic developments during the period of economic recovery between 2010 and 2012. Second, non-financial corporations accumulated fixed capital, albeit to a lesser extent than other long-term equity holdings. As in the three preceding years, the increase in tangible fixed assets in 2014 was nonetheless high enough to maintain the ratio of tangible fixed assets to total assets. The fact that businesses expanded their production capacity at domestic locations, too, is reflected primarily in the robust increase in employment, which has been observed for some years now.[2]

Low-interest-rate environment with varied effects on profit and loss accounts

The protracted low-interest-rate environment had varied effects on non-financial corporations' profit and loss accounts. These effects differ in terms of their thrust and the timing of their impact on results. Although low interest rates do ease borrowing costs, they also curb income from interest-bearing claims. Moreover, the expenses resulting from interest-induced adjustments to provisions for long-term payment obligations from pension commitments, in particular, become effective with a lag. This is because – due to the smoothing procedure prescribed by German GAAP – the low-interest-rate environment only gradually impacts on the discount rate, which is relevant for determining the present value of expected payment flows. Given that all these effects are recorded under interest expenditure or income in line with accounting rules, net interest expenditure provides a relatively comprehensive insight into the impact on non-financial corporations' profit and loss accounts. In 2012, non-financial corporations' net interest expenditure contracted by a total of €3½ billion, the decisive factor being that interest expenditure decreased by 5½%. Interest income, on the other hand, remained quite steady in 2012. In 2013, net interest expenditure exceeded the level of 2011. This was attributable to two factors. First, interest income was down by one-fifth and, second, no additional reductions occurred in interest

1 The analysis for 2014 is based on 21,500 financial statements, which are estimated extrapolations based on the projected development of aggregate data taken from the company register. For details on the current procedure, see Deutsche Bundesbank, Financial statement statistics with broader sectoral coverage and a new basis of extrapolation, Monthly Report, December 2011, pp 32-33.
2 According to the national accounts, employment in non-financial corporations increased by ¾% in 2014. On average across the period from 2010 to 2013, annual employment growth came to 1%.

expenditure. The cost arising from the appreciation of provisions is likely to have made a discernible impact by now. In the reporting period, net interest expenditure recorded a €1 billion hike. This was due, in roughly equal parts, to expenditure and income factors.

Burden from interest-related appreciation in pension provisions spread over time

With regard to single-entity financial statements prepared pursuant to German GAAP, the majority of effects, which stem from the adjustment of pension provisions, are still pending.[3] Similarly, over the past two years, provisions for pensions and similar obligations had already increased by €14 billion in the non-financial corporations sector's aggregated balance sheet. Since the Act to Modernise Accounting Law *(Bilanzrechtsmodernisierungsgesetz)* entered into force, pension provisions are reported as a net figure, ie adjusted for the value of the financial assets which are used specifically to meet these requirements and, therefore, off-limits to all other creditors. These "outsourced" pension assets (also known as plan assets) went up by an estimated €11 billion in the same period, which was partly attributable to valuation gains on shares and fixed-income securities. The balance sheets of German listed non-financial corporations prepared according to international accounting rules already reflect the lower interest rate level in its entirety because these businesses value their pension provisions at reporting-date-specific market interest rates. (For details on German non-financial group's profitability, assets and capital structure in 2014, see the box on pages 36 to 38.)

Enterprises' profitability returned to 2010-12 level

On average across the non-financial corporations sector, pre-tax returns on sales returned to the level seen between 2010 and 2012. Hence, the decrease in profitability in 2013 was due, in particular, to the combination of temporarily lower sales growth and the lack of corresponding relief in terms of personnel expenditure because enterprises clung to their employment plans, most of which were geared towards expansion. This proved to be the correct strategy given that the economy was regaining momentum in some parts of the euro area after having overcome the burdens associated with the sovereign debt crisis. However, the substantial profit growth in the reporting year was not exclusively attributable to an increase in goods sold and services rendered, but also to considerable price reductions in internationally traded commodities in the second half of the year as only a fraction of the material-induced cost savings was passed on to customers in the form of lower selling prices. However, the associated increase in earnings will only be temporary if the pass-through of prices continues. Especially given that the purchase prices of key commodities are unlikely to remain at the current levels in the long term, the entire non-financial corporations sector and, in particular, the manufacturing sector will have to generate more dynamic sales growth compared with 2013 and 2014 in order to maintain profitability in light of the planned recruitment of new personnel and past investment in fixed capital and other long-term equity holdings.

Fifth consecutive year of reduction in business insolvencies

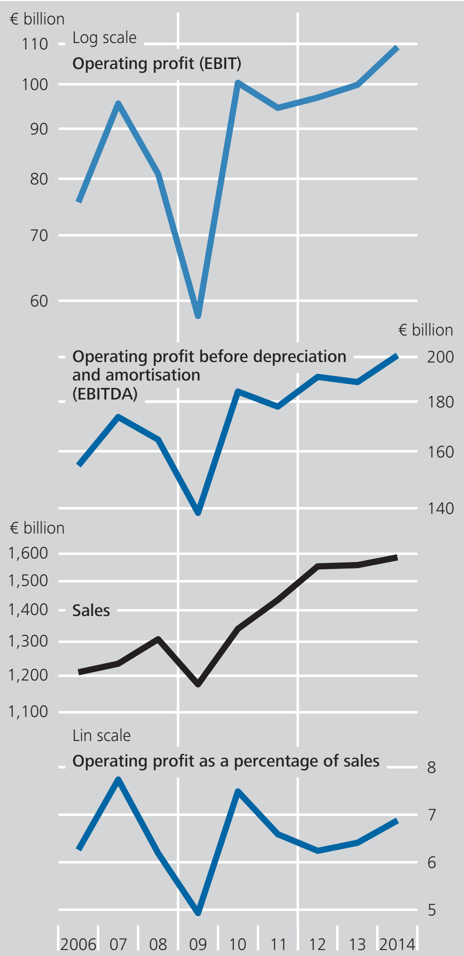
For the fifth consecutive year, the number of business insolvencies declined in 2014, reaching the lowest value of the last two decades. This is consistent with the sound profitability and equity base that can be found across the entire non-financial corporations sector. In addition, a lower number of primary insolvencies will further reduce the likelihood of subsequent insolvencies occurring on the basis of liquidity shortfalls caused by insolvent customers. The insolvency ratio decreased in all major economic sectors, while the decline in the number of insolvent businesses in the manufacturing sector was particularly pronounced as it was the sector that benefited most from the dy-

3 For more information on the reporting of pension provisions in financial statements prepared pursuant to German GAAP and the effects of the diminishing discount rate on non-financial corporations' annual accounts, see also Statement by the Deutsche Bundesbank of 18 August 2015 on the Bundestag's decision regarding the German Commercial Code's discount rate for pension provisions (BT Drucksache 18/5256). Available at: http://www.bundesbank.de/Redaktion/DE/Kurzmeldungen/Stellungnahmen/2015_12_15_hgb_rechnungszins.pdf?__blob=publicationFile

Profitability, assets and capital structure of German non-financial groups in 2014

The financial performance of groups included in the consolidated financial statement statistics[1] improved significantly in 2014. For example, annual profit before tax on income was up by 11%, which more than compensated for the decline recorded in the previous year. It also rose at a similar rate to the results of domestic enterprises included in the single-entity financial statement statistics (+8½%).

Income, sales and return on sales of listed non-financial groups



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The groups' operating profit (EBIT), which serves as a measure of their operating activity,[2] climbed at a slightly slower pace of 7½% following growth of 6% in 2013. The increase in EBIT was accompanied by only a marginal rise in sales (+1%). According to information contained in the consolidated management reports, this was reflected in weaker growth in emerging market economies, whereas demand for services rendered by the groups was largely constant to escalating in industrial countries. Furthermore, euro-denominated sales revenue figures understate the scale of sales growth on local markets owing to negative exchange rate effects when translating sales revenue generated by non-euro-area subsidiaries. Besides the higher sales volume, efficiency-enhancing measures and cost relief were also cited in the financial reports as appearing to have contributed to the favourable result. Another factor to play a part in the positive picture painted here was the 5% increase in operating profit before depreciation and amortisation (EBITDA), which was not affected by extraordinary write-downs and is on a more stable course in this respect.

On balance, the groups' operating return on sales (EBIT as a percentage of sales) rose by a weighted average of ½ percentage point to 7% and was therefore markedly up on the average level of profitability since 2005 (around 6½%). An improvement was

1 The consolidated financial statement statistics currently cover around 240 non-financial groups listed in Germany. For information on the methodology, see Deutsche Bundesbank, Consolidated financial statement statistics as a contribution to the extended corporate analysis: approach and initial results, Monthly Report, July 2014, pp 51-66.
2 Unlike annual profit before tax, EBIT excludes net profit or loss from financial items and investments.

recorded by enterprises in the median and upper percentiles of the distribution of returns, in particular, whereas the profitability of enterprises with weaker returns stagnated. A sector-by-sector comparison revealed that groups in the services sector continued to generate a higher operating return on sales (7½%) than groups in the production sector (6¾%).

Increasing at a rate of 9%, the groups' total assets rose more than twice as sharply over the course of 2014 than was the case over the average of the preceding years. One item that notably increased on the asset side was non-current assets. This was primarily attributable to the acquisition of subsidiaries. Correspondingly, a steady increase in investments was also observed in the single-entity financial statement statistics. This is likely to reflect external growth strategies and enterprises' efforts to achieve greater vertical and horizontal integration and to diversify for reasons of competition and profitability. In the consolidated financial statements, these activities are accompanied by a rise in intangible fixed assets in the form of goodwill. What is more, when acquisitions take place, the hidden reserves of subsidiaries are frequently disclosed during purchase price allocation by recognising intangible fixed assets that were previously not included in the balance sheet (eg patents and licences). In connection with this, the long-observed trend of a shift from tangible fixed assets to intangible fixed assets showed no sign of abating. Standing at more than one-third, their balance sheet share is particularly pronounced – especially for groups in the services sector.

While the groups' supply of liquidity fell slightly in 2014, it remained close to the average recorded in recent years and stands at a level similar to that of domestic enter-

Intangible and tangible fixed assets of listed non-financial groups

Weighted average; % of total assets; end-of-year figures

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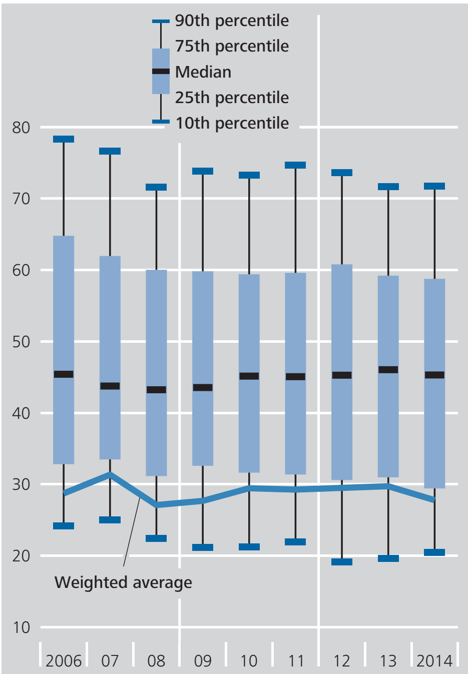
Distribution parameters of the equity ratios of listed non-financial groups

% of total assets; end-of-year figures



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prises included in the single-entity financial statement statistics.

On the liability side, balance sheet growth was driven primarily by growing provisions for pension commitments and an increase in long-term financial debt. The rise in pension provisions is largely the result of the significant decline in the discount rate in the current low-interest-rate environment, as international accounting standards stipulate that the interest rate in place on the respective reporting date be used as the basis for determining the present value of pension liabilities.[3] The 74 largest groups therefore had to increase their pension provisions by around €46 billion in 2014. While the rise in pension liabilities does not affect operating profit, it is reflected in downstream comprehensive income and therefore in reported capital as well. This was a key factor in the equity ratio's fall by two percentage points to 27¾% on the reporting date.[4] This effect had the greatest impact on major groups in the production sector. The share of financial debt attributable to all groups also rose by ¾ percentage point to 20½%. In aggregated terms, however, debt is at a stable and sustainable level from a long-term perspective.

3 By contrast, according to the German GAAP generally applicable to single-entity financial statements, the discount rate should be derived from the average market interest rate over the past seven years.
4 In addition, currency translation differences and valuation losses arising from hedging (eg for commodity and currency risks) were marginally offset by profit for the financial year and capital increases.

namic growth of German exports. In construction, too, however, the number of business insolvencies diminished in the area of transport and storage and in the business services sector.

Sales and income

Sales growth in 2014 somewhat stronger than in 2013

Sales among non-financial corporations grew by just over 1% in 2014, which was up on the year (2013: +¼%). Moreover, the nominal development understates the increase in goods sold and services rendered given that price reductions occurred, above all, in the reporting year but also in the preceding year. As a consequence, producer prices for industrial products fell by 1.0% in domestic and 0.3% in foreign markets.[4] The major segments of the non-financial corporations sector are similar in the sense that they recorded better sales developments in 2014 than in 2013, the only exception being electricity, gas and water supply, which recorded a strong decline in the reporting year. In arithmetical terms, the above-average sales growth in industry in the reporting period (+2½%) was largely attributable to the considerable expansion in the business activities of the vehicle manufacturing sector, where sales increased by almost one-twelfth in nominal terms. Unlike the previous two years, in 2014, the construction industry concluded the year with a substantial increase in turnover. In the trade sector, the development in turnover in the motor vehicle and retail segments was relatively favourable, whereas, in 2014, the wholesale segment again failed to exceed the level it achieved in 2012 after a strong upswing. Following relatively modest growth in 2013, turnover in both the transport and storage and information and communication segments of the services sector increased distinctly in 2014. Sales growth among business services pro-

4 In 2013, the year-on-year figures had stood at -0.1% and -0.6% respectively.

viders, which was relatively high to begin with, further intensified.

Income from financial fixed assets down, while other operating income up

The interest income of non-financial corporations in the reporting period fell only slightly short of the heavily subdued level of 2013. Income from other long-term equity investments fell by just under one-tenth, following robust growth in the two preceding years. The reason why overall income was nevertheless able to keep pace with sales was the marked increase in other operating income, which comprises proceeds from activities that businesses do not classify as their core operating areas. These often include income from rent and licensing as well as from staff secondments and the sale of tangible fixed assets.

Further decline in cost of materials

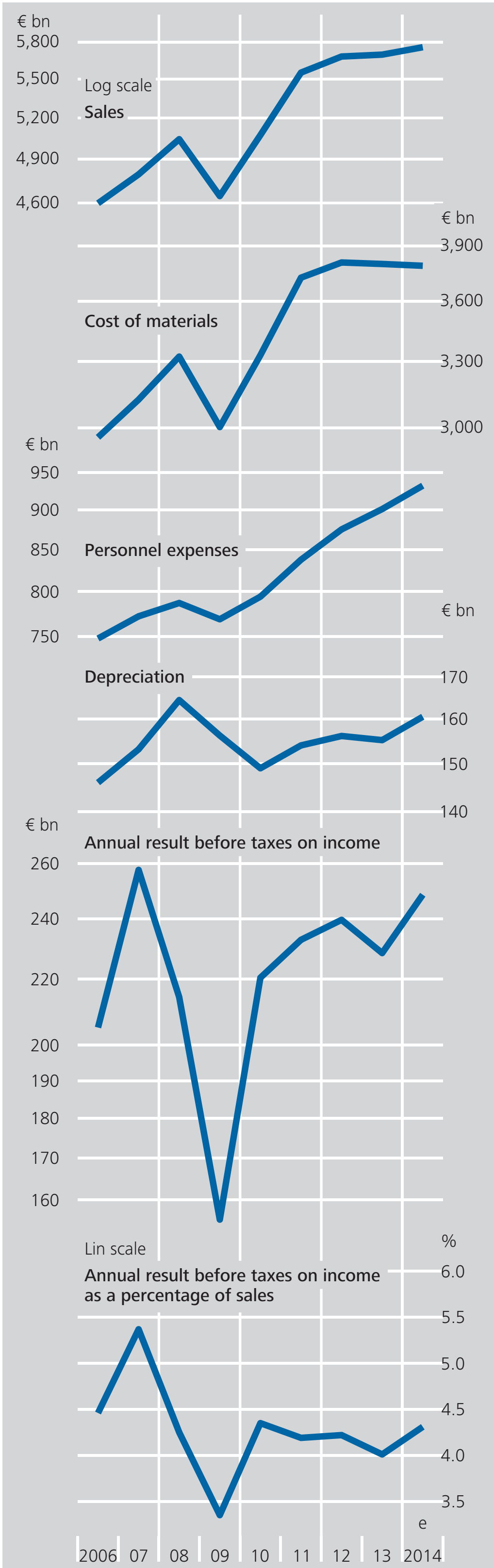
The more favourable purchase prices for commodities, in particular, translated into considerable cost relief for non-financial corporations. On average, non-financial corporations were able in 2014 to introduce prices that were lower by one-tenth compared with 2013. Whereas the decline in import prices of commodities intensified, it flattened in the case of semi-finished products and finished intermediates. In addition, the provision of goods and services increased by a greater margin in 2014 than it did in 2013. As a result, the cost of materials in the reporting period on the whole did not fall much more sharply than in 2013.

Increase in personnel expenses and write-downs

Given the clear improvement in the gross income basis[5], businesses were able to withstand the renewed marked increase in staff costs. At 3½%, although this cost item grew somewhat more strongly than in 2013 (+3%), it nevertheless fell perceptibly short of the average annual rate in the period from 2010 to 2012 (+4½%). The relatively stable upward trend observed over the last few years is the outcome of a notable expansion in the number of core staff and considerable wage and salary increases. Negotiated wages, as defined in the non-financial

5 Gross income is the result of gross revenue less the cost of materials.

Selected indicators from German enterprises' income statement*



* Extrapolated results from corporate financial statements statistics.
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Enterprises' income statement*

Item	2012	2013	2014e	Year-on-year change 2013	Year-on-year change 2014e
Income	€ billion			%	
Sales	5,682.2	5,697.7	5,759	0.3	1
Change in finished goods[1]	26.8	30.4	28.5	13.5	– 6.5
Gross revenue	5,709.0	5,728.0	5,787.5	0.3	1
Interest and similar income	21.2	16.6	16	– 21.4	– 3.5
Other income[2]	252.9	249.2	255	– 1.5	2.5
of which					
from long-term equity investments	31.3	36.7	33.5	17.4	– 9.5
Total income	5,983.1	5,993.9	6,058.5	0.2	1
Expenses					
Cost of materials	3,807.6	3,799.4	3,789.5	– 0.2	– 0.5
Personnel expenses	875.0	901.0	932	3.0	3.5
Depreciation	156.1	155.2	160.5	– 0.6	3.5
of tangible fixed assets[3]	141.3	143.5	149.5	1.6	4
Other[4]	14.8	11.7	11	– 21.2	– 7.5
Interest and similar expenses	62.6	62.6	63	0.0	1
Operating taxes	67.6	67.3	68	– 0.4	1.5
of which					
Excise duties	63.0	62.6	63.5	– 0.6	1
Other expenses[5]	774.5	780.0	797	0.7	2
Total expenses before taxes on income	5,743.4	5,765.5	5,810.5	0.4	1
Annual result before taxes on income	239.7	228.4	248.5	– 4.7	8.5
Taxes on income[6]	49.0	48.0	54.5	– 1.9	13
Annual result	190.7	180.4	194	– 5.4	7.5
Memo item					
Cash flow[7]	332.8	353.4	373.5	6.2	5.5
Net interest paid	41.4	45.9	47	10.8	2.5
	As a percentage of sales			In percentage points	
Gross income[8]	33.5	33.9	34.7	0.4	0.8
Annual result	3.4	3.2	3.4	– 0.2	0.2
Annual result before taxes on income	4.2	4.0	4.3	– 0.2	0.3
Net interest paid	0.7	0.8	0.8	0.1	0.0

* Extrapolated results; differences in the figures due to rounding. **1** Including other own work capitalised. **2** Excluding income from profit transfers (parent company) and loss transfers (subsidiary). **3** Including write-downs of intangible fixed assets. **4** Predominantly write-downs of receivables, securities and other long-term equity investments. **5** Excluding cost of loss transfers (parent company) and profit transfers (subsidiary). **6** In the case of partnerships and sole proprietorships, trade earnings tax only. **7** Annual result, depreciation, and changes in provisions, in the special tax-allowable reserve and in prepaid expenses and deferred income. **8** Gross revenue less cost of materials.

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corporations sector considered here, were raised by 3% in the reporting period, a steeper increase than in 2013 (+2½%). The cost burden from write-downs was significantly greater in 2014 than in 2013, which was mainly due to the fact that deductions for the decreasing value of tangible fixed assets rose substantially this time round. This could not be offset by the lower extent of downward value adjustments for current and financial assets. As in 2013, write-downs on financial assets in the reporting period were down by more than one-quarter compared with 2011 and 2012, which were characterised by a relatively high amount of value adjustments.

Considerable improvement in annual pre-tax result

Overall in 2014, income grew faster than expenditure. On average across the non-financial corporations sector, the annual result before taxes on income was 8½% up on the figure of 2013, thus more than offsetting the previous year's 4½% decline. The pre-tax return on sales came to 4¼% in total. Hence, corporate profitability in 2014 returned to a level last seen in the initial years following the Great Recession. According to the results, the drop in 2013 to 4% was of a temporary nature.

The manufacturing sector, having suffered a sharper downturn in profitability than the corporate sector as a whole in 2013, made up the

Return on sales slightly above average in manufacturing …

entire shortfall in 2014. Barring 2013, this sector has generated a relatively steady flow of profits over the past five years, the 2014 pre-tax return on sales coming in at 4½%, which is somewhat higher than the figure for the corporate sector overall. As for the components of the broader manufacturing sector, sales by vehicle manufacturers once again generated a clearly below-average return during the reporting period, even if it did outpace the exceptionally meagre showing in 2013. Profitability in the mechanical engineering sector stalled at the previous year's level which, while good by industry standards, was nonetheless rather mediocre in historical terms. The electrical engineering industry, meanwhile, saw its return on sales advance so strongly that the chemical and pharmaceutical industries were the only major industry sectors to generate higher rates of profitability.

… and exceptionally good in the construction sector

The construction sector was extremely profitable in 2014. Over a period of more than ten years, the construction industry first embraced consolidation, then harnessed the upbeat demand to push up its return on sales from a low of 3% to 7% in the reporting period. Notable success has been enjoyed in recent years by the multitude of mostly small construction firms, many of which operate as unincorporated entities. Quite a large number of these firms are probably to be found in the especially expansionary field of housing construction.

Business services sector highly profitable; trade and especially transport industry rather less so

Business service providers defended their position as the most profitable services sector with a return on sales of just over 9% in 2014, a figure surpassed only in the 2006-08 boom period. When considering this sector's generally high profitability levels, it should be borne in mind that it contains more unincorporated entities, proportionately speaking, for which management wages are a component of profit, while at corporations, management compensation forms part of personnel expenses. Profitability was likewise well above average in the information and communication sector, while wholesale and retail trade and the transport and storage sector fell short of the average rate for the non-financial corporations sector as a whole. The transport and logistics sector saw its pre-tax annual result contract by more than two-fifths in 2014. While sales growth was respectable, profits slumped under the combined impact of higher costs for intermediate goods and personnel expenses, and a sharp upturn in depreciation and write-downs. Net of taxes, transport and logistics firms, taken as a mean, only just avoided turning in a loss.

Sources and uses of funds

Sources of funds still receding despite strong cash flow

Sources of funds of non-financial corporations eased slightly in 2014, just as they had done in the three years prior to that. Strong cash flows meant that internal funding sufficed to cover almost all the corporations' financing needs. Secondary financing was generated by two components. One was the steady stream of cash produced by depreciation and write-downs, and by the creation of provisions; the other was the continued inclination of businesses to retain a higher share of profits. Irrespective of the exceptionally favourable financing conditions, injections of equity represented the sole form of external funding used during the reporting period. In net terms, non-financial corporations did not incur any fresh liabilities, largely on account of one-off effects. Although developments were flat overall, the maturity spectrum of financial obligations has been radically transformed, with long-term liabilities – primarily those to affiliated companies – being redeemed (with the exception of bond issuance) and businesses mainly using bank loans to cover their short-term cash requirements. The need to raise funding through injections of equity was no more than modest by historical standards in 2014.

On average, corporations used two-thirds of their available resources for investments in tangible fixed assets. The net increase in tangible fixed assets outstripped depreciation by 14% on balance in the reporting period, which is

Enterprises' sources and uses of funds*

€ billion

Item	2012	2013	2014e	Year-on-year change 2013	Year-on-year change 2014e
Sources of funds					
Capital increase from profits and contributions to the capital of non-corporations[1]	26.9	39.2	59.5	12.3	20.5
Depreciation (total)	156.1	155.2	160.5	− 0.9	5
Increase in provisions[2]	− 12.7	18.2	19.5	30.9	1
Internal funds	170.3	212.6	239.5	42.3	26.5
Increase in capital of corporations[3]	13.6	14.8	10.5	1.1	− 4
Change in liabilities	82.8	30.0	0	− 52.9	− 30
Short-term	35.1	18.6	29.5	− 16.5	10.5
Long-term	47.7	11.3	− 29	− 36.4	− 40.5
External funds	96.5	44.7	11	− 51.7	− 34
Total	266.8	257.3	250	− 9.5	− 7
Uses of funds					
Increase in tangible fixed assets (gross)[4]	170.7	162.4	170	− 8.3	7.5
Memo item					
Increase in tangible fixed assets (net)	29.4	18.8	20.5	− 10.5	1.5
Depreciation of tangible fixed assets	141.3	143.5	149.5	2.2	6
Change in inventories	12.4	11.3	2	− 1.2	− 9
Non-financial asset formation (gross investments)	183.1	173.6	172	− 9.5	− 2
Change in cash	9.3	12.6	0.5	3.3	− 12
Change in receivables[5]	17.3	47.0	18.5	29.8	− 28.5
Short-term	13.0	39.1	8	26.1	− 31
Long-term	4.3	8.0	10.5	3.7	2.5
Acquisition of securities	− 0.6	0.4	5	0.9	4.5
Acquisition of other long-term equity investments	57.6	23.6	54	− 33.9	30.5
Financial asset formation	83.6	83.6	78.5	0.0	− 5.5
Total	266.8	257.3	250	− 9.5	− 7
Memo item					
Internal funds as a percentage of gross investments	93.0	122.4	139	.	.

* Extrapolated results; differences in the figures due to rounding. **1** Including "GmbH und Co KG" and similar legal forms. **2** Including change in the balance of prepaid expenses and deferred income. **3** Increase in nominal capital through the issue of shares and transfers to capital reserves. **4** Change in tangible fixed assets (including intangible assets) plus depreciation. **5** Including unusual write-downs of current assets.

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Above-average increase in tangible fixed assets in chemical industry, vehicle manufacturing and in transport and storage

broadly consistent with the long-term mean. Upbeat activity in the construction sector meant that the increase in tangible fixed assets was slightly above average. In transport and storage, the (gross) increase in tangible fixed assets was a quarter up on depreciation, suggesting that fierce competitive pressure, combined with dwindling profitability, is the main force driving investment. As for the manufacturing sector, vehicle manufacturing once again came to the fore, with tangible fixed assets being increased by a third more than the corresponding volume of depreciation. Fixed investment in the chemical and pharmaceutical industry was nearly a quarter higher than depreciation, suggesting that the investment restraint observed in this sector in recent years might be overcome. Corporations from the electrical engineering industry, on the other hand, barely accumulated any tangible fixed assets in 2014, once depreciation and write-downs had been accounted for.

Other long-term equity investments sharply higher in vehicle manufacturing and information sector

In 2014, two sectors accounted for the bulk of the increase in other long-term equity investments, and thus for the expansion of capital and production ties as well. First, vehicle manufacturers pressed ahead with their expansionary strategy, investing roughly as much in acquiring new other long-term equity investments as in maintaining and extending their internal production capacities. These firms had to tap external sources for part of the necessary funding, just as they had in the previous years, and they made use of both long-term liabilities and shareholder equity injections. Second, businesses in the information and communication sector drove up their stock of other long-term equity investments in the reporting period, though their internal funding resources adequately covered this outlay. The inclination to build up other long-term equity holdings was less pronounced in the chemical and pharmaceutical and electrical engineering sectors, on the other hand, and the same could be said for electricity, gas and water suppliers, which are likewise sectors with substantial holdings of other long-term equity investments.

Balance sheet developments

Moderate increase in total assets

Total assets of the non-financial corporations sector expanded by a moderate 2½% in 2014. Other long-term equity investments were once again the most dynamic fixed asset item during the year. The fixed assets to total assets ratio remained steady in the non-financial corporations sector as a whole. While the tangible fixed asset ratio at corporations surged on the back of the very good annual result, it was down again for unincorporated entities. One area in which the current spell of low interest rates came to the fore in the reporting period was the maturity spectrum of receivables at non-financial corporations, which appeared keen to scale back the share of non-interest-bearing assets and shift their investments more into higher yielding, longer-term receivables and securities.

Low-interest-rate phase driving increase in long-term provisions

More or less all the sectors under consideration, headed by vehicle manufacturing, set aside additional provisions to cover payment obligations expected at a future date. These include payments of post-employment benefits under direct commitments to current and former employees as well as provisions to allow for the long-term effects and uncertainties of business decisions. In total, provisions account for roughly 16% of total assets. This ratio's long and drawn-out decline[6] has recently switched to a gradual ascent over the past three years. A major driver behind this development, now as then, is the need to adjust the present values of future payment obligations upwards to match the low-interest-rate environment. German GAAP prescribe a discount rate which stands for the average market interest rate observed over the last seven years for the measurement of long-term provisions. This would suggest that businesses have not finished adjusting to current interest rate levels, and it points to the prospect of further provisioning in the coming years which, in and of itself, will place a strain on annual results. Provisions for pensions make up 5½% of total assets, and pension obligations are much higher at corporations, structurally speaking, than they are at unincorporated entities. Many enterprises looking to scale back the pension provisions carried in their balance sheets have tried to reallocate assets internally to occupational pension schemes.

Long-term liabilities redeemed

Long-term equity and liabilities broadly matched last year's figures, the increase in equity being cancelled out, for the most part, by a reduction in long-term liabilities. The reporting period mainly saw the redemption of long-term liabilities to banks and to affiliated companies, while the issuance of corporate bonds was as vibrant as ever, their value in corporations' balance sheets almost doubling over the past five years. The ratio of short-term liabilities to total assets was largely static, though bank loans in particular saw a shift from long to short maturities.

Continued strengthening of equity capital base

Own funds as a share of non-financial corporations' total assets stood at a mean 29½% at the end of the 2014 financial year, marking a continuation of corporations' long-term inclin-

6 Over the past decade, provisions have accounted for an average of 19% of total assets.

Enterprises' balance sheet*

Item	2012	2013	2014e	Year-on-year change 2013	Year-on-year change 2014e
Assets	€ billion			%	
Intangible fixed assets	82.3	80.4	76.5	− 2.3	− 5
Tangible fixed assets	860.7	881.4	905.5	2.4	3
Inventories	615.2	626.5	628.5	1.8	0.5
Non-financial assets	1,558.3	1,588.4	1,611	1.9	1.5
Cash	251.6	264.2	265	5.0	0
Receivables	1,187.2	1,230.7	1,246	3.7	1.5
of which					
Trade receivables	399.6	395.9	393	− 0.9	− 0.5
Receivables from affiliated companies	636.6	675.3	691	6.1	2.5
Securities	78.9	79.2	84	0.5	6
Other long-term equity investments1	582.4	598.0	644.5	2.7	8
Prepaid expenses	18.8	19.2	20	1.9	4.5
Financial assets	2,119.0	2,191.3	2,259.5	3.4	3
Total assets2	3,677.2	3,779.7	3,870.5	2.8	2.5
Capital					
Equity2, 3	1,019.4	1,073.3	1,143.5	5.3	6.5
Liabilities	2,041.8	2,071.8	2,072	1.5	0
of which					
to banks	458.8	450.7	454	− 1.8	0.5
Trade payables	310.6	308.7	315	− 0.6	2
to affiliated companies	790.2	812.5	793.5	2.8	− 2.5
Payments received on account of orders	217.0	225.0	219.5	3.7	− 2.5
Provisions3	590.2	607.4	626.5	2.9	3
of which					
Provisions for pensions	195.0	203.0	209	4.1	3
Deferred income	25.9	27.2	28.5	5.2	5
Liabilities and provisions	2,657.9	2,706.4	2,726.5	1.8	1
Total capital2	3,677.2	3,779.7	3,870.5	2.8	2.5
Memo item					
Sales	5,682.2	5,697.7	5,759	0.3	1
Sales as a percentage of total assets	154.5	150.7	149	.	.

* Extrapolated results; differences in the figures due to rounding. **1** Including shares in affiliated companies. **2** Less adjustments to equity. **3** Including half of the special tax-allowable reserve.

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ation to strengthen their equity capital base. Around half of the rather sizeable increase of one percentage point observed during the reporting period was explained by one-off factors at individual corporations. Almost all the economic sectors under consideration harnessed the upbeat business environment to build up further financial reserves, meaning that the increase in the equity capital ratio observed in 2014 was founded on a broad sectoral footing. Broken down by firm size, the figures reveal that SMEs nudged their capital ratio higher still to 25½%, which is more than double the very low figure reported for 2000.[7] Large enterprises, meanwhile, made another distinct addition to their equity capital ratio to 31½% in 2014, following a number of years in which this ratio moved steadily along the 30% line.

Trends for 2015

Two factors suggest that 2015 may well have been a more rewarding year for non-financial corporations than 2014. First, provisional fig-

7 See Deutsche Bundesbank, Capital base of non-financial enterprises in Germany sustainably strengthened, Monthly Report, December 2013, pp 44-46.

2015 business performance likely to be better than in 2014; one-off effects impeding profitability

ures from the consolidated financial statement statistics up to the third quarter of 2015 suggest that sales by listed non-financial groups were 7½% up on the year, compared with the 1% annual rate of change reported in 2014. While exchange rate effects – the translation of sales revenues generated by subsidiaries located outside the euro area at the distinctly lower euro exchange rate – go some way towards explaining this increase, it should be noted that many groups are also reporting stronger sales figures. The second factor underpinning the trend forecast for the non-financial corporations sector as a whole is that this sector is more reliant on the relatively expansionary overall domestic demand observed in 2015 than the major groups which often operate in international markets. Material costs look set to ease on the back of a further drop in commodity prices. The increase in negotiated pay rates was flatter than in 2014, but the general statutory minimum wage introduced at the beginning of the year is likely to have left its mark on personnel costs, notably in the services sectors. One-off effects explain why the largely upbeat sales and cost trends did not send groups' return on sales sharply higher in the first three quarters of 2015. The Volkswagen Group, for instance, was forced to set aside substantial provisions and recognise impairments during the course of this year after irregularities in the emissions test data for its diesel vehicles came to light, while, in a separate development, a group in the energy sector posted huge write-downs. It can be assumed that these two rather weighty effects will also have a knock-on effect on the profitability of the non-financial corporate sector as a whole.

Consolidated financial reporting standards affecting equity and liabilities differently than German GAAP in current setting

In the current setting, the consolidated financial statement statistics are of limited use for predicting key balance sheet ratios at individual corporations, especially so for their equity and liabilities. The main reason why the equity capital ratio in 2014 fell sharply for groups but climbed in the aggregate balance sheet of non-financial corporations was the mismatch between the financial reporting standards mentioned earlier in this article for the recognition of pension liabilities. With market interest rates receding further in the first quarter of 2015, the 74 large groups upped the measurement of their stock of pension provisions as at 31 March 2015 by a further €21 billion compared with a figure of €171 billion one quarter earlier. The marked upward movement in interest rates observed subsequently prompted these groups to adjust this figure down to €143 billion at mid-year 2015. While the pronounced volatility of this item has no bearing on the groups' profit or loss, such expenses and income are recognised outside profit or loss in comprehensive income, where they impact on equity. Single-

Enterprises' balance sheet ratios*

Item	2012	2013	2014e
	As a percentage of total assets1		
Intangible fixed assets	2.2	2.1	2
Tangible fixed assets	23.4	23.3	23.5
Inventories	16.7	16.6	16
Short-term receivables	30.0	30.1	29.5
Long-term equity and liabilities2	48.3	48.9	49
of which			
Equity1	27.7	28.4	29.5
Long-term liabilities	15.1	14.9	14
Short-term liabilities	40.5	39.9	39.5
	As a percentage of tangible fixed assets3		
Equity1	108.1	111.6	116.5
Long-term equity and liabilities2	188.2	192.1	193
	As a percentage of fixed assets4		
Long-term equity and liabilities2	107.3	108.9	106.5
	As a percentage of short-term liabilities		
Cash resources5 and short-term receivables	93.4	95.5	94
	As a percentage of liabilities and provisions6		
Cash flow7	13.8	14.5	15

* Extrapolated results. Differences in the figures due to rounding. 1 Less adjustments to equity. 2 Equity, provisions for pensions, long-term liabilities and the special tax-allowable reserve. 3 Including intangible fixed assets. 4 Tangible fixed assets, intangible fixed assets, other long-term equity investments, long-term receivables and long-term securities. 5 Cash and short-term securities. 6 Liabilities, provisions, deferred income and half of the special tax-allowable reserve less cash. 7 Annual result, depreciation, and changes in provisions, in the special tax-allowable reserve and in prepaid expenses and deferred income.

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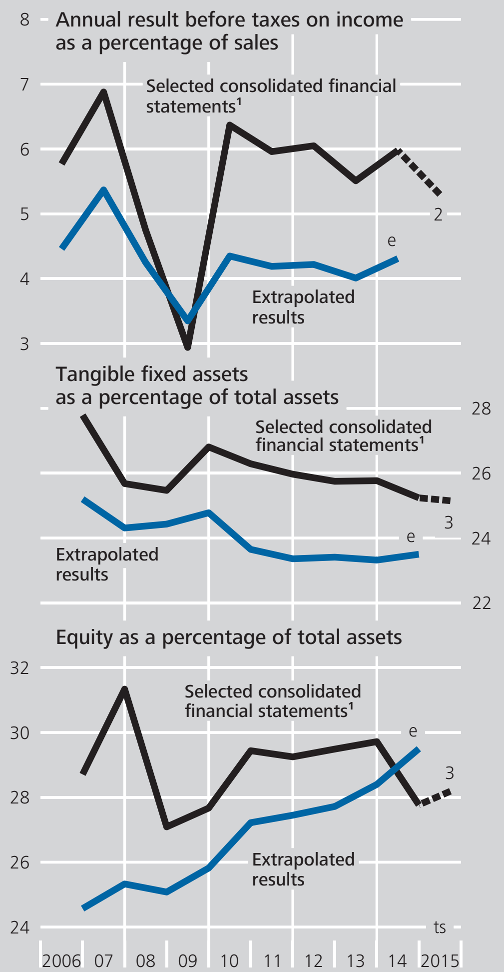
Selected ratios from consolidated and individual financial statements



1 Approximately 240 listed groups of non-financial corporations. **2** Seasonally adjusted average for the 2015 Q1 to Q3 period. **3** Reporting date: 30 September 2015.
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entity financial statements prepared pursuant to German GAAP are immune to such abrupt swings in key balance sheet ratios, but this is another area where the persistent low-interest-rate environment will probably force businesses to set aside additional provisions.

Commercial fixed capital formation probably stronger still in 2015

Corporate groups' tangible fixed asset ratio at the end of the third quarter of 2015 was largely the same as the 2014 year-end figure. This ratio had receded quite sharply in the course of 2014 compared with a slight increase in tangible fixed assets as a share of the aggregate balance sheet of non-financial corporations at that time. If one assumes that the different financial reporting standards for groups and single entities exert less of an influence on reported assets in the current setting, the data from the consolidated financial statement statistics may very well support the notion that fixed capital formation in the non-financial corporations sector has more or less continued to strengthen during the current year.

Long series of extrapolated results from the corporate financial statement statistics are available online at http://www.bundesbank.de/Navigation/EN/Statistics/Enterprises_and_households/Corporate_financial_statements/Tables/table.html