# German enterprises' profitability and financing in 2013

*The profitability of German non-financial corporations for 2013 as a whole was not quite as good as that in the first three years after overcoming the severe recession of 2009. Pre-tax profits amounted to only 4% of sales in the reporting year, compared with 4¼% in the years 2010 to 2012. Against a backdrop of stagnating sales income, this was due primarily to the considerably higher personnel expenses. This cost factor rose in some parts of the manufacturing industry in particular, whereas sales recovered only gradually following the temporary lull in the fourth quarter of 2012 and the first quarter of 2013. Personnel expenses were up not only on account of negotiated pay rises, however, but also because industrial enterprises were continuing to expand their workforce despite the weak economic activity. This may be interpreted as an indication of staff planning geared to the medium to long term. The expansion strategy is particularly noticeable in the manufacture of transport equipment, especially as there was also a sharp rise in fixed assets in this area.*

*On the other hand, increases in tangible fixed assets throughout the non-financial corporate sector remained moderate in 2013, as in the previous years. The acquisition of other long-term equity investments was also down in the reporting period, whereas such transactions were numerous in 2012. Exceptions here were car manufacturers as well as energy and water supply companies, which raised their holdings substantially. The need for long-term debt financing remained limited, not least because of the broadened scope for internal funding. It became necessary to step up provisions for pensions given the low level of interest rates.*

*The marked improvement in economic activity during 2013 is reflected in the movements of inventories and financial current assets. Output was stepped up in the manufacturing sector; as a result, warehouses were less full as at the reporting date than one year earlier, and finished goods went on sale quickly, particularly towards the end of the year. This was one of the reasons why cash was higher, whereas trade receivables did not increase. This suggests a tendency to give preference to shorter credit terms for the supply of goods and services, due probably, not least, to the very low interest rates.*

*Enterprises were endeavouring again in 2013 to consolidate their equity capital base further. This was particularly true of small and medium-sized enterprises, whose capital ratio was 3 percentage points below the average of 28% across size categories and economic sectors. In contrast, large firms have been increasing their equity in step with total assets since 2010; their equity ratio is hovering at just below the 30% mark. However, it appears unlikely that this ratio will be maintained in the current year. In any event, according to preliminary information from the consolidated financial statements statistics, the increase in the equity capital base of listed non-financial groups was failing to keep pace with balance sheet growth up to the end of the third quarter of 2014. Furthermore, latest group data suggest that profitability in the corporate sector as a whole is likely to have benefited in the current year from the decline in prices of raw materials and intermediate goods.*

## Underlying trends

*Sales in 2013 only slightly up on 2012 despite cyclical momentum during the year*

German economic activity grew at a fairly lively pace during the course of 2013, and gross domestic product (GDP) was 1.1% higher in the fourth quarter of 2013 than one year earlier. However, in light of the downturn in the fourth quarter of 2012 and the first quarter of 2013, economic output on an annual average was a mere 0.1% above the previous year's level. This is consistent with the fact that non-financial corporations hardly succeeded in raising their 2013 sales as a whole compared with 2012.[1] There were substantial sectoral differences in this context. The manufacturing sector was unable in 2013 to maintain the sales volume recorded in 2012 owing to a temporary dearth of demand. In contrast, domestically oriented sectors of the economy such as construction again generated strong growth. The sectoral differences are less pronounced in terms of gross income, which is gross revenue less cost of materials. This suggests that enterprises were often able to balance their buying and selling activities through their pricing and their business arrangements. In contrast, the growth in personnel expenses in some areas was less in keeping with sales results. Notably in industry, expenditure for permanent employees saw the sharpest increase compared with other sectors; on the other hand, the industry-related services sector, which also fell behind for cyclical reasons, and the flourishing construction sector succeeded in curbing growth in personnel expenses.

*Widely diversified sectoral profile as regards profitability*

Substantial declines in profit in the manufacturing sector were the main reason why the profitability of the non-financial corporate sector as a whole, at 4%, fell slightly short of the 2012 level. The profitability of car manufacturers in particular was impaired by higher costs. On the other hand, construction and a number of services sectors generated a leap in income. Firms from the construction and business services sectors were among the most profitable in 2013 on a sectoral average.

*Enterprises resort increasingly to internal financing, …*

Despite lower profits, a decline in depreciation and a sharp build-up of provisions, the cash flow of non-financial corporations grew on the whole in 2013. External funding was down on the previous year; this was linked primarily to the fact that enterprises incurred new long-term liabilities to a lesser extent. Once again, they were reticent to take out bank loans, whereas the volume of newly issued bonds and capital injections remained more or less at the previous year's levels.

*… while fixed capital formation still relatively weak*

The moderate step-up in demand for long-term funding is consistent, on the one hand, with the fact that fixed capital formation again proved to be relatively weak in 2013. The share of total assets accounted for by tangible fixed assets decreased further. On the other hand, the increase in holdings of other long-term equity investments was comparatively weak compared with the steep growth recorded between 2010 and 2012. In strongly interconnected sectors such as manufacturing and the information and communication industry, the share of total assets accounted for by other long-term equity investments was even smaller in the reporting period than in the previous year. Most enterprises experienced markedly improved underlying economic conditions on the balance sheet date of 2013 compared with one year earlier. This was evident from the changes in the balance sheet items which are sensitive to short-term changes in cyclical conditions.[2] At the end of 2013, warehouse stocks were somewhat lower than in 2012, whereas industrial and construction firms reported significantly more work in progress (semi-finished products and services).

1 The study for 2013 is based on 23,000 financial statements, which were expanded on the basis of the projected development of aggregate data taken from the company register. For details on the current procedure, see Deutsche Bundesbank, Financial statements statistics with broader sectoral coverage and a new basis of extrapolation, Monthly Report, December 2011, pp 32-33.
2 For around 90% of the enterprises included in the corporate financial statement statistics, the financial year is the calendar year.

*Strengthening of equity capital base continues*

Non-financial corporations stuck to their strategy of building up their own funds. As a ratio of total assets, their equity rose to a new record level of 28%, which was ¼ percentage point above the previous year. As in the past, equity ratios tended to climb primarily in those sectors that were still lagging behind the average of all the economic sectors considered. This applies in particular to the construction industry, some trade sectors, accommodation and food service activities as well as the transportation and storage sector. The trend towards scaling back bank loans, which has been visible for quite some time, was likewise continued. Instead, liabilities to affiliated companies again saw substantial growth.

*Corporate insolvencies down further in 2013*

Corporate insolvencies dropped once again in 2013. As a whole, the non-financial corporate sector coped well with the temporary cyclical downturn given the sound financing situation. Only in the mining sector and in electricity, gas and water supply did more firms become insolvent in 2013 than in 2012. In manufacturing, which was most strongly affected by the economic headwinds of the last quarter of 2012 and the first quarter of 2013, the number of business closures was virtually unchanged. The buoyant construction activity meant that the number of businesses that became insolvent in this sector declined markedly. The robust domestic activity probably played a key part in the renewed decrease in the insolvency rate among business-related service providers and in the transportation and storage sector.

## Sales and income

### Non-financial corporate sector as a whole

*Growth in sales of non-financial corporations almost at a standstill in 2013*

The growth in sales generated by non-financial corporations almost ground to a halt in 2013 (+½%) following a marked decline in 2012 compared to the very strong growth recorded at the beginning of the current upswing. The rise in total sales revenue, which comprises sales from operating business as well as income from financial linkages and investments, even proved to be somewhat lower still. Although income from other long-term equity investments saw a considerable increase, the return on interest-bearing assets in 2013 was again markedly lower year on year.

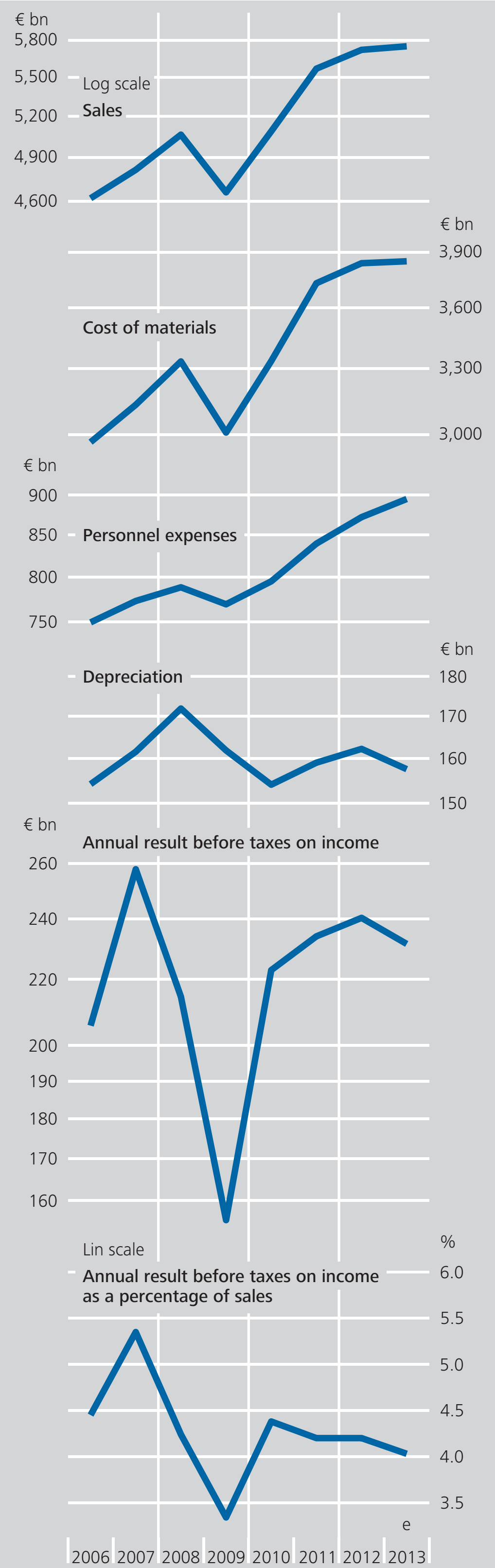
*Rise in cost of materials curbed, but pressure from personnel expenses*

The rise in prices of raw materials and intermediate goods weakened almost to the same extent as sales revenue. One reason for this was that the import prices of raw materials and semi-finished products fell by 7% in the reporting year after climbing sharply in the years 2010 to 2012. At the domestic producer level, too, intermediate goods were somewhat cheaper in 2013 than in 2012 (-1%). In contrast, personnel expenses remained an expansive cost factor, although the increase in 2013 (2¾%) was not as pronounced as in the period 2010-12 (4¼% on average). Collective wage and salary increases in the non-financial corporate sector under consideration here, amounting to 2½%, were slightly lower in the reporting period than in 2012 (2¾%); moreover, voluntary one-off payments were probably less generous than in the previous years. At the same time, enterprises expanded their workforce further to a significant extent. This was apparently driven by staff planning geared to the medium to long term; however, these measures went hand in hand with losses in income for the 2013 financial year as a result of subdued business developments.

*Depreciation and interest expenses down*

Depreciation fell somewhat overall. This was mainly due to the decrease in scheduled depreciation of tangible fixed assets. The need for special depreciation was substantially greater in 2013 than in 2012, but again did not have much impact. Provisioning for current and financial assets was again fairly moderate after two years with somewhat higher reductions. Enterprises’ interest and similar expenses dipped only slightly below the very low level recorded in 2012.

**Selected indicators from German enterprises' income statement***




* Extrapolated results from corporate financial statements statistics.
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*Return on sales in 2013 below the level of 2012 and 2011*

The non-financial corporate sector's profits fell somewhat in 2013 for the first time since the recession year of 2009 in the context of stagnating sales, primarily because of the continued marked rise in personnel expenses. Pre-tax income was almost 3½% lower than in 2012. The return on sales in the reporting period reached 4% as an average for all sectors. This was around ¼ percentage point less than in the previous two years.

## Sectoral trends

*Lower sales revenue and higher personnel expenses depress return in manufacturing sector*

As an average for 2013, the manufacturing sector was not quite able to match the level of sales seen in 2012 (-½%). Moreover, the rise in personnel expenses was again stronger here than in all other sectors. In this respect, the negotiated wage increases, which amounted to just over 3% in this sector, are likely to have had a greater impact than the renewed increases in staffing levels. Profits in this sector were down by one-seventh on average. In the year under review, the return on sales of just under 4% was ¾ percentage point lower than in the years 2010 to 2012, and was this time slightly below the average for non-financial corporations.

*Vehicle manufacturers' profitability impaired by surging costs in particular*

In 2013, vehicle manufacturers were burdened, above all, by surging costs. Given the relatively robust growth in sales (+2%), they would have been well able to cope with the marked increase in the cost of materials (+3%). However, the automotive industry and manufacturers of other transport equipment created a remarkable number of new jobs subject to social security contributions (+2¾% and +6¼% respectively). Viewed in connection with the renewed fairly sharp additions to tangible fixed assets, this suggests that enterprises stepped up production capacity at German locations. However, the growth in staff may have been partly attributable to the fact that, following the introduction of sectoral wage add-ons in November 2012, the use of temporary staff, who in employment statistics are assigned to

## Enterprises' income statement*

| Item | 2011 | 2012 | 2013e | Year-on-year change 2012 | Year-on-year change 2013e |
|---|---|---|---|---|---|
| **Income** | € billion | | | % | |
| Sales | 5,569.1 | 5,722.0 | 5,751.5 | 2.7 | 0.5 |
| Change in finished goods[1] | 37.4 | 27.2 | 29.5 | – 27.3 | 8.5 |
| Gross revenue | 5,606.5 | 5,749.2 | 5,781 | 2.5 | 0.5 |
| Interest and similar income | 21.6 | 21.0 | 17 | – 2.4 | – 19 |
| Other income[2] | 242.7 | 258.7 | 252.5 | 6.6 | – 2.5 |
| *of which* | | | | | |
| from long-term equity investments | 28.8 | 31.6 | 36 | 9.7 | 14 |
| Total income | 5,870.7 | 6,029.0 | 6,051 | 2.7 | 0.5 |
| **Expenses** | | | | | |
| Cost of materials | 3,730.2 | 3,839.3 | 3,850 | 2.9 | 0.5 |
| Personnel expenses | 839.3 | 871.9 | 895 | 3.9 | 2.5 |
| Depreciation | 159.0 | 162.2 | 157.5 | 2.0 | – 3 |
| of tangible fixed assets[3] | 143.2 | 146.1 | 144.5 | 2.0 | – 1 |
| Other[4] | 15.8 | 16.0 | 13 | 1.6 | – 20 |
| Interest and similar expenses | 66.8 | 61.9 | 61.5 | – 7.3 | – 1 |
| Operating taxes | 69.4 | 68.4 | 66.5 | – 1.5 | – 2.5 |
| *of which* | | | | | |
| Excise duties | 64.9 | 63.2 | 61.5 | – 2.6 | – 2.5 |
| Other expenses[5] | 771.9 | 784.9 | 789 | 1.7 | 0.5 |
| Total expenses before taxes on income | 5,636.7 | 5,788.6 | 5,819 | 2.7 | 0.5 |
| Annual result before taxes on income | 234.0 | 240.4 | 231.5 | 2.7 | – 3.5 |
| Taxes on income[6] | 51.0 | 48.7 | 47 | – 4.4 | – 3.5 |
| Annual result | 183.1 | 191.6 | 184.5 | 4.7 | – 3.5 |
| *Memo item* | | | | | |
| Cash flow[7] | 358.1 | 342.2 | 359.5 | – 4.4 | 5 |
| Net interest paid | 45.3 | 40.9 | 44.5 | – 9.7 | 8.5 |
| | As a percentage of sales | | | In percentage points | |
| Gross income[8] | 33.7 | 33.4 | 33.6 | – 0.3 | 0.2 |
| Annual result | 3.3 | 3.3 | 3.2 | 0.1 | – 0.1 |
| Annual result before taxes on income | 4.2 | 4.2 | 4.0 | 0.0 | – 0.2 |
| Net interest paid | 0.8 | 0.7 | 0.8 | – 0.1 | 0.1 |

* 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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the services sector, grew less attractive than recruiting permanent staff. The item "Other expenses", which also includes pay for temporary staff, was lower in this sector as a whole, as opposed to the corporate sector; this can at any rate be interpreted as further indication of a decline in temporary agency employment. Employment growth and negotiated wage rises served to push up personnel expenses considerably (+4½%). Furthermore, depreciation as well as interest and similar expenses likewise saw an increase in this sector, bucking the sectoral trend. In addition to the unfavourable trend in cost-earnings ratios in operational business, vehicle manufacturers sustained substantial drops in income from other long-term equity investments. On balance, their pre-tax profits were halved year on year. In the reporting period, the return on sales was particularly meagre at 1½%, compared with 3½% in the previous two years.

*In contrast, electrical and mechanical engineering sectors maintain their impressive pre-tax return, …*

The decrease in income remained within limits in other branches of the capital goods sector, however. The cost of materials contracted in the electrical and mechanical engineering sectors while sales were largely stable, and the rise in employment subject to social security contributions was comparatively small. The mechanical engineering sector was able to limit growth in personnel expenses (+2%), unlike manufacturers of computers, electronic products and electrical equipment (+4½%). However, depreciation as well as interest and similar expenses were down significantly in the latter sectors. On balance, both industrial sectors achieved an impressive pre-tax return of around 5½%.

*… as does the chemical industry*

Within the manufacturing sector, the chemical industry usually generates the highest income measured by sales. In 2013, it maintained the previous year's result, and the return remained at 7½%. However, this result was markedly lower than in 2010 and 2011 (9%) and matched the figure of 2009, the year of the recession. With sales more or less constant since 2011, the cost of materials provided discernible relief in the reporting period as the prices of raw materials subsided (-2%). Negotiated wage increases in this industry were somewhat more moderate than in the metalworking industry; this probably also played a key part in the somewhat more modest rise in personnel expenses (+1½%). In contrast, the other major branch of the intermediate goods sector, the metal production and processing industry, was affected by sharply increasing personnel expenses, much like the capital goods sector. This had the effect of reducing income further. The ratio of income to sales, which were down appreciably, was a mere 3½% in 2013, compared with 4% in 2012 and 4½% in 2011.

*Construction again one of the most profitable sectors*

For the construction sector, 2013 marked another record year. Sales advanced by 3½%, and income before taxes surged by one-fifth. Unlike in the manufacturing sector, the cost of materials went up markedly, whereas personnel expenses saw a less strong increase even though employment growth was up. Comparatively moderate negotiated wage increases are likely to have benefited construction firms in this respect. On the whole, the construction sector achieved a return on sales of 6½% before taxes in 2013. This was around ¾ percentage point more than in the previous two years.

*Lower income from other long-term equity investments and higher need for depreciation at energy and water supply companies*

In 2013, energy and water supply companies generated a growth in sales from operating business of 3½%. As a result, this sector and construction recorded the highest levels of the non-financial corporate sector. However, income from other long-term equity investments and from long-term financial assets fell short of the previous year's result. The cost of materials was higher, causing pressure on the expenses side. Furthermore, depreciation was up, while interest and similar expenses rose substantially, not least in view of the large number of activities related to other long-term equity investments that evidently called for a higher share of debt financing (+4½%). The pre-tax profits of energy and water supply companies receded by one-fifth in the reporting period compared with 2012. The return on sales declined by ¾ percentage point to 2¾%, the sector's profitability having recovered only partially from the blow it received in 2011 in connection with the phasing-out of nuclear energy.

*Profitability in trade affected by differing income and cost trends*

In 2013, wholesale trade suffered a moderate drop in sales (-1%) caused by the industrial downturn. Nor were motor vehicle traders able to maintain the previous year's sales level. Retailers fared better, with sales rising by 1½% on the back of robust consumer demand. Taking into account the procurement side, the differences between the individual branches of the retail trade were slightly smaller. However, the trend in personnel expenses was crucial to how income developed in each case. The motor vehicle trade scaled back its expenses for personnel moderately, whereas wholesale and retail trade enterprises experienced increases of up to 2%. On the whole, the trade sectors converged somewhat in terms of their return on sales. Retailers once again generated by far the best return on sales (3¾%) in this economic sector in 2013, while motor vehicle traders drew level with the wholesale sector (2½% each).

Of the other services sectors under consideration, the information and communication sector was the only one that failed to generate

*Information and communication sector as well as business services again post strong return; transport sector improves, but still rather weak*

sales growth in 2013. The increases in expenditure did remain moderate on the whole, however. Amidst a sharp decline in depreciation, information and communication enterprises even succeeded in maintaining the result before taxes, and achieved a very high return on sales (+6½%) compared with the other sectors. In this respect they were surpassed only by business services providers, which were able to push their profits up by one-sixth as sales grew by 2%. In relation to sales, the income they generated in 2013 came to 9½%. The transport and storage sector came last in terms of profitability. However, because costs were unchanged while sales rose somewhat, profits in the reporting period were not quite as weak as in the previous years. With a return on sales of 2¾%, this branch roughly drew level with the trade sectors.

## Sources and uses of funds

*Funds in 2013 not substantially higher than their depressed level in 2012 despite increased cash flow*

Sources of funds of non-financial corporations persisted at their 2012 level, which is thus consistent with the picture of weak investment activity overall. In contrast to the year before, however, the cash flow in 2013 was perceptibly higher again (+5%), which meant that enterprises were able to make greater use of internal sources of funding. Given a further decline in profit retention and decreasing depreciation, this increased scope was reflected in an accelerated reduction of provisions. In terms of external financing, three-quarters of companies' funds during the reporting period were raised by the assumption of liabilities. Additional liabilities were incurred, above all, to affiliated companies. Long-term bank loans were redeemed on balance, while short-term bank loans were expanded somewhat. The issuance of long-term bonds in 2013 almost matched its 2012 level, which was the first time after 2009 that a significant issuance volume was achieved. Injections of equity during the reporting period showed a slight increase on 2012.

*Increases in tangible fixed assets in the construction and services sectors rather muted given positive sectoral activity, but strong accumulation of tangible fixed assets in manufacture of transport equipment*

In 2013, as in the two preceding years, almost three-fifths of available resources were used for tangible fixed assets. For non-financial corporations, increases in tangible fixed assets were, on average, only 9% above the corresponding volume of depreciation, compared with figures of +17% in 2011 and +11% in 2012. Despite extremely positive sectoral activity in 2013, the value of new equipment procured in the construction sector was only 5% higher than depreciation. The figures for the two preceding years, in the context of a high level of capacity utilisation, both showed an increase of roughly one-quarter. It was not possible to identify any substantial accumulation of tangible fixed assets during the reporting period even in the services sector, which was a beneficiary of cyclical activity. In manufacturing, the sectors that stood out in 2013 were those which had already invested heavily in fixed assets in 2012. Increases in tangible fixed assets in the manufacture of transport equipment were almost half as large again as the volume of depreciation, compared with just over one-third in 2012. In the manufacture of basic metals, fixed investment was 25% higher than depreciation, which was down on the 2012 level, but still clearly above the mean value for the manufacturing sector (17%).

*Electricity, gas and water suppliers considerably increased equity investments*

Among the sectors that possess major equity holdings, electricity, gas and water supply was the sole sector to make a further considerable expansion in this item during the reporting period. As the utilities sector also conducted fixed investment on a sizeable scale, they made increased use of external financing. Strong new capital injections are not unusual in this connection; what is surprising is the increase in short-term, as opposed to long-term liabilities. In the manufacture of transport equipment, equity investments expanded in the context of a substantial accumulation of tangible fixed assets. Chemicals, electrical engineering and communications enterprises, on the other hand, were restrained in terms of acquiring new long-term equity investments.

Enterprises' sources and uses of funds*

€ billion

| Item | 2011 | 2012 | 2013e | Year-on-year change 2012 | Year-on-year change 2013e |
|---|---|---|---|---|---|
| **Sources of funds** | | | | | |
| Capital increase from profits and contributions to the capital of non-corporations1 | 39.3 | 29.2 | 20.5 | – 10.1 | – 9 |
| Depreciation (total) | 159.0 | 162.2 | 157.5 | 3.2 | – 4.5 |
| Increase in provisions2 | 16.9 | – 10.7 | 16.5 | – 27.6 | 27.5 |
| Internal funds | 215.2 | 180.7 | 194.5 | – 34.5 | 14 |
| Increase in capital of corporations3 | 5.3 | 18.6 | 20 | 13.3 | 1 |
| Change in liabilities | 72.8 | 66.9 | 51 | – 5.9 | – 16 |
| Short-term | 83.0 | 38.4 | 34 | – 44.6 | – 4.5 |
| Long-term | – 10.2 | 28.5 | 17 | 38.7 | – 11.5 |
| External funds | 78.1 | 85.4 | 71 | 7.4 | – 14.5 |
| Total | 293.2 | 266.2 | 265.5 | – 27.1 | – 1 |
| **Uses of funds** | | | | | |
| Increase in tangible fixed assets (gross)4 | 167.3 | 162.5 | 158 | – 4.8 | – 4.5 |
| *Memo item* | | | | | |
| Increase in tangible fixed assets (net) | 24.1 | 16.4 | 13 | – 7.7 | – 3 |
| Depreciation of tangible fixed assets | 143.2 | 146.1 | 144.5 | 2.9 | – 1.5 |
| Change in inventories | 47.9 | 12.8 | 10.5 | – 35.0 | – 2.5 |
| Non-financial asset formation (gross investments) | 215.2 | 175.3 | 168.5 | – 39.8 | – 7 |
| Change in cash | – 3.9 | 8.0 | 15.5 | 11.9 | 7.5 |
| Change in receivables5 | 48.5 | 41.7 | 45 | – 6.8 | 3.5 |
| Short-term | 46.7 | 37.8 | 33 | – 9.0 | – 4.5 |
| Long-term | 1.8 | 3.9 | 12 | 2.1 | 8 |
| Acquisition of securities | – 0.6 | – 4.1 | 5 | – 3.6 | 9 |
| Acquisition of other long-term equity investments | 34.0 | 45.3 | 31 | 11.3 | – 14 |
| Financial asset formation | 78.1 | 90.8 | 97 | 12.8 | 6 |
| Total | 293.2 | 266.2 | 265.5 | – 27.1 | – 1 |
| *Memo item* | | | | | |
| Internal funds as a percentage of gross investments | 100.0 | 103.1 | 115.5 | . | . |

* 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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## Balance sheet developments

*Further moderate increase in total assets*

Total assets of the non-financial corporations sector expanded by 3% in 2013, as in 2012. On the assets side, there was a sharp expansion in long-term receivables from affiliated companies, while growth in equity investments was no longer as marked as in the preceding years. A considerable increase in cash in conjunction with inventories that were scarcely higher is an indication that enterprises' sales were strong, especially at the end of the reporting period. Furthermore, a part was played by the fact that some large enterprises issued bonds on a large scale at the end of 2013, but had not yet used the resulting inflows of funds by the reporting date. Enterprises' continuing reluctance to invest led to a no more than moderate increase in tangible fixed assets with a consequent slight reduction in their share of total assets. As had been the case in previous years, on the liabilities side, liabilities and provisions failed to keep pace with the expansion of equity. Above all, there was a further reduction in liabilities to credit institutions, whereas there was another increase in liabilities to affiliated companies. In addition, enterprises formed more provisions again in 2013. This was due mainly to a marked increase in provisions for pensions made neces-

**Enterprises' balance sheet***

| Item | 2011 | 2012 | 2013e | Year-on-year change 2012 | Year-on-year change 2013e |
|---|---|---|---|---|---|
| **Assets** | € billion | | | % | |
| Intangible fixed assets | 80.8 | 76.9 | 74.5 | − 4.8 | − 3 |
| Tangible fixed assets | 852.5 | 872.7 | 888.5 | 2.4 | 2 |
| Inventories | 601.8 | 614.6 | 625 | 2.1 | 1.5 |
| Non-financial assets | 1,535.0 | 1,564.2 | 1,588 | 1.9 | 1.5 |
| Cash | 243.6 | 251.6 | 267.5 | 3.3 | 6 |
| Receivables | 1,178.6 | 1,216.2 | 1,258 | 3.2 | 3.5 |
| *of which* | | | | | |
| Trade receivables | 395.9 | 406.5 | 405.5 | 2.7 | − 0.5 |
| Receivables from affiliated companies | 631.5 | 653.1 | 695.5 | 3.4 | 6.5 |
| Securities | 79.5 | 75.3 | 80.5 | − 5.2 | 6.5 |
| Other long-term equity investments1 | 536.3 | 569.7 | 591.5 | 6.2 | 4 |
| Prepaid expenses | 18.8 | 19.1 | 19 | 1.8 | 0 |
| Financial assets | 2,056.8 | 2,131.9 | 2,216 | 3.7 | 4 |
| Total assets2 | 3,591.8 | 3,696.1 | 3,804 | 2.9 | 3 |
| **Capital** | | | | | |
| Equity2, 3 | 982.4 | 1,030.2 | 1,070 | 4.9 | 4 |
| Liabilities | 1,976.0 | 2,042.9 | 2,094 | 3.4 | 3 |
| *of which* | | | | | |
| to banks | 461.2 | 458.3 | 454 | − 0.6 | − 1 |
| Trade payables | 306.6 | 313.7 | 312.5 | 2.3 | − 0.5 |
| to affiliated companies | 741.5 | 788.3 | 831.5 | 6.3 | 5.5 |
| Payments received on account of orders | 213.0 | 217.0 | 224 | 1.9 | 3.5 |
| Provisions3 | 604.4 | 594.6 | 609.5 | − 1.6 | 2.5 |
| *of which* | | | | | |
| Provisions for pensions | 194.1 | 193.9 | 200.5 | − 0.1 | 3.5 |
| Deferred income | 29.0 | 28.5 | 30 | − 1.8 | 5.5 |
| Liabilities and provisions | 2,609.4 | 2,666.0 | 2,734 | 2.2 | 2.5 |
| Total capital2 | 3,591.8 | 3,696.1 | 3,804 | 2.9 | 3 |
| *Memo item* | | | | | |
| Sales | 5,569.1 | 5,722.0 | 5,751.5 | 2.7 | 0.5 |
| Sales as a percentage of total assets | 155.0 | 154.8 | 151 | . | . |

* 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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sary, among other things, by the low-interest rate setting.

*Tendencies in current assets consistent with economic activity*

The marked improvement in industrial activity over the course of 2013 is reflected in the inventories and financial current assets of the manufacturing sector. Production was stepped up in comparison with in late 2012 and early 2013, resulting in inventories of materials being lower than one year earlier. By contrast, more work-in-progress was shown on the balance sheet. Finished goods were quickly up for sale, especially towards the end of the balance sheet reporting period. This was not the sole reason for the sharp increase in cash balances, however. Industrial enterprises' customers were also evidently quick to pay outstanding invoices. This is indicated by the fact that there was no increase in trade receivables. The same lines of development can be seen in the wholesale and motor vehicle trades. Given very low interest rates, buyers do not seem to have been concerned with taking greater advantage of credit terms for goods received. In the construction sector, many enterprises were operating at their capacity limits in 2013 again amid unchanged positive demand conditions. This is evidenced not only by the strongly increased cash balances and trade receivables, but also

**Enterprises' balance sheet ratios***

| Item | 2011 | 2012 | 2013e |
|---|---|---|---|
| | As a percentage of total assets[1] | | |
| Intangible fixed assets | 2.2 | 2.1 | 2 |
| Tangible fixed assets | 23.7 | 23.6 | 23.5 |
| Inventories | 16.8 | 16.6 | 16.5 |
| Short-term receivables | 30.6 | 30.6 | 30.5 |
| Long-term equity and liabilities[2] | 47.3 | 48.0 | 48.5 |
| *of which* | | | |
| Equity[1] | 27.4 | 27.9 | 28 |
| Long-term liabilities | 14.3 | 14.7 | 14.5 |
| Short-term liabilities | 40.7 | 40.6 | 40.5 |
| | As a percentage of tangible fixed assets[3] | | |
| Equity[1] | 105.3 | 108.5 | 111 |
| Long-term equity and liabilities[2] | 182.0 | 186.8 | 191 |
| | As a percentage of fixed assets[4] | | |
| Long-term equity and liabilities[2] | 106.9 | 107.9 | 108.5 |
| | As a percentage of short-term liabilities | | |
| Cash resources[5] and short-term receivables | 94.6 | 94.6 | 95.5 |
| | As a percentage of liabilities and provisions[6] | | |
| Cash flow[7] | 15.1 | 14.2 | 14.5 |

* 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.
Deutsche Bundesbank

by a further rise in construction projects in progress shown on the balance sheet.

*Growth in tangible fixed assets muted overall, but very strong in the automotive sector*

In the reporting period, there was again a moderate build-up of fixed assets used in the context of manufacturing or business operations, though their share of the balance sheet total declined again somewhat, amounting to an average of 23½% for the non-financial corporations sector in 2013. Firms invested primarily in movable assets. As in previous years, the acquisition of tangible fixed assets was especially marked in the manufacture of transport equipment. At production facilities in Germany, there was an expansion of one-tenth in inventories of machinery and equipment as well in the related industrial or commercial space used. In the case of the major German car manufacturers, the average increase in tangible fixed assets was even higher. The fact that there was a simultaneous build-up of new plants and/or an expansion of existing ones in the Far East and the United States is testimony to an overall strategy of expansion at home and abroad.

*Comparatively small expansion in equity investments*

Manufacture of transport equipment was the only industrial sector with substantial equity investments that saw further increases in this item in 2013 as well. The chemical and electrical engineering sectors reduced their equity interests on balance. In manufacturing as a whole, there was something of a decline in the weight of equity investments as part of total assets; this followed a sharp increase in the three preceding years. Individual enterprises of the information and communication sectors also exercised restraint, while energy and water suppliers expanded their equity investments by one-third. Given this heterogeneous sectoral profile, acquisition of equity interests by the non-financial corporations sector remained subdued overall. This contrasted in 2013 with a sharp expansion in long-term receivables from affiliated companies; in comparison with equity capital and in terms of the weight of total assets, however, this is the significantly smaller item of long-term financial linkages between enterprises. Enterprises also increased their securities holdings again for the first time since 2009 after reducing them sharply in the wake of the financial crisis. Overall, fixed assets still accounted for 44½% of total assets.

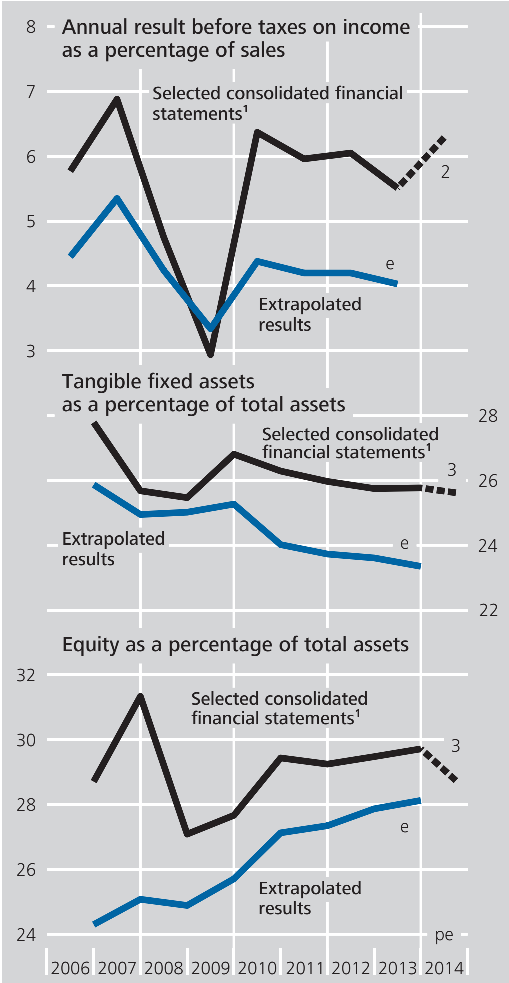
*Long-term liabilities to credit institutions at an all-time low*

The slow pace of growth in fixed assets was accompanied by a small increase in long-term equity on the liabilities side. Its share of total assets went up to 48½% in the reporting period. Non-financial corporations made a further reduction in their long-term liabilities to credit institutions in 2013, resulting in their share of total assets (7%) falling to an all-time low since the Bundesbank began analysing enterprises' balance sheets. By contrast, enterprises relied more on intra-group sources of funding as well as additional issuance of debt, which – as in the previous year – they stepped up by more than one-fifth.

*Continued strengthening of the equity capital base*

For the economic sectors under consideration, the share of equity in total assets amounted, on average, to 28% at the end of the 2013 financial year. The long-term trend towards strengthening the capital base has therefore been continuing in the non-financial corporations sector.[3] It was chiefly small and medium-sized enterprises (SMEs) that expanded their equity more sharply than their liabilities and provisions. At 25%, the share of equity in the total assets of SMEs is still below-average, however. Large enterprises have been increasing their equity in step with total assets since 2010; their capital ratio has settled at just below the 30% mark. In the manufacturing sector, the equity ratio persisted at a slightly above-average level in 2013. The construction sector has been using the good years for business so far to further improve its capital adequacy. In the retail and motor vehicle trades as well as in transport enterprises, the growth in equity capital was larger than the expansion in total assets. There was no improvement in this respect, however, in the information and communication sector or in the case of business services.

**Selected ratios from consolidated and individual financial statements**




**1** Approximately 260 groups of non-financial corporations. **2** Seasonally adjusted average for the 2014 Q1 to Q3 period. **3** Balance sheet date: 30 September 2014.
Deutsche Bundesbank

## Trends for 2014

Non-financial corporations' business performance is likely to be moderate again in 2014. One indication of this is that, according to the provisional figures of the consolidated financial statement statistics[4] up to the third quarter of 2014, sales of listed non-financial groups were no more than ½% up on the year. Corporate groups' profitability has shown a distinct improvement, however. The increase of roughly one-tenth nevertheless has to be seen in the context of depressed profits in the previous year. For the non-financial corporations sector as a whole, where volatility in earnings is generally less pronounced, growth on this scale is not to be expected. Even so, the profits situation in 2014 may have shown an improvement on the previous year. This is suggested primarily by a further easing of prices for raw materials and intermediate goods. Staff costs, on the other hand, are likely to have shown a further increase against a backdrop of rising

**3** See Deutsche Bundesbank, Capital base of non-financial enterprises in Germany sustainably strengthened, Monthly Report, December 2013, pp 44-46.
**4** See also Deutsche Bundesbank, Consolidated financial statement statistics as a contribution to the extended corporate analysis: conception and initial results, Monthly Report, July 2014, pp 51-66.

employment and widespread substantial increases in negotiated rates of pay.

Corporate groups' tangible fixed assets at the end of the third quarter of 2014 amounted to just under 26% of total assets, as they did in 2013. The fact that the corporate sector's reluctance to invest has not yet been overcome is consistent with this year's macroeconomic environment. The equity capital of the commercial and industrial corporate groups at 30 September 2014 was 1½% up on the year. This moderate increase was partly due to the fact that enterprises had to increase their provisions for pensions owing to a further decline in the applied rate of interest; in consolidated accounting, this entails a lowering of the other reserves, which has a negative impact on equity.[5] Total assets, which were up more than 5%, increased considerably more strongly. The outcome of this is that corporate groups saw an identifiable reduction in their equity ratio in 2014 for the first time since the severe recession of 2009. When analysing trends in the non-financial corporations sector as whole, it should nevertheless be borne in mind that, especially over the past five years, it is SMEs that have made the largest contribution to a sustained strengthening of the equity ratio, while large enterprises have shown no further improvements in this respect.

**5** Adjustments of provisions for pensions due to changes in key accounting parameters (eg discount rate, assumptions with regard to future salary increases, mortality tables) do not affect a corporate group's profit and loss account (P&L), but are included in the group's statement of comprehensive income. Taking into account latent taxes, such expenses and income, which are neutral with respect to the P&L, increase or reduce a group's equity.

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