German enterprises' profitability and financing in 2009

The impact of the financial and economic crisis was clearly visible in the financial statements of German enterprises for the 2009 financial year. Owing to the collapse in demand in the fourth quarter of 2008 and first quarter of 2009, the fall in sales and income was the sharpest in decades. In view of the substantial deterioration in cash flow, safeguarding liquidity became a matter of urgency. The massive decline in business activity was also reflected in a contraction of the aggregated balance sheets of the sectors captured in these statistics. On the asset side, this contraction was due primarily to substantial destocking, although holdings of both tangible fixed assets and financial assets also saw a decline. On the liability side, the considerable reduction in short-term liabilities had an impact, although there were also some identifiable shifts to the longer-term segment. Furthermore, there was a net depletion of provisions. While equity declined, its share of the balance sheet total increased again slightly, averaging somewhat over 25% for the sectors captured in the statistics.

The overall trends mask marked differences across sectors. In 2009, export-oriented sectors, such as large swathes of industry, wholesale trade and transport, had to cope with the consequences of the primarily external shock triggered by the crisis. By contrast, robust demand in construction and retail (including motor vehicles), which was also boosted by extensive government economic stimulus measures, meant that these sectors experienced a much less negatively affected financial year.

The severe recession was a serious test of resilience, which German enterprises, by and large, navigated successfully owing to the progress made in restructuring over the past decade. There was no massive wave of insolvencies, as, despite a sharp fall in revenue, enterprises managed to safeguard their liquidity and convince investors that their business models had a promising future. This was aided by a far-sighted strategy of maintaining the levels of production capacity. Following the swift recovery in demand, output also grew rapidly, leading to substantial increases in sales and income. As a result, the situation eased appreciably. All in all, the German economy is very well equipped to go on benefiting from the pick-up in the forces of external and internal growth.

Underlying economic trend and sectoral trends among enterprises

Severe recession in 2008 Q4 and 2009 Q1 primarily affected export-oriented sectors ...

In 2009, economic developments in Germany were shaped by the severe recession which took hold in the final quarter of 2008 and the first quarter of 2009 in all regions of the world economy. The abrupt and massive decline in global demand for goods and the associated collapse in world trade had negative repercussions, above all, for the heavily export-oriented manufacturing sector, as well as the transport sector, wholesale and foreign trade and some business-related services. The predominantly domestically-oriented sectors remained largely unscathed by the strong real economic primary impact of the financial and economic crisis. In addition, the two economic stimulus packages adopted by the Federal Government of Germany in November 2008 and January 2009, along with the supplementary tax relief measures initiated in the autumn of 2008, boosted construction demand through additional public sector orders and supported private consumption by bolstering disposable income.

... while domestically-oriented sectors benefited from stabilisation of economy

Expansionary fiscal policy not only played a key role in stabilising the economy; it also had an important side effect on the stability of the corporate sector as a whole, with precisely those sectors in which enterprises were less resilient at the beginning of the crisis being shielded from the knock-on effects of the external shock. The corporate landscape in the construction sector had been consolidated in an adjustment process spanning many years, and retail companies, too, had become more stable despite marked consumer restraint over the past decade. Even so, during the most recent upturn, the construction and retail sectors were unable to keep pace with industry in terms of boosting income and building up financial buffers.

Measures to increase liquidity in short term in response to the crisis

Enterprises' response to the economic slump in the fourth quarter of 2008 and the first quarter of 2009 has to be understood in the context of the exceptionally strong business activity of the preceding years and the swift stabilisation beginning in the spring of 2009, which also made the expectation of a lasting recovery in demand appear increasingly plausible. For many parts of the export-oriented industrial sector, it was initially out of the question to adjust factor inputs to a lower level of output. Despite the substantial reduction in regular working hours – with pay being adjusted only partially or, indeed, not at all – as well as the widespread use of crisis-related short-time working arrangements and the remarkably moderate pay agreements, the hoarding of labour did place a severe strain on the operating result in the reporting year. However, it did not threaten the survival of most companies given their available liquidity reserves. Nonetheless, this meant that enterprises were compelled to take measures to increase liquid funds, such as reducing inventories, deferring investment projects and, in some cases, even cancelling orders, which, from a macroeconomic perspective, had the effect of making the crisis more acute during the recessionary phase.

Reduction of short-term receivables and liabilities

The slump in business activity was accompanied by a decline in trade payables and receivables. Furthermore, enterprises deliberately reduced their volume of debt capital in net terms in order to become less dependent on ongoing payments for debt servicing. Enterprises also shifted funds from short-term liabilities into longer-term loans. Investors supported this course of action because firms' business models appeared to have an essentially promising future despite their severely impaired profitability. In this context, it is important not to underestimate the role played by the successful stabilisation of the financial sector and the avoidance of a broad-based credit crunch in Germany.

Successful response to test of resilience

The financial and economic crisis was, without doubt, a serious test of resilience for the German corporate sector. The sector successfully navigated this test, although the fall in demand was far larger than in earlier periods of recession. The crucial factor behind this success was that it was precisely those sectors of the economy that were hit hardest by the macroeconomic shock that showed themselves to be highly resilient. In conjunction with the resolute support of economic policymakers, this prevented a downward spiral from emerging through the interaction between the labour market and domestic demand, which would have placed a severe strain on the less structurally resilient sectors. Another key factor was that, following the massive slump in global trade in the fourth quarter of 2008 and the first quarter of 2009, the world economy recovered more swiftly than had previously been expected by most observers.

No large wave of insolvencies

The corporate base, which had been strengthened by restructuring measures over a number of years, largely bore up to the massive pressure of the economic contraction in the fourth quarter of 2008 and the first quarter of 2009. Although corporate insolvencies in 2009 were 11½% higher than the average of the two preceding years,[1] such an increase is not unusual during cyclical downturns and can even be described as moderate in view of the severity of the economic slump. The total number of corporate bankruptcies was far lower in the reporting period than in the previous downturn in 2002 and 2003. Business closures were concentrated in the sectors that were strongly affected by the crisis. The manufacturing and transport sectors thus saw the sharpest rise in insolvencies, both in comparison with the previous recession and with other sectors. There were also numerous insolvencies in wholesale trade and among business-related service providers, while construction and retail remained largely unscathed in terms of the number of enterprises becoming insolvent.[2]

Sales and income

Sharp decline in sales and income in trade and industry in 2009

The slump in demand due to the financial and economic crisis led to a severe reduction in sales in the corporate sector. According to current estimates in the corporate balance sheet statistics for manufacturing, construction, wholesale and retail trade, transport and business-related services, gross earnings in

1 A simple year-on-year comparison is not very informative, as the number of insolvencies in 2008 was skewed upwards by late reports from 2007.
2 However, the number of employees affected by an insolvency in 2009 increased most sharply in the retail sector. This is probably due to the liquidation of one large corporate group.

2009 were down by around one-seventh on the year.[3] The annual result before taxes on income reported for these sectors was as much as one-fifth lower. Profits had already fallen by just under one-tenth in 2008, with continuing growth in sales but a relatively sharp rise in the cost of primary materials and other expenditure, which are recorded under "other expenses" in the income statement. In 2009, following production cutbacks and a sharp decrease in the cost of commodities, enterprises spent much less on acquiring intermediate goods. Nevertheless, earnings suffered greatly as a result of the comparatively small reduction in personnel expenses owing to the substantial hoarding of labour. Even so, in the year of the crisis, the gross annual result almost matched its 2005 level, and was thus significantly higher than during the rather mild economic downturn at the beginning of the last decade. Seen in that light, enterprises' profitability in the reporting period can be considered comparatively favourable.

But profitability suffered comparatively little in difficult environment

This assessment is also corroborated by the gross return on sales, which went down by ¼ percentage point to 4¼% in 2009. This was 1 percentage point below the peak reached in the boom year of 2007. Nonetheless, this measure of enterprises' profitability remained considerably above the levels recorded in 2002 and 2003. The net return on sales, which is derived from the annual result after deducting taxes on earnings, fell to 3¼% in the reporting period, compared with 3½% in 2008 and 4% in 2007. All in all, even under the very difficult conditions of the financial and economic crisis, the majority of the enterprises in the sectors captured in these statistics were able to generate sufficient profits to maintain the confidence of lenders and investors in the sustainability of their business models.

Wholesale trade, transport and manufacturing most affected ...

Looking at the individual sectors, manufacturing, wholesale trade and transport recorded a decline in their gross return on sales coupled with a sharp drop in sales in 2009. However, only in the transport sector did profitability fall so steeply that the reported figure, at less than 2%, was not only low in absolute terms but also slipped below the levels recorded for 2002 and 2003. Although the pre-tax result for manufacturing, at 3½% of sales, was also lower than the average for the 2002-2003 period, the rate of return remained close to the mean of the sectors captured by the corporate balance sheet statistics. The comparatively weak outcome for manufacturing nonetheless demonstrates just how much the heavily export-oriented industrial sector suffered from the massive, primarily external demand shock. In business-related services, whose activities depend to a significant extent on industrial activity, sales also fell in last year's difficult environment, although the gross return on sales showed a further rise. Construction and retail also experienced these countervailing trends in sales and rates of return, mainly because of the perceptible decline in the cost of materials. In the construction sector, this was probably due to the

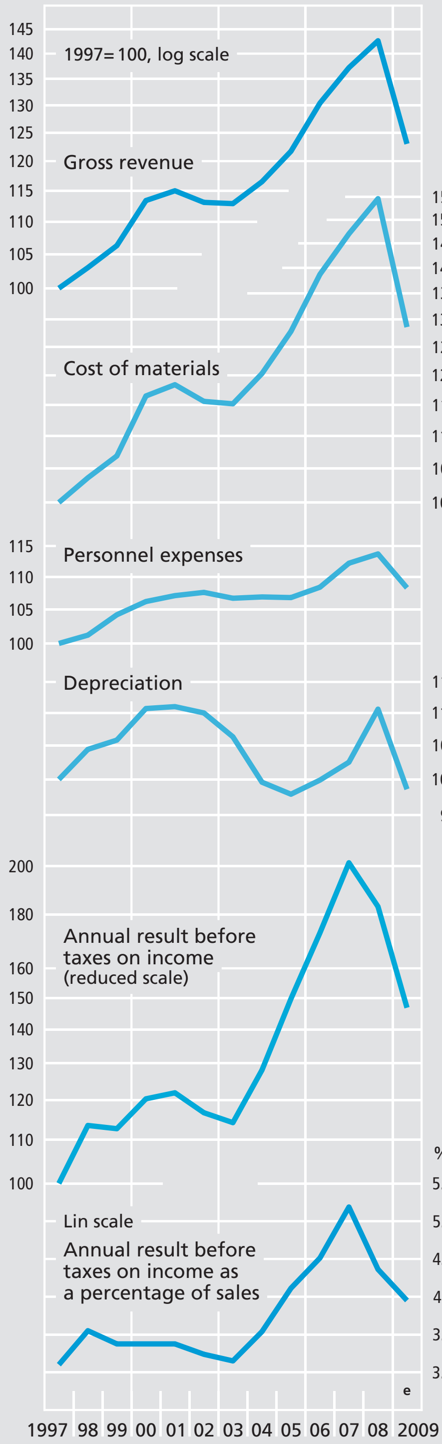
3 The 21,000 financial statements for 2009 captured in the study are equivalent in size to approximately one-quarter of the closing balance of the preceding years. The data from the financial statements were extrapolated on the basis of estimations using data from the turnover tax statistics.

sharp fall in the cost of building materials, while, in retail, the key factor is likely to have been the clear decrease in the producer prices of industrial and, above all, agricultural products.

... and pressure on the cyclically sensitive branches of industry

Within the manufacturing sector, the segments that are most cyclically sensitive were naturally hit the hardest by the economic slump. However, not only were there identifiable sectoral differences in terms of how heavily sales and income suffered from the massive weakening in demand, there were also discernible differences regarding whether the direction of developments in these key performance indicators changed as early as 2008 or not until 2009. While 2008 saw an increase in sales in all of the major branches of industry apart from the motor vehicle and electrical engineering sectors, sales in all sectors – aside from the food and drink industry (-4%), which is largely unaffected by cyclical fluctuations – declined by double-digit percentages in the reporting period. In the manufacture of machinery and equipment, the manufacture of motor vehicles, electrical equipment, as well as the manufacture of medical, precision and optical instruments, sales fell by around one-fifth; there were larger declines in sales in the manufacture of basic metals (-28%) and in chemicals (-13½%). With the exception of the food and drink industry, which actually posted an increase, and chemicals, which roughly matched the previous year's figure, income declined substantially in 2009. Pre-tax income plummeted by two-thirds in the manufacture of basic metals and by almost three-fifths in the manufacture of machinery and equip-

Selected indicators from German enterprises' income statements



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ment. In the manufacture of medical, precision and optical instruments, producers saw a halving of their profits. In electrical engineering, the fall in profits in the reporting period, at one-eighth, was relatively limited; however, this sector had already suffered a major setback in 2008 (-32½%).

Car scrappage scheme more beneficial to motor vehicle trade than to motor vehicle manufacturers

Particular attention should be paid to developments in the motor vehicle industry and the motor vehicle trade (including maintenance and repair) in the two-year period from 2008 to 2009. Sales of cars to households had already suffered as a result of the sharp rise in fuel prices up to mid-2008 and the uncertainty caused by the debate at the time regarding new regulations for motor vehicle tax in Germany and EU provisions on environmental protection, even before demand was dented by the financial and economic crisis, mainly through the steep worldwide decline in fleet business. On the other hand, domestic sales of new cars to households received a huge boost from the car scrappage scheme. The scheme mainly facilitated sales of small and low-priced vehicles, which was of only partial benefit to domestic motor vehicle manufacturers and ancillary industries. This is consistent with the fact that, according to the corporate balance sheet statistics, manufacturers of motor vehicles, trailers and semi-trailers posted a negative pre-tax result in the reporting period, after recording only a very slim profit in 2008. By contrast, the motor vehicle trade, which encompasses both domestic and foreign brands, benefited greatly from the car scrappage scheme. In 2009, with sales largely unchanged, car traders almost fully offset the decline in profits of just over one-fifth recorded in 2008.

Income and expenses in detail

Gross revenue contracted somewhat more sharply than sales

In 2009, gross revenue for all of the sectors captured by the corporate balance sheet statistics fell somewhat more steeply – although it remained higher – than aggregate turnover. In line with this, there was a further aggregate increase in the amount of unsold finished and semi-finished products. This was mainly due to the construction sector, which, after the two economic stimulus packages were launched in late 2008 and early 2009, increasingly benefited from public-sector orders. Such projects, particularly in civil engineering, typically extend over a long period of time, which may make it necessary to activate part services as "semi-finished products". By contrast, the manufacturing sector considerably reduced its stocks of finished goods in the recessionary period, meaning that annual average industrial output for 2009 fell below sales of goods for the first time since the last sharp economic downturn in 1993.

Decline in interest income

In the reporting period, enterprises' interest income was down by one-quarter on the two preceding years. This was due, for one thing, to the fact that interest on credit balances was at an all-time low as a result of the massive monetary policy easing in 2009. For another, shifts in funds led, on balance, to a decline in average interest income. Wary of possible liquidity shortages, enterprises shifted funds from longer-term, and thus more profitable investments to more rapidly available instruments, namely cash, bank deposits and securities. Enterprises obtained around one-quarter less income from shares and other equity. This reflects the decline in profits in 2008 and a more conservative payout policy. By contrast, participating interests fell only marginally. Other income, which consists of a number of further components, decreased somewhat less substantially than sales and gross revenue.

Fall in total expenses primarily due to sharp reduction in the cost of materials

Total expenses (excluding taxes on income) fell by 13½% in 2009. The extent of the savings varied quite significantly across the individual cost components. For example, there were large differences between the cost of materials and personnel expenses, which are the two largest cost items. In keeping with the dampened output, enterprises reduced their procurements of inputs and intermediate goods, which were, moreover, considerably cheaper on an annual average of 2009 than in 2008. For example, the products of domestic intermediate goods manufacturers were 5% cheaper than in the previous year. Abroad, such products were as much as 8% cheaper. The cost of importing energy fell by almost 30%. Enterprises were thus able to reduce the cost of materials by 17% in total.

By contrast, only relatively moderate decline in personnel expenses …

The personnel expenses recorded in the enterprises' income statement, which do not include spending on subcontracted workers, decreased by a mere 4½%. This was because, in most cases, enterprises in the sectors that were strongly affected by the crisis tried to maintain their workforces despite the low workload. While staff worked significantly fewer hours in this period, the running down of individual work-time accounts, which had been filled up in the preceding boom period, did not lead to savings in personnel expenses,

Enterprises' income statement *

	2007	2008	2009 e	2008	2009 e
Item	€ billion			Year-on-year change as a percentage	
Income					
Sales	4,183.2	4,361.9	3,775	4.3	– 13.5
Change in finished goods 1	39.4	28.3	10.5	– 28.3	– 63
Gross revenue	4,222.6	4,390.2	3,785.5	4.0	– 14
Interest and similar income	23.2	23.3	17	0.7	– 26
Other income 2	189.2	207.9	184	9.9	– 11.5
of which from long-term equity investments	22.7	28.7	22	26.2	– 24
Total income	4.434,9	4.621,4	3.986,5	4,2	– 13,5
Expenses					
Cost of materials	2,733.1	2,874.1	2,390	5.2	– 17
Personnel expenses	681.3	690.3	658	1.3	– 4.5
Depreciation	112.2	121.1	108	7.9	– 11
of tangible fixed assets 3	102.5	104.3	97	1.8	– 7
Other 4	9.7	16.7	11	72.8	– 35
Interest and similar expenses	44.0	47.0	39.5	7.0	– 15.5
Operating taxes	62.4	61.8	57	– 1.0	– 7.5
of which Excise duties	58.6	58.2	54	– 0.6	– 7
Other expenses 5	586.5	631.3	576.5	7.6	– 8.5
Total expenses before taxes on income	4,219.5	4,425.6	3,829.5	4.9	– 13.5
Annual result before taxes on income	215.5	195.9	157	– 9.1	– 20
Taxes on income 6	42.8	41.1	31.5	– 4.1	– 22.5
Annual result	172.7	154.8	125	– 10.3	– 19
Memo item					
Cash flow 7	299.7	283.1	219.5	– 5.5	– 22.5
Net interest paid	20.8	23.7	22.5	14.0	– 5.5
	As a percentage of sales			Year-on-year change in percentage points	
Gross income 8	35.6	34.8	37.0	– 0.9	2.2
Annual result	4.1	3.5	3.3	– 0.6	– 0.2
Annual result before taxes on income	5.2	4.5	4.2	– 0.7	– 0.3
Net interest paid	0.5	0.5	0.6	0.0	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 amortisation and 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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although actual spending on salaries was lower owing to the resulting release of provisions. Moreover, the reduction in regular working hours tended to have a disproportionately small effect on personnel expenses. Taken in isolation, short-time working arrangements, which were used very extensively in 2009, led to an increase in hourly wage costs, even though they provided relief of an estimated €5 billion to firms' human resources budgets during the reporting period.[4]

... and marked rise in negotiated pay in 2009

The 2009 pay round took account of the effects of the crisis on enterprises' revenue situation to the extent that only small linear wage increases, or no increases at all, and a higher number of one-off payments were agreed. In addition, opening clauses were used at firm level. For example, the collective wage agreement for the metal-working and electrical sector concluded in the autumn of 2008 provided for the possibility of using in-house agreements to postpone the wage increase originally scheduled for May 2009 by up to seven months and reduce the one-off payment agreed for September 2009. At 2.3%, the year-on-year rise in negotiated pay was still perceptible in 2009, while actual earnings fell slightly owing to the exceptional measures.

Spending on the hiring out of labour under the item "other expenses"

In contrast to their course of action with respect to core staff, enterprises strongly reduced their employment of temporary workers in the wake of the sharp economic downturn. It is therefore unsurprising that other expenses, which include the costs of hiring out labour, saw a comparatively steep decline in 2009 (-8½%) following growth on roughly the same scale in 2008. This is consistent with the very marked fluctuation in this item in the income statement for the manufacturing sector, which had made very extensive use of temporary employment in the preceding upturn.

More moderate depreciation of tangible fixed assets and financial assets

In 2009, depreciations receded by one-tenth compared with the previous year, when there was a rise of 8%. The comparatively strong growth in 2008 was due to the major write-downs on financial assets as a result of stock market losses in the second half of 2008. In the reporting year, this effect was relevant only in the sense that depreciations on the longer-term level of securities were not carried out in full in the volatile financial market setting of 2008, and this therefore had to be made good in 2009. As a result, the requirement for such write-downs fell by almost two-fifths, after doubling in 2008. Depreciations of tangible fixed assets, which are far greater in terms of volume, fell by 7%, after rising by 2% in 2008. This sizeable decline is likely to be related to the fact that, according to the national accounts, enterprises cut back their purchases of machinery and equipment by 20% in 2009. This was offset to a certain extent by the temporarily permissible use of declining-balance depreciation.

Significantly lower interest expenditure

After increasing by 7% in 2008, interest expenditure fell quite substantially, by 15½%. This was due, for one thing, to enterprises reducing their interest-bearing liabilities by 3½%. For another, bank interest rates and

4 Short-time working benefits can either be booked as a reduction in personnel expenses or recorded as other income, leaving personnel expenses unchanged.

corporate bond yields fell sharply across the board in 2009. This means that the shifts to longer-term liabilities, which have since seen a rise in their spreads over short-term interest rates, had barely any net impact.

Sources and uses of funds

Sources of funds lower than ever before

The total sources of funds for enterprises in the sectors of the economy considered in this article came to only €24½ billion in 2009.[5] This extremely poor outcome was the lowest in more than 30 years. In the reporting period, enterprises received scarcely more than one-tenth of the funds that had been achieved on an average of the years from 2006 to 2008, when economic activity was buoyant. The fact that the 2009 outcome was around four-fifths below the average of the 2003-2004 period, during which there was also a cyclical downturn, demonstrates even more clearly just how small the total sources of funds were. In 2009, enterprises generated new funds solely through "earned" depreciations. There were also net outflows from other internally generated funds and from external funds. Consequently, not only were fewer earnings retained but the owners actually withdrew capital on balance. Many sole proprietorships and partnerships did not generate sufficient profits to cover the remuneration of entrepreneurs. Some very large corporations adjusted the level of dividend payments only slightly despite less favourable annual results, falling

5 The figures on the sources and uses of funds are subject to much greater uncertainty than the income statement and balance sheet data.

Enterprises' sources and uses of funds *

€ billion

Item	2007	2008	2009 e	Year-on-year change 2008	Year-on-year change 2009 e
Sources of funds					
Capital increase from profits and contributions to the capital of non-corporations 1	17.4	15.8	– 5	– 1.6	– 21
Depreciation (total)	112.2	121.1	108	8.9	– 13
Increase in provisions 2	18.1	10.0	– 13	– 8.2	– 23
Internal funds	147.7	146.8	90	– 0.9	– 57
Increase in capital of corporations 3	20.9	14.3	– 4.5	– 6.6	– 19
Change in liabilities	87.3	50.2	– 61	– 37.1	– 111
Short-term	89.8	16.0	– 79	– 73.7	– 95
Long-term	– 2.5	34.2	18.5	36.6	– 16
External funds	108.2	64.5	– 65.5	– 43.7	– 130
Total	255.9	211.3	24.5	– 44.6	– 186.5
Uses of funds					
Increase in tangible fixed assets (gross) 4	115.9	139.6	81	23.7	– 59
Memo item					
Increase in tangible fixed assets (net) 4	13.3	35.2	– 16.5	21.9	– 51.5
Depreciation of tangible fixed assets 4	102.5	104.3	97	1.8	– 7
Change in inventories	46.9	24.8	– 39	– 22.2	– 63.5
Non-financial asset formation (gross investments)	162.8	164.4	42	1.6	– 122.5
Change in cash	8.5	5.3	16.5	– 3.1	11
Change in receivables 5	48.8	11.8	– 44.5	– 37.0	– 56
Short-term	48.4	9.8	– 42.5	– 38.6	– 52.5
Long-term	0.4	2.0	– 1.5	1.6	– 3.5
Acquisition of securities	– 6.0	0.0	7.5	6.0	7.5
Acquisition of other long-term equity investments	41.9	29.8	3	– 12.1	– 27
Financial asset formation	93.1	46.9	– 17.5	– 46.2	– 64.5
Total	255.9	211.3	24.5	– 44.6	– 186.5
Memo item					
Internal funds as a percentage of gross investments	90.7	89.3	214	.	.

* 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 items. — **3** Increase in nominal capital through the issue of shares and transfers to capital reserves. — **4** Including intangible fixed assets. — **5** Including unusual write-downs of current assets.

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back on reserves. In addition, provisions were depleted and more liabilities were redeemed than taken up.

Shifts in debt financing

In debt financing, moreover, there were substantial shifts along the maturity spectrum. Enterprises paid off short-term bank loans totalling €20 billion, but took up long-term loans of a similar total volume. This was mainly due to the increase in liabilities to affiliated companies and in bonds. In addition, in recessionary periods, reduced business activity means that fewer trade payables are incurred or that they are collected more quickly by creditors wishing to safeguard their own liquidity. There were also fewer payments on account of orders than in 2008.

Increased cash holdings and, in some cases, also replacement purchases top priorities as uses of funds

Enterprises used the low sources of funds essentially for two purposes in the year of the crisis. First, they increased their cash holdings as a precautionary measure, with the reduction of short-term receivables playing a role in this respect. To ensure that fewer funds were tied up in current assets, firms also carried out substantial destocking. Second, they were no longer afraid to make investments that were deemed necessary. As capacity utilisation was extremely low at the time, increasing holdings of tangible fixed assets would not have been appropriate. However, a large number of replacement purchases were made, not least in order to be able to swiftly raise output when demand recovered. This is revealed by the fact that enterprises acquired new tangible fixed assets worth 83% of the corresponding depreciation expenses.

Net decrease in financial assets in 2009

The financial assets of the enterprises captured in these statistics saw a net decrease of €17½ billion in 2009. Although appropriations to reserves tend to be small in cyclical downturns, for a fall to be recorded is extremely rare. This decrease is a consequence of the severe economic crisis to the extent that the volume of short-term receivables, which is closely related to business activity, was sharply reduced by the collapse in demand in the fourth quarter of 2008 and the first quarter of 2009. The purchases of securities in the reporting period must be viewed in the context of the heightened preference for liquidity, as acquisitions focused on assets that can quickly be realised. In 2009, the acquisition of other long-term equity investments remained modest compared with the longer-term average, which is influenced by the long-standing trend towards growing interconnectedness in the corporate sector.

Balance sheet trends and balance sheet ratios

Balance sheet total smaller on aggregate in 2009

In 2009, the balance sheet total for the corporate sector as a whole shrank for the first time since the Bundesbank began analysing corporate balance sheet statistics. As defined in the statistics under analysis here, the balance sheet total contracted by 3½%, following average annual growth of 3½% in the years from 2004 to 2008. This was due to the very strong economic headwind in the export-oriented sectors. For example, the balance sheet total for manufacturing declined by 5% on average across the enterprises; in wholesale trade it contracted by as much as 8%. The other sectors, with the exception of motor vehicle trade and business-related services, entered more assets and liabilities in the balance sheet than in 2008. Growth nevertheless remained below that of the preceding years. Only in construction was growth in total assets (+4½%) stronger than in 2008 (+3%).

Fewer tangible fixed assets and inventories activated

On the asset side, the contraction was caused primarily by the decrease in non-financial assets, which fell by 5½% in the corporate sector as a whole in 2009. Destocking, with a decrease of 8%, played a greater part in this than tangible fixed assets (-3%). Efforts by enterprises to massively reduce inventories and thus gain more financial leeway were most pronounced in the sectors that were particularly affected by the crisis, such as manufacturing and wholesale trade (-12%). By contrast, there was considerable restocking in the construction sector. This was probably due to the fact that firms decided to purchase building materials when prices were low and when a surge in orders was in the offing owing to the economic stimulus packages. Construction companies therefore also continued their substantial investment in plant capacity (+5%). In this respect, too, manufacturing and wholesale trade, with a decline of 4%, were at the bottom end of the sectoral results.

Developments in financial assets characterised by desire to safeguard liquidity ...

In the area of financial assets, cash rose by an average of 9½%, and this growth was actually far higher in some sectors of the economy. In the sectors that were strongly affected by the downturn, enterprises obtained additional liquid funds, *inter alia*, by sharply reducing trade receivables. An important factor in this

Enterprises' balance sheet *

Item	2007	2008	2009 e	2008	2009 e
	€ billion			Year-on-year change as a percentage	
Assets					
Intangible fixed assets	47.0	48.1	46	2.2	– 4
Tangible fixed assets	465.6	499.8	485.5	7.3	– 3
Inventories	454.0	478.7	440	5.5	– 8
Non-financial assets	966.6	1,026.6	971.5	6.2	– 5.5
Cash	163.5	168.8	185	3.3	9.5
Receivables	827.3	834.9	787.5	0.9	– 5.5
of which					
Trade receivables	318.1	296.5	262	– 6.8	– 11.5
Receivables from affiliated companies	373.4	388.9	385.5	4.1	– 1
Securities	56.7	56.7	64.5	0.0	13.5
Other long-term equity investments 1	325.7	343.0	338	5.3	– 1.5
Prepaid expenses	11.9	12.3	12	4.0	– 4.5
Financial assets	1,385.0	1,415.7	1,387	2.2	– 2
Total assets 2	2,351.7	2,442.4	2,358.5	3.9	– 3.5
Capital					
Equity 2, 3	575.3	605.4	595.5	5.2	– 1.5
Liabilities	1,322.1	1,372.3	1,311.5	3.8	– 4.5
of which					
to banks	317.1	348.2	326	9.8	– 6.5
Trade payables	254.5	235.1	212.5	– 7.6	– 9.5
to affiliated companies	436.7	455.1	450.5	4.2	– 1
Payments received on account of orders	124.2	137.4	134.5	10.6	– 2
Provisions 3	445.7	456.2	441	2.4	– 3.5
of which					
Provisions for pensions	173.4	177.2	177.5	2.2	0
Deferred income	8.6	8.5	10	– 0.8	19.5
Liabilities and provisions	1,776.4	1,837.0	1,763	3.4	– 4
Total capital 2	2,351.7	2,442.4	2,358.5	3.9	– 3.5
Memo item					
Sales	4,183.2	4,361.9	3,775	4.3	– 13.5
Sales as a percentage of the balance sheet total	177.9	178.6	160	.	.

* 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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context was that, owing, not least, to the deterioration in the conditions of trade credit insurers, counterparties were not allowed grace periods to the same extent as in the preceding years. In addition, existing receivables were collected more swiftly. By contrast, this change in the composition of assets did not play a significant role in the construction sector or the motor vehicle trade. In these sectors, it was more the favourable business conditions that brought in funds. Taking into account the moderate decline in long-term receivables and other long-term equity investments, as well as the sizeable increase in the stock of short-term securities, the amount of financial receivables in the totality of the sectors captured by these statistics fell by 2% in 2009, after the pace of growth had already slackened noticeably in 2008.

... and liabilities

In individual sectors, short-term liabilities were reduced substantially with the aim of safeguarding liquidity. While the decrease came to 7½% on aggregate, a fall of more than one-tenth was recorded in both manufacturing and the wholesale trade. By contrast, the construction sector increased its short-term liabilities somewhat owing, above all, to a clear increase in payments on account of orders. Furthermore, shifts to long-term liabilities decisively shaped the developments in many sectors. The sizeable reductions in the large items "short-term bank loans" and "trade payables" were offset, amidst a slight decline in holdings of longer-term loans from credit institutions, by growth in long-term debt vis-à-vis affiliated companies and in the form of long-dated bonds. Even so, total liabilities decreased by 4½% in net terms. Provisions fell by 3½%. This was mainly due to lower demand for guarantees as a result of the decline in business activity. In addition, provisions were released as a result of work-time accounts being run down. While it is certainly common for enterprises to reduce their debt during a cyclical downturn, this is the first time that total provisions actually declined on balance.

Equity ratio continued to rise despite outflows of funds

The capital adequacy of all of the enterprises captured in these statistics receded slightly in 2009 (-1½%) but continued to rise in relation to total assets. The equity ratio was somewhat above 25% and was thus around ½ percentage point above the figures for the two preceding years. Apart from wholesale trade, manufacturing also saw a decline in equity capital alongside an even sharper decrease in total assets; at 3½%, it suffered the largest fall in equity capital. By contrast, the strongest growth in equity capital, at around one-fifth in each case, was recorded by the construction sector and the motor vehicle trade. The equity ratio likewise increased substantially in both of these sectors. In the retail sector (excluding motor vehicles), equity capital receded both in absolute terms and in relation to total assets, while transport companies just about maintained their equity ratio. Business-related services closed the reporting year with a further increase in both equity capital and the equity ratio.

Strengthened resilience in long term ...

In the corporate sector as a whole, resilience (as measured by the capital cover of assets) continued to strengthen in 2009. However, it should be borne in mind that in the reporting period – as is usual in recessionary periods –

there was a more intensive selection process than in the preceding years. This affected the outcome in that the unfavourable underlying conditions probably forced those firms out of the market that were already in a fairly weak position beforehand. It is not least due to the progress made in improving the capital structure that the vast majority of enterprises, above all in the manufacturing sector, survived the collapse in demand. Furthermore, enterprises in some domestically-oriented sectors, which have been rather behind in this respect until now, seem to have used the pick-up in sectoral business activity – assisted in part by economic policy measures – to improve the capital structure.

... and measures safeguarding liquidity in the short term ...

In the crisis year of 2009, cash flow contracted by more than 20% on an average of all the sectors; in manufacturing, it fell by as much as around 40%. Safeguarding liquidity therefore became a top priority. The volume of liquid funds and receivables increased, almost matching the figure for short-term liabilities. Even so, this would have provided no more than temporary protection in the event of a more prolonged recession. The fact that the corporate sector emerged relatively unscathed from the financial and economic crisis hinged crucially on the recovery in business activity that already began in 2009 following the low point in the first quarter of that year. Starting from this very low level, the upward trend subsequently accelerated, leading to a sizeable increase in income accompanied by significantly higher sales and confirming the assessment that the broad majority of the corporate sector offers an attractive range of products. Evaluations of the

Balance sheet ratios *

Item	2007	2008	2009 e
	As a percentage of the balance sheet total 1		
Intangible fixed assets	2.0	2.0	2
Tangible fixed assets	19.8	20.5	20.5
Inventories	19.3	19.6	18.5
Short-term receivables	32.9	31.9	31
Long-term equity and liabilities 2	43.8	44.8	47
of which			
Equity 1	24.5	24.8	25.5
Long-term liabilities	11.6	12.5	13.5
Short-term liabilities	44.7	43.7	42
	As a percentage of tangible fixed assets 3		
Equity 1	112.2	110.5	112
Long-term equity and liabilities 2	200.7	199.7	207.5
	As a percentage of fixed assets 4		
Long-term equity and liabilities 2	112.2	112.0	115.5
	As a percentage of short-term liabilities		
Cash resources 5 and short-term receivables	92.3	91.3	96.5
	As a percentage of liabilities and provisions 6		
Cash flow 7	18.6	17.0	14

* Extrapolated results. — **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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financial statements of larger listed corporate groups for the first nine months of 2010 indicate that the gross return on sales could now have approached the pre-crisis level again.

... preconditions for emerging relatively unscathed from financial and economic crisis

The way in which the German economy successfully navigated the test of resilience in 2009 shows just how solid its foundations are. It therefore seems likely that the German economy will continue to benefit to a particular extent from the pick-up in external and domestic forces of growth.

Long series with extrapolated results from the corporate balance sheet statistics are available at http://www.bundesbank.de/statistik/statistik_wirtschaftsdaten_tabellen.en.php#corporate.