Focus on: Chile

International Business Report 2010 – Country focus series

The recovery

The fifth largest economy in Latin America contracted for four consecutive quarters between Q3 2008 and Q2 2009, but emerged from the downturn in the third quarter of 2009. The decline was lead by a slump in investment but strong demand for copper from China has kept exports strong, which combined with weak domestic demand for imports, has seen the current account move into surplus.

The key indicators[1] are highlighted below:

- the economy grew by 1.1 per cent quarter-on-quarter in the three months to September, although this represented a 1.6 per cent year-on-year contraction
- investment continues to hinder growth; gross fixed capital formation fell by 18.8 per cent in the third quarter from the same period 12 months previously, although this was a slight improvement on the 19.8 per cent contraction observed in Q2
- exports slumped by 36 per cent across 2009, and imports by 38 per cent
- industrial activity fell by 1.1 per cent in December, to broadly the same level observed 12 months previously
- the unemployment rate fell again to 9.5 per cent in December, down from a five year peak of 10.1 per cent in August.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Chile, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Chile are considerably more optimistic about the economy over the year ahead than they were in 2009 and over four-fifths of businesses expected to see an upturn in the global economy by the end of 2010 at the latest. Expectations for revenue, profitability and employment growth are all markedly more positive this year, but bureaucracy continues to stifle expansion.

[1] Source: International Monetary Fund, The Economist and Experian.

Looking ahead

The earthquake that hit Chile, in February 2010, has affected retail and other service sectors in the short-term, as well as manufacturing, agriculture, transportation and power generation. However, the major reconstruction that this has warranted will see the construction and materials sectors benefit. Before the earthquake, GDP was forecast to rebound strongly this year, without reaching the levels of expansion witnessed between 2004 and 2007. However, the forecast expansion of around five per cent still stands because of the level of construction work expected.

The economic impact of the earthquake is expected to be detrimental in Q1, but the losses should be compensated for Q2 onwards by the anticipated reconstruction activity. Growth forecasts can only be adjusted accurately once further information on the cost of reconstruction is available. Thus the outlook for 2010 remains intact with previous forecasts.

The major drivers are likely to be improved such as levels of investment – gross fixed capital formation is forecast to increase by 12.5 per cent – and rising levels of private consumption. Meanwhile, industrial activity is expected to recover to 2.8 per cent growth this year, accelerating to 3.9 per cent in 2011. Conditions in the labour market are expected to continue to improve. Unemployment is forecast to fall back to seven per cent this year, below the 7.5 per cent recorded in 2008.

Figure 1: Key indicators for PHBs

Chile compared to the Latin American average	2009 Chile	2010 Chile	2010 Latin America
Outlook for the economy over the next 12 months			
Balance of optimists over pessimists	-24%	+85%	+48%
Change in employment levels			
Balance of PHBs expecting an increase over those expecting a reduction	-33%	+42%	+42%
Constraints on expansion			
Regulations/red tape	48%	39%	39%
Lack of availability of a skilled workforce	24%	35%	23%

Source: Grant Thornton IBR 2010

The current account moved into surplus in 2009 and is forecast to remain there until at least 2011. The balance of trade stood at US$13.3 billion at the end of 2009, but this is forecast to narrow to US$6.4 billion by 2011 as domestic demand recovers. Exports are expected to rise by more than ten per cent in each of the next two years and imports by 26 per cent, slowing to 19 per cent in 2011.

The major risk lies in Chile's exposure to the global economy. Exports are expected to account for around 30 per cent of total GDP across the next two years and any slowdown in the global recovery could severely impair the economy's positive trajectory. Over-reliance on copper exports, which accounts for around one third of the government's revenue, could also be exposed if China continues to increase domestic production of the metal.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Talk to us to find out how we can you help you deal with the challenges of a new world economic order.

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International Business Report results

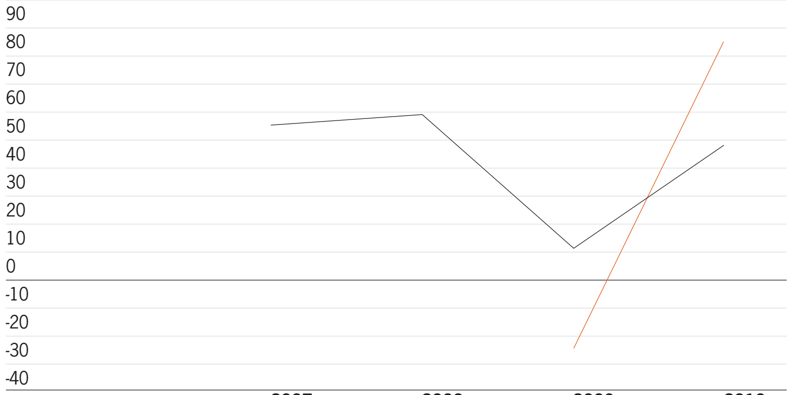
The Grant Thornton IBR 2010[2] reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Chile is no exception; the optimism/ pessimism balance[3] has risen by 109 per cent from -24 per cent in 2009 to +85 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Figure 2: Outlook for the economy over the next 12 months: 2007-2010

Percentage balance of businesses indicating optimism against those indicating pessimism

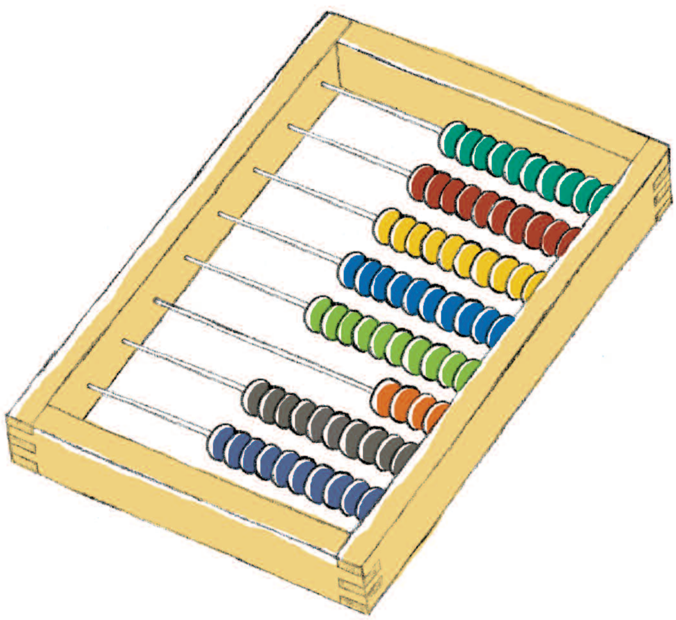


	2007	2008	2009	2010
Chile	–	–	-24	85
Latin America	56	59	12	48

Source: Grant Thornton IBR 2010

Optimism/pessimism

- businesses in Chile are considerably more optimistic about their country's economic outlook (+85 per cent) compared with 2009 (-24 per cent)
- the balance of businesses in Latin America[4] indicating optimism for the year ahead has risen by 36 per cent this year, from +12 per cent to +48 per cent.



[2] please note this survey was conducted in October/November 2009

[3] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

[4] for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

Employment

- a balance of +42 per cent of businesses in Chile expect to expand the size of their workforce in 2010, identical to the Latin American average
- actual employment growth reported by businesses in Chile in 2009 (13 per cent) was much better than expected 12 months previously (-33 per cent), and higher than the regional average (two per cent).

Figure 3: Employment history: 2007-2010
Percentage balance of businesses indicating an increase against those indicating a decrease

	2007	2008	2009	2010*
Expected Chile	–	–	-33	42
Expected Latin America	–	54	0	42
Actual Chile	–	41	13	–
Actual Latin America	40	31	2	–

*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +77 per cent of businesses in Chile expect their revenue to increase across 2010; this represents an 83 per cent increase from 2009
- revenue expectations of businesses in Latin America as a whole have also bounced back this year, posting a 37 per cent increase from 12 months ago.

Figure 4: Revenue expectations: 2008-2010
Percentage balance of businesses indicating an increase against those indicating a decrease

	2008	2009	2010
Chile	–	-6	77
Latin America	75	30	67

Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations of businesses in Chile have also risen this year; a balance of +56 per cent expect their profits to increase across 2010 compared with -41 per cent 12 months ago
- the Latin American average has increased by 39 per cent, from just +6 per cent in 2009 to +45 per cent this year.

Figure 5: Profitability expectations: 2008-2010
Percentage balance of businesses indicating an increase against those indicating a decrease

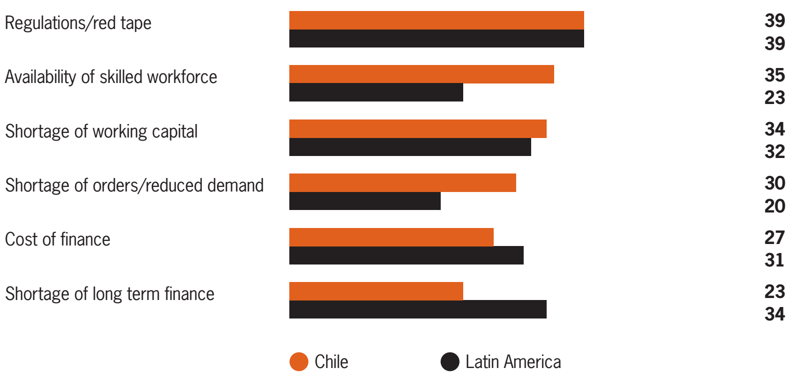
	2008	2009	2010
Chile	–	-41	56
Latin America	51	6	45

Source: Grant Thornton IBR 2010

Constraints

- regulations/red tape is viewed as the greatest constraint in Chile this year – 39 per cent of businesses view this as a major constraint, identical to the regional average
- a lack of availability of a skilled workforce is viewed as the second greatest constraint in Chile (35 per cent), well ahead of the Latin American average (23 per cent)
- a shortage of orders/reduced demand is also more of an issue for businesses in Chile (30 per cent) than for businesses in Latin America as a whole (20 per cent).

Figure 6: Constraints on expansion
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

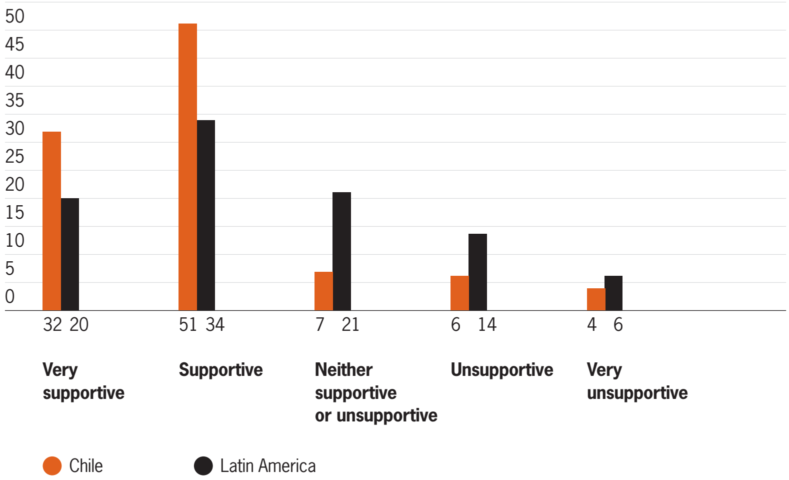


Source: Grant Thornton IBR 2010

Support of lender

- 83 per cent of businesses in Chile are happy with the level of support provided by lenders
- by comparison, just 54 per cent of businesses across Latin America class lenders as supportive or very supportive towards their business
- meanwhile, just ten per cent of businesses in Chile believe that lenders are unsupportive or very unsupportive of their business, compared to 20 per cent regionally.

Figure 7: Level of support provided by lenders
Percentage of businesses

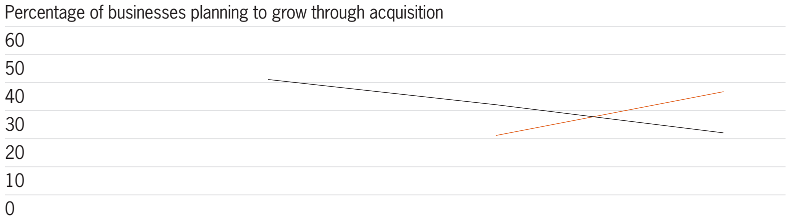


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Chile planning to grow through acquisition rose this year, from 31 per cent in 2009 to 47 per cent
- the Latin American average has fallen steadily from 51 per cent in 2008 to 32 per cent this year.

Figure 8: Plans to grow through acquisition in the next three years
Percentage of businesses planning to grow through acquisition



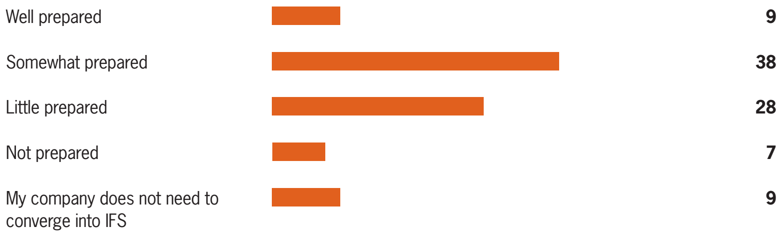
	2008	2009	2010
Chile	–	31	47
Latin America	51	42	32

Source: Grant Thornton IBR 2010

IFRS accounting standards

- just nine per cent of businesses in Chile feel well prepared in terms of converging their financial statements into International Financial Reporting Standards (IFRS)
- a further 38 per cent feel somewhat prepared, whilst 35 per cent feel little prepared or unprepared.

Figure 9: Level of preparation for convergence of financial statements into IFRS
Percentage of businesses

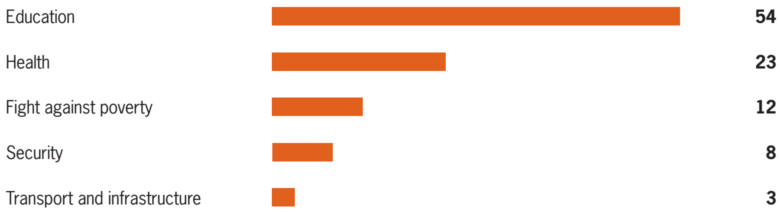


Source: Grant Thornton IBR 2010

Targeting of tax revenues

- more than half of businesses in Chile believe fiscal revenues should be channelled towards education (54 per cent)
- a further 23 per cent believe the best use for tax revenues would be health, followed by the fight against poverty (12 per cent).

Figure 10: Where should fiscal revenues be targeted?
Percentage of businesses

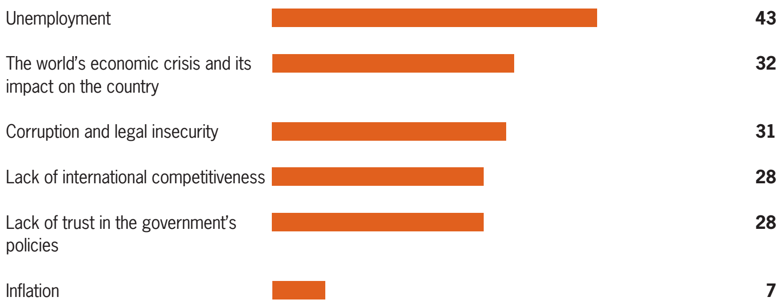


Source: Grant Thornton IBR 2010

The economy – looking forward

- unemployment is the principal issue facing Chile's economy according to businesses – 43 per cent cite this factor as a major problem for the economy
- the world economic crisis and its impact on Chile (32 per cent) is second, followed by corruption and legal insecurity (31 per cent).

Figure 11: The major problems facing the Chile's economy
Percentage of businesses rating problem 4 or 5 on a scale of 1 to 5 where 1 is not a problem and 5 is a major problem



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Chile 100 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of 25-149.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
Spain
Sweden
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