Grant Thornton

Focus on: United States

International Business Report 2009 – Country focus series

A year of turmoil

The United States economy is in recession with few signs that things are going to get better in the short term. While the economy should emerge from recession in late 2009, the United States could be entering into a prolonged period of well-below-trend growth. Consumers are heavily indebted and are being squeezed by falling asset prices and rising unemployment. The key indicators highlight the issues facing the economy:

- the US economy contracted by 5.7 percent in Q1 2009, following a 6.3 percent drop in the previous quarter
- consumer spending, which accounts for two-thirds of economic activity in the economy, rose by 1.5 percent in Q1 2009 following two quarters of contractions of over three percent
- exports have collapsed, falling at 28.7 percent in the first 3 months of 2009 - the largest decline since Q4 1971 – following a 23.6 percentage point fall in the last quarter of 2008
- the unemployment rate stands at 9.5 percent; around 6.5 million jobs have been lost since the recession began in December 2007 while 467,000 jobs were lost in June 2009 alone.

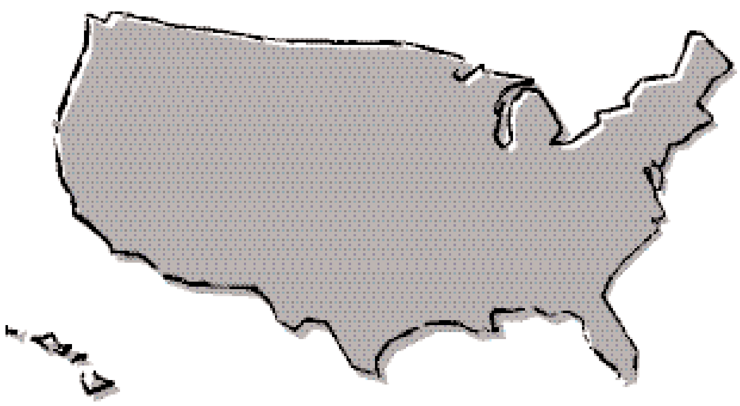
Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 privately held businesses (PHBs) in 36 economies around the world. This report focuses on the United States and the experiences and attitudes of its privately held businesses and how they have been affected by the worst economic downturn in decades as illustrated in figure 1.

Figure 1: Key indicators for PHBs

The United States compared to the global average	2007 US	2008 US	2009 US	2009 Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+14%	+22%	-34%	-16%
Issue of greatest concern in the next 12 months				
Fall in consumer demand			25%	39%
Shortage of business credit			33%	19%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+48%	+34%	-9%	-4%
Constraints on expansion				
Shortage of orders/reduced demand	16%	19%	48%	49%
Cost of finance	13%	16%	25%	28%

Source: Grant Thornton IBR 2009



The IBR survey tells us that PHBs in the United States expect to suffer from falling consumer demand, but even more so from a shortage of business credit, while employment growth is expected to decline sharply. These concerns impact negatively on expectations for turnover growth and on profitability, and PHBs are overwhelmingly pessimistic about the economy over the next 12 months. Clearly the effects of the global decline in activity are taking its toll on PHBs.

Looking ahead

The economy has been in recession since December 2007 by official reckoning and it looks unlikely to pull out of its downward spiral until late 2009 at the earliest. Activity is forecast to shrink by 3.1 percent in 2009, the worst performance since 1946, with all components of demand contracting except for government spending.

The biggest drag on growth will come from investment; residential housing construction's woes are well-known, but businesses have started cutting way back on investment plans, with even the remaining AAA-rated companies still struggling to obtain financing. Business investment will contract significantly in 2009, recovering fully only in 2011.

Given the dire outlook, the government continues to pull out all of the stops. But the Obama administration's stimulus package is likely to prove just enough to limit the contraction in the short term, despite its US$800bn price tag, and give a boost just as growth is already taking off.

There are many downside risks, especially as a return to growth in 2010 depends on a successful bailing out of the banks, a stabilization of the housing market and consumers returning back to the shops. Any potential recovery will need privately held businesses to be back at the forefront to drive new business, employment and trade. To achieve this:

- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- the confidence of consumers, who remain under stress, as they try to rebuild wealth and cope with rising unemployment and continued falls in house prices, will need to be carefully managed.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very 'big decisions'. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company's history. Focusing on the right things will give businesses under pressure more room for maneuver, while for others it will provide opportunities to realize their ambitions more quickly than they had planned.

At Grant Thornton we help businesses to make these decisions on a daily basis, to guide them through the good and bad times. Talk to us to find out how we can help you make the right choices for your business.

Mike Hall
T +1 312 602 8727
E mike.hall@gt.com
W www.grantthornton.com

International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. PHBs in the United States are considerably less optimistic about prospects for 2009 with a drop of 56 percentage points from an optimism/ pessimism balance[1] of +22 percent in 2008 to -34 percent in 2009.

For the sixth consecutive year, India tops the league table with a net balance of +83 percent (+95 percent in 2008), while Japan remains at the bottom with a balance of -85 percent.

Optimism/pessimism

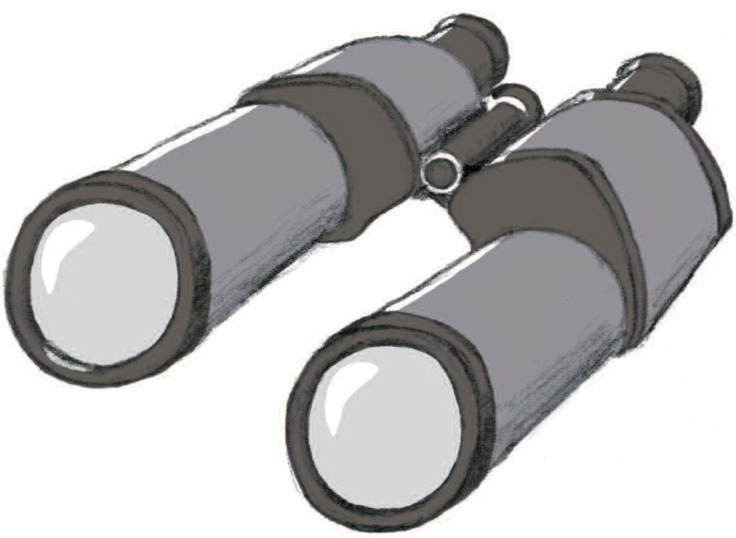
- PHBs in the US are considerably less optimistic about their country's economic outlook (-34 percent) compared with 2008 (+22 percent)
- levels of optimism regarding the economic outlook have fallen by 56 percentage points from 2008 in the US; identical to the drop observed globally.

Figure 2: Outlook for the economy over the next 12 months: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism

	2007	2008	2009
Global	45	40	-16
United States	14	22	-34

Source: Grant Thornton IBR 2009

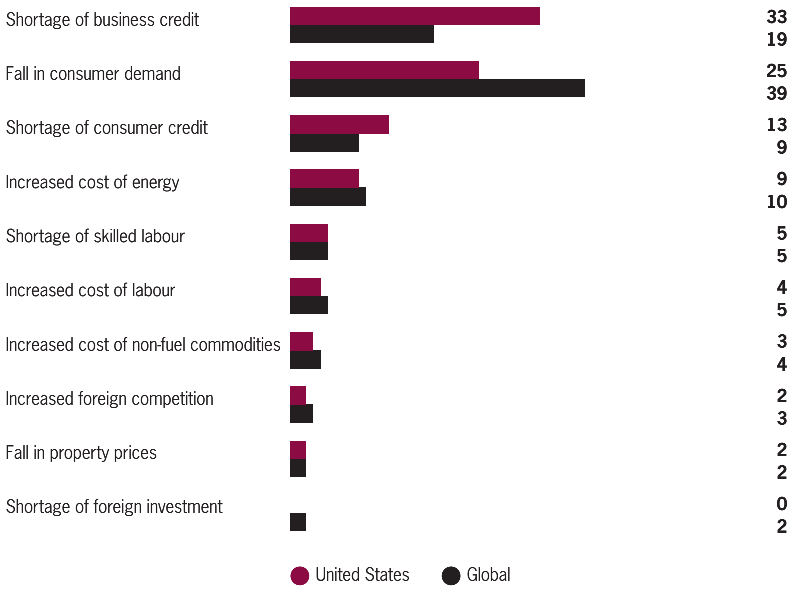


[1] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Greatest concern

- a shortage of business credit is viewed as the greatest concern restricting expansion for PHBs in the US (33 percent), greater than the global average (19 percent)
- a shortage of consumer credit is also of greater concern for PHBs in the US (13 percent), than it is globally (nine percent)
- globally, a fall in consumer demand is of greater concern for PHBs (39 percent), than it is in the US (25 percent).

Figure 3: Greatest concern in the next 12 months
Average percentage of businesses

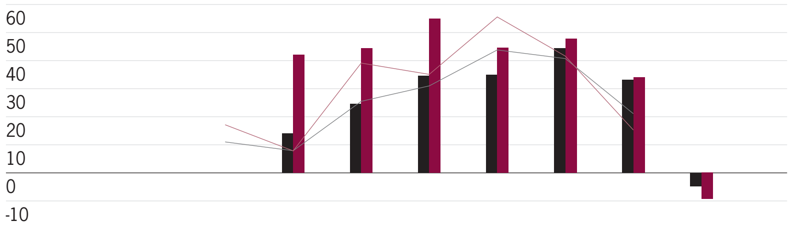


Source: Grant Thornton IBR 2009

Employment

- PHBs in the US expect employment to contract sharply in 2009, with the balance of businesses expecting a decrease falling 43 percentage points this year
- a similar story is evident globally with the average falling 37 percentage points
- actual employment growth across the US in 2008 (+16 percent) was notably lower than expected (+34 percent).

Figure 4: Employment history: 2002-2009
Balance percentage of businesses



	2002	2003	2004	2005	2006	2007	2008	2009*
Expected Global	–	14	25	34	35	45	33	-4
Expected US	–	42	44	55	45	48	34	-9
Actual Global	11	8	26	31	44	41	21	–
Actual US	17	8	39	35	56	42	16	–

*actual 2009 data will be documented in IBR 2010
Source: Grant Thornton IBR 2009

Revenue expectations

- optimism levels regarding revenue prospects have plummeted in the US this year, falling by 42 percentage points from +49 percent in 2008 to +7 percent
- the global average decline is the largest in IBR history, falling 52 percentage points, down from +63 percent in 2008 to just +11 percent this year.

Figure 5: Revenue expectations: 2003-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism

	2003	2004	2005	2006	2007	2008	2009
Global	44	58	63	61	70	63	11
United States	72	82	82	63	77	49	7

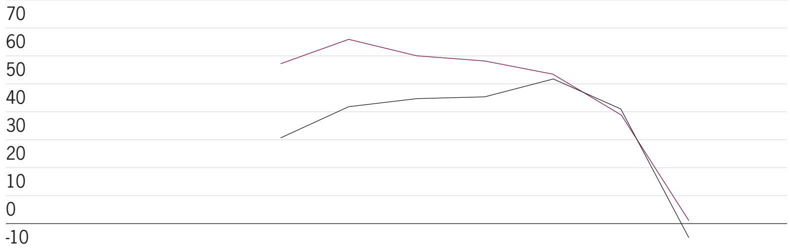
Source: Grant Thornton IBR 2009

Profitability expectations

- profitability expectations among PHBs in the US continued the decline observed in 2008, falling to +1 percent this year
- the average drop globally regarding profitability is also the greatest in IBR history, falling by 46 percentage points to -5 percent this year.

Figure 6: Profitability expectations: 2003-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



	2003	2004	2005	2006	2007	2008	2009
United States	57	66	60	58	54	39	1
Global	31	42	45	46	52	41	-5

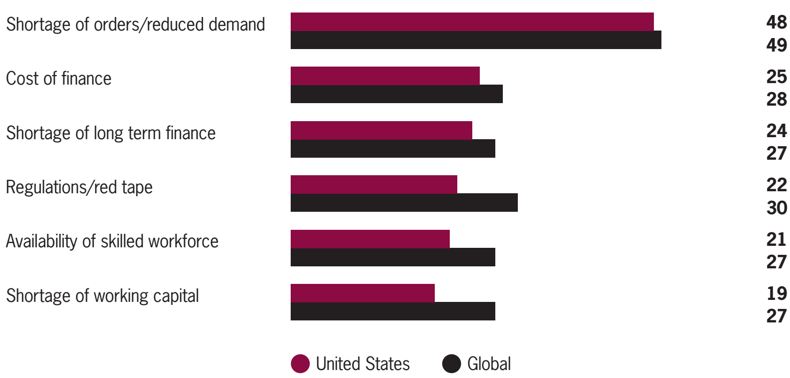
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in the US this year; at 48 percent, this represents a 29 percentage point increase from 2008; similarly the global average is 49 percent
- all of the constraints are of slightly greater concern globally than they are in the US.

Figure 7: Constraints on expansion

Average 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

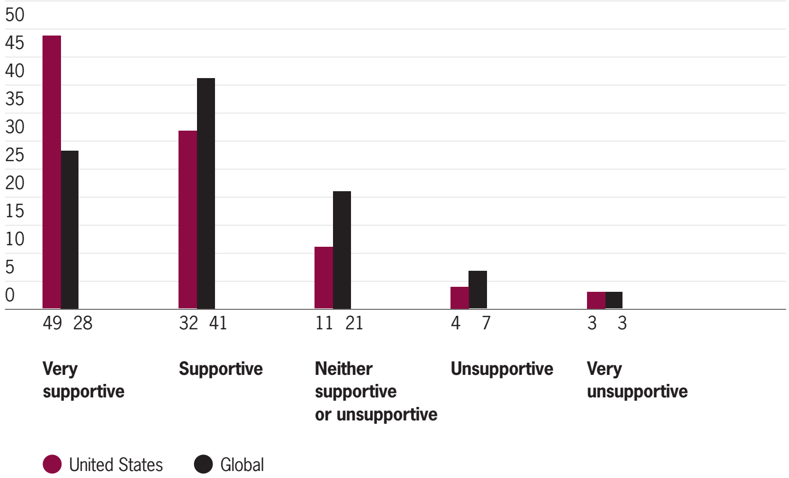


Source: Grant Thornton IBR 2009

Support of lender

- more than three-quarters of PHBs in the US class lenders as supportive or very supportive towards their business, above the global average (69 percent)
- seven percent of PHBs in the US classed lenders as unsupportive or very unsupportive towards their business, below the global average (ten percent).

Figure 8: Level of support provided by lenders
Percentage of businesses

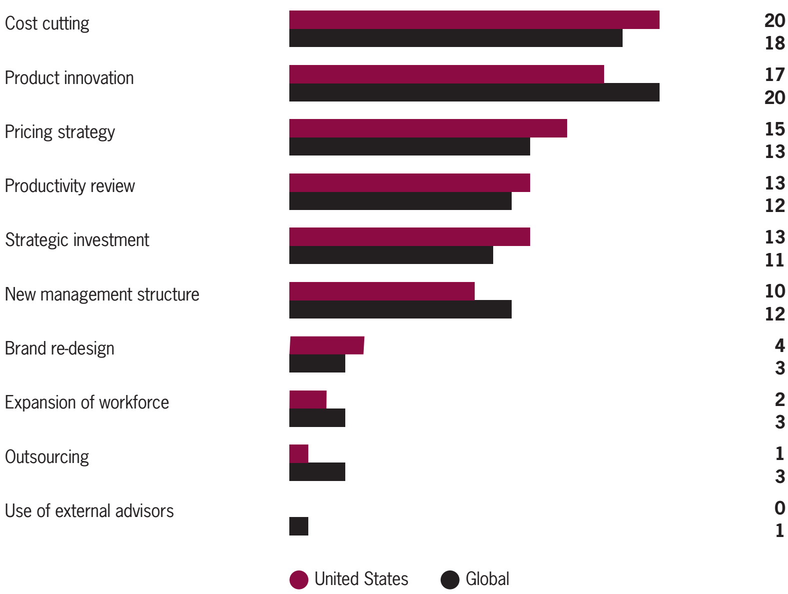


Source: Grant Thornton IBR 2009

Business planning

- 15 percent of PHBs in the US have a formal business planning process accounting for less than one year. This is below the global average (21 percent)
- cost cutting has been the most successful initiative introduced by PHBs in the US to increase profits (20 percent); slightly higher than the global average (18 percent)
- product innovation has been a more successful initiative globally (20 percent), than in the US (17 percent).

Figure 9: Successful initiatives that have been put into place to increase profitability
Percentage of businesses



Source: Grant Thornton IBR 2009

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 7,200 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 the United States 250 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with an annual turnover ranging from $50m to $2b.

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
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