

# Focus on: Argentina

## International Business Report 2011 – Economy focus series

### The economy

Following a robust recovery in 2010, the Argentinean economy is expected to expand strongly again this year driven by consumer spending, high global prices for grains exports, and growing demand for manufactured goods, particularly automobiles sales to its main trade partner Brazil. Capital flight is raising concerns for President Fernandez's re-elected government; recently imposed controls are looking to bolster a weaker peso and slow double-digit inflation.

The key indicators<sup>1</sup> are highlighted below:

- the economy expanded by 2.5% in the second quarter of 2011, although the pace of expansion is expected to have dropped in Q3
- industrial production decelerated again to 4.1% in October, down from 5.1% in November, as lower base-metal, food and textiles output offset a pick-up in car production
- the merchandise-trade surplus widened to US\$1.1bn in September, as export earnings grew by a robust 25%, although this was largely driven by an increase in prices rather than volume; imports grew by 19% in September
- capital flight totalled \$8.4 billion in Q3, up from \$6.1 billion in the previous quarter
- unemployment is running at its lowest level in two decades, dropping to 7.2% in Q3.

### The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of 11,500 businesses in 39 economies around the world. This report focuses on the experiences of privately held businesses in Argentina and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in Argentina are slightly more optimistic about their economy over the next 12 months than they were in 2010. Business expectations for revenue have remained broadly level over the past year. A shortage of long term finance and the cost of finance remains the major constraints on business growth prospects.



<sup>1</sup> Source: International Monetary Fund, The Economist and Experian.

## The outlook

Concerns are growing in Argentina over export competitiveness, whilst business and consumer confidence is being knocked by the government's imposition of capital and foreign-exchange controls in its battle with surging capital flight. The economy is forecast to expand by 8.5% in 2011, slowing to grow at around 3.6% per annum in the period 2012-16.

Further deterioration in the global economy remains a big downside risk to this outlook, particularly any slowdown in major trading partners Brazil and China or a sharp drop in commodity prices. Availability of corporate financing will be increasingly affected as the European debt crisis worsens and this could impact on internal consumption and economic growth. Exports to Europe are also likely to decline which may further dampen growth expectations. Inflation, driven by increasing demand coupled with supply constraints, is running at 9.9% according to official data and remains a major issue.

Despite these challenges, Argentina is expected to continue to run a trade surplus in 2012 and unemployment predictions are also favourable.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

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Figure 1: Key indicators for PHBs

Argentina compared to the Latin America average	2009 Arg	2010 Arg	2011 Arg	2011 Latin America
<b>Outlook for the economy over the next 12 months</b>				
Net optimism	-57%	+31%	+38%	+54%
<b>Change in employment levels</b>				
Net hiring expectations	-24%	+37%	+47%	+52%
<b>Constraints on expansion</b>				
Shortage of long term finance	58%	57%	50%	27%
Cost of finance	56%	36%	44%	30%

Source: Grant Thornton IBR 2011



# International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Argentina dipped in Q3 with net 38% of businesses optimistic, down from net 54% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

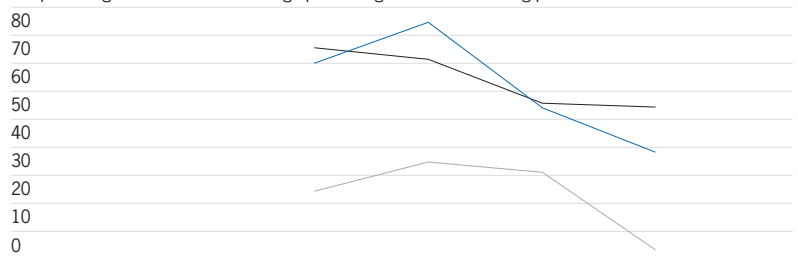
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

## Optimism/pessimism

- businesses optimism in Argentina declined by 16 percentage points in Q3, dropping from 54% in Q2 to 38%
- across Latin America<sup>3</sup>, business optimism dropped by just 2 percentage points to 54%
- globally, business sentiment dropped by 28 percentage points in Q3 to stand at just 3%

**Figure 2: Outlook for the economy over the next 12 months – 2011**

Net percentage of businesses indicating optimism against those indicating pessimism



	Q4-2010	Q1-2011	Q2-2011	Q3-2011
● Argentina	70	84	54	38
● Latin America	75	71	56	54
● Global	23	34	31	3

Source: Grant Thornton IBR 2011



<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

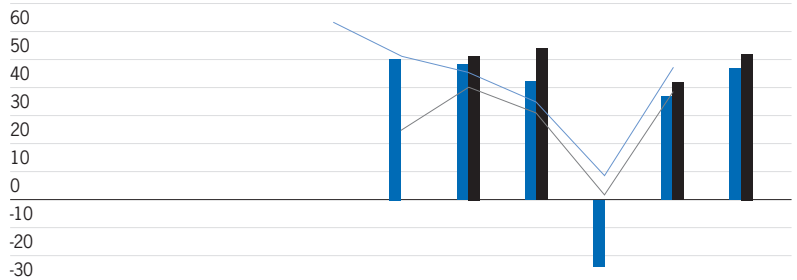
<sup>3</sup> for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

## Employment

- net 47% of businesses in Argentina expect to increase staff levels over the next 12 months, compared with 52% of businesses across the Latin America region
- actual employment growth reported by businesses in Argentina for 2010 (47%) was higher than expected 12 months previously (37%).

**Figure 3: Employment history: 2005-2011**

Percentage balance of businesses indicating an increase against those indicating a decrease



	2005	2006	2007	2008	2009	2010	2011*
Exp. Argentina	-	50	49	42	-24	37	47
Exp. Latin America	-	-	51	54	0	42	52
Act. Argentina	63	51	46	35	9	47	-
Act. Latin America	-	25	40	31	2	39	-

\*actual 2011 data will be documented in IBR 2012

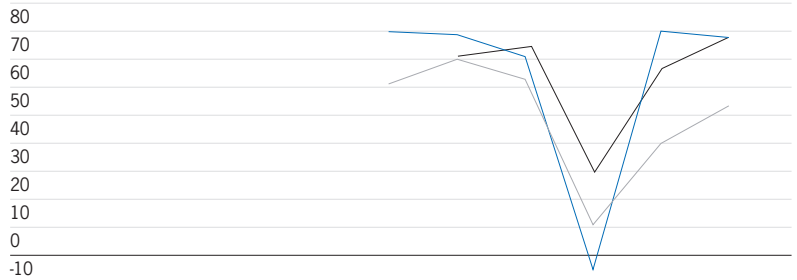
Source: Grant Thornton IBR 2011

## Revenue expectations

- expectations for revenue prospects have dipped slightly over the past 12 months, dropping from 80% in 2010 to 78% this year
- the Latin America business average has risen by 11 percentage points, from 67% last year to 78% this year
- globally, expectations have risen from +40% in 2010 to +53% in 2011.

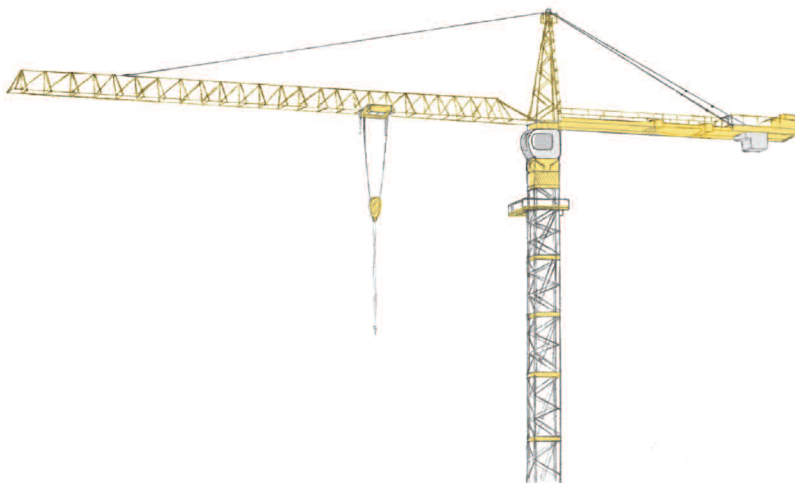
**Figure 4: Revenue expectations: 2006-2011**

Average percentage balance of businesses indicating an increase against those indicating a decrease



	2006	2007	2008	2009	2010	2011
Argentina	80	79	72	-5	80	78
Latin America	-	71	75	30	67	78
Global	61	70	63	11	40	53

Source: Grant Thornton IBR 2011

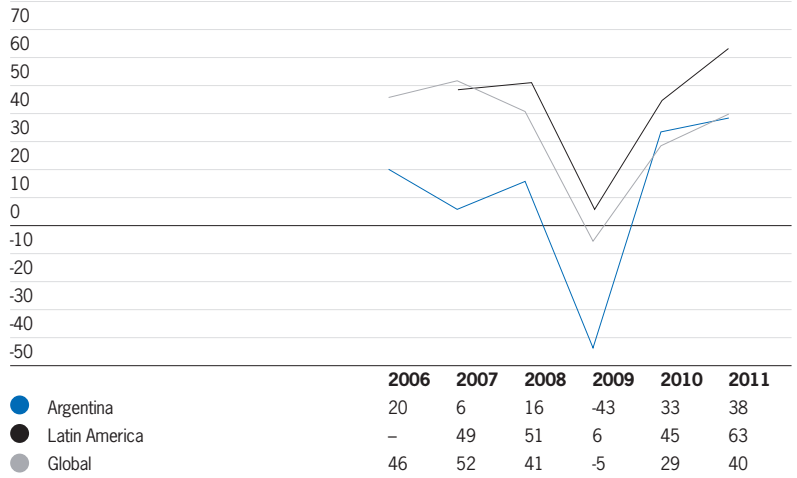


### Profitability expectations

- 38% of businesses in Argentina expect their profits to rise over the next 12 months, compared with 33% in 2010
- the Latin America business average has risen by 18 percentage points to 63% in 2011
- global average rose from 29% in 2010 to 40% this year.

**Figure 5: Profitability expectations: 2006-2011**

Percentage balance of businesses indicating an increase against those indicating a decrease



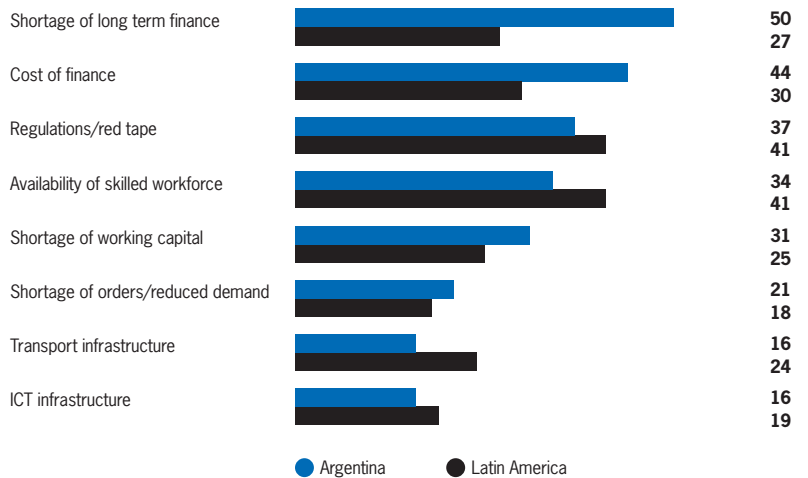
Source: Grant Thornton IBR 2011

### Constraints

- 50% of businesses cited shortage of long term finance as a constraint to expansion – almost double the Latin America average (27%)
- the cost of finance emerges as the second most pressing constraint (44%), again well above the Latin America average (30%)
- businesses in Argentina are slightly less constrained by a lack of skilled workers (34%), compared with Latin America as a whole (41%).

**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

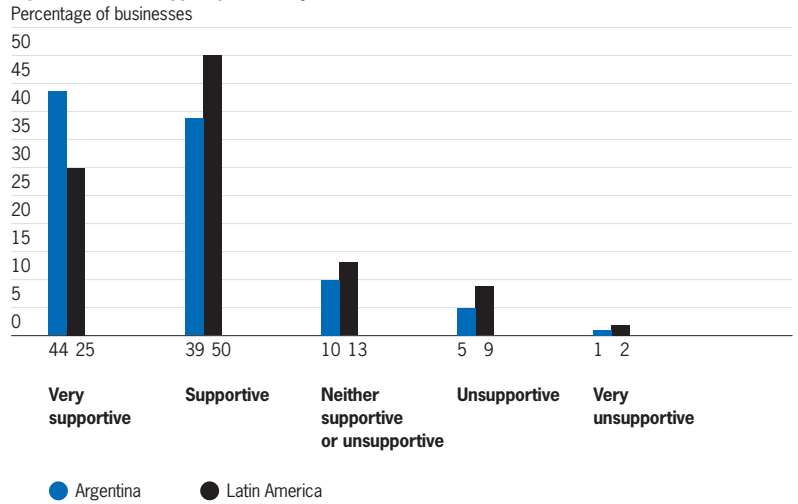


Source: Grant Thornton IBR 2011

### Support of lender

- the majority of businesses in Argentina are happy with the level of support provided by lenders – 83% class lenders as supportive or very supportive towards their business
- this compares with 75% of businesses in the Latin America region as a whole
- 6% of businesses in Argentina believe that lenders are unsupportive or very unsupportive of their business.

**Figure 7: Level of support provided by lenders**



Source: Grant Thornton IBR 2011

### Data security

- the majority of businesses in Argentina have implemented measures to enhance the security of the data that they manage
- the focus has however been on implementing measures for internal users (passwords, IT policies) (61%)
- just under half (45%) had measures for external users in place.

**Figure 8: Which of the following measures have you implemented to enhance the security of the information (data) managed by your company?**

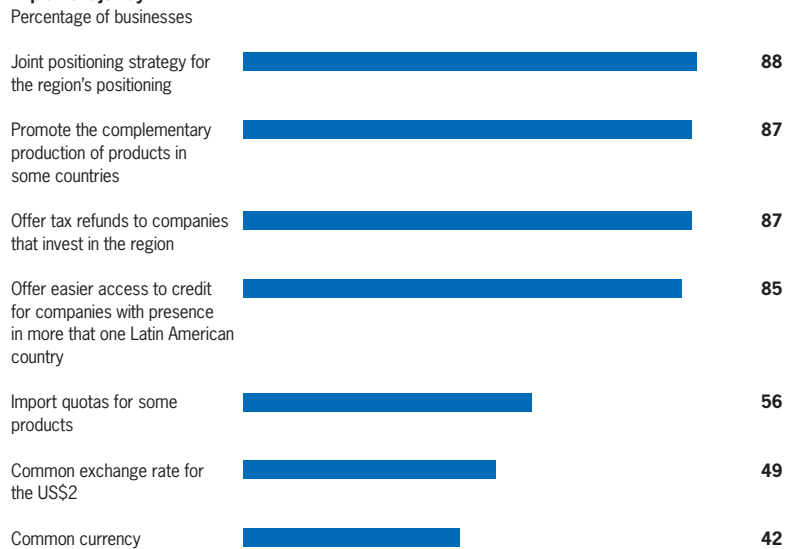


Source: Grant Thornton IBR 2011

### Government policy & exchange rates

- businesses in Argentina are most keen to see Latin American governments work together to implement: a regional positioning strategy (88%)
- 87% cited both the promotion of complementary product production in some countries and offering tax refunds to companies that invest in the region
- a further 85% suggested offering easier access to credit for those companies with presence in more than one country in the region.

**Figure 9: Which of the following measures would you like to see Latin American governments implement jointly?**



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the engine' of the world's economy.

In Argentina 249 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 50 and 499. Data for this report were drawn from interviews conducted between November 2010 and September 2011.

To find out more about IBR and to obtain copies of reports and summaries visit: [www.internationalbusinessreport.com](http://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	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Philippines
Brazil	Poland
Canada	Russia
Chile	Singapore
Mainland China	South Africa
Denmark	Spain
Finland	Sweden
France	Switzerland
Georgia	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Arab Emirates
India	United Kingdom
Ireland	United States
Italy	Vietnam
Japan	



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