

# Focus on: Brazil

## International Business Report 2011 – Economy focus series

### The economy

Having rebounded to 7.5% growth in 2010 following a mild recession, the economy has expanded at a slower rate in 2011. Inflation is running at more than 7% – above the target ceiling of 6.5% – buoyed by strong consumer demand and near record low unemployment. Despite this, worries about the eurozone sovereign debt crisis driving another global recession have led the Central Bank to cut interest rates to insulate the economy.

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

- the economy expanded by 0.8% from the previous quarter in Q2, down from 1.3% in Q1; the yearly rise was 3.1%
- having fallen in Q1, consumer spending rose 1.0% from the previous quarter in Q2, and 5.5% from the same period 12 months ago
- whilst exports rose by 2.3% from the previous quarter in Q2, imports were up 6.1%, reflecting the strength of the real
- inflation jumped to 7.3% for the 12 months to September, the highest annual rate since May 2005; however, the BCB cut the Selic to 12% at the end of August
- unemployment rate in August remained stable at 6%, a record low for the month.

### Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 8,000 privately held businesses (PHBs) in 40 economies around the world. This report focuses on Brazil, the experiences and attitudes of its privately held businesses and how they have been affected/what their expectations are over the next 12 months, as illustrated in figure 1.

The IBR survey tells us that businesses in Brazil are less optimistic about the economic outlook for the next 12 months, compared with 2010. Employment opportunities are set to expand but half of businesses cite a lack of skilled workers and bureaucracy are stifling growth.



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

## Looking ahead

Official growth forecasts for the year ahead have been downgraded on the back of a slowdown in mature markets, particularly the US and eurozone. The economy is now expected to expand to 3.5%, down from 4.5% previously. Forecasts for 2012 are likely to be downgraded to around 4%.

Further cuts in the Selic are expected in the coming months, bringing the rate down to 10.5% by mid-2012. The BCB expects a weakening global economy to act as a brake on inflation, but low unemployment and a 14% increase in the minimum wage next January may lead to further price rises.

Public spending will come under further pressure from demands for investment ahead of the 2014 FIFA World Cup and Olympic games two years later. The state Growth Quickening Programme is having some effect, not least in transport projects and sport facilities as part of Rio de Janeiro's successful Olympic bid. But communications and transport systems will come under pressure as manufacturing occupies a greater proportion of national output, potentially deterring inward investment.

Global corporations may look to base production facilities in Brazil to exploit local demand. So far this has been dominated by the transport equipment, refinery and chemicals sectors, but this base will expand, reducing Brazil's reliance on global commodity prices.

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

Brazil compared to the Latin America average	2009 Brazil	2010 Brazil	2011 Brazil	2011 Latin America
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+50%	+71%	+61%	+65%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	-20%	+59%	+54%	+52%
<b>Constraints on expansion</b>				
Regulations/red tape	39%	37%	50%	41%
Lack of skilled workers	33%	30%	50%	41%

Source: Grant Thornton IBR 2010



# International Business Report results

The Grant Thornton IBR 2011 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Brazil are less optimistic about prospects for 2011; their optimism/pessimism balance<sup>2</sup> +61% compared to +71% in 2010.

Indian businesses are the most upbeat on the economic outlook; net 86% indicate optimism, followed by Chile and the Philippines (both 85%). The least optimistic countries are Japan (-67%), Greece (-46%), Spain (-45%) and Ireland (-12%).

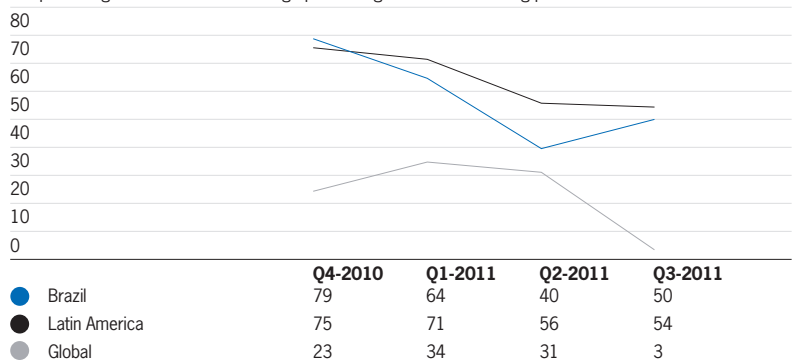
Optimism amongst businesses globally has declined slightly from 2010; this year net 22% of businesses are positive about their country's economy – compared to 24% 12 months previously.

## Optimism/pessimism

- business confidence in Brazil has declined significantly since the start of the year when it stood at net 79% indicating optimism
- however, having fallen to 40% in Q2, optimism rose again to 50% in Q3
- the Latin America<sup>3</sup> average has tracked Brazil quite closely, but the global average fell to just 3% in Q3, down from 31% in Q2.

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

Net percentage of businesses indicating optimism against those indicating pessimism



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.

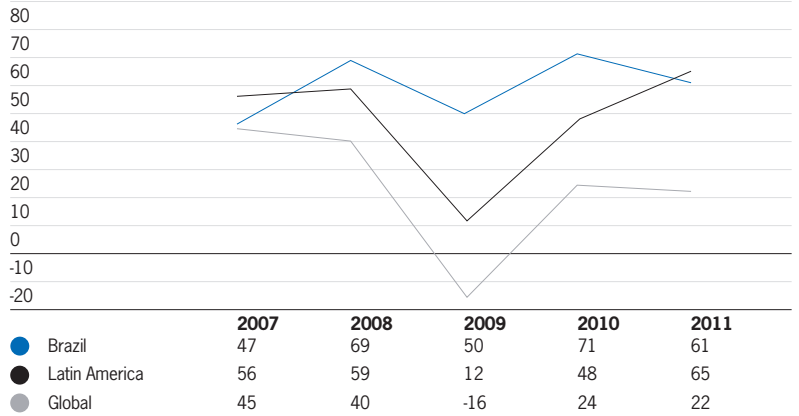
<sup>3</sup> for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

### Optimism/pessimism

- businesses in Brazil are less optimistic about their country's economic outlook (61%) compared with 2010 (71%)
- the balance of businesses in Latin America indicating optimism for the year ahead has continually risen by 17 percentage points this year, from 48% to 65%.

**Figure 2a: Outlook for the economy over the next 12 months – 2007-2011**

Net percentage of businesses indicating optimism against those indicating pessimism



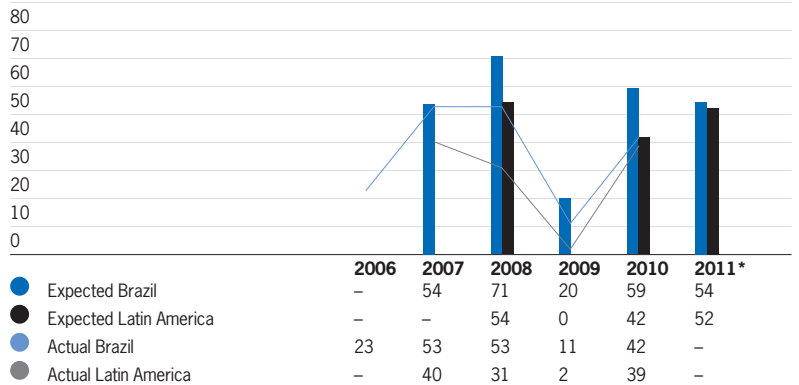
Source: Grant Thornton IBR 2011

### Employment

- net 54% of businesses in Brazil expect to expand the size of their workforce in 2011, compared with 52% of businesses in Latin America
- actual employment growth reported by businesses in Brazil in 2010 (42%) was less robust than expected 12 months previously (59%).

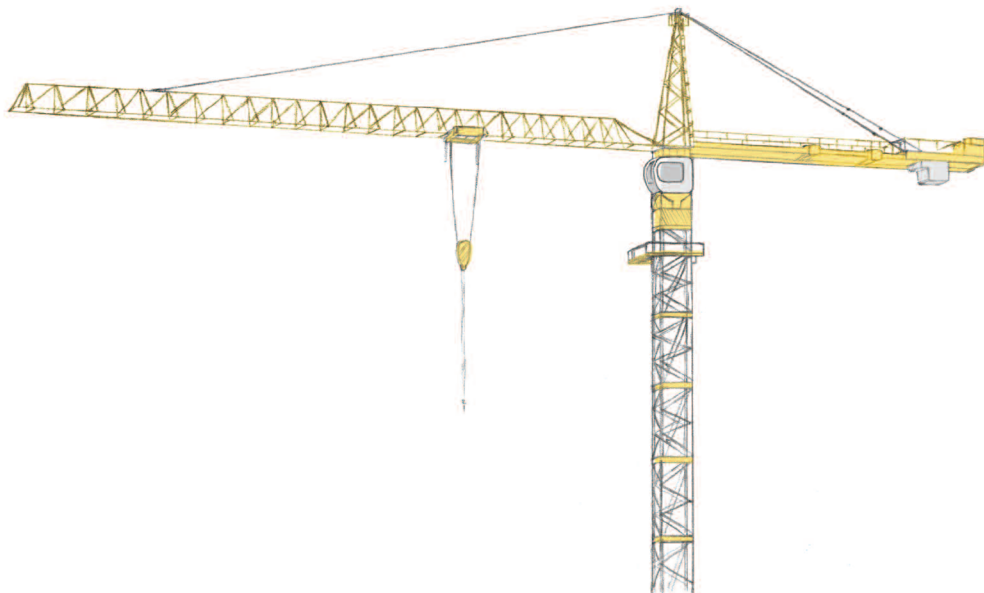
**Figure 3: Employment history: 2006-2011**

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



\*actual 2011 data will be documented in IBR 2012

Source: Grant Thornton IBR 2011

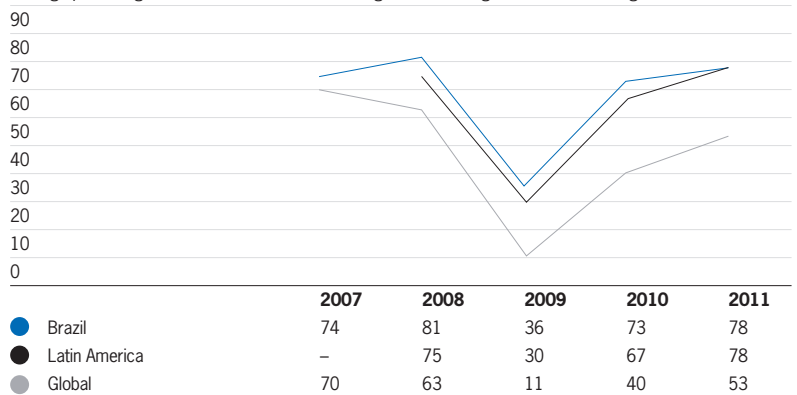


### Revenue expectations

- net 78% of businesses in Brazil expect their revenue to increase across 2011; a slight increase from 2010 (73%)
- revenue expectations across Latin America (78%) as are now higher than in 2008, having risen by 11 percentage points compared with 2010.

**Figure 4: Revenue expectations: 2007-2011**

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



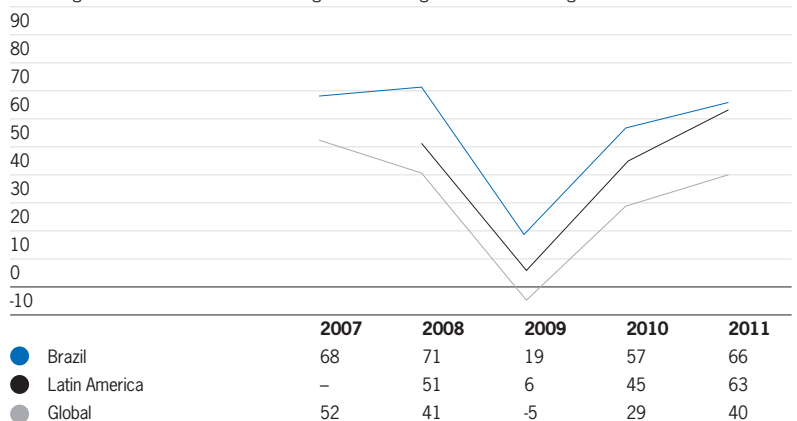
Source: Grant Thornton IBR 2011

### Profitability expectations

- profitability expectations of businesses in Brazil have also risen this year; net 66% expect their profits to increase across 2011 compared with 57% this time last year
- the Latin American business average has increased by 18 percentage points, from 45% in 2010 to 63% this year.

**Figure 5: Profitability expectations: 2007-2011**

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



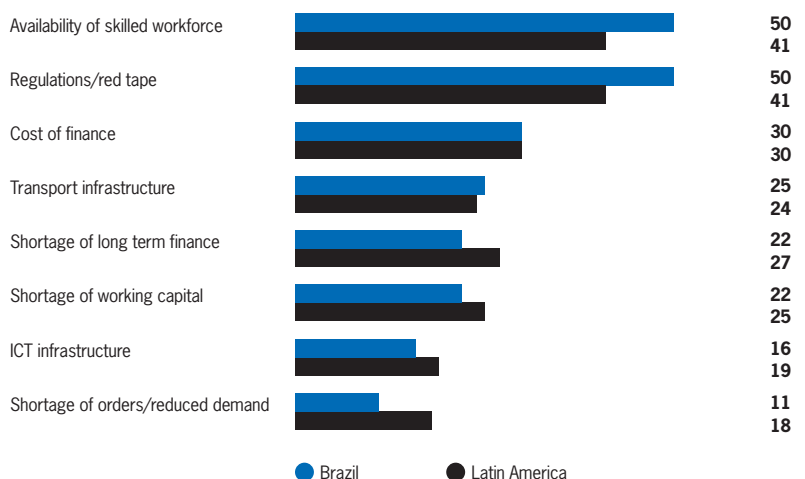
Source: Grant Thornton IBR 2011

### Constraints

- regulations/red tape has been cited as the major constraint restricting expansion for PHBs in Brazil since joining the survey 2007; this year it is cited as a major constraint by half of businesses in Brazil and 41% of all businesses in Latin America
- a lack of skilled workers is also cited as a constraint on expansion by 50% of businesses in Brazil.

**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

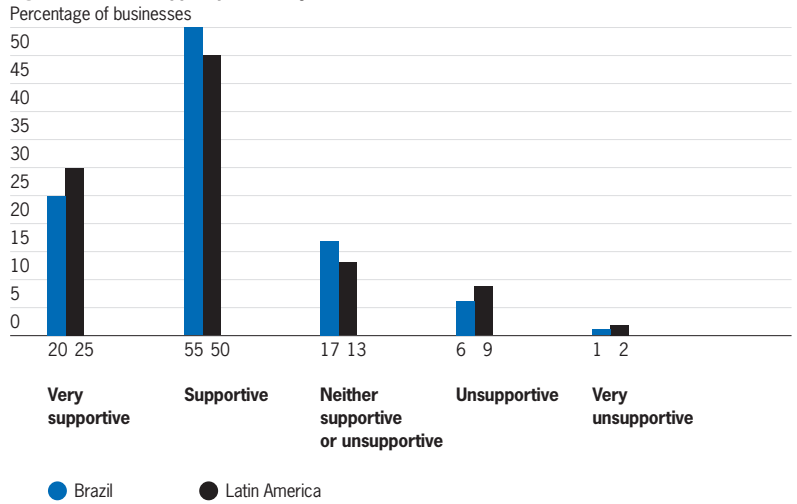


Source: Grant Thornton IBR 2011

### Support of lender

- three quarters of businesses in Brazil are happy with the level of support provided by lenders; 75% class lenders as supportive or very supportive towards their business
- this is the same level for businesses in Latin America as a whole (75%)
- 7% of businesses in Brazil believe that lenders are unsupportive or very unsupportive of their business, compared to 11% across the region.

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



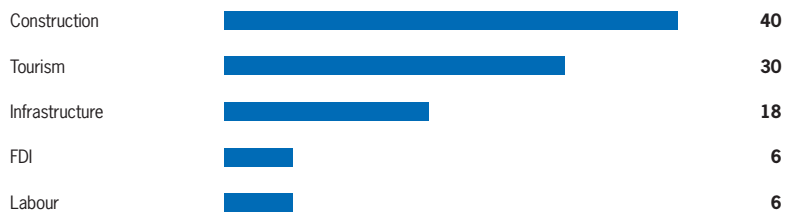
Source: Grant Thornton IBR 2011

### FIFA World Cup 2014

- more than three-quarters of business leaders (78%) think the Brazilian economy will grow stronger by hosting the World Cup
- 40% of businesses believe construction will benefit most from hosting the World Cup, with a further 30% citing tourism and 18% infrastructure
- a quarter of businesses plan to increase investment for the World Cup, but 68% indicate that they will not.

**Figure 8: The major problems facing the Brazilian 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 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 Brazil 250 businesses were surveyed across all industry sectors between November 2010 and September 2011. These businesses ranged from medium to large in size with total employment of between 50 and 499.

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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