

Focus on: Chile

International Business Report 2011 – Economy focus series

The economy

Economic growth in Chile has remained strong in 2011, led by fixed capital investment. Exports of copper – Chile is the world's largest producer – lumber and fish remain robust following a record year in 2010. Meanwhile, the government is expecting to run a large fiscal surplus in 2011.

However, protests over the high cost of education have paralysed parts of the country. Students returned to their classrooms in November after nearly seven months of strikes but with many demands remaining unsatisfied the threat of further action is real.

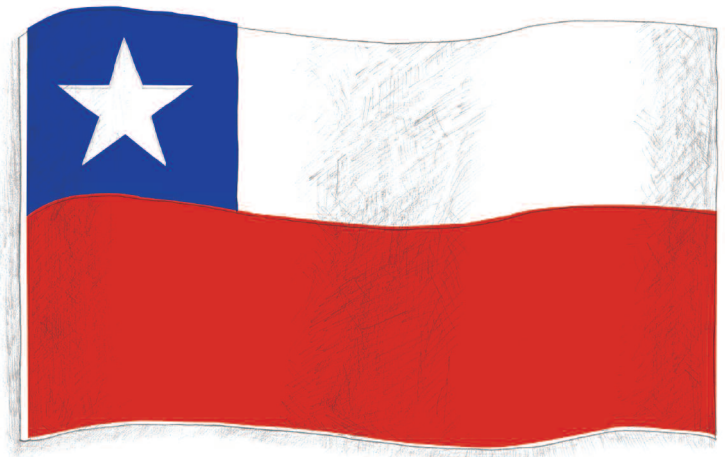
The key indicators¹ are highlighted below:

- the economy grew a seasonally adjusted 0.6% in Q3 – slowing from 1.3% in the previous quarter – a 4.8% expansion from the same period 12 months ago
- the mining sector in particular declined by 6.5% in Q3 year on year, but fishing was up 59.4%
- exports declined by an estimated -0.6 in the three months to September 2011, this was down from growth of 2.7% in the previous quarter
- imports continued to rise in Q3 2011 at an estimated 3.5%, on a par with the growth in Q2 2011 (3.4%)
- private consumption grew over the last quarter, estimated at 1.6%, up from 0.4% in Q2 2011.

The business perspective

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

The IBR survey tells us that businesses in Chile are slightly less optimistic about their economy over the next 12 months than they were in 2010, likely driven by continued global uncertainty and the sovereign debt crisis in the eurozone. Despite this, business expectations for revenue and expectations for profitability have both risen. A lack of a skilled workforce remains a major constraint to further expansion, although the figure is well below the regional average.



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

The outlook

The outlook for the economy remains robust; growth of 6.3% is expected in 2011, decelerating slightly with the global slowdown and a normalisation of current buoyant consumption and investment rates to average 4.8% in 2012-13.

Chile has decreased its dependence on the developed economies however its market oriented approach means that the country will be vulnerable to decreased demand for goods and services from Europe as the sovereign debt crisis deepens. Chile's copper exports account for about half of the total value of exports and therefore fluctuation in demand particularly from the largest consumers, such as China, will certainly impact on overall growth.

Figure 1: Key indicators for PHBs

Chile compared to the Latin America average	2009 Chile	2010 Chile	2011 Chile	2011 Latin America
Outlook for the economy over the next 12 months				
Net optimism	-24%	+85%	+61%	+54%
Change in employment levels				
Net hiring expectations	-33%	+42%	+61%	+52%
Constraints on expansion				
Lack of skilled workers	24%	35%	22%	41%
Cost of finance	52%	27%	22%	30%

Source: Grant Thornton IBR 2011

Growth should however remain well above advanced economies, as domestic demand is anticipated to remain strong and investment in the mining and energy sectors together with Chile's pro-business administrative regime should continue to boost confidence in investors and consumers.

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

Alfonso Ibanez

T +56 (2) 269 1737

E aibanez@gtchile.cl

W www.gtchile.cl



International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Chile became less optimistic in Q3 with net 61% of businesses optimistic, down from net 84% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

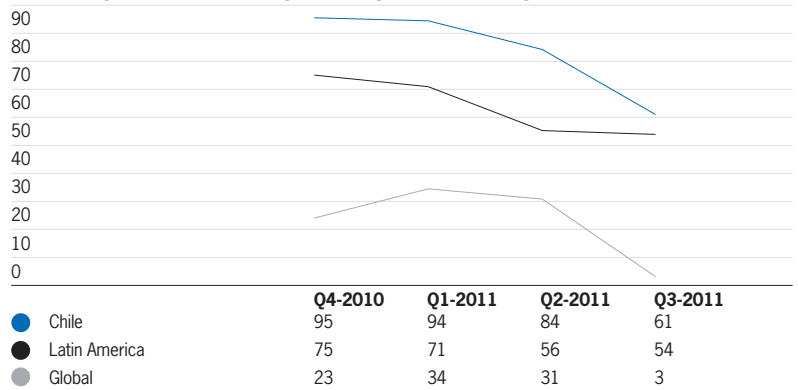
Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

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

Optimism/pessimism

- businesses optimism in Chile dropped by 23 percentage points between Q3 and Q2 to stand at 61%
- however, it remains above the figure for Latin America³ as a whole (54%)
- globally, business sentiment dropped by 29 percentage points in Q3 to stand at just 3%.

Figure 2: Outlook for the economy over the next 12 months – 2010-2011
Net percentage of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

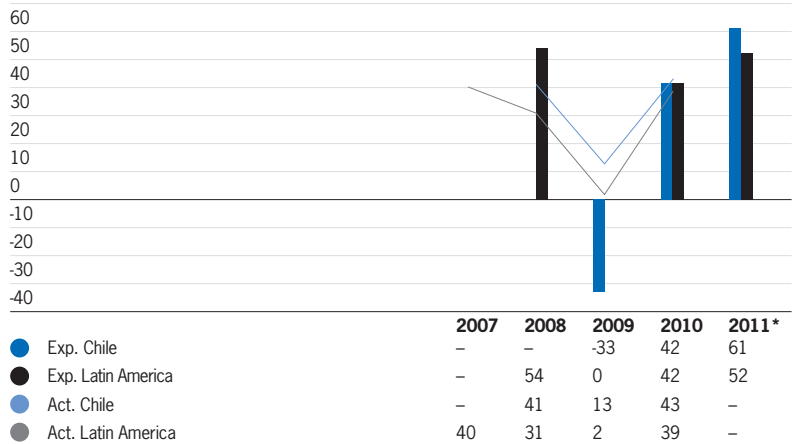
³ for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

Employment

- net 61% of businesses in Chile expect employment to grow in 2011, compared with 52% of businesses across the Latin America region
- actual employment growth reported by businesses in Chile for 2010 (43%) was on par with that expected 12 months previously (42%).

Figure 3: Employment history: 2007-2011

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



*actual 2011 data will be documented in IBR 2012

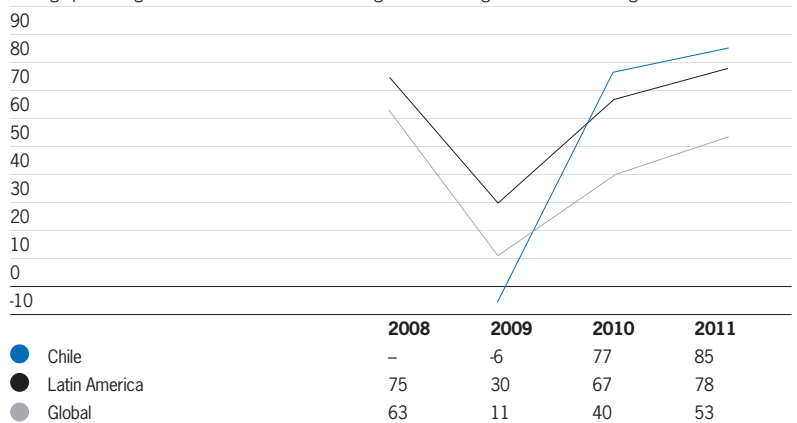
Source: Grant Thornton IBR 2011

Revenue expectations

- the proportion of businesses expecting to increase revenue over the next 12 months rose by eight percentage points to 85%
- this is above the Latin America average (78%)
- globally, expectations rose from 40% in 2010 to 53% in 2011
- however, in Q3 revenue prospects in Chile dropped to 74%, down from 92% in Q2.

Figure 4: Revenue expectations: 2008-2011

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



Source: Grant Thornton IBR 2011

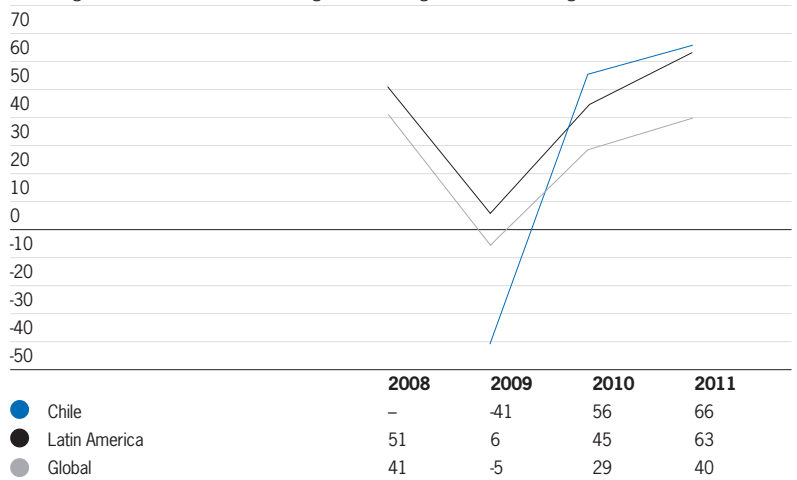


Profitability expectations

- this year net 66% of businesses in Chile expect their profits to rise compared with 56% in 2010
- the Latin America business average rose by 18 percentage points to 63%
- the global average was up by 11 percentage points to 40%.

Figure 5: Profitability expectations: 2008-2011

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



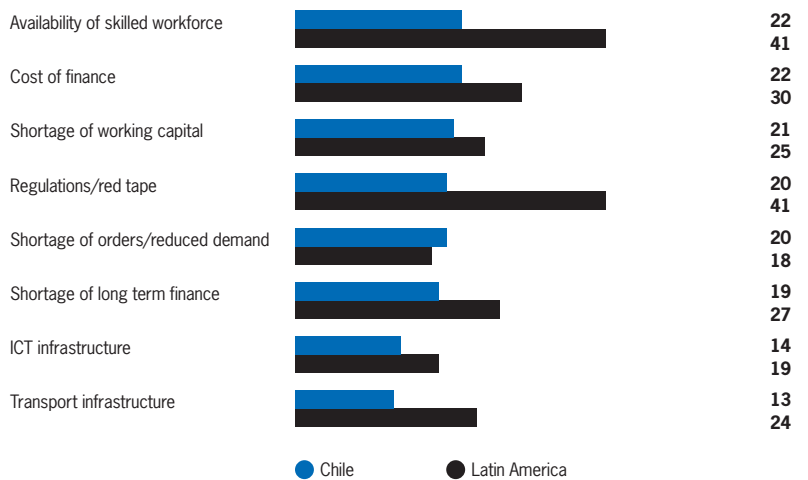
Source: Grant Thornton IBR 2011

Constraints

- a lack of skilled workers together with cost of finance are the two most pressing concerns for businesses in Chile (both 22%)
- A lack of a skilled workers is a particularly acute concern across Latin American businesses as a whole, with 41% raising this issue
- businesses in Chile cited ICT and transport infrastructure as less of a concern to expansion (14 and 13% respectively).

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

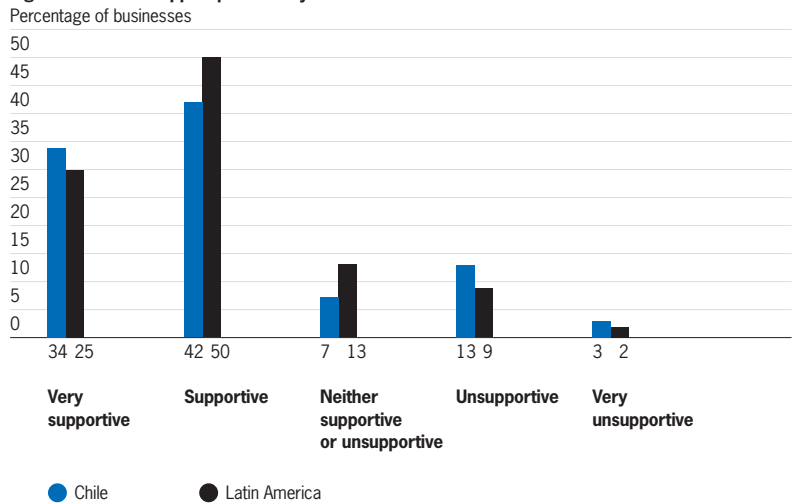


Source: Grant Thornton IBR 2011

Support of lender

- the majority of businesses in Chile are happy with the level of support provided by lenders; 76% class lenders as supportive or very supportive towards their business
- this compares with 75% of businesses in the Latin America region as a whole
- 16% of businesses in Chile believe that lenders are unsupportive or very unsupportive of their business, higher than the average across the Latin America region as a whole.

Figure 7: Level of support provided by lenders

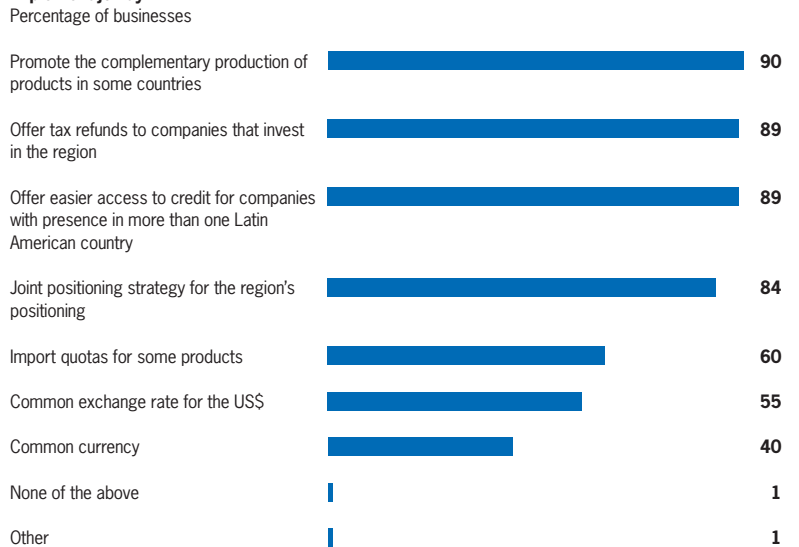


Source: Grant Thornton IBR 2011

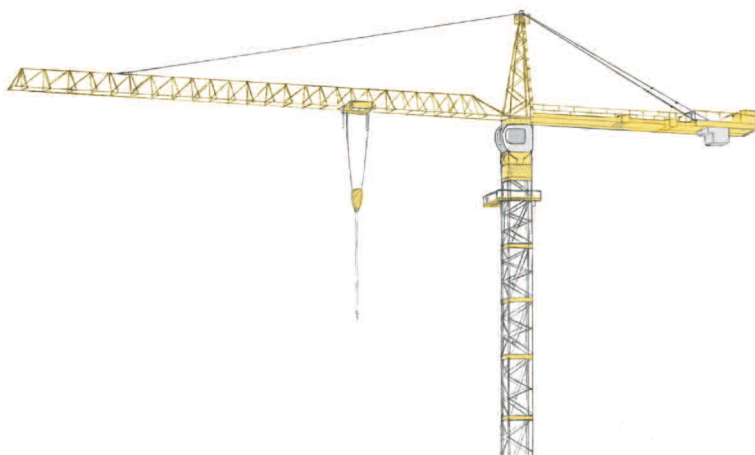
Government policy and decision making

- businesses in Chile would most like to see the government working with other Latin American countries to promote the complementary production of products (90%)
- offering easier access to credit for companies with presence in more than one Latin American country and offering tax refunds to companies that invest in the region would also be popular (both 89%)
- two thirds of businesses (64%) felt that the Chilean governments response to the social and economic impact of the earthquake in February 2010 was good or very good.

Figure 8: 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 Chile 224 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 20 and 149. 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. 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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