Focus on: Spain

International Business Report 2011 – Economy focus series

The economy

The economy has been buffeted by the strong economic headwinds caused by the sovereign debt crisis in the eurozone, barely growing in 2011. Whilst the plight of Greece and now Italy have attracted the majority of media coverage in recent months, the recently elected Mariano Rajoy, the leader of the centre-right Popular Party, must push through reforms in the face of mounting deficits, declining output and massive unemployment.

The key indicators[1] are highlighted below:

- economic growth was flat in Q3 as the eurozone stalled, following mild expansion in H1
- at auction in November rates for Spanish three-month bonds more than doubled to 5.1%, the highest in 14 years; the spread of Spanish 10-year bonds over German bunds also rose to 4.6%
- the unemployment rate climbed to 21.5% in Q3, with the youth unemployment rate close to 50%
- overspending by the autonomous regions is expected to see the government to miss its target of bringing the nation's overall deficit down to 6% of GDP.

Impact on businesses

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 businesses in Spain and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that Businesses in Spain are overwhelmingly pessimistic about their economy over the next 12 months. Expectations for increasing revenue and profits have risen in comparison with 2010 but remain low. A shortage of both working capital and of orders/demand remain major constraints on potential expansion. It should be noted that businesses in Spain have gone through a period of severe readjustment over the past four years. The respondents represent the 'survivors' of this process. Many have lost workers but now form a strong nucleus around which Spain can start to grow again.

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

Looking ahead

The near-term economic outlook has deteriorated, with the latest economic indicators and survey data pointing to a recession spanning the final months of 2011 and the early part of 2012. Growth is forecast at 0.7% in 2012, accelerating slightly to 1.2% in 2012-16.

With Greece still struggling to remain afloat and Italy now in the eye of the eurozone sovereign debt storm, the Spanish economy will have to endure the fall-out such as a another spike in bond yields, tightening of credit conditions resulting from banking-sector concerns, and persistent financial-market turmoil. This will be a further blow to already run down levels of consumer and business confidence. Investors will be watching to see whether the PP can reign in regional overspending and hit targets of reducing the public deficit to 6.0% in 2011, and 4.4% in 2012.

Solid growth is only expected to re-emerge after a prolonged adjustment. But even following the recovery, Spain's economic performance is expected to be much more muted than during its boom times. Spain's dependence on imported energy and its relative lack of labour market flexibility have been key factors in higher price and wage inflation trends. In the past decade, Spain's unit costs have risen by 30%, against 9% for Germany. This poses a key risk to Spain's future competitiveness.

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

Spain compared to the EU average	2009 Spain	2010 Spain	2011 Spain	2011 EU
Outlook for the economy over the next 12 months				
Net optimism	-65%	-56%	-34%	0%
Change in employment levels				
Net hiring expectations	-42%	-8%	6%	13%
Constraints on expansion				
Shortage of working capital	56%	41%	43%	23%
Shortage of orders/reduced demand	58%	43%	40%	23%

Source: Grant Thornton IBR 2011

International Business Report results

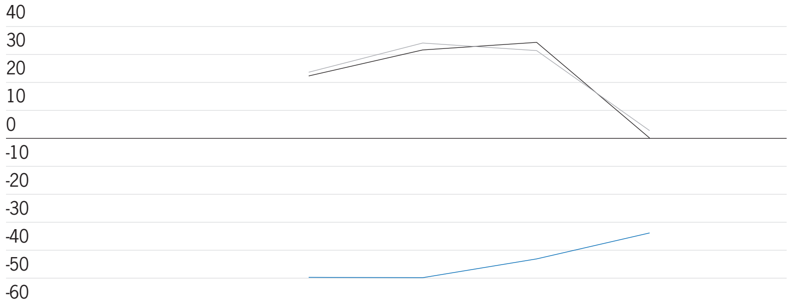
The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Spain remains negative in Q3 with net -34% of businesses optimistic, up from net -43% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

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.

Figure 2: Outlook for the economy over the next 12 months: Q4-2010 to Q3-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



	Q4-2010	Q1-2011	Q2-2011	Q3-2011
Spain	-50	-50	-43	-34
EU	22	31	34	0
Global	23	34	31	3

Source: Grant Thornton IBR 2011

Optimism/pessimism

- businesses in Spain are slightly less pessimistic about their the economic outlook in Q3 (-34%) compared with Q2 (-43%)
- however, they remain the fourth most pessimistic in the survey of 39 economies globally
- optimism in the EU[3] declined from 34% in Q2 to 0% in Q3.

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

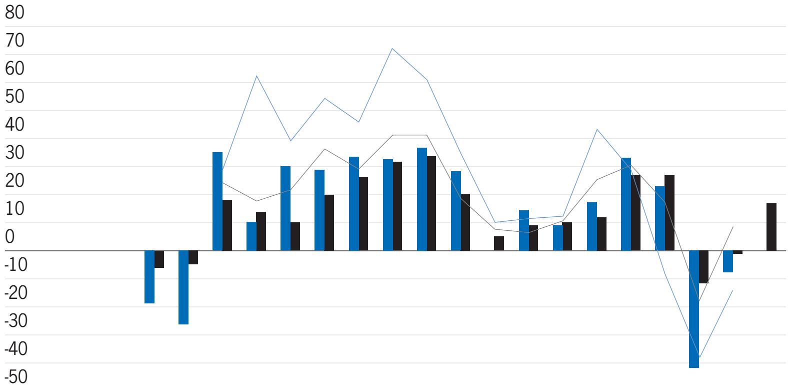
[3] for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- businesses in Spain expect no change in employment in 2011, which represents bad news in the face of high and rising unemployment
- across the EU the rise much sharper with net 17% expecting an increase
- actual employment contraction across Spain in 2010 (-14%) was slightly higher than expected (-8%).

Figure 3: Employment history: 1993-2011

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



	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11*
Exp. Spain	-19	-27	35	10	30	29	34	33	37	28	0	14	9	17	34	23	-42	-8	0
Exp. EU	-6	-5	18	14	10	20	26	32	34	20	5	9	10	12	27	27	-12	-1	17
Act. Spain	–	–	29	62	39	54	46	72	61	34	10	11	12	43	29	-9	-38	-14	–
Act. EU	–	–	24	17	21	36	29	41	41	18	7	6	10	25	30	17	-19	8	–

*2011 data will be documented in IBR 2012

Please note that the expected values are represented by the bars and the actual values by the lines

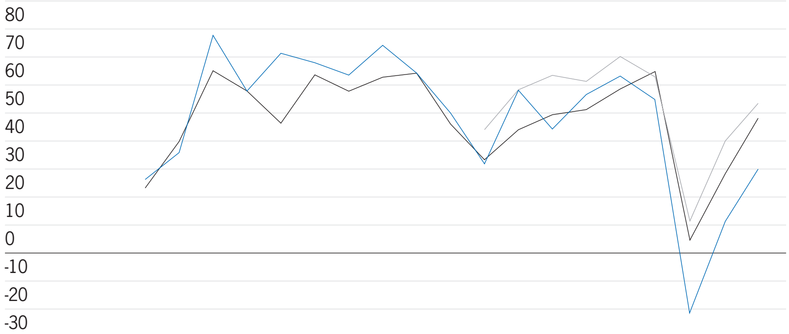
Source: Grant Thornton IBR 2011

Revenue expectations

- optimism levels regarding revenue prospects have risen in Spain this year by 19 percentage points, from +11% in 2010 to +30%
- however, the quarterly results show revenue prospects in Spain falling from 29% in Q2 to 27% in Q3
- the EU average has also increased by 20 percentage points, from +28% in 2010 to +48%
- and globally, expectations have increased by 13 percentage points to +53%.

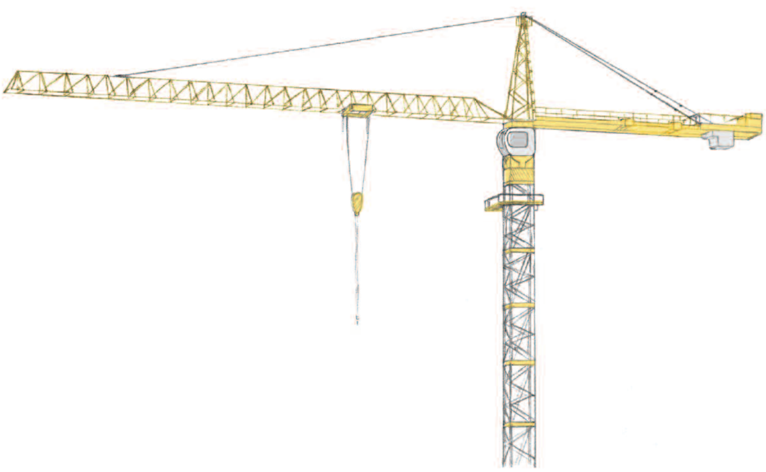
Figure 4: Revenue expectations: 1993-2011

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



	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
Spain	26	36	78	58	71	68	63	74	64	50	31	58	44	57	63	55	-21	11	30
EU	23	40	65	58	47	64	58	63	64	46	33	44	49	51	59	65	5	28	48
Global	–	–	–	–	–	–	–	–	–	–	44	58	63	61	70	63	11	40	53

Source: Grant Thornton IBR 2011

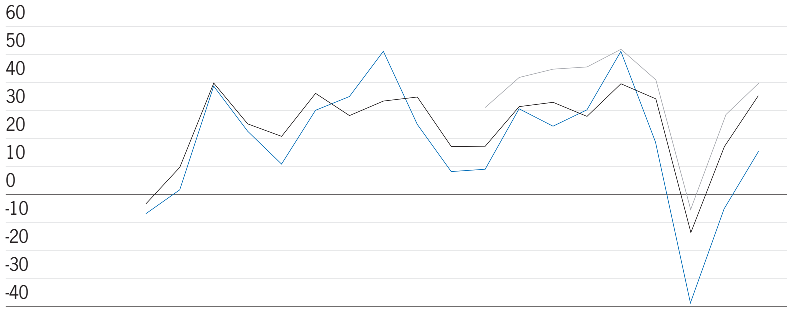


Profitability expectations

- profitability expectations amongst businesses in Spain have also risen this year (by 21 percentage points) from -5% in 2010 to 16%
- the EU average has increased by 18 percentage, from 17% in 2010 to 35%
- globally, net 40% of businesses expect to increase profits over the next 12 months, up from 29% in 2010.

Figure 5: Profitability expectations: 1993-2011

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



	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
Spain	-7	2	39	23	11	30	35	51	25	8	9	31	24	30	51	19	-39	-5	16
EU	-3	10	40	26	21	37	29	34	36	17	17	32	33	29	40	36	-13	17	35
Global	–	–	–	–	–	–	–	–	–	–	31	42	45	46	52	41	-5	29	40

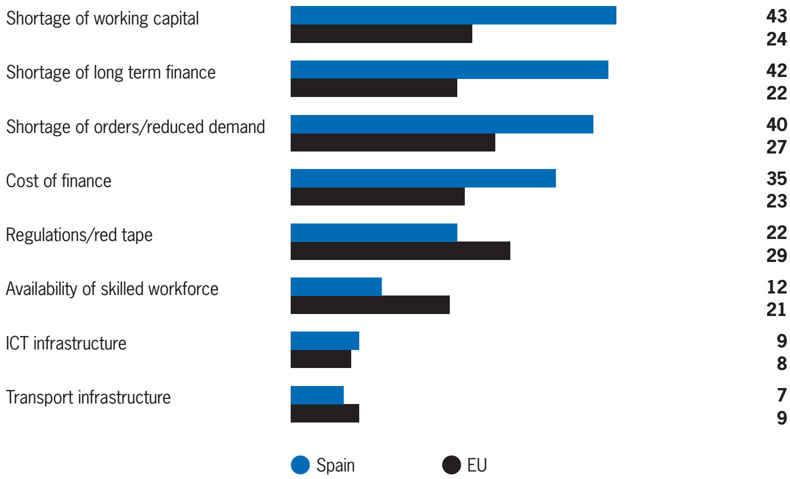
Source: Grant Thornton IBR 2011

Constraints

- financial constraints as a whole are impacting on Spanish businesses ability to expand with a shortage of working capital (43%) and long-term finance (42%) have the greatest impact
- a shortage of orders / reduced demand is also impacting on Spanish businesses (40%), but regulations and red tape is not impacting businesses in Spain (22%) as much as it is businesses globally (29%).

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

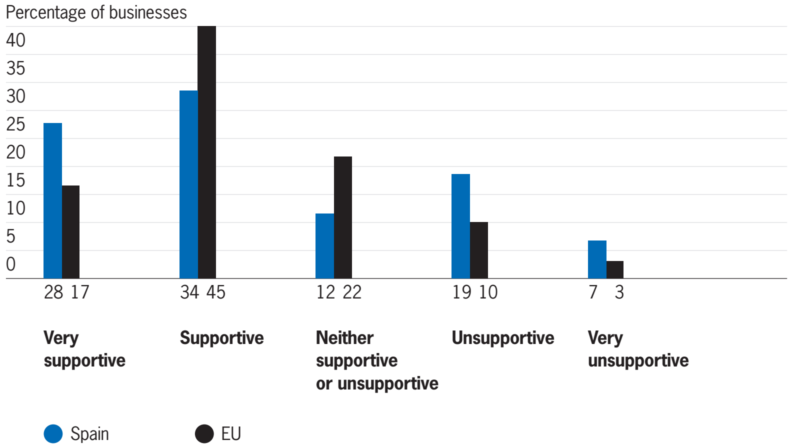


Source: Grant Thornton IBR 2011

Support of lender

- 62% of Businesses in Spain class lenders as (very) supportive towards their business; in-line with the EU average and the Spanish average for the last two years (both 62%)
- 26% Businesses in Spain classed lenders as (very) unsupportive towards their business, this alongside Turkey is the highest proportion of businesses classing their lenders as unsupportive
- Only 13% on businesses in the EU class their lenders as (very) unsupportive towards their business.

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

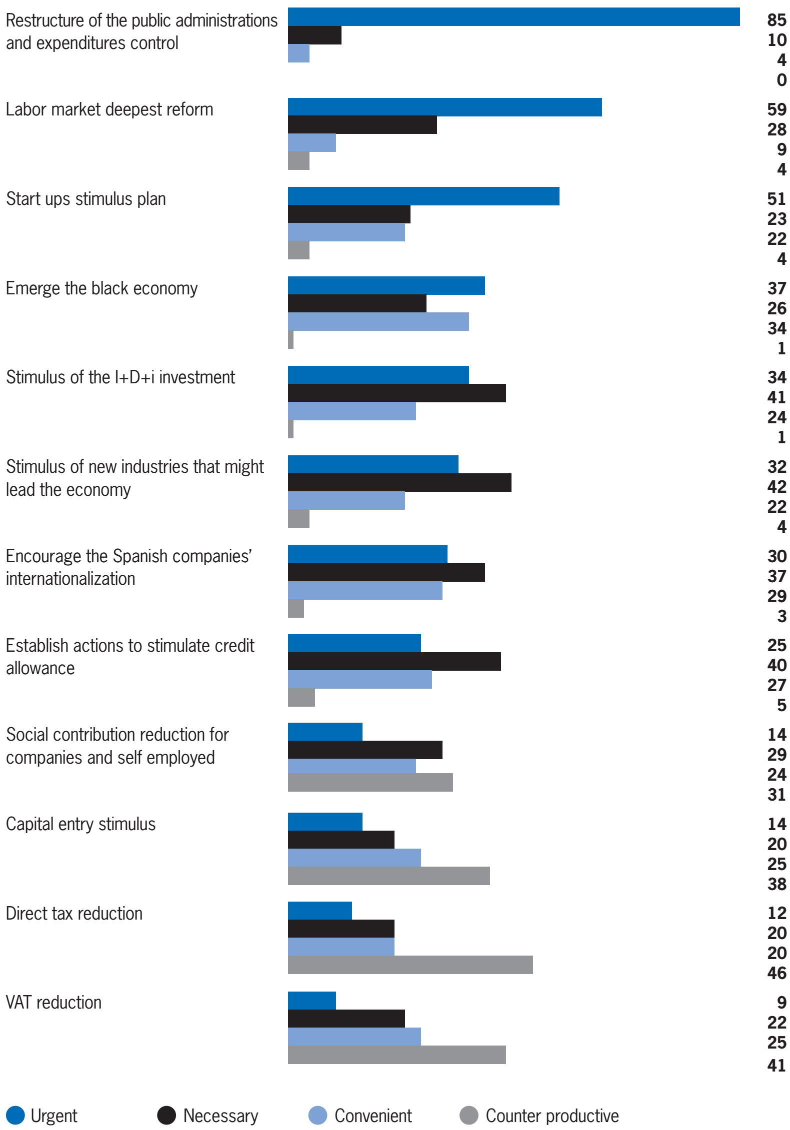


Source: Grant Thornton IBR 2011

Government actions to boost the economy

- the majority (85%) of Spanish businesses believe the government need to be taking urgent action in the restructuring of the public administrations and expenditures control in order to boost the Spanish economy
- a further 59% of businesses in Spain believe profound reforms to the labour markets are needed, and overall 96% think such adjustments would be productive
- just under half of businesses think it would be counter-productive to impose tax reductions (41% – VAT reduction, 46% – direct tax reduction).

Figure 8: What actions should undertake the government in order to boost the Spanish Economy?
Percentage of businesses



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 Spain 448 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 100 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**. 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
Georgia
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
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