

Focus on: United States of America

International Business Report 2011 – Economy focus series

The economy

The US economy expanded by 2.9 per cent in 2010, but the recovery has slowed in 2011 as shaky consumer confidence, rising oil prices due to the Arab Spring, disruption of supply chains following the Japanese earthquake and uncertainty over raising the federal debt ceiling have taken their toll on the economy. Ahead of next year's elections, the divisions between Republicans and Democrats on how to boost growth and reign in the fiscal deficit are ever more pronounced and one ratings agency has subsequently downgraded US long-term sovereign credit rating to AA+.

The key indicators¹ are highlighted below:

- the economy expanded at a revised annual rate of 1.3 per cent in the second quarter, but Q1 growth was revised down sharply from 1.9 per cent to just 0.4 per cent
- strong business investment (7.1 per cent) and export (6.0 per cent) growth were offset by weak consumer spending, which grew by just 0.1 per cent in Q2
- manufacturing fell again in August – the PMI index dropped to 50.6, its lowest level for 24 months, down from 55.9 in June; however, the non-manufacturing index rose by 60 basis points to 53.3 per cent.
- no workers were added to payrolls in August, as the unemployment rate remained at 9.1 per cent, only slightly down on the pre-recession peak of 9.9 per cent in November 2009, but a revision to the March figures found an extra 192,000 workers.

The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 privately held businesses (PHBs) in 39 economies around the world. This report focuses on the experiences of privately held businesses in the US and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in the US became much less optimistic about their economy in Q3. Expectations for employment remains slightly above 2010 levels, whilst the burdens of bureaucracy and reduced demand have declined year-on-year.



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

The outlook

The US economy has struggled to recover from the recent recession, with the economy exhibiting a poor pace of growth compared with other recoveries since WWII. Household debt remains high whilst production and employment are likely to stay well below the economy’s potential for a number of years. Growth for 2011 is now forecast to come in at less than 2 per cent.

The debt ceiling has been raised up until 2013 only and in the run-up to the election next year the threat of further impasse between Democrats and Republicans is very real. The spending cuts enshrined in the debt ceiling agreement will only kick in after the election, but they are forecast to wipe another 0.3 per cent off growth in 2012, adding to an already strong fiscal policy drag.

Demographic factors mean that the workforce will be expanding at a slower pace, especially in the next decade. Productivity gains are also unlikely to match those recorded in 1995-2004. The benefits of heavy IT investment in the 1990s, which gave a strong boost to average output per worker, are now waning. Investment in equipment in software, which averaged growth of 12 per cent p.a. in 1992-2000, was comparatively soft in recent years, expanding by just 2.3 per cent p.a. in 2001-08.

Consumption, investment and government expenditure are all expected to show some softness in the long term. Exports are expected to do reasonably well due to the weakness of the dollar, but not enough to compensate for deceleration in domestic demand.

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

Mike Hall

T +1 312 602 8727

E mike.hall@gt.com

W www.grantthornton.com

Figure 1: Key indicators for MLEs

USA compared with the Global average	2009 USA	2010 USA	2011 USA	2011 Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	-34%	+20%	-2%	+3%
Change in employment levels				
Balance of MLEs expecting an increase over those expecting a reduction	-9%	+15%	+17%	+23%
Constraints on expansion				
Regulations/red tape	22%	30%	20%	27%
Shortage of orders/reduced demand	48%	36%	23%	32%

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 the US turned negative in Q3 with net -2% of businesses optimistic², down from net 41 per cent in the previous quarter. Globally the quarter-on-quarter average declined from 31 per cent to 3 per cent.

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

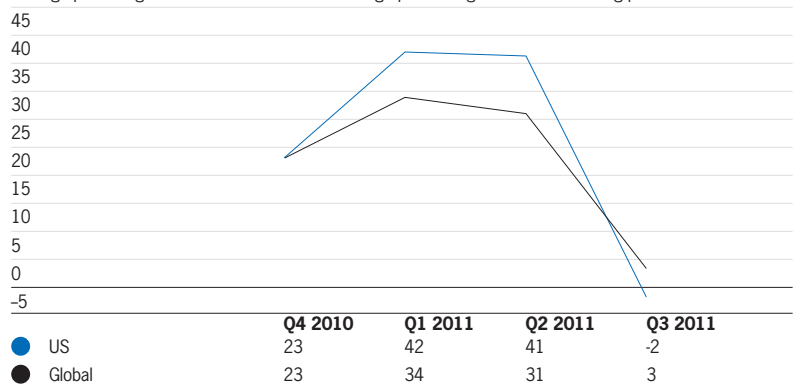
Year-on-year optimism amongst businesses has declined slightly from net 24 per cent in 2010, to net 22 per cent across 2011.

Optimism/pessimism

- businesses optimism in the US declined drastically in the third quarter, dropping from 41 per cent to -2 per cent, its lowest level since the financial crisis
- 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: Q4-2010 to Q3-2011

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



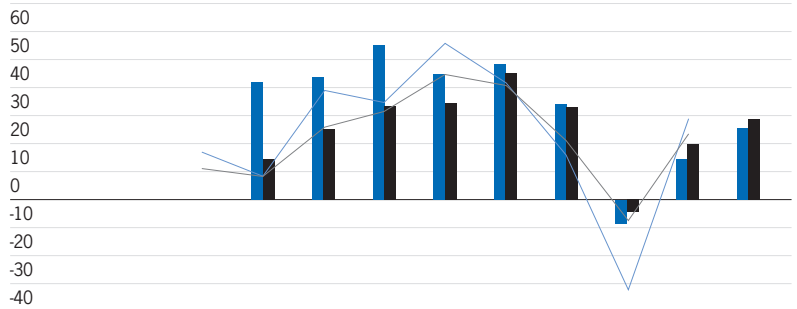
² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Employment

- net 26 per cent of businesses in the US expect employment to grow in 2011, in line with businesses globally (+29 per cent), although expectations remain below pre-crisis levels
- actual employment growth reported by businesses in the US for 2010 (+26 per cent) was higher than expected 12 months previously (+15 per cent).

Figure 3: Employment history: 2002-2011

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



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Exp. USA	-	42	44	55	45	48	34	-9	15	26
Exp. Global	-	14	25	34	35	45	33	-4	20	28
Act. USA	17	8	39	35	56	42	16	-33	29	-
Act. Global	11	8	26	31	44	41	21	-8	23	-

*actual 2011 data will be documented in IBR 2012

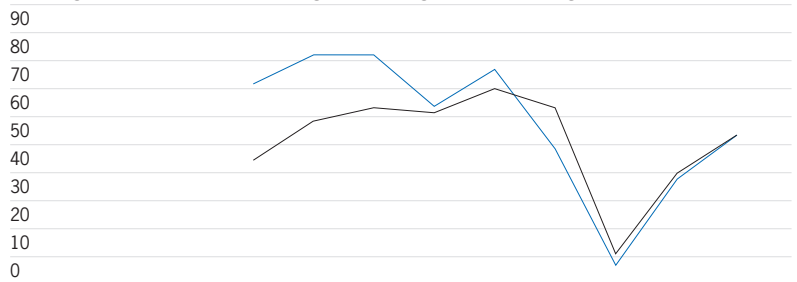
Source: Grant Thornton IBR 2011

Revenue expectations

- year-on-year expectations for revenue prospects are significantly higher than in 2010, +53 per cent this year compared with +38 per cent last year
- globally, expectations have risen from +40 per cent in 2010 to +53 per cent in 2011.

Figure 4: Revenue expectations: 2003-2011

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



	2003	2004	2005	2006	2007	2008	2009	2010	2011*
USA	72	82	82	63	77	49	7	38	53
Global	44	58	63	61	70	63	11	40	53

Source: Grant Thornton IBR 2011

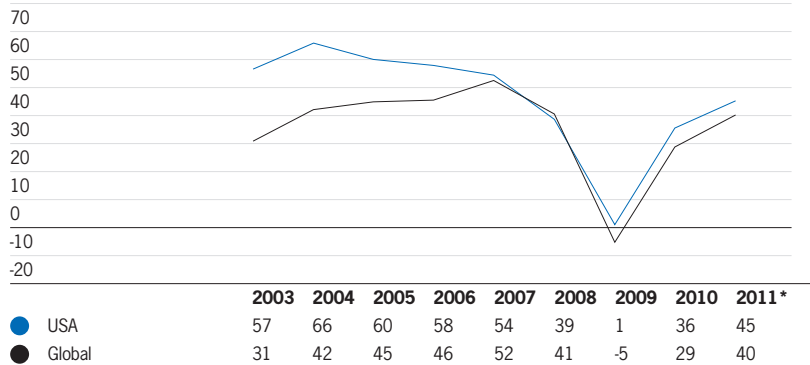


Profitability expectations

- the balance of businesses expecting to increase profits in the US has remained positive again following the steep fall observed in 2009
- this year a balance of +45 per cent of businesses in the US expect their profits to rise compared with +36 per cent in 2010
- globally, businesses are also more positive with expectations rising by 11 percentage points year-on-year to +40 per cent.

Figure 5: Profitability expectations: 2003-2011

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



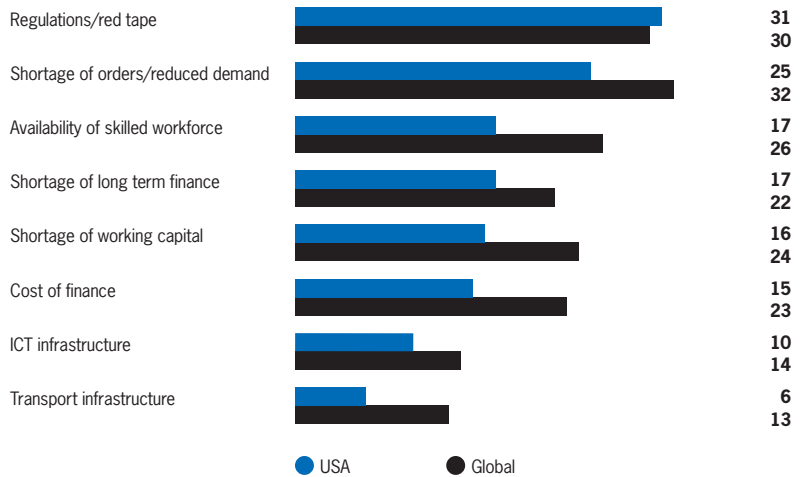
Source: Grant Thornton IBR 2011

Constraints

- regulations and red tape is cited as being the greatest constraint on business expansion for US businesses (31 per cent), in line with the global average (30 per cent)
- a shortage of orders/reduced demand is also cited by a quarter of American businesses (25 per cent) as being a major constraint, lower than the global average (32 per cent).

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



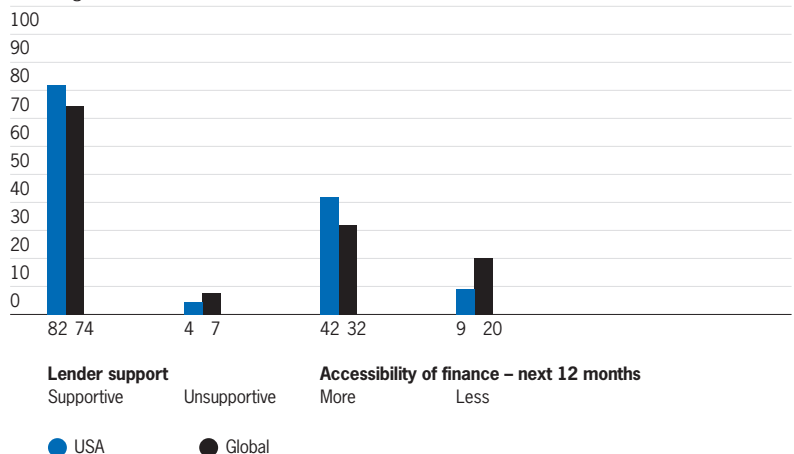
Source: Grant Thornton IBR 2011

Accessing finance

- the majority of American businesses are happy with the level of support provided by lenders; 82 per cent class lenders as supportive or very supportive towards their business, compared with 74 per cent globally
- moving forward, 42 per cent of US businesses expect finance to become more accessible, whilst just seven per cent expect it to become less accessible.

Figure 7: Level of support provided by lenders

Percentage of businesses



Source: Grant Thornton IBR 2011

