

Brazil

International Business Report 2008 – Country focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most economies remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic economy with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining them at the top for the first time (also +95 per cent). Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in Brazil are more optimistic about 2008 (+69 per cent) than they were about 2007 (+47 per cent).

Optimism amongst businesses in Latin America² is significantly stronger than the global average, although levels do vary throughout the region. Overall optimism has risen since 2007. This year +59 per cent of all Latin American businesses are positive about their economy compared to a balance of +56 per cent in 2007. Brazil is the most optimistic of Latin American economies with Argentina the least optimistic (+39 per cent).

The Brazilian economy

The economy saw renewed strength in 2007 with annual growth of 5.5 per cent in real terms. Industrial production grew strongly by the end of 2007 and domestic demand has supported this surge. In the fourth quarter of 2007 household spending increased by more than eight per cent year-on-year, and investment grew by 14.5 per cent. However, economic growth has been accompanied by renewed inflation pressures.

In addition, intense foreign investment activity has taken place across productive sectors from steel to car production. The appreciation of the real currency over 2006 and 2007 has proved to be a drag on the economy. Even so, export growth saw renewed strength in 2007, with unemployment falling eight per cent by the end of the year. With firms scaling-up investment plans in response to expectations of lower interest rates and increased public spending, employment growth is expected to stay strong in the near-term.



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¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

² for the purposes of IBR, the term 'Latin America' refers to economies covered by our survey – Brazil, Argentina and Mexico.

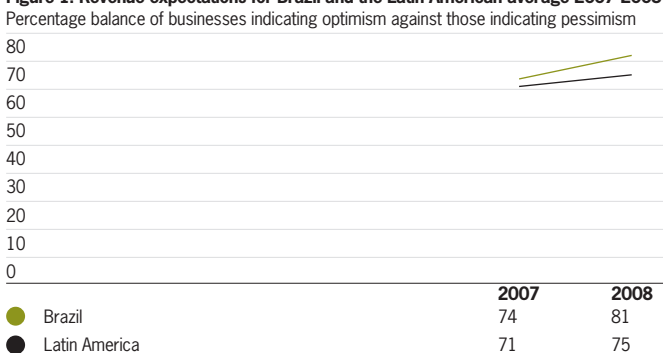
Business expectations/revenue

- PHBs in Brazil are more optimistic about revenue prospects in 2008 (+81 per cent) compared to 2007 (+74 per cent).
- Their levels of optimism regarding revenue performance are also above both the Latin American regional average (+75 per cent) and the global average (+63 per cent).
- The level of optimism regarding investment in plant & machinery is up from a balance of +52 per cent in 2007 to +65 per cent in 2008.

Employment

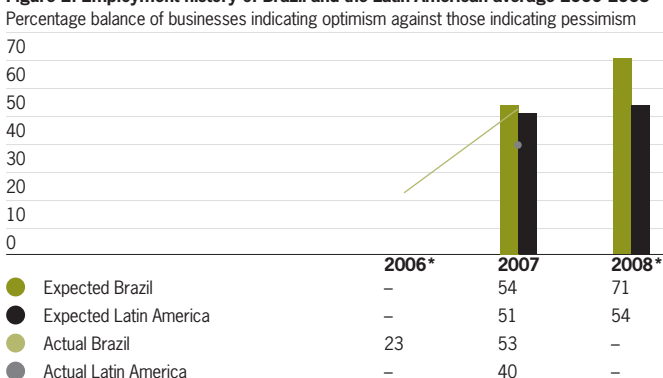
- Expected employment growth in Brazil rose from +54 per cent in 2007 to +71 per cent in 2008. This is below the Latin America average (54 per cent).
- Actual reported employment growth in Brazil in 2007 (+53 per cent) was marginally lower than that expected by businesses, but higher than actual reported employment growth across the region (+40 per cent).

Figure 1: Revenue expectations for Brazil and the Latin American average 2007-2008



Source: Grant Thornton IBR 2008

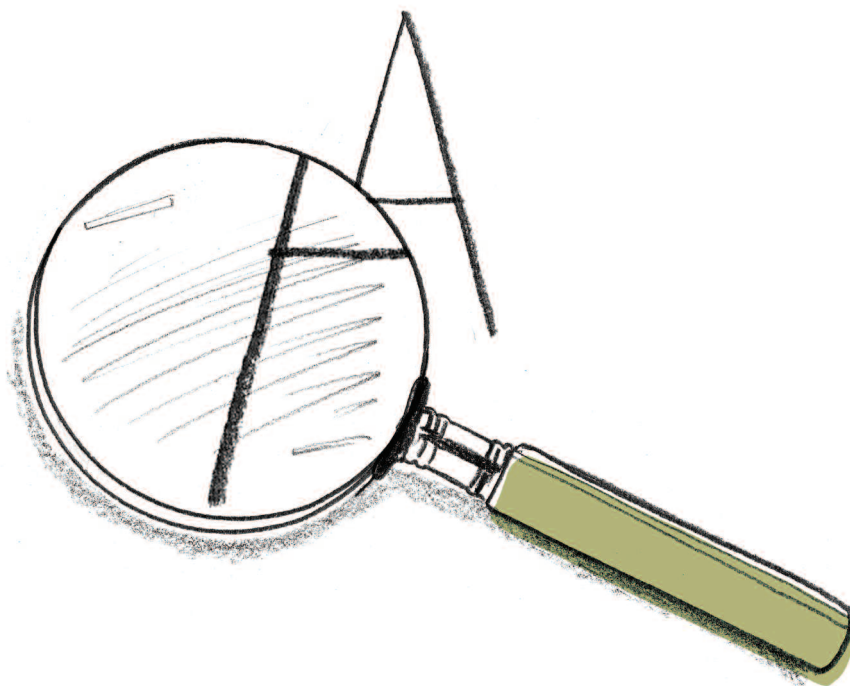
Figure 2: Employment history of Brazil and the Latin American average 2006-2008



*no data available for Latin America

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



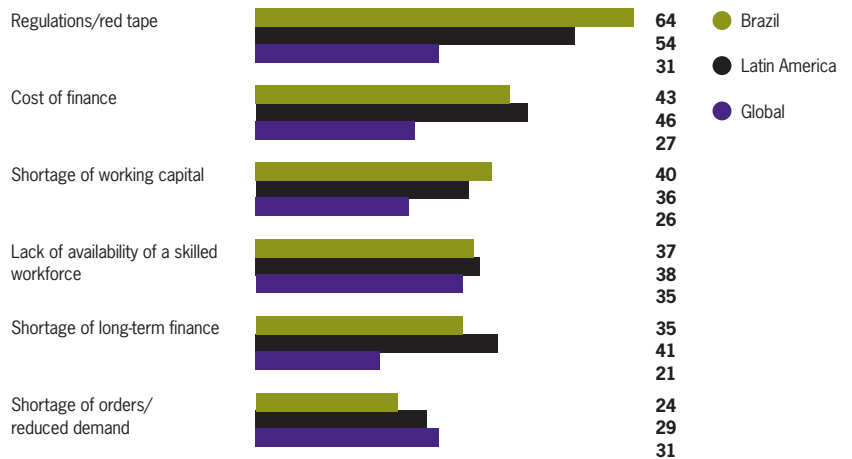
Constraints

- Regulations/red tape is the constraint restricting expansion cited most by businesses in Brazil (64 per cent), far higher than the global average (31 per cent).
- 40 per cent or more of PHBs in Brazil cite the cost of finance and shortage of working capital as a constraint compared to 27 per cent or less of businesses globally.
- Similarly 35 per cent of Brazilian businesses cite shortage of long term finance as a constraint, as opposed to just 21 per cent of businesses globally.

Emerging markets

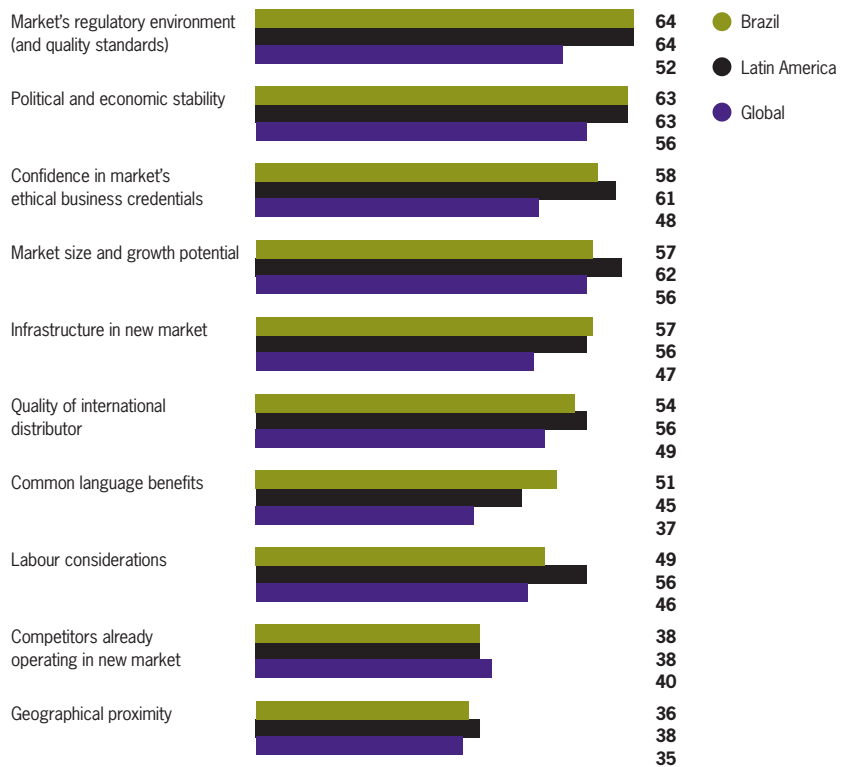
- The most important factor for Brazilian businesses when determining whether to invest internationally is the market's regulatory environment, cited by 64 per cent of PHBs in Brazil.
- The proportion of Brazilian businesses which export (23 per cent) was lower than the Latin American (32 per cent) and global average (39 per cent), but up two per cent from 2007.
- 24 per cent of Brazilian businesses import which is below the global average of 39 per cent.
- 58 per cent of PHBs in Brazil see their main competition coming from local sources, as opposed to 36 per cent of all businesses.

Figure 3: Largest constraints on growth for Brazilian businesses compared to the Latin American and the global average
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 2008

Figure 4: Importance of factors determining foreign investment
Percentage of businesses rating level 4 or 5 on a scale of 1 to 5 where 1 is a low priority and 5 is a high priority



Source: Grant Thornton IBR 2008

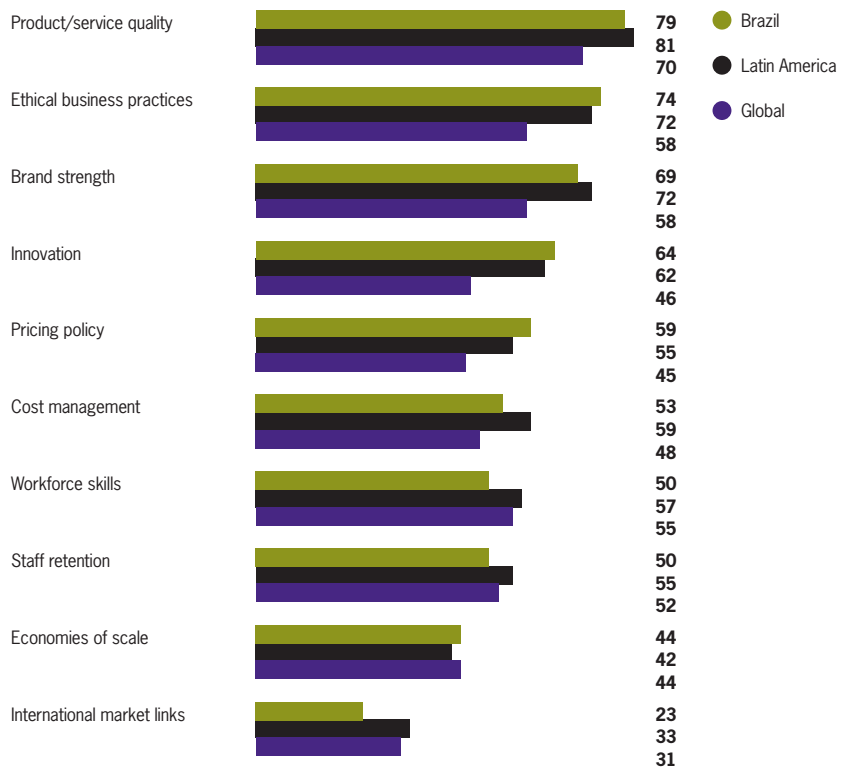
Competitiveness

- PHBs in Brazil see their greatest source of competitive advantage as product service quality (79 per cent), as is true of businesses globally (70 per cent).
- 74 per cent of Brazilian businesses see adherence to ethical business practices as a source of competitive advantage, much higher than the global business average of 58 per cent.
- Half of PHBs in Brazil cite workforce skills as a source of competitive advantage, this is slightly lower than the Latin American average (57 per cent).

Corporate social responsibility (CSR)

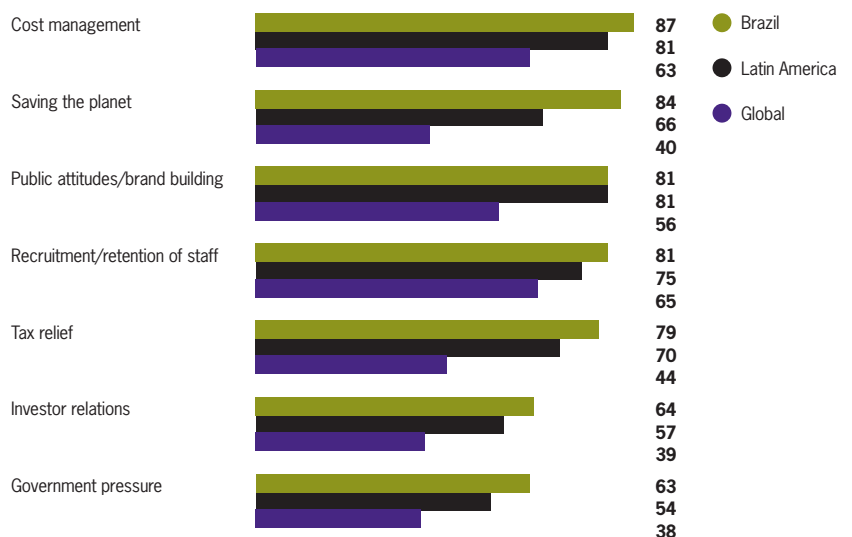
- Cost management is viewed as the biggest driver towards more ethical practices by Brazilian businesses (87 per cent), this is slightly higher than the Latin American (81 per cent) and global (63 per cent) averages.
- 83 per cent of PHBs in Brazil allowed flexible working in the past year, which was higher than the Latin American average (71 per cent).
- 68 per cent of Brazilian businesses have incorporated their policies in to a written CSR document, which is slightly higher than the Latin American average of 64 per cent.

Figure 5: Main sources of competitive advantage for Brazilian businesses compared to the Latin American and the global average
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Brazilian businesses compared to the Latin American and the global average
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is a not very important and 5 is very important



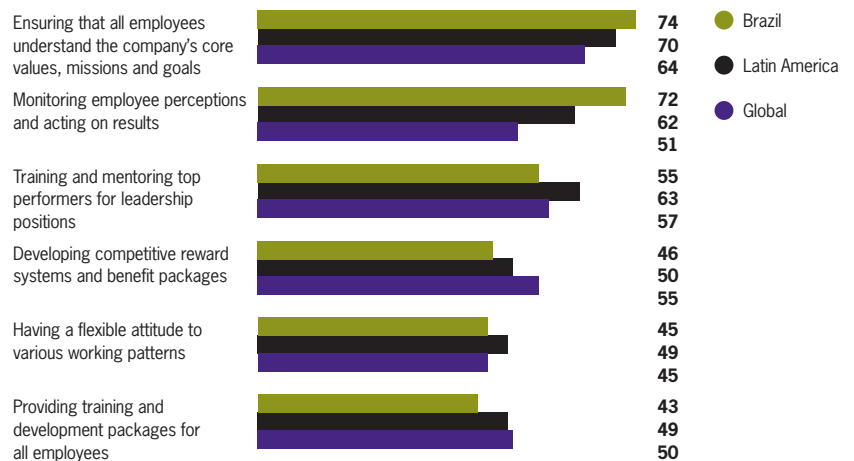
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of Brazilian businesses more focused on retention than they were one year ago is +61 per cent, slightly higher than the global average of +59 per cent.
- 74 per cent of PHBs in Brazil ensure that all employees understand the company's core values, mission and goals to aid recruitment/retention, which is higher than the global average of 64 per cent.
- An increase in the workload for remaining staff is viewed as the major problem staff retention issues have caused, cited by 48 per cent of PHBs in Brazil.
- It is costing 66 per cent of Brazilian businesses significantly more to pay their staff than it was 12 months ago, above both the Latin American and global averages (both 63 per cent).

Figure 7: Usage of recruitment and retention tools for Brazilian businesses compared to the Latin American and the global average

Percentage of businesses rating the level 4 or 5 on a scale of 1 to 5 where 1 is not at all and 5 is a great deal



Source: Grant Thornton IBR 2008

Outlook for the Brazilian economy

Interest rate cuts have had a positive impact on consumption and investment spending, helping to rebalance growth towards domestic demand. A more favourable fiscal and monetary environment should support economic expansion over 2008 and to a lesser extent in 2009. Ambitious government spending plans will provide an additional near-term boost. A cautious central bank should be able to contain recent inflation pressures so that a resurgence in inflation is unlikely.

Overall activity continues to benefit from resilient external demand. Export growth is expected to quicken, albeit not as fast as the double-digit expansion of 2003-05. Handling price pressures will be crucial to maintaining the competitiveness of Brazilian exports. The real should steadily appreciate against the US dollar through 2008 and 2009, and this appreciation will continue to have a negative impact on the trade balance. In addition, increasing domestic demand will keep imports growing fast in 2008. The overall surplus in the current account is expected to shrink in 2008 and 2009.

The Grant Thornton International Business Report (IBR) 2008 examines the attitudes, plans and trends of 7,800 privately held businesses in 34 economies across six continents. The Grant Thornton IBR builds on data collected in previous surveys and boasts 16-year trend data for European Union (EU) countries and six year trend data for international economies.

To find out more about the Grant Thornton IBR and to obtain copies of reports, including focuses on emerging markets, corporate social responsibility and recruitment and retention, please visit www.internationalbusinessreport.com.

Focus reports are also available for each of the 34 participating economies, as well as regional and global summaries. You can also complete the questionnaire online and benchmark your answers against PHBs around the world by industry, size and geographical location.

Participating economies

Argentina	Hong Kong	Singapore
Armenia	India	South Africa
Australia	Ireland	Spain
Belgium	Italy	Sweden
Botswana	Japan	Taiwan
Brazil	Malaysia	Thailand
Canada	Mexico	Turkey
Mainland China	Netherlands	United Kingdom
Denmark	New Zealand	United States
France	Philippines	Vietnam
Germany	Poland	
Greece	Russia	



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