

Focus on: Spain

International Business Report 2009 – Country focus series

Economic indicators

Spain is experiencing its worst recession since the Civil War. After slowing for much of last year, the economy finally contracted in the second half of 2008, with the housing market correction deepening and firms and consumers turning increasingly gloomy. The key indicators highlight the issues facing the economy:

- GDP decreased by one per cent in the second quarter of 2009 after a 1.9 per cent decrease in the first quarter. Although this is a smaller contraction compared to Q1, the pace of the decrease remains sustained and contrasts with the slight increases recorded in France and Germany
- the unemployment rate, which had reached 13.9 per cent in the fourth quarter of 2008, has soared to 17.9 per cent in the second quarter of 2009. Unemployment is expected to increase further to over 19 per cent in 2010
- the house price correction is likely to last well into 2010, with prices projected to fall by 30 per cent peak to trough, including the 18 per cent drop witnessed so far
- gloomy households affected by deteriorating job prospects, the servicing costs of their high debt and the housing market downturn will protractedly reduce spending, with serious repercussions for private services. Distribution & retail and hotels & catering will suffer in 2009 and beyond.

Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Spain, the experiences and attitudes of its privately held businesses and how they have been affected by the worst economic downturn in decades as illustrated in figure 1.

Figure 1: Key indicators for PHBs

Spain compared to the EU average	2007 Spain	2008 Spain	2009 Spain	2009 EU
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+43%	-5%	-65%	-38%
Issue of greatest concern in the next 12 months				
Fall in consumer demand			45%	45%
Shortage of business credit			29%	19%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+34%	+23%	-42%	-12%
Constraints on expansion				
Shortage of orders/reduced demand	30%	39%	58%	52%
Shortage of working capital	19%	27%	56%	25%

Source: Grant Thornton IBR 2009



The IBR survey tells us that PHBs in Spain expect to suffer as much as other EU businesses in terms of falling consumer demand whilst employment is also expected to contract. These concerns impact negatively on expectations for turnover growth and on profitability – which have fallen to their lowest levels in IBR history – and PHBs are overwhelmingly pessimistic about the economy over the next 12 months. Clearly the effects of the global decline in activity are taking its toll on PHBs.

Looking ahead

Unlike in most other eurozone countries, Spain is expected to remain in recession in 2010, owing to the massive deterioration in labour markets and the size of the imbalances in the economy. Spain is likely to only gradually re-surface, with below-trend growth expected in 2011 and 2012 of 1.3 per cent and 1.8 per cent respectively.

The sharp contraction in construction combined with the retreat in confidence and the dramatic rise in unemployment might signify a downturn that could be even much worse than the baseline. Any potential recovery in the Spanish economy will need privately held businesses to be back at the forefront to drive new business, employment and trade. To achieve this:

- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- a dismal productivity record due to massive expansion in employment has highlighted the importance of an appropriate skills policy.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very ‘big decisions’. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company’s history. Focusing on the right things will give businesses under pressure more room for manoeuvre, while for others it will provide opportunities to realise their ambitions more quickly than they had planned.

At Grant Thornton we help businesses to make these decisions on a daily basis, to guide them through the good and bad times. Talk to us to find out how we can help you make the right choices for your business.



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International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. PHBs in Spain are considerably less optimistic about prospects for 2009 with a drop of 60 percentage points from an optimism/pessimism balance¹ of -5 per cent in 2008 to -65 per cent in 2009.

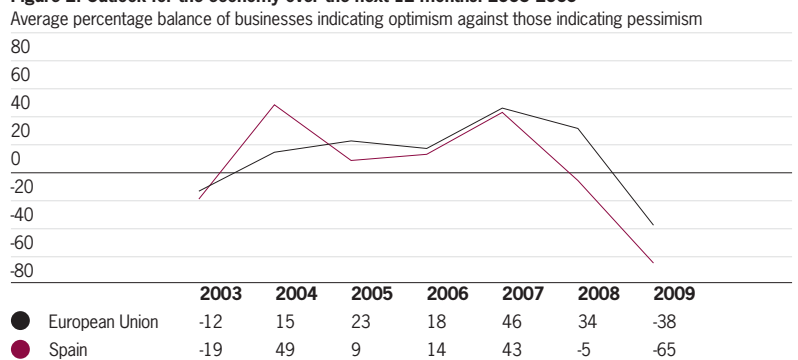
For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

Overall optimism amongst PHBs in the EU² has fallen from 2008; this year -38 per cent of all EU businesses are positive about their country's economy compared to a balance of +34 per cent in 2008. This is significantly lower than the global average of -16 per cent, although levels of optimism in the EU range from -65 per cent in Spain to -3 per cent in Germany.

Optimism/pessimism

- PHBs in Spain are considerably less optimistic about the country's economic outlook (-65 per cent) compared with 2008 (-5 per cent)
- this 60 percentage point drop from 2008 follows on from a 48 percentage point fall observed in 2007
- meanwhile, the EU average fell by 72 percentage points this year compared with 2008.

Figure 2: Outlook for the economy over the next 12 months: 2003-2009



Source: Grant Thornton IBR 2009



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

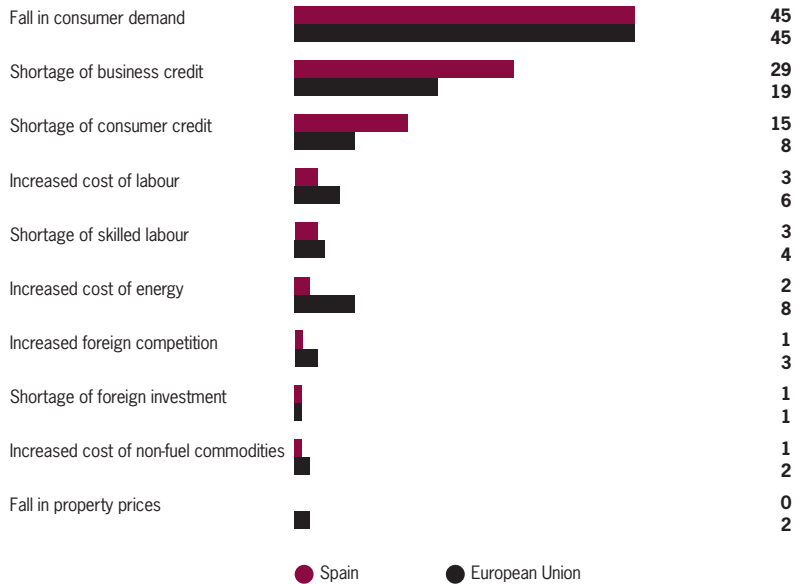
² for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Greatest concern

- identical to PHBs in the EU as a whole, a fall in consumer demand is viewed as the greatest concern restricting expansion for 45 per cent of PHBs in Spain
- Spanish businesses are more concerned by shortages of business credit (29 per cent) and consumer credit (15 per cent) than are PHBs in the EU as a whole.

Figure 3: Greatest concern in the next 12 months

Average percentage of businesses



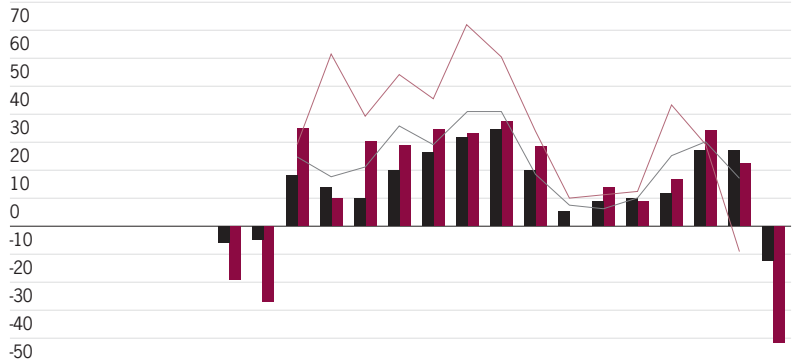
Source: Grant Thornton IBR 2009

Employment

- PHBs in Spain expect employment to contract sharply in 2009, with the balance of businesses expecting an increase falling 65 percentage points this year
- a similar – but less severe – story is evident across the EU with the regional average falling 39 percentage points
- actual employment growth across Spain in 2008 (-9 per cent) was considerably lower than expected (23 per cent).

Figure 4: Employment history: 1993-2009

Balance percentage of businesses



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

*2009 data will be documented in IBR 2010
Source: Grant Thornton IBR 2009

Revenue expectations

- optimism regarding revenue prospects have plummeted to their lowest levels in IBR history in Spain this year, falling by 76 percentage points from +55 per cent in 2008 to -21 per cent
- the EU average decline is the largest in IBR history, falling 60 percentage points, down from +65 per cent in 2008 to just +5 per cent this year.

Figure 5: Revenue expectations: 1993-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009

Profitability expectations

- profitability expectations amongst PHBs in Spain fell sharply this year, dropping by 58 percentage points compared with 2008, to their lowest levels in IBR history
- the drop in the EU average regarding profitability is also the greatest in IBR history, falling by 49 percentage points to -13 per cent this year.

Figure 6: Profitability expectations: 1993-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



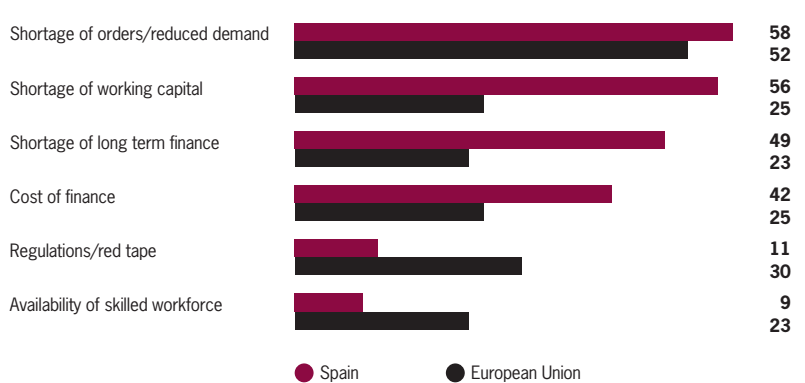
Source: Grant Thornton IBR 2009

Constraints

- similarly to businesses across the EU, a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in Spain this year; at 58 per cent, this represents a 19 percentage point increase from 2008
- financial constraints are cited as huge constraints for PHBs in Spain relative to the EU average.

Figure 7: Constraints on expansion

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

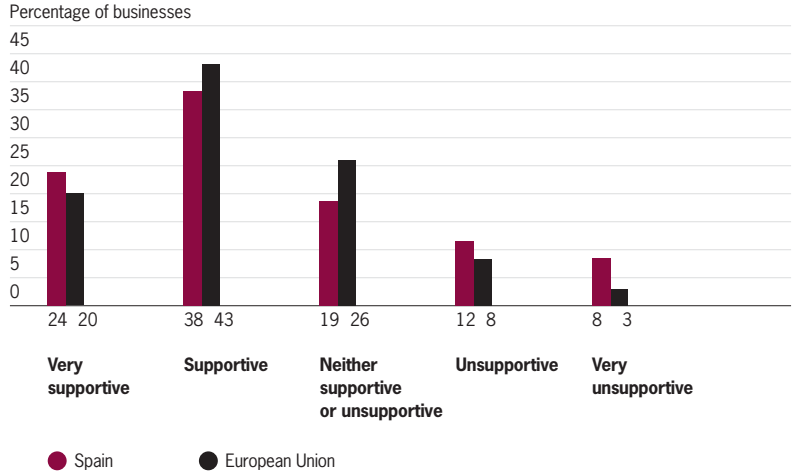


Source: Grant Thornton IBR 2009

Support of lender

- 62 per cent of PHBs in Spain class lenders as supportive or very supportive towards their business, marginally below the EU average (63 per cent)
- on the other hand 20 per cent of PHBs in Spain class lenders as unsupportive or very unsupportive towards their business, compared with an EU average of 11 per cent.

Figure 8: Level of support provided by lenders

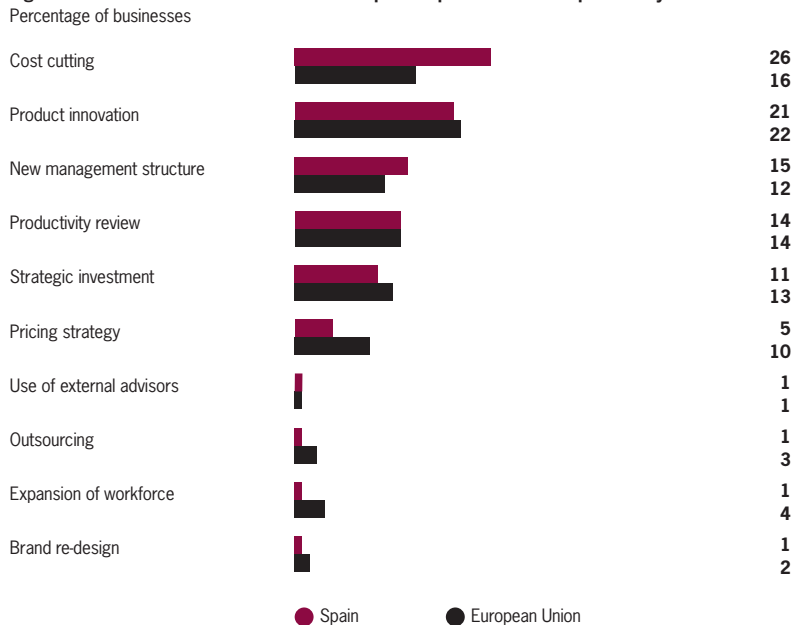


Source: Grant Thornton IBR 2009

Business planning

- 39 per cent of PHBs in Spain have a formal business planning process accounting for less than one year. This is above the EU average (28 per cent)
- cost cutting has been the most successful initiative introduced by PHBs in Spain to increase profits (26 per cent)
- across the EU, product innovation (22 per cent) has been the most successful initiative adopted by businesses.

Figure 9: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Spain 150 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with numbers of employees varying from 100 to 499.

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



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