Grant Thornton

Focus on: Spain

International Business Report 2010 – Country focus series

The recovery

Spain is suffering from the after-effects of a severe housing crash, which is hitting construction, employment and consumer spending. As a result, the economy remains in recession while most other eurozone countries have begun to recover. Further government support will be required to ensure that recovery becomes firmly established. This poses a major challenge for the authorities, given the marked deterioration in public finances over the past year and the downgrading of Spain's credit rating.

The key indicators[1] are highlighted below:

- the economy contracted by 0.1 per cent in the three months to December, the sixth straight quarterly contraction
- private consumption shows signs of recovery in the fourth quarter; the rise of 0.3 per cent marked the first increase since Q4 2007
- investment remains weak, although the pace of contraction appears to be slowing; gross fixed capital formation declined for the eighth consecutive quarter in final quarter of 2009, but the one per cent decline was less severe than the 2.4 per cent decline observed in Q3
- conditions in the labour market remain difficult; the unemployment rate climbed to 19 per cent in February 2009, up from 11.4 per cent in 2008.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 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 economic crisis, along with how they are dealing with the economic recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Spain are more optimistic on the outlook for the economy over the next 12 months in 2010, than they were in 2009; although the net balance still is not optimistic (-56 per cent). The majority of businesses still believe that they will see an upturn in the global economy sometime between the second half of 2010 and 2011, although 50 per cent of businesses in Spain are not expecting the national economy to pick up until 2012 and beyond. Whilst expectations have improved greatly since 2009, employment is still expected to contract over the next 12 months. Revenue and profitability expectations have also increased dramatically from this time last year.

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

Looking ahead

The recovery may gradually emerge as the fall in housing investment eases and world growth gathers momentum, although current forecasts suggest a mild contraction in 2010. Consumers remain under severe pressure from, among other factors, very high unemployment. Moreover, construction continues to face the adverse repercussions of the collapse in the housing market and large numbers of unsold properties; investment is likely to remain weak in the face of the lacklustre medium-term outlook and the weak housing market; and the export recovery will be constrained by deteriorating competitiveness and only modest eurozone expansion.

In 2011, growth of 0.9 per cent is forecast as conditions improve in some key demand components. In particular, the long decline in fixed investment should end and exports are likely to gain from the consolidation of the eurozone recovery. But the factors depressing consumer spending in 2010 is expected to dissipate only slowly. Moreover, with firm action required to curb a fiscal deficit exceeding ten per cent of GDP, the stimulus from government spending is likely to begin to diminish.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for businesses

Spain compared to the EU average	2008 Spain	2009 Spain	2010 Spain	2010 EU
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	-5%	-65%	-56%	+7%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+23%	-42%	-8%	-1%
Constraints on expansion				
Shortage of orders/reduced demand	39%	58%	43%	41%
Shortage of working capital	27%	56%	41%	22%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can you help you deal with the challenges of a new world economic order.

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International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for 2010 with an increase of nine percentage points from an optimism/pessimism percentage balance[2] of -65 per cent in 2009 to -56 per cent this year.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

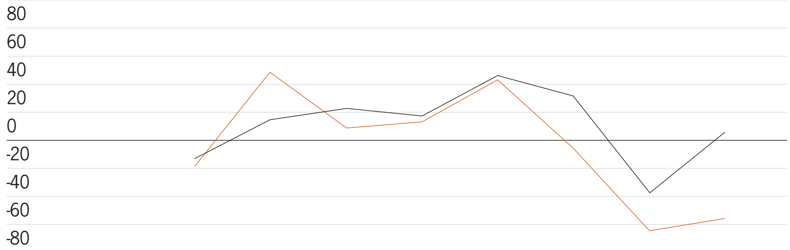
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy, compared to a balance of -16 per cent in 2009.

Optimism/pessimism

- businesses in Spain remain pessimistic about the national economy over the next 12 months with a balance percentage of -56 per cent indicating optimism
- in fact, businesses in Spain are the second most pessimistic this year, behind only their counterparts in Japan (-72 per cent)
- levels of optimism regarding economic outlook have risen by nine percentage points from 2009 in Spain, compared with a 45 percentage point increase observed in the EU[3] region as a whole.

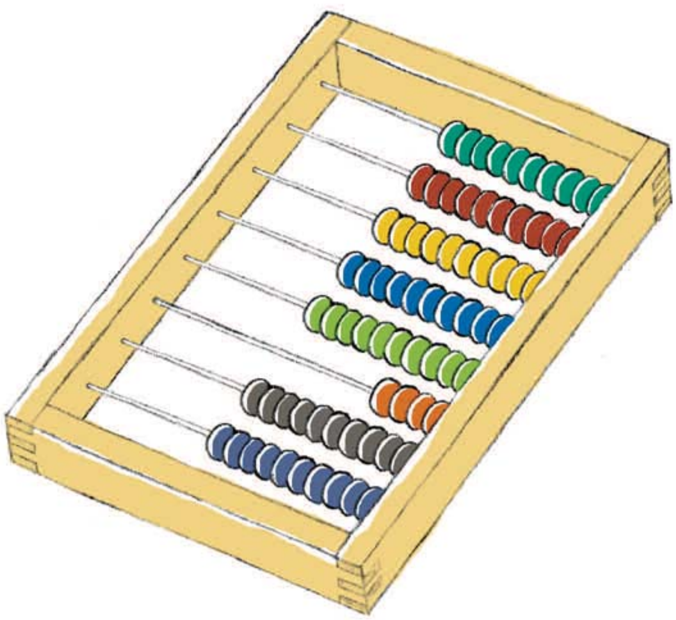
Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



	2003	2004	2005	2006	2007	2008	2009	2010
European Union	-12	15	23	18	46	34	-38	7
Spain	-19	49	9	14	43	-5	-65	-56

Source: Grant Thornton IBR 2010



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

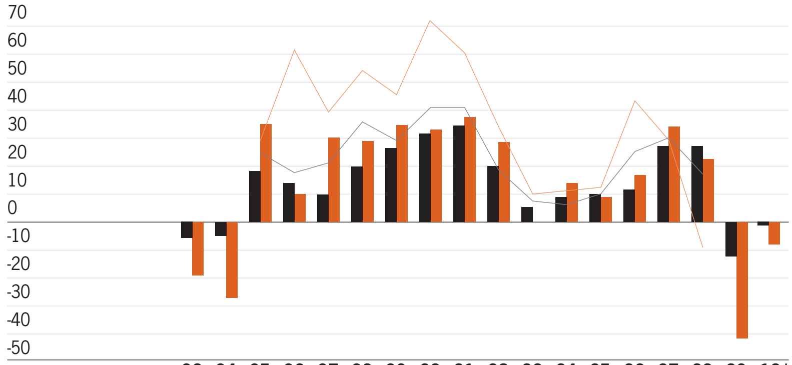
[3] for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

Employment

- businesses in Spain still expect employment to contract in 2010, although the balance of businesses expecting an increase rose by 34 percentage points this year
- across the EU the rise was not so sharp, however, the balance are more optimistic at -1 per cent
- actual employment growth across Spain in 2009 (-38 per cent) did not contract as sharply as expected (-42 per cent).

Figure 3: Employment history: 1993-2010

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*
Expected EU	-6	-5	18	14	10	20	26	32	34	20	5	9	10	12	27	27	-12	-1
Expected Spain	-19	-27	35	10	30	29	34	33	37	28	0	14	9	17	34	23	-42	-8
Actual EU	–	–	24	17	21	36	29	41	41	18	7	6	10	25	30	17	-19	–
Actual Spain	–	–	29	62	39	54	46	72	61	34	10	11	12	43	29	-9	-38	–

*2010 data will be documented in IBR 2011

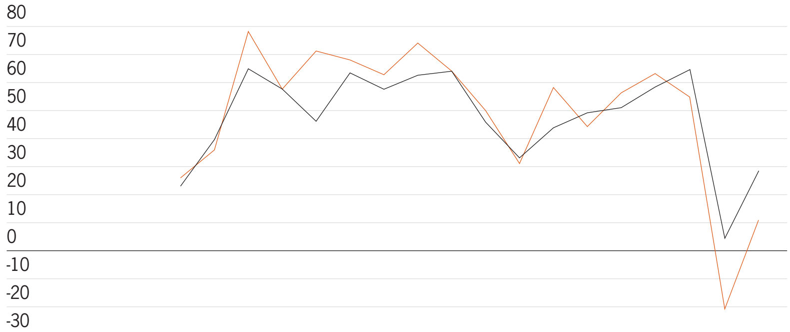
Source: Grant Thornton IBR 2010

Revenue expectations

- optimism levels regarding revenue prospects have risen in Spain this year by 32 percentage points, from -21 per cent in 2009 to +11 per cent
- the EU average has also increased by 23 percentage points, from +5 per cent in 2009 to +28 per cent.

Figure 4: Revenue expectations: 1993-2010

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



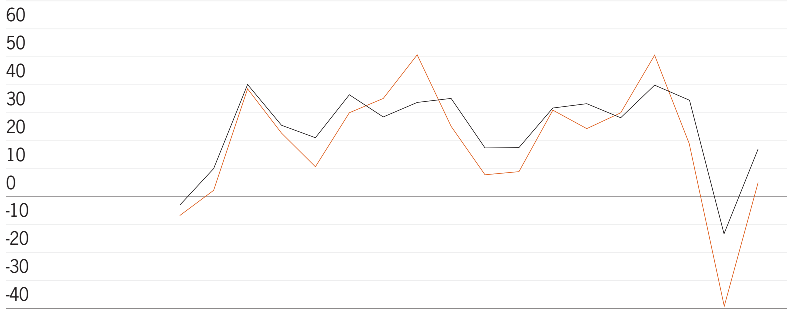
	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
European Union	23	40	65	58	47	64	58	63	64	46	33	44	49	51	59	65	5	28
Spain	26	36	78	58	71	68	63	74	64	50	31	58	44	57	63	55	-21	11

Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations amongst businesses in Spain have also risen this year (by 34 percentage points) from -39 per cent in 2009 to -5 per cent
- the EU average has increased by 30 percentage points, from -13 per cent in 2009 to +17 per cent.

Figure 5: Profitability expectations: 1993-2010
Percentage balance of businesses indicating an increase against those indicating a decrease



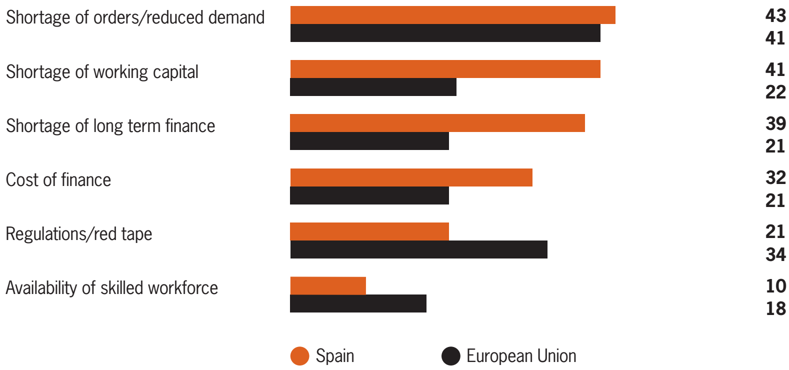
	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10
European Union	-3	10	40	26	21	37	29	34	36	17	17	32	33	29	40	36	-13	17
Spain	-7	2	39	23	11	30	35	51	25	8	9	31	24	30	51	19	-39	-5

Source: Grant Thornton IBR 2010

Constraints

- as in the EU as a whole (41 per cent), a shortage of orders/reduced demand is the greatest constraint on expansion for businesses in Spain (43 per cent)
- financial constraints are of much more concern to businesses in Spain over the coming 12 months, than they are for businesses in the EU as a whole.

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

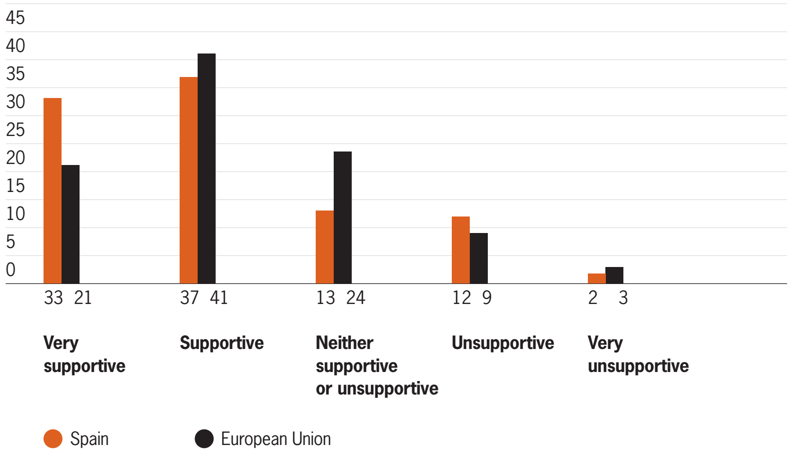


Source: Grant Thornton IBR 2010

Support of lender

- 70 per cent of businesses in Spain class lenders as supportive or very supportive towards their business; slightly higher than the EU average and the Spain average last year (both 62 per cent)
- 14 per cent businesses in Spain class lenders as unsupportive or very unsupportive towards their business, slightly less than the 20 per cent in 2009.

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

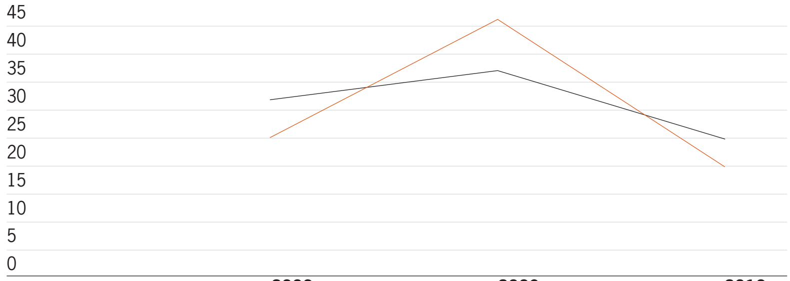


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- one-fifth of businesses in Spain (20 per cent) plan to grow through acquisition in the next three years, this is similar to the one-quarter of businesses across the EU as a whole
- three-quarters of these businesses expect this to be through domestic acquisition, whilst around one third are expecting to make cross-border acquisitions
- the key driver, for 70 per cent of these businesses, is to build scale.

Figure 8: Plans to grow through acquisition in the next three years
Percentage of businesses planning to grow through acquisition



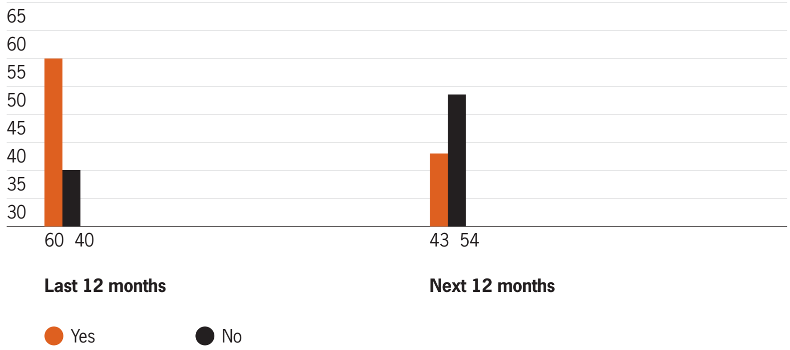
	2008	2009	2010
European Union	32	37	25
Spain	25	46	20

Source: Grant Thornton IBR 2010

Payment issues

- 60 per cent of businesses in Spain reported an increase in client default payments in 2009, in comparison with 2008
- however, only 43 per cent of businesses expect client default payments to increase over the course of 2010.

Figure 9: Payment default experiences and expectations
Percentage of businesses reporting and expecting clients defaulting on payment



Source: Grant Thornton IBR 2010

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 7,400 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 250 PHBs were surveyed across all industry sectors. These businesses ranged from medium to large in size with total employees of between 100 and 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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