



# Grant Thornton

An instinct for growth™

## Focus on: Spain

### International Business Report 2012 – Economy focus series

#### The economy

Spain is in recession and will remain so with budget reforms yet to bite, export markets contracting and unemployment rising. Yields on 10 year government bond are hovering around the danger level of 7%. A bailout of up to 100bn euros to shore up struggling banks has been agreed, whilst the European Commission has proposed easing Madrid's deficit goal for this year to 6.3% of GDP, 4.5% in 2013 and 2.8% for 2014.

The Spanish economy contracted by 0.3% for the second quarter in succession during the first quarter of 2012, down 0.4% year-on-year. Domestic demand contracted by 3.2% year-on-year with government spending cut by 5.2% and investment down 8.2%. Exports are set to decline further and faster than they have thus far, ensuring Spain remains in recession throughout 2012.

The key indicators<sup>1</sup> are highlighted below:

- GDP contracted by 0.3% for the second successive quarter and a further decline is anticipated in the second quarter of 2012
- Spain's trade deficit narrowed in April as the economy slashed imports. Imports in April slumped 3.5% from a year earlier to 20.55 billion Euros, outstripping a 0.8% decline in exports to 17.20 billion Euros. As a result, the overall trade deficit shrank by 15.3%
- industrial production fell by 6.1% in May from a year earlier, the ninth straight month of decline
- the unemployment rate rose to 24.4% in April; total employment in the Spanish economy has now shrunk by 2.98m (or 14.5%) since the first quarter of 2008.

#### The business perspective

The Grant Thornton International Business Report (IBR) surveys more than 12,000 businesses in 40 economies around the world. This report focuses on 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 less optimistic about their economy Q2. Expectations for employment are below 2011 and 2010 levels whilst the shortage of orders/reduced demand is more of a constraint on business expansion than in 2011.



<sup>1</sup> source: International Monetary Fund, The Economist and Experian.

## The outlook

A eurozone recession, banking instability, government cuts and mass unemployment will severely test Spain over the next few years. Exports are unlikely to be able to compensate for weak demand and a long, slow path back to growth is expected with very few positive signs at all in the next 24 months.

Although the latest round of bond auctions created more demand than anticipated, long-term bond yields remain well above 6% and the government is keen on a direct bailout of its banks without the need for national default. Key decisions by the European Union and European Commission as a whole will help clarify the situation over the coming weeks and months.

It could take until around 2015 for growth to pick up but assuming reforms to the labour market and regional government are undertaken the domestic economy should be able to provide greater support to exports. However growth will be significantly slower than in the past decade. High unit labour costs are expected to result in loss of competitiveness in global markets.

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 businesses

Key indicators for businesses	2010 Spa	2011 Spa	2012 Spa	2012 EU
<b>Outlook for the economy over the next 12 months</b>				
Net optimism over pessimism	-56%	-48%	-66%	-2%
<b>Change in employment levels</b>				
Net hiring expectations	-8%	-2%	-13%	+12%
<b>Constraints on expansion</b>				
Shortage of orders/reduced demand	43%	40%	53%	35%
Shortage of long-term finance	39%	43%	51%	27%

Source: Grant Thornton IBR 2012



# International Business Report results

The results reveal that global business optimism has risen marginally in Q2-2012 with net 23% of businesses optimistic<sup>2</sup>. The balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic for their economies over the next 12 months. Businesses sentiment for the next 12 months in mainland China is positive with net 33% of businesses optimistic, up from net 23% in the first quarter.

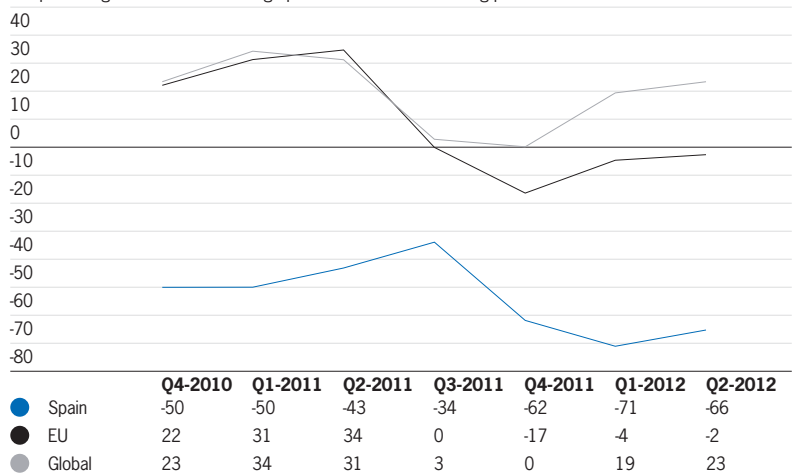
The sovereign debt crisis continues to weigh heavily on businesses confidence in Europe; business optimism across the eurozone stands at net -5%. However confidence in the BRIC The BRIC economies are Brazil, Russia, India and China economies remains strongly positive at 41% and confidence in the United States increased from 46% to 50%, the highest level recorded since 2005.

## Optimism/pessimism

- business optimism improved slightly in the second quarter, increasing from -71% to -66%
- business sentiment has marginally improved in the European Union<sup>3</sup> to stand at -2%
- globally, optimism levels rose to net 23% in Q2-2012, up from 19% in Q1.

**Figure 2: Outlook for the economy over the next 12 months: Q4-2010 to Q2-2012**

Net percentage businesses indicating optimism less those indicating pessimism



Source: Grant Thornton IBR 2012



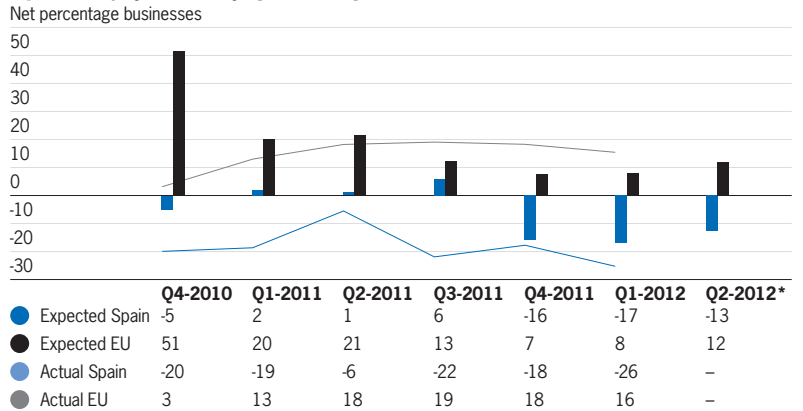
<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

<sup>3</sup> 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

- net -13% of Spanish businesses expect employment to grow in the year ahead, marginally higher than expectations in Q1 but lower than expectations in the European Union
- actual employment growth reported by Spanish businesses in Q1 (-26%) was lower than expected the previous quarter (-17%).

**Figure 3: Employment history: Q4-2010 to Q2-2012**

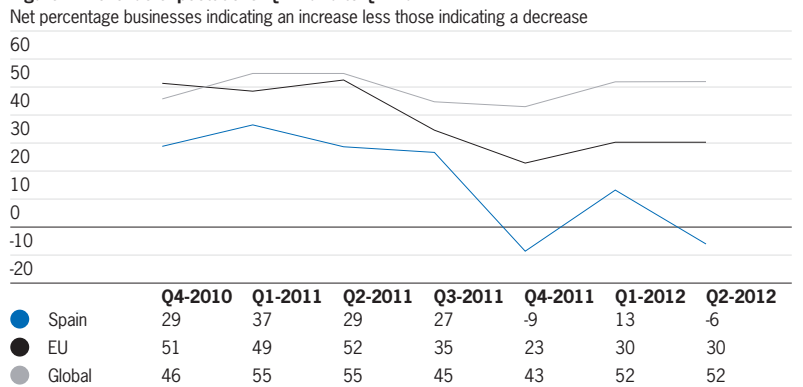


\*actual 2011 data will be documented in IBR 2012  
Source: Grant Thornton IBR 2012

## Revenue expectations

- revenue expectations for the year ahead fell over the last quarter, dropping from net 13% to -4%
- in the EU and globally, revenue expectations have remained consistent at 30% and 52% respectively.

**Figure 4: Revenue expectations: Q4-2010 to Q2-2012**

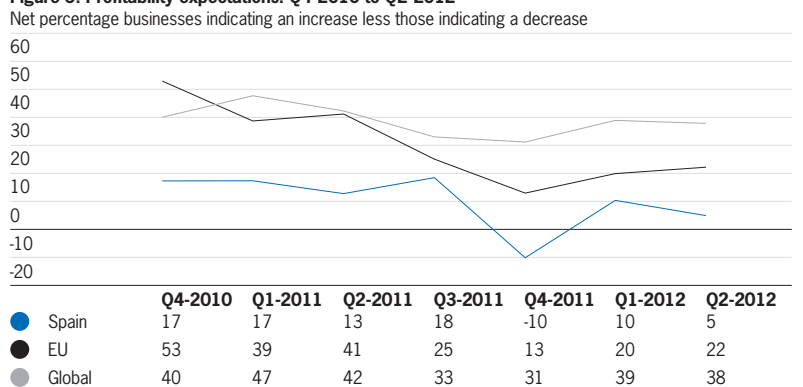


Source: Grant Thornton IBR 2012

## Profitability expectations

- the proportion of business expecting to increase profits over the next 12 months stands at net 5%, down from 10% in Q1
- globally, business expectations for increasing profits have slipped marginally to 38%.

**Figure 5: Profitability expectations: Q4-2010 to Q2-2012**



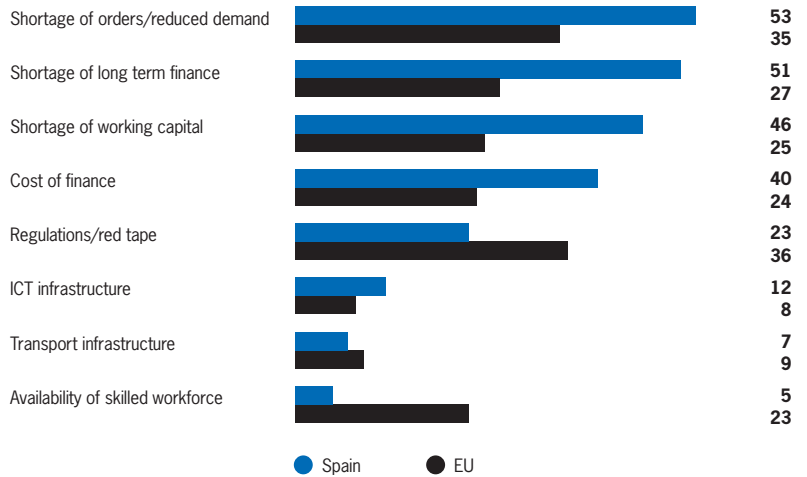
Source: Grant Thornton IBR 2012

### Constraints

- a shortage of orders/reduced demand is cited as being the greatest constraint on business expansion for Spanish businesses (53%), significantly higher than for businesses in the EU as a whole (35%)
- a shortage of long-term finance is also cited by 51% of Spanish businesses as being a major constraint, well above the EU average (27%)
- however, regulations/red tape is restricting more businesses in the EU as a whole (36%) compared with Spain (23%).

**Figure 6: Constraints on expansion: Q2-2012**

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

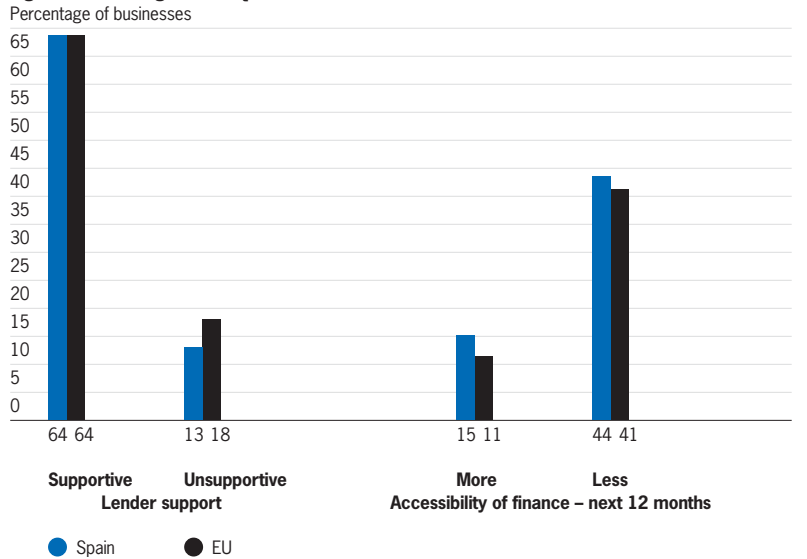


Source: Grant Thornton IBR 2012

### Accessing finance

- the majority of Spanish businesses are happy with the level of support provided by lenders; 64% of class lenders as supportive or very supportive towards their business
- moving forward, 15% of Spanish businesses expect finance to become more accessible, whilst 44% also expect it to become less accessible.

**Figure 7: Accessing finance: Q2-2012**

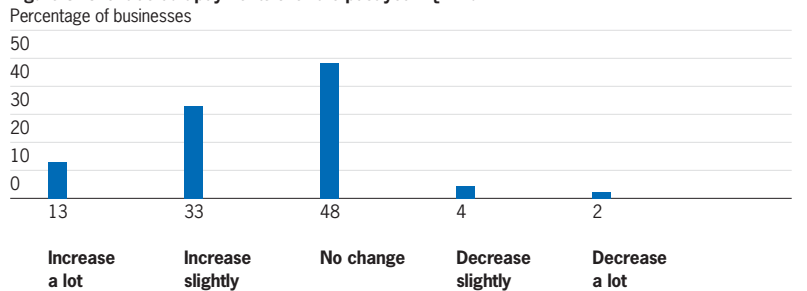


Source: Grant Thornton IBR 2012

### Default payments

- just under half of Spanish businesses have reported an increase in client default payments over the last year
- assigning staff to speed up collection management is the key measure used by businesses to tackle delays and default payments, followed by undertaking customer/client risk analysis.

**Figure 8: Client default payments over the past year: Q2-2012**



Source: Grant Thornton IBR 2012

The Grant Thornton International Business Report (IBR) is a quarterly survey of 3,000 senior executives in businesses all over the world. Launched in 1992 in nine European countries the report now surveys more than 12,000 business leaders in 40 economies on an annual basis providing insights on the economic and commercial issues affecting the global economy.

In Spain 400 businesses were surveyed over the past 12 months across all industry sectors. These businesses ranged from small to medium in size with total employment between 100 to 499 employees. Q2-2012 data are drawn from interviews conducted in May/June 2012.

To find out more about IBR and to obtain copies of reports and summaries please visit: [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com).

#### Participating economies

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



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