

Spain

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 whilst PHBs in Spain are much less optimistic about 2008 (-5 per cent) than they were about 2007 (+43 per cent).

Levels of optimism have fallen amongst European Union (EU)² businesses. This year a balance of +34 per cent of EU businesses are positive about their economy compared to a balance of +46 per cent in 2007. However, levels of optimism vary extensively throughout the EU economies with Denmark recording the highest balance with +74 per cent optimistic, while Spanish PHBs are most pessimistic about their economy over the next year (-5 per cent).

The Spanish economy

The Spanish economy has so far proven resilient to major damage from the global credit crunch and rising inflation. However, recent quarterly data shows output slowing down, growing well below four per cent in the last two quarters of 2007. Over the course of 2008 real GDP is expected to grow just over two per cent while inflation rises above three per cent.

Owing to a weakening labour market and higher interest rates, Spain's consumer spending growth has consistently fallen back in recent quarters. On the same grounds, investment growth has slowed down significantly. A Eurostat manufacturing output survey from January 2008 shows that orders are now consistently falling since September 2007. Manufacturing is struggling to keep pace with the rest of the economy, as Spanish manufacturers face fierce competition from low-cost producers in the Far East and, increasingly, Eastern Europe.



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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 'EU' refers to those EU economies covered by our survey – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

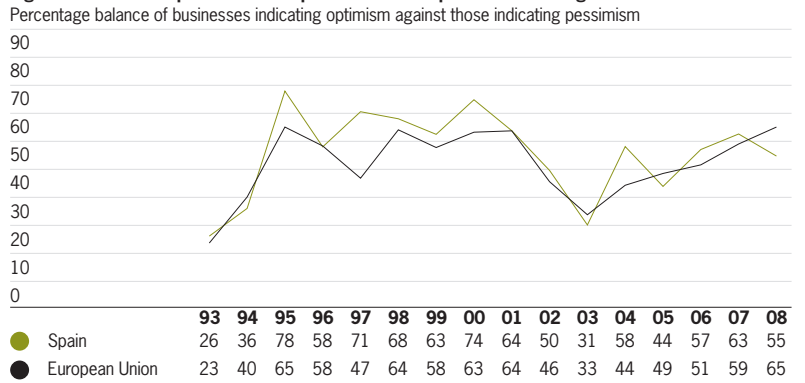
Business expectations/revenue

- PHBs in Spain are less optimistic about their revenue prospects in 2008 (+55 per cent) compared to 2007 (+63 per cent).
- Their levels of optimism regarding revenue performance are now below both the EU (+65 per cent) and global (+63 per cent) averages.
- Levels of optimism regarding exports in 2008 (+23 per cent) represent a four per cent rise from 2007. This is below the EU average (+28 per cent) but above the global average (+18 per cent).

Employment

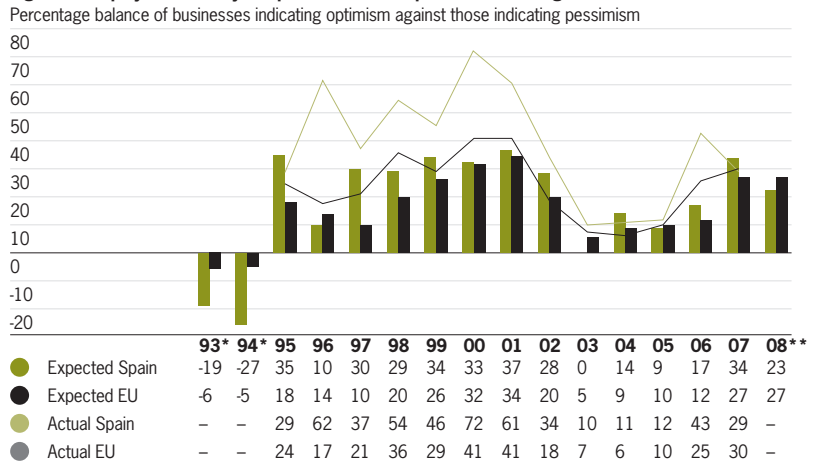
- Expected employment growth in Spain has fallen marginally from +34 per cent in 2007 to +23 per cent in 2008.
- Businesses in the EU as a whole are now more optimistic (+27 per cent) with regard to employment growth in 2008 than Spanish businesses.
- Actual reported employment growth in Spain (+29 per cent) was lower than expected in 2007.

Figure 1: Revenue expectations for Spain and the European Union average 1993-2008



Source: Grant Thornton IBR 2008

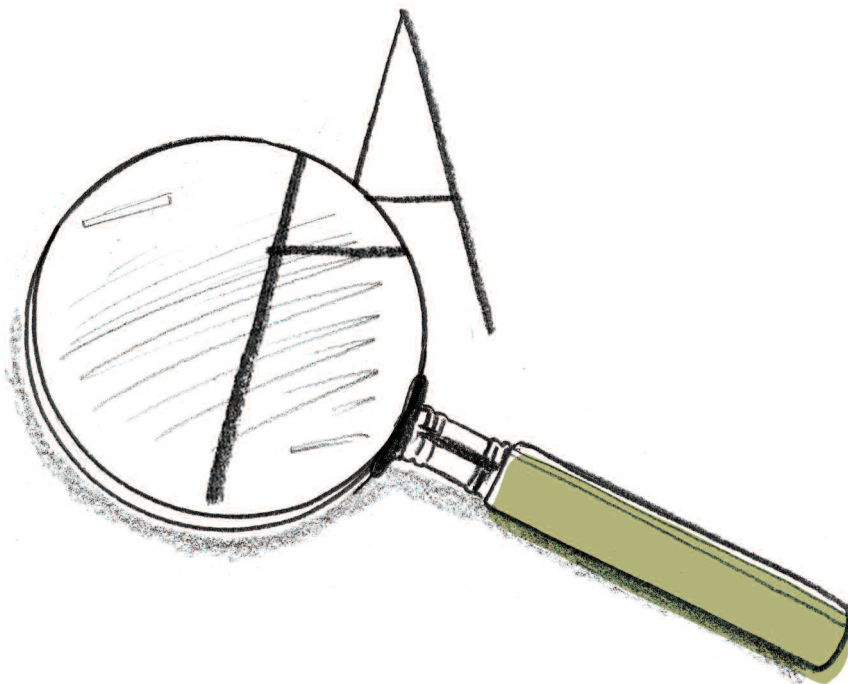
Figure 2: Employment history of Spain and the European Union average 1993-2008



*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

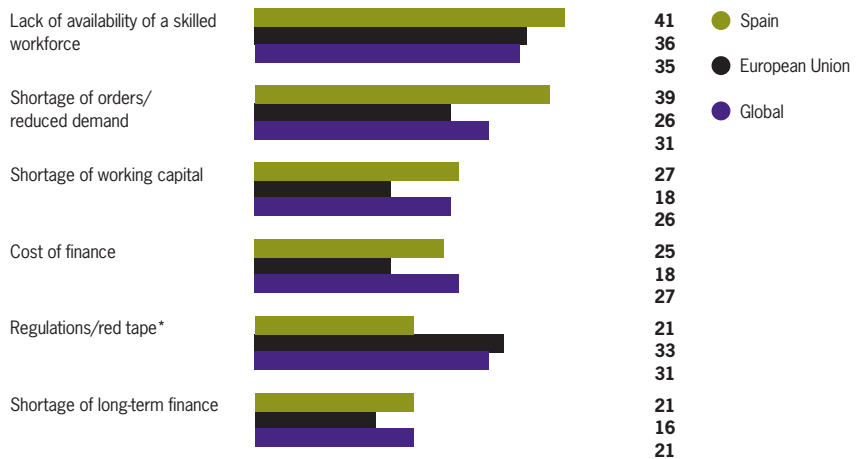
- A lack of availability of a skilled workforce is the constraint restricting expansion cited most by businesses in Spain (41 per cent).
- Shortage of orders/reduced demand is cited by 39 per cent of PHBs in Spain compared to 26 per cent of businesses in the EU as a whole.
- One third of EU businesses cite regulations/red tape as a constraint, compared to 21 per cent of PHBs in Spain.

Emerging markets

- The most important factor for PHBs in Spain, when determining whether to invest internationally, as is the case for businesses globally, is market size and growth potential (76 per cent).
- The number of Spanish businesses which export (48 per cent) is higher than the global average (39 per cent) and is up from 46 per cent in 2007.
- 60 per cent of PHBs in Spain import, above the global average of 39 per cent.
- Similarly to businesses globally, 40 per cent of Spanish businesses see their main competition coming from local sources.

Figure 3: Largest constraints on growth for Spanish businesses compared to the European Union and the global average

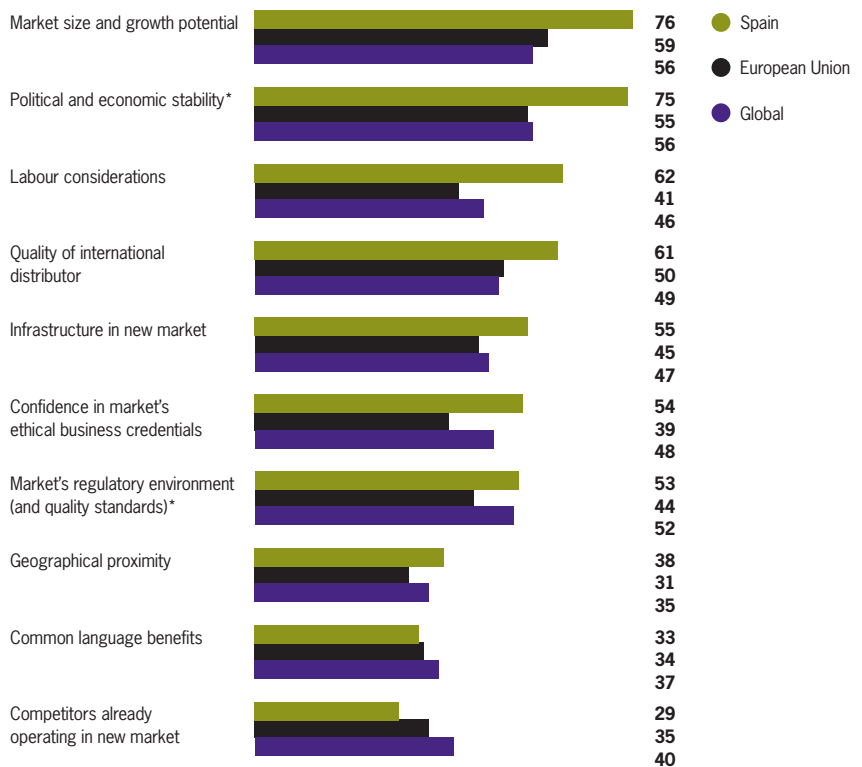
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



*excluding mainland China
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



*excluding mainland China
Source: Grant Thornton IBR 2008

Competitiveness

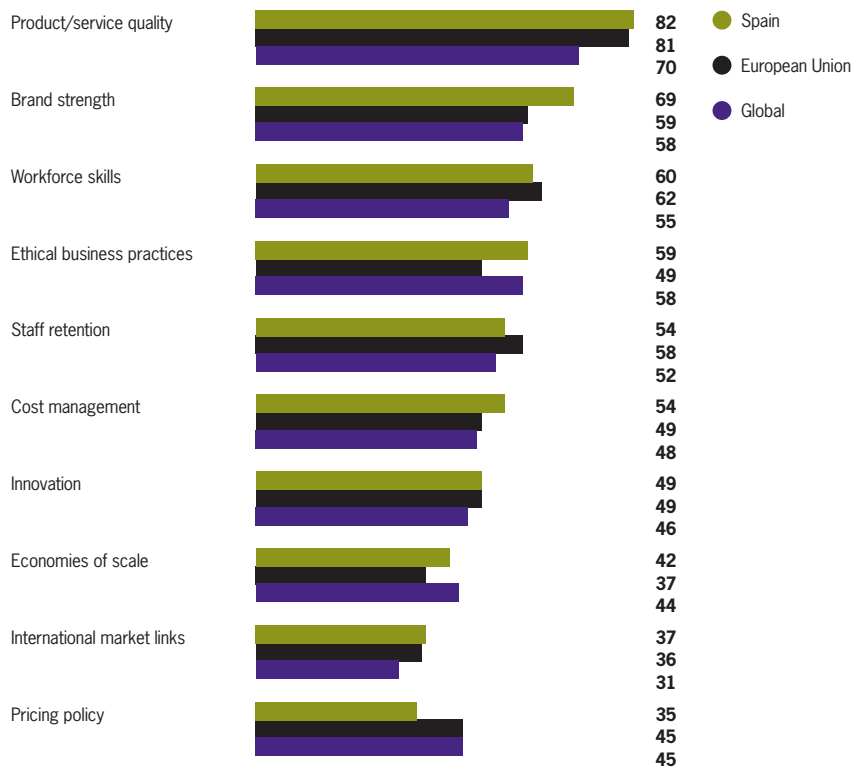
- PHBs in Spain see their greatest source of competitive advantage as product/service quality (82 per cent), as is true of businesses globally.
- 69 per cent of PHBs in Spain see brand strength as a source of competitive advantage, above the global business average of 58 per cent.
- 45 per cent of businesses in the EU cite pricing policy as a source of competitive advantage, compared to 35 per cent of PHBs in Spain.

Corporate social responsibility (CSR)

- Public attitudes/brand building is viewed as the biggest driver towards more ethical practices by PHBs in Spain (62 per cent). This is higher than the EU average (48 per cent).
- 90 per cent of PHBs in Spain provided internships/apprenticeships/work experience in the past year, compared to 67 per cent of all businesses.
- 40 per cent of Spanish businesses have incorporated their policies in to a written CSR document. This is slightly lower than the EU average (45 per cent).

Figure 5: Main sources of competitive advantage for Spanish businesses compared to the European Union and the global average

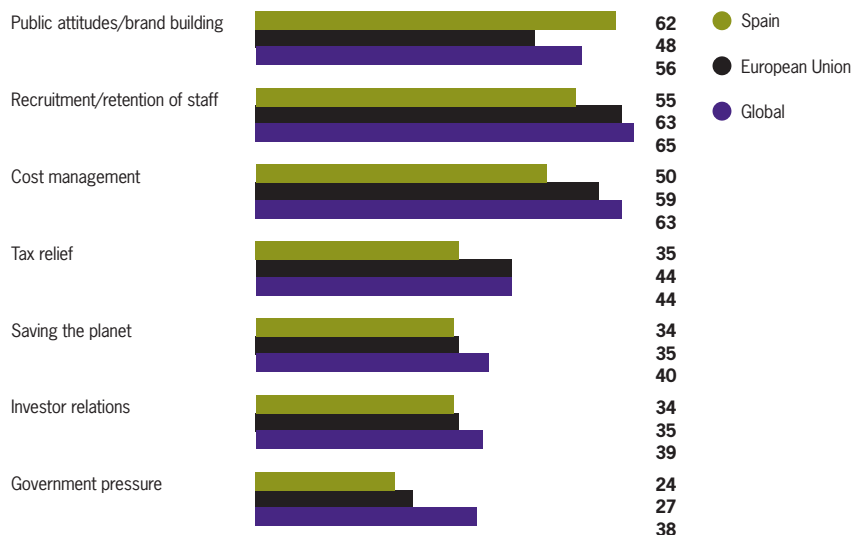
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for Spanish businesses compared to the European Union and the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



*excluding mainland China

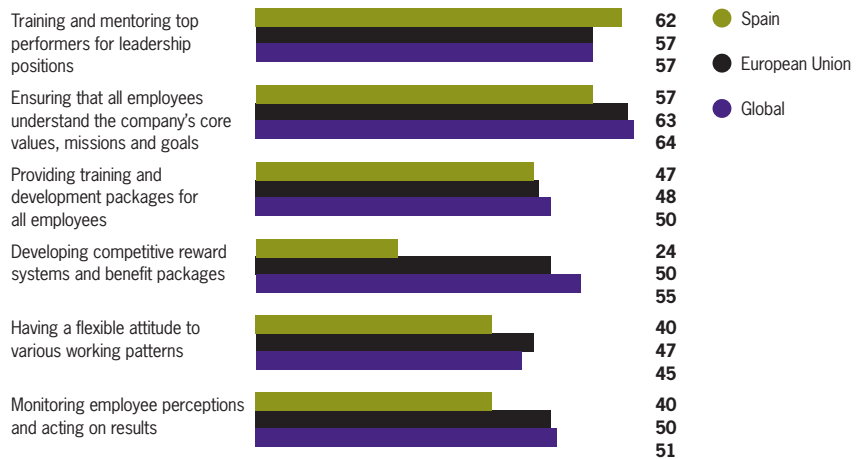
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in Spain more focused on retention than one year ago is +65 per cent. This up from +35 per cent in 2005 and is above the EU (52 per cent) and global (59 per cent) averages.
- Similarly to PHBs in the EU as a whole, 62 per cent of PHBs in Spain train and mentor top performers for leadership positions to aid recruitment/retention.
- Cited by 32 per cent of PHBs in Spain, an increase in operating costs is viewed as the major problem staff retention issues have caused.
- It is costing 34 per cent of Spanish businesses significantly more to pay their staff than it was 12 months ago. However, this is well below both the EU average (58 per cent) and the global averages (63 per cent).

Figure 7: Usage of recruitment and retention tools for Spanish businesses compared to the European Union 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 Spanish economy

Reflecting external and internal factors, the Spanish economy is set to decelerate. A more balanced net trade picture will emerge as exports become more important and slowing consumer demand curbs import volumes. However, import growth, still high at around five per cent, will be a drag on overall GDP growth over the next two years.

On the back of worsening credit conditions consumer demand will slow significantly while government expenditure will also slow. Similarly, investment is expected to decelerate significantly in 2008 and 2009 as the housing market cools.

With prices that could be up to 30 per cent overvalued and an oversupply of one million homes, a sharp adjustment in the housing market poses a significant downside risk to the forecast, with negative implications for GDP, consumer confidence and jobs.

Employment enjoyed fast growth between 2003 and 2005, bringing unemployment down from 11 per cent to below nine per cent. This trend has continued to moderate, with unemployment at around 8.5 per cent in early 2008. Much needed labour market reform might be back on the agenda if unemployment fails to improve any further.

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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