

# Focus on: European Union

## International Business Report 2009 – Regional focus series

### A year of turmoil

The European Union (EU) suffered one of its worst ever contractions in Q1 2009 but signs of mild recovery emerged during Q2 and strengthened in Q3. While some weakness will persist into 2010, momentum will gradually build and drive the recovery. The key indicators<sup>1</sup> highlight the issues facing the economy:

- following contractions of 2.4 per cent and 0.3 per cent in Q1 and Q2 respectively, GDP in the EU27 increased by 0.2 per cent quarter-on-quarter in the three months to September 2009
- seasonally adjusted GDP of the EU27 increased by 4.3 per cent year-on-year in the third quarter of 2009
- exports continue to be sluggish; extra EU-27 exports were down 19 percentage points year-on-year in Q3
- industrial production climbed by 0.2 per cent quarter-on-quarter across the EU27 in September, although this represented a 12.1 percentage point decline from 12 months previously
- the unemployment rate has risen steadily from seven per cent in July 2008 to 9.2 per cent in September 2009.

### 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 the EU, 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

The EU compared to the global average	2007	2008	2009	2009
	EU	EU	EU	Global
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+46%	+34%	-38%	-16%
<b>Issue of greatest concern in the next 12 months</b>				
Fall in consumer demand			45%	39%
Shortage of business credit			19%	19%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	+27%	+27%	-12%	-4%
<b>Constraints on expansion</b>				
Shortage of orders/reduced demand	26%	26%	52%	49%
Regulations/red tape	36%	33%	30%	30%

Source: Grant Thornton IBR 2009



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

The IBR survey tells us that PHBs in the EU expect to suffer even more than other businesses globally in terms of falling consumer demand, whilst employment growth is expected to decline sharply. These concerns impact negatively on expectations for turnover growth and on profitability, and PHBs are overwhelmingly pessimistic about the economy. Clearly the effects of the global decline in activity are taking their toll on PHBs.

### Looking ahead

Despite more positive news in Q2 2009 from two of the region's largest economies, namely France and Germany, contractionary factors continue to weigh heavily on the economy and GDP is forecast to shrink by almost four per cent across 2009.

Moreover, whilst the global economy is expected to return to growth in 2010, the EU is forecast to remain in recession, contracting by 0.3 per cent.

Sluggish exports, forecast to decline by more than 12 per cent in the eurozone alone across 2009 and no more than stabilising in 2010, are expected to remain the greatest burden to the economy.

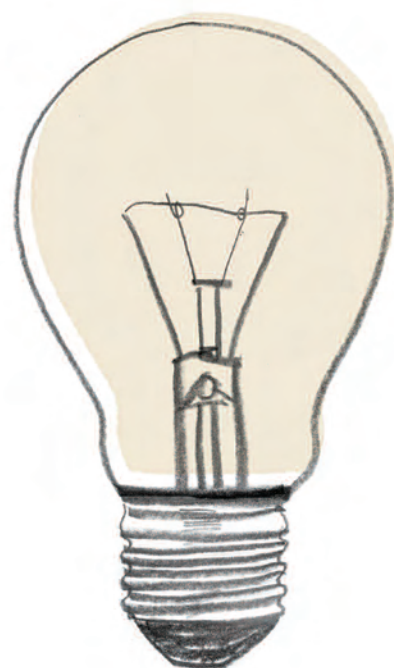
Investment is not forecast to lead the recovery, dropping back to 19.3 per cent and 18.7 per cent of GDP in 2009 and 2010 respectively, down from 21.6 per cent in 2008.

Meanwhile, the employment picture continues to worsen; tempering the pace of recovery.

Unemployment is forecast to rise to 9.1 per cent by the end of 2009, to top ten per cent until at least 2012. Any recovery in the EU 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 rapidly deteriorating labour market will need to be well managed if job security fears are not to further dampen consumer spending.

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.



### 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. Overall optimism amongst PHBs in the EU<sup>2</sup> has fallen from 2008; this year -38 per cent of all EU businesses are positive about their country's economy compared to a balance<sup>3</sup> 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.

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.

### Optimism/pessimism

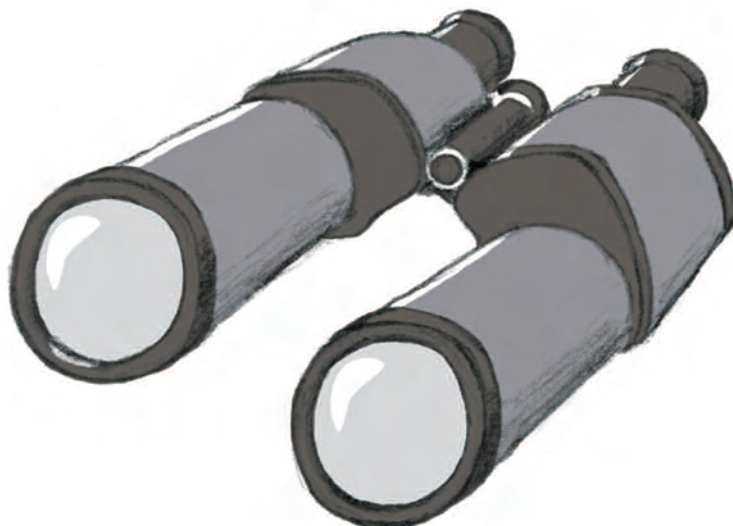
- PHBs in the EU are considerably less optimistic about the year ahead (-38 per cent) compared with 2008 (+34 per cent)
- levels of optimism regarding the economic outlook have fallen by 72 percentage points from 2008 in the EU, compared with a 56 percentage point drop observed globally.

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

Average percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2009



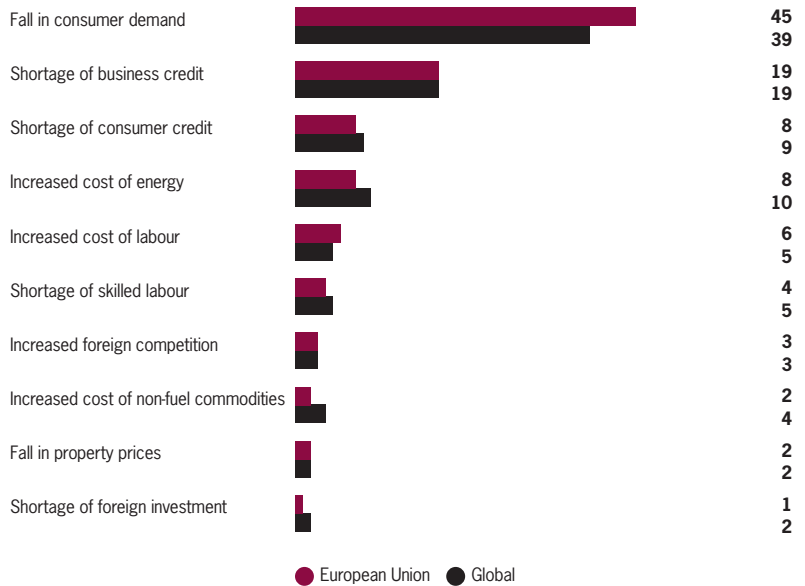
<sup>2</sup>for the purposes of IBR, the term 'EU' refers to those EU countries covered by our survey – Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, the Netherlands, Poland, Spain, Sweden and the United Kingdom.

<sup>3</sup>the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

**Greatest concern**

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in the EU (45 per cent), above the global average (39 per cent)
- a shortage of business credit is of equal concern to PHBs globally and in the EU (both 19 per cent).

**Figure 3: Greatest concern in the next 12 months**  
Average percentage of businesses

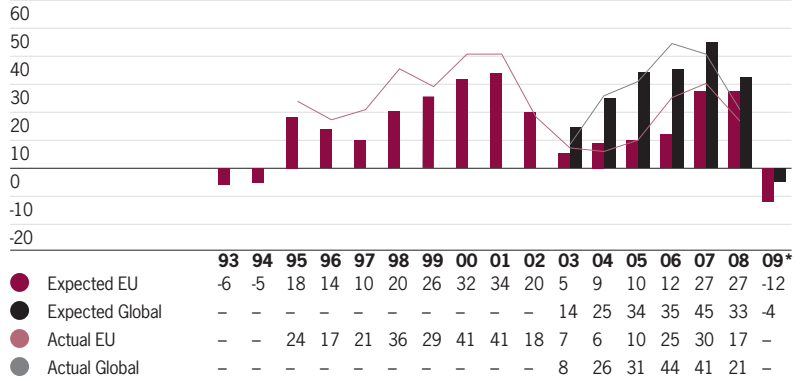


Source: Grant Thornton IBR 2009

**Employment**

- PHBs in the EU expect employment to contract sharply in 2009, with the balance of businesses expecting an increase falling 39 percentage points this year
- globally, the balance of PHBs expecting an increase in employment has fallen by 37 percentage points
- actual employment growth across the EU in 2008 (+17 per cent) was significantly lower than expected (+27 per cent).

**Figure 4: Employment history: 1993-2009**  
Balance percentage of businesses



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

### Revenue expectations

- the EU average decline, regarding revenue prospects, is the largest in IBR history, falling 60 percentage points, down from +65 per cent in 2008 to just +5 per cent this year
- globally, optimism regarding revenue plummeted 52 percentage points this year.

**Figure 5: Revenue expectations: 1993-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism



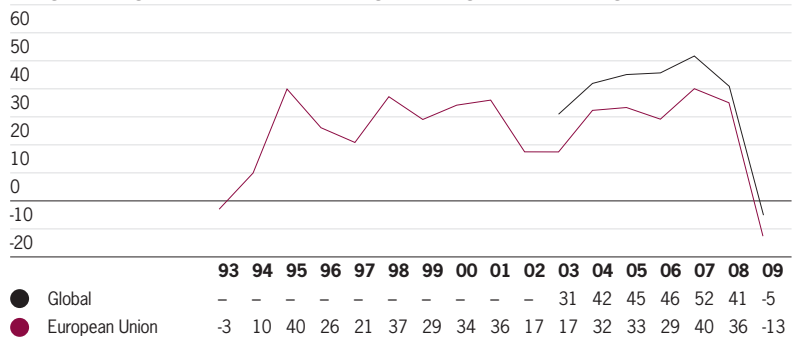
Source: Grant Thornton IBR 2009

### Profitability expectations

- the decline in EU profitability expectations is also the greatest in IBR history, falling by 49 percentage points to -13 per cent this year
- globally, optimism regarding profitability declined by 46 percentage points this year.

**Figure 6: Profitability expectations: 1993-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism



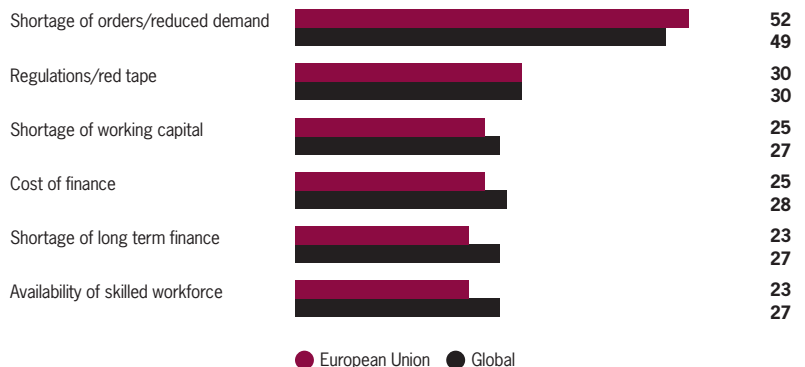
Source: Grant Thornton IBR 2009

### Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in the EU this year, cited by 52 per cent of respondents
- regulations/red tape is viewed as the second biggest constraint for PHBs globally and in the EU (both 30 per cent).

**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

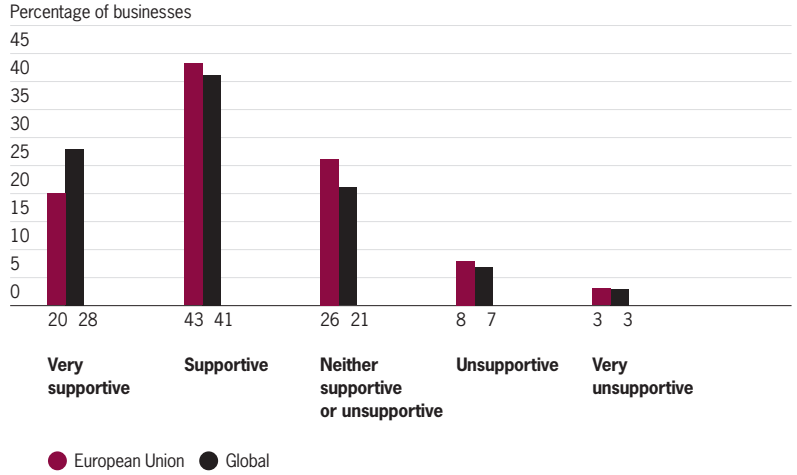


Source: Grant Thornton IBR 2009

### Support of lender

- 63 per cent of PHBs in the EU class lenders as supportive or very supportive towards their business, slightly below the global average (69 per cent)
- 11 per cent of PHBs in the EU class lenders as unsupportive or very unsupportive towards their business, just above the global average (ten per cent).

**Figure 8: Level of support provided by lenders**

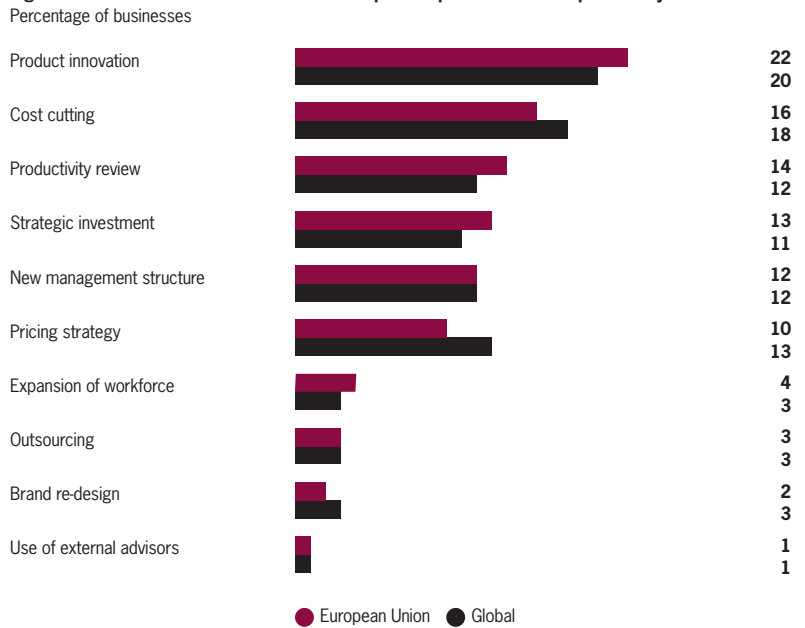


Source: Grant Thornton IBR 2009

### Business planning

- product innovation (22 per cent) and cost cutting (16 per cent) have been the most successful initiatives introduced by PHBs in the EU to increase profits
- PHBs globally also cite product innovation (20 per cent) and cost cutting (18 per cent) as the most successful initiatives they have introduced to increase profits.

**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.

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