

Focus on: Mexico

International Business Report 2010 – Country focus series

The recovery

Latin America's second largest economy suffered a brutal recession in 2009 – its worst since 1930, surpassing even the 1995 Tequila Crisis – as exports to its neighbour and trading partner, the United States, collapsed. This was further compounded by the outbreak of the influenza A H1N1, and whilst results for the third quarter were more positive than expected, the recovery remains fragile.

The key indicators¹ are highlighted below:

- real GDP grew by 2.9 per cent in the three months to September 2009, although this represented a decline of 6.2 per cent from the same period 12 months ago; contraction for the year is expected to top seven per cent
- Mexico's export-oriented trade was severely dented by the contraction in global demand; exports tanked 25 per cent across 2009, with exports to the US – which accounted for 80 per cent of the total in 2008 – falling by 24 per cent
- the current account balance actually improved to around -0.2 per cent of GDP in 2009, as imports declined by 27 per cent
- having peaked at 6.1 per cent in June 2009, the unemployment rate has fallen back to 5.4 per cent as of January this year.

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 Mexico, 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 recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Mexico are considerably more optimistic about the economy over the year ahead than they were in 2009, although almost 40 per cent of businesses do not expect an upturn in the global economy until 2011 at the earliest. Expectations for revenue, profitability and employment growth are all markedly more positive this year, but bureaucracy continues to stifle growth.



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

Looking ahead

2010 should start with sluggish expansion led initially by the fiscal stimulus but increasingly by improving export sales as the year progresses. The economy is forecast to post steady growth of 3.2 per cent in 2010, rising marginally to 3.3 per cent in 2011. Mexico's consumer markets should contribute marginally to the recovery as higher taxes, inflation and poor wage growth constrain household demand.

Interest rates are expected to be increased steadily over the course of 2010 and 2011. The Banco de México restated its intention in the end of 2009 to adhere to its inflation target range (three per cent, +/-1 per cent), raising rates to compensate for the inflationary effects of the fiscal stimulus, if necessary.

The current account balance is forecast to remain at -0.3 per cent over the next two years but the Mexican economy will remain vulnerable due to weak US consumer demand, such is the manufacturing sector's dependence on US markets.

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 PHBs

Mexico compared to the Latin American average	2008 Mex	2009 Mex	2010 Mex	2010 Latin America
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+55%	-7%	+20%	+48%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+38%	-12%	+24%	+42%
Constraints on expansion				
Regulations/red tape	48%	66%	41%	39%
Shortage of long term finance	40%	55%	33%	34%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can 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 privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Mexico are much more optimistic about prospects for 2010; their optimism/pessimism balance² has risen 27 percentage points from -7 per cent in 2009 to +20 per cent in 2010.

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.

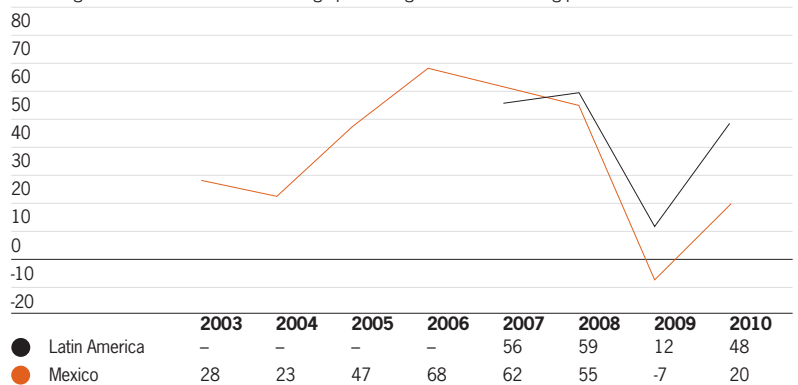
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

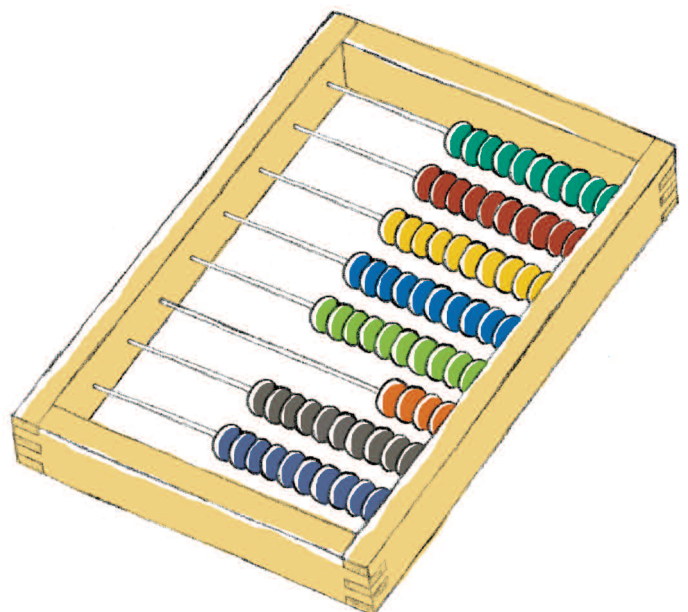
- businesses in Mexico are considerably more optimistic about their country's economic outlook (+20 per cent) compared with 2009 (-7 per cent)
- the balance of businesses in Latin America³ indicating optimism for the year ahead has risen by 36 per cent this year, from +12 per cent to +48 per cent.

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

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



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

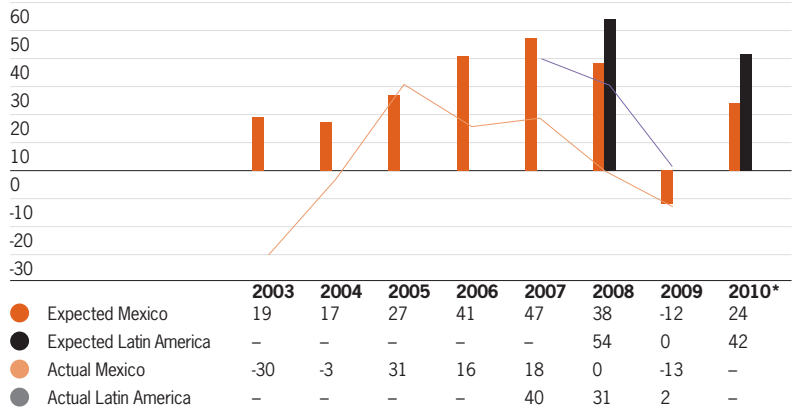
³ for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

Employment

- a balance of +24 per cent of businesses in Mexico expect employment to grow in 2010, compared with +42 per cent of businesses in Latin America
- actual employment contraction reported by businesses in Mexico in 2009 (-13 per cent) was marginally more severe than expected 12 months previously (-12 per cent).

Figure 3: Employment history: 2003-2010

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



*actual 2010 data will be documented in IBR 2011

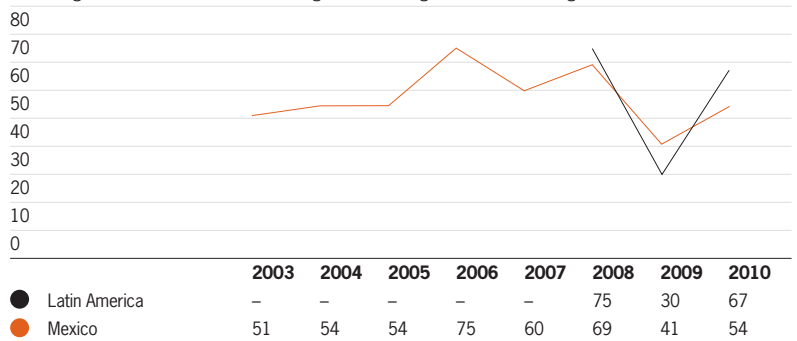
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +54 per cent of businesses in Mexico expect their revenue to increase across 2010; this represents a 13 per cent increase from 2009
- expectations of businesses in Latin America as a whole have bounced back even more strongly this year, posting a 37 per cent increase from 12 months ago.

Figure 4: Revenue expectations: 2003-2010

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



Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations of businesses in Mexico have also risen this year; a balance of +32 per cent expect their profits to increase across 2010 compared with just +15 per cent 12 months ago
- the Latin American business average has increased by 39 per cent, from just +6 per cent in 2009 to +45 per cent this year.

Figure 5: Profitability expectations: 2003-2010

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



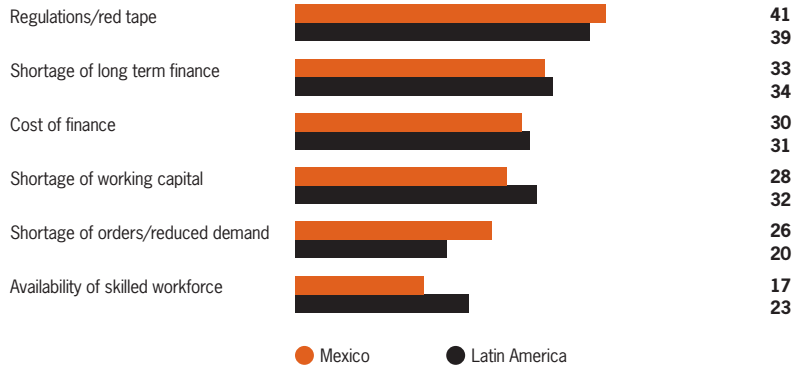
Source: Grant Thornton IBR 2010

Constraints

- regulations/red tape has been cited as the major constraint restricting expansion for businesses in Mexico since 2005; this year this factor is cited as a major constraint by 41 per cent of businesses in Mexico and 39 per cent of all businesses in Latin America
- a shortage of orders/reduced demand (26 per cent) is more of an issue to businesses in Mexico than in Latin America in general, whilst a lack of availability of a skilled workforce (17 per cent) is less of a problem.

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



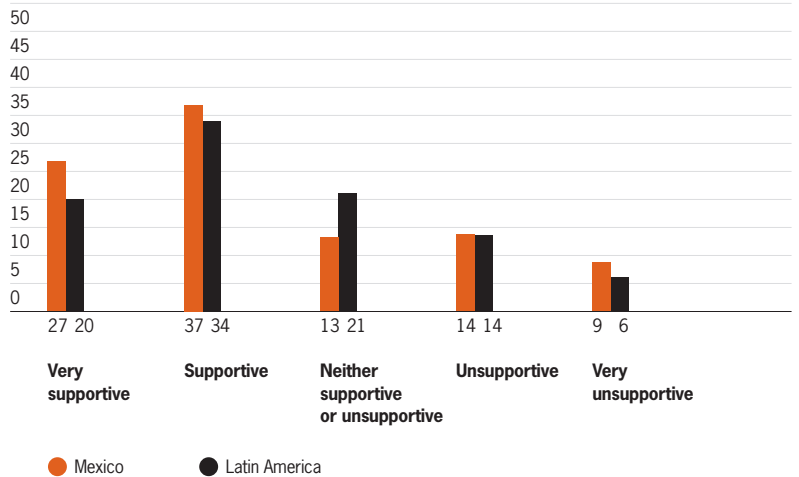
Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in Mexico are happy with the level of support provided by lenders; 64 per cent class lenders as supportive or very supportive towards their business
- by comparison, just 54 per cent of businesses across Latin America class lenders as supportive or very supportive towards their business
- however, 23 per cent of businesses in Mexico believe that lenders are unsupportive or very unsupportive of their business, compared to 20 per cent regionally.

Figure 7: Level of support provided by lenders

Percentage of businesses



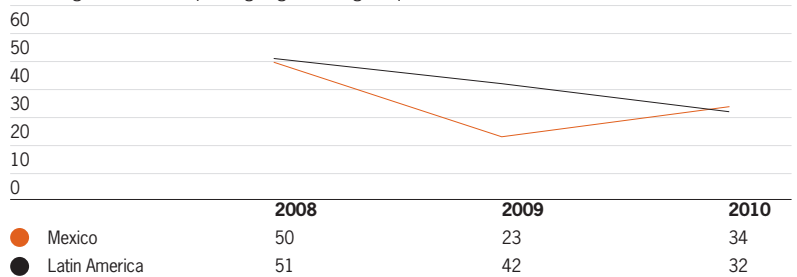
Source: Grant Thornton IBR 2010

Mergers & acquisitions

- having more than halved last year, the proportion of businesses in Mexico planning to grow through acquisition this year has risen by 11 per cent to 34 per cent
- 80 per cent of those planning to grow in this way expect to acquire domestic businesses, but 65 per cent expect to acquire across borders
- for 55 per cent of these businesses the key driver is access to new geographic markets.

Figure 8: Plans to grow through acquisition in the next three years

Percentage of businesses planning to grow through acquisition



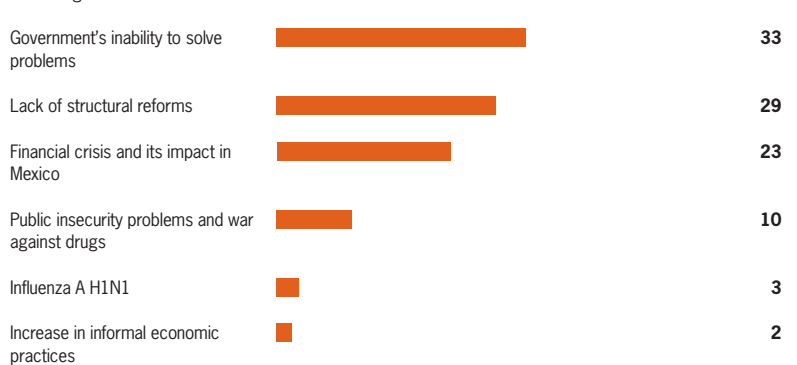
Source: Grant Thornton IBR 2010

The economy – looking back

- the government's inability to solve problems (33 per cent) is cited as the major cause underlying poor economic performance in 2009 according to businesses in Mexico, whilst a lack of structural reforms (29 per cent) is second
- just under a quarter of businesses believe that external – rather than internal – factors are to blame: 23 per cent cite the financial crisis and its impact in Mexico as the principal cause of poor economic performance across the year.

Figure 9: The major factors in the poor economic performance across 2009

Percentage of businesses



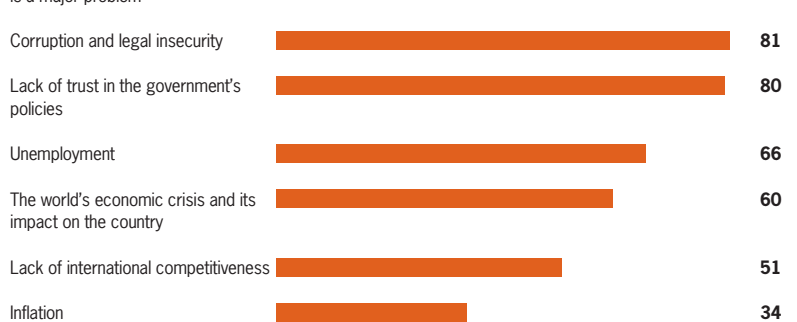
Source: Grant Thornton IBR 2010

The economy – looking forward

- corruption and legal insecurity (81 per cent) is cited as the major issue facing the Mexican economy
- this issue is rated just ahead of two more internal issues: a lack of trust in the government's policy (80 per cent) and unemployment (66 per cent)
- the economic crisis and its impact on Mexico (60 per cent) and a lack of international competitiveness (51 per cent) are also rated as major problems.

Figure 10: The major problems facing the Mexican economy

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



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 Mexico 150 businesses were surveyed across all industry sectors. These businesses ranged from small to large in size with total employment of 50-499.

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
Armeria	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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