

Focus on: Mexico

International Business Report 2011 – Economy focus series

The economy

Despite the challenging global economic conditions and in particular the slowdown in the United States (US), the economy is set to outperform its 15 year historical average growth of 2.9% this year. The country has solid public finances and has also benefited from continued foreign direct investment. Alongside export led growth, Mexico has also experienced a strong rebound in consumer spending which has been helped by a stronger peso with imports nearly matching exports in terms of growth.

The key indicators¹ are highlighted below:

- the economy outperformed expectations in Q3 by expanding 4.5% year-on-year, up from 3.2% in Q2
- the service sector grew 4.8 percent in the July-September period, while manufacturing sector expanded at 4.6%
- export growth slowed to 13.7% while import growth increased to 18.5% year on year in September
- unemployment decreased slightly to 5.7% in September.

The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,500 businesses in 39 economies globally. This report focuses on the experiences of privately held businesses in Mexico and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in Mexico remain optimistic about their economy over the next 12 months, with business more confident than in 2010. Business expectations for revenue and for profitability are up but a lack of skilled workers and a shortage of long term finance could stifle further growth ambitions.



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

The outlook

Despite growth forecast at 3.9% in 2011, concerns of global deceleration are likely to impact on Mexico's growth ambitions over the short and medium term. The economy is now expected to grow at around 3.9% per annum in the period 2012-16. The US slowdown in particular will continue to have a major impact on Mexico. Incentives for US companies to bring forward capital investment could support Mexico's exports, key drivers of this growth, but there is likely to be continued uncertainty in the US market for some time to come.

Consumer markets have also been a key driver for the growth which has been witnessed since 2009 and spending levels are now expected to reach pre-recession levels in 2011. In the medium term, rising interest rates and higher inflation may hit discretionary spending, with annual growth rates averaging closer to 3.3%.

Despite strong job creation, largely concentrated in the manufacturing sector, the unemployment rate is expected to remain at around 5% of the workforce until early 2012 as job creation struggles to keep up with population growth lower net migration to the US.

Talk to us to find out how we can help you deal with the challenges your business is facing today.

Hector Perez

T +52 55 5424 6500

E hector.perez@mx.gt.com

W www.

Figure 1: Key indicators for PHBs

Mexico compared to the Latin America average	2009 Mexico	2010 Mexico	2011 Mexico	2011 Latin America
Outlook for the economy over the next 12 months				
Net optimism	-7%	+20%	+64%	+54%
Change in employment levels				
Net hiring expectations	-12%	+24%	+48%	+52%
Constraints on expansion				
Lack of skilled workers	9%	17%	31%	41%
Shortage of long term finance	55%	33%	31%	27%

Source: Grant Thornton IBR 2011



International Business Report results

The Grant Thornton IBR 2011 reveals that global business optimism dipped sharply in the third quarter. Businesses sentiment in Mexico was less optimistic in Q3 with a balance² of 64% of businesses optimistic, down from net +80% in the previous quarter. Globally the quarter-on-quarter average declined from 31% to 3%.

Optimism dropped sharply in many markets across the globe including mainland China and India; net optimism fell by -29% in both markets. Optimism in North America as a whole fell by 40%, and by 35% in both the Eurozone and across the G7.

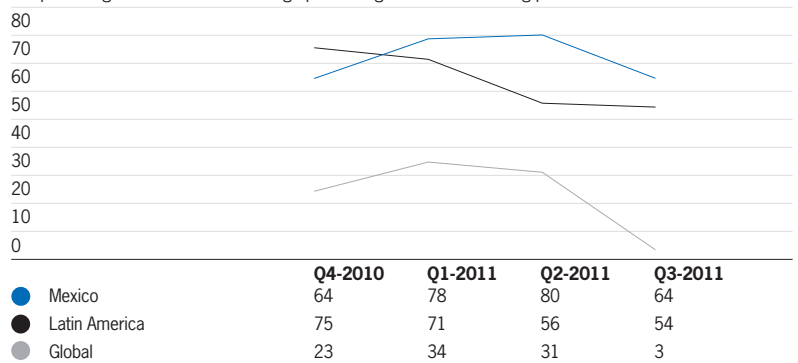
Year-on-year optimism amongst businesses has declined slightly from net 24% in 2010, to net 22% across 2011.

Optimism/pessimism

- businesses optimism in Mexico dipped in the third quarter, dropping from 80% to 64%
- across the region, business optimism declined from 56% in Q2 to 54% in Q3
- however the picture globally is far more gloomy as business sentiment dropped by 28 percentage points in Q3 to stand at just 3%.

Figure 2: Outlook for the economy over the next 12 months – 2011

Net percentage of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



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

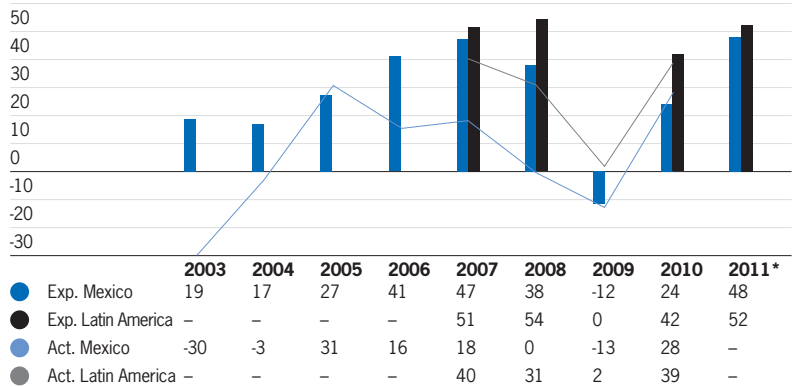
³ for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

Employment

- net 48% of businesses in Mexico expect employment to grow over the next 12 months
- in Latin America net 52% of businesses expect to increase staff levels
- reported employment growth over the past 12 months was, at 28%, slightly about the rate forecast in 2010 (24%)

Figure 3: Employment history: 2003-2011

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



*actual 2011 data will be documented in IBR 2012

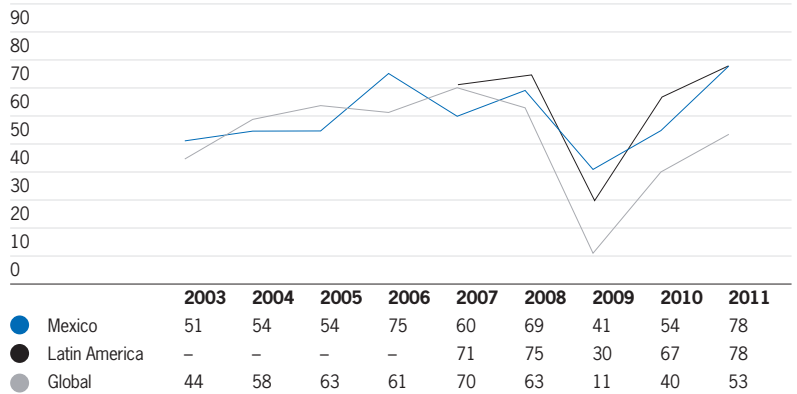
Source: Grant Thornton IBR 2011

Revenue expectations

- revenue prospects are in line with Latin America as a whole, with net 78% expecting to increase revenues over the next 12 months
- revenue prospects have risen by 24 percentage points in Mexico compared with 2010
- globally, revenue prospects are up to 53% this year, from 40% in 2010.

Figure 4: Revenue expectations: 2003-2011

Average percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2011

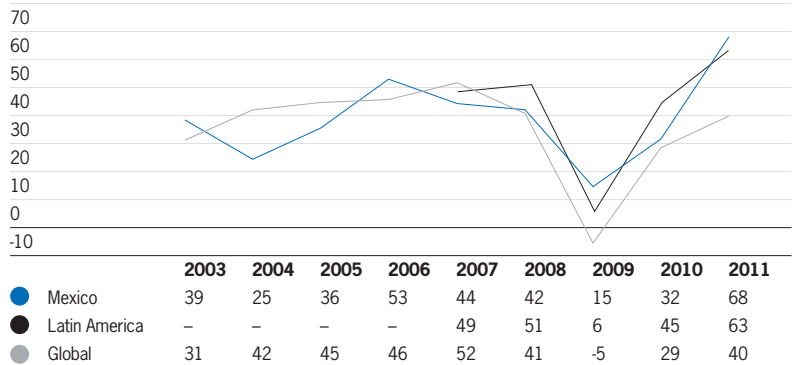


Profitability expectations

- profitability expectations for Mexico have increased strongly in 2011 overtaking those of Latin America as a whole
- this year net 68% of businesses in Mexico expect their profits to rise compared with 32% 12 months ago
- globally, 40% of businesses expect see their revenues increase, up from 29% this time last year.

Figure 5: Profitability expectations: 2007-2011

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



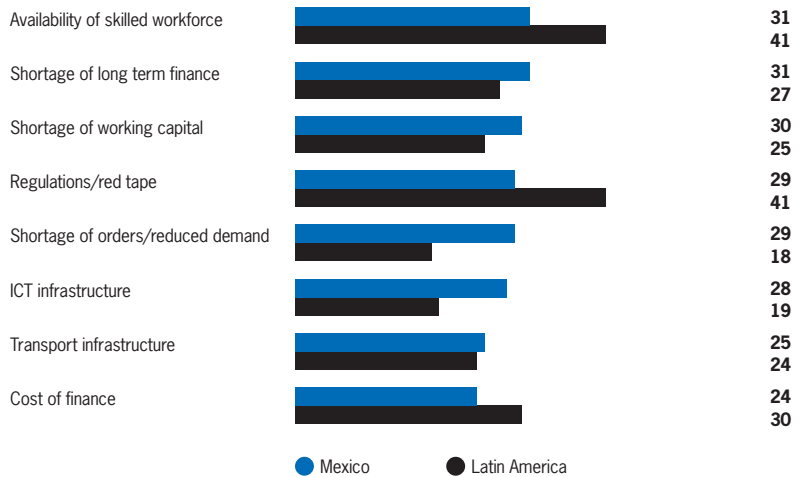
Source: Grant Thornton IBR 2011

Constraints

- a lack of skilled workers is the key constraint on expansion for businesses in both Mexico (31%) and Latin America (41%)
- in Mexico this is matched by a shortage of long term finance (31%)
- regulations / red tape is a major concern across the region (41%), although less so in Mexico (29%).

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



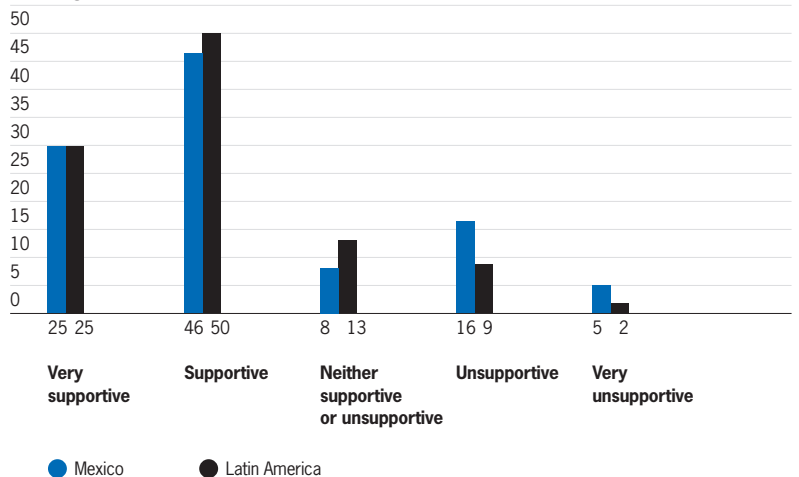
Source: Grant Thornton IBR 2011

Support of lender

- a large proportion of businesses in Mexico are happy with the level of support provided by lenders; 71% class lenders as supportive or very supportive towards their business
- this compares with 75% of businesses in Latin America as a whole
- 21% of businesses do however cite their lenders are unsupportive or very unsupportive of their business, higher than the average across Latin America as a whole.

Figure 7: Level of support provided by lenders

Percentage of businesses

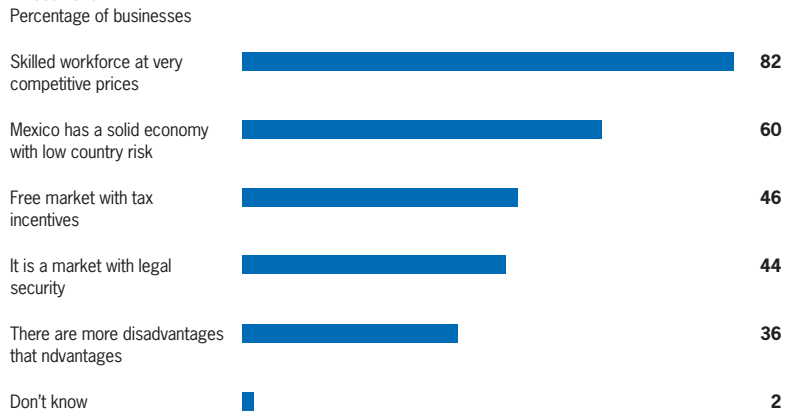


Source: Grant Thornton IBR 2011

Position in the global marketplace

- more than four in five business leaders in Mexico feel that their economy has a strong advantage over other emerging markets in terms of its skilled and competitive workforce (82%)
- a further three in five also felt that the solid economy with low levels of risk brought many benefits (60%).

Figure 8: What advantages do you think Mexico has in front of other emerging markets to attract investment?



Source: Grant Thornton IBR 2011

Diversification of export markets

- almost four in five businesses feel that Mexico should interact more with Brazil and the rest of Latin America in order to reduce trade dependency with the US (78%)
- a further 72% believe that more interaction with China and the rest of Asia-Pacific would be beneficial
- 72% of businesses also felt that creating new free trade agreements is important.

Figure 9: How should Mexico diversify its export markets to decrease dependency on the US?

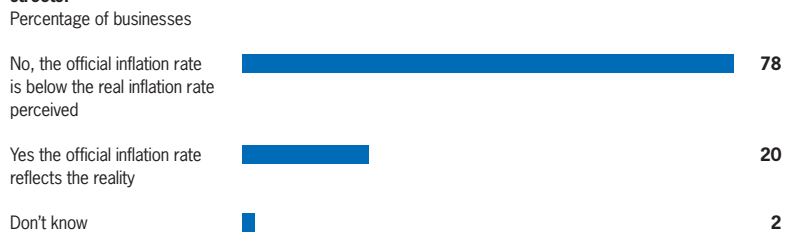


Source: Grant Thornton IBR 2011

Inflation rates

- almost four in five business leaders in Mexico believe the official inflation rate is below the real inflation rate perceived on the streets (78%)
- just 20% feel that the official rate represents the reality.

Figure 10: Do you think the official inflation rate reflects the real inflation rate perceived in the streets?



Source: Grant Thornton IBR 2011

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the engine' of the world's economy.

In Mexico 250 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 50 and 499. Data for this report were drawn from interviews conducted between November 2010 and September 2011.

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



www.gti.org
www.internationalbusinessreport.com

© 2011 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.