

Mexico

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 Mexico are slightly less optimistic about 2008 (+55 per cent) than they were about 2007 (+62 per cent).

Optimism amongst businesses in Latin America² is significantly stronger than the global average, although levels of optimism do vary throughout the region. Overall optimism has risen from 2007. This year +59 per cent of all Latin American businesses are positive about their economy compared to a balance of +56 per cent in 2007. Brazil is the most optimistic of Latin American economies with Argentina the least optimistic (+39 per cent).

The Mexican economy

The robust economic performance of recent years began to weaken in the second half of 2006 as the United States economy started to slow and government spending eased. In 2007 further export constraints in line with easing United States activity and weaker business sentiment have been evident. After double-digit expansion in exports and investment in 2006, growth in these sectors was cut in half in 2007. Consumer spending has been reasonably strong, helping to sustain import growth. Net exports are estimated to have subtracted a percentage point off headline growth, and a similar 'contribution' is expected in 2008 with the United States economy likely to slip into recession. Headline inflation has remained stable at around four per cent year-on-year, but rising fuel and food prices threaten a return of the high inflation rates of earlier in the decade. Increasing competition has prevented producers from passing on the full increase in their costs in the past, but this time could be different.



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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 'Latin America' refers to economies covered by our survey – Brazil, Argentina and Mexico.

Business expectations/revenue

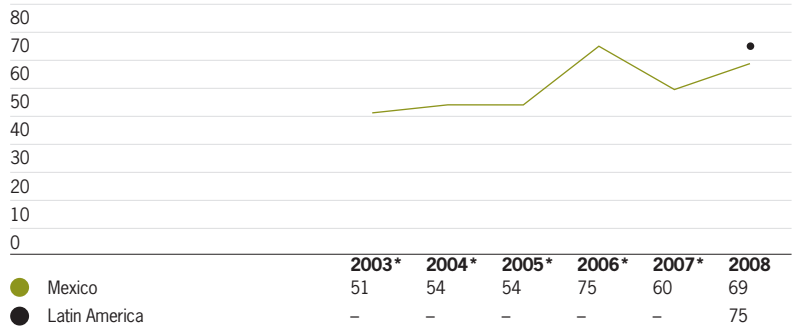
- PHBs in Mexico are more optimistic about their revenue prospects in 2008 (+69 per cent) compared to 2007 (+60 per cent).
- Their level of optimism regarding revenue performance is below the Latin America regional average (+75 per cent) but is above the global average (+63 per cent).
- The level of optimism regarding exports (+16 per cent), is below the Latin America (+21 per cent) and global (+18 per cent) averages, but up by three per cent on 2007.

Employment

- Expected employment growth in Mexico has fallen, from +47 per cent in 2007 to +38 per cent in 2008.
- Actual reported employment growth in Mexico (+18 per cent) was far lower than expected in 2007 (+47 per cent).
- PHBs in Latin America as a whole expect employment in 2008 to be higher than was reported in 2007.

Figure 1: Revenue expectations for Mexico and the Latin American average 2003-2008

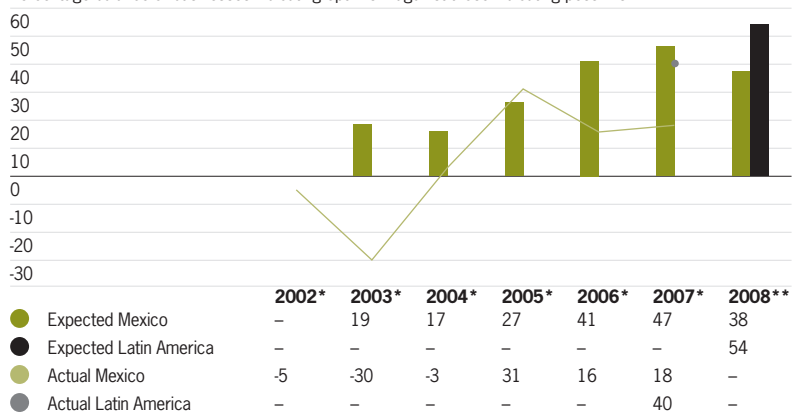
Percentage balance of businesses indicating optimism against those indicating pessimism



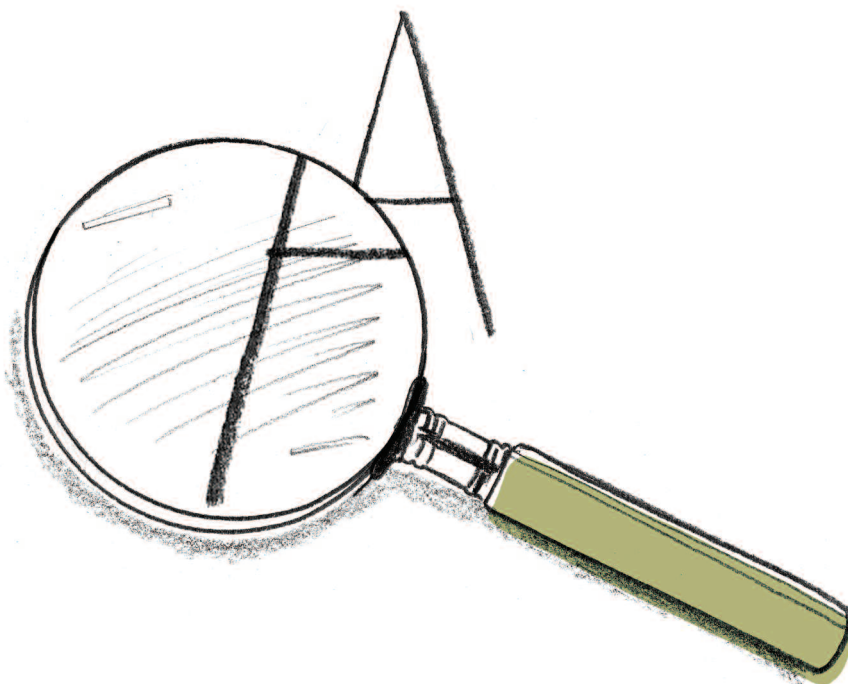
*no data available for Latin America
Source: Grant Thornton IBR 2008

Figure 2: Employment history of Mexico and the Latin American average 2002-2008

Percentage balance of businesses indicating optimism against those indicating pessimism



*no data available for Latin America
**2008 data will be documented in IBR 2009
Source: Grant Thornton IBR 2008



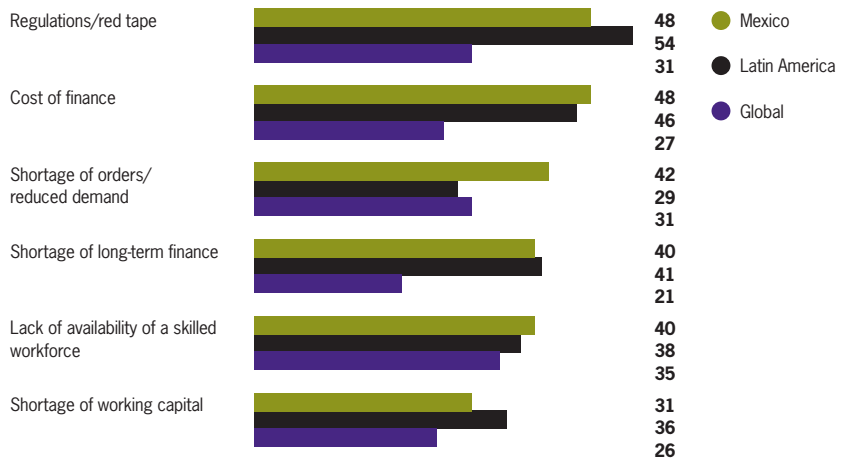
Constraints

- Regulations/red tape is the constraint restricting expansion cited most by PHBs in Mexico (48 per cent), and by businesses in Latin America in general (54 per cent).
- The availability of a skilled workforce is the largest constraint on growth for businesses globally, and is cited by 40 per cent of PHBs in Mexico.
- Around 20 per cent more Mexican businesses cite both the shortage of long-term finance and the cost of finance, compared with businesses globally.

Emerging markets

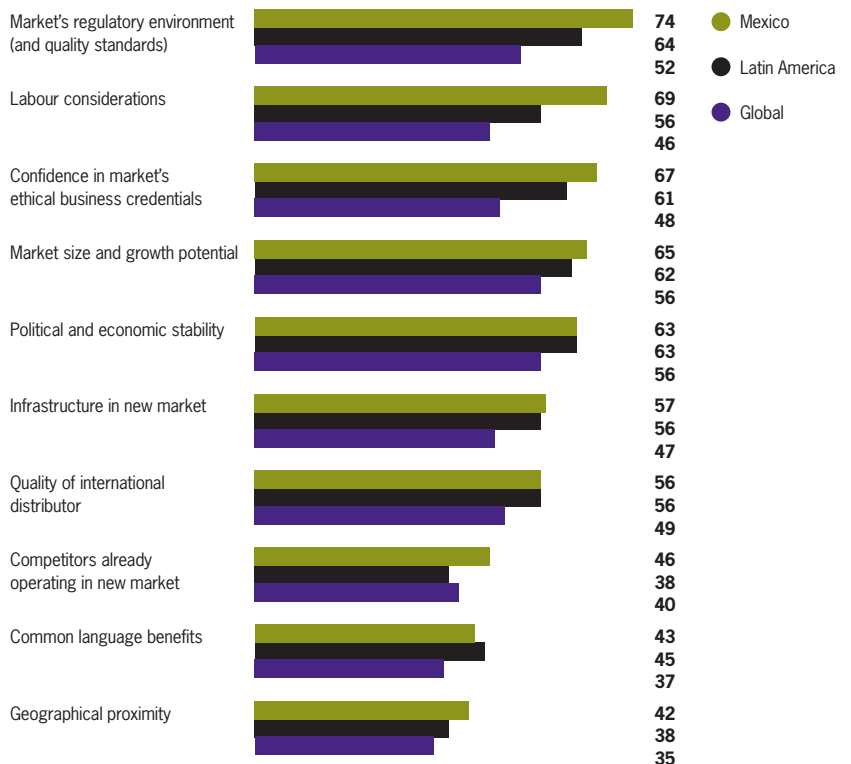
- The most important factor for Mexican businesses when determining whether to invest internationally is the market's regulatory environment, and is cited by 74 per cent of PHBs in Mexico.
- The number of Mexican businesses which export (34 per cent) was slightly lower than the global average (39 per cent) but is up from 22 per cent in 2007.
- 55 per cent of Mexican businesses import, above the Latin America average (40 per cent).
- Similarly to PHBs in Latin America in general, almost half of Mexican businesses see their main competition coming locally (46 per cent).

Figure 3: Largest constraints on growth for Mexican businesses compared to the Latin American 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



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



Source: Grant Thornton IBR 2008

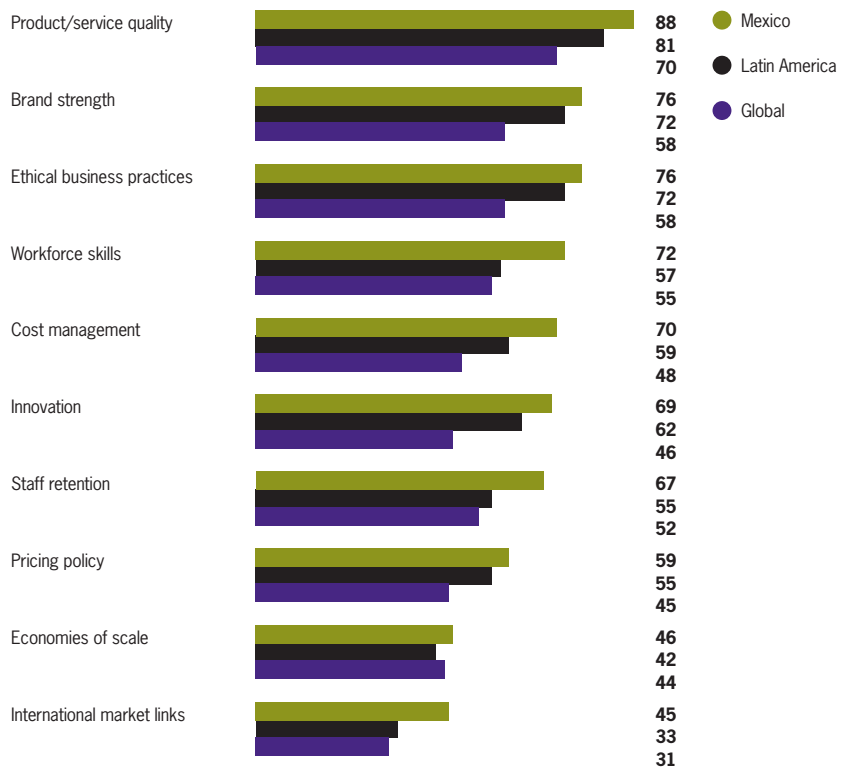
Competitiveness

- PHBs in Mexico see their greatest source of competitive advantage as product/service quality (88 per cent), as is true of businesses globally.
- 69 per cent of Mexican businesses see innovation as a source of competitive advantage, above the global business average of 46 per cent.
- In general, PHBs in Mexico rate all sources of competitive advantage more strongly than businesses globally.

Corporate social responsibility (CSR)

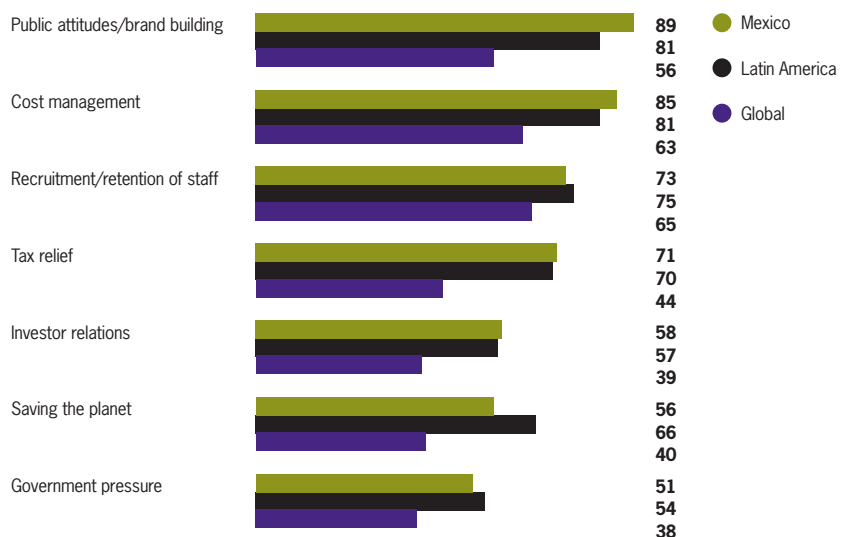
- Public attitudes/brand building is viewed as the biggest driver towards more ethical practices by PHBs in Mexico (89 per cent). This is higher than the Latin American (81 per cent) and global (56 per cent) averages.
- 95 per cent of Mexican businesses provided internships/apprenticeships/work experience in the past year compared to 67 per cent of all businesses.
- 69 per cent of PHBs in Mexico have incorporated their policies in to a written CSR document. This is higher than the Latin American (64 per cent) and global (56 per cent) averages.

Figure 5: Main sources of competitive advantage for Mexican businesses compared to the Latin American 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 Mexican businesses compared to the Latin American and the global average
Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is a not very important and 5 is very important



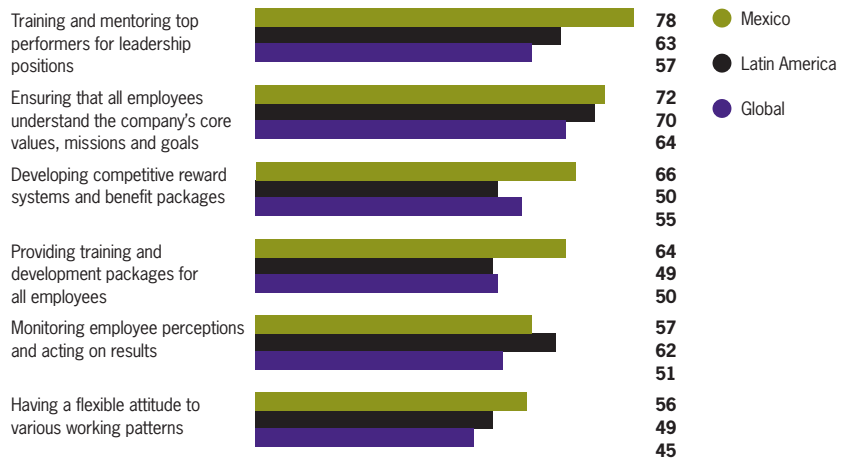
*excluding mainland China
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in Mexico more focused on retention than those one year ago is 79 per cent. This is higher than the global business average (59 per cent), and is up from 63 per cent in 2005.
- 78 per cent of Mexican businesses train and mentor top performers for leadership positions to aid recruitment/retention. This is higher than the global average of 57 per cent.
- Cited by 40 per cent of Mexican businesses, increased operating costs is viewed as the major problem staff retention issues have caused.
- It is costing 53 per cent of Mexican businesses significantly more to pay their staff than it was 12 months ago, this is below both the Latin American and averages global (both 63 per cent).

Figure 7: Usage of recruitment and retention tools for Mexican businesses compared to Latin American 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 Mexican economy

With the United States likely to slip into recession the Mexican economy is heading for its sternest test since 2001-02. Job creation will be greatly affected, which should have some impact on consumer sentiment. The first half of 2008 will be the big test, as this is when output in the United States is set to contract. But the turnaround north of the border will be slower than many anticipate and will subdue growth in Mexico well into 2009. The key remains the consumer. A stronger peso, a steadier monetary environment and confidence in the current government should sustain growth of 3.5-4 per cent per annum in 2008-09. However, a return to growth in excess of four per cent per annum will have to wait until 2010.

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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