

Focus on: NAFTA

International Business Report 2009 – Regional focus series

A year of turmoil

As the huge financial stimulus package kicked in, the US recession officially came to an end in Q3. The knock on effects are still being felt in Mexico where exports to the US, which account for around one fifth of GDP, have fallen by around one third, and in Canada, which suffered its worst recession since 1982. The key indicators¹ highlight the issues facing the region:

- having contracted for a record four straight quarters for the first time dating to 1947, US GDP grew by 3.5 percentage points in the three months to September
- growth in Canada continues to decline - GDP contracting by 0.1 percentage points in August from July – but the Mexican economy picked up to an estimated 2.7 percentage point quarter-on-quarter growth in Q3
- Q3 real exports were up 14.7 percentage points quarter-on-quarter in the US, whilst real imports increased by 16.7 percentage points which bodes well for its neighbours
- unemployment continues to rise across the free trade zone; October 2009 rates were up to 6.4 per cent in Mexico, 8.6 per cent in Canada and 10.2 per cent in the US.

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 North American Free Trade Agreement countries (NAFTA), 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

NAFTA compared to the global average	2007	2008	2009	2009
	NAFTA	NAFTA	NAFTA	Global
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+22%	+26%	-29%	-16%
Issue of greatest concern in the next 12 months				
Fall in consumer demand			28%	39%
Shortage of business credit			31%	19%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+47%	+33%	-9%	-4%
Constraints on expansion				
Shortage of orders/reduced demand	16%	22%	46%	49%
Cost of finance	14%	18%	26%	28%

Source: Grant Thornton IBR 2009



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

The IBR survey tells us that PHBs in NAFTA do expect to suffer from falling consumer demand as much as other businesses globally, whereas a shortage of business credit is cited as the major concern over the next 12 months, and employment levels are expected to decline sharply. These concerns impact negatively on expectations for turnover growth and on profitability, and PHBs are overwhelmingly pessimistic about the economy over the next 12 months. Clearly the effects of the global decline in activity are taking their toll on PHBs.

Looking ahead

The full-year contraction in real US GDP is expected to be limited to 2.6 percentage points across 2009, before recovering to 1.7 per cent growth in 2010 as the fiscal stimulus is having a better than expected impact on the economy. The biggest drag will come from investment, whilst unemployment is set to resume rising and corporate and consumer defaults still have much further to go before peaking.

The Mexican economy is forecast to contract by 6.8 percentage points in 2009. However, as net exports turn positive, supported by a weak peso and a bounce in exports destined for the US, the economy is expected to witness a hesitant return to growth, staying close to 2.8 percentage points, after which the recovery will gather pace.

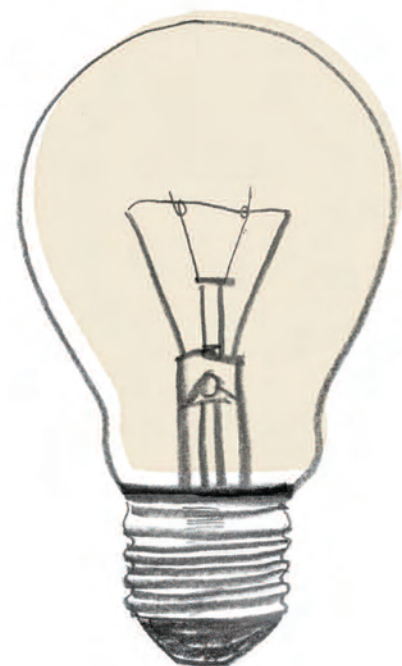
The Canadian economy is set to shrink for the first time since 1991, declining by 2.7 percentage points as the sharp weakening in US demand will continue to take its toll and finally hit Canada's consumers.

However, the economy is expected to be one of the prime beneficiaries of an upturn in the US as its housing market finally hits bottom and enters recovery. The economy is forecast to eke out growth of 1.4 percentage points in 2010 as exports begin to bounce back even as domestic demand remains subdued.

Any recovery in NAFTA 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. PHBs in NAFTA are considerably less optimistic about prospects for 2009 with a drop of 55 percentage points from an optimism/pessimism balance² of +26 per cent in 2008 to -29 per cent in 2009.

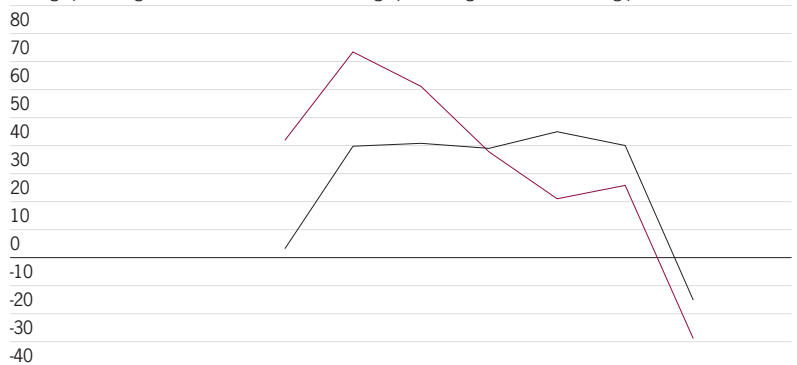
For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

Optimism/pessimism

- PHBs in NAFTA are considerably less optimistic about their country's economic outlook (-29 per cent) compared with 2008 (+26 per cent)
- levels of optimism regarding economic outlook have fallen by 55 percentage points from 2008 in NAFTA; similar to the drop observed globally.

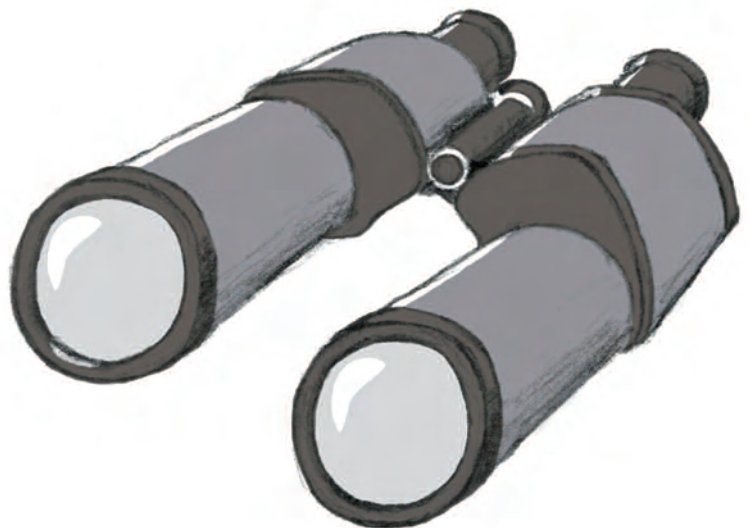
Figure 2: Outlook for the economy over the next 12 months: 2003-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



	2003	2004	2005	2006	2007	2008	2009
● Global	3	40	41	39	45	40	-16
● NAFTA	42	73	61	38	22	26	-29

Source: Grant Thornton IBR 2009

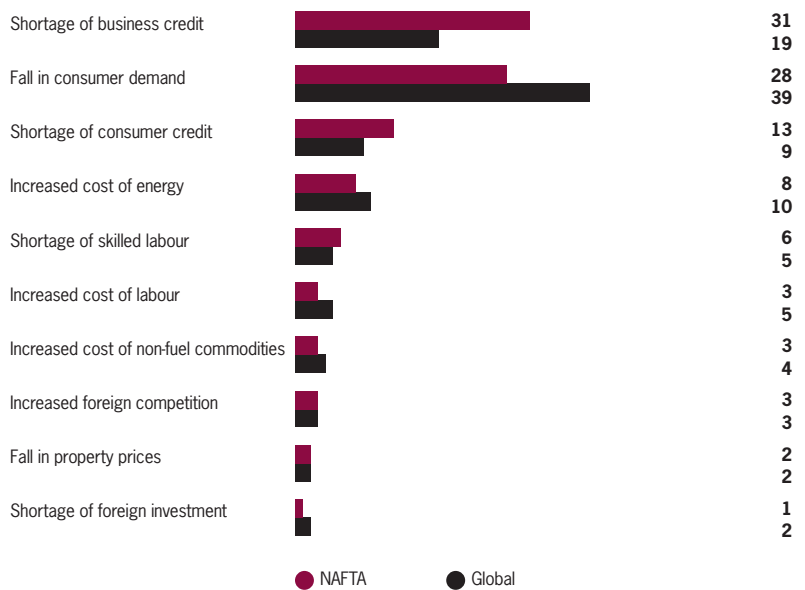


² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Greatest concern

- a shortage of business credit is viewed as the greatest concern restricting expansion for PHBs in NAFTA (31 per cent), greater than the global average (19 per cent)
- a shortage of consumer credit is also of greater concern for PHBs in NAFTA (13 per cent), than it is globally (nine per cent)
- globally, a fall in consumer demand is of greater concern for PHBs (39 per cent), than it is in NAFTA (28 per cent).

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

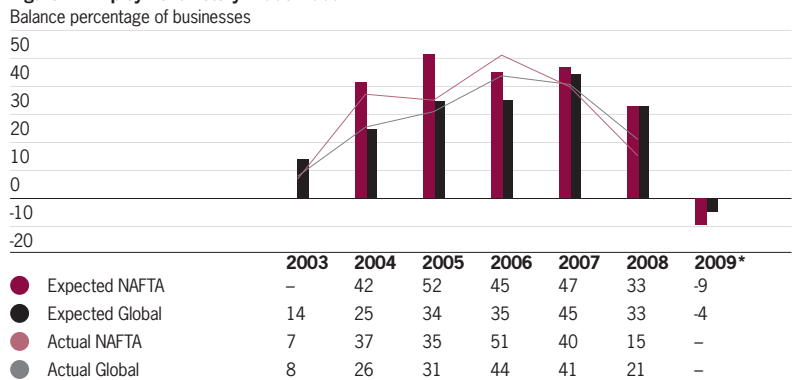


Source: Grant Thornton IBR 2009

Employment

- PHBs in NAFTA expect employment to contract sharply in 2009, with the balance of businesses expecting a decrease falling 42 percentage points this year
- a similar story is evident globally with the average falling 37 percentage points
- actual employment growth across NAFTA in 2008 (+15 per cent) was notably lower than expected (+33 per cent).

Figure 4: Employment history: 2003-2009



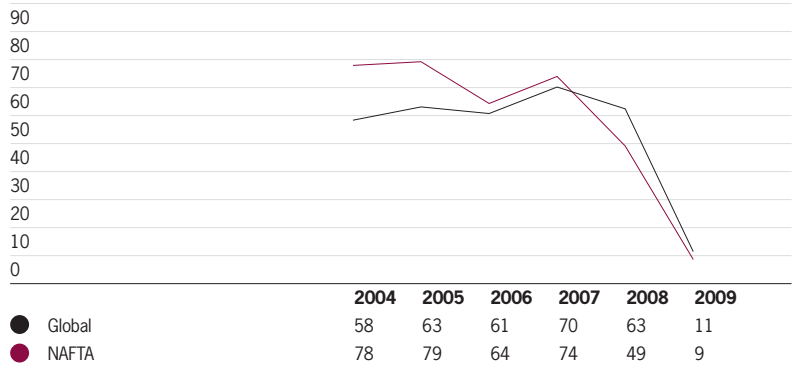
*actual 2009 data will be documented in IBR 2010
Source: Grant Thornton IBR 2009

Revenue expectations

- optimism levels regarding revenue prospects have plummeted in NAFTA this year, falling by 40 percentage points from +49 per cent in 2008 to +9 per cent
- globally, optimism regarding revenue plummeted 52 percentage points this year.

Figure 5: Revenue expectations: 2004-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



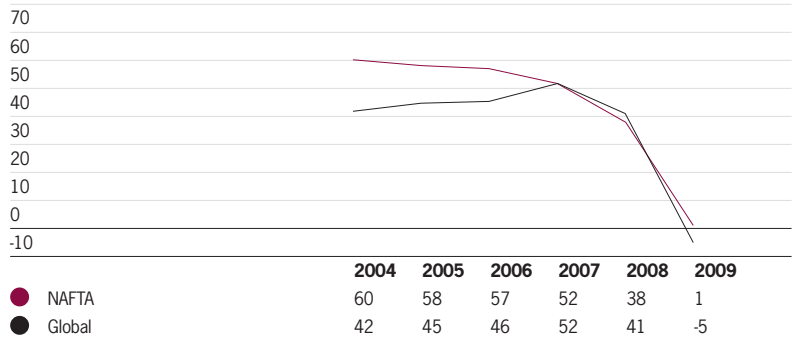
Source: Grant Thornton IBR 2009

Profitability expectations

- profitability expectations amongst PHBs in NAFTA continued the decline observed in 2008, falling to +1 per cent this year
- the average drop globally regarding profitability is also the greatest in IBR history, falling by 46 percentage points to -5 per cent this year.

Figure 6: Profitability expectations: 2004-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



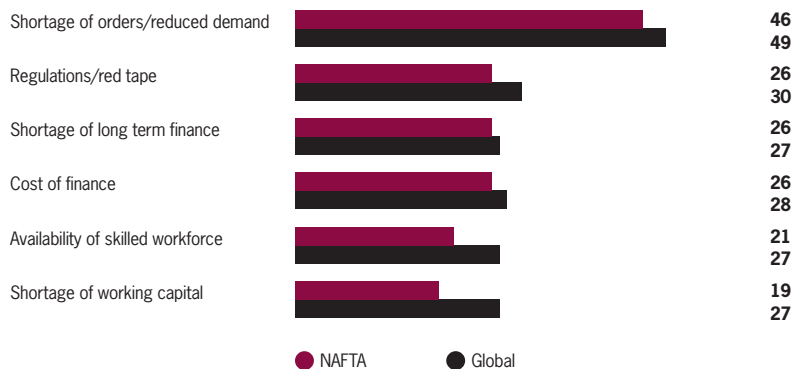
Source: Grant Thornton IBR 2009

Constraints

- a shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in NAFTA this year; at 46 per cent, this represents a 24 percentage point increase from 2008; similarly the global average is 49 per cent
- all of the constraints are of slightly greater concern globally than they are in NAFTA.

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

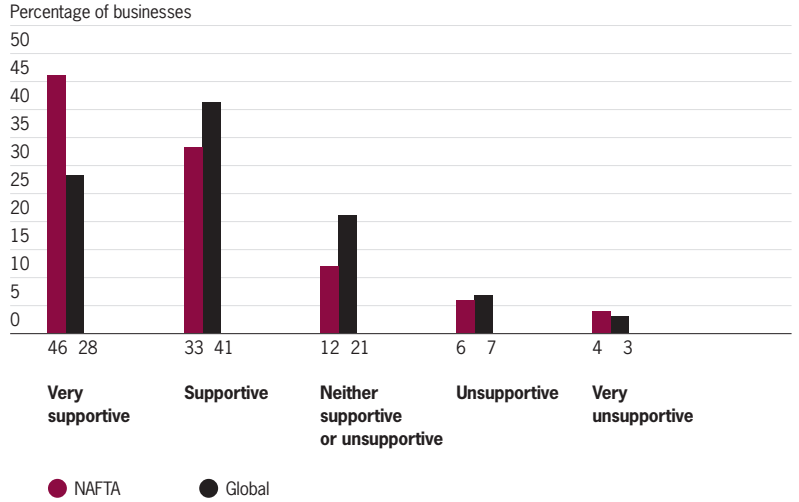


Source: Grant Thornton IBR 2009

Support of lender

- more than three-quarters of PHBs in NAFTA class lenders as supportive or very supportive towards their business, above the global average (69 per cent)
- seven per cent of PHBs in NAFTA class lenders as unsupportive or very unsupportive towards their business, below the global average (ten per cent).

Figure 8: Level of support provided by lenders

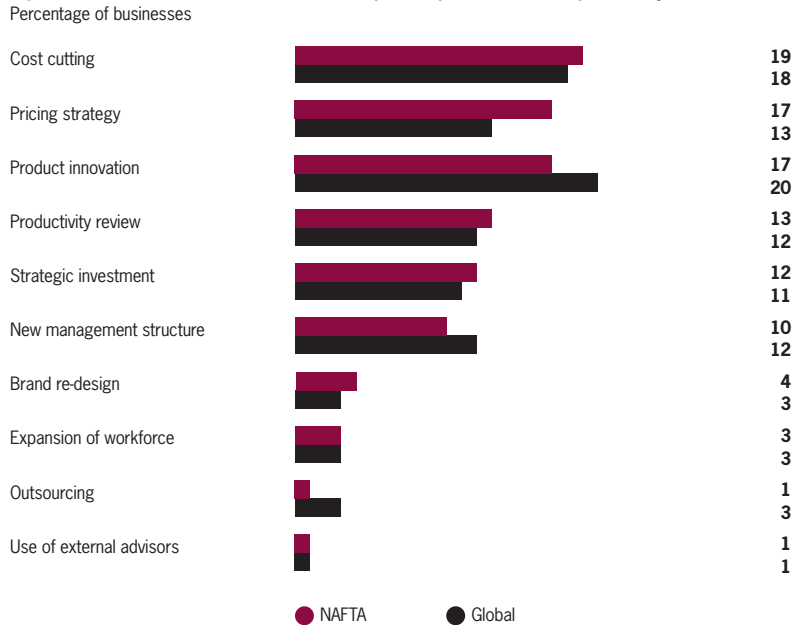


Source: Grant Thornton IBR 2009

Business planning

- 20 per cent of PHBs in NAFTA have a formal business planning process accounting for less than one year. This is below the global average (21 per cent)
- cost cutting has been the most successful initiative introduced by PHBs in NAFTA (19 per cent) to increase profits; slightly higher than the global average (18 per cent)
- product innovation has been a more successful initiative globally (20 per cent), than in NAFTA (17 per cent).

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. 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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