

NAFTA

International Business Report 2008 – Regional focus

The Grant Thornton IBR 2008 reveals that privately held businesses (PHBs) in most countries remain optimistic about economic prospects for the year ahead. For the fifth consecutive year, India tops the league table as the most optimistic country with an optimism/pessimism balance¹ of +95 per cent with the Philippines joining India at the top for the first time (also +95 per cent), whilst Japan is still at the bottom this year with a balance of -49 per cent. Meanwhile, PHBs in NAFTA² countries are more optimistic about 2008 (+22 per cent) than they were about 2007 (+14 per cent).

NAFTA economies

Growth in the United States slowed sharply in the last quarter of 2007, while house price falls have accelerated, surpassing ten per cent on a national basis. The weaker dollar has also been a boon to exporters, who have continued to see annual growth in foreign sales in the double digits.

The Canadian economy recorded real GDP growth of 2.7 per cent in 2007, on the back of consumer spending increases of 4.7 per cent. However, the strong Canadian dollar is hurting the Canadian manufacturing industry. Automotive exports fell by 23 per cent in real terms between November and January, whilst the US housing crash continues to hit sales in the timber industry.

Mexico's robust economic performance of recent years began to weaken in the second half of 2006 as the US economy started to slow and government spending eased. Consumer spending has been reasonably strong, helping to sustain import growth. Further export constraints in line with easing US activity and weaker business sentiment have been evident.



¹ the balance is the proportion of businesses reporting they are optimistic less those reporting they are pessimistic.

² the term 'NAFTA' refers to the economies within the North American Free Trade Agreement – the United States, Canada and Mexico.

Business expectations/revenue

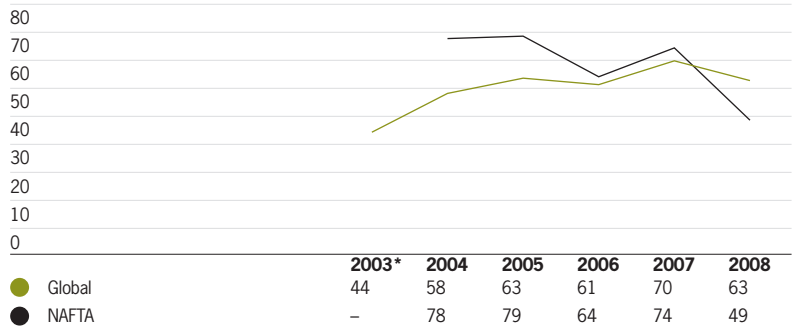
- This year, PHBs within NAFTA countries are much less optimistic about revenue prospects (+49 per cent) compared to 2007 (+74 per cent).
- Their levels of optimism regarding turnover performance are also below the global average (+63 per cent).
- +16 per cent of PHBs in NAFTA countries expect exports to increase next year, below the global average of +18 per cent.

Employment

- PHBs in the NAFTA economies expect employment growth in 2008 (+33 per cent) to be below the level actually reported in 2007 (+40 per cent).
- Globally companies also expect employment growth to be lower than experienced in 2007.
- In 2007, the proportion of PHBs in the NAFTA economies reporting an increase in employment was seven per cent lower than expected.

Figure 1: Revenue expectations for NAFTA countries and the global average 2003-2008

Percentage balance of businesses indicating optimism against those indicating pessimism

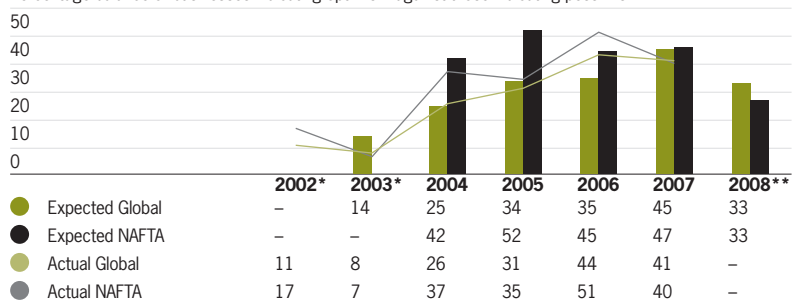


*no data for NAFTA countries available

Source: Grant Thornton IBR 2008

Figure 2: Employment history of NAFTA countries and the global average 2002-2008

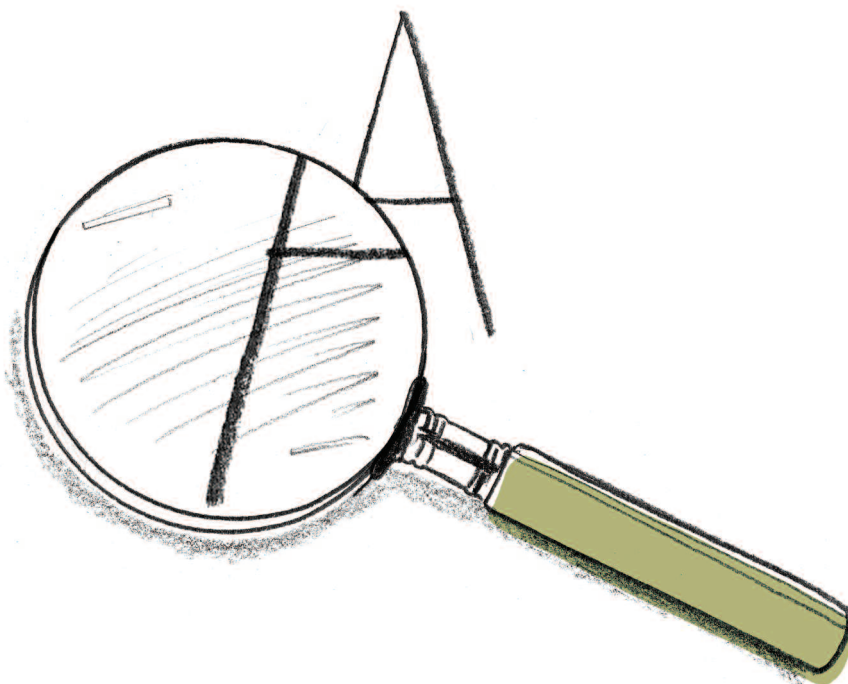
Percentage balance of businesses indicating optimism against those indicating pessimism



*no data available

**2008 data will be documented in IBR 2009

Source: Grant Thornton IBR 2008



Constraints

- The availability of a skilled workforce is cited most by PHBs in NAFTA countries (29 per cent) as a major constraint on expansion, down from 35 per cent in 2007.
- All factors are much less of an issue for businesses in NAFTA countries than they are for businesses globally, particularly with regard to financial constraints.

Emerging markets

- The most important factor to PHBs in NAFTA countries, as well as to businesses globally, when determining whether to invest internationally was market size and growth potential (55 per cent).
- The number of PHBs in NAFTA countries which export (30 per cent) was lower than the global average (39 per cent), and down one per cent from 2007.
- 36 per cent of PHBs within NAFTA import, below the global average (39 per cent).
- Similarly to businesses globally, 79 per cent of PHBs in NAFTA economies see their primary competition coming locally or nationally rather than internationally.

Figure 3: Largest constraints on growth for businesses in NAFTA countries compared to the global average

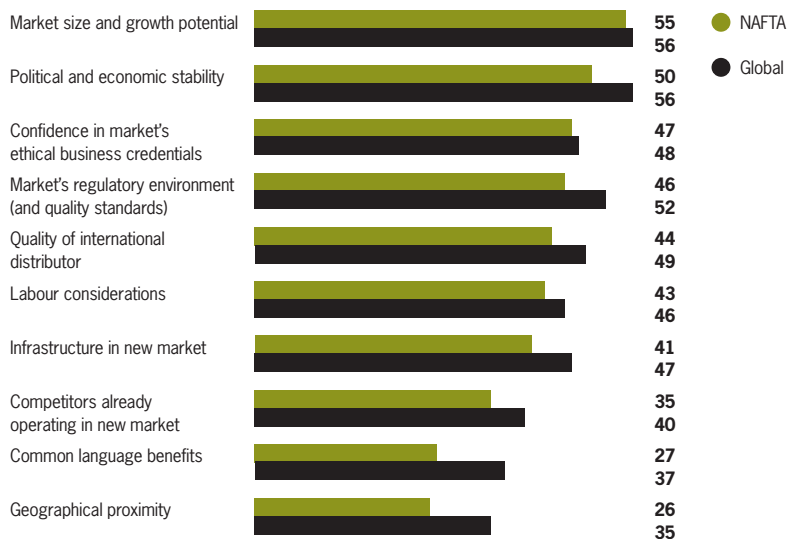
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



*excluding mainland China
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

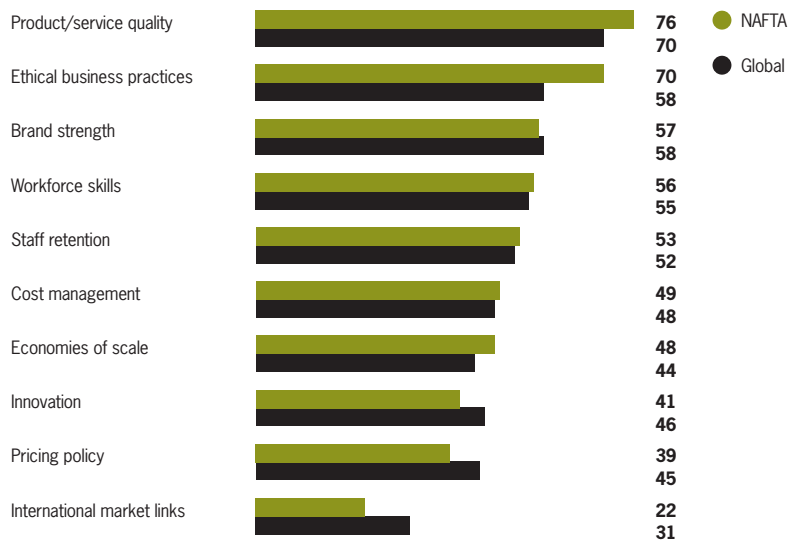
- PHBs in NAFTA countries see their greatest source of competitive advantage as product service quality (76 per cent), as is true of global businesses globally (70 per cent).
- 70 per cent of PHBs in NAFTA countries see adherence to ethical business practices a source of competitive advantage, higher than the global business average of 58 per cent.
- International market links are cited by 31 per cent of businesses globally but by only 22 per cent of PHBs in NAFTA economies.

Corporate social responsibility (CSR)

- The recruitment/retention of staff is viewed as the biggest driver towards more ethical practices by PHBs in NAFTA, whilst only 24 per cent cite saving the planet as opposed to 40 per cent globally.
- 89 per cent of PHBs in NAFTA actively promoted workforce health and well being in the past year, as opposed to 71 per cent of businesses globally.
- 63 per cent of PHBs in NAFTA have incorporated their policies in to a written CSR document, compared to 56 per cent of businesses globally.

Figure 5: Main sources of competitive advantage for businesses in NAFTA countries compared to the global average

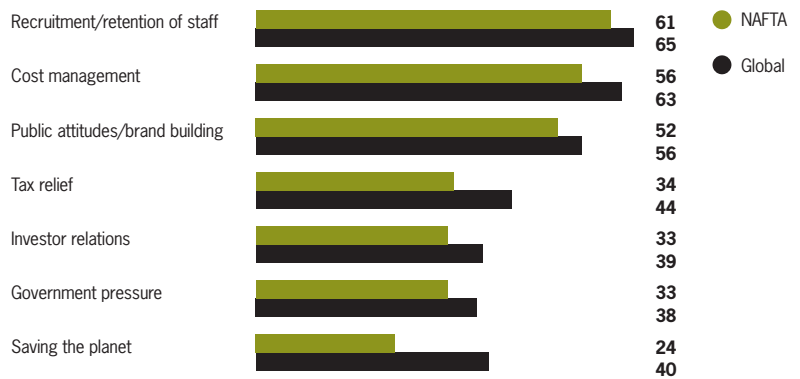
Percentage of businesses rating strength of the advantage 4 or 5 on a scale of 1 to 5 where 1 is not very strong and 5 is very strong



Source: Grant Thornton IBR 2008

Figure 6: Importance of drivers to more ethical practices for businesses in NAFTA countries compared to the global average

Percentage of businesses rating the importance 4 or 5 on a scale of 1 to 5 where 1 is not very important and 5 is very important



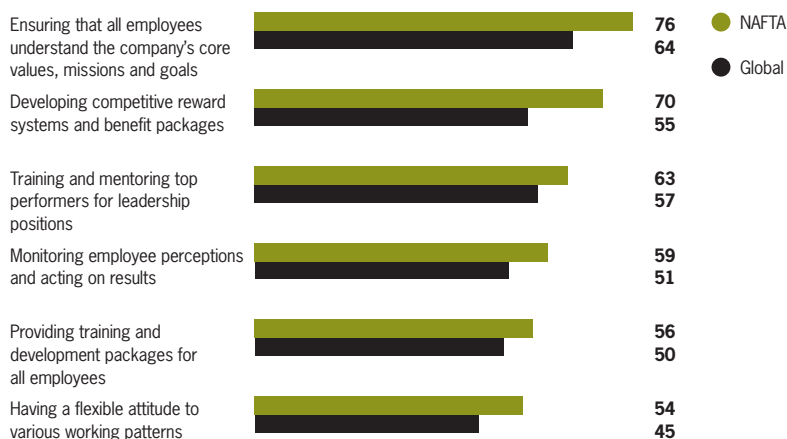
Source: Grant Thornton IBR 2008

Recruitment and retention

- The balance of PHBs in NAFTA countries more focused on retention than one year ago (59 per cent), is up from 44 per cent in 2005. Over the same time period the global businesses average has risen from 44 per cent to 59 per cent.
- 76 per cent of PHBs in NAFTA economies ensure that all employees understand the company's core values, missions and goals to aid recruitment/retention, higher than the global average of 64 per cent.
- Cited by 42 per cent of PHBs in NAFTA, increased workload for remaining staff is viewed as the major problem staff retention issues have caused.
- It is costing 50 per cent of PHBs in NAFTA significantly more to pay their staff than it was 12 months ago, although this is below the global average (63 per cent).

Figure 7: Usage of recruitment and retention tools for businesses in NAFTA countries compared to 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 NAFTA economies

In the United States, resilient consumer spending and timely counter cyclical policies provide just enough momentum to keep the economy growing. The US can expect growth of around 2.7 per cent this year, the lowest growth in five years. Consensus forecasts are expecting the economy to rebound strongly in 2009. But given consumers' woes and the limited room for stimulus from the government sector, 2009 is likely to be a transitional year.

Real GDP growth is forecast to decline sharply in 2008, even as the consumer sector enjoys another good year. The strong Canadian dollar and a sharp weakening in US demand will continue to take their toll. Growth of around 1.7 per cent per annum in 2008-09 is expected. To add to this growth in export volumes has been weak since 2004 and this is forecast to continue over the next two years.

In Mexico, a steadier monetary environment and confidence in the current government should sustain growth of about 2.5 per cent per annum in 2008-09.

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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