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According to statistics compiled by the Mexican Stock Exchange (BMV) and some private economic analysts, most industrial, manufacturing, and retailing companies in Mexico reported sharp declines in net profits during the first quarter of 1995 because of the impact of the peso devaluation. A survey of major companies conducted by the brokerage company Casa de Bolsa Vector contained some predictable data related to company earnings, which showed that the bottom line for most companies was eroded by high financing costs related to a surge in interest rates and the depreciation of the peso relative to the US dollar.

According to the Vector report which was based on a survey of 27 major companies losses were mitigated for some companies by an increase in the value of sales, especially for businesses heavily involved in the export market or those that sell food, beverages, and other somewhat essential items on the domestic market. Many of the 27 companies surveyed by Vector are involved in the export market or have operations in the US and other countries. They include such giants as glass manufacturer Vitro, industrial conglomerate Alfa, television and communications company Televisa, construction company Sidek, and tourism concern Situr. In addition, a few companies did manage to obtain an increase in the value of domestic sales, which was the direct result of the inflationary trend that followed the peso devaluation.

Accumulated inflation for January-March was reported at more than 14.5%, which would boost the annual rate to more than 50% (see SourceMex, 04/12/95). Nevertheless, despite the rise in the value of sales for some companies, most reported declines in volume of sales due to the loss of purchasing power of the majority of the population. The rate of decline varied, depending on the product that was being sold. For example, the soft drink and beer manufacturer Grupo Femsa reported an increase of 0.2% in the volume of domestic sales during January-March, compared with the same period last year.

Revenues from domestic sales increased because of the Mexican government's approval of a 13% hike in prices for soft drinks. Femsa is the principal distributor of Coca Cola products in Mexico. Some companies that manufacture products for the industrial markets also saw some increases. For example, Grupo Cydsa, which produces textiles, chemicals, and other products reported a rise of 10% in domestic sales. Cydsa and Femsa, however, were among the few exceptions to the rule.

According to representatives from the eight largest industrial sectors, domestic sales in Mexico declined between 30% and 80% during January-March, compared with the same period last year. These sectors are automobiles, construction, steel production, textiles, footwear, restaurants, and graphic arts. "The situation will probably not change any time soon," said Victor Manuel Terrones, president of the national manufacturing business chamber (Camara Nacional de la Industria de la Transformacion, Canacintra). Terrones said the reduction in sales during the first quarter of the

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year will be minimal when compared to the expected slowdown in the second quarter, especially during May. He said the impact of poor sales in the first half of the year will remain apparent at least through August. Among the companies reporting the greatest downturn in net profits were the giant telephone company Telefonos de Mexico (Telmex) and a number of financial groups, including Grupo Financiero Serfin. Telmex, which is listed both at the BMV and at the New York Stock Exchange (NYSE), reported the losses despite an increase in telephone rates. One of the leading stocks, Telmex reported losses of 390.3 million nuevo pesos (US$66.7 million) during the January-March quarter, compared with profits of 2.2 billion nuevo pesos (US$376 million) in the first quarter of 1994.

For its part, Serfin reported net profits of 171 million nuevo pesos (US$29.2 million) in the first quarter of the year, down about 47% from a year ago. The financial group attributed the decline mainly to a drop of 15% in net profits for its subsidiary Banca Serfin and the impact of the loss of value of the peso relative to the dollar. In April, Banca Serfin which is Mexico's third largest bank was one of six financial institutions that were forced to draw funds from a special government fund to allow them to comply with minimum capitalization levels (see SourceMex, 04/12/95). Still, most companies involved in export or those which have extensive operations overseas used the foreign or export earnings to offset declines in sales in the domestic market. For example, Femsa reported an increase of 42% in total sales during the first quarter, compared with the static sales of 0.2% domestically. Most of this increase in exports was the result of a sharp rise in beer shipments overseas, especially to the US. According to the US Beer Institute, Mexican beer exports to the US in January alone increased by 50% from the same month in 1994 (see SourceMex, 04/19/95).

Similarly, Grupo Cydsa reported a sharp increase in profits to 134 million nuevo pesos (US$22.9 million) in January-March, 12 times higher than during the same period in 1994. The gains were attributed almost exclusively to the devaluation of the peso, which resulted in a 45% increase in exports to US$75 million. Cydsa increased exports for most of its products, including chemicals, fibers, and textiles. Another company with extensive foreign operations, food company Grupo Industrial Maseca (Gruma), reported an increase of 14.2% in net earnings to US$56.5 million, despite a reduction of 5% in domestic sales of tortillas, tortilla flour, and corn meal. For its part, Grupo Alfa forecast exports for this year at US$1 billion, or twice as high as the US$500 million registered in 1994. According to Alfa president Dionosio Garza Medina, the increase in exports will help compensate for a contraction of 30% in the domestic markets. US companies that conduct business in Mexico have also been forced to cope with devaluation of the peso.

Like their Mexican counterparts, US-owned factories in Mexico have been forced to cut costs to offset lower profits. The US companies with the most visible presence in Mexico are retail operations such as J.C. Penney, Sears, K-Mart, and others. For example, in early May, J.C. Penny suspended plans to open five of its seven new stores planned in Mexico this year. The company said construction of four new outlets in Mexico City and one in Guadalajara would be placed on hold indefinitely. On the other hand, the company said it was proceeding with plans to open stores in Monterrey and Leon. Other retailers such as K-Mart have decided to cut costs by reducing imports from the US and opting to carry a larger line of products manufactured in Mexico. K-Mart officials said some US products that were previously carried on the shelves of the company's four stores in Mexico are no longer available.

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Still, many US companies are absorbing some losses in the near term in anticipation of a recovery in the Mexican economy. A survey conducted by Technomic Consultants International between mid-January and mid-February, showed that 23 of the 35 companies responding had some sort of expansion plans before the peso devaluation. Of those 23, at least 10 said they were proceeding with expansion as planned. The firms surveyed included 33 US and other foreign companies and two Mexican companies. "For all the setbacks and high inflation in Mexico, the country has great long-term promise because of its large middle class," said John Endean, vice president for policy at the American Business Conference, a Washington-based group of company chief executives.

Some US companies are proceeding with direct expansion into Mexico. In early May, Lee Company reportedly began construction of a US$5 million plant. The plant is expected to generate 500 jobs directly and produce 4 million pairs of blue jeans and other pants a year, mostly for export to the US. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 4, reported at 5.85 nuevo pesos per US$1.00] (Sources: Agence France-Presse, 04/09/95; Atlanta Journal-Constitution, 04/14/95; Inter Press Service, 04/05/95, 04/20/95; Diario de Monterrey, 04/26/95; Reforma, 04/26/95, 04/27/95; United Press International, 04/27/95; Financial Times-London, 04/28/95; Notimex, 05/03/95; Associated Press, 03/30/95, 05/04/95; El Norte, 04/27/95, 05/04/95; El Financiero International, 05/08/95)

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