



18

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Business
Barometer Survey
The business
pulse survey

Introduction

We introduce the eighteenth edition of the Business Barometer Survey amid a context of mixed realities for the Mexican economy. On the downside, moderation in national economic activity, recently announced by the Bank of Mexico, and productivity slowdown in the United States have led to a downward revision of growth expectations. On the positive side, we have inflation control, exchange rate stability and a credit market in full expansion.

In the same vein, the opinion of entrepreneurs surveyed regarding the country's economic activity and their decision making on that basis, show signs of ambivalence, suggesting optimism about some economic indicators and considerable reservations about others.

Thus, survey results reflect a slight decline in the companies' perception as regards the business climate. But the most significant low can be seen in the respondents' opinion about the future of business environment, which is currently not envisioned in as a positive light as it was last year. The U.S. slowdown and the perception of insecurity, which is still considered the main threat to the economy, have reduced the executives' favorable expectations.

Nonetheless, opinions concerning the current situation of the companies, inflation, exchange rate and the government's performance are encouraging, showing a significant high; particularly in the perception of inflation, which has raised the highest expectations on record in the four years since the Business Barometer Survey has been conducted.

Similarly, in what may seem contradictory, although the executives' optimism about the future of economic environment has declined, it has not done the same regarding the future situation of their businesses, which remains at similar levels as those of last year.

Overall, survey results are positive: Companies remain solid, reflecting the recovery of Mexican economy and keeping the upturn started two years ago. We will have to wait until next quarter to see whether expectations about the economic future keep their downward trend or we are just in the presence of a cyclical decline.

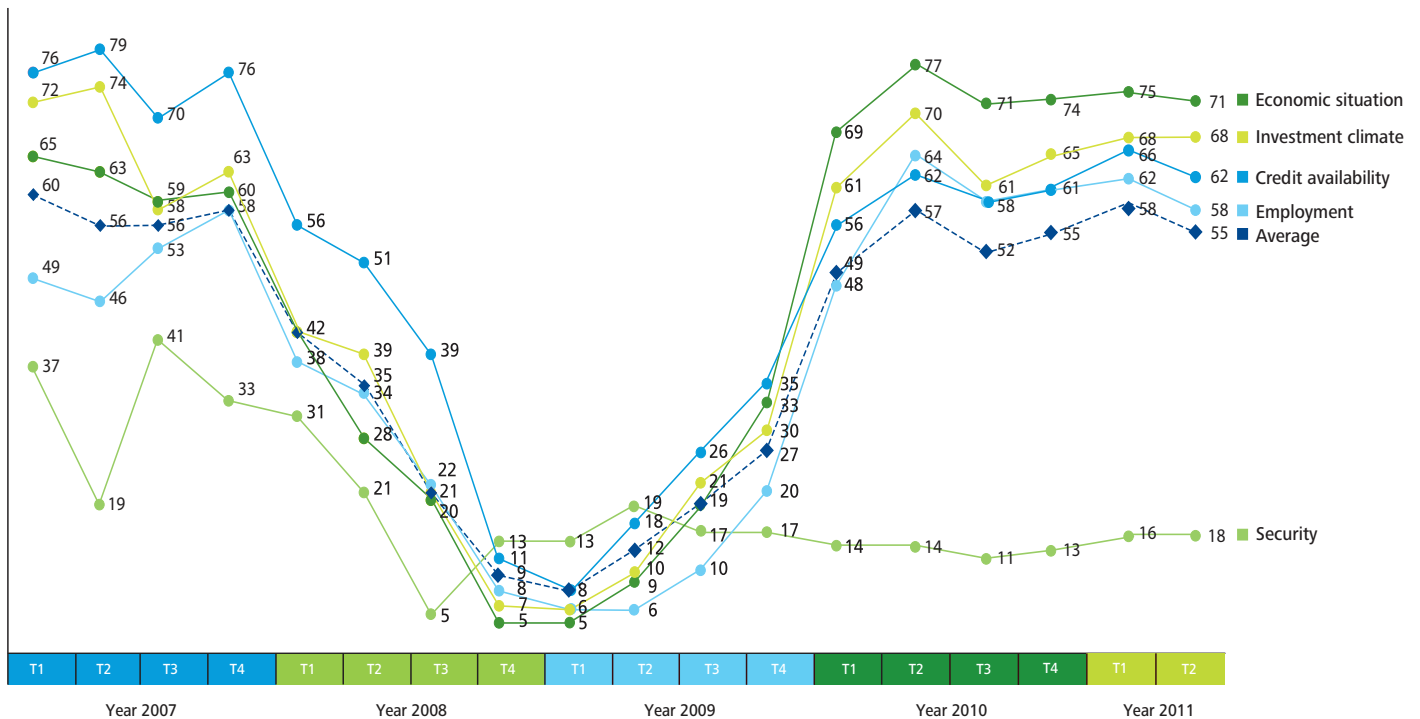
I Business environment

Current

In Q2 2011, the executives' appreciation about the business environment has slightly deteriorated compared to their view in the last quarter. Credit availability, which has increased from 66 to 68 points, and the outlook of security, which rose from 16 to 18 points, constitute the exception, indicating areas of progress. As a result, the average drop is minor (58 to 55 points), and the perception of the business environment is still relatively high. Thereby, it seems that the decline is temporary and due to a number of small cyclical ups and

downs, which have been taking place since the ratings improved in the first quarter of 2010. Notably, the average score for this quarter (55) was the third highest since, only surpassed – as mentioned before – by three points in the previous quarter, and by two in the second quarter of 2010. When compared with the average for the second quarter of 2009 (12), we notice that the perception of executives has improved significantly over the past two years.

Current situation compared with one previous year (Average scores in a 01-100 basis*)



* Figures were computed by weighing percentages of responses better, the same or worse by 1, 0.5 and 0.

Future

Notwithstanding, it should be noted that the panelists' expectations concerning the business environment within a year were the lowest since the upturn reported in early 2010. While in June 2010 the average rating for six indicators considered was 74, in June 2011 fell 12 points, to 62. Albeit indicators do not show a worrying decline, it seems that caution is gaining ground among executives. This could be due to fear of economic slowdown in the U.S., which increased again this quarter, as well as to the outlook of insecurity which, though slightly reduced, continues to be the factor of greatest concern.

Future situation within one year (Average scores in a 01-100 basis*)



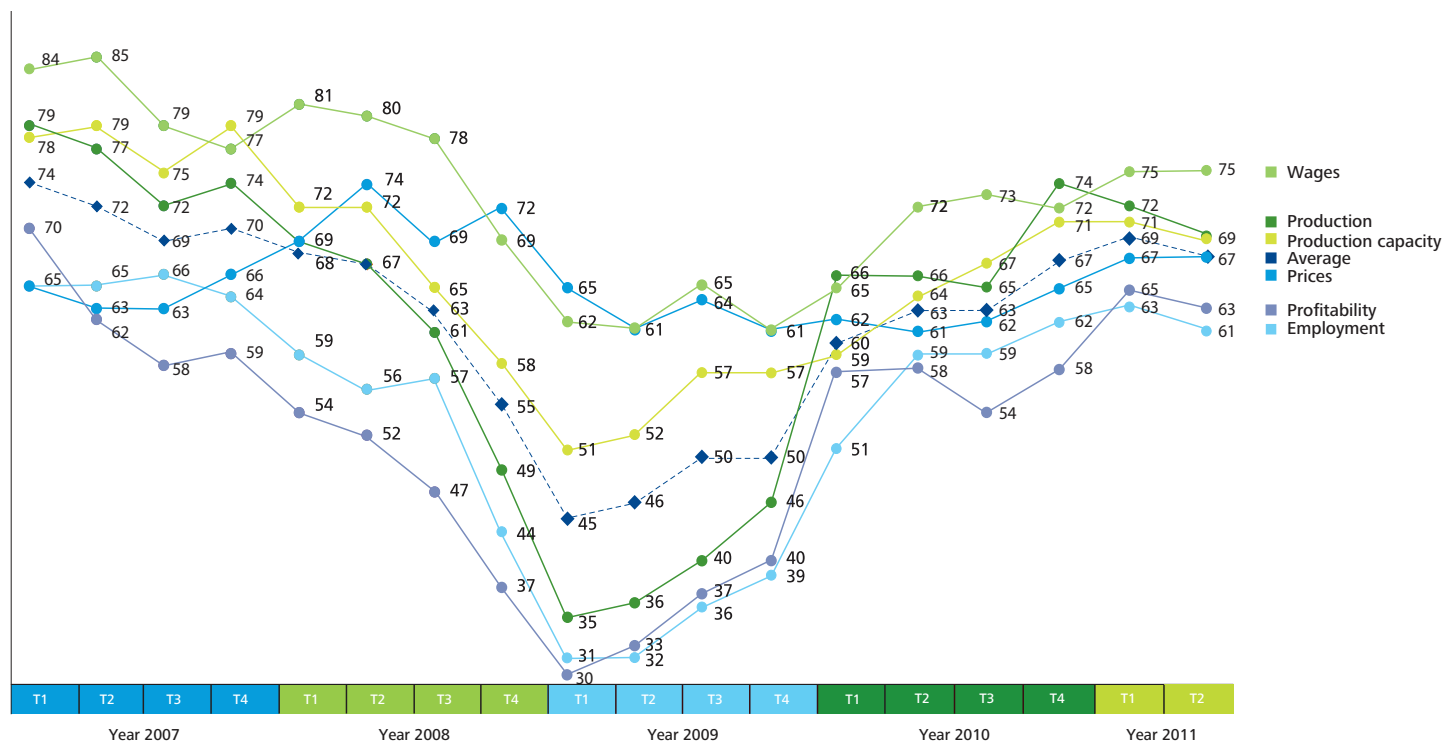
* Figures were computed by weighing percentages of responses better, the same or worse by 1, 0.5 and 0

II Company situation

Current

The executives' perception regarding the current situation of their companies remains high in relation to the previous 12 months. Their assessment of six key performance indicators in June 2011 is more positive than in the same month of 2010 (67 points versus 63), though narrowly lower than in March 2011. The latter could be attributed to the fall in production registered the last quarter, which whereas not too pronounced, is consistent with a drop of six points in that category since December 2010.

Current Company situation compared with the one in previous year (Average scores in a 0-100 scale basis*)



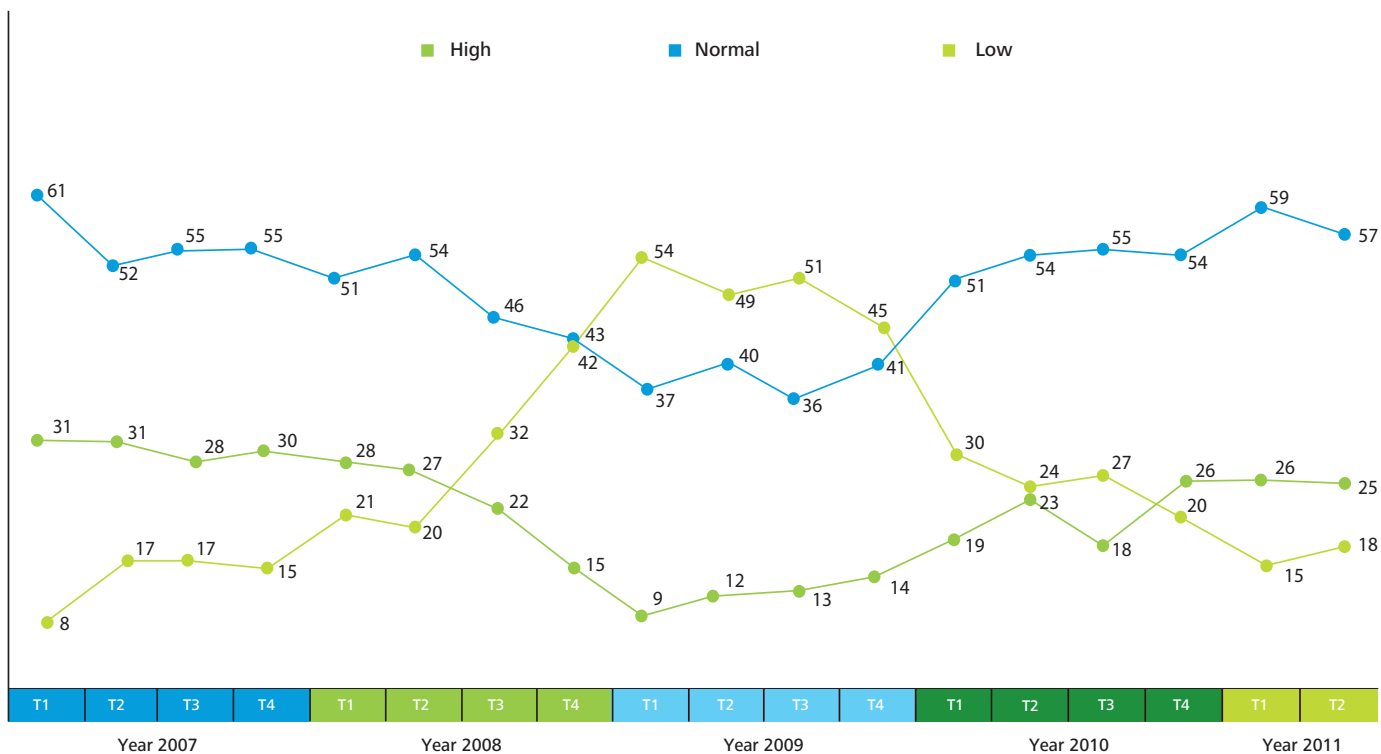
*Figures were computed by weighing percentages of responses higher, the same and lower by 1, 0.5 and 0.

Indicators evolution

All indicators related to the current situation of the companies show an improvement compared to June 2010: production (weighted at 69 points versus 66), profitability (63 points versus 58), production capacity (69 vs. 64), prices (67 vs. 61), employment (61 vs. 59) and wages (75 vs. 72).

Likewise, the number of companies with low demand fell: Just 18% of survey respondents report low demand, compared to the 24% who said so in June 2010.

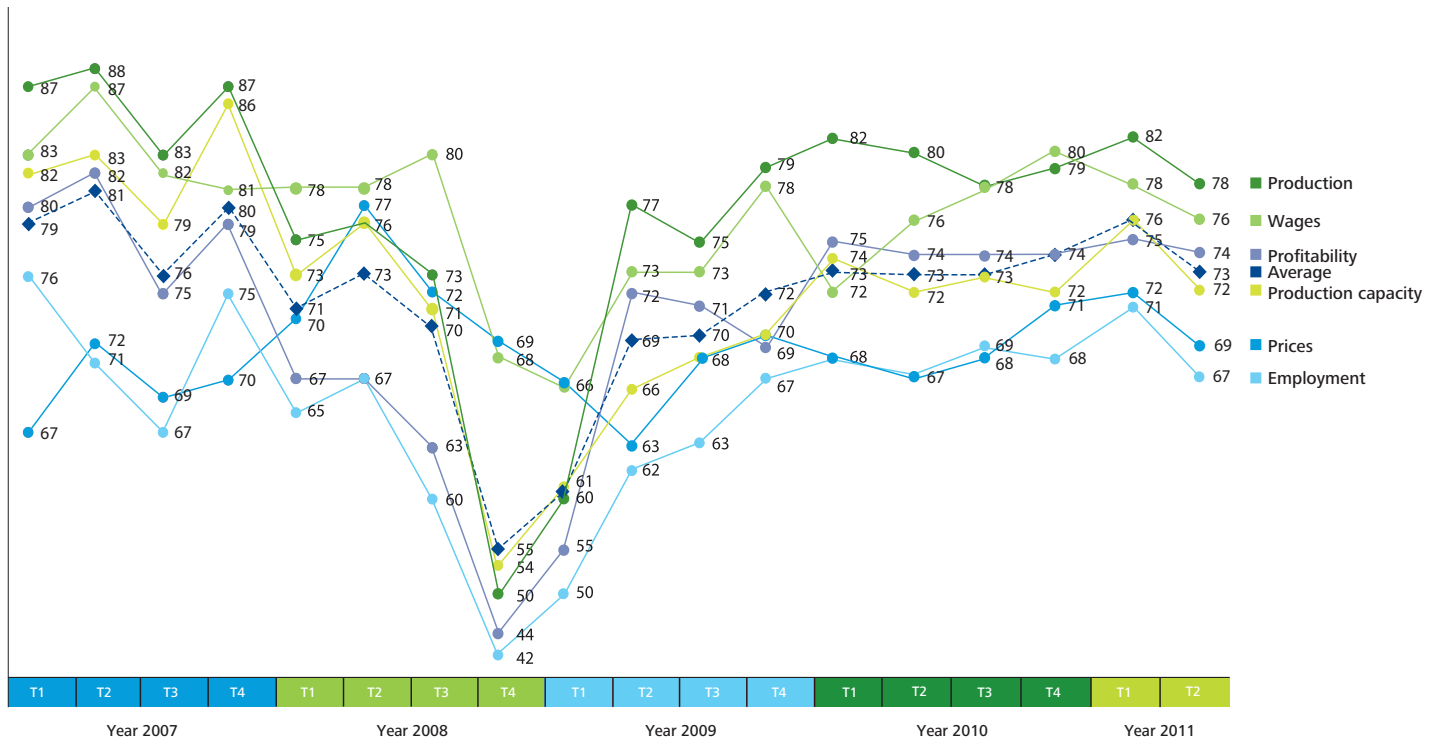
Current company demand (percentage distribution of responses)



Future

The panelists' assessment in June 2011 as regards the future of their companies remains stable from the year before. The average rating given to the six indicators in that category is now 73 points, the same as in June 2010. However, when compared with that for the previous quarter (76), it fell by three points.

Future situation (within a year) of the companies with regard to the date of the survey
(Average scores in the 0-100 scale*)



* Figures were computed by weighing percentages of responses higher, the same and lower by 1, 0.5 and 0.

III Inflation and exchange rate expectations

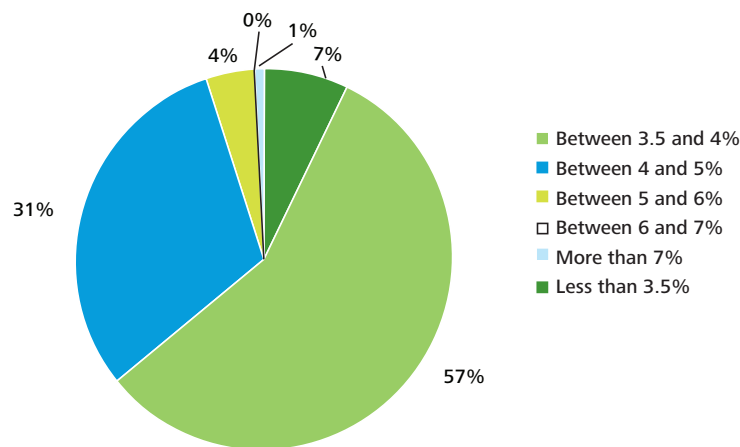
Inflation

The upward consolidation in this indicator positive outlook is the most notorious and encouraging feature of Q2 2011. Executives continue to improve their expectations about inflation, which over the last several quarters has not been perceived as a threat to the Mexican economy. Only 4% of respondents in June this year said they believed inflation would exceed 5% in 2011. The majority (57%) estimated that it will settle between 3.5% and 4%, an even higher figure than that for the last quarter and it surpasses by almost 20 points the one for June 2010 (38%).

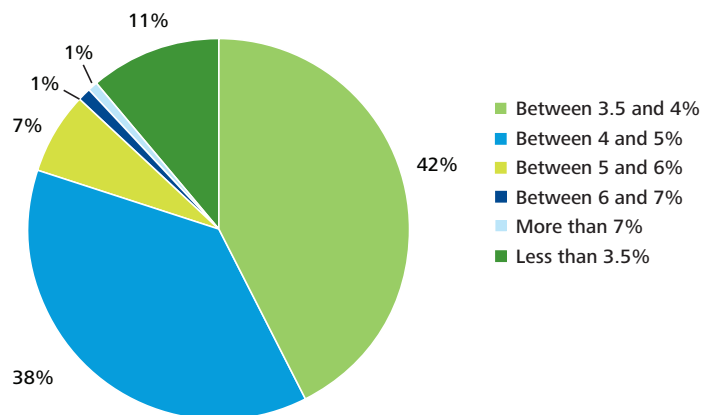
With respect to the outlook for 2012, although less uniform than the one expected this year, it is also positive. In this quarter, 91% believe that inflation rates will stay below 5% next year.

Expected inflation (percentage of responses)

Inflation by year-end 2011

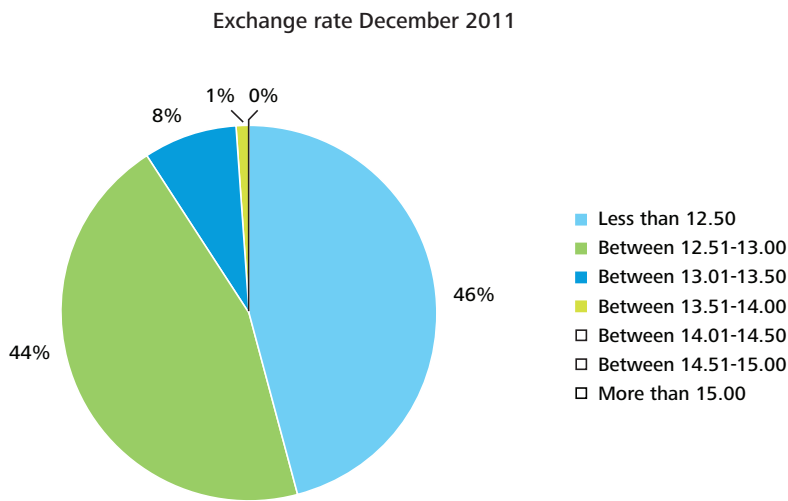


Inflation by year-end 2012

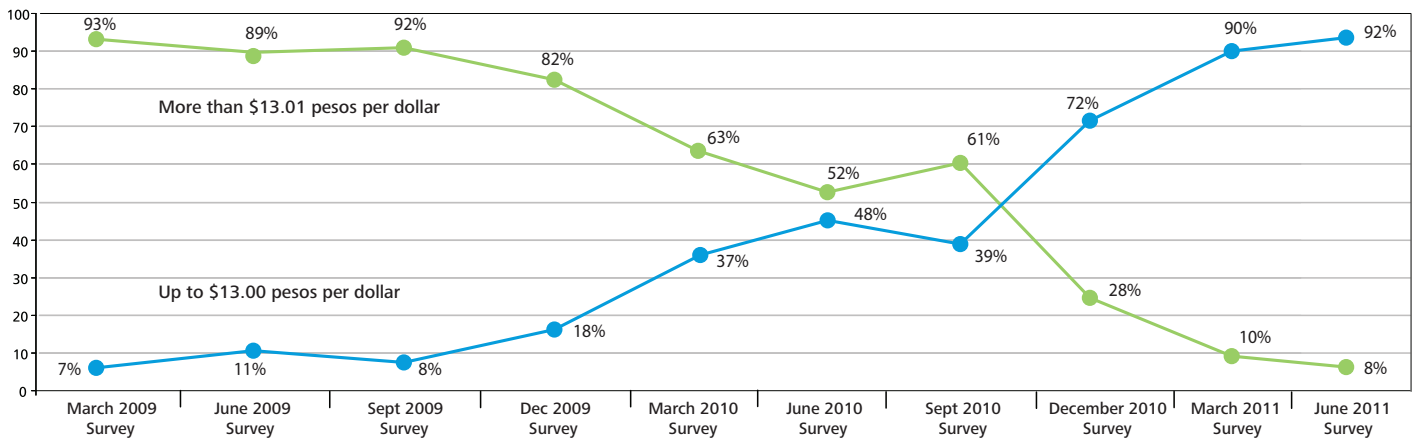


Exchange rate expectations

Another visible sign of optimism: The favorable exchange rate continues to build confidence among executives, who increasingly evaluate it highly. Thence, while in June 2010 the majority of respondents (52%) expected the exchange rate to be at ranges over 13 pesos per dollar within a year, now only 8% of them think that way. Expectations are even more favorable than in the previous quarter, when 10% believed that the price of the dollar would be above 13 pesos. Confidence in this macroeconomic variable is gaining ground among Mexican entrepreneurs, who now seem to face the future with improved prospects in this area.



Exchange rate within a year (percentage of responses)



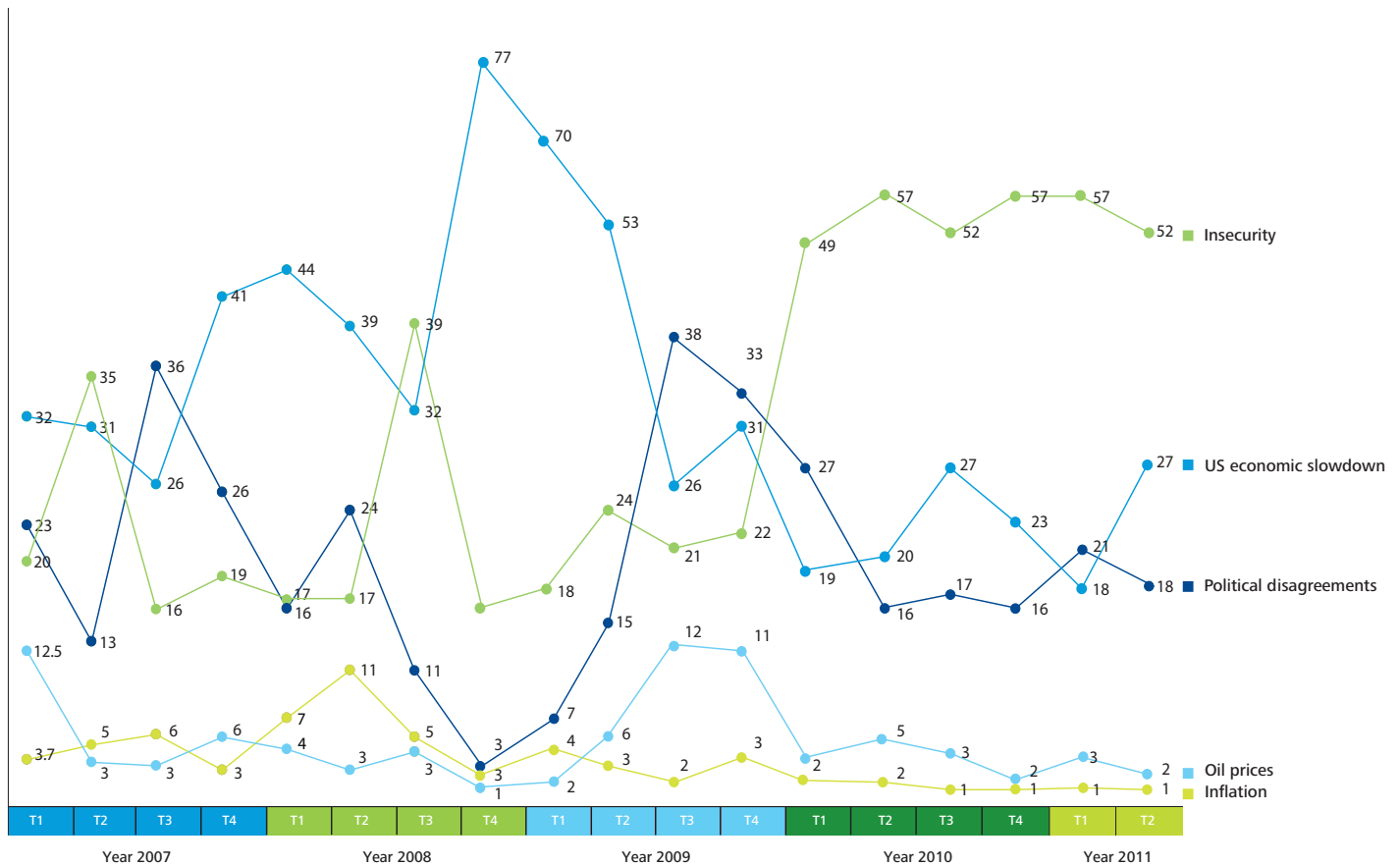
IV Threats to the economy

According to the surveyed executives, insecurity keeps representing the leading hurdle for economic expansion. Their view is consistent with that of private sector economists revealed by Bank of Mexico's monthly survey. It is noteworthy, however, that in June 2011 that perception showed a slight improvement compared to the same month last year. While in June 2010, 57% viewed insecurity as the factor of greatest concern, now 52% perceive it that way. The same holds true with regard to the previous quarter. But that meager margin of improvement seems to be cyclical (September 2010 showed

the same result), and insecurity is still considered the weaker side of Mexican economy.

Far below insecurity, but also arousing concern among executives, is the slowdown of the U.S. economy. In June 2011, 27% of respondents identified it as the factor of greatest concern, whereas in the previous quarter only 18% saw it that way. And 12 months ago, 20% expressed such fears about the U.S. economy.

Threats to the Mexican economy within the incoming months (percentage of responses)

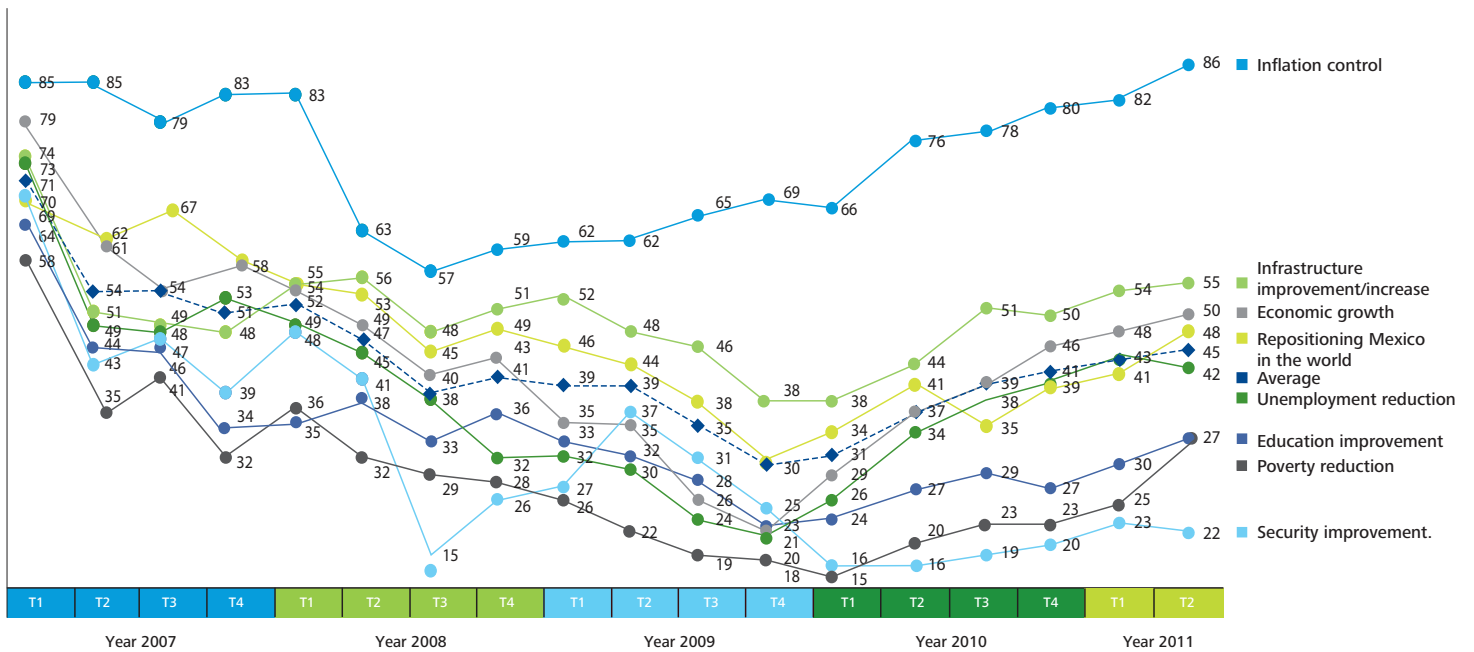


Government administration

For the second quarter in a row, executives assessed the government's performance positively, giving it, in most areas of administration, higher scores than in the previous quarter (45 points overall versus 43). When compared to the average for June 2010 (37), we notice that the government's rates rose eight points, the highest since December 2008. In the Economic growth category, it went from 37, in June 2010, up to 50, in June 2011; and in Infrastructure improvement, went from 44 to 55 in the same period. Nevertheless, in the field of Security improvement, the government keeps receiving low grades, despite having rebounded from the previous year (with 22 points versus 16).

Inflation control continues to be the area where the government receives its best assessments, this time reaching 86 points, a high record since the start of the Business Barometer Survey in March 2007.

Opinions on government performance (average scores in a 0-100 scale*)



* Figures were computed by weighing percentages of responses better, the same and worse by 1, 0.5 and 0.

V Conclusions

The expectations of Mexican companies have improved in areas such as confidence in economic stability, inflation control and the government's performance. Even though, June survey results indicate a decline in the executives' vision for the future of business environment.

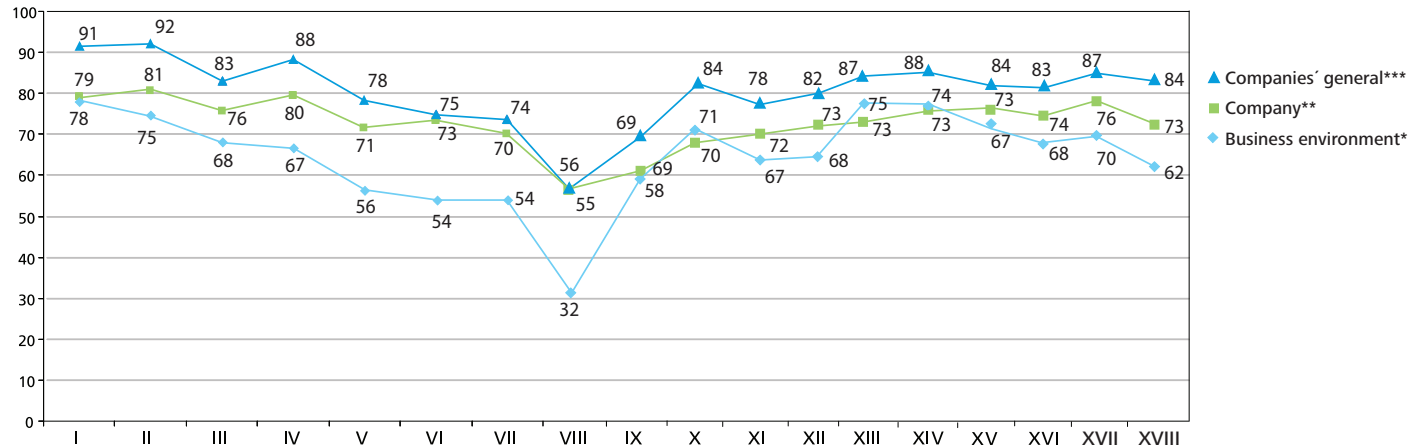
In that sense, their plans for the next 12 months are now ostensibly more modest than they were in June 2010, largely due to fears of the U.S. slowdown and to their perception of insecurity, which although slightly improved, it is still far from constituting a new trend.

However, the current situation of the companies remains relatively stable, narrowly outdoing last year's average score. Similarly, expectations for inflation and exchange rate developments have risen sharply, to reach the highest level in four years. The government's performance has also

improved substantially in all areas according to the executives. Even so, it should be noticed that in most indicators, the government keeps failing the test, consistently scoring below 50 points, including the sensitive category of security improvement.

The overall outcome of the eighteenth Business Barometer Survey is favorable. Companies have made progress, but much remains to be done to strengthen their market expectations. The same holds true for the overall Mexican economy: Despite the announcement of slowdown and decline in domestic expenditure, Bank of Mexico officials have reaffirmed expectations of stability for a long time to come, as well as the absence of inflationary pressures. Several indicators continue to show signs of slack, which support the conclusion that economic recovery will stay on track.

General situation (0: pessimistic; 100 optimistic)



* Business environment: Five indicators (Investment climate, credit availability, employment, security and economic situation).

** Company: Six indicators (Production capacity, employment, prices, production, profitability and wages).

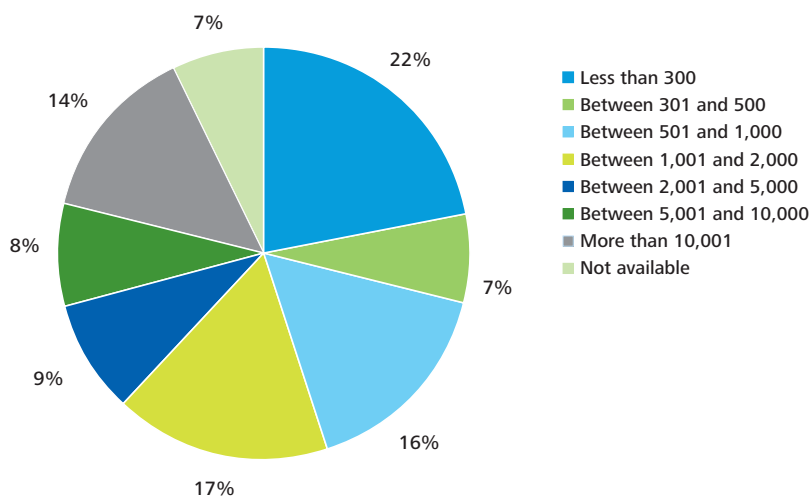
*** Companies' general situation.

VI About the Survey

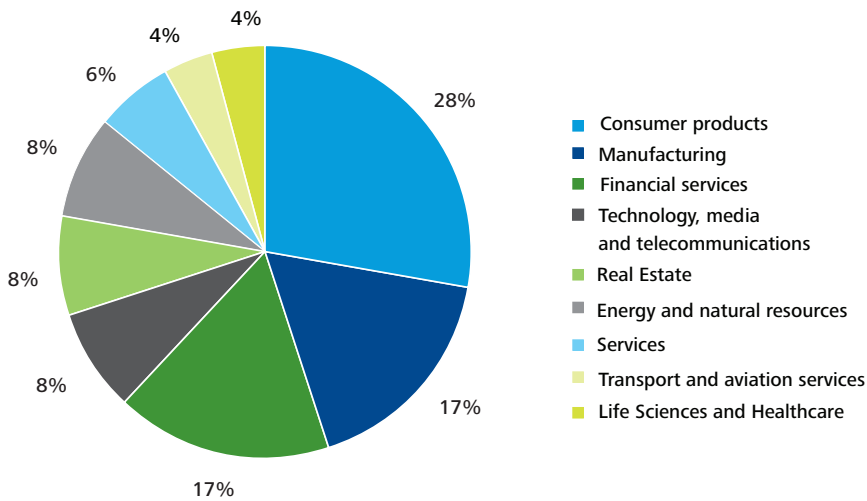
Deloitte's eighteenth Business Barometer Survey was conducted between June 6 and 30, 2011 and collected the opinion of 356 executives of the most prominent companies located in Mexico.

Considered among the most valuable companies, their overall income rose to \$ 3,530,517.47 million pesos, according to the last reported period.

Average annual income



Industry participation



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