

24

January 2013

Business  
Barometer Survey  
The business  
pulse survey



# Introducción

This edition (No. 24) of Deloitte's Business Barometer offers not only the opinions of leading businessmen regarding the current situation and coming prospects, but also provides an implicit assessment of the performance of the last administration.

Without a doubt, the administration of the President Felipe Calderon went through two distinct periods: the first characterized by upbeat opinions and high expectations ending in the economic downturn of 2009. The Business Barometer was able to anticipate and reflect this situation by showing that across a diverse array of variables, top executives and businessmen were well aware of this erosion. A similar thing occurred in the second half of Calderon's term, when the Business Barometer published surveys showing rising optimism with regards to the economic recovery then in fact underway. In this sense, it is critical to point out that the rise on their perception of insecurity remains largely unchanged, despite the upbeat evolution and the prospects for the economy. The perception of worsening security reveals that this matter remains on the agenda among the business leaders surveyed. A similar situation has prevailed on the variables of poverty and education. In contrast, control of inflation, infrastructure improvements and economic growth were areas in which Calderon's administration received its best marks, evidencing business leaders' general approval of the stable macroeconomics and handling of the exchange and interest rates, especially in the wake of the 2009 contraction.

Those surveyed in this edition of Business Barometer point to an improving business climate vis à vis last year. This outlook is underpinned by an improved outlook for the investment climate, economic situation and security. Moreover, business expectations also point to a favorable situation in the near term, with the economic situation and investment climate scoring the best marks, while security continues to lag behind all variables.

The inflation variable points to an upbeat outlook for the economy, with 43% of respondents calling for year-end inflation to fall between 3.5% and 4.0%, a figure revealing businessmen's confidence in ongoing economic stability. Nonetheless, most executives surveyed (49%) are calling for year-end inflation to settle between 4.0% and 5.0%. This scenario implicitly suggests that recent increases in food and fuel prices are not viewed as something exerting significant inflation pressure, probably because businessmen have largely attempted to avoid passing on these hikes to the final consumer.

Concerning the peso parity, most respondents see the exchange rate coming in at between \$13.01 and \$13.50 MXP, while 34% see it appreciating to below 13.00. Furthermore, the proportion of businessmen expecting the rate to top 14.00 declined, suggesting that business leaders are generally upbeat about the peso's performance against the dollar. This also points to confidence that the government of the United States will reach an agreement on the deficit that will not adversely affect the global financial system.

Most business leaders surveyed agree that the US economy poses the greatest threat to economic growth. This threat is followed by insecurity and political discord. Against scores for government performance in the last quarter of 2012,

businessmen in this edition handed out better marks, but still lower than those earned in the third quarter of 2012. Inflation control and expanding/improving infrastructure headed all variables in the current edition; while reducing poverty, improving education and improving security continue to be the most significant challenges and highest priorities facing the administration of President Enrique Peña Nieto. By focusing on these priorities, Peña Nieto's Administration may be able to create a broader consensus about the political, economic and social agenda in the country.

Most respondents believe the recently approved labor reforms will bring some benefits in the areas of production and in the Mexican labor market. Increases in competitiveness (59%), employment (54%), productivity (51%) and investment (45%), appear to be the most improved variables. Hiring under trial or training contracts, productivity pay and hourly pay rates, are the central elements seen as offering businesses more simplified workforce management options.

On the pending reforms, 79% of business leaders rated tax reform as the top priority, believing that lower tax burdens and filing simplification are essential to improving operations and increasing investment capacity. In addition, only 21% of executives believe that allowing more private investment in drilling and crude production, as part of the energy sector reform, is a basic priority.

Fully 70% of business leaders surveyed affirm that improving security is the single-most important challenge facing Peña Nieto's Administration, while generating greater economic growth came in second, and reducing poverty in third. Similarly, those surveyed suggested that providing sustained, robust economic growth to drive improvements in both social and economic conditions is of key importance.

Deloitte has created a process for evaluating the economy and envisaging prospects for the business climate based on the views of leading Mexican businessmen and executives. Business Barometer has become a trustworthy ally for business leaders, and investors everywhere, who need to make business decisions on the basis of the perceptions of these experts, real-world players. As such, Deloitte Business Barometer is committed to providing objective, in-depth analysis for businessmen and investors working in Mexico, in the hope that our efforts may help these enterprises grow and prosper.

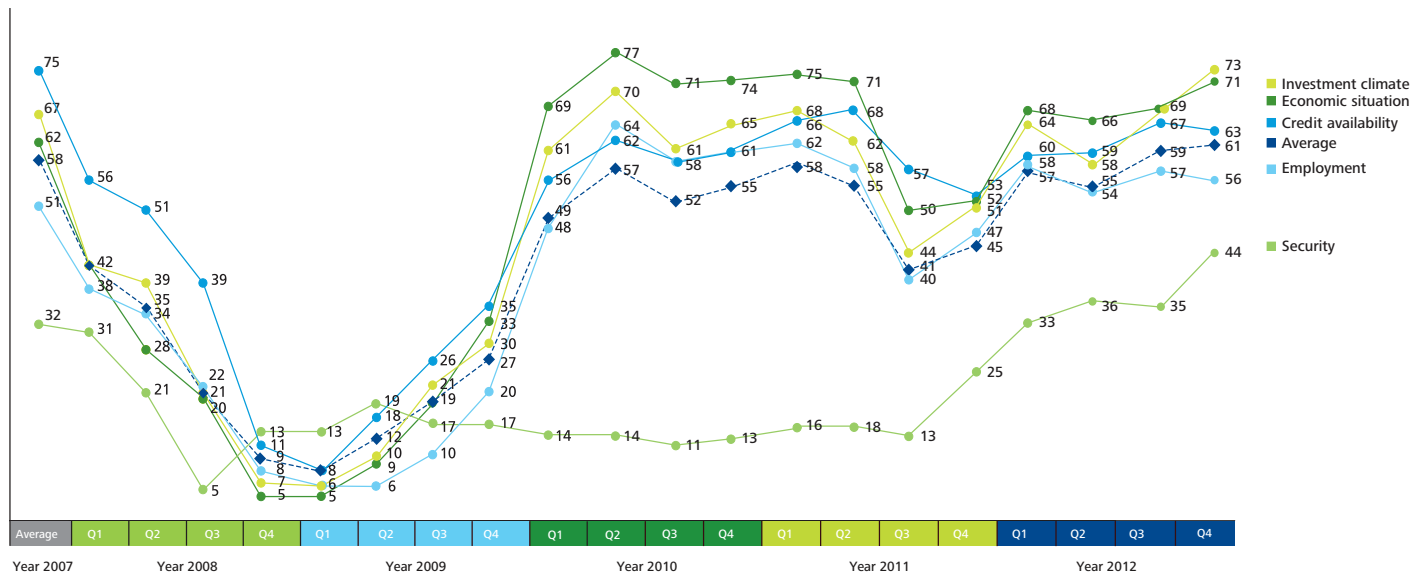
# I Business Environment

## Current

Business leaders surveyed for the 24th edition of Business Barometer foresee a generally improved business climate compared to their last year outlook.

On average, this indicator is 16 points above that recorded for the same period in 2011. The investment climate, economic situation and security are the factors driving this upbeat score. These indicators came in 22, 19 and 19 points higher, respectively. Out of these factors, security was the biggest gainer, coming at 76%. Moreover, the availability of credit and jobs also advanced against last year's score, though the advance was more modest at 10 and 9 points, respectively. In the quarter versus quarter comparison, results are similar, except for a slight retreat in the variables of availability of credit and jobs. In general, leading businessmen and executives share a favorable outlook, with security and business climate averages reaching historical high marks since the survey's inception.

Current situation compared with the one in 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

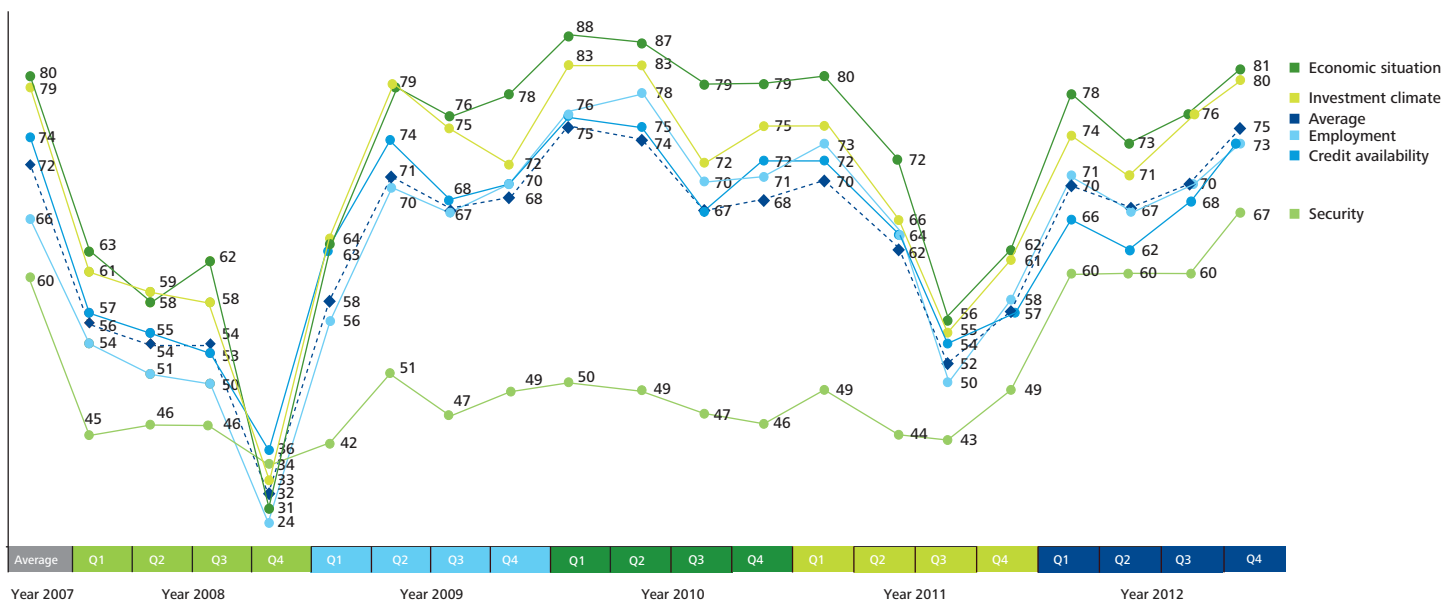
## Future

This quarter's Business Barometer reveals an upbeat outlook of the business future, especially for the fourth quarter of 2013. Against the same quarter in 2011, advances were evident in the variables of economic situation, investment climate and security. Against the fourth quarter of 2012, security was the biggest gainer, scoring a 7 point advance, followed by availability of credit, which moved up by 5 points.

Leading businessmen and executives are bullish with regard to the future business climate versus the current one. All of the constituents of this measure moved up, with security and jobs leading the way with gains of 23 and 17 points, respectively, for the 2013 outlook, while the economic situation and investment climate were the best overall marks.

In contrast, security continues to lag behind, though on average it has shown significant improvement.

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

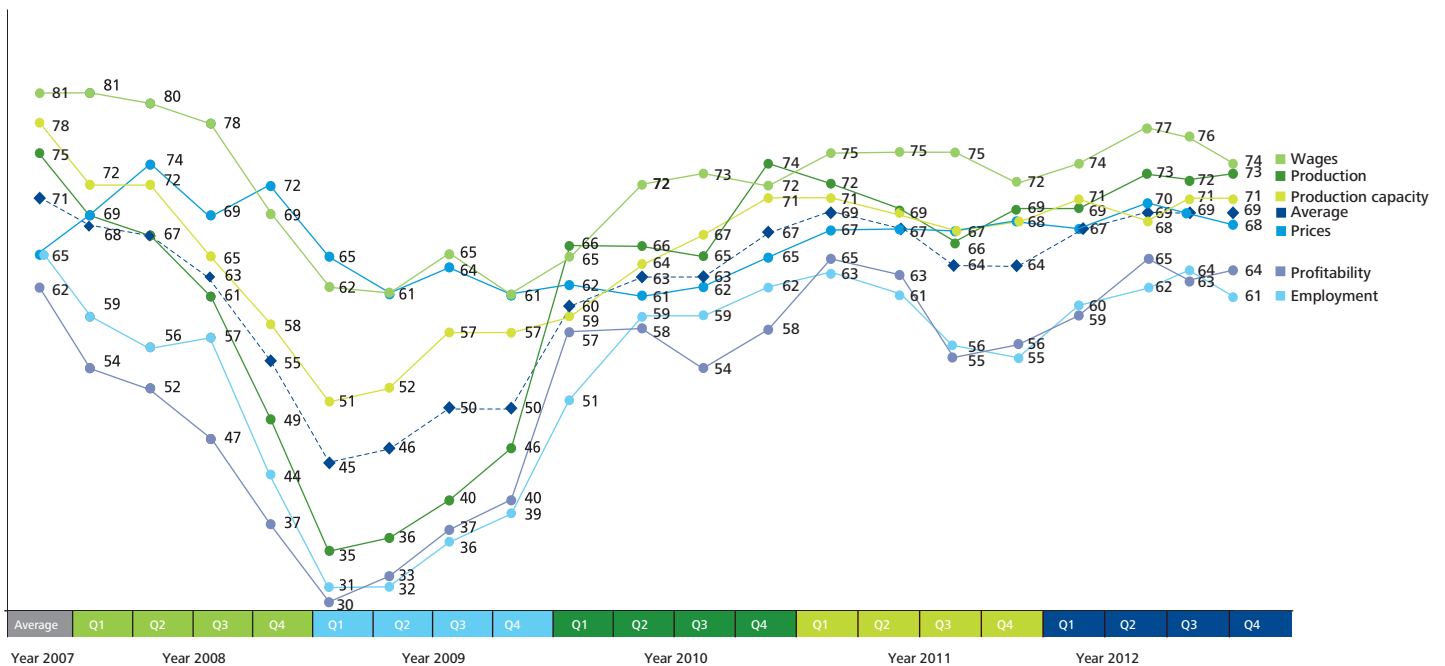
# II Companies Situation

## Current

Indicators of the current business situation point slightly to the upside, though somewhat lower than the rise in expectations for the business climate. In this matter, executives bumped the business climate up by 4 points, with scores for profitability and jobs leading the way on gains of 8 and 7 points, respectively.

Distinctively, the variable of prices does not show any improvement; while salaries and output capacity increased a mere three points each against last year's marks. Compared to the last quarter, executives appear to be less approving, with output and profitability the lone constituents showing any improvement at all, though by a scant one point each. Output capacity, meanwhile, remained unchanged. In contrast, jobs, salaries and prices slipped by 3, 2 and 1 points, respectively.

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

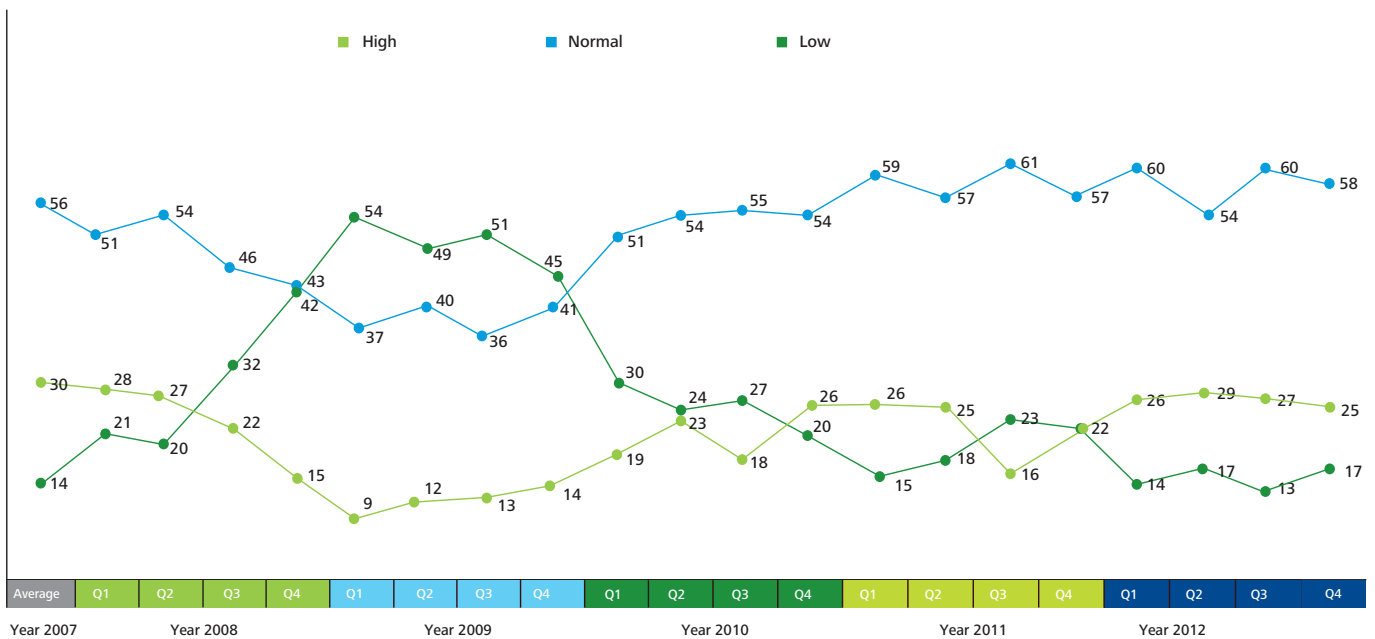


\* Figures were computed by weighing percentages of responses "better", "the same" or "worse" by 1, 0.5 and 0

In general, the best marks were notched by salaries and output, while jobs and profitability brought up the rear. However, on average we see stagnation in the perceptions of high executives with regard to the situation of businesses, suggesting the sector will be taking a cautious approach when making decisions in the future.

Interestingly, despite the meager rise in some of the constituents of the business climate rating, and the generally flat line it has exhibited over the last three quarters, the outlook of businessmen for demand has improved since last year. On this issue, most respondents (58%) rated demand in the normal range, while those rating it as improved moved up to 25%. Reversely, 17% of those surveyed consider it low. Nonetheless, against the third quarter of 2012, negative opinions for current demand inched up by 4%.

**Current company demand (percentage distribution of responses)**



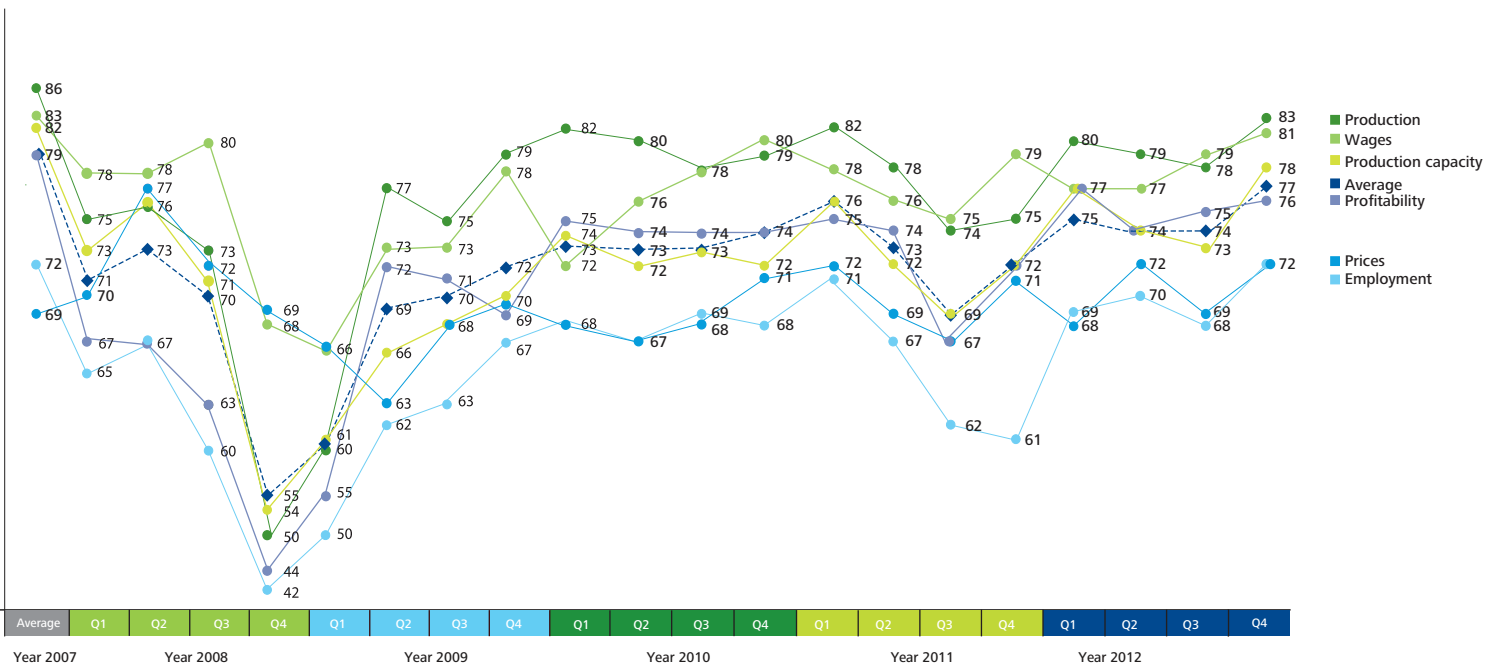


## Future

Business leaders foresee an improved climate in the future, the annual average moving up by 5 points, with jobs leading all constituents with a gain of 11 points against the fourth quarter of 2011, followed by output's advance of 9 points. In contrast, prices moved up by one point only.

Compared to numbers in Business Barometer No. 23, the biggest gainers came in the variables of output and output capacity, each one moving up by 6 points; while profitability grew by only one point. In general terms and versus the current outlook, business expectations for the future improved across every constituent measure, especially for the variables of profitability, jobs and output.

### 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 "better", "the same" or "worse" by 1, 0.5 and 0

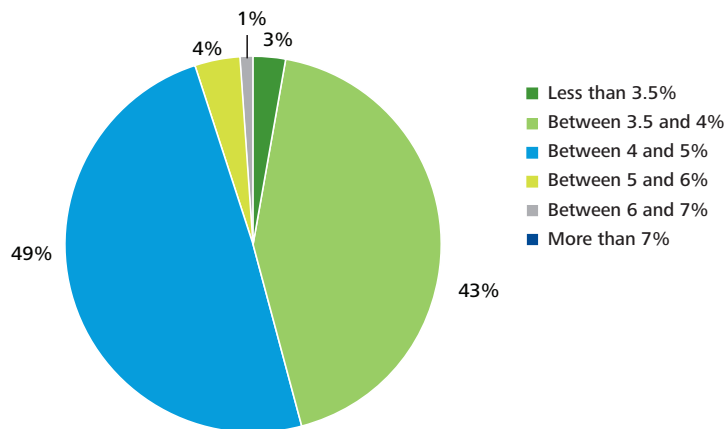
# III Inflation and Exchange Rate

## Inflation

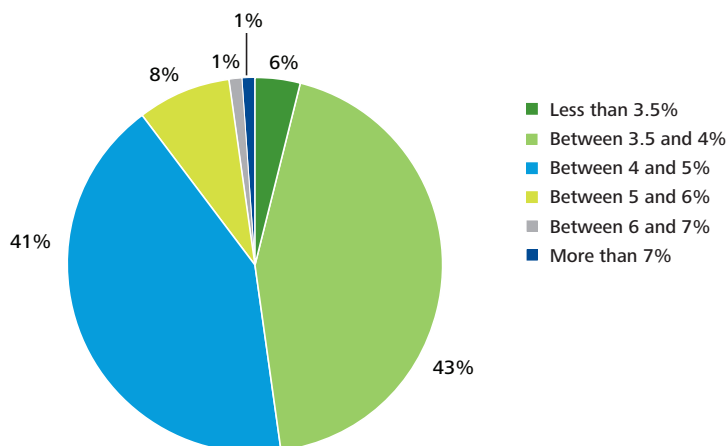
Business leaders' expectations for inflation suggest an upbeat scenario for the economy, with 43% of those surveyed calling for year-end inflation to fall between 3.5% to 4.0%, revealing their confidence in economic stability. However, fully 49% of executives surveyed are calling for inflation of 4.0% to 5.0% over the same stretch. Most business leaders surveyed (51%) foresee 2013 inflation coming in above 4.0%, while only 6.0% see it closing below 3.5%; and 43% are upbeat about greater stability, pegging inflation in the 3.5% to 4.0% range.

Expected inflation (percentage of responses)

Inflation by year-end 2012



Inflation by year-end 2013

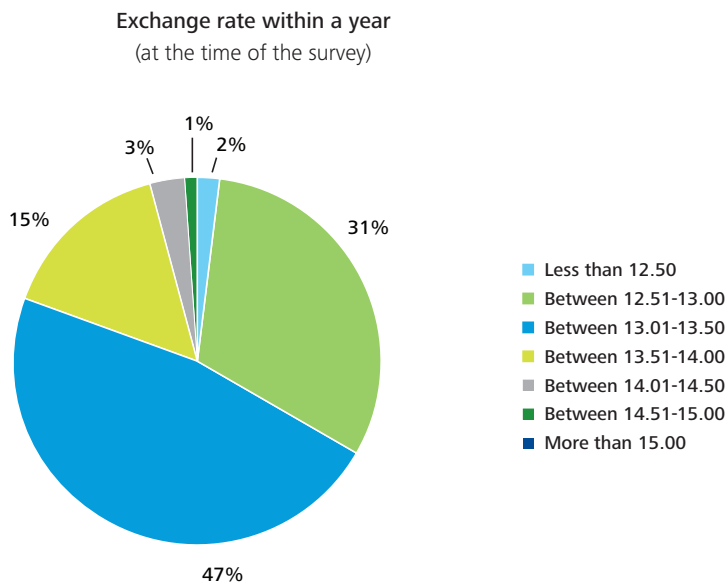


\* Due to decimals round up, the answers may not represent a 100% sum.

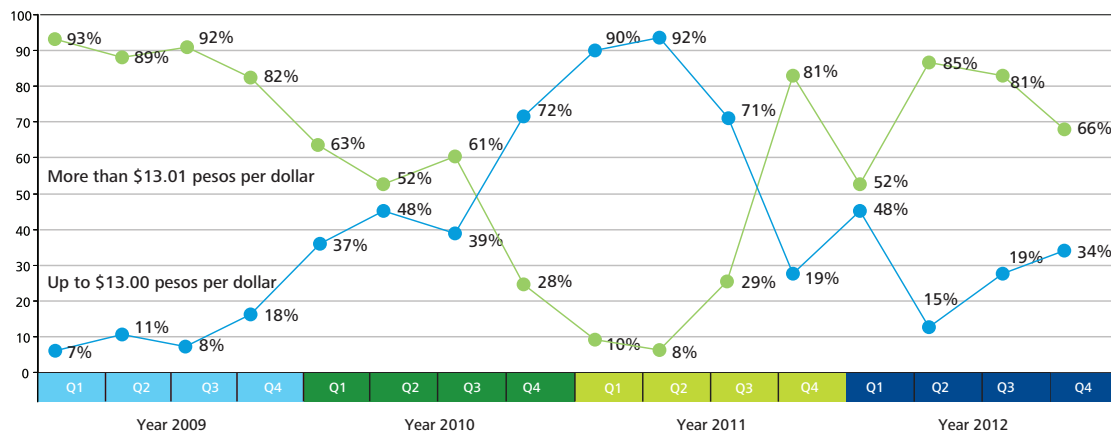
### Exchange rate

The outlook for the exchange rate appears to be generally positive in the minds of business leaders and top executives, who have set a year-end rate of 13.01 to 13.50. In contrast, 34% of these leaders foresee an exchange rate below 13.00. The percentage of business leaders calling for an exchange rate higher than 14.00 fell to 4% from the 13% measured in Business Barometer No. 20, published in December 2011.

The results show greater certitude among Mexican business leaders with regard to the stability of the peso against the dollar. A scant 2% of those surveyed foresee the peso strengthening to a level below 12.50.



Exchange rate trend over the next 12 months (percentage of responses)



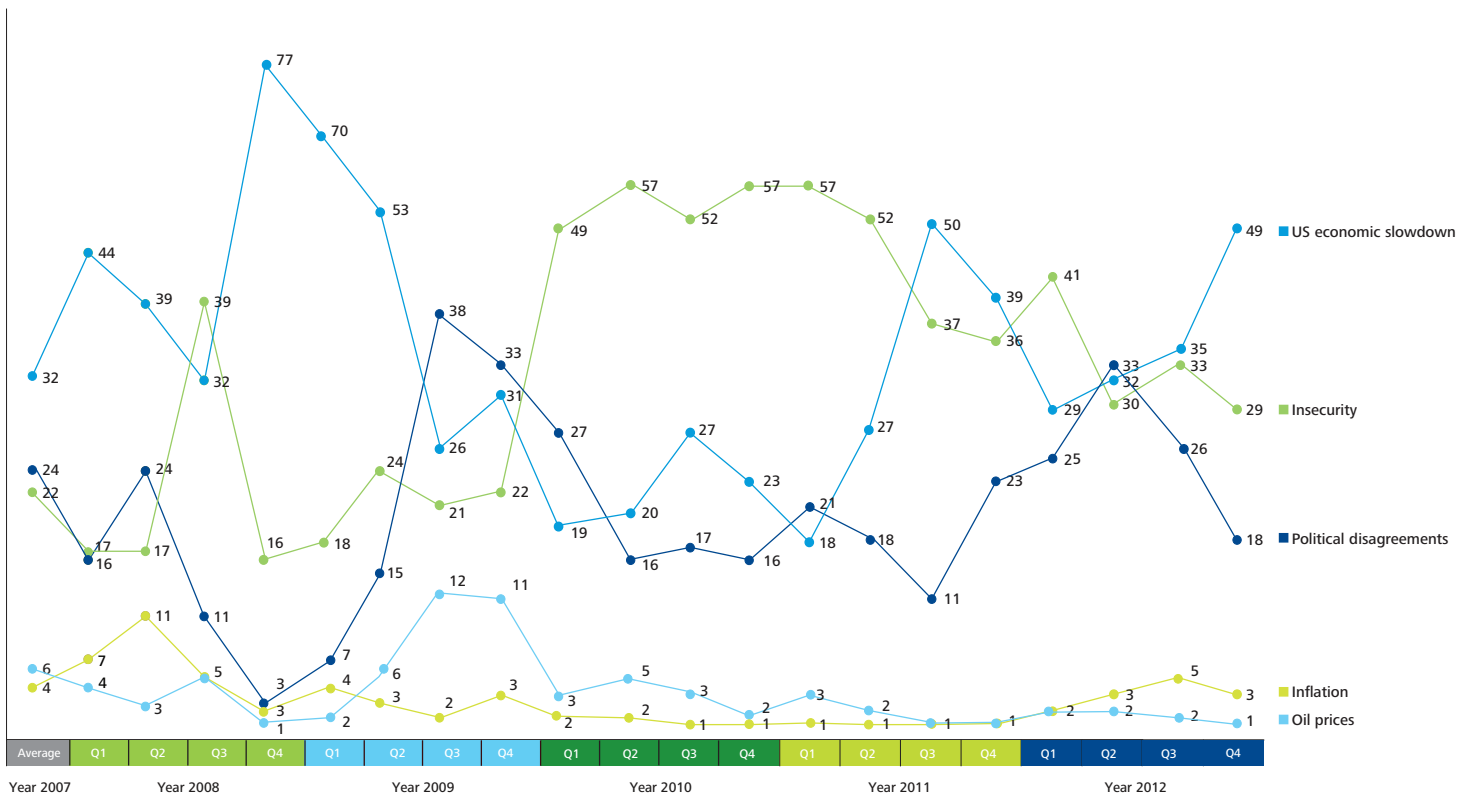
# IV Threats to Economic Activity

## Threats

The scenario provided in Business Barometer No. 24 shows 49% of executives and businessmen surveyed agree that a deceleration of the US economy is the greatest threat to economic growth, while 29% point to lack of security. Political discord came in third at 18%, while inflation and oil prices were mentioned by only 3% and 1% of respondents, respectively.

Compared to the same period in 2011, the threat to economic growth posed by the deceleration of the US economy grew from 39% in December 2011 to 49% in this quarter, while the percentages for insecurity and political discord retreated.

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

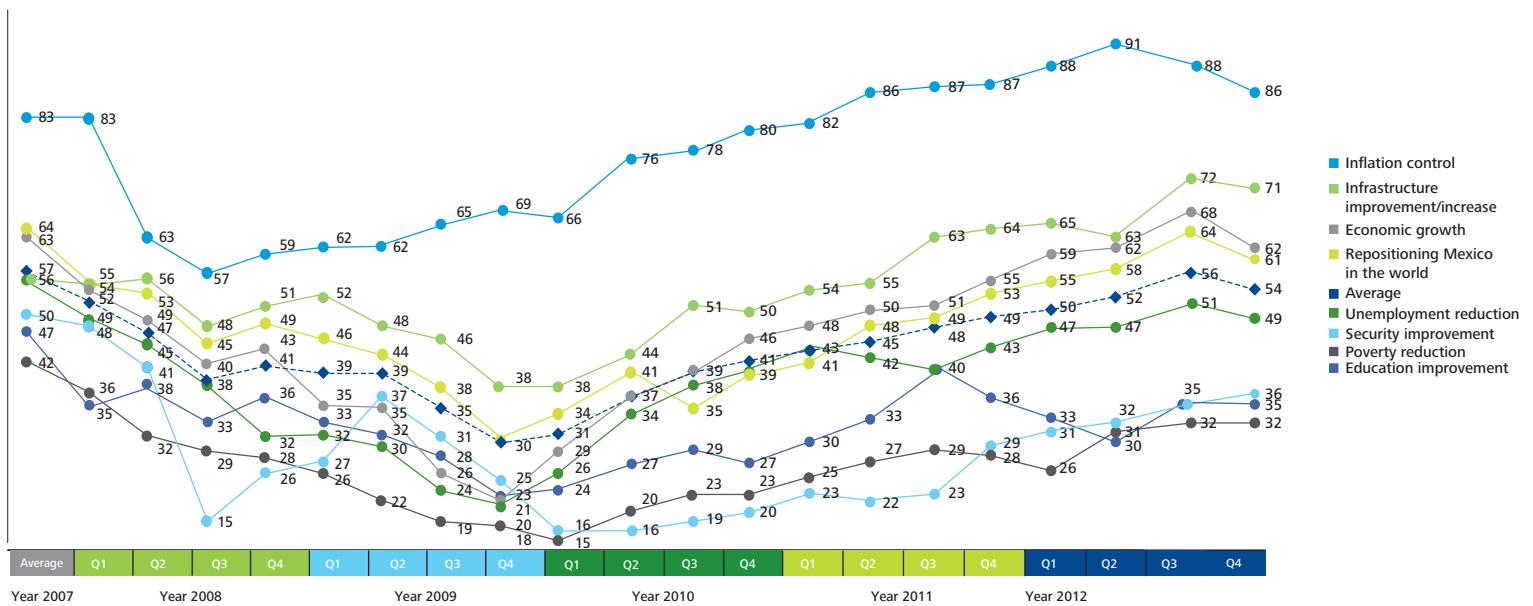


### Government performance

The evaluation of business leaders of government performance in the last quarter of Calderon's Administration improved against the score notched in the last quarter of 2011, but, reversing a general pattern of gains, still was below the score for the previous quarter. In this light, the constituents performing best were inflation control and expansion/improvement of infrastructure, which scored 86 and 71 points, respectively.

Despite the positive score given to inflation control, this indicator actually fell off since the previous quarter, thereby reversing a rising trend. Furthermore, reducing poverty, improving education and fighting insecurity appear to be the current administration's most pressing challenges. These variables came in with scores of 32, 35 and 36 points, respectively, and since 2010 have constituted major sore spots in the evaluation of government performance.

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



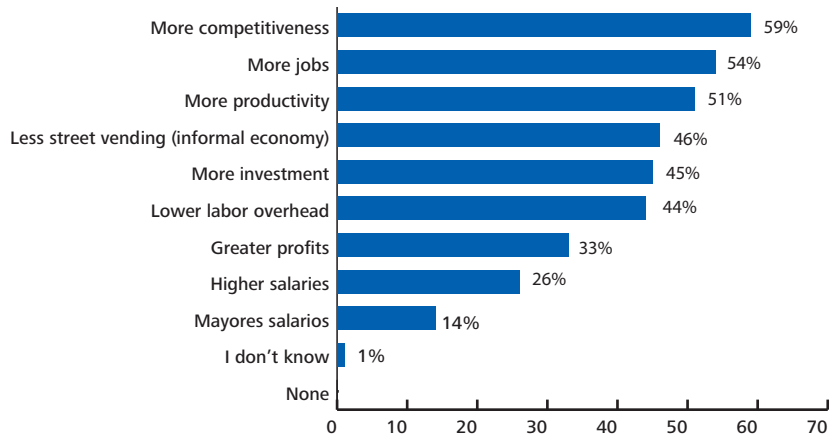
\* Figures were computed by weighing percentages of responses "better", "the same" or "worse" by 1, 0.5 and 0

# V Evaluation of the economic climate

Regarding the labor reform package approved in December 2012, most respondents believe these changes will bring benefits in the area of output and the labor market. Competitiveness, jobs, output and investment were cited as the areas likely to enjoy the greatest gains by 59%, 54%, 51% and 45% of the survey universe, respectively.

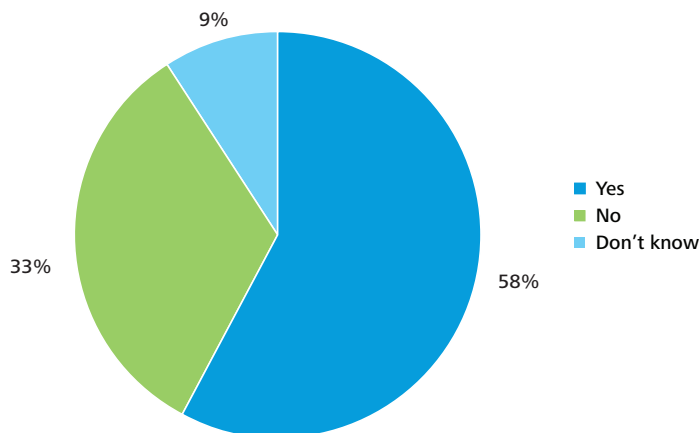
Likewise, respondents see the informal economy and labor overhead shrinking. In view of these results, 33% of surveyed executives foresee their companies enjoying greater profits, while 26% suggested their workers will secure additional benefits. All and all, the perception of these labor reforms is very positive.

What do you believe will be the biggest benefit for Mexico from the approval of labor reform initiatives?



Fully 58% of surveyed opinions view the labor reforms as a benefit for companies, while 33% believe these changes will have no impact whatsoever. These results are consistent with the figures analyzed previously, in which most businessmen and executives expressed confidence in the effects of the labor reforms.

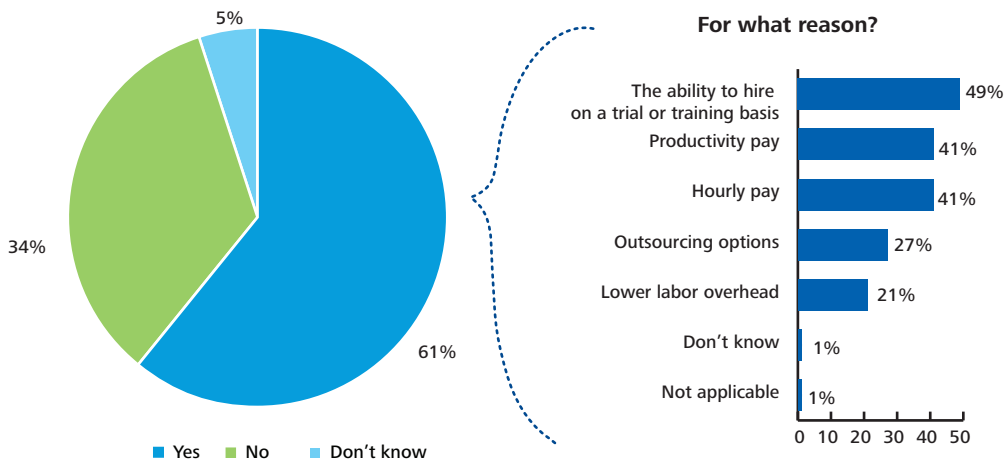
Do you believe the labor reforms will benefit your company?



The ability to hire personnel on a trial or training basis, and paying for productivity and by the hour, are the factors businessmen view as offering opportunity to simplify business management. Interestingly, outsourcing was not signaled as an important hiring mechanism, suggesting that the three factors mentioned above have provided adequate flexibility to businesses and significant incentives for direct hiring.

In general, executives point to elements associated with capacity, results and productivity as the most influential elements in their perception of the labor reforms approved that will allow them to hire the workers they need directly.

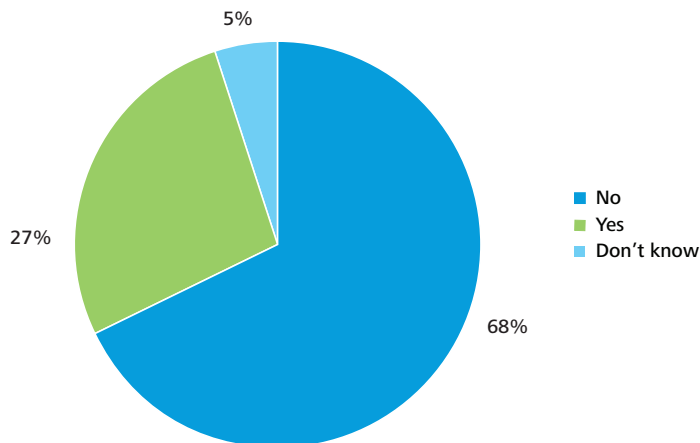
**Under the new labor framework, will it be easier for your company to hire personnel?**



On the topic of labor unions, 68% of respondents reported that the failure of transparency initiatives will not affect them, while only 27% said it will have an impact on their organizations. These figures stand in contrast to the considerable media attention given to this matter during the negotiation phase of the legislation.

In the topic of pending reforms, executives and businessmen surveyed view tax reform as the most urgent (79%), while only 21% believe energy reform is the most pressing priority.

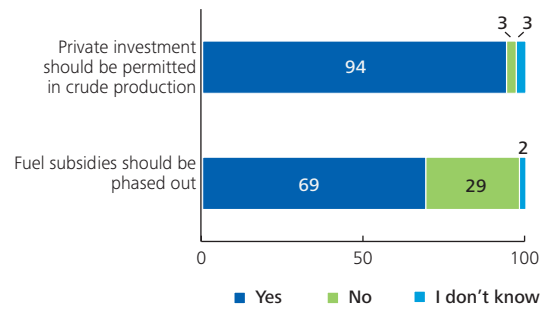
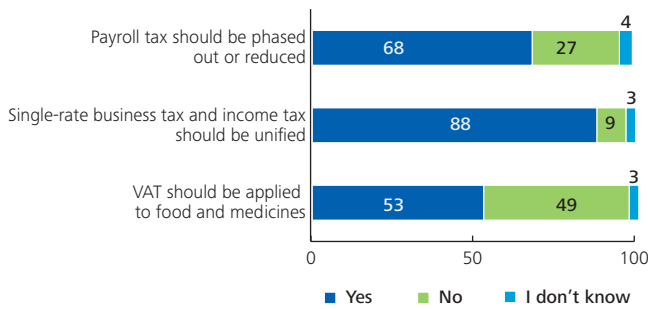
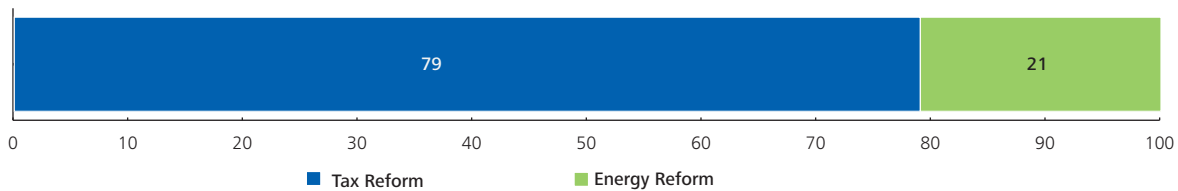
**Is your organization affected by the failure of labor union transparency initiatives to pass?**



With regard to tax reform, 68% of respondents considered the payroll tax should be eliminated or at least reduced. Similarly, 88% believe the Single-Rate Business Tax (IETU, by its Spanish acronym) and the Income tax (ISR, by its Spanish acronym) should be fused. Survey results show opinions leaning toward tax reduction and filing simplification as essential for improving business operations and stimulating investment. On Value-Added Tax (VAT), opinions appear to be divided: 53% of respondents believe it should rise, while 45% do not agree. It is evident that the majority believes in a VAT hike, but this bias is not particularly strong.

On the energy reform factor, 94% of respondents think private investment should be permitted in crude production, while 69% posit phasing out fuel subsidies. In this case, it is clear that businessmen and executives strongly believe in the establishment of a legal framework allowing private investment in crude production.

President Enrique Peña Nieto’s transition team has said the administration shall push for approval to two structural reforms. Which of these is a priority for your company?

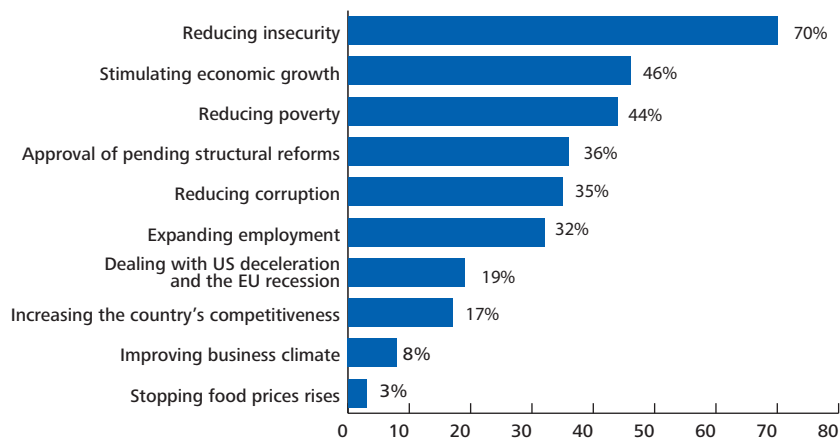




Fully 70% of respondents say reducing insecurity is the single-most important challenge President Peña Nieto will have to face. Stimulating greater economic growth, in turn, was rated in second place, with poverty coming in third. It appears quite clear that businessmen and executives believe that correcting the conditions of insecurity prevailing in many regions of the country is the top priority for the new administration.

Likewise, respondents suggested that promoting an environment for sustained and vigorous economic growth is key for boosting social and economic well-being. With regard to pending structural reforms, reducing corruption, boosting employment and competitiveness were also judged relevant by respondents, who see these variables as closely associated to enhancing social and economic conditions. The economic slowdown in the US, the recession in Europe and the rising food prices are not afforded any particular importance by those surveyed.

#### In your view, what are the main challenges faced by the Peña Nieto Administration?

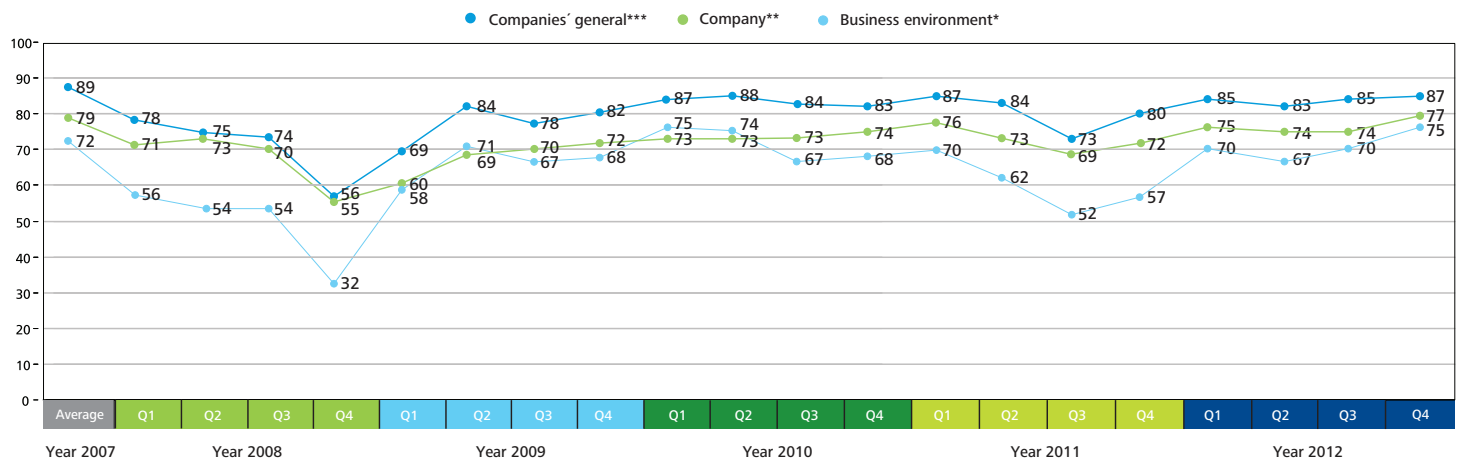


# VI Conclusions

In general terms, the perception of executives in December 2012 regarding the situation of business was better than the marks seen in Business Barometer No. 20, released in December 2011. Favorable opinions on the economic situation increased by 11%, coming in at 58% of those surveyed, while 33% of respondents have it unchanged, and 10% consider it worse than before. This generally upbeat assessment is also visible in the third quarter of 2012, which showed a 2% rise in those opining a generally improved business situation.

Opinions are even more favorable for the future outlook of the general situation of companies. This variable increased by 15%, with fully 78% now believing it will be better, while 19% foresee no change, and only 3% anticipate weakening. These results suggest a scenario of confidence for improving business performance and the general position of their companies. Nonetheless, despite this favorable business climate, the outlook for the situation of businesses advanced modestly.

**Future situation and business environment** (within a year at the time of surveys)  
(0: pessimist; 100: optimist)



\* 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.

Business expectations reflected in Business Barometer No. 24 point to an upbeat business climate scenario for the upcoming months, with the economic situation, investment climate and security underpinning this positive outlook. In this scenario, businessmen and executives surveyed believe that 2013 will see Mexico sustaining economic growth even in the first year of a new administration. The political agreements on labor reform and other matters also serve to support a generally optimistic outlook in business sectors.

In view of the clarity with which respondents view the pending reforms, it appears the first year of the new administration may very well bring opportunities to reach additional accords tending to promote a new phase of growth and development. These matters cannot minimize the challenges posed by the global context and the local market, which are very real and must be followed closely. However, 2013 has opened with a tone of optimism among businessmen and executives, and has been enhanced by a rare phase of political consensus.

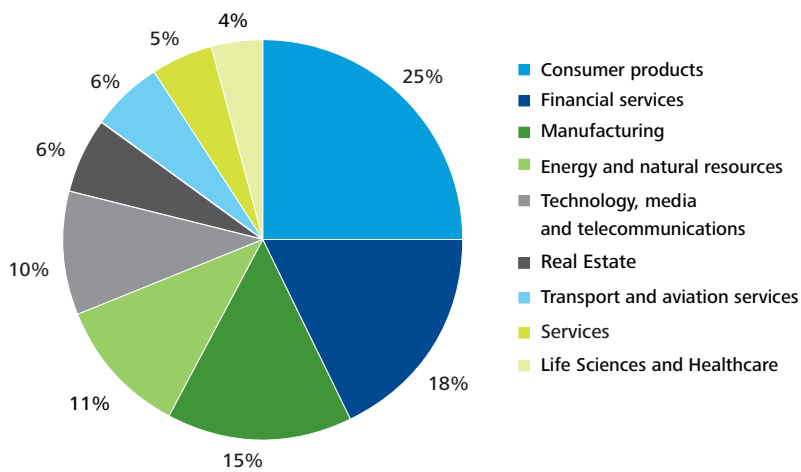
We thank all those who participated in the research for Business Barometer No. 24, especially Dr. Jose Luis de la Cruz Gallegos, Director of the Business and Economic Research Center of ITESM-CEM, for his invaluable analysis and assistance in drafting this report.

# VI Survey Framework

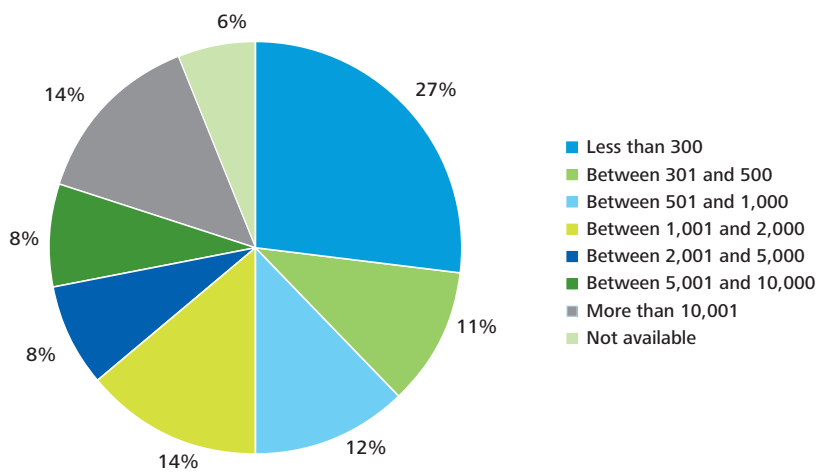
Deloitte's Business Barometer No. 24 surveyed 300 executives from Mexico's leading companies from November 26 to December 20, 2012.

According to the most recent available information, these companies boast aggregate sales above \$5, 627,450.87 million MXP.

Participation rate by industry



Income level









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