

19

October 2011

Business  
Barometer Survey  
The business  
pulse survey



# Introduction

The nineteenth edition of the Deloitte's Business Barometer Survey goes deep into the negative perception among Mexican executives in regards the future of economics, which had been envisioned with the results from the previous quarter. Insecurity has been displaced by the US economic slowdown now as the main threat perceived by executives in the Mexico's business environment.

This edition shows a significant impairment, compared to the same period in 2010, of all variables under which the business environment is assessed. The business expectations gathered through this Barometer show a relevant setback, since they are similar to those achieved in the first quarter of 2008, before the last recession in the country. Thus, the perspectives in regard the economic situation in general, the investment environment, and the credit availability show a pronounced weakening compared to previous quarters. The executives' opinion states that such prospective overview will continue for next year, except in regard to inflation, which registers a slight improvement.

A positive aspect to be highlighted is the favorable assessment of the Federal Government's performance, which showed a slight upturn in this last quarter, keeping in very high levels the particular perception of inflation control.

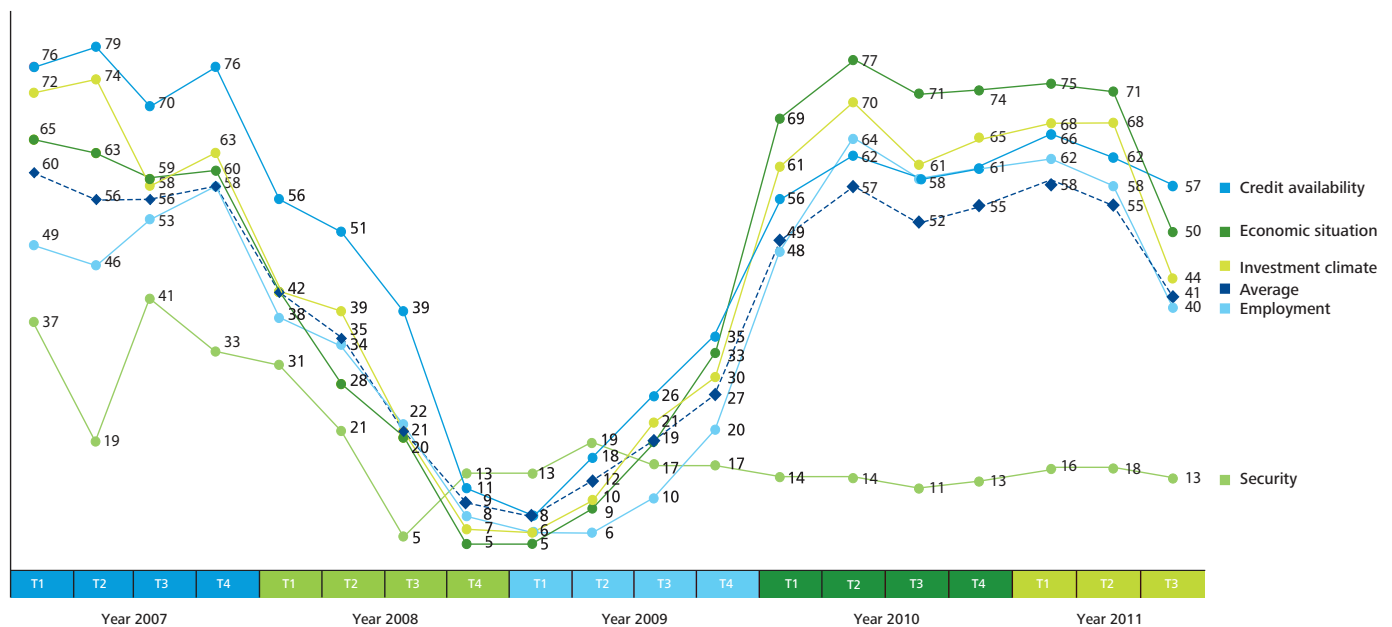
In general, the balance does not show positive expectations on the part of the executives during this quarter. However, it should be noted that the aforementioned is not attributable to the companies' current situation, as it is kept at acceptable levels and similar to those of the same period in 2010, but now characterized by a downward trend in the business environment prospective.

# I Business environment

## Current

The Business Barometer 19 points out that the executives' assessment concerning the current business environment has fallen off. Firstly, the appreciation of the economic situation in general shows a new decline of 21 points, from 71 points to 50, the lowest level since the fourth quarter of 2009. The investment environment also shows a clear downfall in this quarter, going from 62 points to 44, and credit availability drops from 68 to 57 points. Security, meanwhile, also falls in this quarter, from 18 to 13 points.

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

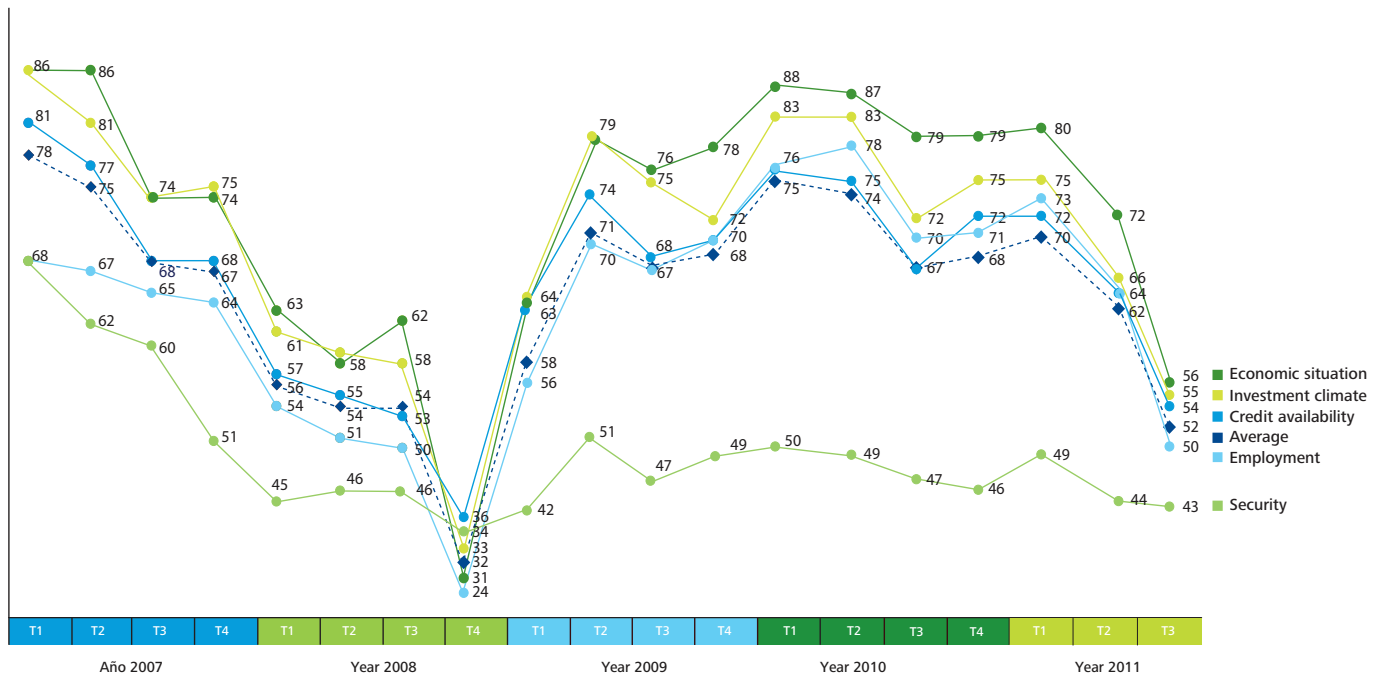


\* Figures were computed by weighing percentages of responses better, the same or worse by 1, 0.5 and 0.

## Future

The expectations of respondents to the survey about the business environment for next year are negative in all aspects evaluated. These are even more pessimistic than those foreseen the previous quarter, thus, the lowest as of the fourth quarter of 2008. In this context, executives visualize that in 2012 the economic situation will suffer a setback especially in terms of employment, which is related to the low expectations projected on credit availability and investment environment. Meanwhile, lack of security will remain being a negative factor for the business environment.

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



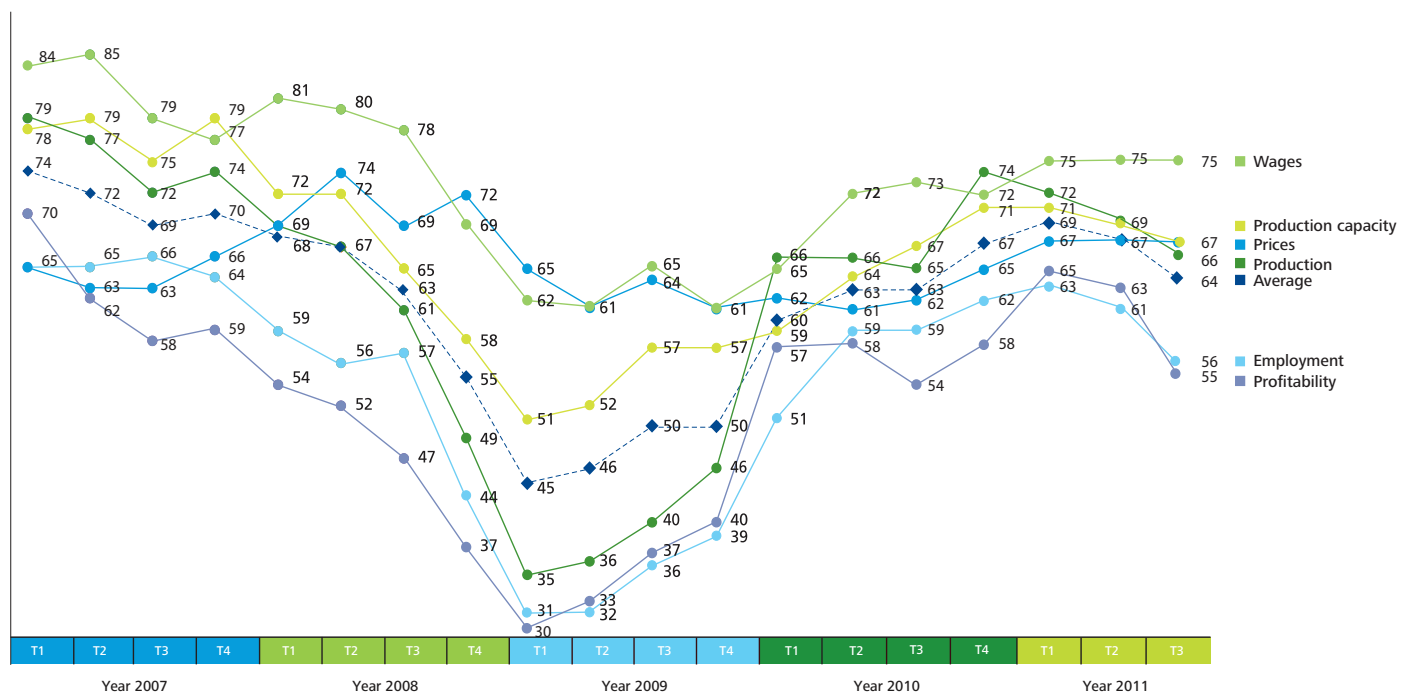
\* Figures were computed by weighing percentages of responses better, the same or worse by 1, 0.5 and 0.

# II Company situation

## Current

The executives' perspective on the overall situation of the companies compared to the previous quarter is slightly lower, and particularly in aspects such as profitability and employment, which takes place for the second consecutive quarter. Since most of the executives state that the situation of demand for their goods or services is kept within a normal or high range, this allows setting forth that their negative expectations are based on the national economic context, since there has not been a significantly adverse impact on their companies' performance.

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.

Going deeper in the assessment of executives on the level of demand currently kept by their companies, results show that the current economic scenario has adversely affected a small number of respondents. In this sense, the number of surveyed companies with high demand has been reduced by 9% compared to the previous quarter, moving from 25% to 16%; out of the 9 variation percentage points, 5% are now placed on low demand and the other 4% showed normal demand. All in all, executives who keep a normal demand situation are still a wide majority (61%).

Current company demand (percentage distribution of responses)



## Future

All indicators on the executives' expectations, concerning their company's performance next year, show a downward trend. This situation confirms the impairment of their general perceptions about the economic future. Production goes from 78 points in the previous quarter to 74 in this quarter; profitability drops from 74 to 67 points, and employment, from 67 to 62.

However, even though perspectives about the future of companies within a year are negative, they are still far from those existing at the height of the crisis in 2008. Although on average they are the lowest since the second quarter of 2009.

### 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

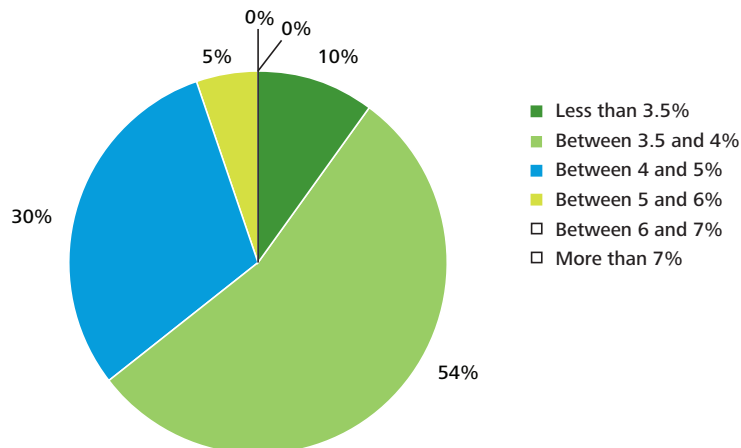
## Inflation

Inflation expectations for 2011 among the executives surveyed show a marginal improvement, most of them (54%) consider that such variable will be positioned between 3.5% and 4% for 2011. This continues to show confidence that inflation will be among the ranges put forth by Banco de México. Only 10% expects inflation below 3.5%.

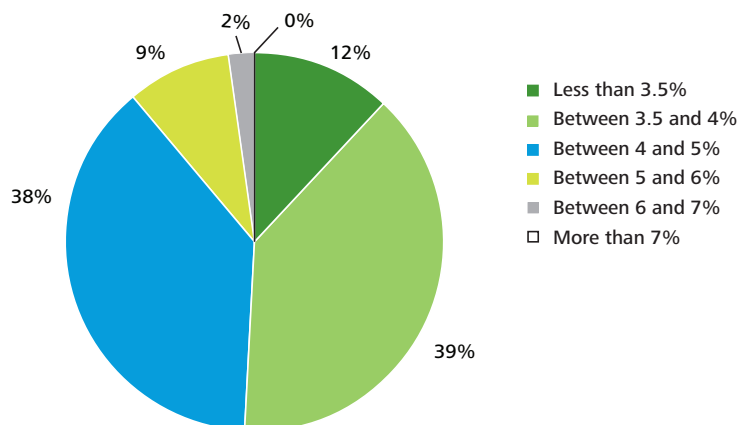
Regarding inflation expectations for 2012, 39% said it would be kept between 3.5 and 4%, while 38% of executives predicted it would move in a band ranging from 4 to 5%; 12% of them said it would be less than 3.5%.

Expected inflation (percentage of responses)

Inflation by year-end 2011



Inflation by year-end 2012

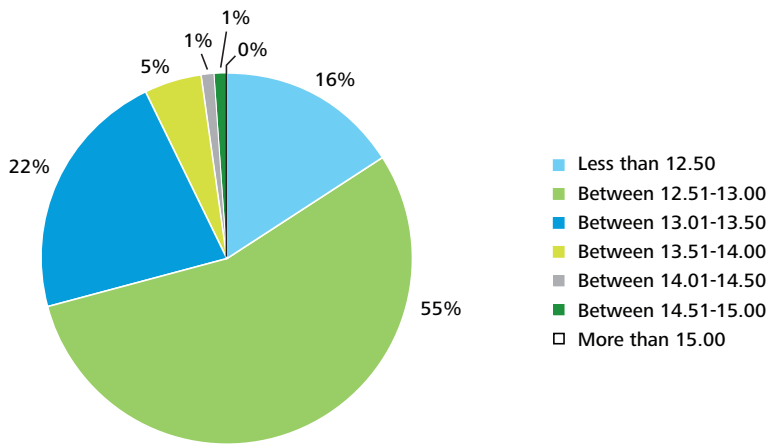


### Exchange rate

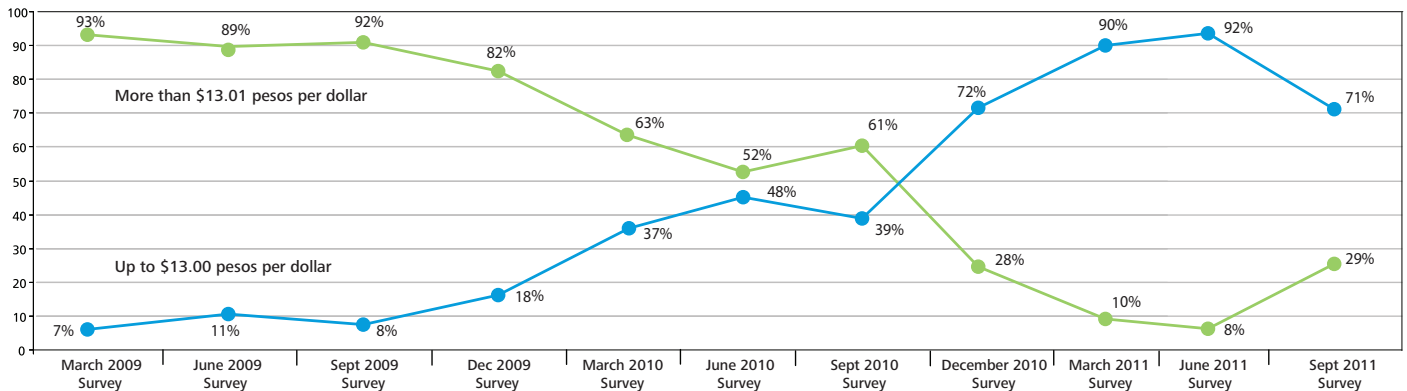
Regarding the exchange rate evolution for next year, 55% of executives surveyed expect the dollar to move within a range of 12.51 and 13.00 pesos, while for 22% of executives, the US currency will be between 13.01 and 13.50. Only 1% of respondents consider the dollar will range between a 14.51 to 15 pesos quote.

Another relevant fact related to this quarter is that expectations concerning the exchange rate have changed compared to those of the previous quarter: percentage of those who believe the dollar will be traded above 13 pesos has gone from 8% to 29%.

Exchange rate December 2011



Exchange rate within a year (percentage of responses)



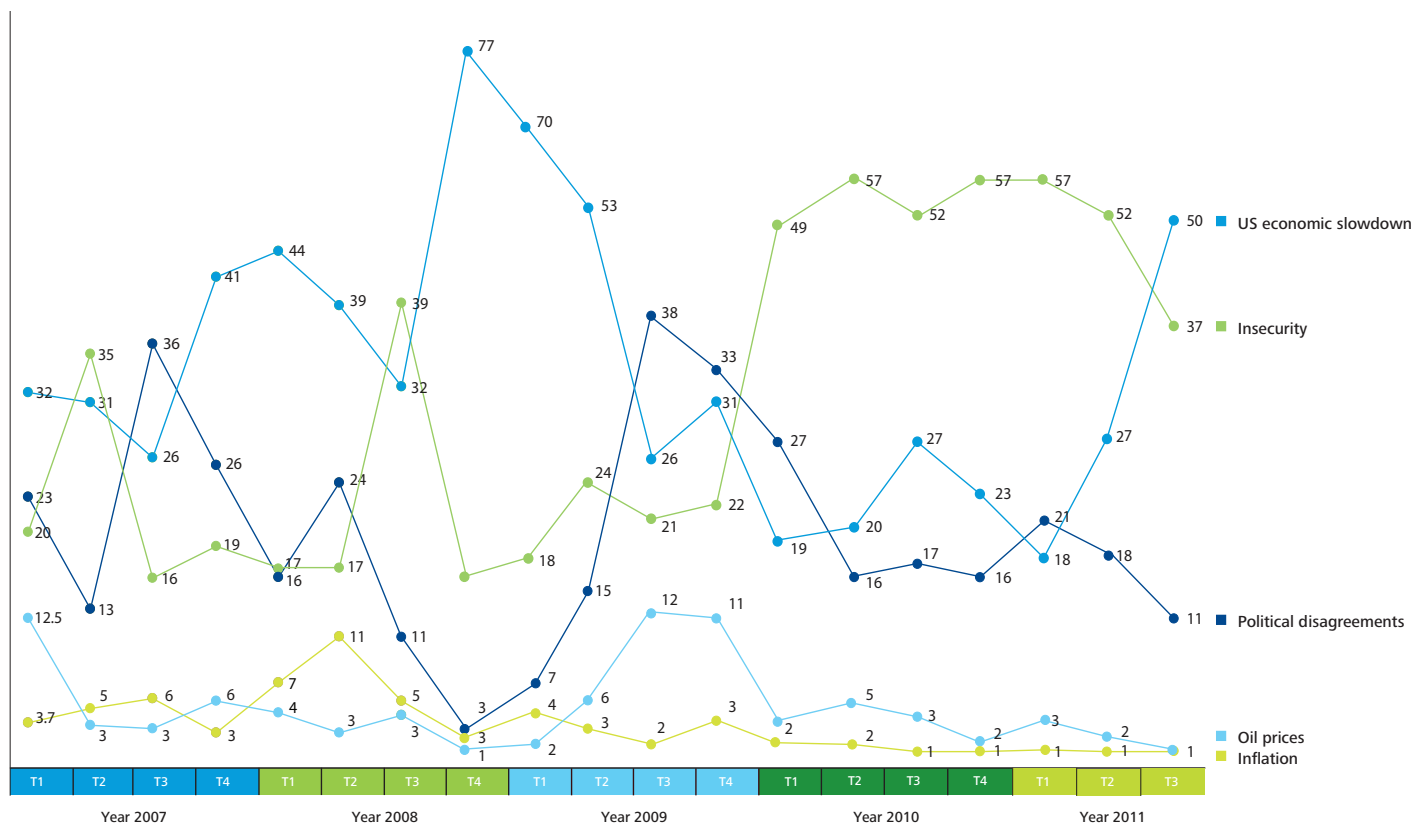
# IV Threats to economic activity

The executives' perception concerning threats to the Mexican economy over the next 12 months records a significant trend change: the US economy slowdown comes up as the most worrying problem, overcoming insecurity for the first time since the first quarter of 2010. The magnitude in the risk perception increase posed by the US slowdown can be observed in the sharp upward variation shown by this indicator: it jumps from 27% in June to 50% in this quarter.

Insecurity, on the other hand, registers a significant drop, from 52% in the second quarter to 37% in September 2011. Perception of risks related to political disagreements also shows a decrease, from 18% to 11%.

Meanwhile, inflation and the possible variations in oil prices are perceived as marginal threats to the economy and are kept barely visible in the poll.

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

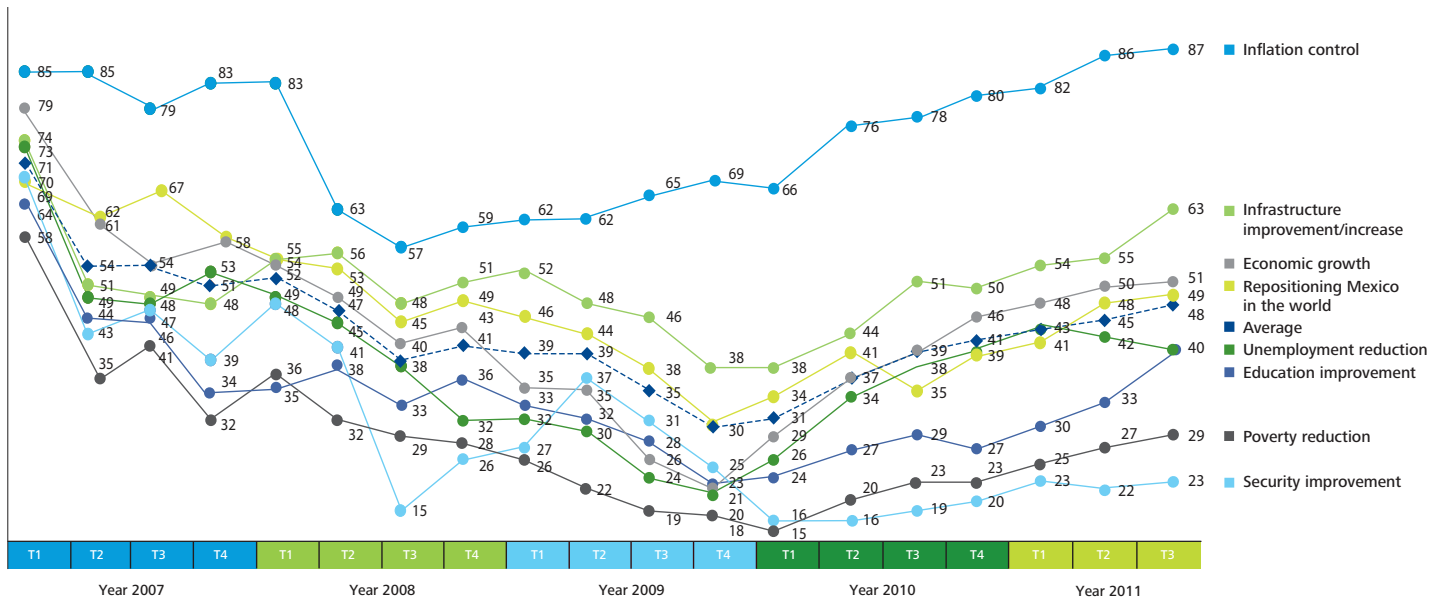


### Government performance

The Federal Government's performance is kept in increasing levels of acceptance in all areas surveyed, except for policies to reduce unemployment. Among the policies with greater acceptance, there are keeping inflation under control (87%), improvement and expansion of infrastructure (63%), and efforts to boost the economic growth (51%). These three positive indicators on governance also have the peculiarity to have been continuously rising for six quarters, which shows a strong trend in the executives' assessment.

The areas in which the government gets the lowest scores continue to be fight against insecurity, in which executives assigned only 23 points, remaining at similar levels over the past three quarters. Likewise, reduction of poverty, which is scored with 29 points, is having a gradual growth.

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.

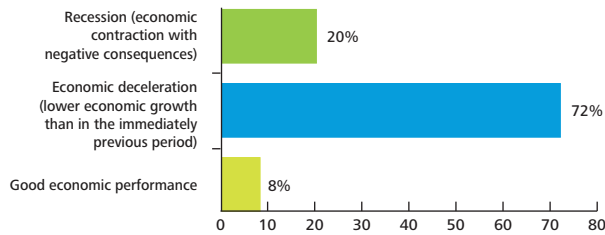
## Special section

### Expectations about other environment variables

In the interest of outlining some of the executives' expectations about the business environment related to other variables of potential impact, this time the Business Barometer sought advice on related issues both domestic and abroad.

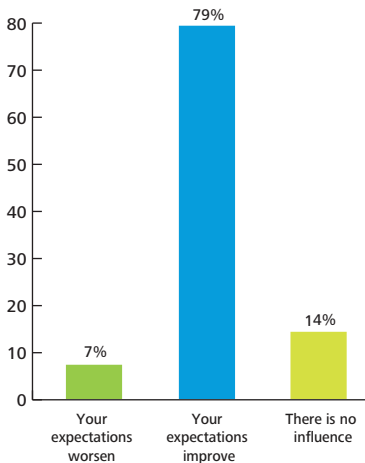
According to the opinion of 72% of the executives surveyed, the United States will suffer a slowdown in their economic growth; while 20% of them expect the country to fall back into recession, and only 8% keep an expectation about their good economic performance over the next 12 months.

Over the next 12 months the US will undergo one of the following stages:

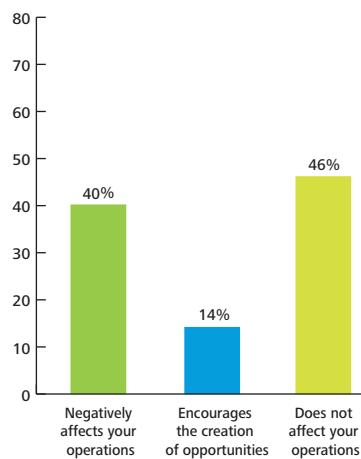


This perspective on the evolution of the US economy plays an important role, given that 79% of the executives surveyed declare to have greater success in planning, strategy, and operations inasmuch as the performance of that country is positive. Only 14% of them state that what happens in the United States does not affect their companies, and in the opinion of 7% of the executives, the fact that the US economy has poor performance benefits their business strategies.

With respect to your planning, strategy and operations, the greater the US economic growth



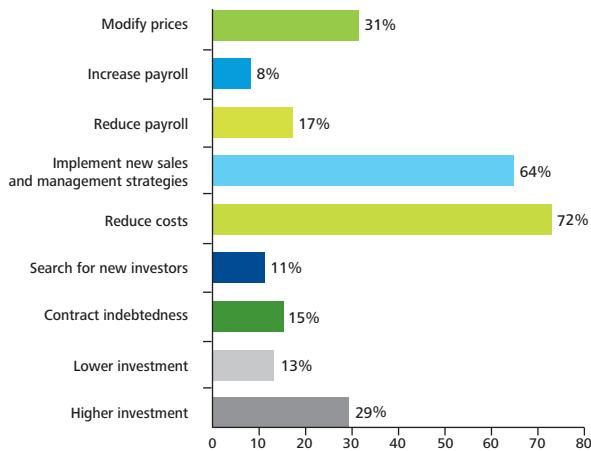
The European Union's economic and financial performance (public debt, unemployment, low growth)



With regard to the public debt crisis affecting several member countries of the European Union, it is a disturbing fact for 40% of the executives, while for 46% of them it will have no effect on their companies' performance.

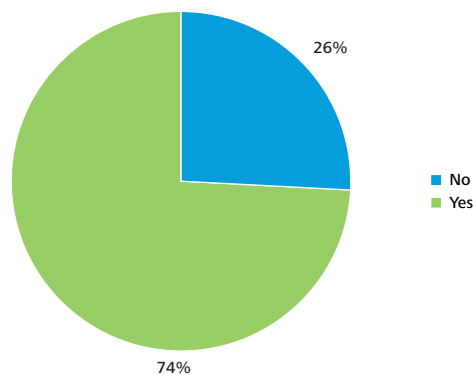
With regard to the current economic environment in Mexico, the need for contingent actions primarily on cost reductions (72%) and adopting new business strategies (64%), which allow overcoming the expected difficulties, is already put forth.

**According to the current economic environment in Mexico, will you take any contingency measures for your business over the following 12 months?**



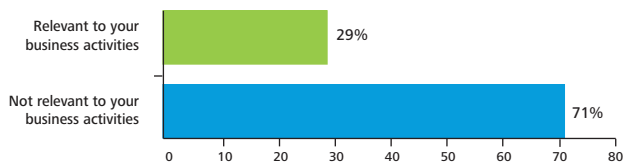
According to 74% of the executives, the poor performance of Mexico's economy will adversely affect their business planning.

**Will Mexico's growth low expectation negatively affect your business planning?**

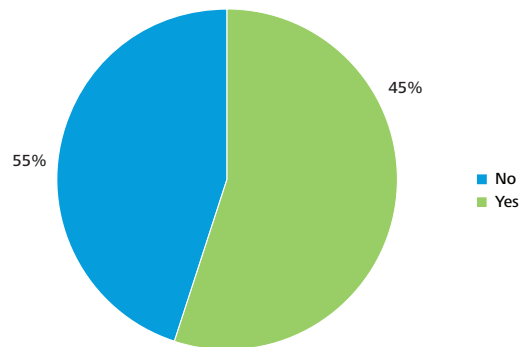


As regards the public debt problem faced by the federated entities, 71% of executives point out that it is not relevant to the performance of their businesses. In terms of confidence, only 45% of respondents believe that the Federal Government and the Congress can get to implement an economic program with measures that allow mitigating the difficulties caused by an adverse international situation.

**The federated entities' public debt problem is:**

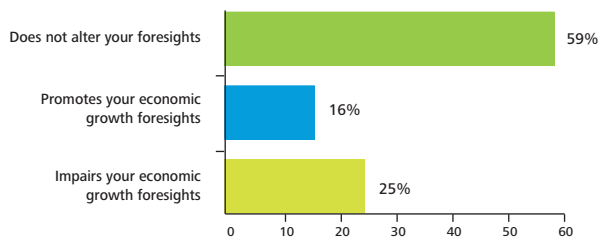


In the current international juncture, do you think that the executive power and the legislative power are able to implement an economic program that promotes the business environment?



Finally, with regard to the upcoming presidential elections, 59% assure that they will not alter their business perspectives, while 25% consider the elections will harm them. For the remaining 16% the elections will favor their growth perspectives.

**The 2012 presidential election in Mexico:**



# V Conclusions

The results of the Deloitte's nineteenth Business Barometer allow concluding that the expectations of executives surveyed regarding the general economic environment have been significantly reduced over the past two quarters. This trend is now accentuated in almost all indicators.

Executives perceive that the difficulties and threats to Mexico's economy originate abroad, particularly from the United States, since this quarter the US slowdown is considered as the main threat. While most of them expect that the main trading partner does not fall back into recession again (understood as an economic contraction), they think it will have a significant economic slowdown (lower economic growth) with negative impact on Mexico. The direct problems of the European economy do not seem to be relevant for most of the executives surveyed, reaffirming the concerns about our northern neighbor.

Positive perceptions about the business environment have had a significant drop during the year. The current situation of the companies also shows an impairment compared to the previous quarter, though to a lesser degree, and remains at levels similar to those recorded in September 2010. However, the business projections now carried out by executives for the following 12 months evidence a downward trend. This is causing companies to activate again their plans of cost reduction and to reinforce marketing strategies mainly.

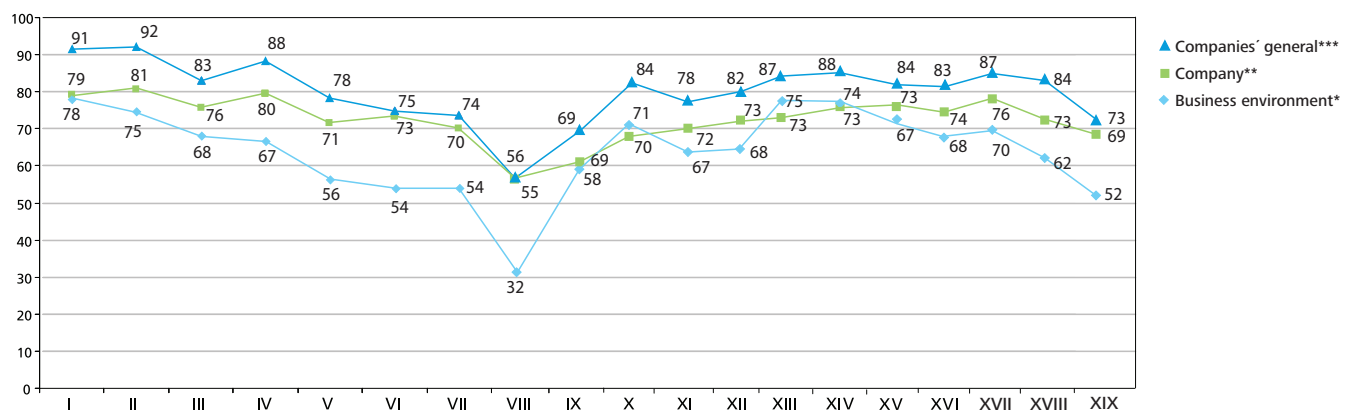
Nevertheless, expectations about inflation are kept stable in positive terms. Likewise, the executives' perceptions in relation to the exchange rate evolution are placed at similar levels compared to the previous quarter, although they have shown a significant change.

The setback shown by the Mexican companies in this quarter compared to the last two quarters is not, on average, very pronounced, and it is still far from the low performances achieved in late 2008 and early 2009. But it starts to show clear signs of a new downtrend. Most of the graphs already draw a descending parabola that could follow its course if the US economy does not begin to show signs of recovery.

With respect to the Federal Government's performance, which in the opinion of executives has improved in most of the assessed aspects, it is still reliable in relation to the economic variables, even though there is some concern with regard to employment. It is noteworthy that there is a divided scenario on the possibility of an economic emergency program, if required.

Finally, even when the future with respect to the country's political change is uncertain, and there are no specific trends, executives make evident that the handling of their business is today in their hands and relies on their skills, therefore, they are prepared for several scenarios in the business environment.

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.

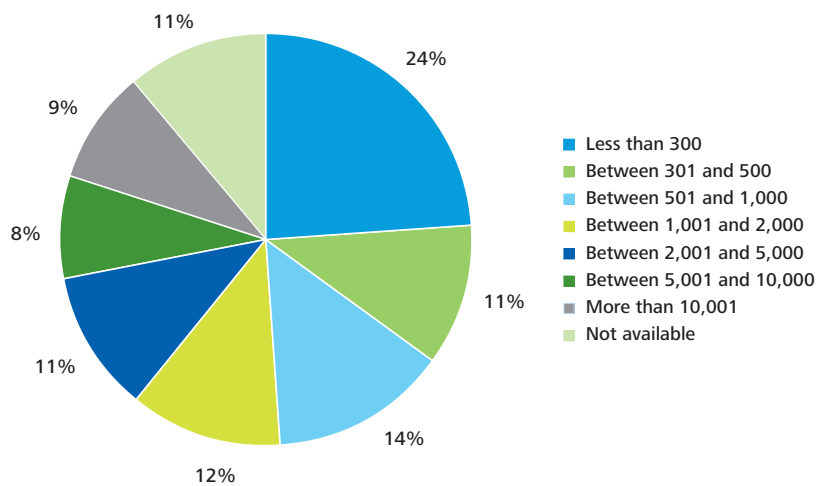


# VI About the Survey

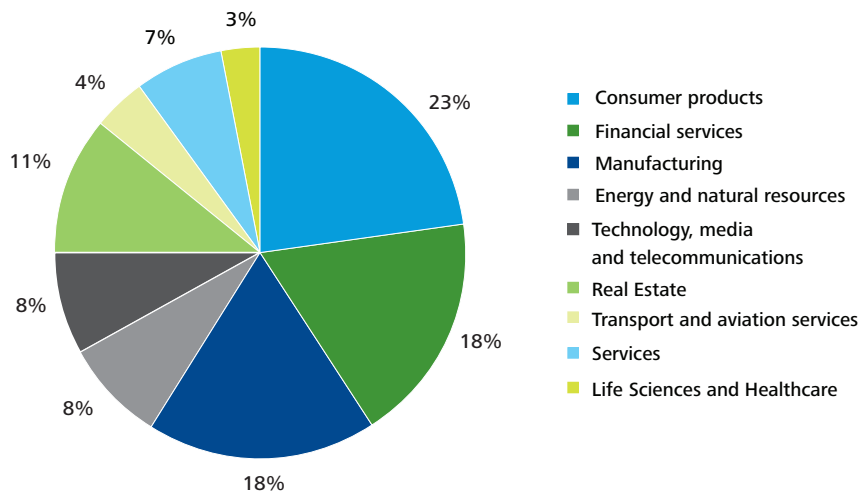
The nineteenth Business Barometer survey was applied to 340 executives from major companies located in Mexico, between August 31st and September 23rd, 2011.

Altogether, the sales of these organizations exceed 4.9 trillion pesos, according to the latest information reported.

Average annual income



Industry participation





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