

23

October 2012

Business
Barometer Survey
The business
pulse survey

Introduction

With this quarter's issue, the Deloitte Mexico Business Barometer reaches the milestone of twenty-three consecutive quarters tracking the country's business trends. Starting with Business Barometer 1, released on April 2007, this span includes the entire six-year term of the current administration. Looking ahead to a new administration led by an opposition party, Mexican business leaders once again express their views of the business climate and the country's prospects.

This number of Business Barometer reveals a generally positive assessment of President Calderon's administration. Control of inflation and infrastructure development were the areas receiving the highest marks, while job generation and dealing with poverty gained less favorable grades.

In general terms against 2011 results, the business climate is rated positively by business leaders polled. Nonetheless, this optimism is tempered in view of a slight decline toward the 22 Business Barometer released July 2012. This situation suggests a prudent approach, especially regarding inflation, security and labor market.

The current economic situation and investment climate were the areas receiving the highest marks, while security continues to be a major area of concern among those responding. As for future prospects, business leaders envision improving business conditions. Nonetheless, the outlook for security continues to suggest that this will encumber business future activities.

The current business climate for companies is marked by caution among business leaders. Despite some advances against last year's indicators, current scores are nearly identical to those for the second quarter of 2012.

Demand figures for goods and services to September 2012 confirm business leaders' positive perceptions of the economy. Fully 60% of business leaders reported that demand is at normal levels.

Business leaders foresee similar conditions in the near future with some degree of improvement over last year, though these changes in perception are not particularly significant when set against scores for the second quarter of 2012. Meanwhile, the areas of jobs and prices continue to be rated low.

With regard to 2012 year-end inflation, 42% of executives believe that it will come below 4.0%, while 51% see it topping 4.0%, which is a higher figure than that reported in our July 2012 edition. These results suggest that despite upbeat expectations for the performance of the economy, inflation continues to be a factor driving caution, especially as is tied to price hikes occurring in recent months on food and fuel. This situation shall be discussed in the Economic Climate section of this edition.

Respondents expressed an uncertain outlook for the exchange rate, as only 13% believe the peso will come in below 13, while 75% have it between 13 and 14 pesos per dollar. As such, the outlook for the exchange rate may be termed modestly upbeat, with opinions oscillating between an outlook for stability and modest depreciation.

Several threats exist that could put the brakes on the performance of the Mexican economy. Among these threats are deceleration of the US economy and the insecurity, which 35% and 33% of business leaders scored as the most severe problems, respectively. This situation reveals the cautious outlook of business leaders on both the internal and external fronts.

Finally, in the interest of bringing our readers a broader perspective, this number of Business Barometer includes a special poll on the Latin American business climate. This section shows that the Latin American region holds considerable appeal for investors, largely because of the macroeconomic stability it enjoys. This position sets Latin America apart and above other key regions such as North America and Asia.

It is clear that countries in Latin American must redouble efforts to solve the problem of insecurity, corruption, and political and institutional instability if they wish to hold onto this privileged position. These caveats notwithstanding, it is evident that investors currently view Latin America very favorably.

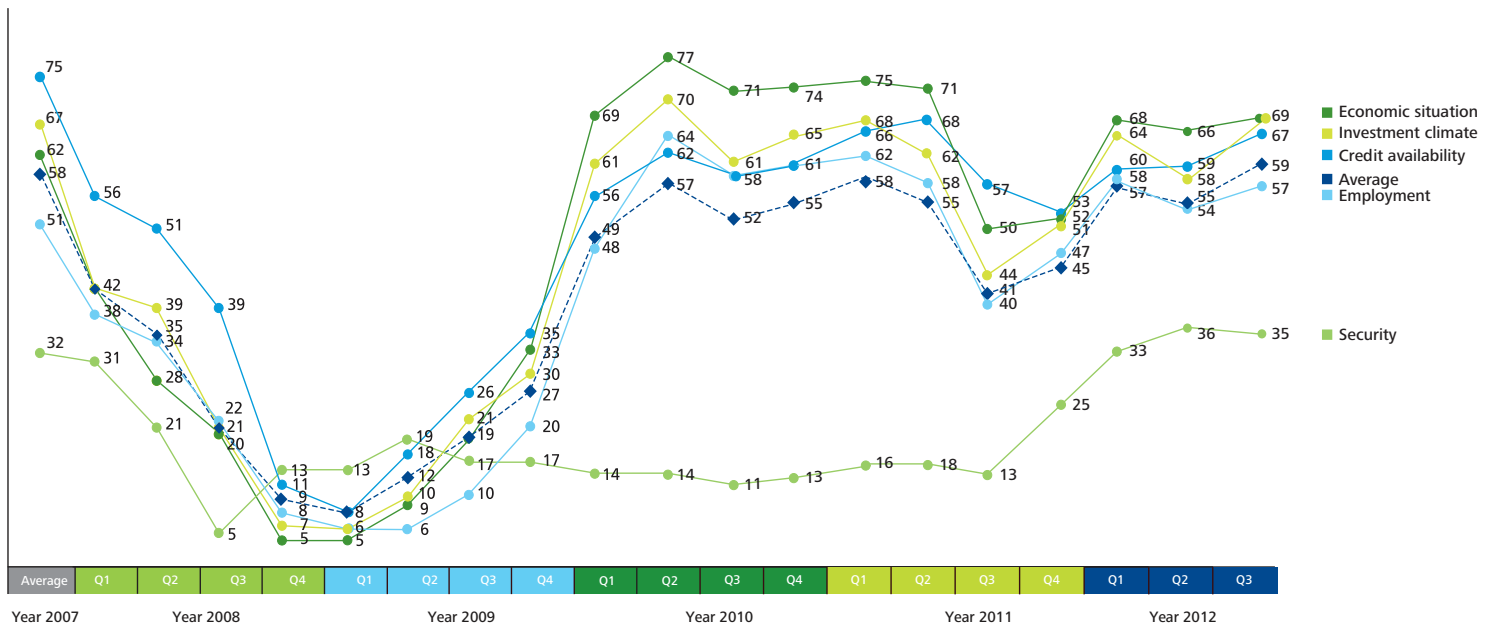
I Business Environment

Current

The business leaders perception in this area has undergone a significant upswing, with the indicator coming in 18 points above the score for the third quarter of 2011. Leading this rise is the 25-point jump in the component of investment climate. Security also kicked in a significant uptick by a margin of 22 points, followed by a 19 point improvement in the economic situation. Increases of 17 and 10 points in the jobs market and availability of credit, respectively, also reflect a generally improved perception of the business climate.

Compared to scores from the last quarter, the current business situation stands 4 points ahead, driven largely by the improving investment climate and availability of credit. In contrast, security slipped back by one point and continues to be the poorest performing indicator, while jobs and the economic situation each moved ahead by 3 points.

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



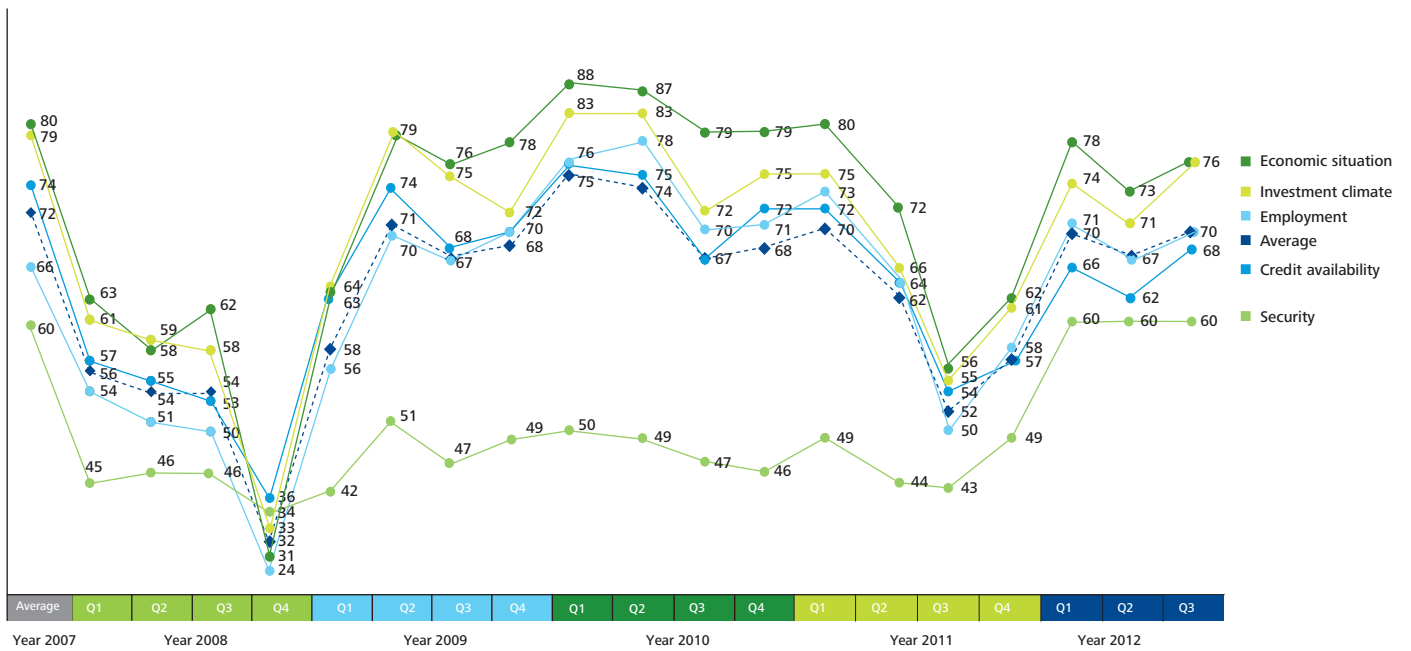
* Figures were computed by weighing percentages of responses "better", "the same" or "worse" by 1, 0.5 and 0

Future

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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

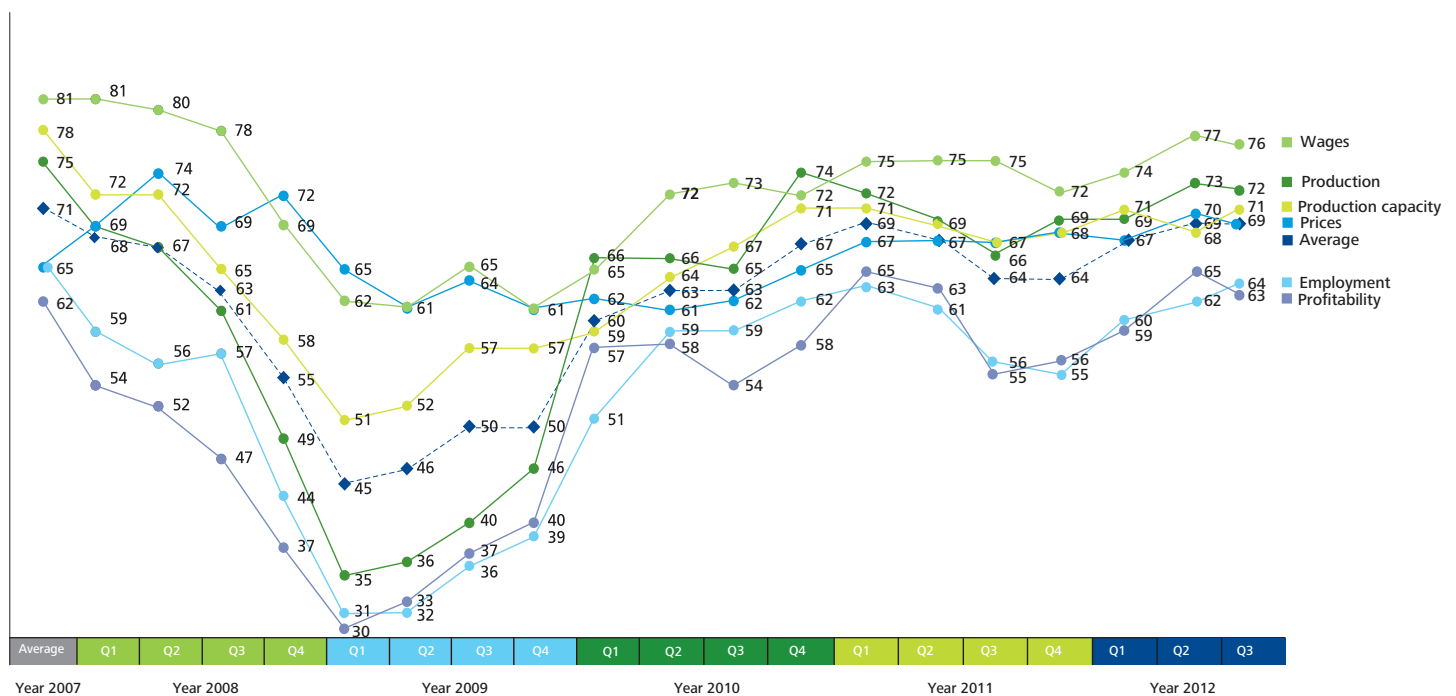
II Companies Situation

Current

Regarding enterprise actual situation, the present edition reports an advance compared to the last year: On average the indicator is 5 points higher. In this way, employment and profitability increased by 8 points each, followed by production and productive capacity with 6 and 4 points respectively (compared to the same 2011 period). Despite prices and wages show a positive evolution, this is highly dependent of the elements mentioned above.

Nonetheless, contrasting last quarter, results tend to be less positive. Showing a moderate deterioration of probability, prices, wages and production. Only the production capacity and employment have an improvement of 3 and 2 points, respectively.

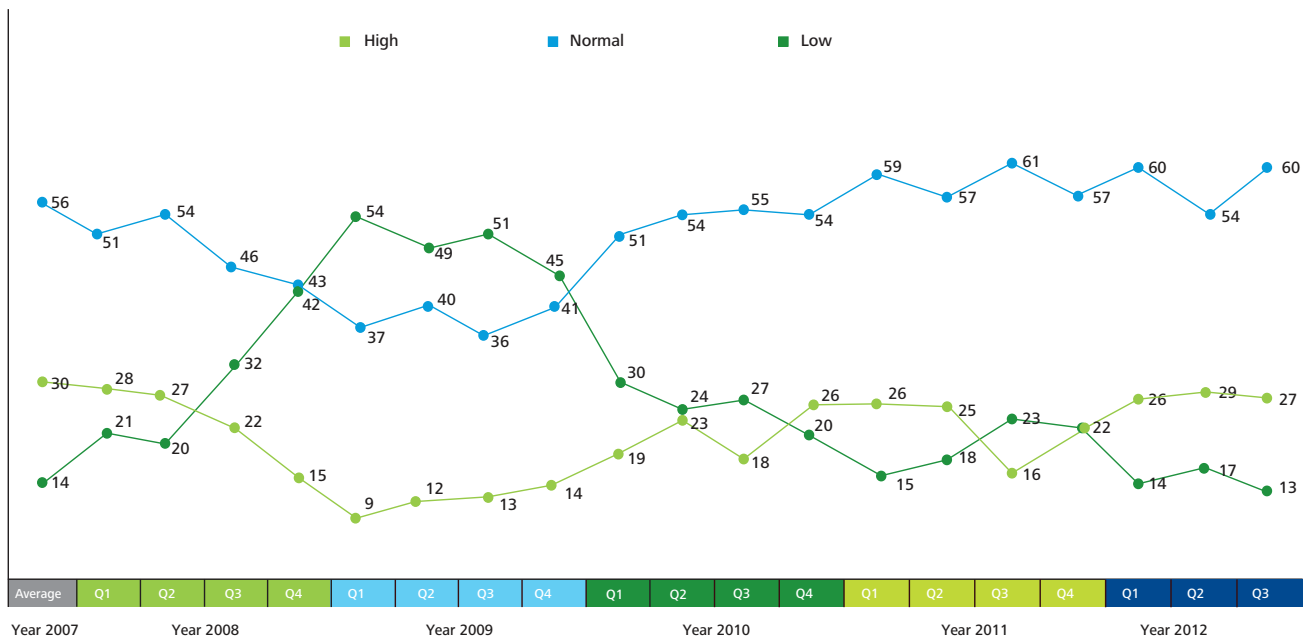
Current Company situation compared with the one in previous year (Average scores in a 0-100 scale basis)



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

Fully 60% of business leaders polled reported that demand stands at normal levels, while 27% said demand is high. Only 13% characterized demand as low. The upbeat economic conditions appear to be palpable for most companies, with reports of high demand on the rise and of low demand waning. These scores also topped last quarter's and those for the third quarter of 2011.

Current company demand (percentage distribution of responses)

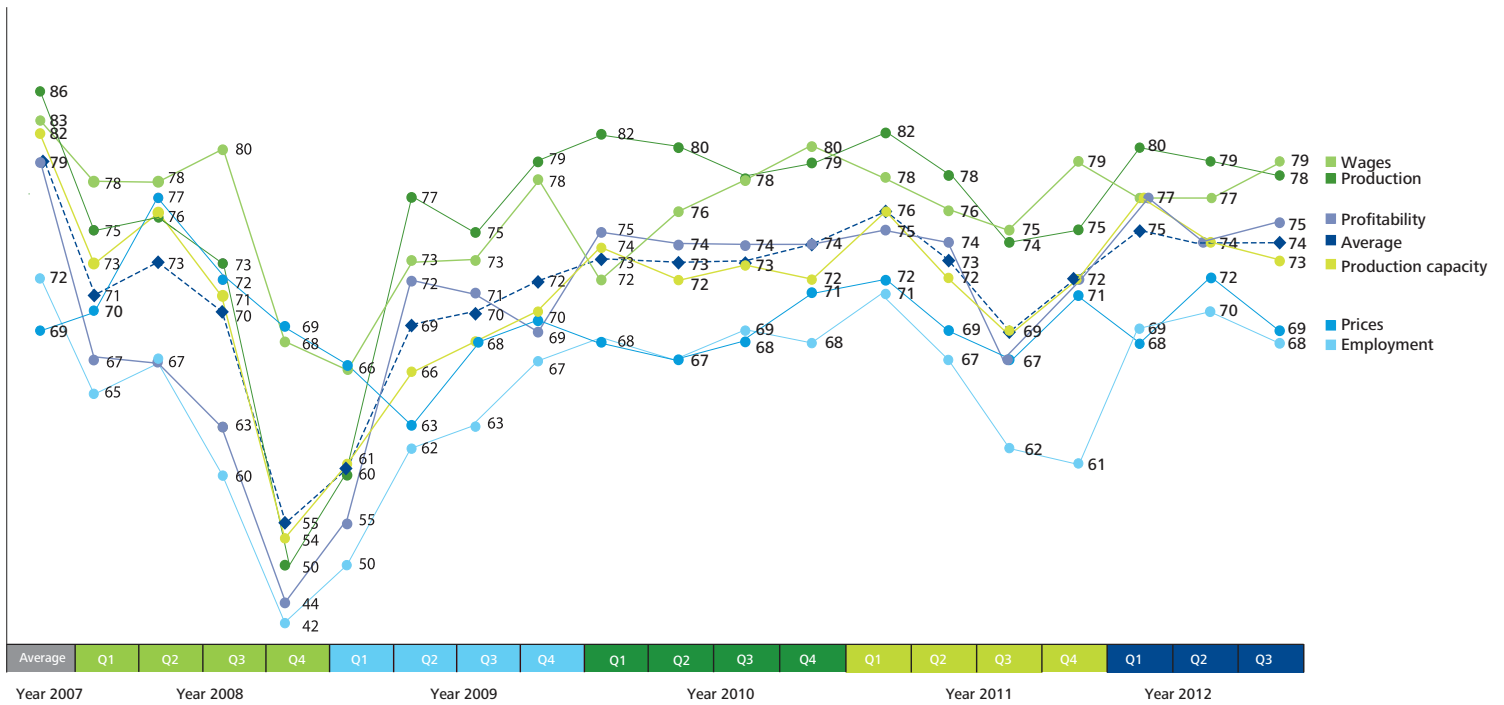


Future

Though largely unchanged since last quarter, expectations of business leaders for the future reflect a scenario largely similar to their perception of current conditions, with expectations improving since the same period of 2011. As such, business leaders expect to see improvements in salaries, production and profit margins, which came alone at 79, 78 and 75 points, respectively, with profit margin advancing 8 points since the third quarter of 2011, which was the component enjoying the largest jump.

Meanwhile, prices, output capacity and jobs also have improved. Compared to scores in 22 Business Barometer, the perceptions remained largely unchanged, with a minor uptick in expectations for businesses. Moreover, respondents' scores for price and output capacity expectations fell by 3 and 6 points, respectively.

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

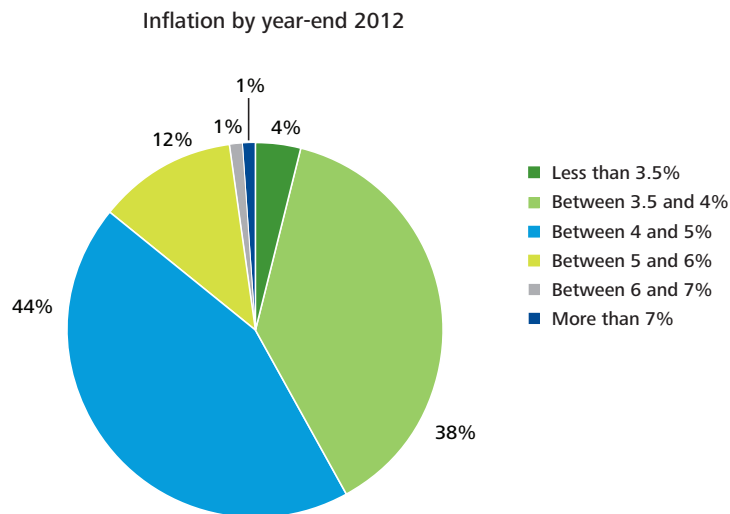
III Inflation and Exchange Rate

Inflation

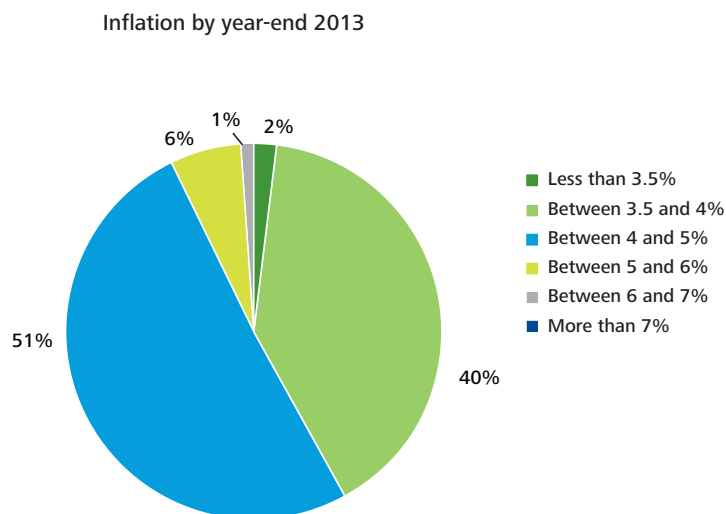
Inflation expectations failed to show any general consensus. On the positive side, 40% of those queried believe inflation will come in near the Banco the Mexico year-end target of 3.5 to 4.0%, despite the price hikes in foodstuffs in recent months. This score reflects a generally upbeat outlook for economic stability.

In contrast, fully 51% of those queried expect year-end inflation to come in between 4.0 and 5.0%, while only 7.0% believe inflation will top 5.0%. More than half of business leaders expect to see inflation come in higher than that recorded in recent years. Moreover, it is evident that this scenario persists with regard to 2013 inflation prospects. On the other hand, 42% of those polled foresee inflation below 4.0%, while 56% of respondents predict inflation to fall between 4.0 and 6.0%, while only 2.0% of respondents have inflation topping 6.0%.

Expected inflation (percentage of responses)



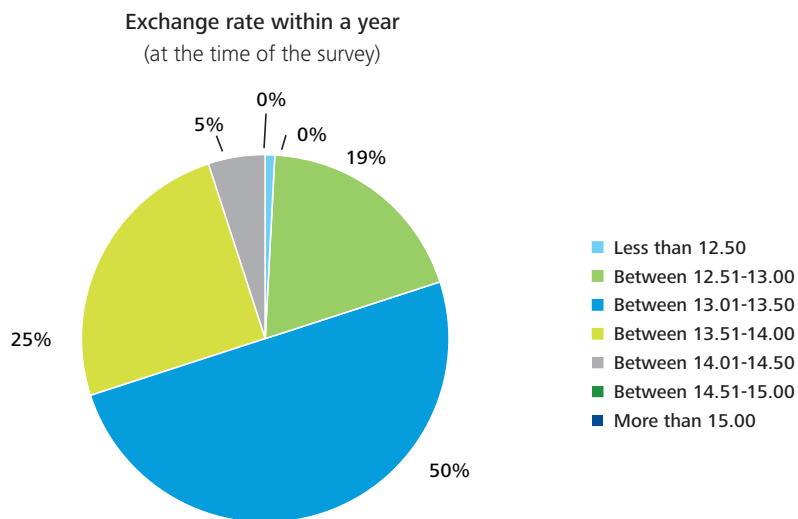
* Due to decimals round up, the answers may not represent a 100% sum.



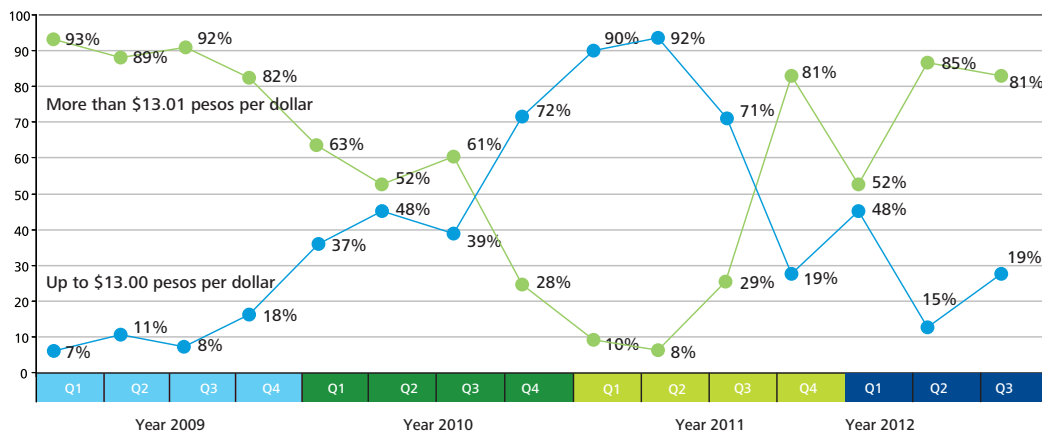
Exchange rate

Business leaders exhibit some concern with regard to the exchange rate for the coming twelve months, with 75% foreseeing the peso at between 13 and 14 pesos per dollar, while 20% think it will appreciate to below 13 pesos.

Only 5.0% of those queried foresee the peso depreciating to 14.0-14.5 per USD, and no one called for depreciation beyond this level. Even though negative opinions regarding the exchange rate declined, some caution persists among business leaders with regard to the exchange rate and how this might affect the performance of the business climate.



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



IV Threats to Economic Activity

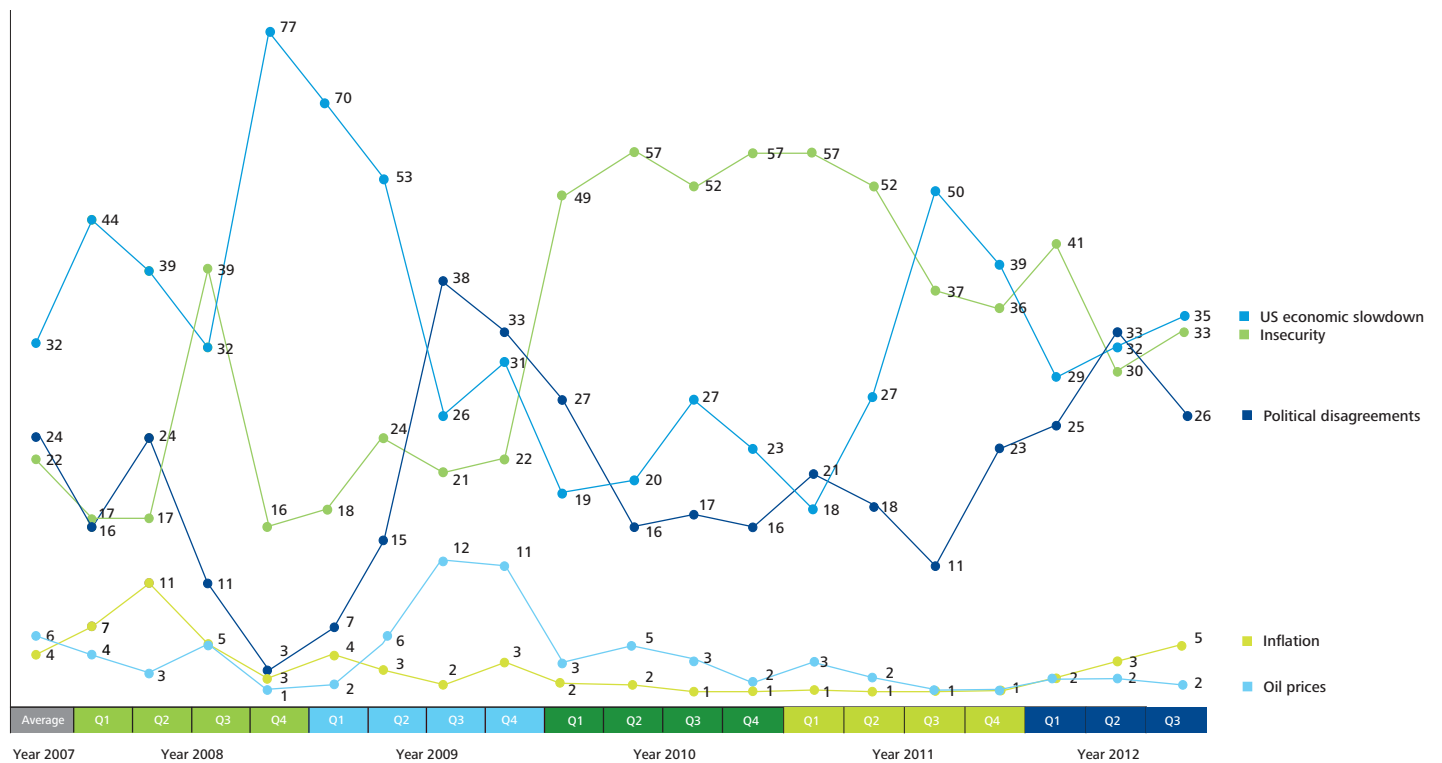
Threats

Among the threats to economic activity, 35% of respondents tapped deceleration of the US economy as the most important factor affecting the Mexican economy, while 33% and 26%, respectively, said insecurity and political discord are leading concerns.

The score for deceleration of the US economy came in below that the one seen in the third quarter of 2011, but is on the rise since last quarter. This factor should be scrutinized carefully in light of the similar performance of the security component, which declined by 4.0% since the third quarter of 2011, but increased by 3.0% since the second quarter of 2012, suggesting that it is still perceived as a threat to the economy.

Political discord also scored significantly in terms of the degree of threat it poses, though the score came in below that recorded on the 22 Business Barometer, released in July 2012, no doubt owing to the generally favorable post-electoral climate. Perceptions of inflation and oil prices reveal scant concern in the business leaders mind, with only 5.0% and 2.0% suggesting these are significant threats to the economy, respectively.

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

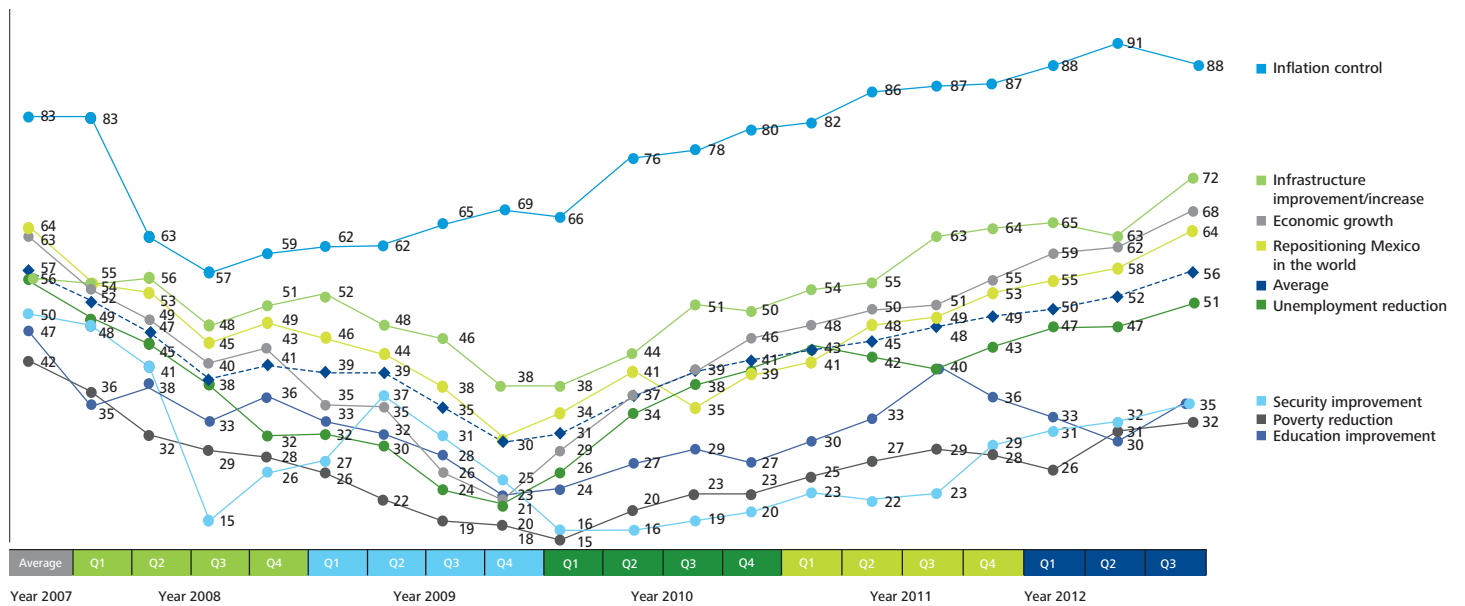


Government performance

Government performance garnered an average score of 56 points from those queried in this number of Business Barometer, a jump of 17 points over the score for 2011. In contrast to other components, this score also outperformed last quarter's results, in this case by 8.0%. The highest scoring component was inflation control, which came in at 88 points.

In second place was improvement/expansion of infrastructure, tallying 72 points, while growing the economy came in third at 68%. Similarly, reinserting Mexico into the world economy came in above average at 64 points. In contrast, improving education and reducing insecurity, each scoring 35 points, lagged behind, while reducing unemployment scored 51 points.

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

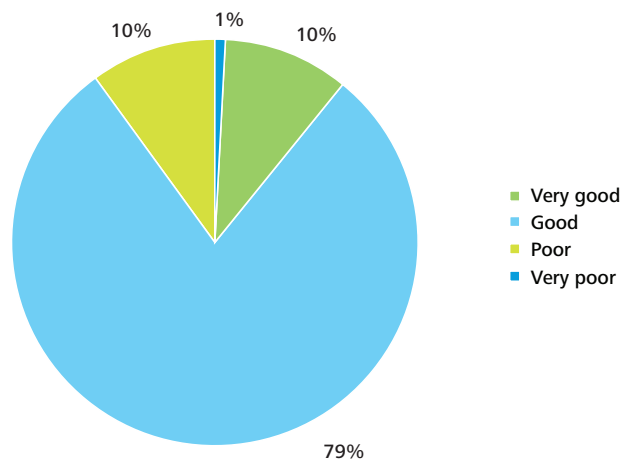
V Evaluation of the economic climate

In this number of Business Barometer we are presenting business leaders' evaluation of the performance of the current administration.

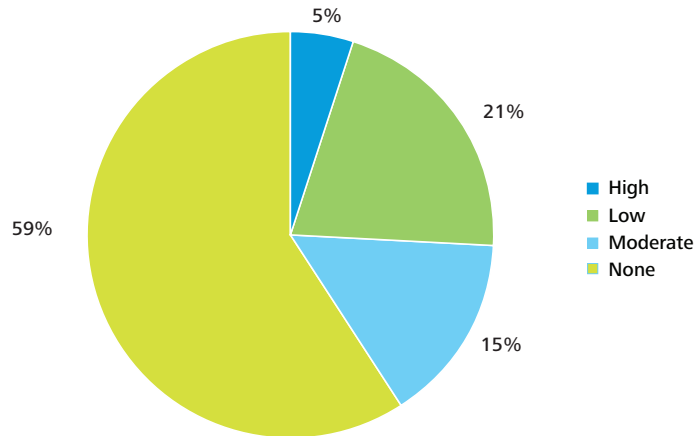
In general terms, respondents hold favorable opinions of the overall performance of Calderon's administration and the economic policies implemented in recent weeks, especially with regard to measures to restrain hikes the egg price. The following is a detailed breakdown of the components comprising these perceptions:

- Fully 79% of those queried said that in general terms this administration performance is good, while 10% called it very good and 10% called it poor. Only 1.0% said it was very poor.
- With regard to the increase of egg and chicken prices, most business leaders queried (59%) stated that this had no impact on their respective business operations, while 41% reported that it did exert some effect: 21% said the effect was low; 15% said it was moderate, while 5.0% said it exerted a significant effect.
- Meanwhile, 85% of business leaders polled believes the agriculture and livestock sector does not encourage their companies to improve salaries for the 2012 remaining months, while only 15% believe it does.
- Similarly, most business leaders consulted (61%), opined that policies designed to lower trade barriers on eggs and corn are right for reducing inflation pressures on these foodstuffs, while 38% believe it is not the proper course.
- Moreover, opinions are divided with regard to whether Mexican companies and consumers would benefit from increased egg and corn imports: 51% say no, while 49% say yes.

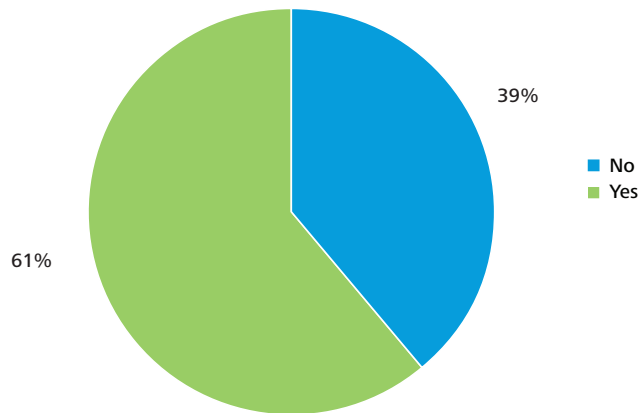
How would you rate the overall performance of Calderon's administration?



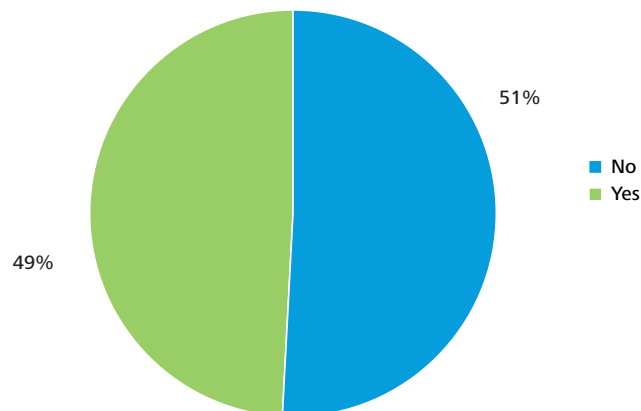
How would you rate the effects of the hikes in food prices, such as that seen on eggs and chicken, on your business?



Do you believe lowering trade barriers on eggs and corn is the proper course for easing inflation pressure on these foodstuffs?



Do increased egg and corn imports benefit Mexican companies and consumers?

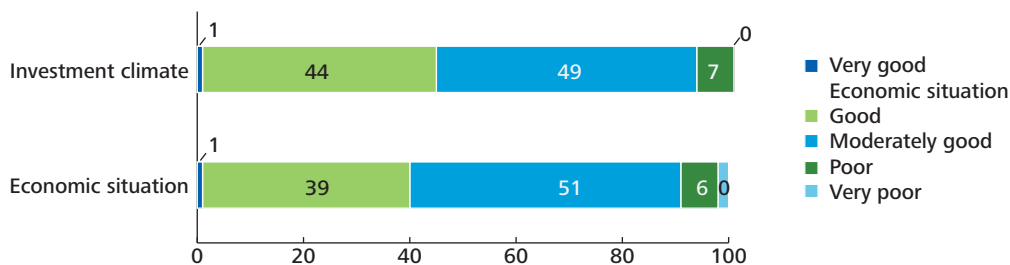


VI Special poll on Latin America

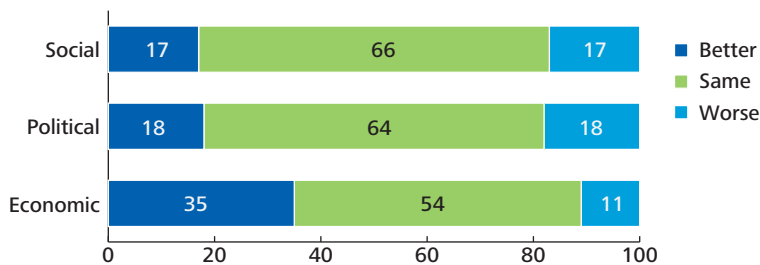
For the first time, we are publishing a special section offering the perspectives of Mexican business leaders on some key variables in Latin American economies. In this regard, 39% of those consulted believe that the regional situation is good, and just under 51% characterize it as moderately good. These figures are mirrored in the perception of the investment climate, which 44% said is good and 49% rate moderately good. These results show that only a small fraction of Mexican business leaders believe the economic situation in Latin America is poor or very poor.

This appreciation appears to rest on perceptions of the economic, political and social foundations of Latin American economies, components that came in unchanged from last year's figures at 66, 64 and 54%. When we add to this outlook opinion's showing improvements in perceptions with regard to these components, we can see why the region enjoys a perception of having an upbeat economic situation and investment climate.

How do you rate the situation of the following economic factors in Latin America?



How would you rate the current situation of Latin America versus that seen one year ago?

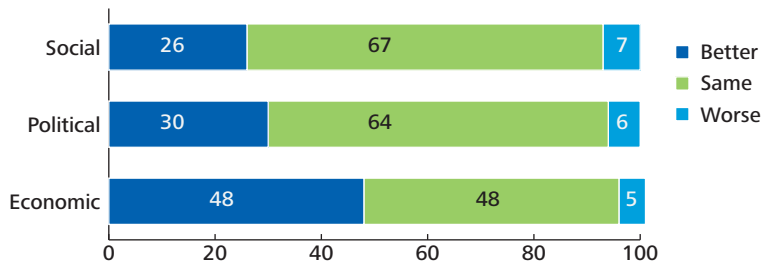


Stability is a key component of business leaders' perceptions of the social, economic and political future of Latin America. In this regard most of those consulted opine that in the coming months the political situation of Latin America will remain largely unchanged.

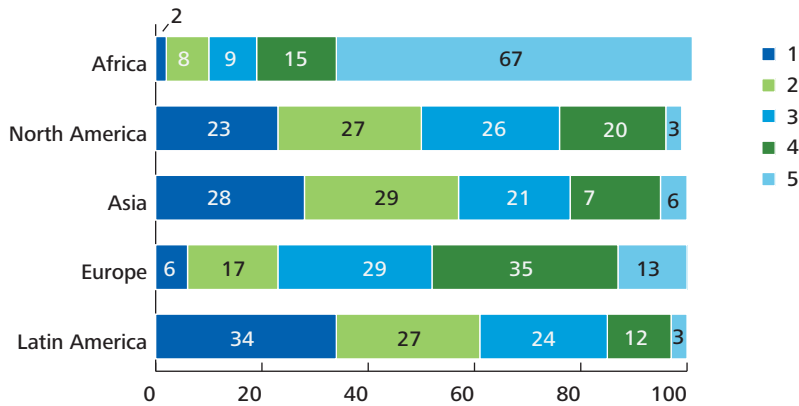
The fact that Latin America is considered a stable region, projected to enjoy healthy growth, makes it very attractive for investors, in fact placing it ahead of North America and Asia, zones that traditionally have attracted the lion's share of global investment.

While only 37% of the business leaders belong to companies with investments in other Latin American countries, fully 9.0% expect to make investments there in the near term, evidencing growing confidence in larger Latin America among Mexican investors.

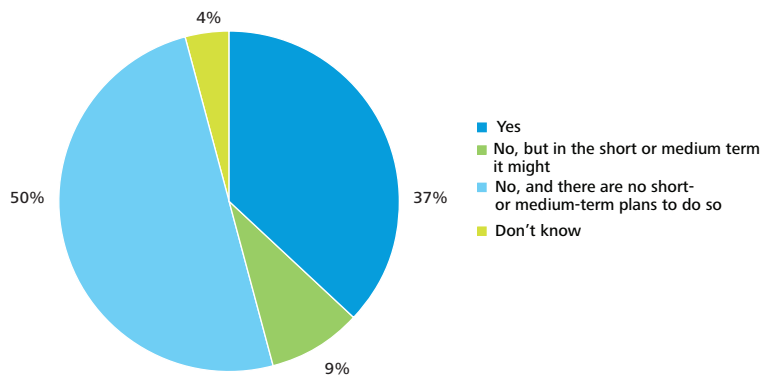
For the following factors, what are your expectations for the Latin American situation within 12 months?



Currently, which of the following regions appear most attractive for doing business and making investments? Please assign a score of 1 to 5 in descending order of attraction, i.e., 1 = most attractive; 5 = least attractive)



Does your company currently have investments outside of Mexico in Latin America



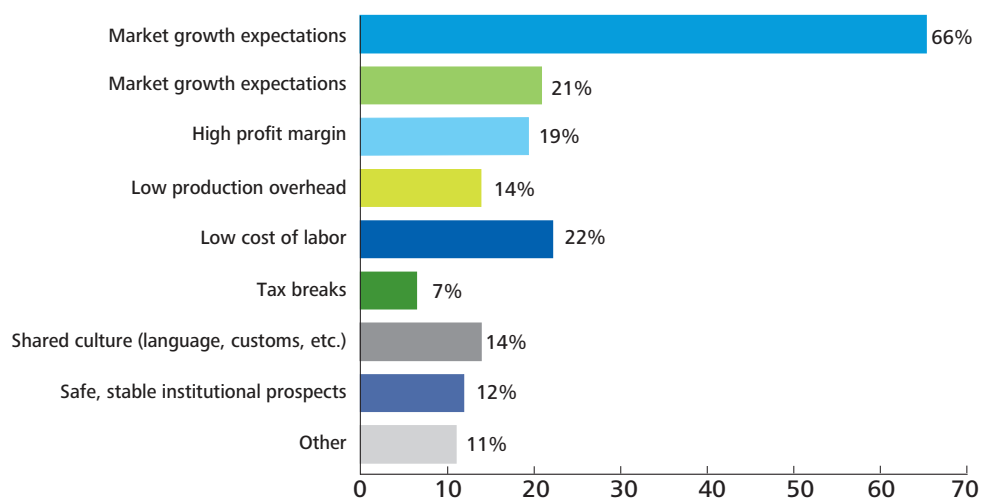
These figures clearly contribute positive market growth expectations, which 66% of respondents considered likely, and strong internal demand, which 21% of respondents considered relevant. Low labor costs, high profit margins and the general reduction of production overhead are also key factors driving investment decisions. These factors came in at 22, 19 and 14%, respectively. Taken together, these elements help differentiate Latin America from the pack, making it one of the most attractive regions for investing.

Fully 32% of business leaders consulted cited political and institutional instability as main inhibitors of investment in the Latin American region, while 23% cited macroeconomic instability. These factors were followed by scores of 15% for insecurity and 14% for the heading of corruption. Weighed together, it is clear Latin America must work hard to achieve to improve its competitive standing.

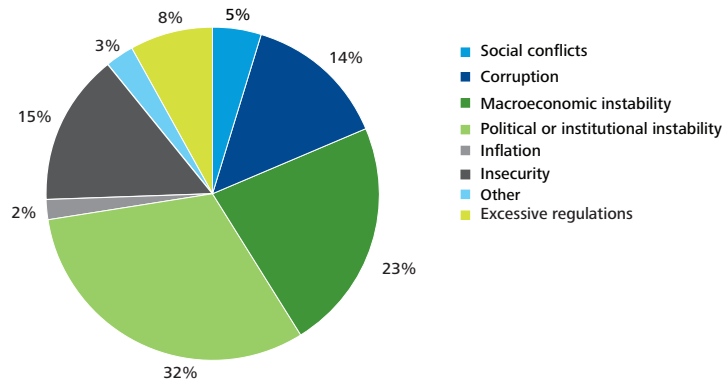
Mexican business leaders explained their choice of Latin America as an investment option in the following terms: Fully 56% cited the pro-growth policies existing in emerging economies; 15% mentioned the robust business class, while 14% considered the positive political and institutional environment. In this light, it is clear that investment will continue to flow in to the extent that Latin America strengthens its political, institutional and economic frameworks, thereby demonstrating that the current phase of economic growth is structurally grounded (61%) rather than circumstantial in nature, while convincing investors that their economies can withstand global economic shocks (77%).

In our next edition of Business Barometer we shall include the opinions of business leaders on these factors from across the entire Latin American region in order to provide a broader understanding of the perceptions of investment opportunities in the region.

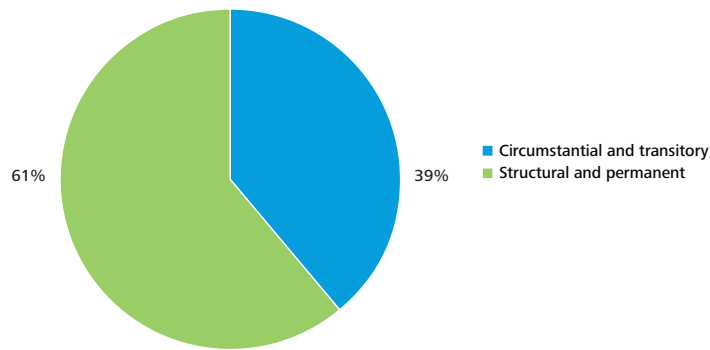
What are the main reasons underpinning your company-s choice to invest Latin America? Respond to any of the options you consider relevant.



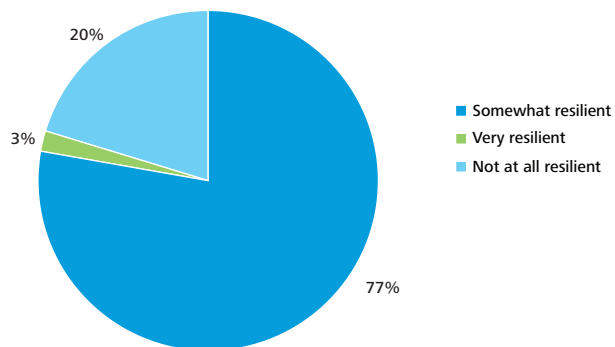
In your view, what is the main threat to the Latin American investment climate?



How would you characterize the current phase of economic growth occurring in Latin America?



How resilient do you believe Latin American economies are to current and future shifts in the economic performance of the US and EU?



V Conclusions

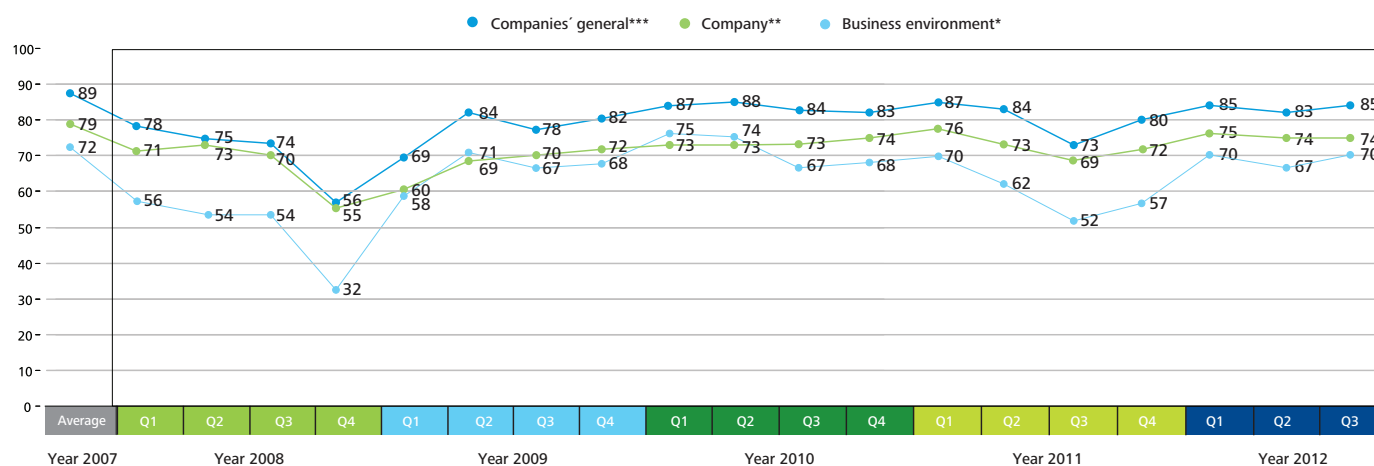
In this edition of Business Barometer (number 23), business leaders envision a more favorable economic climate, especially with regard to the business context, which came in 18 points higher than its score in the third quarter of 2011. This component also outperformed its 2012 second quarter score by 4 points. The outlook for the future also outperformed against both last year's third quarter score and the 2012 second quarter mark by 12 and 4 points, respectively. Nonetheless, these score were not robust enough to drive the score for the future situation of companies to anything more than a modest gain of 4 points over last year's mark. Against the score reported in the 22 Business Barometer, this component retreated by one point.

In this light, profit margin, jobs and prices represent the major internal obstacles to business performance, while deceleration of the US economy, insecurity, inflation and the exchange rate are the major external threats advising caution. It is important, however, to see that business leaders generally hold upbeat expectations of the situation of companies, with 72% expecting improved performance over last year, while only 25% foresee things remaining unchanged and 3.0% expressing negative prospects.

We appreciate the participation of everyone involved in the preparation of this report, especially the collaboration of Dr. José Luis de la Cruz Gallegos, Director of the Economy and Business Research Center of the Tecnológico de Monterrey, Campus Estado de México, for his valuable analyses and contributions for drafting this report.

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).

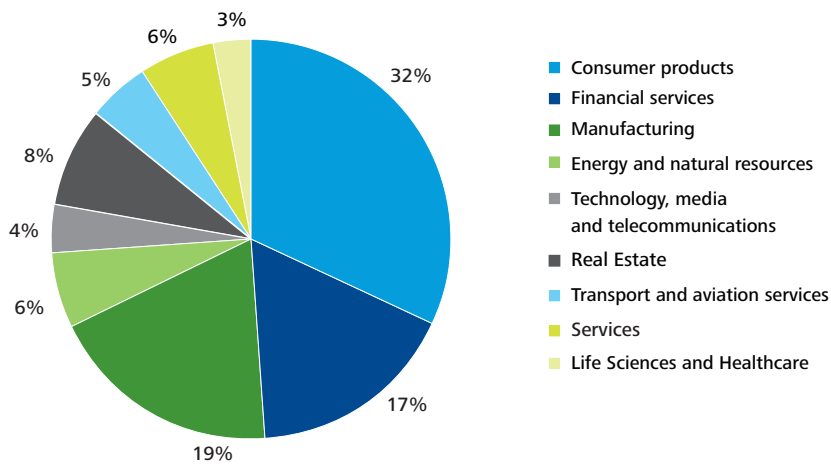
*** Companies' general situation.

VI Survey Framework

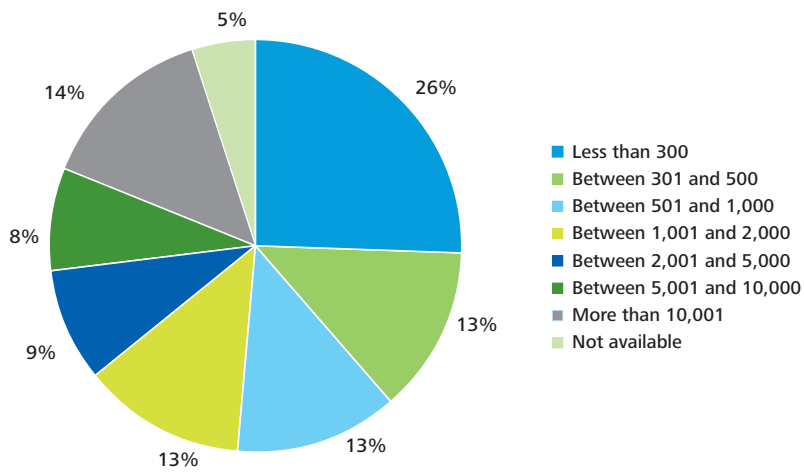
The 23rd Business Barometer survey was applied to 336 CEOs of Mexico's leading companies from September 3th to 21th, 2012.

According to recent figures, the aggregate sale of these companies is approximately \$5,238,567.36 million pesos.

Participation rate by industry



Income level



For further information, please contact us at:

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