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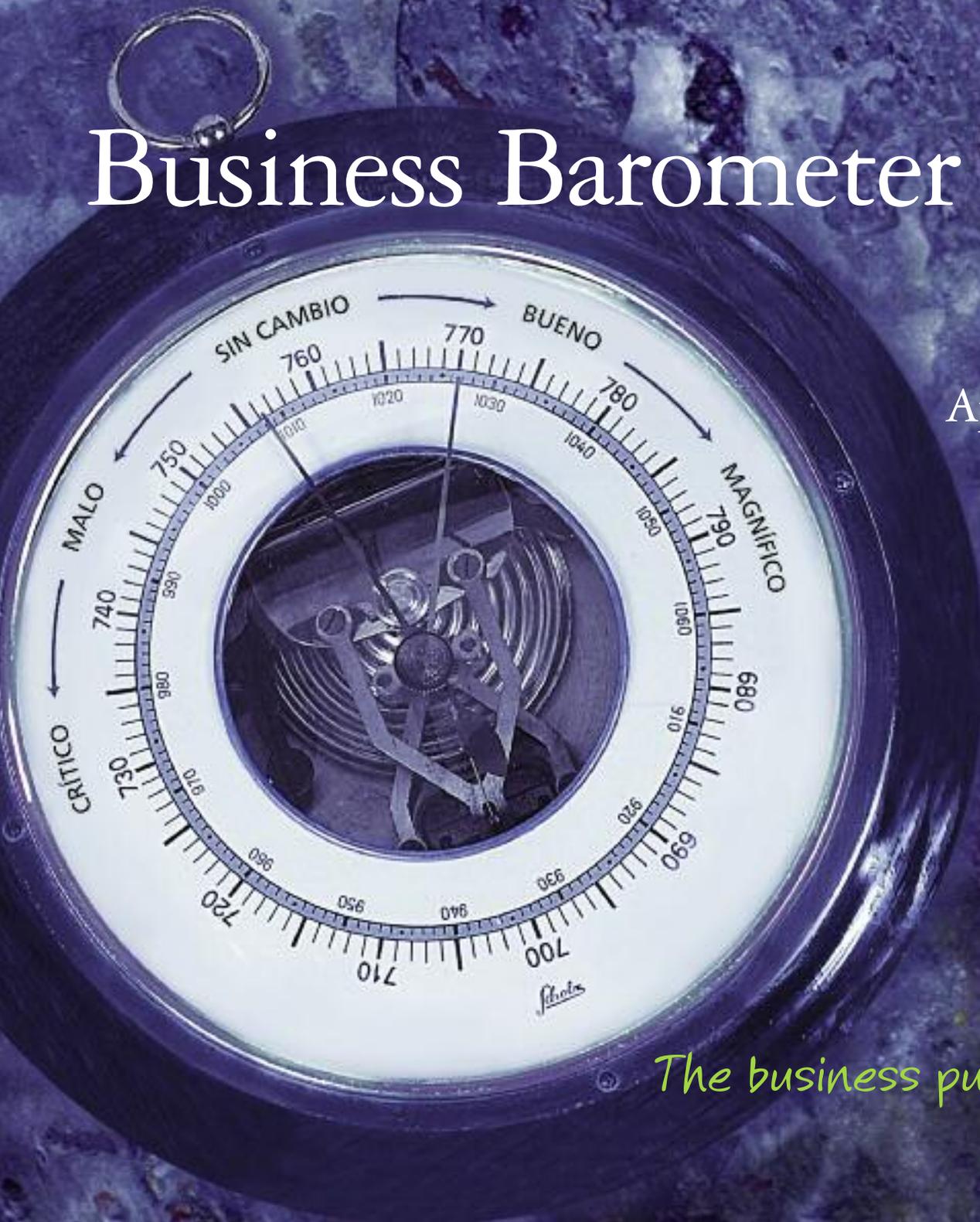


Barómetro  
de empresas

# Business Barometer

5

April 2008



*The business pulse survey*

Audit • Tax & Legal • Consulting • Financial Advisory.



## Introduction

March 2007 signed the release of our first Business Barometer Survey results, a derivative idea of Deloitte and the executives of the most important companies in Mexico, aimed at sharing useful information for proactive decision making.

At that time, 138 of the most important companies in Mexico supported the initiative and attended our invitation to respond a survey designed to evaluate a series of critical concepts for their companies: the business environment variables, the leading deterrents for the Mexican economy stability, and the government's performance as well.

One year on, more than 700 executives have raised their expectations with regard to the business environment in Mexico, contributing to monitor the heartbeat of the entrepreneurial sector with their opinions. Our deepest respects to all of them.

We are certain that the second year of our Barometer Survey will bring along increased opportunities to evolve into the outlook meeting point of the business community.

We will continue working hard to strengthen this meeting space, sharing information and knowledge to transform them into enterprise value.

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# I. Business environment

Optimism is weakening somewhat among executives. Their expectations have changed with regard to the business environment as a whole, as well as to the business climate, credit availability, employment, security and the economic situation in particular.

According to the fifth survey carried out in March 2008, the executives' opinion with regard to the business environment within a year was less optimistic compared to that on the previous survey. The evaluation of five issues (economic situation, business climate, credit availability, employment and security) lowered their average score to 56, the lowest score since the first survey was carried out.

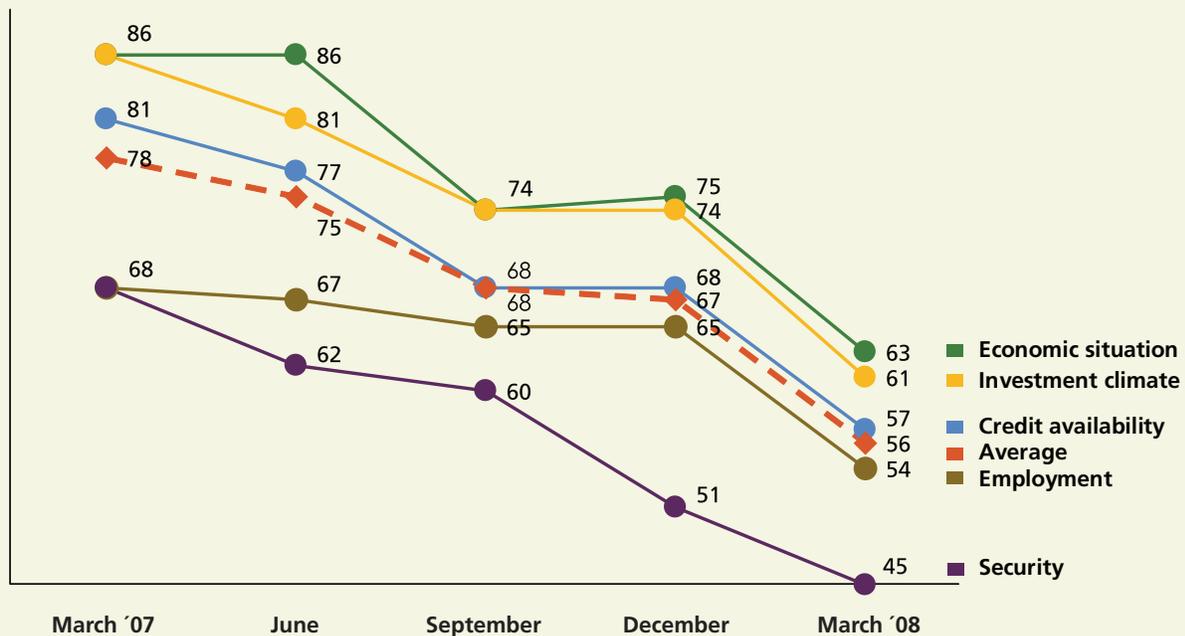
## Security is the worst evaluated variable

Security is the worst evaluated indicator, among all variables. Respondents ranked insecurity as the second leading threat to the Mexican economy within the following months.

Coincidentally, the effectiveness of government actions aimed at improving security was the worst evaluated issue by the executives during 2007, yet it improved in March 2008.

### Annual trends comparison

Future Situation with regard to the date of the survey (Average scores in a 0-100 scale basis\*)

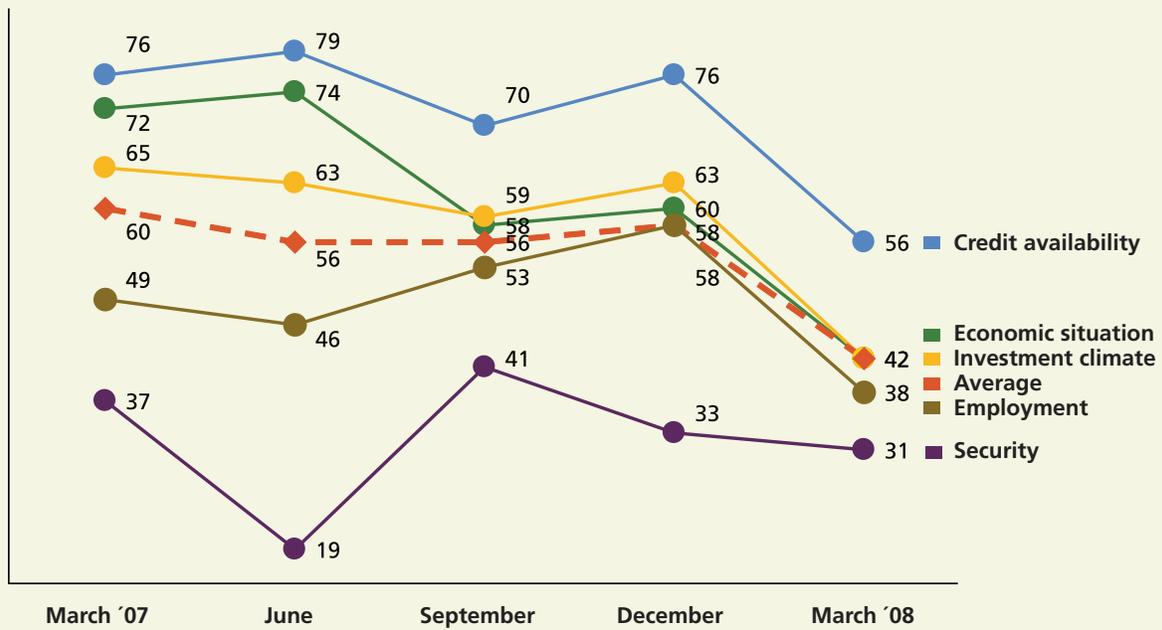


\* These figures were computed by weighing percentages of responses Better, the Same or Worse by 1, 0.5 and 0.

Although these expectations are less optimistic, they are better than those regarding the same issues twelve months before.

### Annual trends comparison

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



\* These figures were computed by weighing percentages of responses Better, the Same or Worse by 1, 0.5 and 0.

## II. Company situation

The executives' opinion with regard to the company situation was less favorable compared to that of former surveys, whereas the particular evaluation of five issues –wages, production capacity, prices, employment and profitability– was not very different from those of September and December 2007.

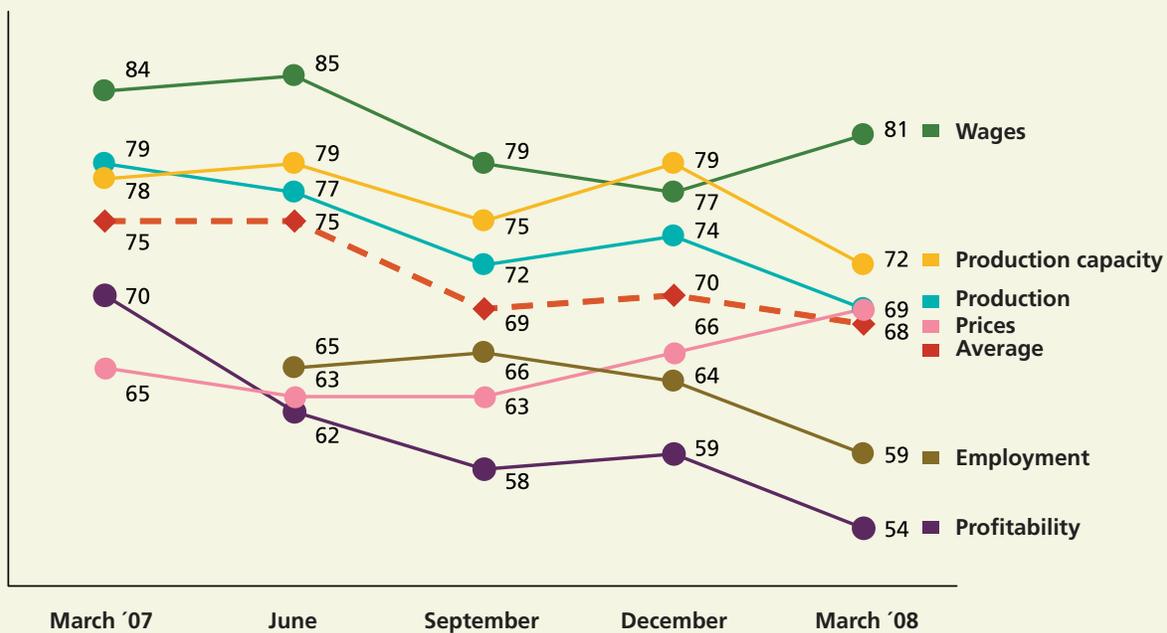
### A. Current

On a scale 0 (worse) to 100 (better), the average score with regard to the companies' general situation decreased, falling to 64 in March 2008, while the figures for the previous surveys in 2007 were 72 in December, 70 in September; 75 in June and 82 in March.

Nevertheless, if we consider six enterprise variables (production capacity, employment, prices, production, profitability and wages) by March 2008, the perception regarding their current situation was similar to that of December 2007.

#### Annual trends comparison

Current Company Situation compared to one previous year (Average scores in a 0-100 scale basis\*)



\*\* These figures were computed by weighing percentages of responses Higher, the Same and Lower by 1, 0.5 and 0.

#### Lower production and employment

In the opinion of the executives surveyed in March 2008, 51.6% of the companies' production was higher than one year earlier and 31.4% believed that employment increased; these numbers were lower than those of December 2007 (58.9% and 39.2%, respectively)

#### Connection between production and inventories

There is an evident connection between production and inventories: if a company has lower demand, it increases the inventories in the first place and reduces the production growth pace afterwards. According to the executives' responses in March 2008, in 28.2% of companies the demand was high and 58.8% rated inventories as normal; the numbers for December 2007 survey were 29.9% and 83.3%, respectively.

## B. Future

### The descent of optimism

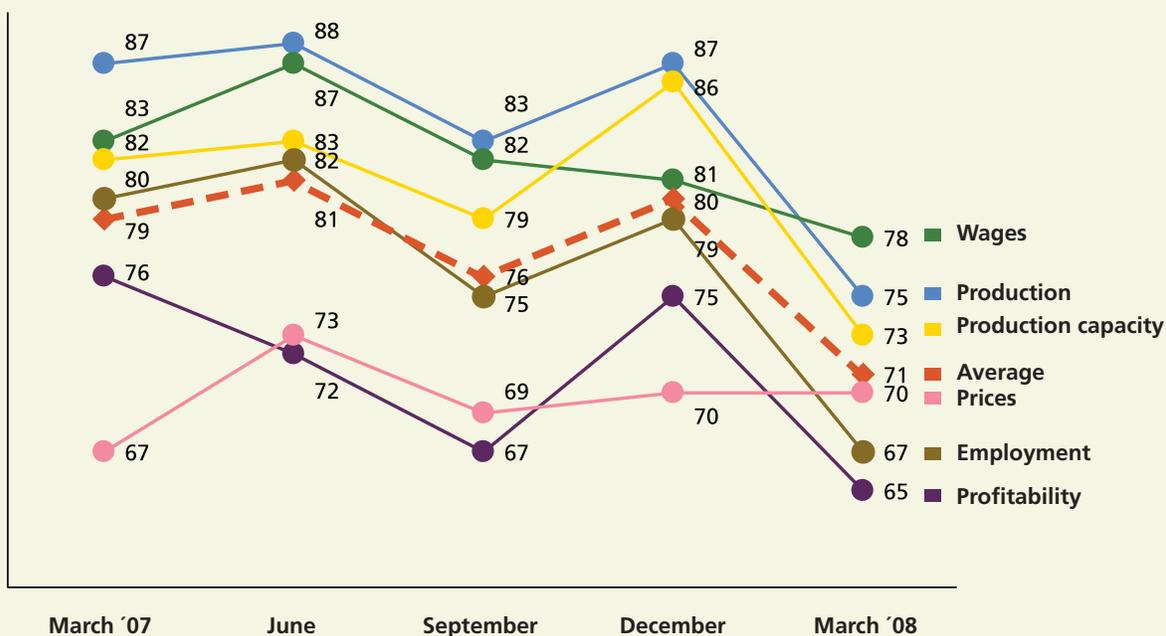
The opinions with regard to the companies' general situation within 12 months were less optimistic in March 2008, than those of December 2007 (average rate: 78 versus 88), perhaps due to the likelihood that the US slowdown would impact the Mexican economy.

In December 2007, 77.3% of companies forecasted to increase their production within the next 12 months and 54.9% would expand their workforce; likewise, 62.5% would raise wages

and 48.3% would increase prices. Nevertheless, the numbers in March 2008 were substantially lower: 53.5% of the companies estimated to increase production, and 37.2% would hire more personnel; similarly, 57.4% of the companies would augment salaries and 46.8% was planning to increase their products' and services' prices. Therefore, in March 2008, only 46.2% of the companies believed that profitability would enhance within a year; but only three months before, a larger number of companies (66%) were expecting higher profitability.

### Annual trends comparison

Future company situation (within a year) with regard to the date of the surveys (Average scores in a 0-100 scale basis \*)



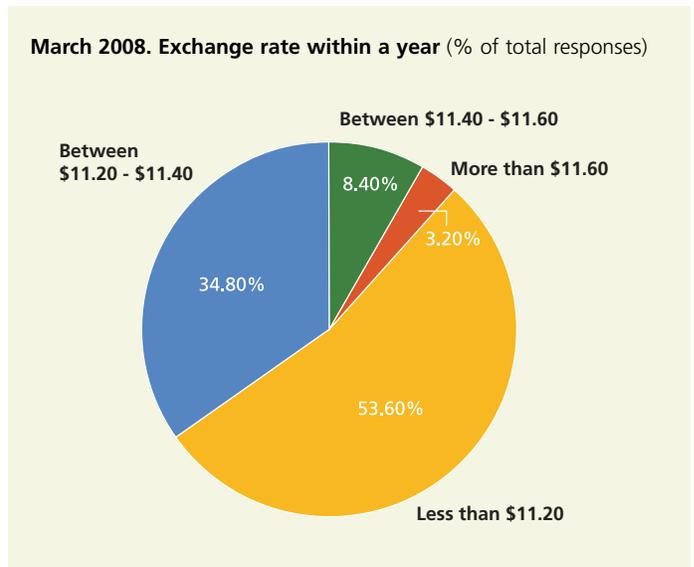
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### III. Exchange rate and inflation

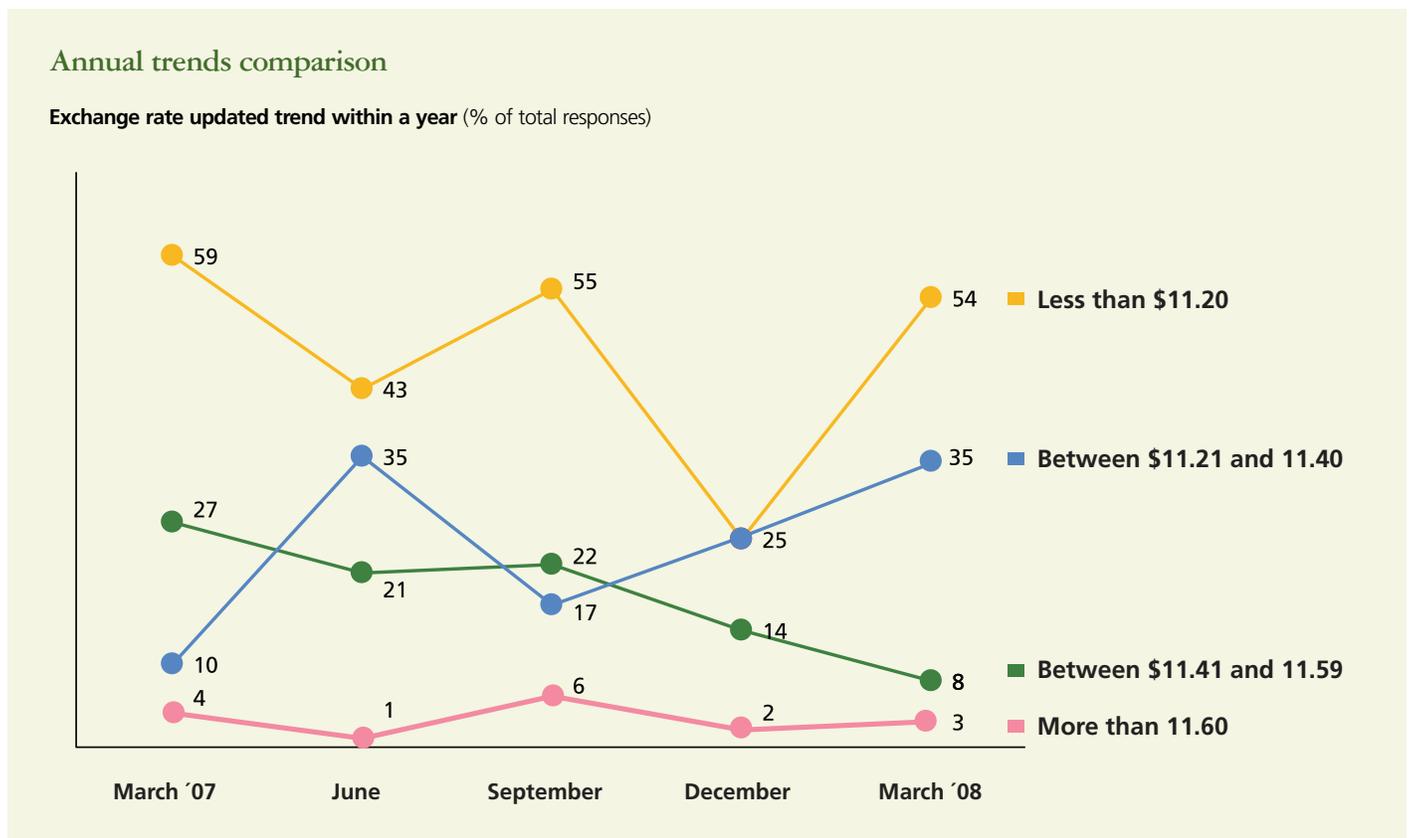
Executives consider that Mexico has achieved financial stability and therefore their expectations were revised downwards.

According to the surveys carried out since March 2007, the respondents have acknowledged financial stability as a true. The most frequent opinion regarding the exchange rate along 2007 valued the dollar between 11.20 y 11.40 pesos to the dollar within a year.

The observed exchange rate was less than 11 pesos to the dollar, somewhat below the executives' expectations.



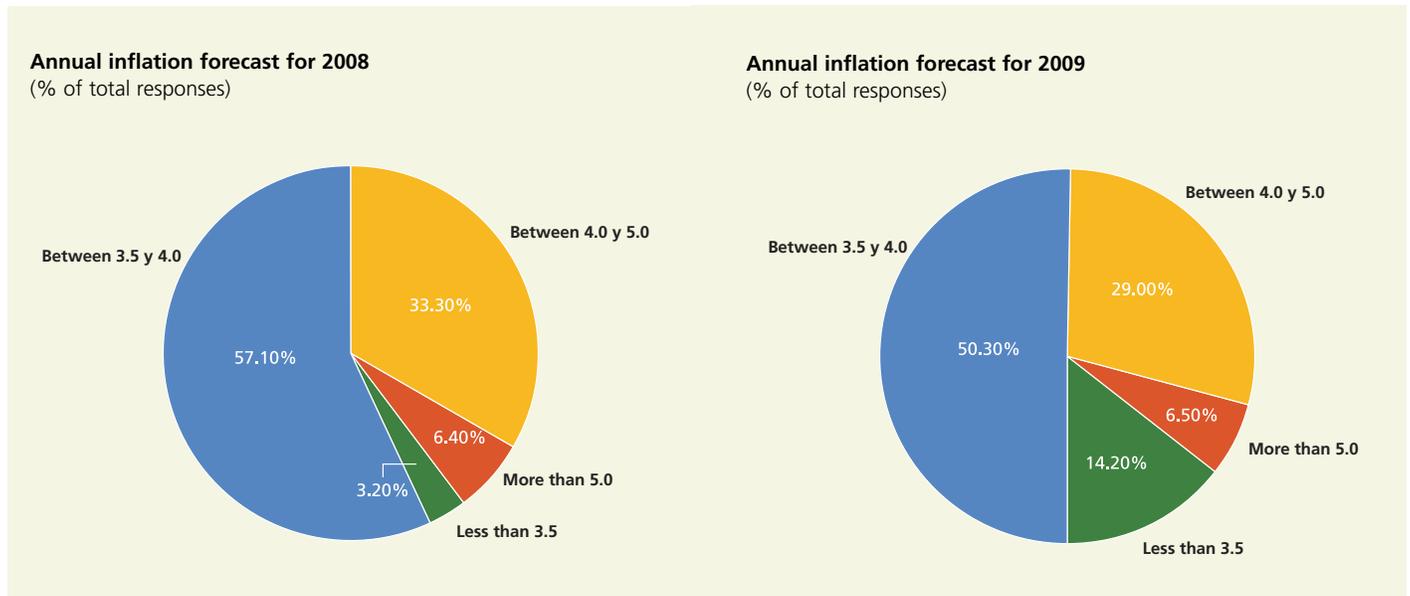
The expectations of the economic analysts obtained by the Bank of Mexico between March 24-28 were also revised downwards. In March 2007, the analysts forecasted an exchange rate of 11.35 pesos to the dollar by the end of 2008, and 11.01 pesos to the dollar in March 2008.



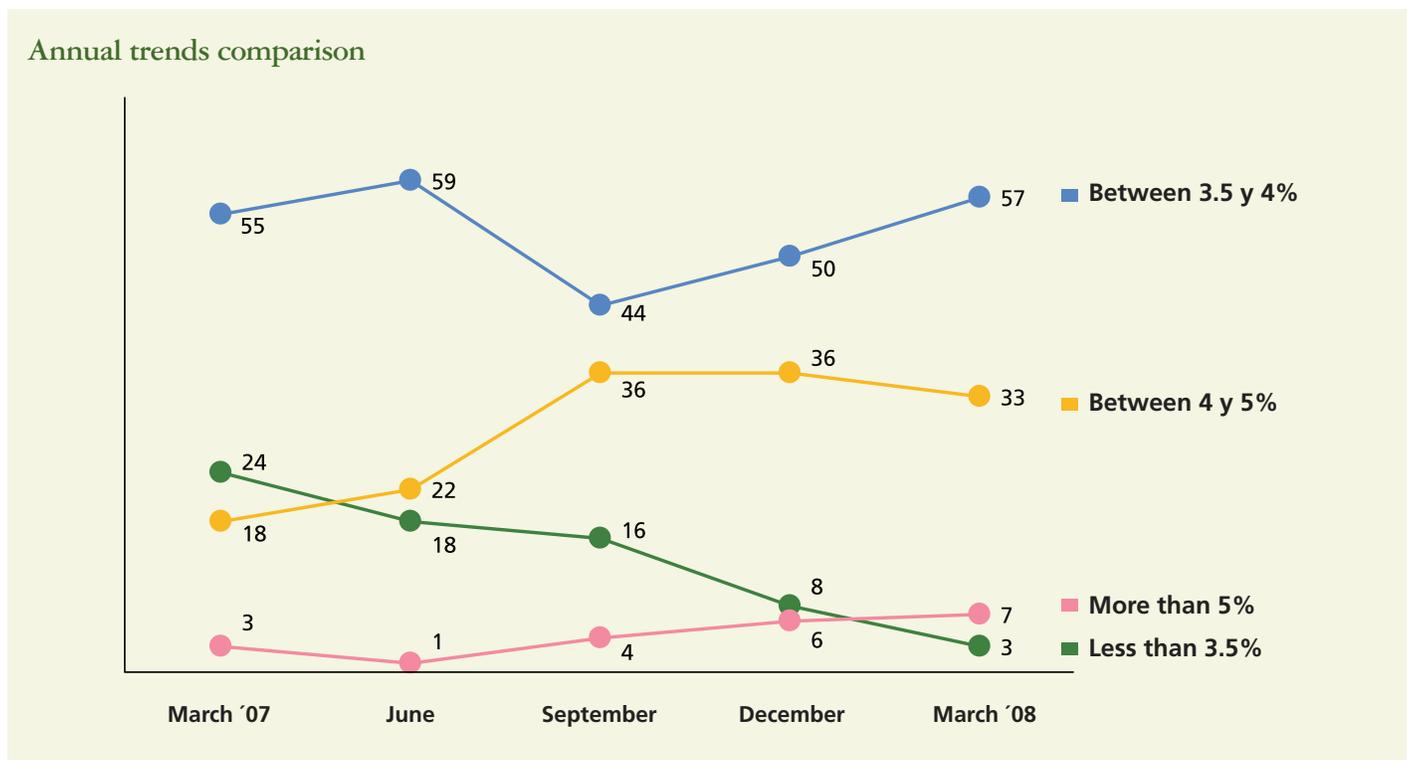
According to the March 2008 survey the executives have raised their inflation forecast.

The estimated inflation for 2008 has jumped on raised forecast. In March 2007, 23.5% of the respondents expected it to be above 3.5% for 2008; one year later, only 3.2 confirmed that same number. Likewise, 50% of the surveyed executives

continue to foresee inflation levels between 3.5% and 4.0%. Nevertheless, the executives predict that inflation could slow down in 2009 and therefore to narrow the gap within the annual inflation target set by the Bank of Mexico (3%).



According to the Bank of Mexico, the analysts in the private sector have modified their prospects in the same course: the expected inflation for 2008 was 3.98%; and 3.62% for 2009.



## IV. Threats to the Economy

### Growing concern due to the U.S. economic slowdown

According to the executives' opinion in March 2008, there are three crucial deterrents for economic growth in the incoming months: the economic slowdown in the US (an increasingly important variable), insecurity and political discords in Mexico.

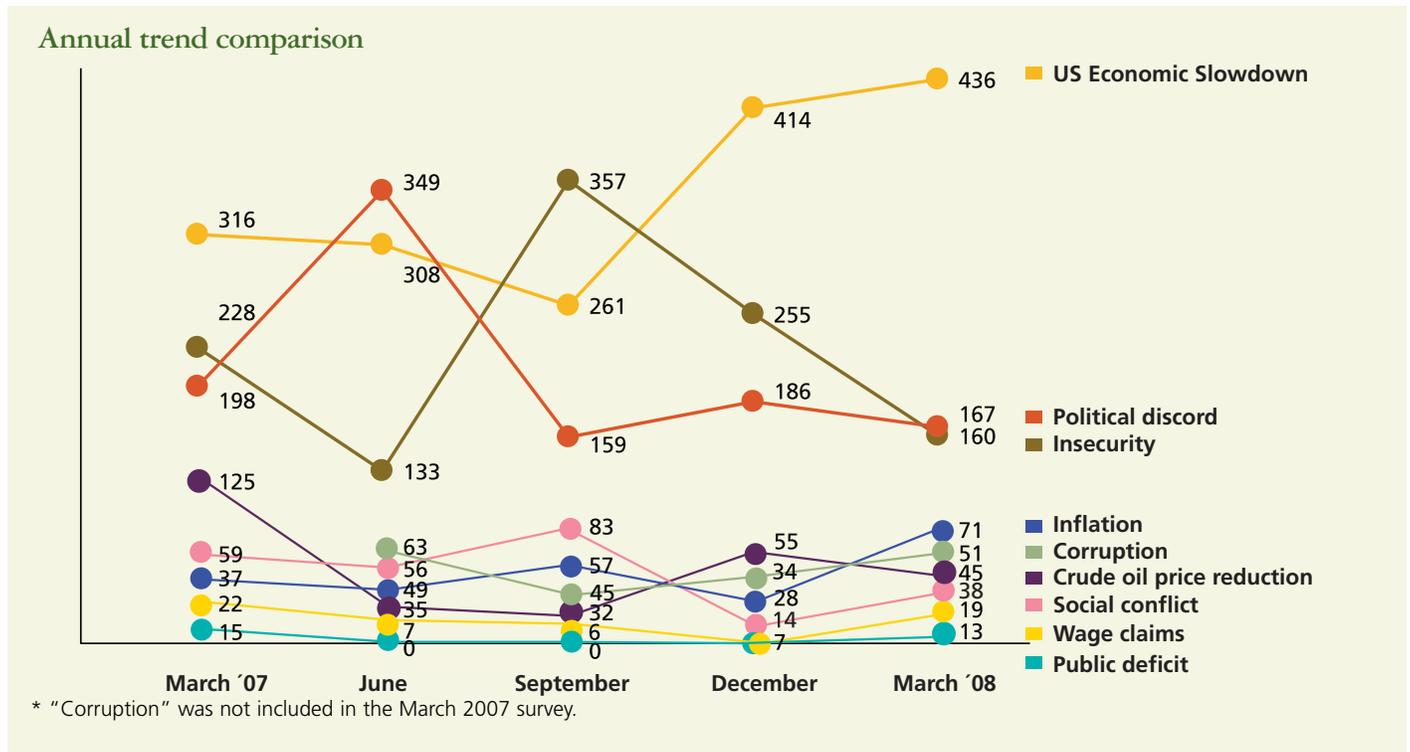
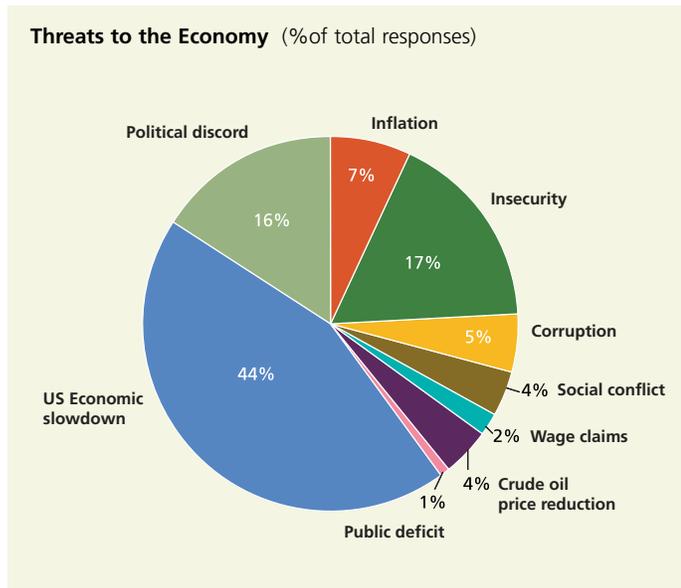
### Temporary external threat

In spite of rising concern among the surveyed executives regarding the US economic slowdown, this is perceived as a temporary external threat. Although it will impact the pace of Mexico's economic growth, it will be somewhat lower than expected compared to similar situations in the past.

### Insecurity and political discord: structural internal weaknesses

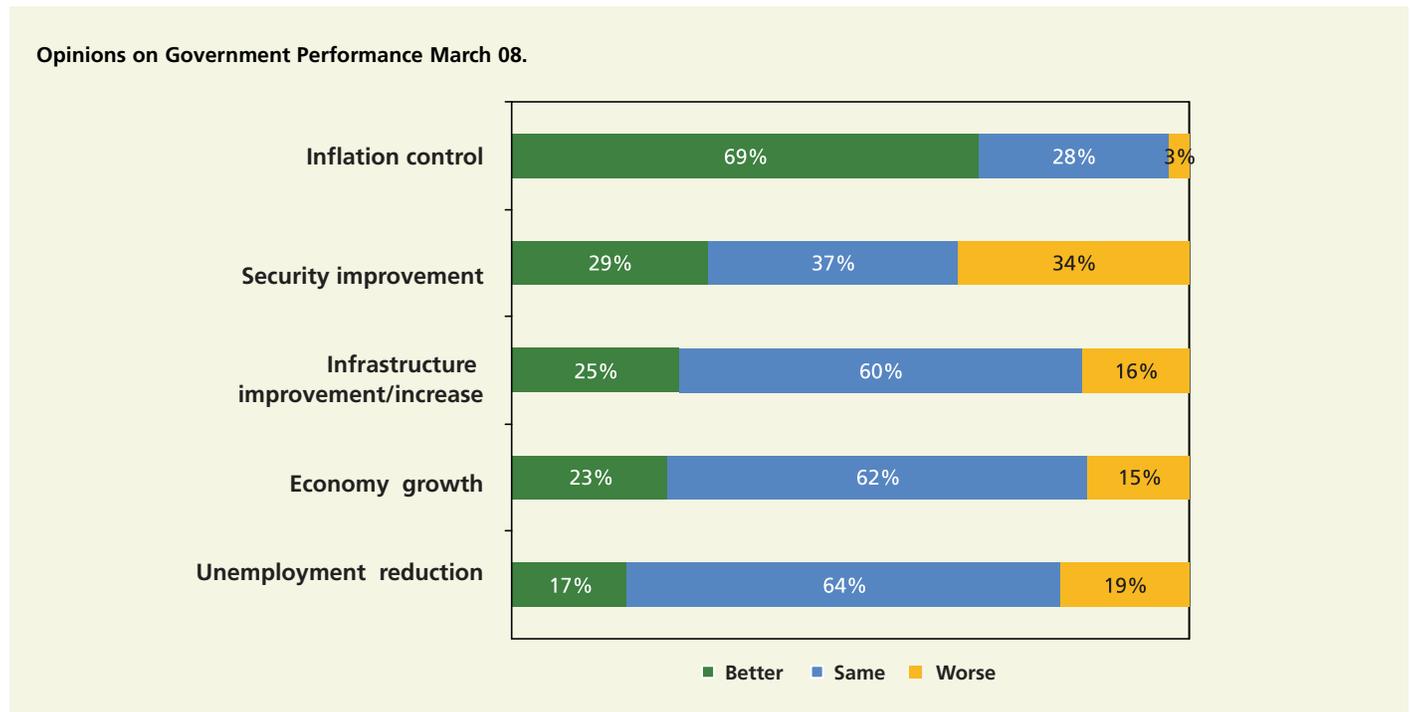
Even though internal weaknesses seem to be structural, the executives have consistently ranked low the government's performance aimed at reducing insecurity along the four surveys, yet the figures improved in March 2008.

Political discords –another main deterrent to the Mexican economy- are currently focused on the energy reform debate.



## V. Government Administration

The executives' outlook for inflation does not appear to be negative. In fact, they acknowledge the effectiveness of government's performance aimed to control inflation. Moreover it has been the only best-evaluated issue along the surveys in 2007 as well as in the survey carried out in March 2008.



The executives evaluation with regard to the government's performance is improving mainly in two particular issues: the capability to increase infrastructure and security improvement.

According to the previous surveys, the government's capability to improve both infrastructure and education, has not been big enough (two means within reach to expedite the increase of productivity); and the actions aimed at improving economic growth and therefore to reduce unemployment and poverty, have failed.

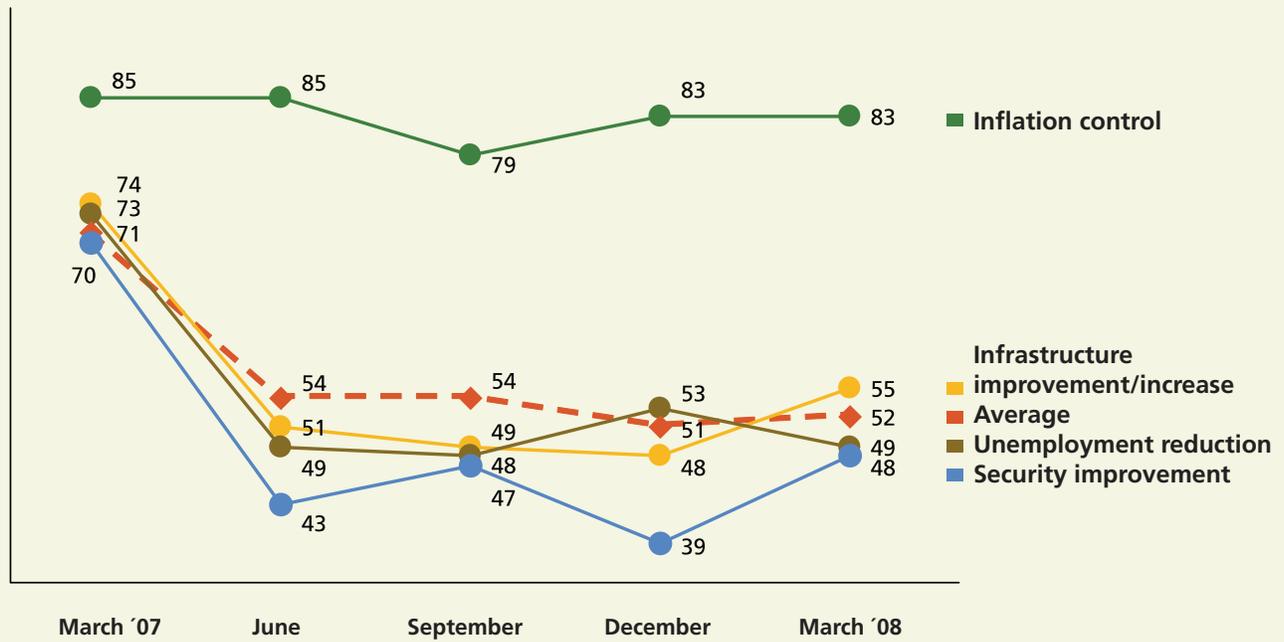
Nevertheless, March 2008 signed favorable and substantial change within the evaluation of two aspects of the government's performance compared to December 2007: the increase of infrastructure and security improvement.

In the former case it could be influenced by the progress within the National Infrastructure Program 2007-2012 posted in July 2007, and the National Infrastructure Fund rollout in February 2008.

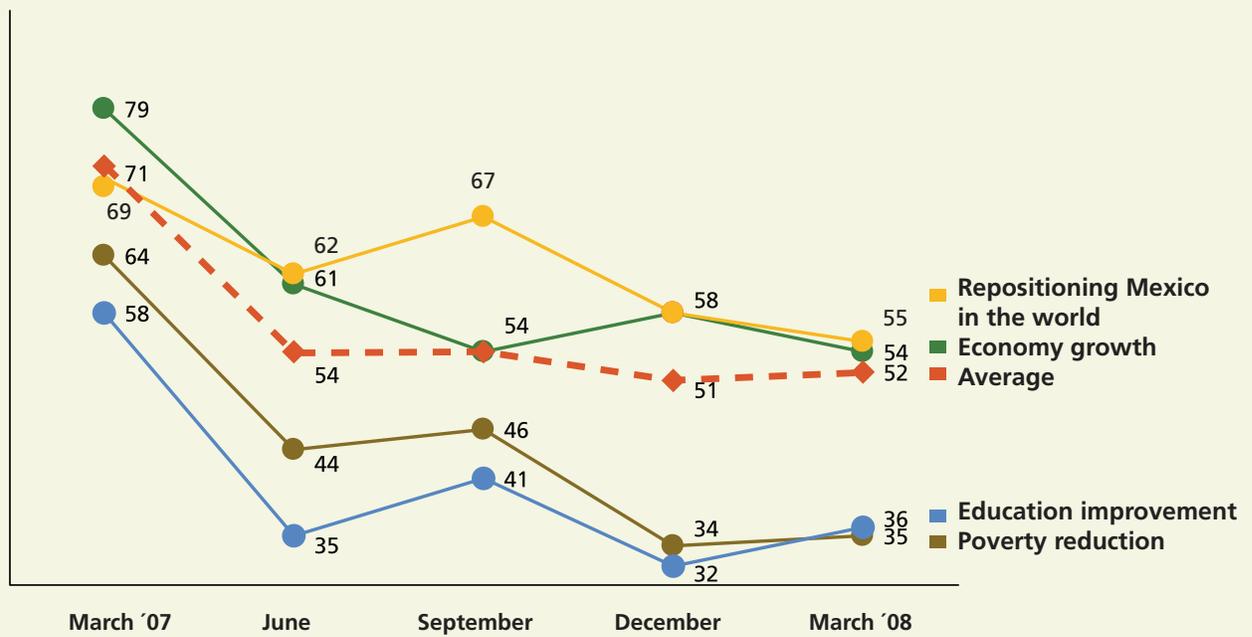
And in the second one, the influence likely resulted from intensive publicizing of the government's achievements in the crusade against crime and all the progress made in order to materialize the National Agreement for Lawfulness and Security as well.

In the spirit of providing greater clarity to our readers we present the annual comparison in two trend charts, each one including four evaluated variables.

### Annual trends comparison



\* These figures were computed by weighing percentages of responses Better, the Same and Worse by 1, 0.5 and 0

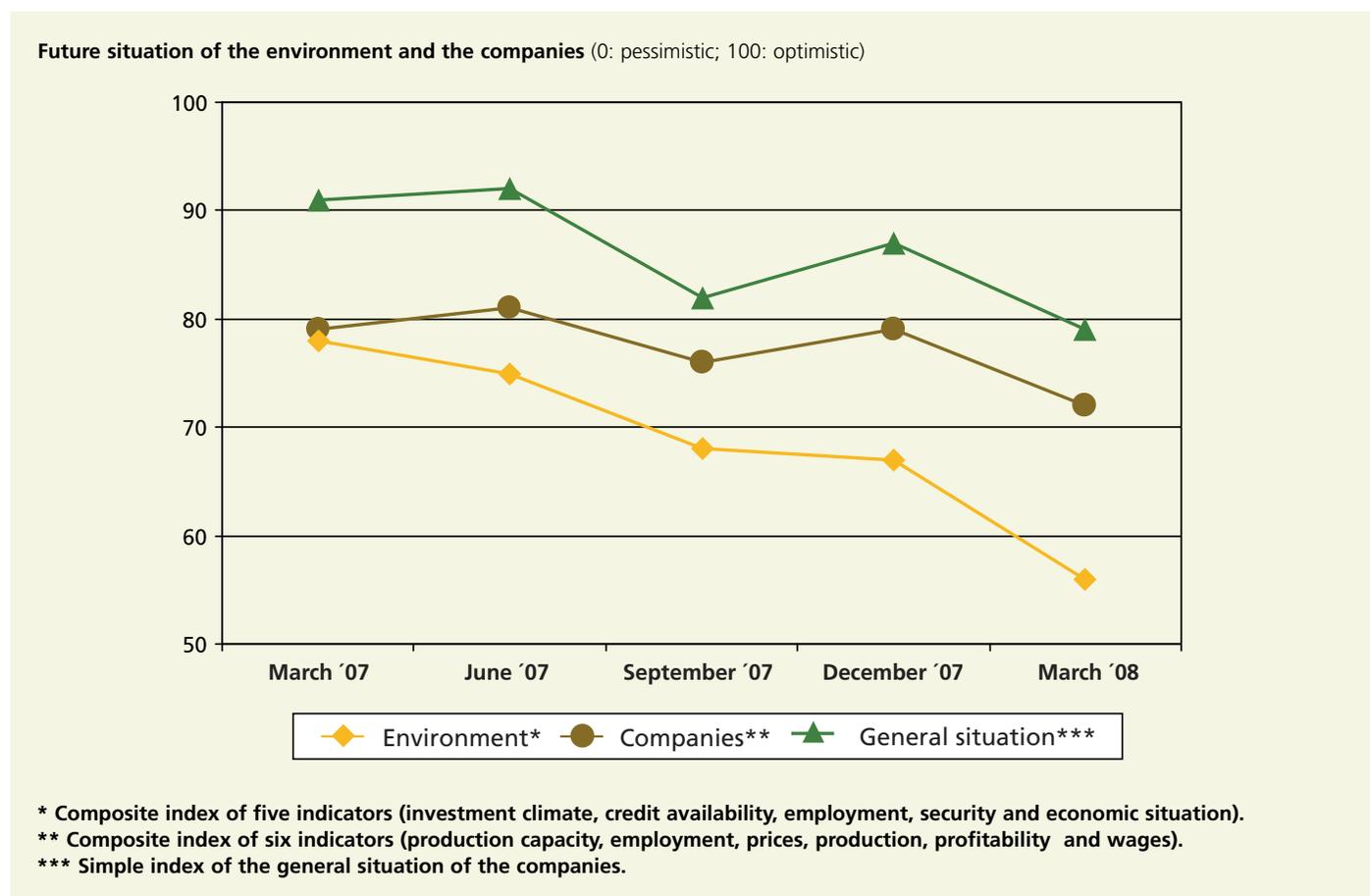


## VI. Conclusions

The Business Barometer's fifth edition is full of undertones and reveals the executives' outlook swift between December 2007 and March 2008, with regard to the economic environment and the general situation of their companies. The respondents' lowest scores given so far reflected decreased optimism concerning the investment climate, credit availability, employment, security and the economic situation as well.

Furthermore, widespread concern about the US slowdown as the major hindrance to the Mexican economy within the incoming months is connected to optimism downward slope on the companies' results in such issues as production capacity, employment, prices, production, profitability and wages.

We built three indexes which trends reveal the expectations swift.



On the other hand, the executives consider that Mexico has achieved financial stability and revised their expectations downwards. Yet 50% of the surveyed executives continued to foresee inflation levels between 3.5% and 4.0%, the respondents predict that inflation could slow down in 2009 and therefore to narrow the gap within the annual inflation target set by the Bank of Mexico (3%).

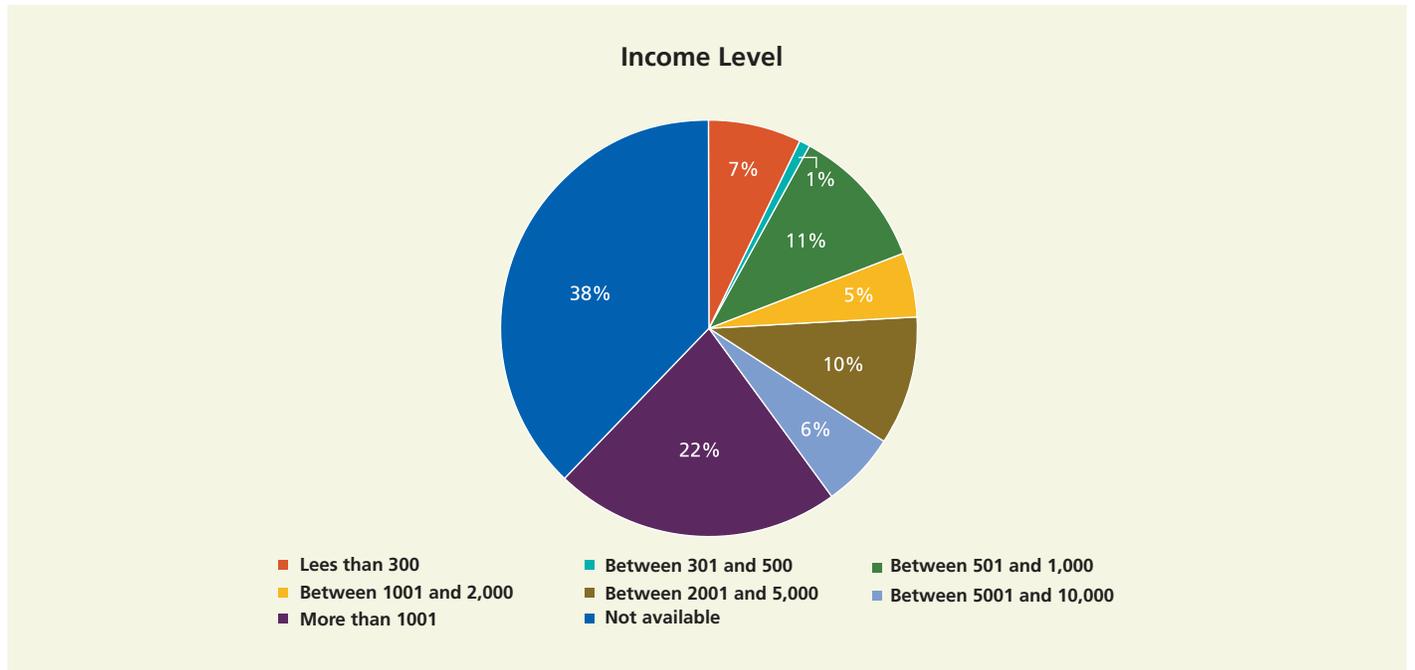
Finally, it has been interesting to monitor the favorable and substantial changes that March 2008 survey brought along compared to that of December 2007, regarding the evaluation of two aspects of the government's performance: the increase of infrastructure and security improvement.

## VII. About the Survey

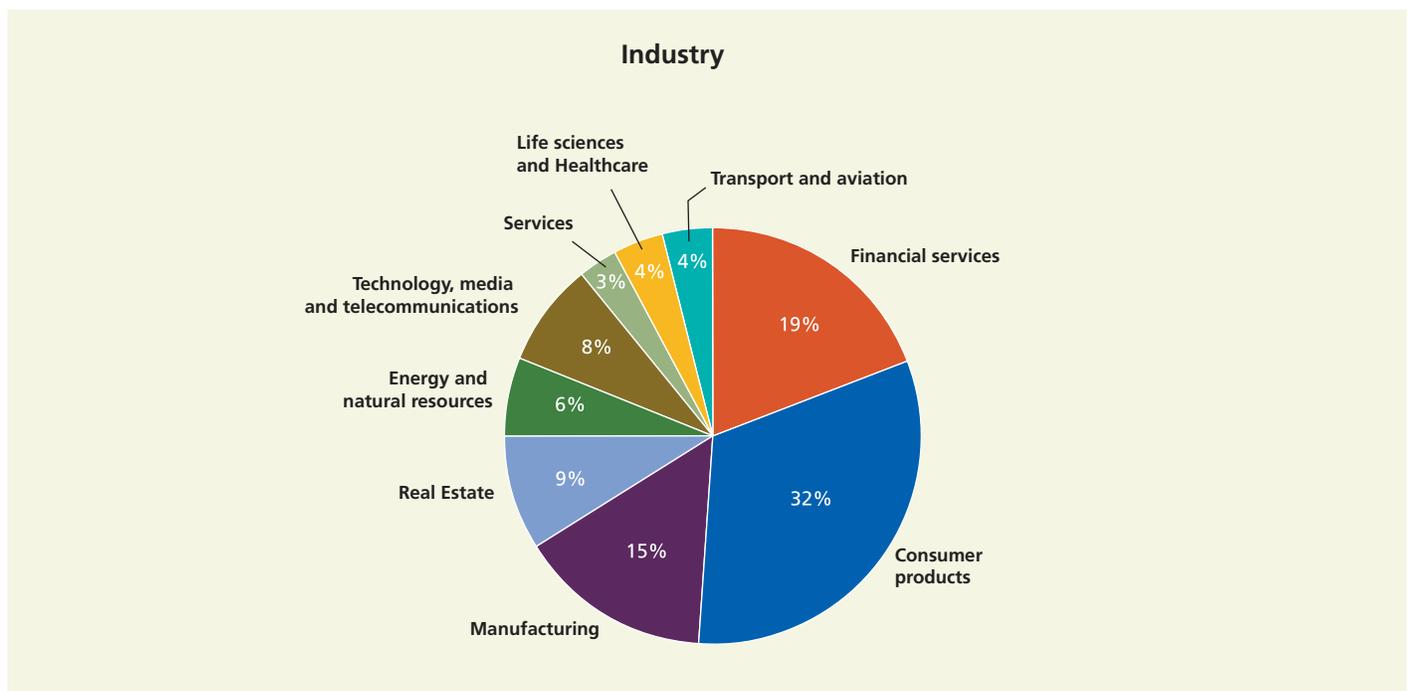
Deloitte's fifth Business Barometer survey carried out in March 2008, included 156 executives of the most prominent companies in the country.

Considered among the most important companies in Mexico, their added income rose \$254.55 billion dollars, in the last reported period.

### Average annual income of companies



### Industry Participation







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