



21

April 2012

Business  
Barometer Survey  
The business  
pulse survey



# Introduction

The 1Q12 Business Barometer indicates the Mexican economy continues its upbeat trend. The business environment and outlook coupled with controlled inflation and the analysis of the government's performance have brought home results that are better than numbers reported at year-end 2011. Even though some figures stand below 1Q11 levels, our survey of CEOs and businessmen reveals their upbeat outlook for the Mexican economy and point to the consolidation of a favorable climate for business development.

In the area of employment we discern an important shift. The positive movement in employment perspectives is driving upbeat expectations for the country's social and economic stability. Stable demand and exchange rates, in conjunction with improving perceptions regarding security are also driving upbeat expectations for the performance of the Mexican economy.

Nevertheless there has been some improvement in perceptions of insecurity, these worries persist. Together with the current slow-down of the US economy, these factors continue to pose a leading increase in risk factors. In the same vein, as the federal elections approach, political discords are beginning to carry more weight in terms of growth risk. Though generally regarded as positive, the performance of the government was mitigated by some negative responses from businessmen surveyed. The government was well evaluated for its efforts to relieve poverty, improve security and promote education.

This edition of the Business Barometer also focuses on the global economy, especially in light of the agreements arising from the recent World Economic Forum in Davos. CEOs and businessmen surveyed agree that the largest challenge they face is the world-wide economic recession. There is also wide consensus regarding the need for solutions to social problems such as terrorism, drug trafficking, the loss social values and inequality, which should in their view be faced largely by civil society. Interestingly, survey participants assign only a secondary role for the government in these matters. The survey also shows that business leaders recognize the need for the business sector to share responsibility for society's needs in order to achieve sustainability. As such, most businessmen indicated that the current unfavorable business climate poses new challenges for civil society, while calling upon the business sector to take an active role in finding solutions. Finally, the survey reveals that the upcoming G20 Summit is not expected to have much impact on most businesses.

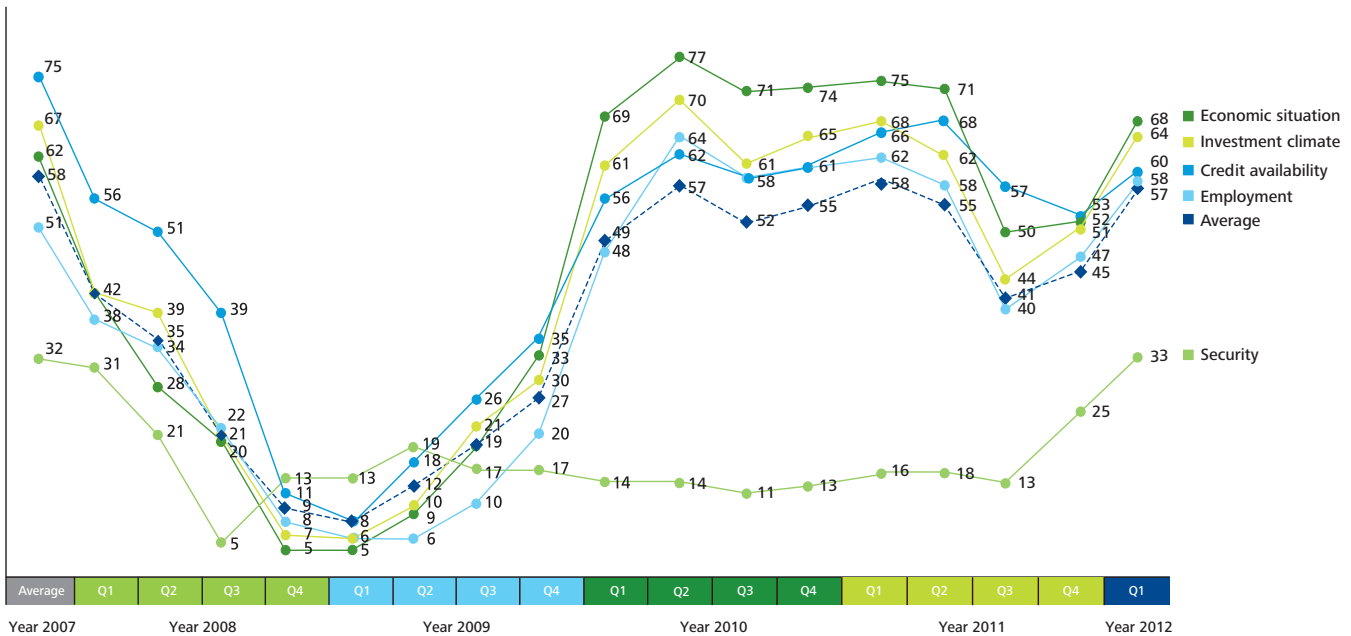
# I Business Climate

## Current

The business climate in 1Q12 is upbeat and has improved since the previous quarter. The economic situation, investments climate and employment outlook enjoyed respective growth of 16, 13 and 11 points. Nonetheless, these indicators continue to lag behind 1Q11 figures, and only security, with a jump of 17 points, outdistanced last year's mark.

Moreover, the economic situation indicator came at its lowest first-quarter mark in two years, indicating that businessmen and CEOs continue to be skeptical to some degree regarding both employment and the economy in general. This situation is evident in the 12 point hike in the average indicator since the last quarter, but the 1 point retreat against 1Q11.

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



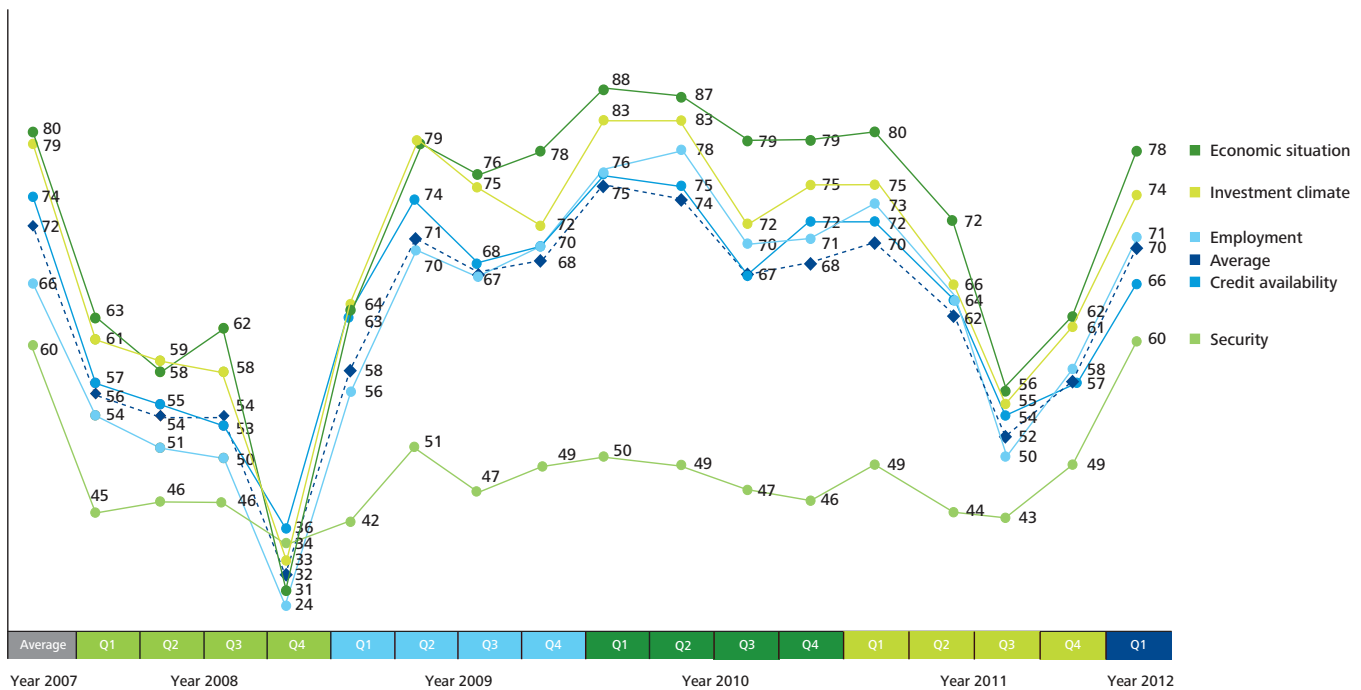
\* Figures were computed by weighing percentages of responses better, the same or worse by 1, 0.5 and 0.

### Near Term

The 2013 expectations of CEOs and businessmen surveyed are similar to current perspectives and have improved since 4Q11, though are still below 1Q11 levels, with the notable exception coming in the area of security. Likewise, in terms of 1Q performance, all of the elements measured stand at three-year lows, again with the exception of security. On average, businessmen rate the future of these variable 13 points above 4Q11 levels, a mark that stands even with the 1Q11 outlook.

This context suggests a scenario of recovering business expectations; however, these expectations have only just reached last year's levels. While security underperformed other variable and, indeed, has been a major sore spot in perceptions measured in previous editions of the Business Barometer, the remaining variables still do not provide a picture of full recovery, though it can be said the trend is positive.

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

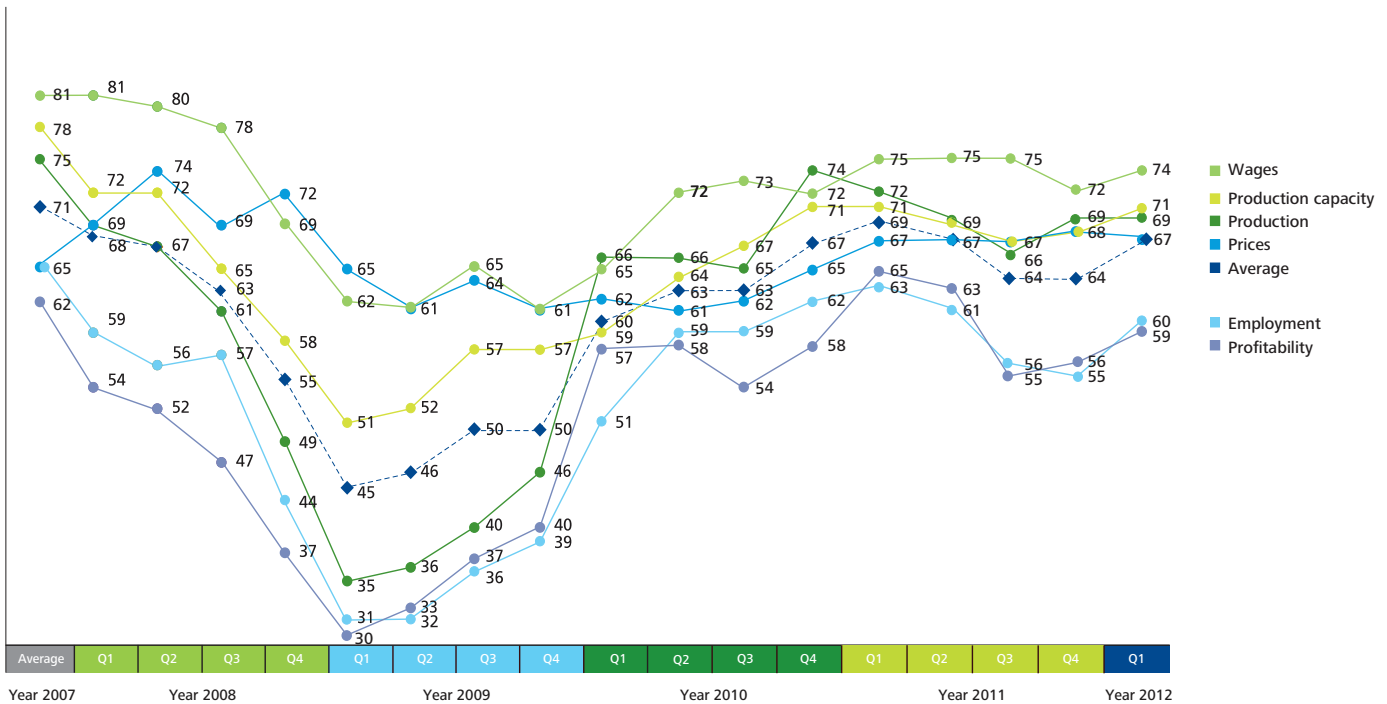
# II Situation of Businesses

## Current

Businessmen surveyed indicate that the current situation of businesses is still somewhat unfavorable. The variables measured have moved up 3 points since Business Barometer 20 released in December 2011. Employment led other indicators with a jump of 5 points, followed by an improvement of 3-points in profitability and output capacity. Meanwhile, prices retreated by a full point. Against last year's marks, most indicators retreated, with an average slipping of 2 points. Profitability led the retreat, slipping 6 points while employment and output each moved back by 3 points.

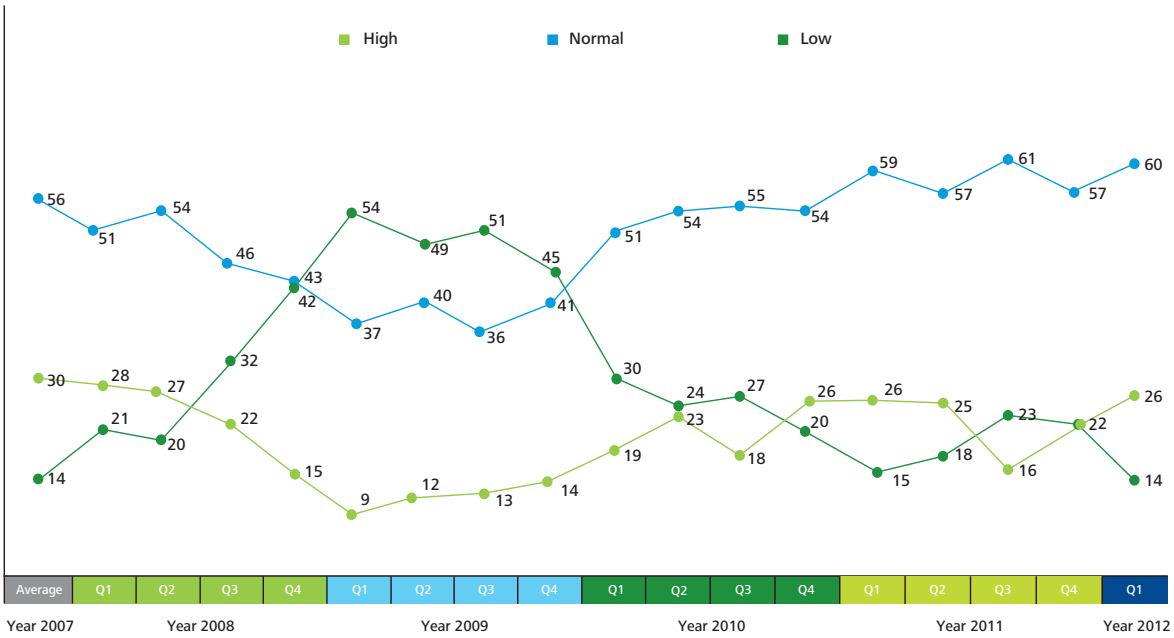
Furthermore 60% of surveyed businessmen reported normal business demand, while 26% reported high demand, with only 14% indicating low demand levels. This upbeat perception of demand suggests a stable climate. Moreover, those reporting lower demand came in at its lowest mark since 2008.

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.

Current company demand (percentage distribution of responses)

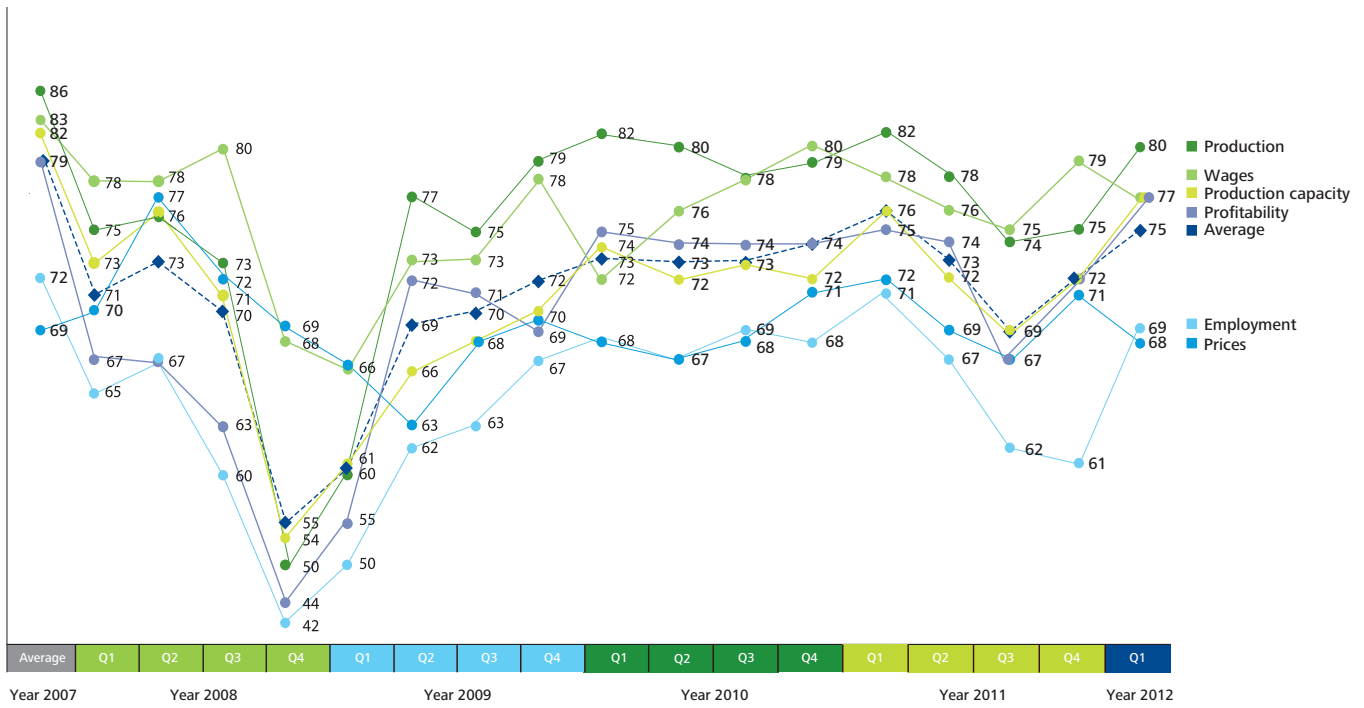


**Near Term**

The businesses outlook has improved against 4Q11, with an overall average increase of 3 points, largely on an 8-point jump in employment, while output and profitability each moved ahead by 5 points.

In general, there is a positive business climate outlook. Especially noteworthy are improving expectations for employment, which in past editions was the variable undergoing the largest losses, even within the period of economic recovery. Similarly there are positive expectations over prices very likely, because of the implementation of price control strategies aimed at keeping demand stable.

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.



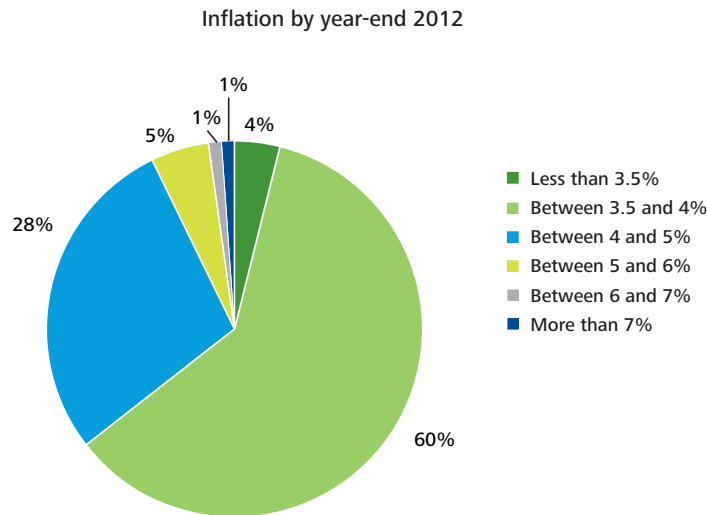
# III Inflation and Exchange Rate

## Inflation

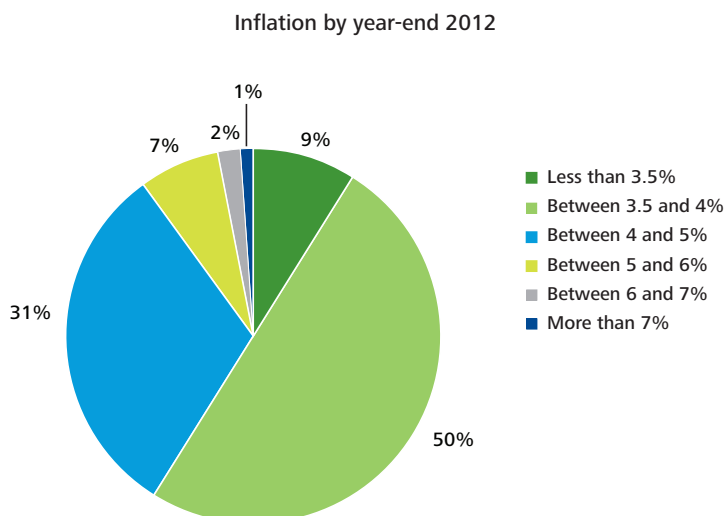
The inflation outlook among businessmen again constitutes a positive factor in the economy. For year-end 2012, 60% of surveyed put inflation between 3.5 and 4.0% levels in line with the Banxico target, 28% have inflation between 4.0 and 5.0% and the remaining 7% of businessmen foresee inflation topping 5.0%. A scant 4% of those surveyed peg inflation below 3.5%.

Expectations for 2013 are similar: 50% of surveyed project inflation between 3.5 and 4.0%, while 31% of businessmen put it in a 4.0 to 5.0% range. Ten percent of CEOs foresee 2013 inflation topping 5.0%, while only 9% of the survey group forecast inflation below 3.5%. These results show that businessmen have confidence in inflation controls.

Expected inflation (percentage of responses)



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

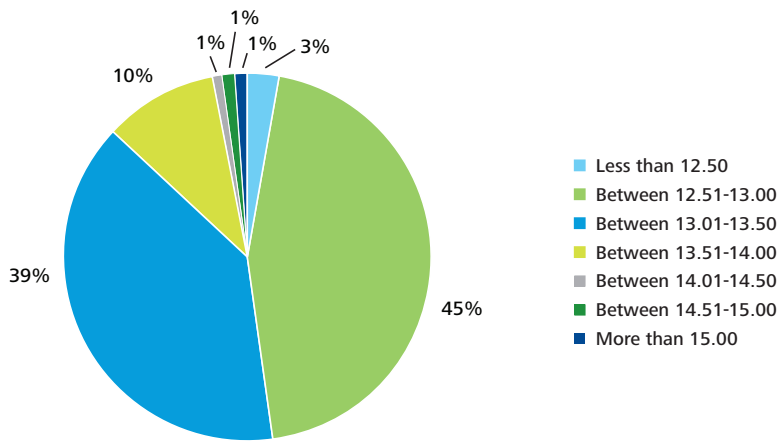


### Exchange Rate

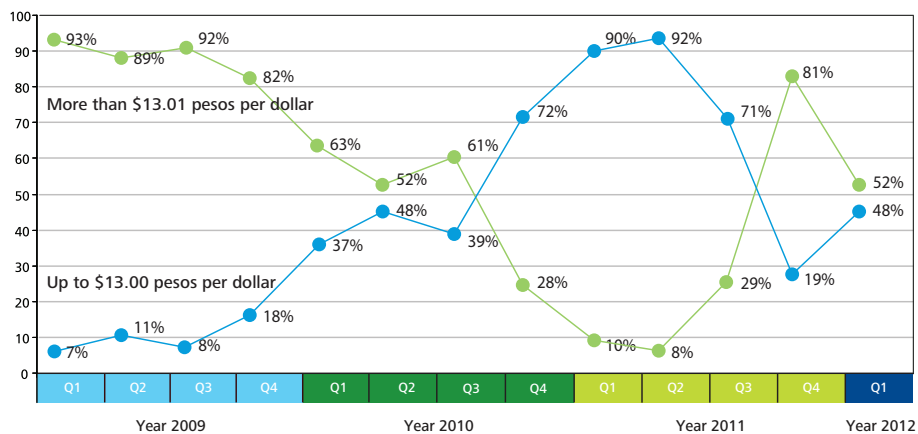
Exchange rate in 2013 is no longer a major concern among businessmen surveyed, although opinions are divided. While 52% of businessmen expect the MXN-USD to trade above 13.00, 42% said it could reach this level without surpassing it. This result suggests a returning in Mexican currency confidence, on the heels of Business Barometer 20 that had 81% of surveyed businessmen calling for an exchange rate above 13.00.

For next year, 45% believe the exchange rate will swing between 12.51 and 13.00 pesos, while 39% expect a range 13.01-13.50. These numbers reveal that there is growing confidence in the Mexican currency and slight fear of significant depreciation.

Exchange rate December 2011



Exchange rate within a year (percentage of responses)



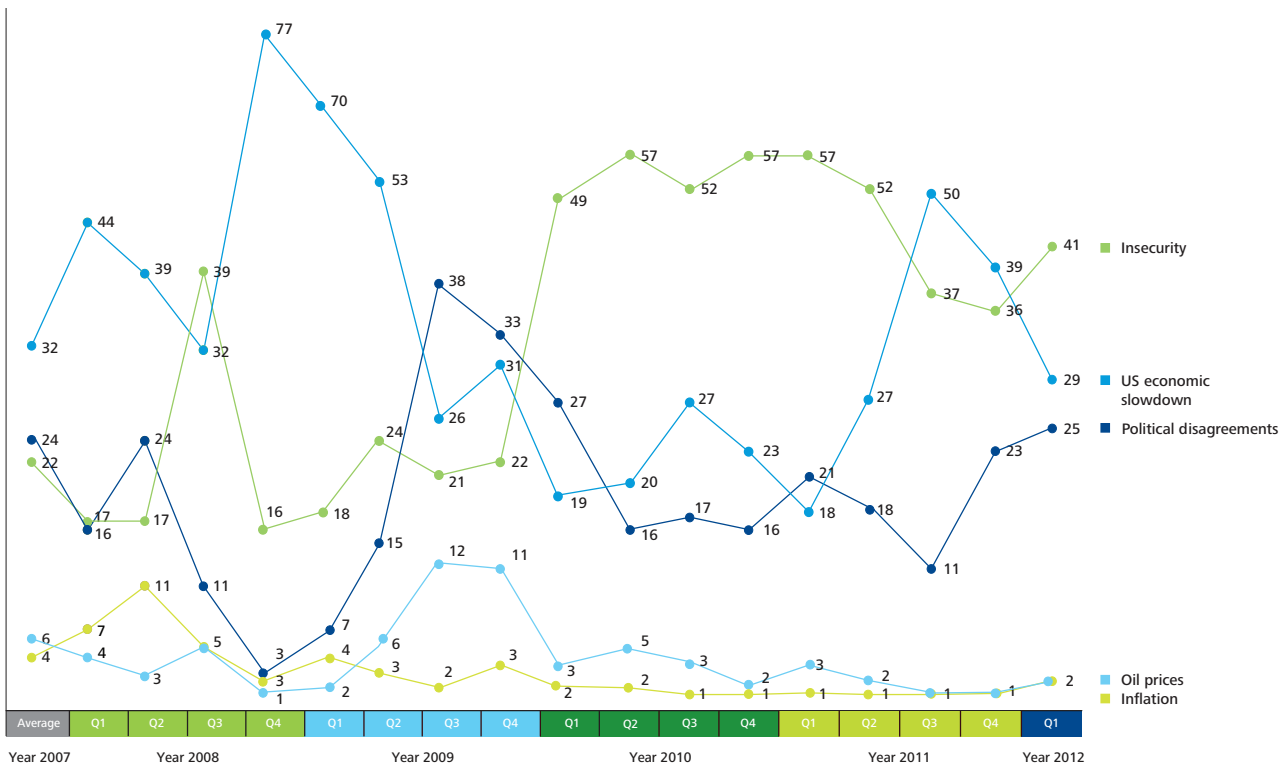
# IV Threats to Economic Growth

## Threats

According to 41%, in the short term, Mexico's security issues constitute the leading threat to the economy. In contrast, 29% believe the slow-down of the US economy is the largest threat, meanwhile 25% see internal political infighting as the major obstacle. In the other hand only 2% had considered the inflation and oil prices as a risk. Despite the improvement in security issue remains above last year's level. Similarly, the threat posed by the slow-down of the US economy appears to be shrinking in the minds of those surveyed since last year.

Within the context of the modest US recovery, businessmen can now turn their eye to the local political scenario as the July federal election approaches.

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

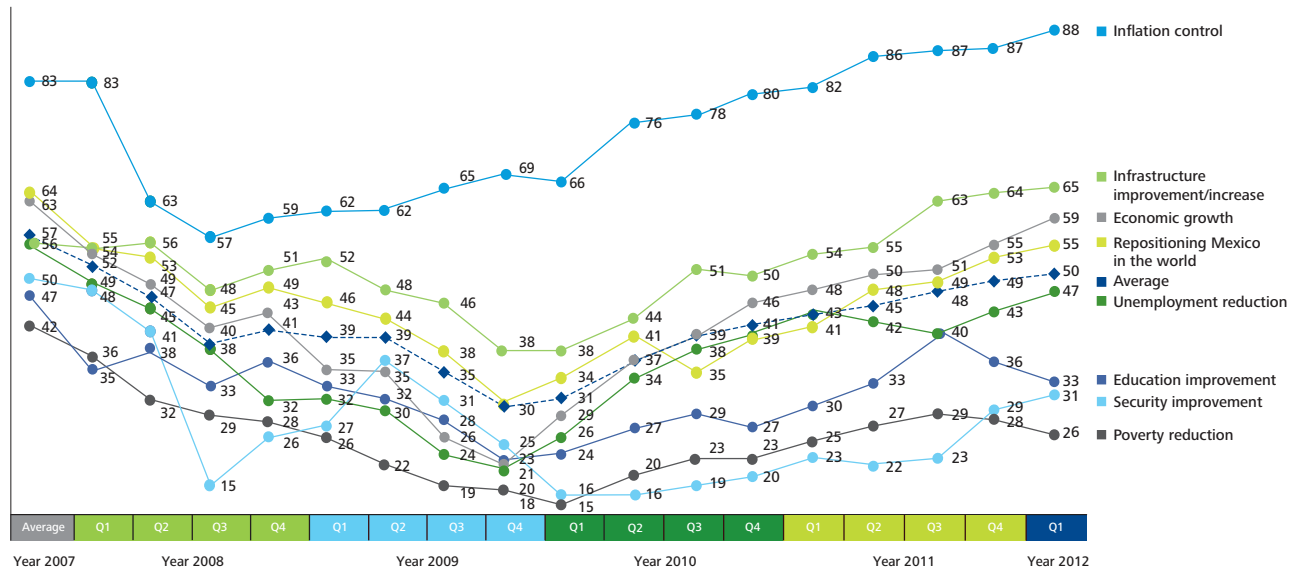


### Performance of the Government

Surveyed business leaders generally expressed approval of the government’s performance. The average indicator came up by 50 points with an upward trend, with the exception of two components: education and reducing poverty. The average score stands 7 points above the mark for same period in 2011 and 1 point above the 4Q11 score. Controlling inflation and improving/enlarge infrastructure led all other components, coming at 88 and 65 points respectively. Reducing poverty, improving security and improving education were the lowest scoring components at 26, 31 and 33 points, respectively.

Interestingly, the scores for all components stand above 1Q11 figures, and only improving education and reducing poverty came below to those achieved in our last number of Business Barometer. Hence, government’s performance evaluation appears to be moving on a positive bias.

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

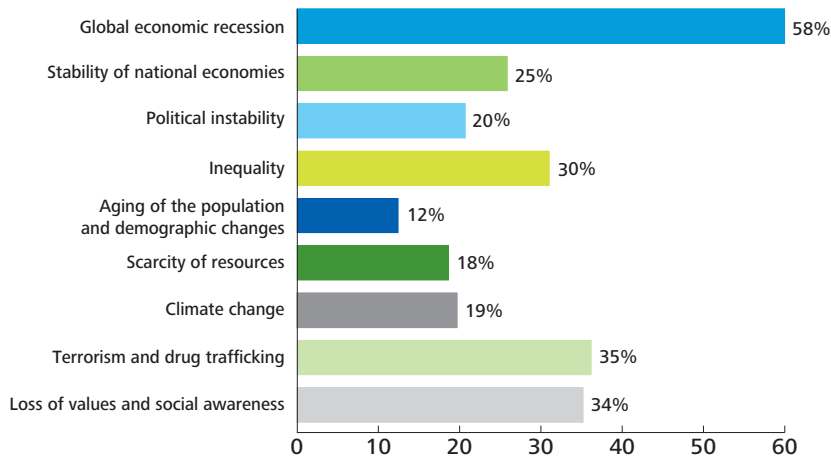


\* Figures were computed by weighing percentages of responses better, the same and worse by 1, 0.5 and 0.

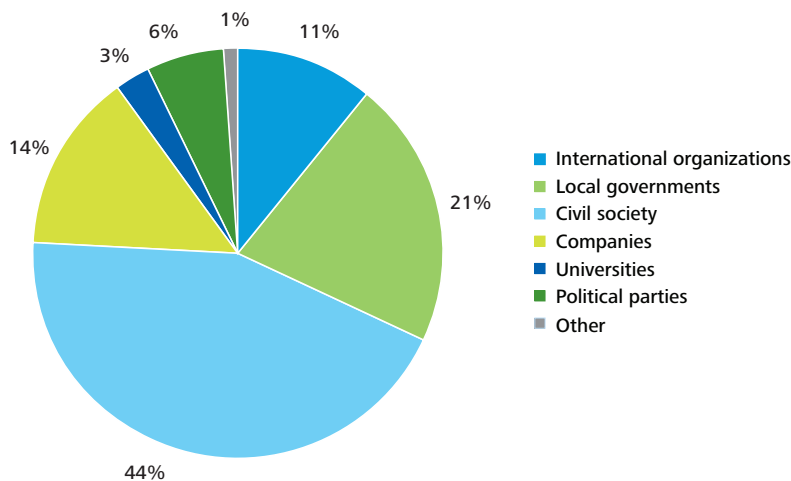
### Special Section

This number of Business Barometer analyzes recent events in the global economy, especially the World Economic Forum in Davos, which have driven considerable debate regarding the viability of current economic models and their capacity to offer solutions for competition and social problems. Therefore, the business leaders surveyed opined that the world-wide economic recession is the biggest challenge facing society. Social and security issues, such as terrorism, drug trafficking, deteriorating values, social awareness and inequality came in second. Of surveyed business leaders, 44% believe that the solution to these challenges lies largely in the hands of civil society, while 21% and 14% assigned government and the business sector leading roles, respectively. Moreover, business leaders share the view, as expressed in the World Economic Forum in Davos, that for businesses to be sustainable, they must address and respond to the needs of society. Only 8% of respondents disagreed with this position, while 1% was in complete disagreement.

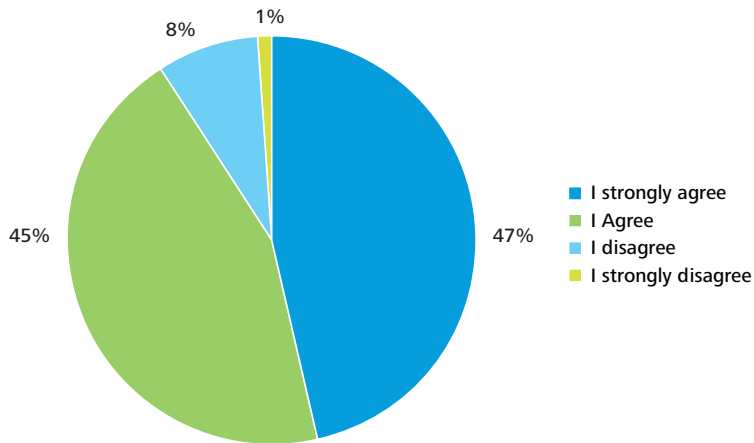
#### What are the major world-wide challenges facing today's society?



#### Which sectors will have a major impact in finding solutions to society's problems?



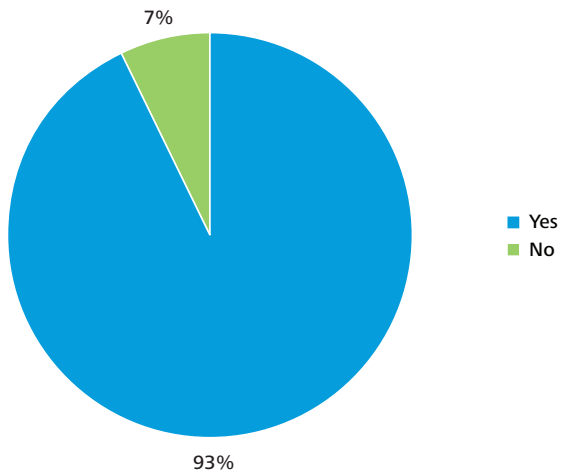
The World Economic Forum officially stated: "We must make capitalism and the free market much more responsive to the needs of society," and "If businesses are not serving society, then they are not sustainable."



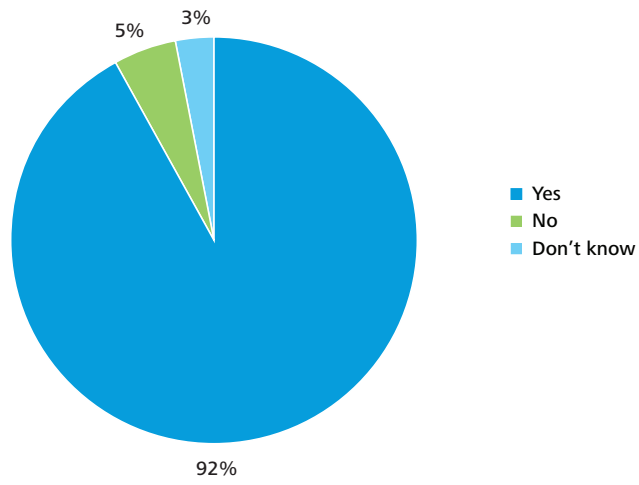
Fully 93% responded that business success must be measured by more than profit and economic benefits. Only 7% disagreed. Similarly, 92% said their organizations have a positive impact on society, while only 5% denied any such impact.

In general, positive contributions are known by the company's interest groups: employees and clients.

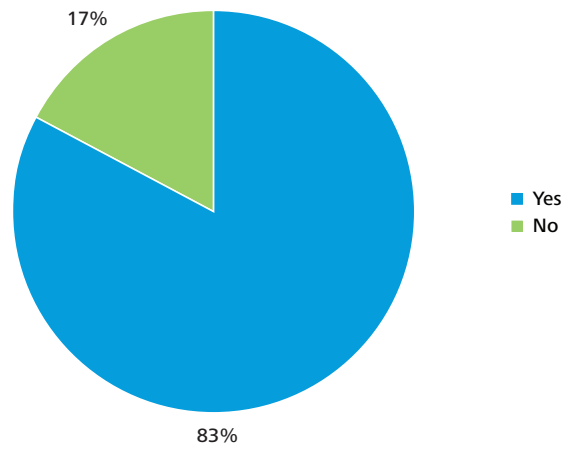
Do you believe the success of your business should be measured above and beyond profits and economic benefit criteria?



Does your organization contribute positively to society?



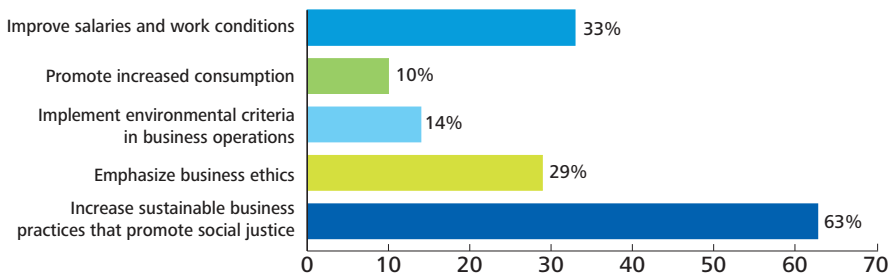
If you answered yes, are these contribution widely understood among your employees and clients?



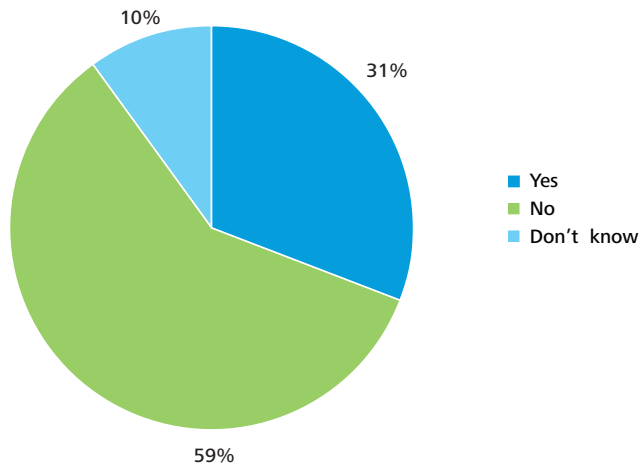
Sixty three percent of business leaders said that in order to stay a step ahead and have a positive impact on society, businesses must expand sustainable practices and promote social justice, while 33% answered that work conditions and salaries need to be improved, 29% emphasized the importance of business ethics. Finally, 14% of respondents mentioned the need to implement environmental criteria as part of their business practices, and 10% pointed out the need to increase levels of consumption.

Moreover 59% indicated that the upcoming G20 Summit to be chaired by Mexico in Los Cabos will not have any positive impact on business, while 31% believe the summit will bring positive results and 10% said they did not know what the results could bring. In general terms, one third of the respondents expect the G20 Summit to bring positive results for business.

**Within a challenging business climate, what should business leaders do to stay one step ahead and help promote social well-being?**



**Do you believe the upcoming G20 Summit to be chaired by Mexico-Los Cabos will reach agreements that will positively impact on your business?**





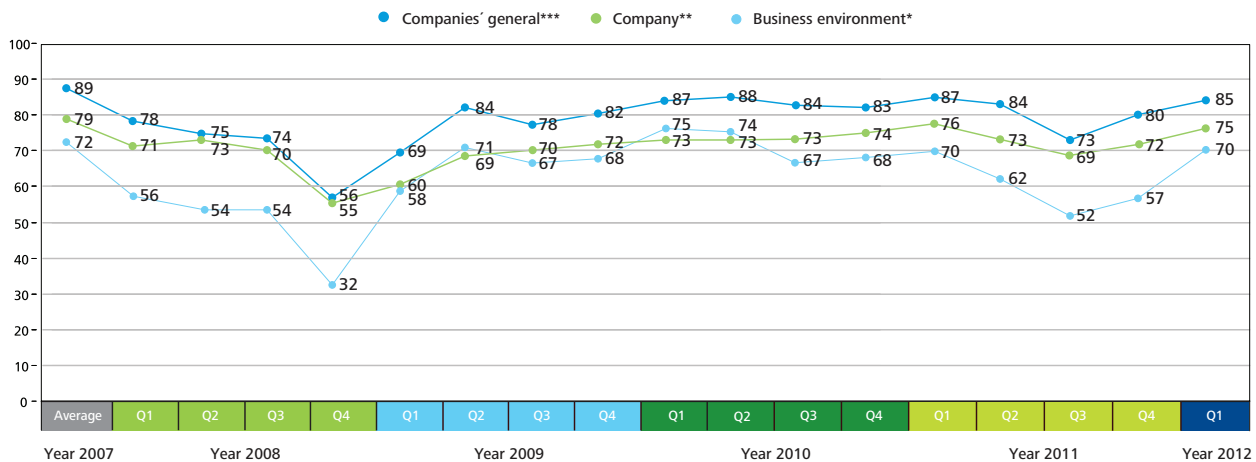
# V Conclusions

CEOs (58%) perceive a better scenario for business over last year, evidencing that the business climate is moving on a favorable trend. Nonetheless, against last year's figures, positive expectations have dropped, suggesting that, while a recovery is afoot, it is spotty at best and not yet fully consolidated.

Even though there has been no sign of serious deterioration in the business climate, these results show that caution should prevail. Despite the improvement regarding 4Q11, scores are still behind 1Q11 levels. Likewise, these indicators show that the situation of businesses has remained stationary since early 2011-- a clear sign there is not yet a real recovery. Moreover a proactive approach is needed, reflecting the belief that society is a fundamental player for finding solutions to inequality and the loss of values, and promoting social awareness that will ultimately contribute to greater well-being for all.

We appreciate the collaboration of everyone involved in developing number of Business Barometer 21, and extend special thanks to Dr. José Luis de la Cruz Gallegos, Director of the Economy and Business Center of ITESM-CEM, for his analysis and help in drafting the report.

## 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).

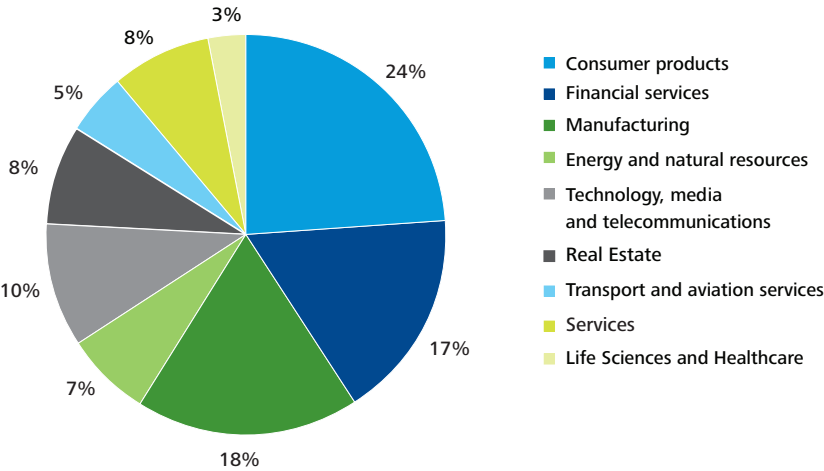
\*\*\* Companies' general situation.

# VI Survey Parameters

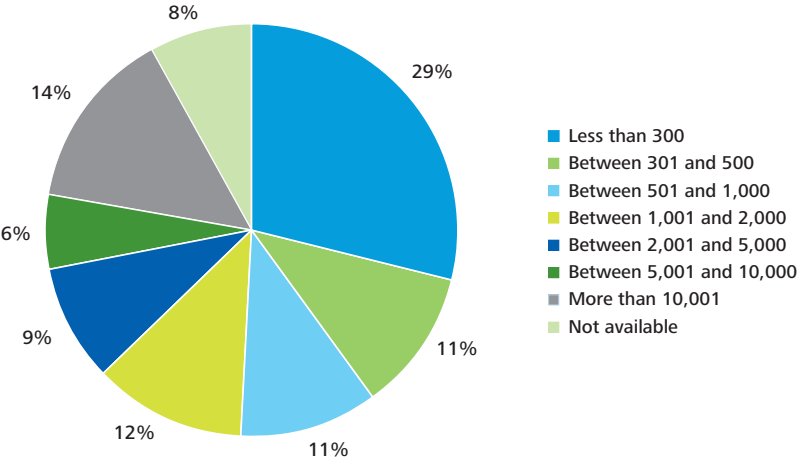
The Business Barometer 21 survey was applied to 346 business leaders working in Mexico’s most important business enterprises. The survey data was gathered from March 5 to 23, 2012.

According to the latest available information, sales revenue of these businesses ascends to \$3,127,246.35 million pesos.

Average annual income



Industry participation





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