



16

January 2011

Business  
Barometer Survey  
The business  
pulse survey



# Introduction

We present to you the 16th edition of our Business Barometer, a quarterly survey designed to collect and share the opinion of nearly 400 executives about the evolution of a set of variables concerning economic activity in Mexico. Because of its timeliness and consistency over time, the executives' expectations on the state of the economy and decisions to be taken in their organizations, have become a valuable feedback for the business community.

## Two faces of the same coin

Executives' review about the business environment in the last quarter of 2010 and prospects within 12 months, show two faces of the same coin: strength and weakness, optimism and caution, progress and decline, all as a result of the interaction of the economic, political and social factors breaking through our country's reality.

Nonetheless, the survey results evince improved optimism in regard to organizations, economic variables and enterprise indicators performance. Likewise, although cautious, their prospects for the future suggest progress within 12 months, and they even reveal their willingness to face new challenges that benefit their organizations.

However, insecurity issues continue exerting negative pressure upon the expectations for Mexico's development, as the participants to the survey believe it is the leading hurdle to economic expansion in the incoming months.

Our survey results were published in January. A month wherein diverse events took place:

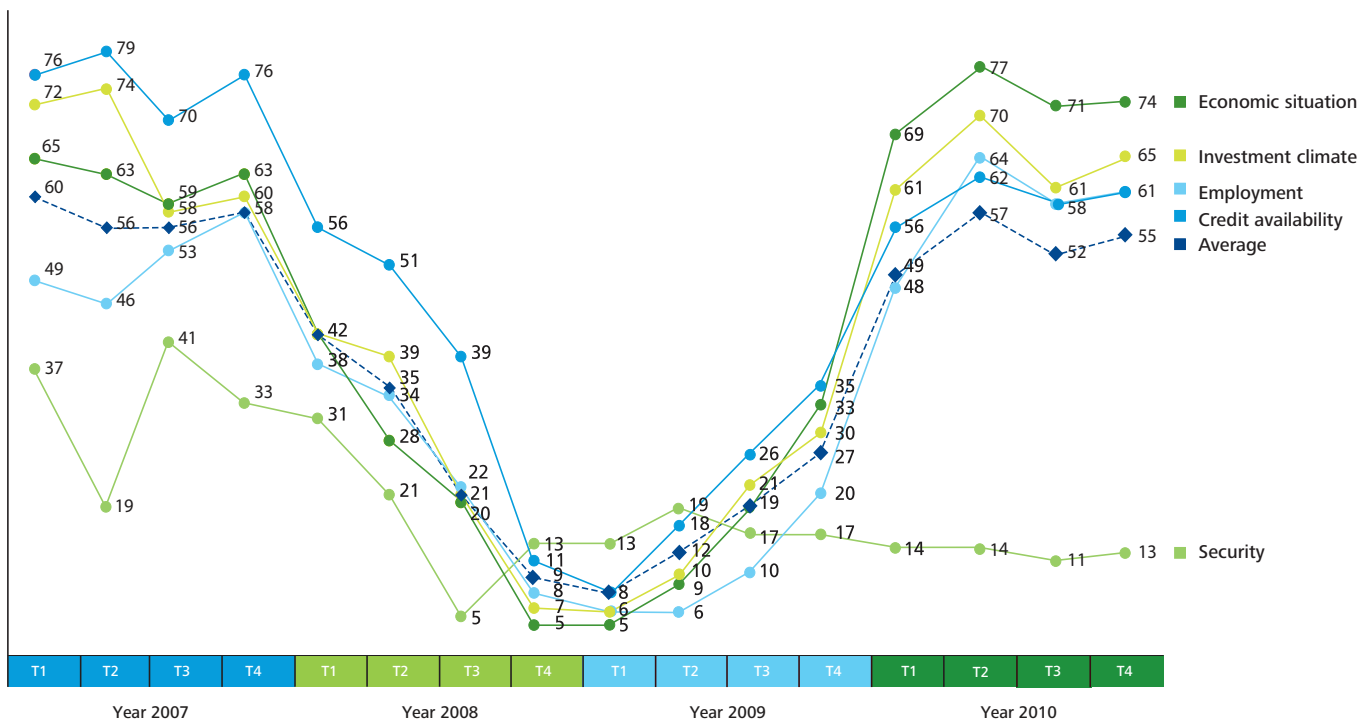
- President Felipe Calderon shuffled his cabinet, changing secretaries in charge of energy, communications and transportation, as well as the head of the Banrural development bank, and he also named a new private secretary
- A gubernatorial election was held in the Mexican state of Guerrero, the first of a total of seven local elections in 2011
- The continuation of the Dialogue for Security towards a State Policy in a series of meetings with governors, mayors, legislators, academics, businessmen, media, political parties, religious associations, and civil, social and non-government organizations, open to the debate on the National Security Strategy as well as Federal Government actions in the fight against organized crime, crime prevention and addictions

# I Business environment

An increased number of positive responses suggest the executives' appreciation about the business environment improvement compared with one previous year. The evolution is worthy of notice, specially compared to the participants' view in December 2009 with regard to economic situation, investment climate, employment and credit availability.

Although the respondents' expectation respecting insecurity is better now than in previous quarter, it has not rebounded measured up against one previous year.

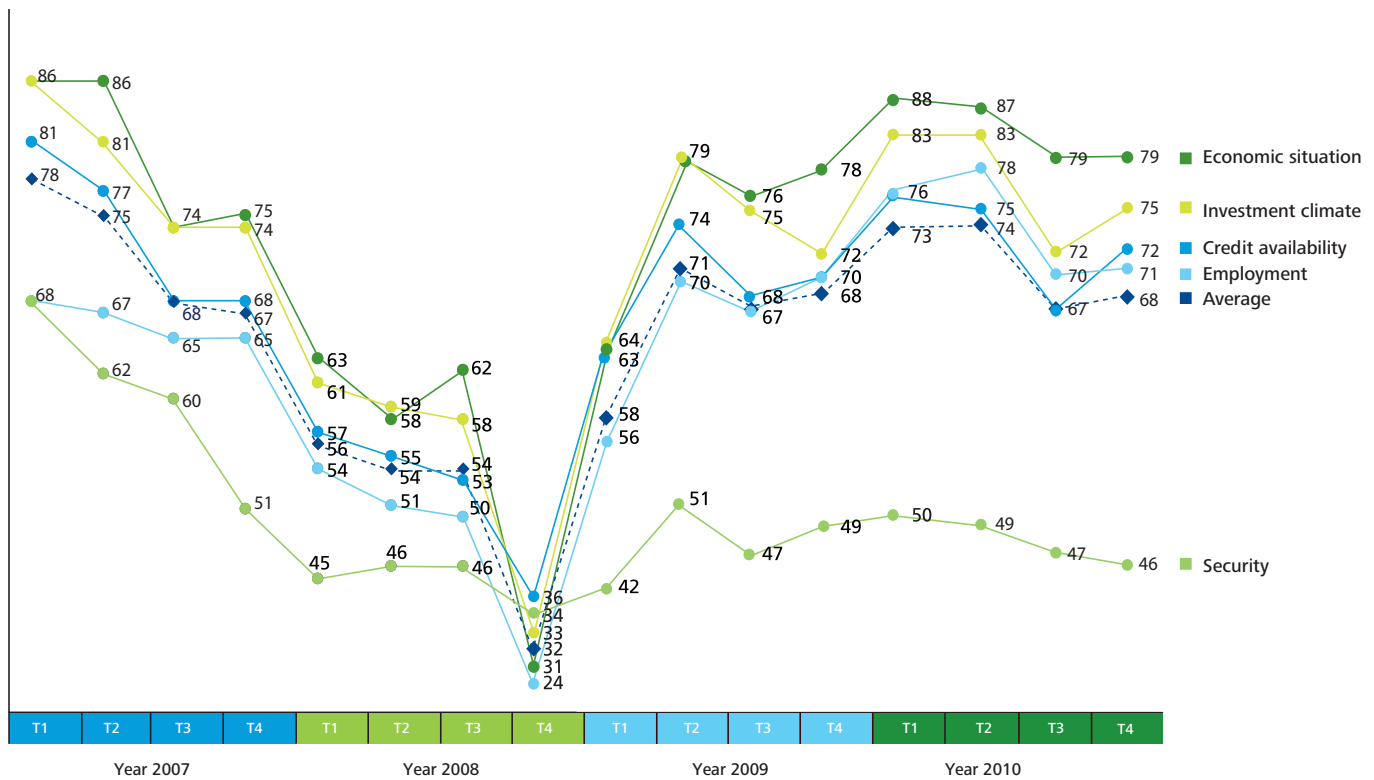
Current situation compared with one previous year (Average scores in a 01-100 basis\*)



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

Executives' expectations regarding the business environment within a year remained practically unchanged, barely showing slight improvement of their prospects about the investment climate and credit availability. Their outlook reveals increased caution, likely influenced by the insecurity issue.

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

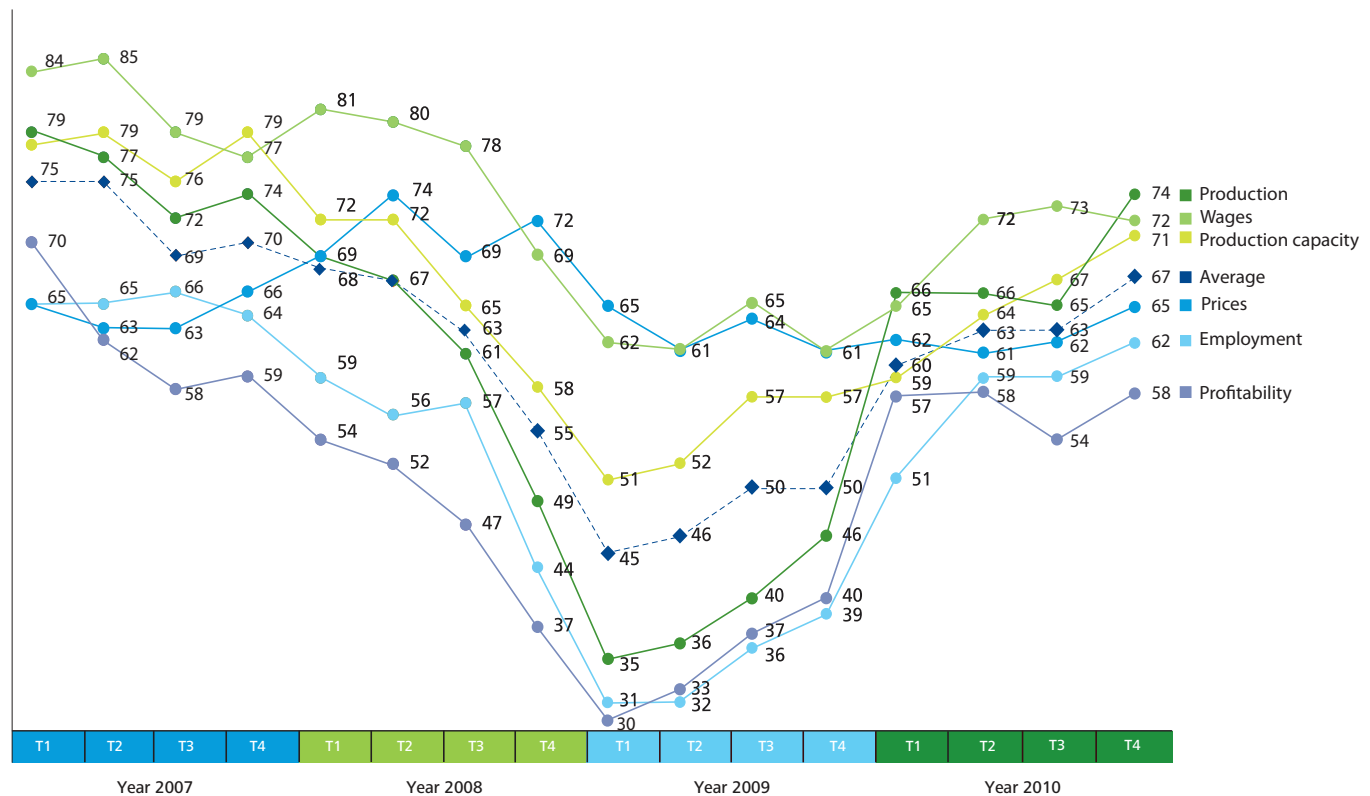
Prospects have improved. For instance, in December 2010, the average score with regard to the companies' general situation compared with one previous year was 72 in a 0-100 scale, higher than December's 2009 (47). Actually it is higher than previous quarters' in 2010: September (67), June (71) and March (66).

The executives' responses in reference to their companies' track record within 12 months previous to the survey show,

although with ups and downs, the recovery of the Mexican economy.

The average score about the six enterprise indicators –production, wages, production capacity, prices, employment and profitability- is more positive (67) than the same month in 2010 (50); yet it is important to point out it also surpasses these same indicators average score in previous quarters in 2010: 63 in September, 62 in June and 60 in March.

Current Company Situation compared with one 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.

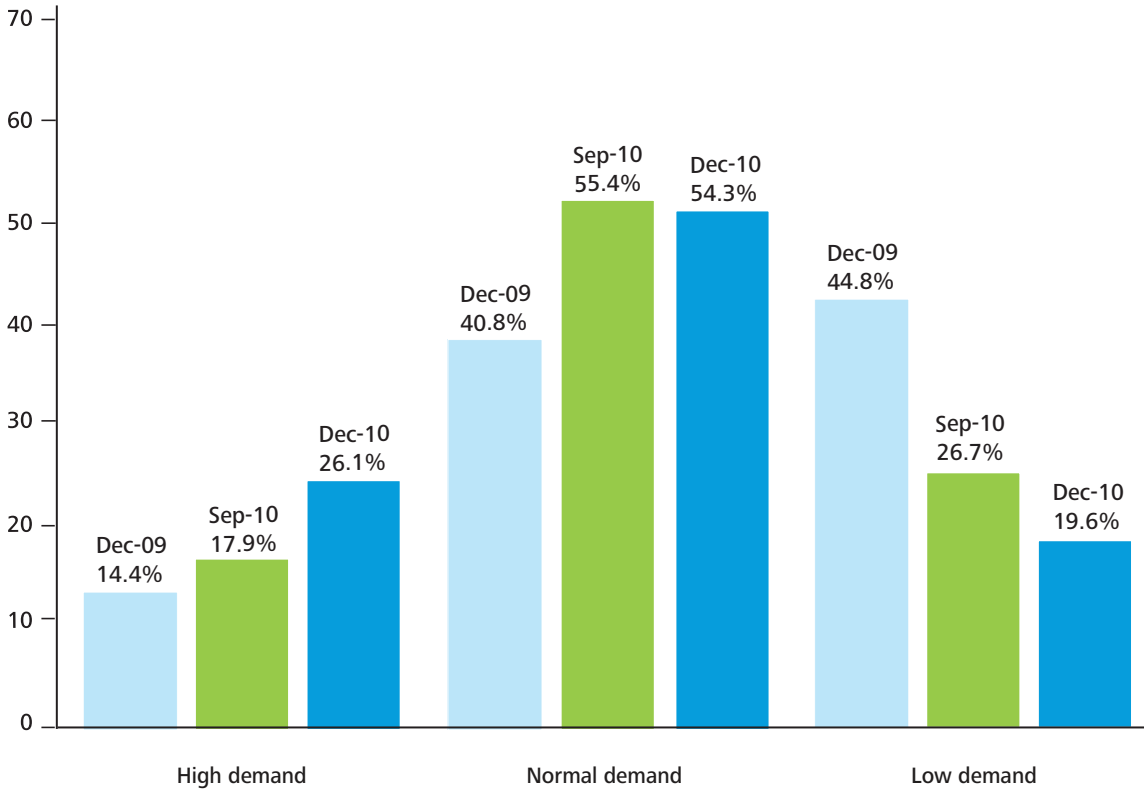
A fairly large 57% of survey panelists reported production as better now compared with one previous year, (27%) showing a remarkable progress. Similarly the remaining enterprise indicators highly improved: production capacity (44% vs. 25%), wages (46% vs. 28%), profitability (42% vs. 25%), prices (41% vs. 37%) and employment (37% vs. 14%).

### Positive signs of demand and inventories

Although nearly one fifth of respondents believe their companies' demand will remain low (19.6%), the proportion is significantly lower compared with a sizable 44.8% in December 2009, and also lower than September 2010 (27%). Now the majority of executives (54.1%) report their demand as normal, while only 40% said so one previous year.

Another positive indicator is related to inventories: while in December 2009, 16% of executives said their inventories' level was high, and 18.9% in September 2010, the share decreased in December 2010 (14.6%)

Current company demand (percentage distribution of responses)



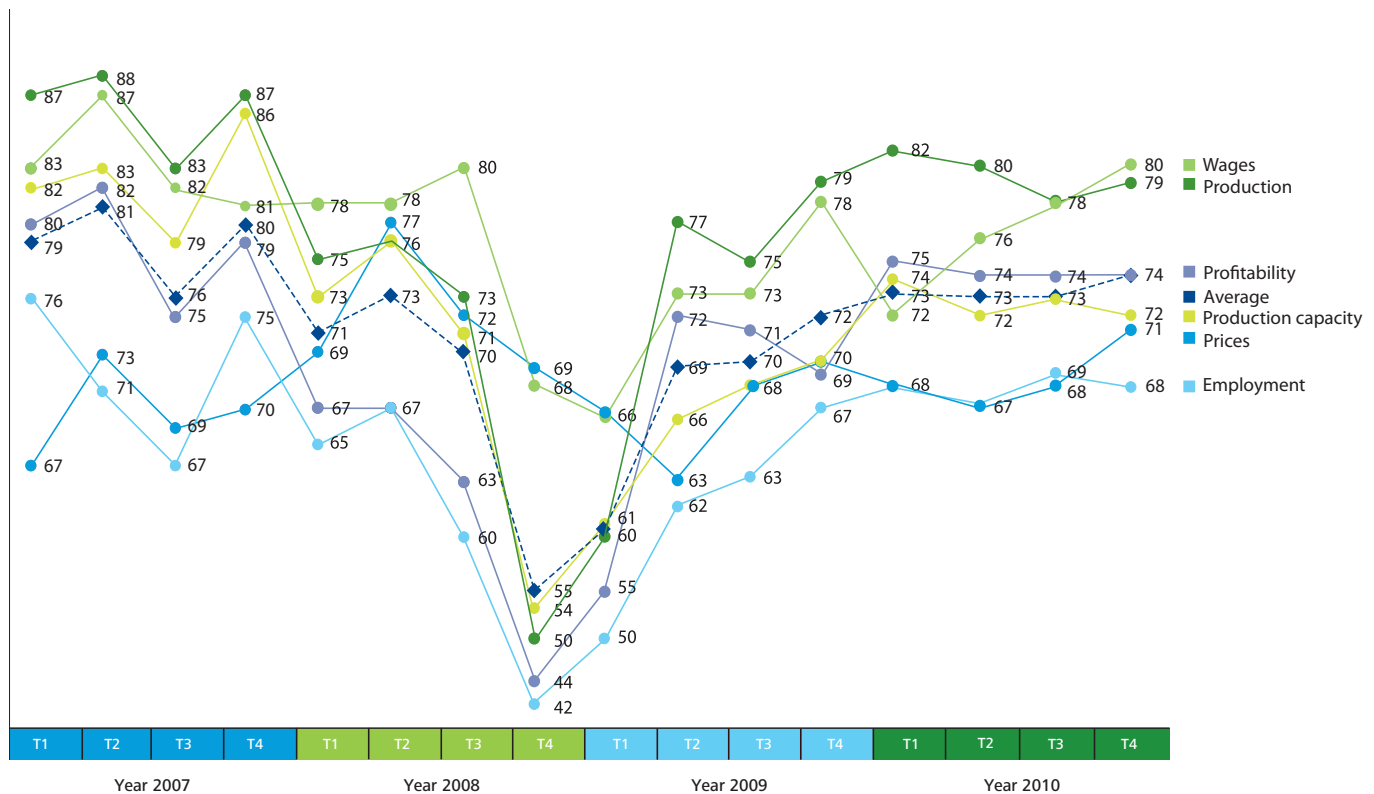
### Cautious optimism about the future

Notwithstanding increased confidence compared with one previous year, the executives' views about the future reveal cautious optimism, and thus prospects with regard to the companies' general situation within 12 months remained about the same as they were in December 2009: 83 versus 82 in a 0-100 scale.

Likewise, the panelists' average score regarding six indicators remained practically unchanged from previous year.

### Future situation (within a year) of the companies with regard to the date of the surveys

(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.

### Production, prices, employment, profitability and production capacity forecasts

Fifty nine percent of panelists say they expect their companies' production will grow, yet only 41% forecast to improve hiring and 46% anticipate price increases within their company.

By contrast, participants to the survey improved their views regarding the future, as 54% believe their companies' profitability will grow and 43% forecast higher production capacity (43%).

Figures on both indicators are higher than one previous year (49% y 40%, respectively).



# III Inflation and Exchange rate

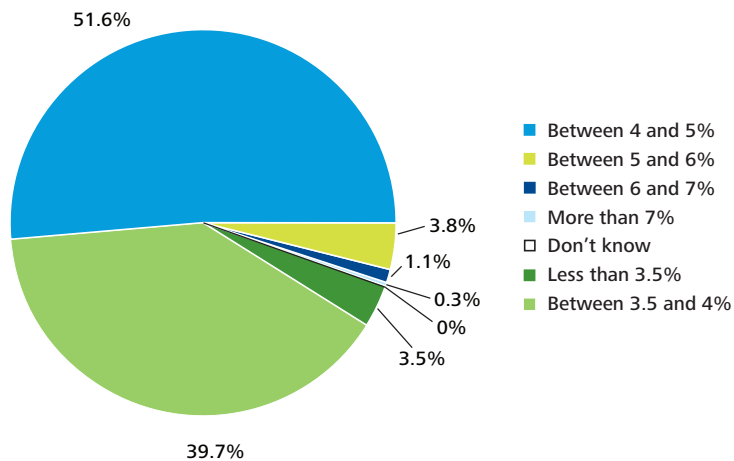
Downward behavior of inflation in 2010 and pressures reduction as well, likely substantiated the panelists' optimism. They are more positive about financial stability in Mexico.

Participants to the survey suggest inflation is not a serious downward risk to economic prosperity, as their expectations in this regard have changed. Whereas in previous quarter some 5% of panelists expected annual inflation to close over 5%, the proportion lessened to only 3.8% in December 2010, and more than half of respondents predicted it will close between 4% and 5% by year-end.

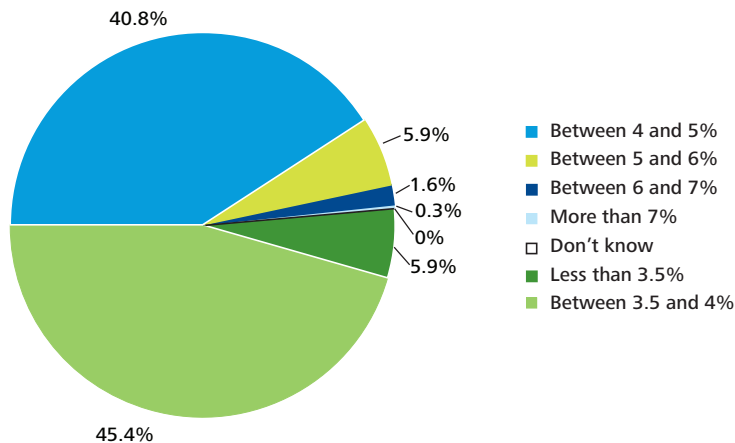
Prospects for 2011 improved even further, and the majority of executives (45%) expect annual inflation to close between 3.5% y 4% by year-end.

**Expected inflation** (percentage of responses)

**Inflation by year-end 2010**



**Inflation by year-end 2011**



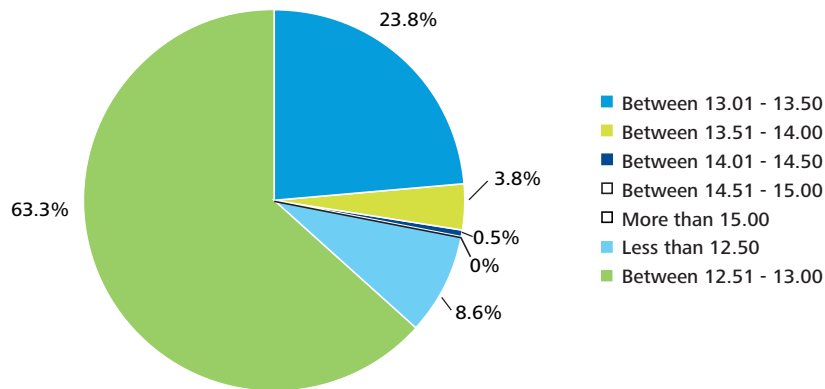
### Exchange rate expectations

After several consecutive quarters of instability, beginning March 2010 the survey panelists revised their expectations downwards, anticipating substantial progress with regard to exchange rate stability.

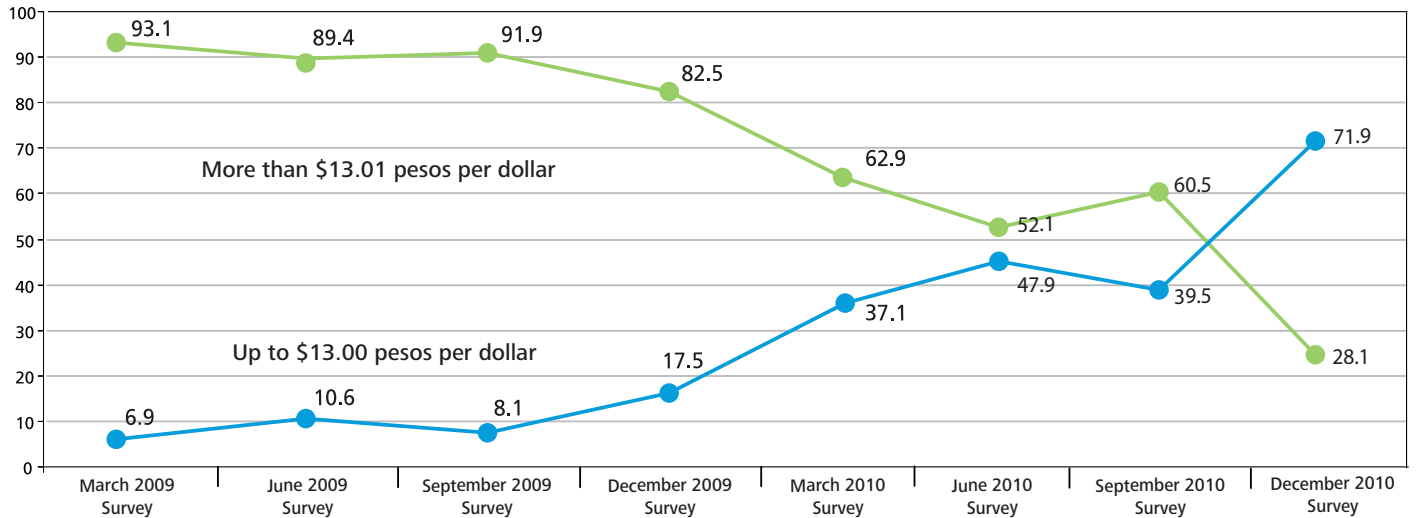
Whereas in December 2009 a sizable majority of executives (82.5%) said that the exchange rate within 12 months would be over 13 pesos per dollar, the proportion has been decreasing considerably. In September 2010 the share edged down markedly (60.5%) and only three months later, in December, the trend reversed dramatically.

Presently, the portion of respondents expecting the exchange rate to be over 13 pesos to the dollar by year-end has substantially reduced, (28.1%) while a plurality (71.9%) predicts it will close below that number.

Exchange rate December 2011



Exchange rate within a year (percentage of responses)



# IV Threats to the economy

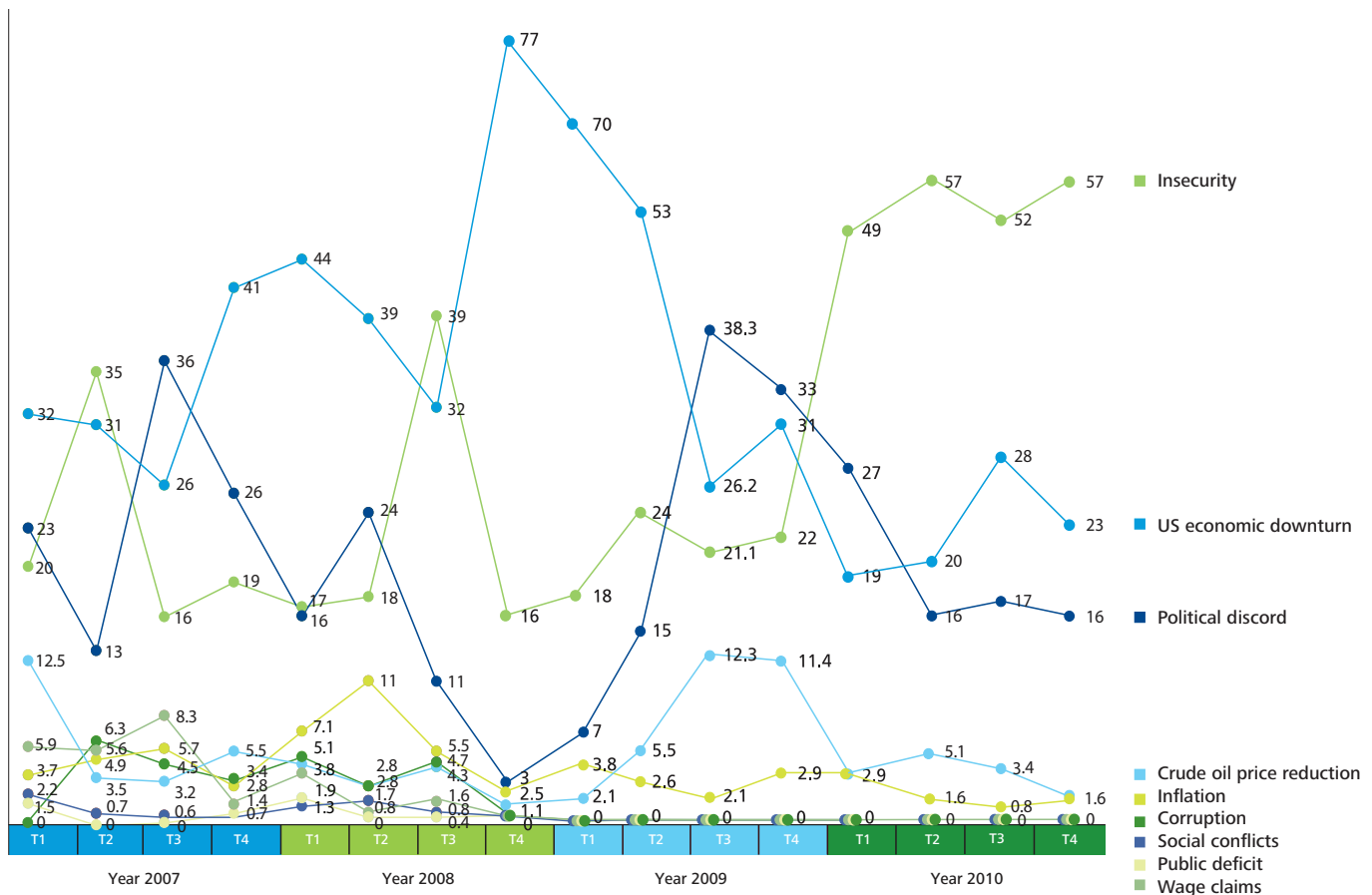
Survey results show widespread concern regarding insecurity as the leading hurdle to economic expansion. The panelists' uneasiness is also highlighted by the fact that the plurality believes insecurity represents almost 60% of crucial deterrents for economic prosperity, posing biggest threat and largest potential to hinder Mexico's growth pace.

A survey by Mexico's National Statistics and Geography Institute (INEGI) showed that people's perception of public security deteriorated in 2010 compared with the previous year, as the government pursued its aggressive campaign against organized crime.

INEGI said its index of security perception, based on a nationwide survey was 96.2 in December compared with 97.3 in December 2009.

Likewise, Banco de Mexico's monthly survey results revealed that the main domestic factors that could limit Mexican economic recovery are insecurity problems, followed by the lack of structural reforms.

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

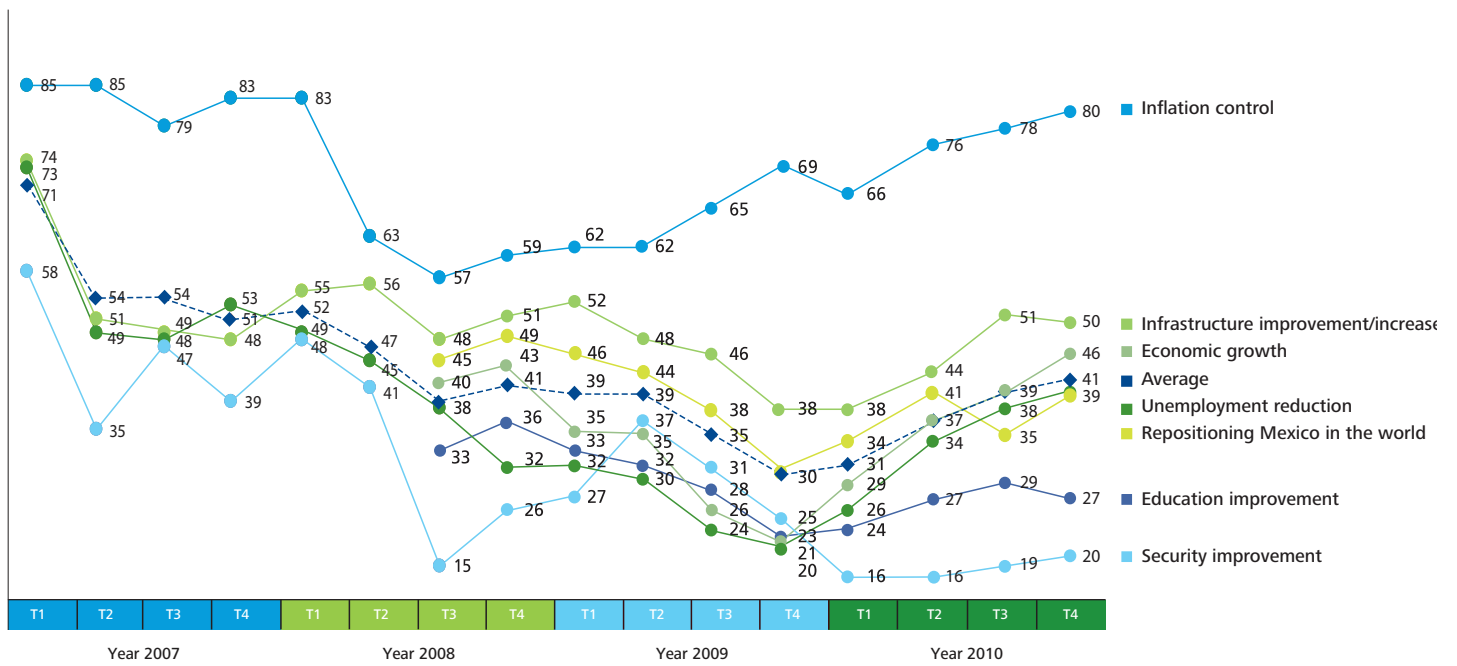


### Government administration

Although still at a slow pace, executives continue to improve their outlook regarding the government's effectiveness to solve structural problems that hinder economic growth, and this time particularly highlighting economic growth, unemployment reduction and repositioning Mexico in the world.

Participants to the survey strongly recognized the government's ability to control inflation once more.

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

### Challenges in 2011

Special questions on the survey focused on selected challenges that executives eventually would face in 2011. They were asked about how challenging the following issues are for their companies: Global business issues; Rising shareholders expectations; Having enough time; Keeping up with technology; Human resources; Rising customers expectations and Customer retention and loyalty.

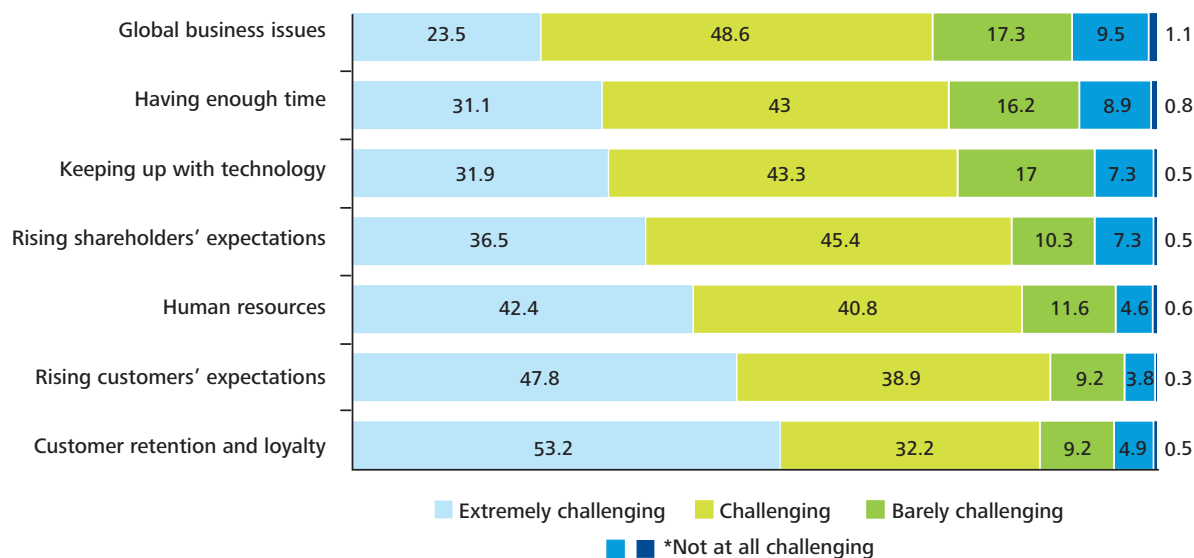
Responses to the survey reveal that the two major challenges tie in with customers.

The game is to get regular feedback from the customer in order to strengthen the relationship and make it last. It means to identify and anticipate needs. It also means to identify that in the root of the relationship stands the idea that the company and the customer work together to pursue a common objective: to improve the customer experience every time. To achieve it, the right human capital is needed.

In this sense important challenges are also perceived, which in turn if they are faced successfully it will make possible to satisfy rising shareholders and customers expectations.

Please indicate how challenging each one of the following issues is for your company in 2011.

Companies challenges in 2011 (percentage of responses)



# V Conclusions

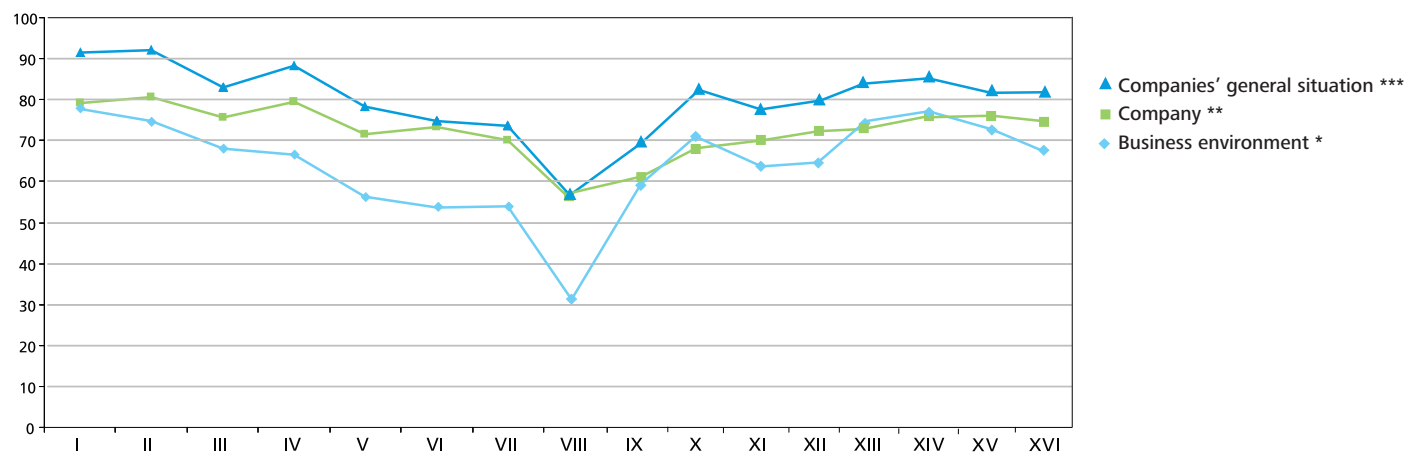
Survey outcome reveals that the executives' outlook has markedly improved from December 2009 to December 2010. Expected results for their companies are much better now compared with one previous year.

However, expectations regarding their companies' future denote caution, so their prospects within 12 months are similar to those in December 2009 and not either improved significantly in previous quarter.

On the other hand, although they foresee financial stability and anticipate moderate inflation within the next 12 months, the executives' perceptions about insecurity are likely influencing their economic prospects.

Panelists' responses reveal increased uneasiness respecting insecurity as they believe it is the threat with the largest potential to hinder Mexico's growth pace.

**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.

The panelists' perception with regard to the governments' administration has improved gradually, yet the one exception is their performance to reduce insecurity, and hence deserving low grades.

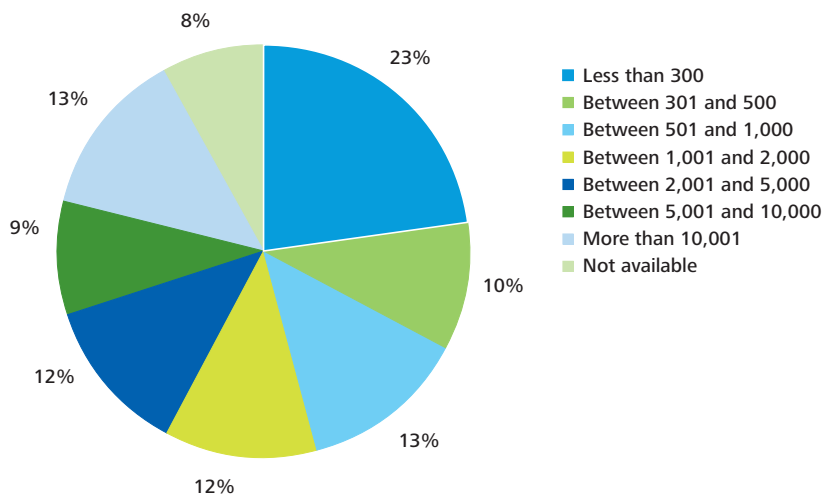
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# VI About the survey

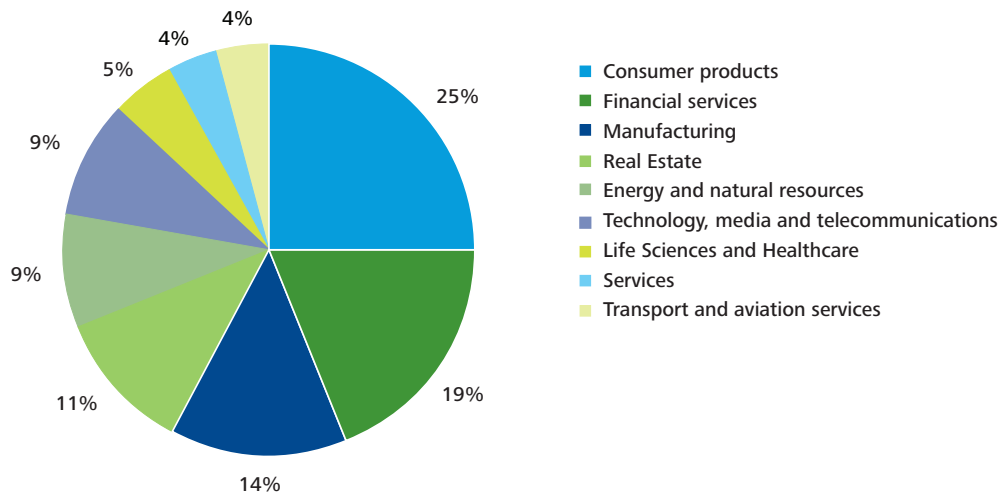
Deloitte's 16th Business Barometer Survey was conducted between November 29 and December 20, 2010 and collected the opinion of 370 executives of the most prominent companies located in Mexico.

Considered among the most valuable, the companies' overall income rose to US \$362,138.5 million dollars, according to the last reported period.

Average annual income



Industry participation



For more information, please contact us at.

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