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Barómetro
de empresas

Business Barometer

3

October 2007



The business pulse survey

Audit • Tax & Legal • Consulting • Financial Advisory.

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Introduction

How do high level executives from the most important companies in Mexico foresee the future of the country? Which is their opinion regarding the business environment?

The Business Barometer's third edition presents the summary of the enterprises' expectations and trends, as well as the impact of current events, addressed to the business community with useful indicators for their decision making process, within the first nine months of Mexico's new administration.

This surveys' results show changes such as less favorable opinions with regard to the business environment, and political discord as well as the economic slowdown in the US seen as the major threats to the growth of Mexican economy.

The largely extended expressions of political discord regarding fiscal, electoral and public sector workers' social security system (the ISSSTE system) reforms, influenced the perception as the leading threat to the economic activity; followed by the economic slowdown of the US as the executives' second major concern.

However, the opinions regarding financial stability for the next 12 months remained optimistic and inflation is not observed as a major deterrent for economic growth. As a matter of fact, the control of this phenomenon was the best evaluated issue of government performance.



Executive Summary

Business Environment

By September 2007, the executives' opinion within a year 12 was less favorable compared to those on the previous surveys. The evaluation of five issues (economic situation, business climate, credit availability, employment and safety) lowered their average score from 78 to 75 in June and 68 in September on a 0 to 100 scale basis. The steepest decline impacted the best evaluated issue along the three surveys: the economic situation, falling from 86 in June 2007 down to 74 by December 2007.

Expectations for the next 12 months are partly based on the most current events. And even though executives are less optimistic by September 2007 than they were before, their expectations are better than perceptions regarding the developments within 12 months previous to the surveys.

Company situation

Current

The opinions with regard to the companies' general situation compared to those of a previous year have been less favorable each quarter. On a scale 0 (worse) to 100 (better), the average score was 70 by September 2007; the numbers for March and June surveys were 75 and 72 respectively.

Considering six enterprise indicators (production capacity, employment, prices, production, profitability and wages), by September 2007 the perception regarding their current situation was less optimistic than that of March.

According to the executives' responses in September 2007, 55% of the companies raised their production levels and only 38.9% increased their profitability. On the other hand, 28% rated demand as high and 83% evaluated current inventories as normal.

Future

By September 2007, the respondents' perception regarding the companies' general situation within a year was less optimistic compared to those of March and June. The average score was 76; and 79 and 81 in the previous surveys.

- In June 2007, 77.5% of companies expected production to increase during the next 12 months, but less than a half would increase hiring; similarly, 73.2% of them would raise wages, even though only 56% was planning to increase their products and services' prices, 44% would keep the same prices and 9% would lower them.
- In September 2007, 69.8% of companies expected to increase their production within a year, but only 40.8% would expand their workforce; furthermore, 66.2% would upgrade wages, but only 47.4% foresee to increase their prices and 9% considered a reduction.
- In September 2007, 59.9% planned to improve their profitability within a year compared to 68.1% in June.

Exchange Rate and Inflation

According to the surveys conducted in March, June and September 2007, the executives expect financial stability continuity. The most frequent opinion regarding the exchange rate within a year valued the dollar between 11.20 and 11.40 pesos. And the expected average during the three periods has been 11.35, 11.27, 11.33 pesos to the dollar. This last expectation is more pessimistic than those of economic analysts in the private sector obtained by the Bank of Mexico: 11.04 towards the end of 2007 and 11.31 in December 2008.

Likewise, the executives expect low inflation for 2007: 4.0% and 2008: 4.0%, but above the goal set by the Bank of Mexico (3%). These expectations are more pessimistic than that of economic analysts in the private sector obtained by the Bank of Mexico in September 2007: 3.81% in 2007 and 3.69% in 2008.

Threats to the Economy

Political discord is the leading threat for the Mexican economy according to the respondents' opinion (it was third in June survey), followed by the economic slowdown in the US (first in March survey).

Government Administration

Inflation is not observed as a major deterrent for economic growth. As a matter of fact, the control of this phenomenon is the best evaluated issue on government performance. However, according to the executive's opinion, the government's capability to promote economy growth and infrastructure improvement – in other words, to remove the obstacles that inhibit the increase of productivity- is not big enough, and consequently it is limited to reduce unemployment and poverty.

Conclusions

Based on the information from our third survey, we can point out that business executives' optimism with regard to the environment and their companies' results, decreased between June and September 2007.

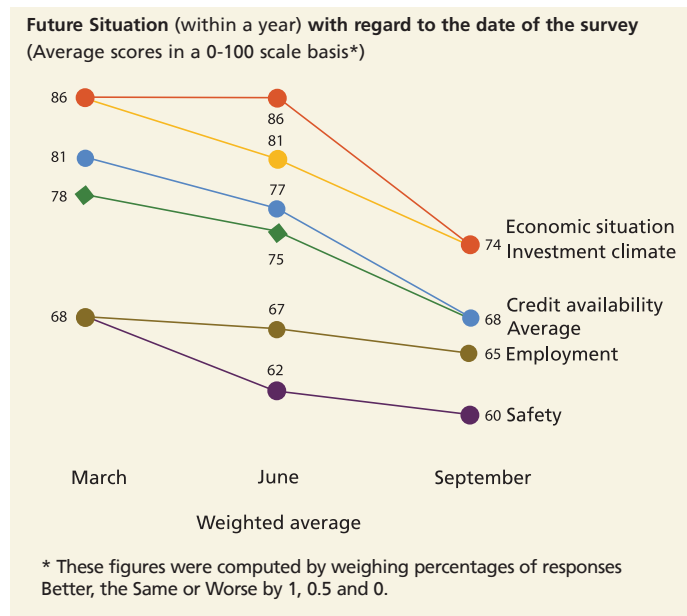
Opinions regarding financial stability within the next 12 months remained favorable. Although the fiscal and electoral reforms were recently approved by the Congress, the respondents consider political discord as the current main risk for the Mexican economy.

The economic slowdown in the US continues to be a major concern -particularly due to the deepening of their housing crisis- and thus becoming the second leading threat for the Mexican economic growth.

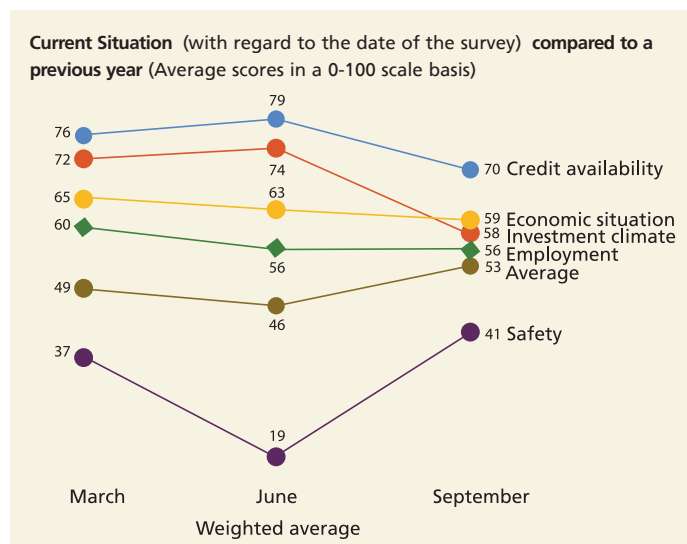
Inflation control was the best evaluated variable with regard to the government's performance once more. However, according to the executive's opinion, the government's capability to promote economy growth and infrastructure improvement – in other words, to remove the obstacles that inhibit the increase of productivity- is not big enough, and consequently it is limited to reduce unemployment and poverty.

I. Business Environment

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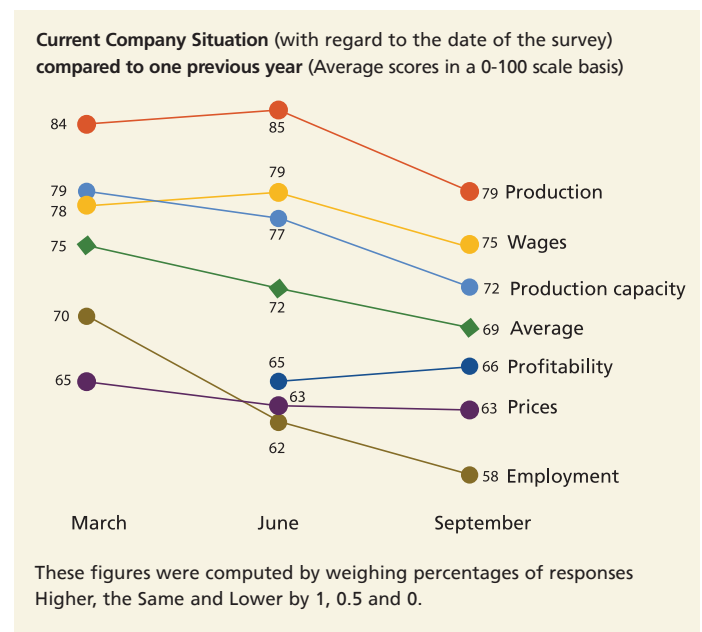
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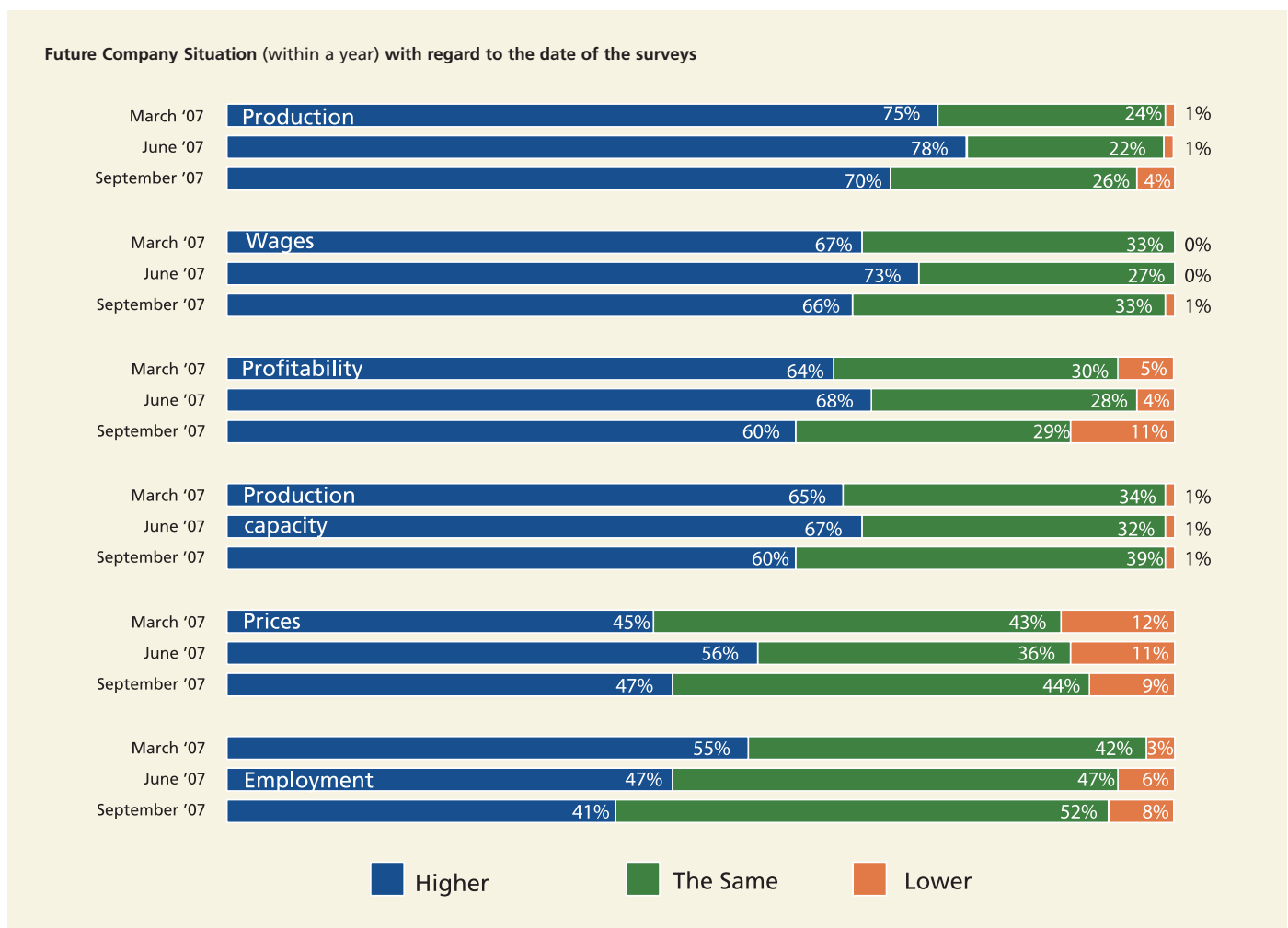
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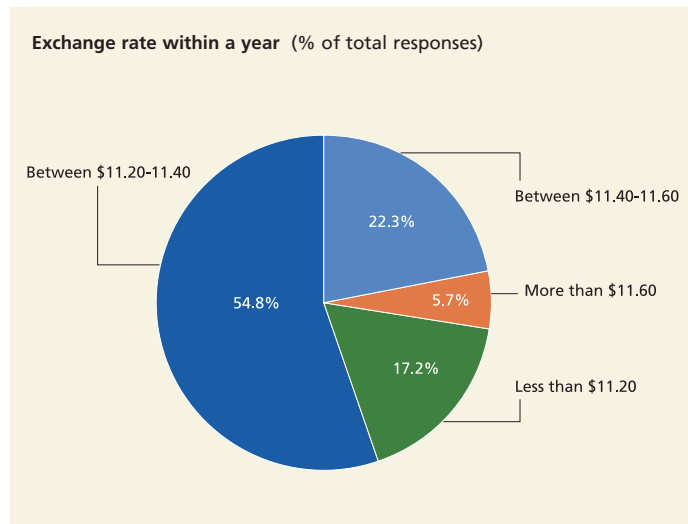
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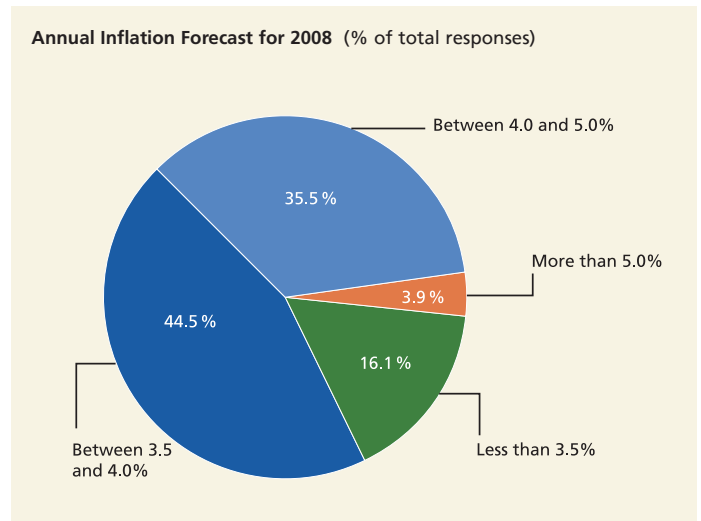
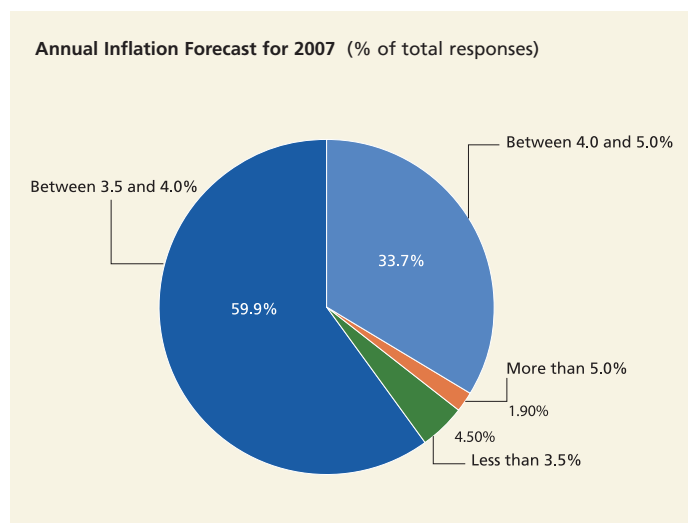


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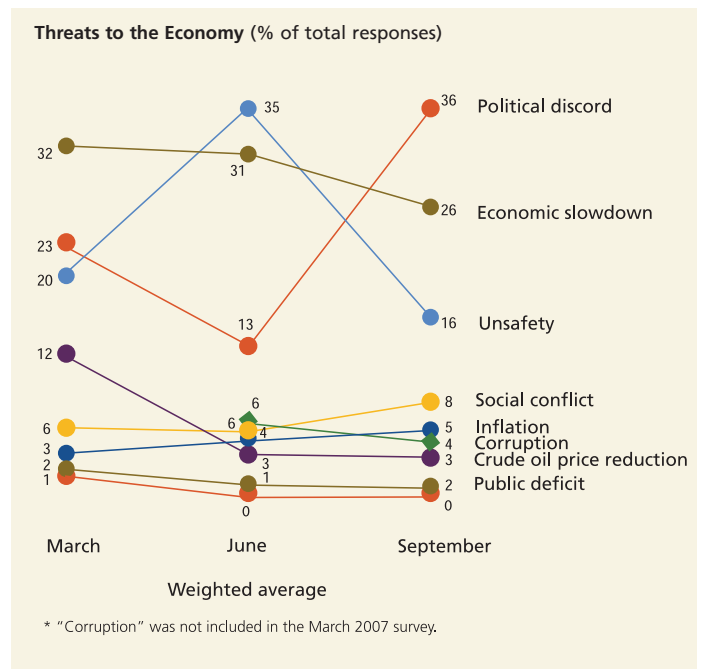


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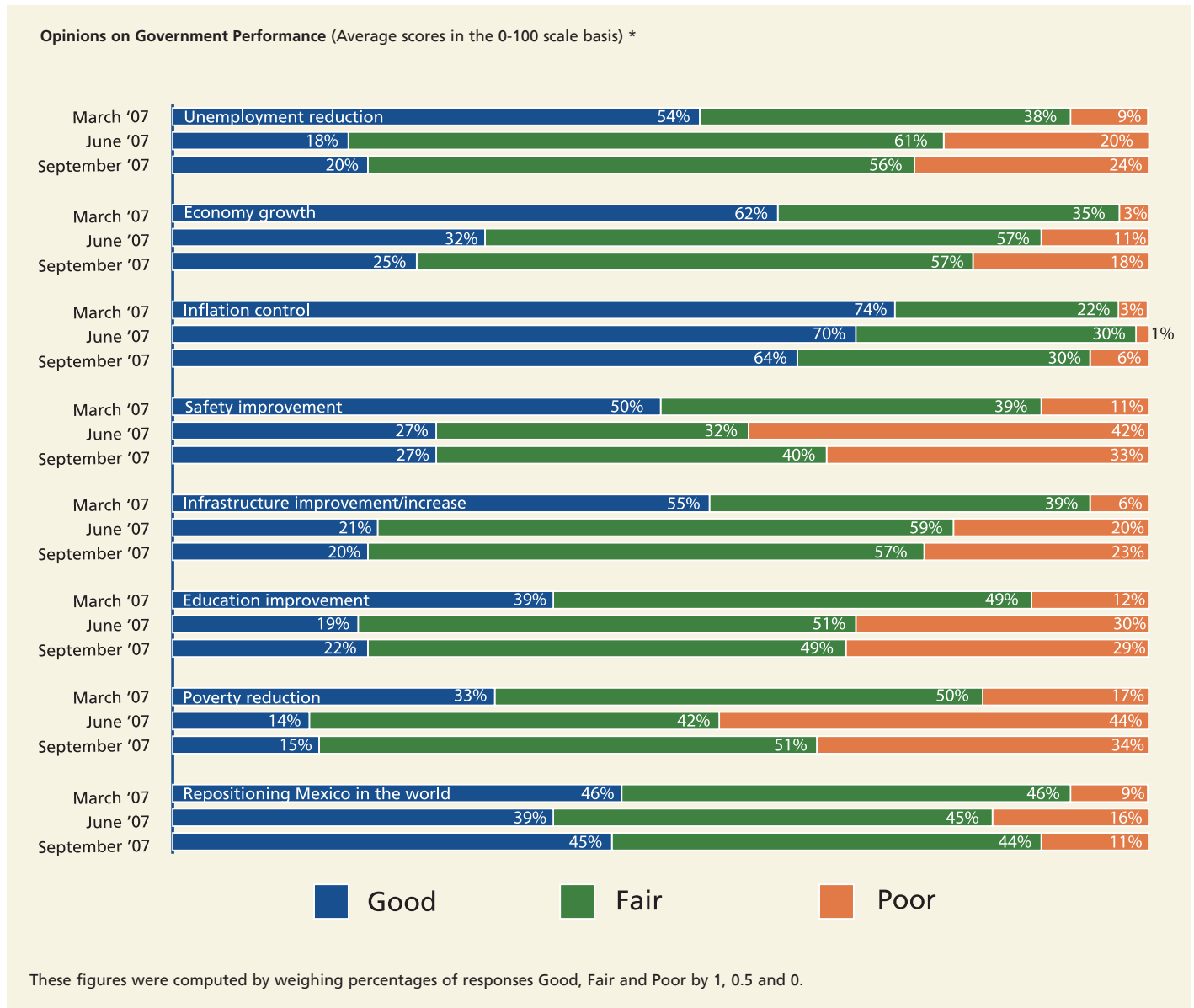
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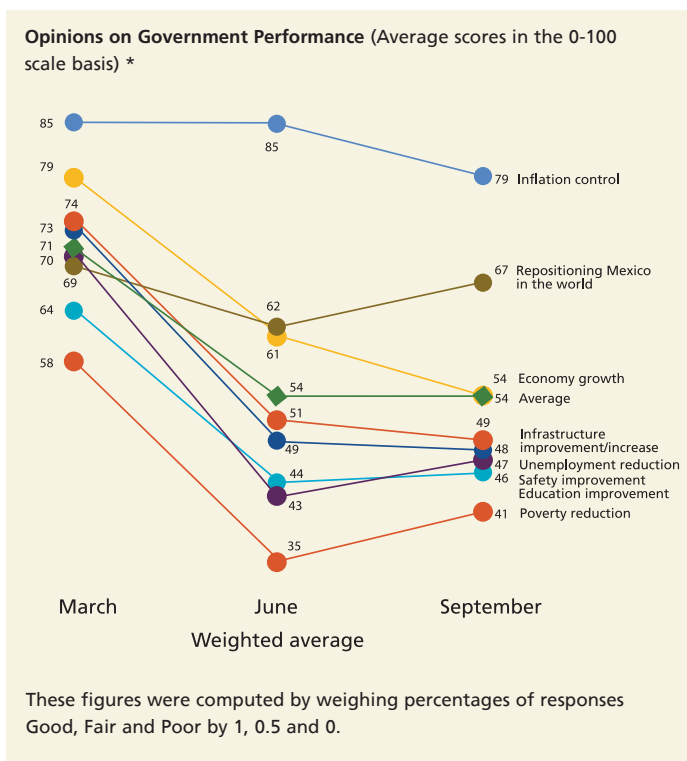


VII. About the Survey

Deloitte's third Business Barometer survey included 157 executives of the most important companies in the country, who answered via Internet (36%) and/or by phone (64%)

Average annual income of companies: between 300 million and 10,000 million pesos

Considered among the most important companies in Mexico, their added income rose above a trillion pesos in the last reported period.



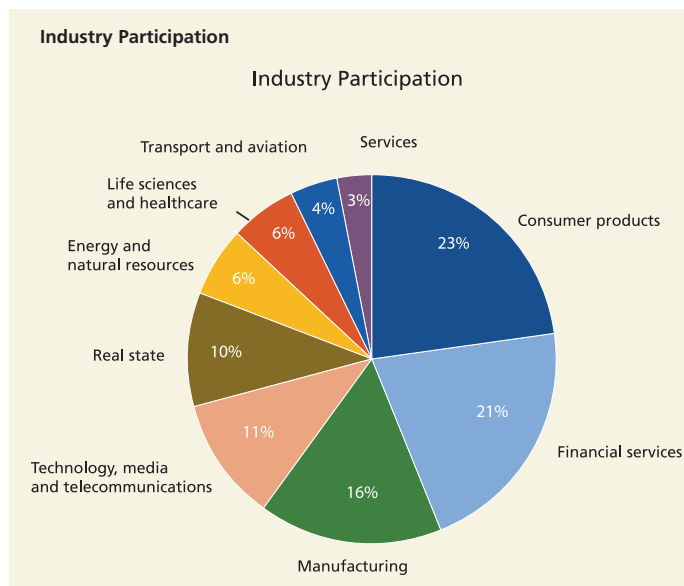
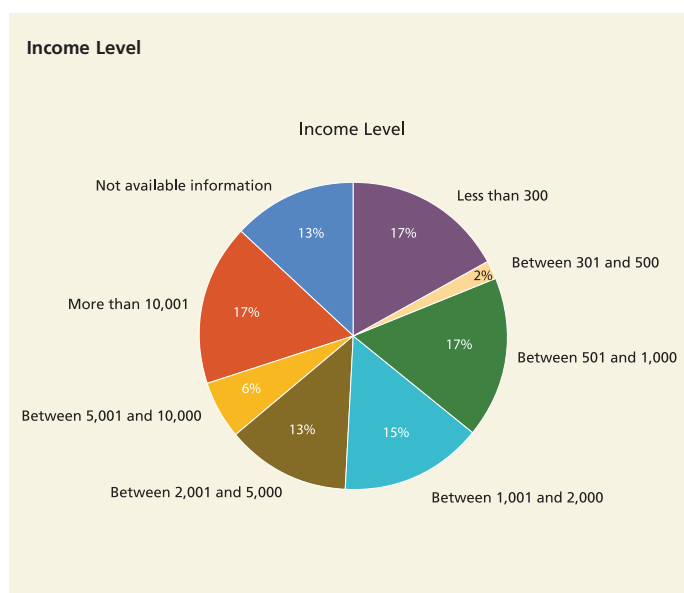
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