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Barómetro de empresas

Business Barometer

6

July 2008

The business pulse survey

Audit. Tax & Legal. Consulting. Financial Advisory.

Contents

Introduction

According to the most recent survey results the executives have revised their expectations concerning Mexico's macroeconomic environment. The most important change came out with regard to the respondents' less favorable inflation outlook, likely as a consequence of strong pressure over food prices, which in turn influenced overall prices exceeding the levels forecasted by the Bank of Mexico.

Inflation has become a major subject in more ways than one. Whereas it has been moving up on the threats scale that could lessen Mexican economic growth pace, on the other hand, effectiveness of the government's performance aimed at controlling inflation remains to be the best evaluated issue.

The US economic slowdown influenced the executives' negative view concerning its potential effects as an important hurdle to the Mexican economy. Likewise, political discords continue to be regarded as an important deterrent for economic growth by an increasing number of respondents.

Even though the executives do not foresee substantial changes in the incoming months, they perceive that the expected results are not less favorable compared to those of March 2008.

Their scores regarding the increase of infrastructure suppose cautious optimism, likely considering that higher expenditure in infrastructure could stimulate Mexican economy's productivity and potential growth.

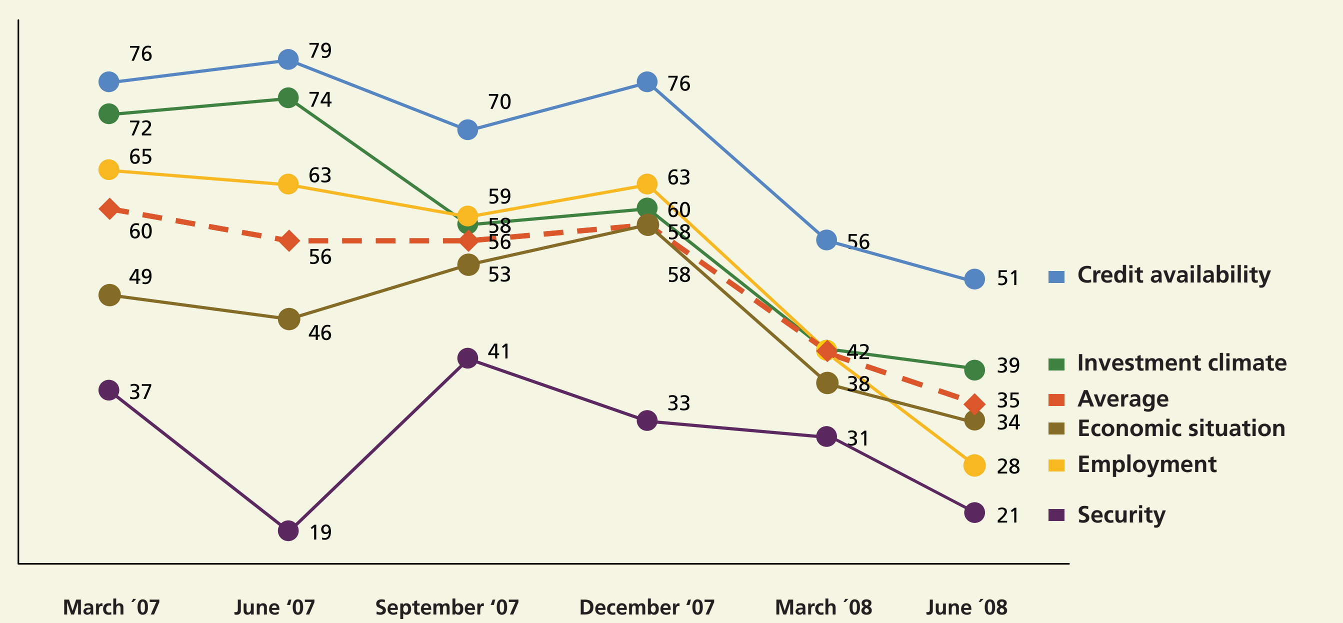
We will wait and see.

I. Business environment

A. Current

The fifth survey's results evince the reassessment of the executives' expectations and their increased negative perception as well, with regard to the progress within 12 months prior to the surveys.

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.

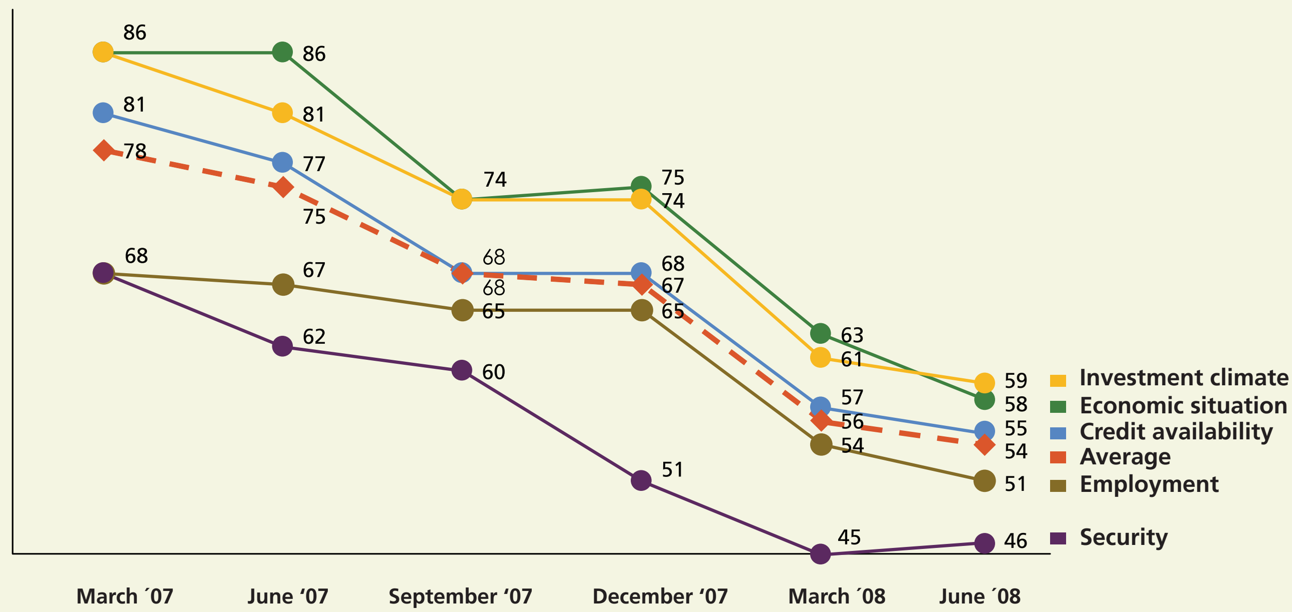
B. Future

Unlike previous surveys, June's 2008 made evident a decreased optimism prevailing among the executives, with regard to the companies' future environment within a year.

Considering a scale 0 (worse) to 100 (better), the average score of five aspects (investment climate, credit availability, employment, security and economic situation) was 54, the lowest average so far.

The respondents ranked insecurity as the third leading threat to the Mexican economy in the incoming months; furthermore, the effectiveness of the government's actions aimed at improving security is one the worst evaluated issues by the executives.

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.

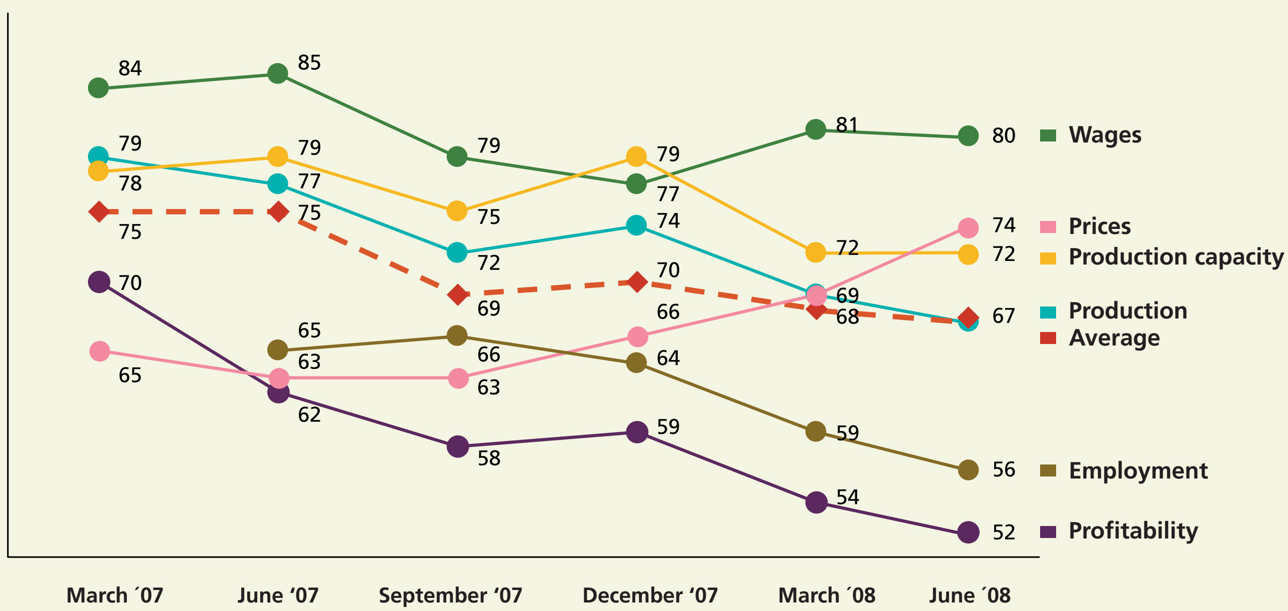
II. Company situation

A. Current

On a scale 0 (worse) to 100 (better), the average score with regard to the companies' general situation was 60 by June 2008; the lowest of all surveys to date.

According to the respondents, production was higher than one previous year in less than 50% of their companies and only 32.9% reported increased profitability. Yet considering six enterprise indicators (production capacity, employment, prices, production, profitability and wages) the perception regarding their current situation by June 2008 was similar to that of March 2008.

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.

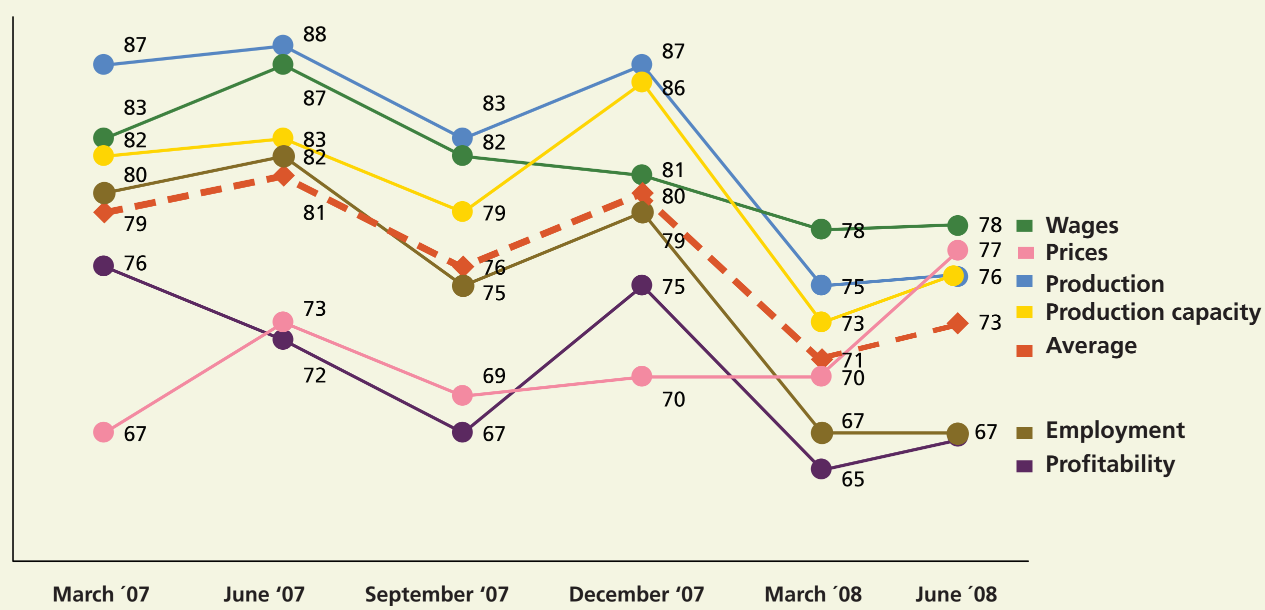
Even though the decrease of demand was not blindsided and the Mexican economy's loss of dynamism has been gradual, 27.1% of the companies reported high inventories, the biggest number registered since March 2007. Likewise, only 26.5% of the companies informed having high demand. The lowest share so far.

B. Future

By June 2008, optimism regarding the companies' general situation within a year was somewhat lower than the one registered in previous March (scores: 75 versus 78).

Nevertheless, 56.2% of the companies expected to raise its production in the next 12 months and 40.2% would hire more personnel. These percentages are somewhat stronger than those of three months previous to the survey (53.5% and 37.2%). A bigger shift was noted in expectations regarding goods and services' price increasing (three months before 46.8% of the companies' would raise them; currently, 58.3% would do so). Estimations regarding the improvement of the companies' profitability within a year remained almost unchanged (46.8 in June 2008 after 46.2% in March).

Future situation (within a year) **of the companies with regard to the date of the surveys** (average scores in the 0-100 scale*)



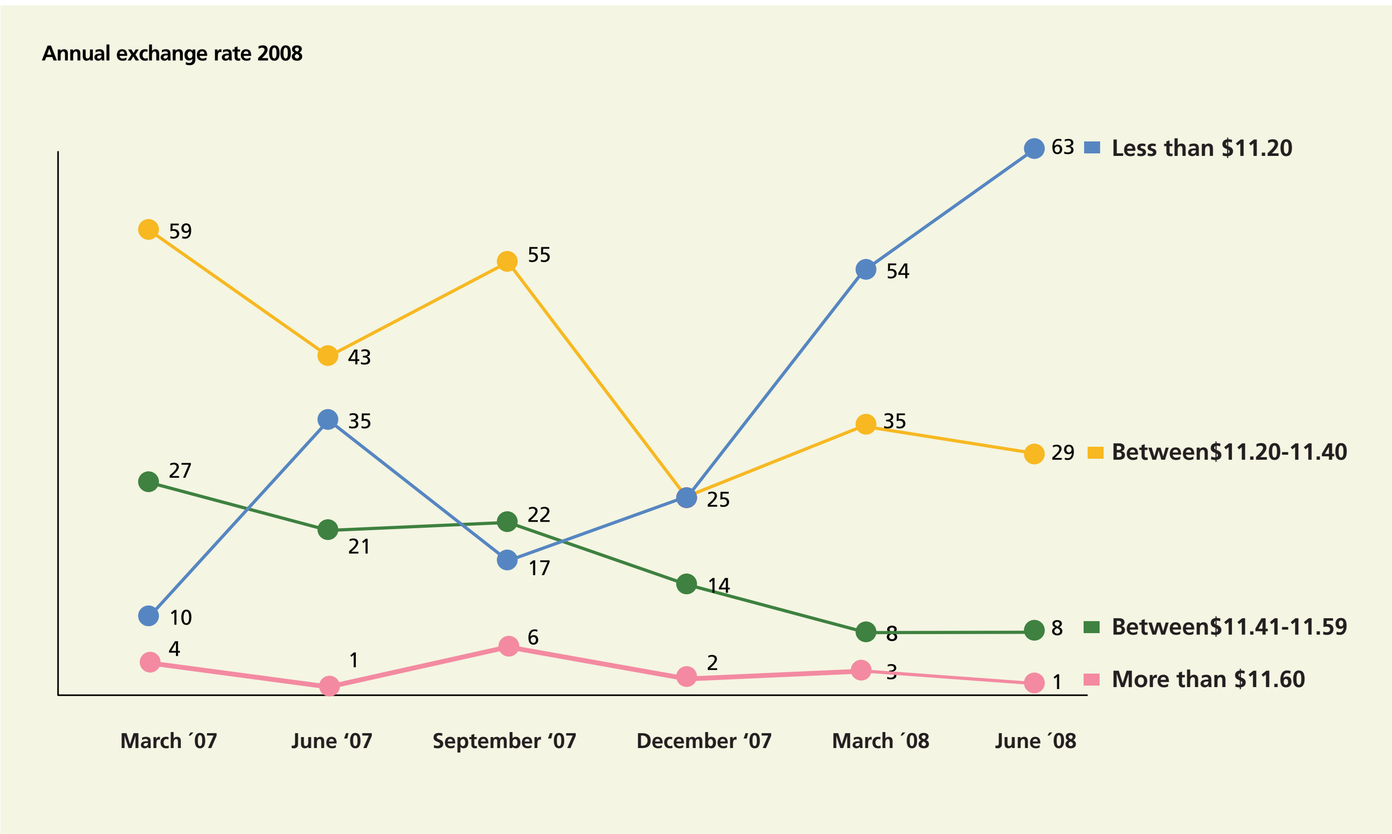
* These figures were computed by weighing percentages of responses Higher, the Same and Lower by 1, 0.5 and 0.

III. Exchange rate and inflation

A. Exchange rate within a year (% of total responses)

The two most recent surveys show that the executives have revised their expectations downwards with regard to the exchange rate. The average observed exchange rate within the first semester in 2008 was 10.61 pesos to the dollar. Presumably, this fact influenced the executives' opinion in June 2008, and therefore 62.5% forecasted the exchange rate will be less than 11.20 pesos to the dollar within a year.

The expectations of the economic analysts obtained by the Bank of Mexico between June 24-27 were also revised downwards. In June 2007, the analysts forecasted an average exchange rate of 10.63 pesos to the dollar by the end of 2008, and 11.01 pesos to the dollar within a year.

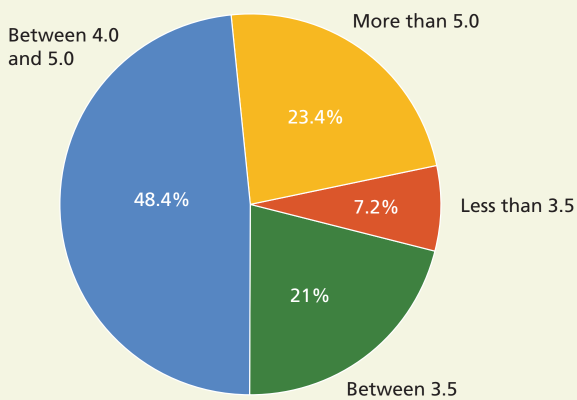


B. Inflation

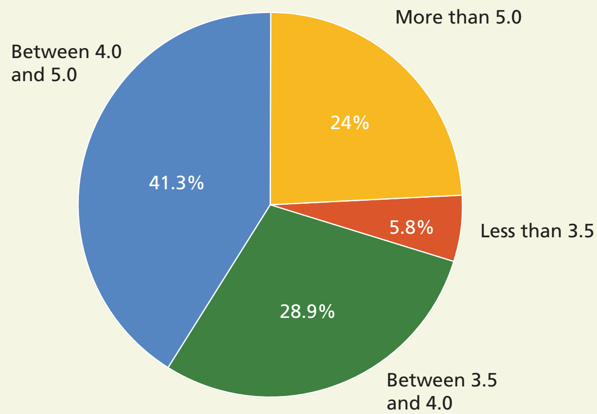
On the other hand, expected inflation for 2008 has picked up further. According to June's 2008 survey, 71.8% of the executives think that inflation will be above 4% for 2008, but otherwise they foresee that inflation could slacken in 2009, and thus narrow the gap within the annual inflation target set by the Bank of Mexico (3%).

The economic analysts' prospects obtained by de Bank of Mexico changed in the same direction: the expected inflation for 2008 was 4.74%, and 3.71% for 2009.

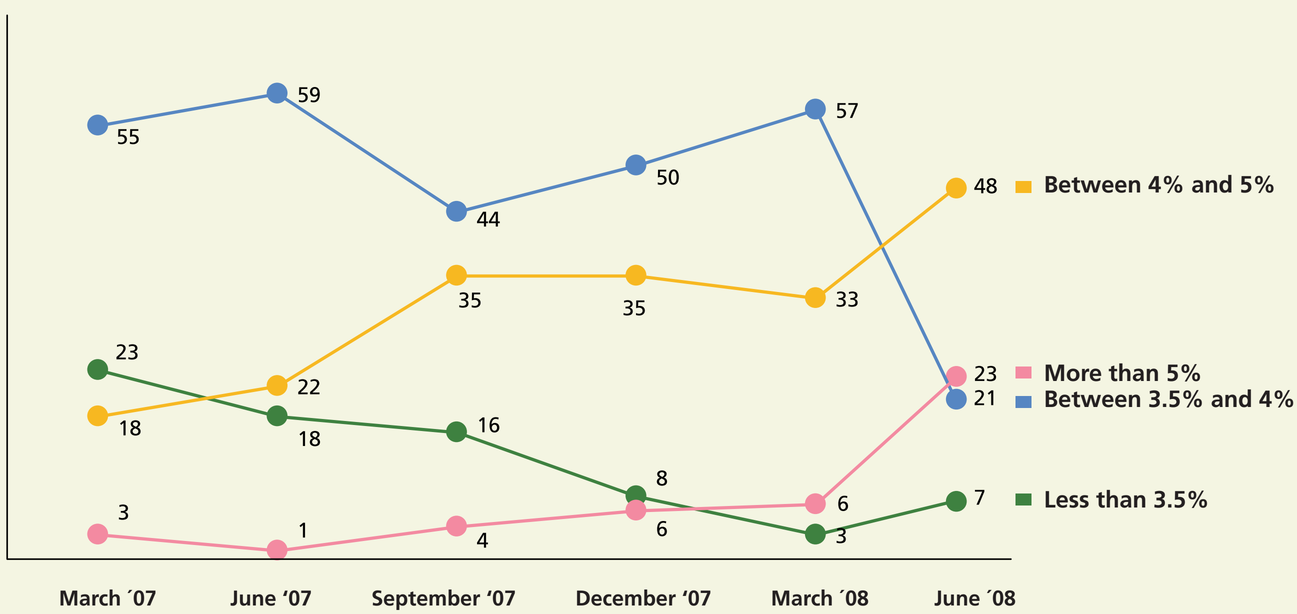
Annual inflation forecast for 2008



Annual inflation forecast for 2009



Annual trends. Expected inflation for 2008

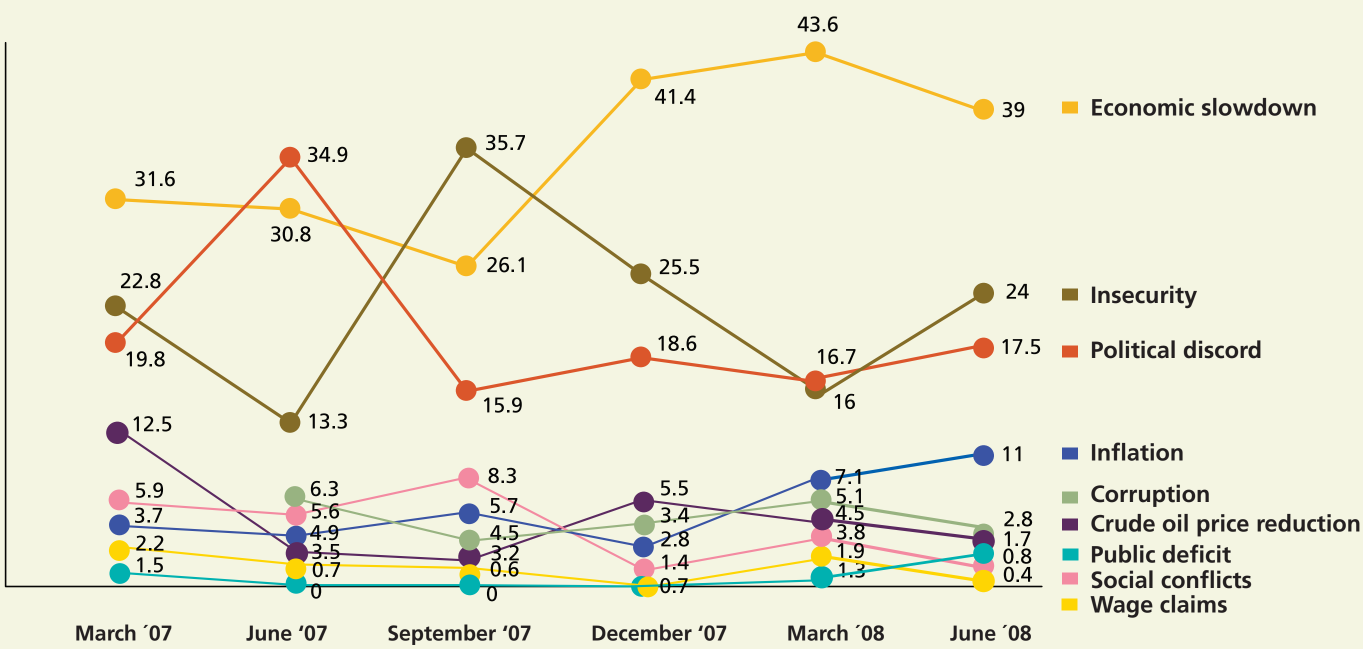


IV. Threats to the economy

The lower drive of the US economy has impacted the Mexican economy; political discords and other internal issues (structural) have influenced negatively as well.

According to the surveyed executives, the main hurdles to the Mexican economy´s growth in the incoming months are, within significance order: the US economic slowdown, political discords (an issue of increased importance) and insecurity in Mexico (still keeping similar level to that of prior quarter).

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



* "Corruption" was not included in the March 2007 survey.

Nevertheless, according to the executives' opinion, inflation became a new threat for the Mexican economy. And even though the effectiveness of the government's performance aimed at controlling inflation has been the best evaluated issue, scores given in June 2008 were substantially lower compared to those of March, since inflationary risks have increased.

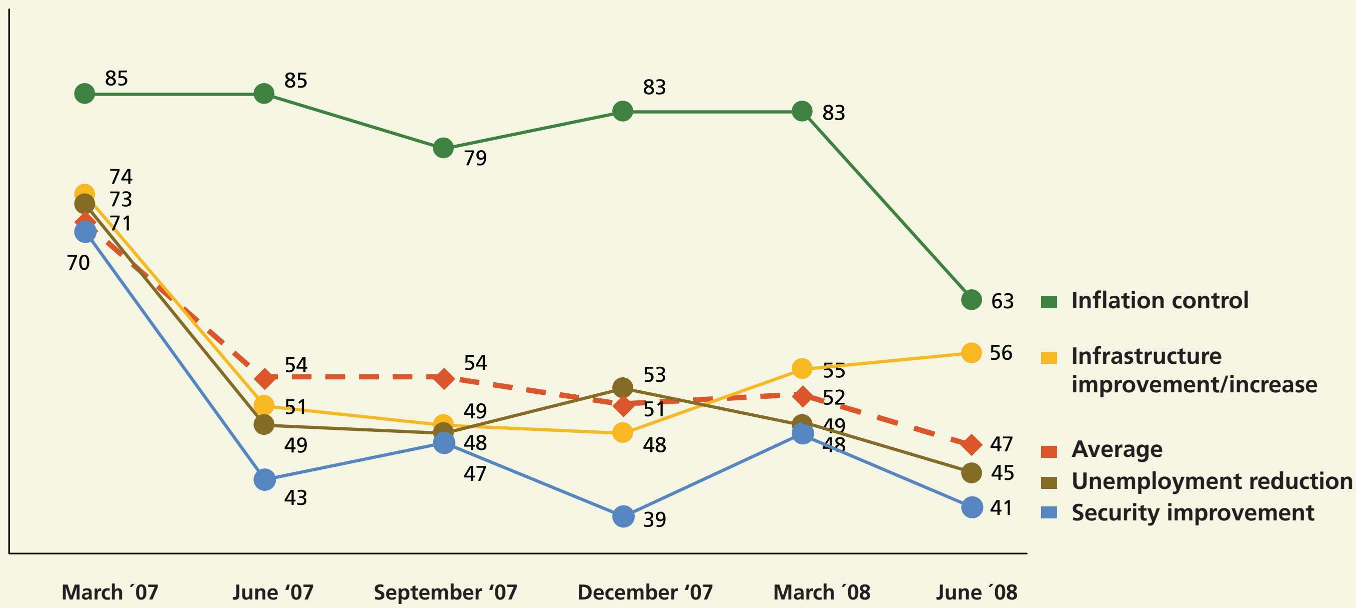
V. Government administration

Besides macroeconomic stability, three additional actions might be considered to ease productivity enhancement: education improvement, insecurity decrease and infrastructure growth. Even though, the surveyed executives did not assess favorably the government's performance regarding education improvement and insecurity decrease.

Since our first survey was carried out on in March 2007, the government's actions aimed at improving security have been low scored; 41 in a 0-100 scale in June 2008.

Therefore –according to the executives' opinion- the government has not been effective in order to keep the economy's growth pace, and thus to reduce unemployment and poverty.

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



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

VI. Conclusion

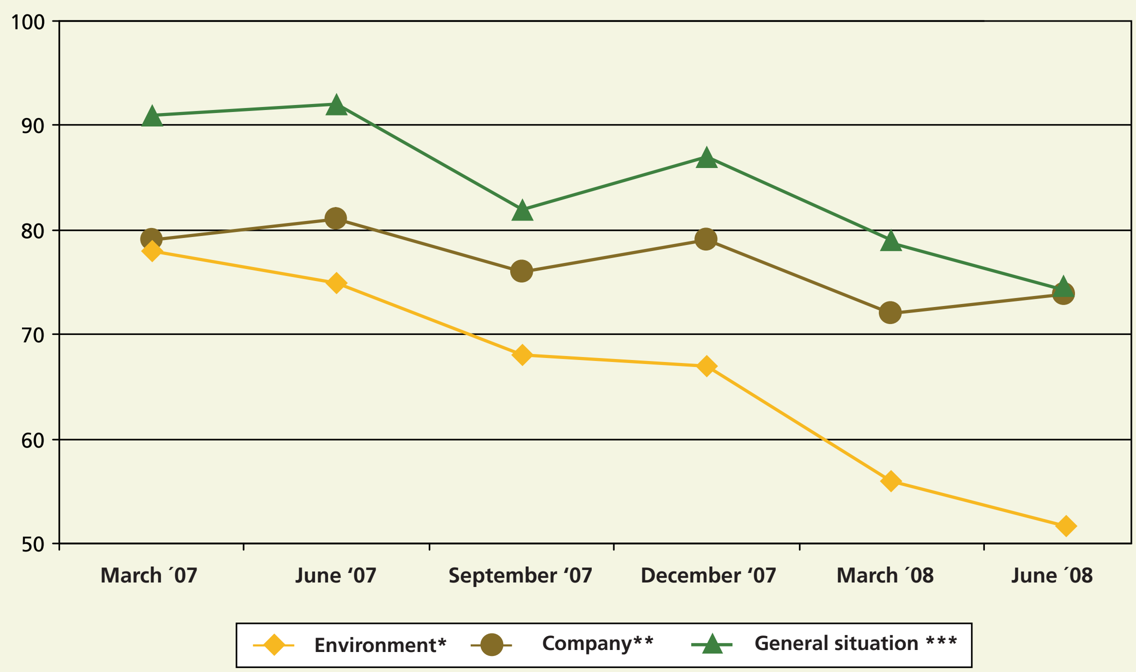
The respondents' expectations show no signs of economic recession in México within the next 12 months. Moreover, their scores regarding the increase of infrastructure (similar to those of prior quarter) suppose cautious optimism among the executives, likely considering that higher expenditure in infrastructure could stimulate Mexican economy's productivity and potential growth.

US economic slowdown, as well as domestic political discords and insecurity have provided the major reasons for concern, now steepened by rising inflation.

Despite the executives' negative outlook regarding a more difficult business environment, our Business Barometer shows that the expected results are not less favorable compared to those of March 2008.

Cautious optimism somewhat is envisioned.

General situation (0: pessimistic; 100: optimistic)



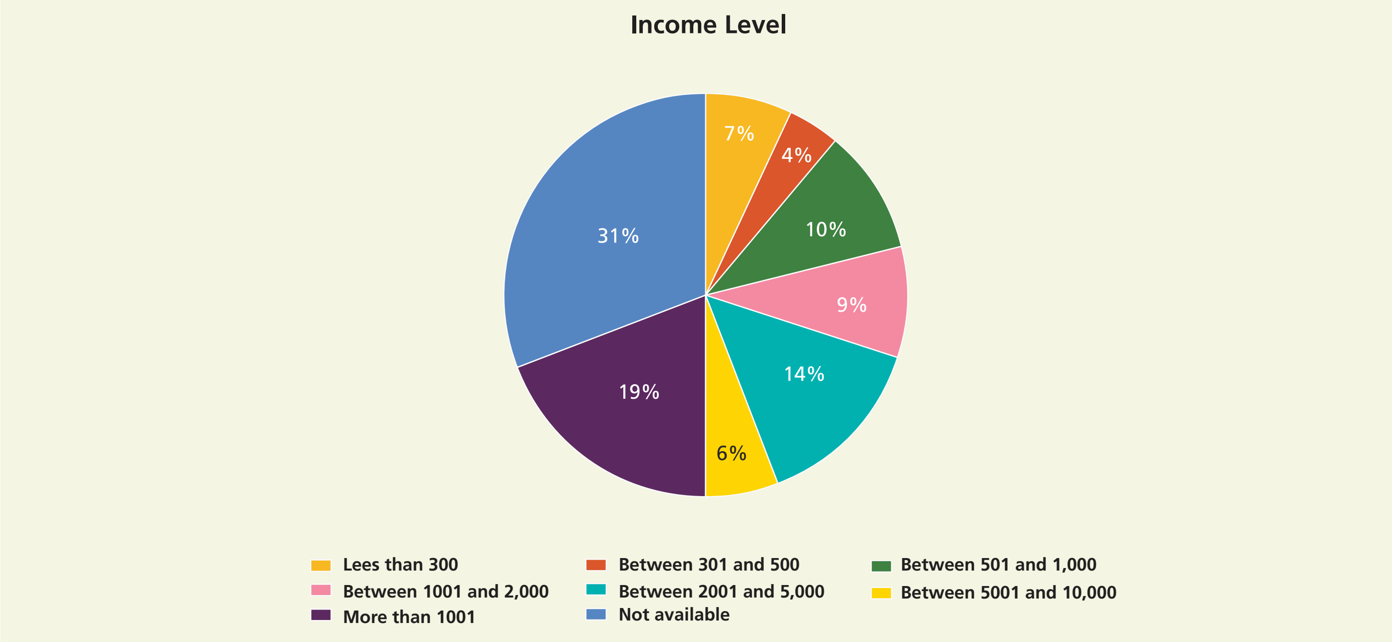
* Business environment: Five indicators (Investment climate, credit availability, employment, security and economic situation).
** Company: Six indicators (Production capacity, employment, prices, production, profitability and wages).
*** Companies' general situation.

VII. About the survey

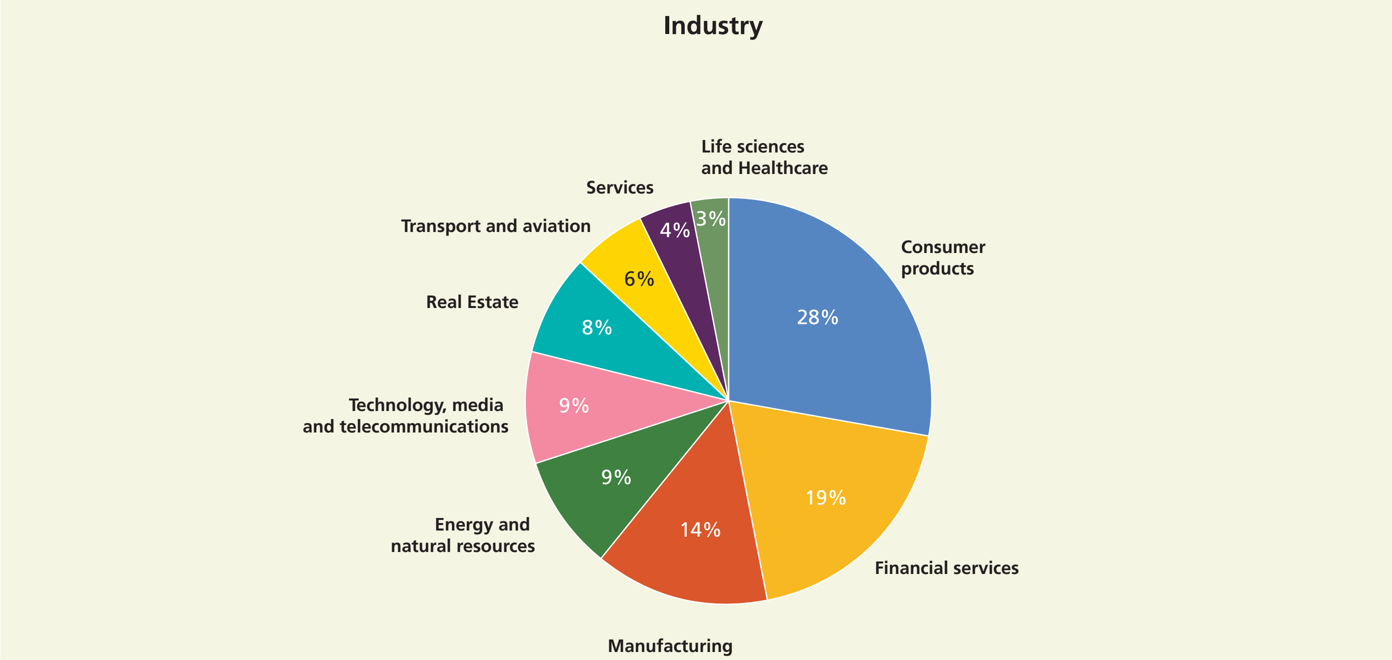
Deloitte's sixth Business Barometer survey carried out in June 2008, included 253 executives of the most prominent companies.

Considered among the most important companies in Mexico, their added income rose to $240.91 billion dollars, according to the last reported period.

Average annual income of companies



Industry Participation



For more information, please contact us at.
www.deloitte.com/mx/barometro
barometro_mexico@deloittemx.com

Phone: +52 (55) 5080 6633, in Mexico City and the metropolitan area
01 800 4 Deloitte (01 800 4 3356 4883)
Toll free for the rest of the country.

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