Latin American Trends

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México

Mexico — September 2017

Economic Outlook

- **Lowest growth since 2014.** We must go three years back to find a growth rate similar to the registered in the second quarter of 2017, standing at 1.8%. This deceleration of an increase is mainly due to the sharp drop in production in the industrial sector (-1.1%), where all the integrals suffer significant setbacks, especially in the mining sector. Primary activities grew slightly (0.7%), while positive growth was in the tertiary sector, with a strong improvement of 3.2%. Previous reforms in banking and insurance have triggered the activity of these sectors, as well as the increase in tourism, one of the lowest contribution rates to GDP.

- **Runaway inflation.** One of the factors contributing to the fact that GDP does not grow in line with the potential of the Mexican economy, is the increasing progression of the price level, reaching twice the announced forecasts. This surge, which exceeds 6%, has a full impact on the purchasing power of the middle and lower classes of the population, affecting domestic consumption. Despite the low unemployment rates, the quality of unemployment does not help to alleviate the loss suffered by the inflationary spiral. The reforms undertaken must be polished so that their benefits reach the whole of Mexican society, especially now when the effects of earthquakes have to be rebuilt.

Forecast Scenario

- **Opportunities within threats.** Mexico faces a number of challenges, including the renegotiation of NAFTA with United States and Canada, lower manufacturing demand from the northern neighbor and the coupling of structural reform policies along with international volatility. Faced this situation, we must consider options to diversify markets and boost domestic consumption, so that there is a positive impact on GDP and greater participation of the economic boom in the Mexican citizens who are the main characters of the achievements.

- **Looking for stability.** The periods in which the huge oil revenues contributed to GDP growth are over, and, in this new reality, productive activities must be accommodated to the new and changing times in which Mexico is immersed. We must find solutions to the historical dependence of American demands, so unstable in the near future. The internationalization and opening of new markets should be the incentive to find enriching solutions that limit the direct impacts that fluctuations of oil and the United States have on the Mexican economy.

Also in the news...

- Budget cuts implemented during the six-year term have led to the elimination of 184,400 places in the three levels of government (federal, state and municipal) during the period 2013-2017.

- Only 20% of Mexican SMEs sell their products and services to other countries, despite being 99.8% of total companies and generating 73% of employment. For their part, 86% of Canadian companies and 97% of small and medium-sized US companies export abroad.

- Five of every ten vehicles produced in Mexico are pickup trucks or SUVs. Between January and August 2017, 1,153,696 trucks were manufactured, 20.8% more than in the same period of last year, mainly due to the increase in demand in the United States.

- The oil company BP began supplying approximately 200 billion BTUs per day of natural gas to industrial customers, distribution firms and independent energy producers in eight states.

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Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend (1)
GDP (% Growth)	II.17	1.8	2.8	Stable
I. Global Economic Activity	Jul.17	1.0	2.4	Negative
Urban Commercial Sales	Jul.17	0.4	0.4	Negative
Manufacturing Industry	Jul.17	2.5	2.2	Positive
Employed in Manufacturing	Jul.17	4.0	3.8	Positive
Consumer Prices	Aug.17	6.66	6.44	Negative
Trade Balance (Mill $)	Aug.17	-2,732.5	-1,522.6	Negative
Public Debt / GDP (%)	II.17	43.8	48.0	Positive
Unemployment Rate (ENOE)	Jul.17	3.41	3.27	Positive

Annual change rates except for trade balance, public debt and unemployment rate. (1) According to the changes observed over the last twelve months.

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Financial Data	Latest Data		Growth in	
			3 months	1 year
Stock Exchange (IPC)	27.Sep.17	50,169	2.20%	5.40%
Exchange Rate Peso/$ (observed)	27.Sep.17	18.13	0.80%	-7.05%
Cetes Rate (91 days)	27.Sep.17	7.06	7.06(*)	4.66(*)
Sovereign Spread (EMBI)	27.Sep.17	178	196(*)	222(*)

(*) Value from 3 months and 1 year ago respectively

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	2.3	2.0	2.1
Inflation (% end period)	3.4	5.8	3.7
Trade Balance (Thou.Mill. $USA)	-13.1	-10.2	-10.2
Current Account Balance (Thou.Mill. $USA)	-30.2	-24.3	-25.5
Public Sector Balance (% of GDP)	-2.6	-2.2	-2.5
Exchange Rate Peso/$ (year-end)	20.60	19.29	18.79

Mexico: general information

Official Name: United State of Mexico
Area: 1,964,375 Km^2.
Population: 122.3 millon (2016)
Type of State: Federal republic
President: Enrique Peña Nieto (Revolucionario Institucional-PRI Party)
Finance Minister: José Antonio Meade Kuribreña
Secretary of Economy: Ildefonso Guajardo Villarreal
Bank of Mexico President: Agustín Guillermo Carstens Carstens
Currency: Peso
Exchange Rate System: Flexible
Credit Rating: S&P/Moody's: *BBB+/A3*
Nominal GDP: 1,064 Thou.Mill.$ (2016)
GDP/h ppa: 18.865 USD (2016)
Life Expectancy (years): 75.2 (2016)
Years of Schooling (average): 9.1 (2015)

Risk Evaluation: MEDIUM

Exchange Rate Instability: MEDIUM

The exchange rate differential against the US dollar is stable, around 18 pesos per USD unit. Fluctuations below this limit allow us to model a consistency in trade, achieving stability that helps companies avoid excessive fluctuations in their demand and production levels, as well as generating greater control of associated macroeconomic variables.

Sovereign Risk: MEDIUM

The stability of the sovereign spread over the last few months, below the 200 basis points, is explained by the stability in the fluctuations that characterize the march of the Mexican economy in almost all the main indicators.

Public Sector Finance: MEDIUM

The total Mexican debt has experienced a decrease that will allow adjusting the public deficit, due to the decrease in public spending; while improvements in revenues also make it possible to reduce the mismatch in public finances. For all, the Historical Balance of the Public Sector Financial Requirements could be reduced by 2 points at the end of 2017.

Socio-political Risk: MEDIUM-HIGH

The first political reactions appear to the devastating earthquake happened 19 of September. Among them, the PRI renounces the amount of public funding that corresponds to 25% of its total revenues, while the PAN has renounced the radio and television commercials. In addition to gestures, the presidential elections are in the near horizon in July 2018.

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