Economic Update

The International Monetary Fund reduced its growth forecast for Mexico´s economy to 3 per cent for 2015, down 0.2 per cent compared to its forecast in January according to its most recent World Economic Outlook report. Despite the decrease, if this forecast proves correct, Mexico´s economy is set to surpass that of Spain.

The main culprits for the downgrade are a lacklustre performance in the domestic market and the cuts in public spending which the government announced in light of falling oil prices. It should be noted that oil revenues account for one third of the Mexican government´s budget. Although this will undoubtedly affect the Mexican economy, it should also be said that there are new sings of momentum within Mexico´s domestic consumption, proved by the newest figures for Walmart´s strong revenue growth in Mexico, which increased 9.3 per cent year on year during the January-March period.

Notwithstanding its less optimistic forecast, Mexico´s prospects are much brighter for this year compared to the rest of Latin America. The IMF expects the region to (barely) grow by 0.9 per cent, which is 0.4 per cent lower than its previous forecast, as Latin American continue to struggle with China´s economic transition which has contributed to push down commodity prices. Those particularly hard-hit are Brazil (-0.1 per cent year on year growth for 2015), Argentina (-0.3 per cent) and Venezuela (-0.7 per cent).

Given that Mexico´s entire economy is less exposed to commodity prices than other Latin American countries and its tight integration with the U.S. –which the IMF expects will grow 3.1 per cent in 2015- it not surprising that its forecast fails to correlate with that of its southern neighbours.

These points were seconded by the World Bank, which expects increases in investment and growth in competition to bolster growth for 2015.

In regards to investment, it should be noted that Toyota officially announced this week that it will invest $1 billion USD in a new plant, which will be located in the state of Guanajuato and is expected to produce 200,000 units of Toyota´s Corolla and will create 2000 jobs.

Mexico´s highly competitive labour costs and quality have so far proved to be irresistible to automakers. Whereas automakers pay on average $9 dollars USD per hour to workers in Mexico, they pay fivefold that amount to workers in the U.S. Thus, according to Mexico´s Secretary of Economy, the country auto-manufacturing sector attracted $20 billion USD in foreign direct investment since 2012.

In line with this, Mexico´s National Institute for Statistics and Geography published its most recent findings for industrial production in the country, which grew 0.2 per cent in February compared to the month prior and 1.6 per cent year on year. Gains in mining, electricity production and manufacturing compensated for a 2.2 per cent month on month decline in construction, which not only shows that the sector has yet to bounce back from a prolonged downturn, but that Mexico´s economy has much work to do before its far from risk.

Mexico´s energy: a story of two mergers

And then there were 33. Among the many ripple effects that will come from the announcement of Shell's £47bn takeover of BG Group, one will take place in Mexico as both companies are among the 34 companies that are currently in the prequalification stage for the exploration blocks which are on tender as part of Mexico's Round One for bidding in its energy sector, which was only recently open to private investment.

One of the areas of opportunity in Mexico's energy sector that has garnered most attention from international oil companies are its prospective resources in deepwater, which by some estimates are three times larger than those of the U.S. In this sense, Shell and BG Group will be in familiar territory by the time exploration in said areas begins, given that one of the main reasons for Shell to acquire BG Group was the latter's deepwater assets in Brazil.

On a separate note, Mexican tycoon Carlos Slim –who made his fortune in telecoms- announced this week the merger of his infrastructure and drilling companies, in order to create Carso Oil & Gas. Although Carso has not paid access to the data rooms nor has it initiated its prequalification to take part in Round One, it has held meetings with the National Commission for Hydrocarbons, the sector's regulator.

Taking this into consideration, in addition to the fact that Carso already has experience in the sector, particularly in the construction of pipelines; it seems plausible to assume that it is not a matter of whether but of when Mr. Slim will attempt to build a new Mexican giant to stand next to his currently embattled telecommunications company, which has been repeatedly criticised for having a near monopoly stronghold over the sector in Mexico.