



## **The many faces of economic growth in Mexico**

During recent days the image of a map of Mexico superimposed on that of Europe has been circulating widely amongst Mexican social media users. What's striking about the image is just how large the former is the larger in comparison to the latter. And indeed it is actually the case that practically the entire surface of Western Europe could fit into Mexico.

What can also be deduced from this fact is that given the size of a country like Mexico - which happens to be a federation of states- the variability across economic and social variables that can be found in Europe can also be found in the North American country. This is an argument that the current and past Mexican government often use to nuance the simplistic view that the gruesome scenes of violence in the country portrayed in international media apply in equal fashion throughout its territory (which is not the case).

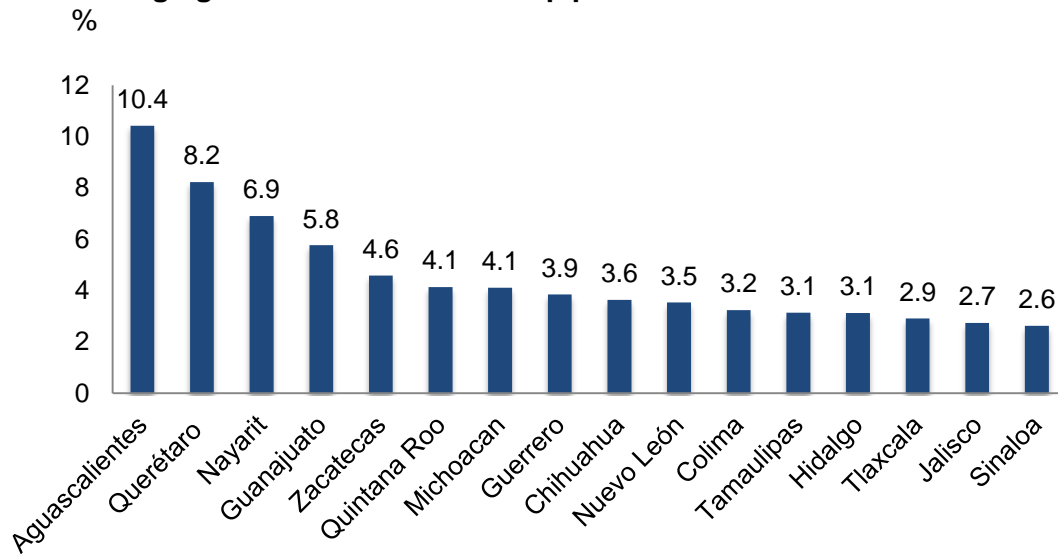
However, what is often less said, yet perhaps more interesting, is that this also applies to economic growth. Notwithstanding the country's performance in this regard has been disappointing during the past two years; it is possible to find interesting opportunities in the country by making a more granular reading of economic growth at the level of states within the country.

According to the most recent results of the indicator for state level economic activity produced by Mexico's National Institute of Statistics and Geography, the issue of growth is far more complex than suggested by its paltry 2.1 per cent growth rate in 2014. Said indicator is roughly equivalent to the traditional measure of growth in GDP.

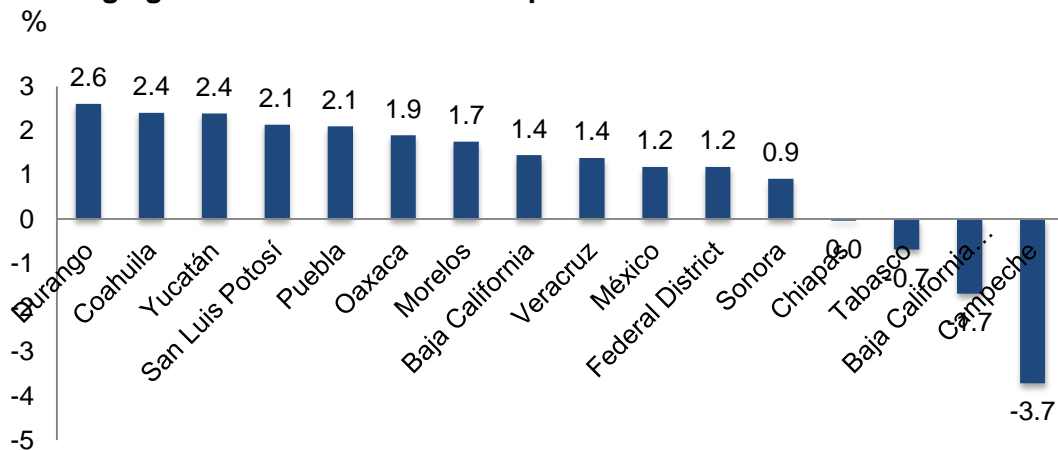
In the last quarter of 2014, the average growth in said indicator was 3.8 per cent year on year, however this figure is dragged down by nine states (out of 32) that had particularly bad end of year with five of them having negative rates of growth (Sonora, Chiapas, Tabasco, Baja California Sur and Campeche). In contrast to these nine laggards, the remaining Mexican states grew by more than 3 per cent year on year with an elite triad (Queretaro, Aguascalientes and Nayarit) reaching double digit growth year on year in the last quarter of 2014.

In terms of average annual growth, there is less overall variation in performance, yet the range of growth per state continues to be quite wide given that Aguascalientes, the most stellar performer of 2014 grew by 10.4 per cent, whereas Campeche took a beating in light of its negative 3.71 per cent growth rate.

### Average growth rates for 2014 - top performers



### Average growth rates 2014 - bottom performers



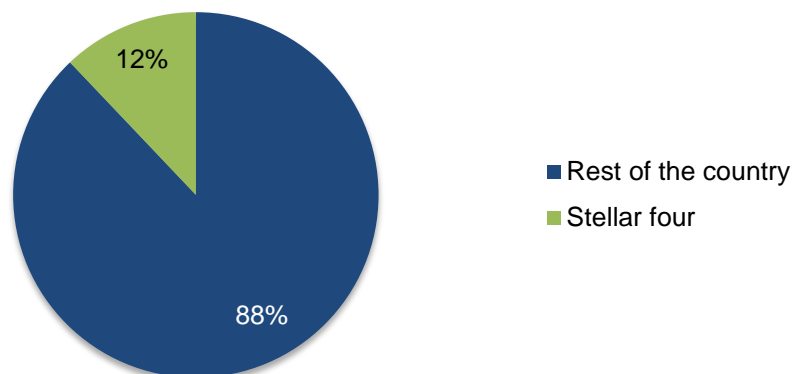
Source: INEGI

Moreover there does seem to be a pattern in terms of high levels of annual growth for states located in the centre of the country, which perhaps not coincidentally have been the main beneficiaries of Mexico's booming manufacturing industry. In addition to Aguascalientes, the other central states of Queretaro, Guanajuato and Zacatecas grew at an average annual rate of 8.2, 5.8 and 4.6 per cent. Furthermore the average growth rate in the industrial sector for these states in 2014 was a whopping 14.7 per cent year on year.

However, these spectacular rates of growth fail to uplift that of the country as a whole, in light of the fact that the stellar four account for less than 8 per cent of the country's GDP. In line with this, their combined population is little over a tenth of the entire country's.

Interestingly, these four states only account for 12 per cent of foreign direct investment that came into the country last year (when excluding Mexico City, which accounts for close to have of all FDI).

### Share of foreign direct investment (excluding Mexico City)



Source: Ministry of Economy

Another surprising finding is that the states of Michoacan, Guerrero and Tamaulipas also showed robust growth during 2014 (an average of 3.7 per cent), notwithstanding that they were notorious last year for the high-impact incidents of violence due to organized crime operating in them.

In fact the state of Guerrero, which had the 8th highest growth rate in the country garnered infamy a few months ago for the disappearance of 43 students at the hand of a criminal organization which was colluded with the mayor of a local town. Moreover, Tamaulipas received above average levels foreign direct investment (excluding Mexico City from the calculation), notwithstanding that many of its cities regularly register public shootouts between rivals organized crime groups.

Finally, in regards to underperformers, the meagre levels of growth showed by Mexico City and the State of Mexico –which together account for a quarter of the country’s GDP and a fifth of its population- dragged down the country’s overall economic performance. Given their size it is probably not too far fetched to state that they also contribute significantly to the pessimistic mood in current national economic and business confidence surveys.

Finally the abysmal performance of the oil producing states like Campeche and Tabasco is likely to be attributed to their extremely high exposure to the woes of Pemex which has faced steep declines in production during recent years and the fall in oil prices. Campeche for example has the least diversified economy in the country and as such is much less resilient to swings in the oil industry. For both states the much-expected boon to come from the energy reform could not come soon enough.

### Stalled legislation

The stark contrast between the lightening speed with which Mexico’s congress approved the series of ambitious structural reforms put forward by President Enrique Peña Nieto during the first two years of his administration and the sluggish pace with which it had now dealt with various headline pieces of legislation are very much a sign of the new electoral times, given the upcoming mid-term elections on June 7<sup>th</sup>.

Firstly, after the crisis due to the disappearance of 43 students in the state of Guerrero at the hands of an organized crime group, President Peña Nieto sent a somewhat patchwork proposal of ten security-related legislative changes to congress. Despite the urgency of the issue for the country, the proposal lost impetus in the legislative agenda as the crisis cooled.

Secondly, the Senate pushed forward the final approval of a legislative proposal to reign-in state government debt -which in recent years has grown at a worrying rate. This risk is exacerbated by the upcoming slash in public spending which according to Fitch Ratings could cause a 15 per cent increase in state-level public debt. Although the final approval is expected to happen next Wednesday, the Senate's decision is conspicuous given that 23 states have approved said constitutional change, when in fact it would only require 17 states to do so.

Finally, another piece of legislation that will have to wait till the second half of the year to meet its final fate is that which makes various changes to the political arrangement of the Federal District (i.e. Mexico City). The reform has been championed by the mayor of Mexico City, Miguel Angel Mancera, who many expect to compete in the presidential elections of 2018. Though the exact benefits the reform might bring are still far from clear, its publicity will likely help to arrest Mancera's fall in preference polls and help to position him against Andres Manuel Lopez Obrador, another former mayor of Mexico City, who like Mancera will also be running as a left-wing candidate in the polls.