



Mexico Intelligence Report – week ending – 08/05/2015

Economic update

A combination of good (albeit modest) and bad news for Mexico's economy continue to point to stronger, yet underwhelming economic growth. Firstly, the National Institute of Statistics and Geography (INEGI) published that its coinciding index –which measures the overall state of the economy- grew 0.01 per cent in February month on month, the smallest such increase since April last year, yet enough to push the index past its long term trend.

This positive note was offset by more pessimistic results in INEGI's forward-looking index –which attempts to anticipate movements in the coinciding index. For the second consecutive month, the index decreased 0.09 per cent month on month, pointing to a bearish outlook for Mexico's economy in the short term. Moreover, according to the monthly survey carried out by Mexico's Central Bank to private sector analysts, the growth forecast for the country was once again reduced from 2.95 per cent to 2.80 per cent.

Further figures published this week seem to second this more pessimistic outlook, although some raise questions as to whether this will indeed be the case. Fixed investment decreased in February by 3.8 per cent in comparison to January, and grew by only 1.3 per cent year on year. A particularly sharp down turn in imported machinery and equipment, which decreased 10.7 per cent month on month, would seem to indicate that pain from recent volatility in the peso's exchange rate vis-à-vis the dollar is starting to show. However a silver lining comes in the form of investment in national machinery and equipment, which grew both in comparison to January by 0.8 per cent and by a robust 11.3 per cent on an annual basis.

This downward trend in investment is echoed in a decrease 0.35 points in INEGI's business confidence indicator. The most pessimistic sector in this sense is retail, which fell by 6.7 points month on month, which would seem to indicate coming months on weakened consumption (more on this to follow). However, if the dollar is hurting imports, an upside risk is shown by a 1.6 per cent year on year increase in the private sector's expectations regarding exports, a particularly relevant point given Mexico's large exposure to the U.S. economy.

The actual figures for consumption sit at odds with the expectations regarding this sector of the economy. True, the private consumption indicator grew by a meagre 0.1 per cent month on month in February and by 3.4 per cent year on year (which is

somewhat deceiving given that consumption last year had a serious downfall due to President Enrique Peña Nieto's fiscal reform). However, Mexico's auto sector has now added another piston to its engine, given that its longstanding high growth figures in exports is now being mirrored by the country's domestic market.

Car sales during January-April of 2015 reached a historic high of close to half a million units, which represents a 22.2 per cent increase on the same period last year. Indeed, when looking into the components of the private consumption indicator, national goods had stronger growth than imported goods.

Finally, inflation in April was up 3.06 per cent comfortably near the Central Bank's target.

Violence in Jalisco

After a failed attempt to arrest Nemesio Oseguera "Mencho", leader of the Cartel Jalisco Nueva Generación (CJNG), Oseguera's henchmen orchestrated a campaign of violence and intimidation across Jalisco and two neighbouring states, which resulted in the burning of vehicles and private establishments, as well as a shot-down military helicopter. As if the scale of the assault wasn't enough to show the Cartel's muscle, all of this took place in a matter of hours.

These events have rekindled the debate as to whether the strategy against drug-trafficking organizations in Mexico is working or not, particularly in what concerns the toppling of cartel leaders. It should be noted that the CJNG could be classed as an emerging cartel which is comprised by an amalgamation of splinter groups from older cartels weakened by government action.

Although there seems little doubt that there has been a steady decrease in the levels of homicides during the past three years, a plateau in levels of violence in a given region can also mean that one cartel has consolidated its stronghold over the area.

However, it is also undeniable that federal law enforcement and security authorities have accelerated the rate at which they arrest kingpins and many of the most notorious and violent cartels of past years have been dismantled. In this sense, Oseguera is likely to have sealed his fate by this show of hubris, given that the Federal Authorities prioritize the capture of the most violent heads of cartels.

Notwithstanding these achievements, what the rise of the CJNG entails is that many of the structural conditions that enable criminal organizations to grow in the country still remain in place; namely corruption and institutional weakness which is particularly acute in state and municipal governments, as evinced by statements this week from the governor of Jalisco Aristoteles Sandoval who admitted that the CJNG had infiltrated municipal police forces in the state.