



Mexico Intelligence Report – 30th October 2015

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GRUPO ATALAYA

Economic update

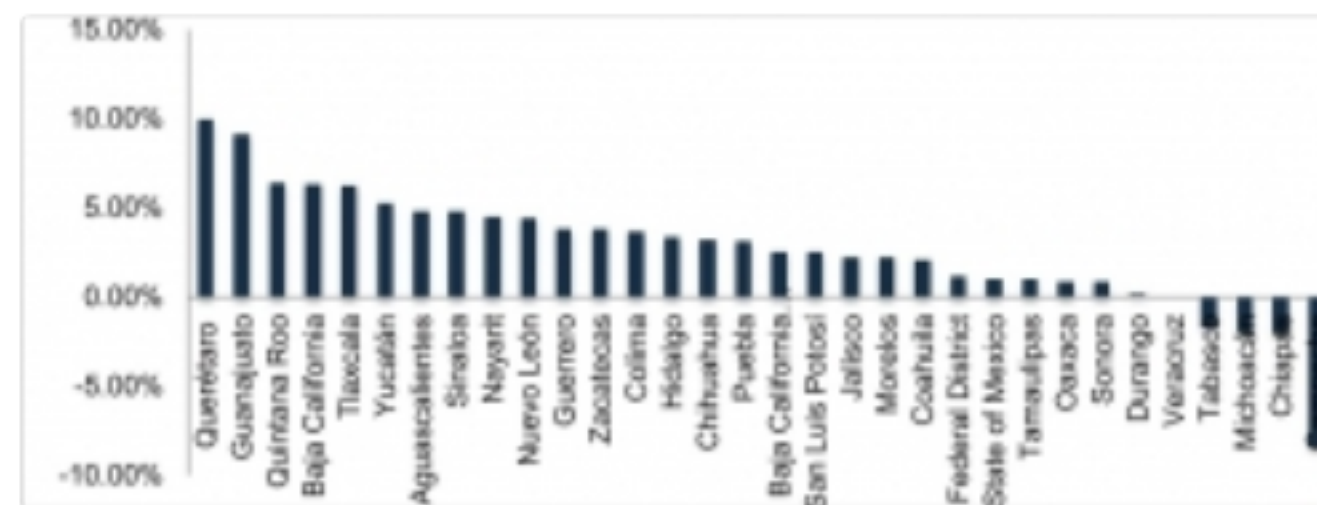
After a series of news that have been lacklustre at best and disappoint at worst throughout the year for the Mexican economy, a positive note emerged this week, given that the Indicator for Economic Growth showed its largest increase of 2015. Compared to August of 2015, the indicator grew by 2.8 per cent and by 0.5 per cent compared to the month prior.

In terms of specific economic activities, agriculture saw the strongest growth, in the order of 7.7 per cent year on year; followed by services which grew 3.4 per cent year on year. On the other hand manufacturing and mining grew by 1 per cent compared to August 2014, as the fall in oil prices put a lid on growth in said sector.

A closer look at economic growth at the state level during the second quarter of 2015 evinces even starker contrasts (see graph 1). The states that comprise the Bajío region (Aguascalientes, Guanajuato and Queretaro), which has become the poster child for Mexico's rise as an auto manufacturing power house, saw average growth of 8 per cent year on year. This is likely due to increased dynamism in Mexico's auto industry which has seen double digit growth in domestic consumption during the past months.

However the economies of states such as Tabasco and Campeche shrunk on average by 5 per cent year on year, due to their heavy reliance on the oil industry. Their outlook for the year is bleak considering that Pemex posted a 22 per cent fall in revenues for the third quarter of 2015. Moreover, the State of Mexico and Mexico City, which account for one fifth of the country's population, grew on average 1 per cent compared to the second quarter of 2014.

Graph 1: Year on year change in economic growth during Q2



Although the Mexican economy has yet to show consistent signs of growth, employment has performed better throughout the year. Unemployment reached 4.2 per cent in September, down from 4.3 per cent in August. However the number of people that would like to work more hours increased from 8.4 to 8.9 per cent.

Finally, Mexico's current account balance continues to take serious blows due to the fall in oil prices. Whereas the cumulative deficit up to September in 2014 was \$2 billion USD, so far this year it has ballooned to \$10 billion USD. Whereas non-oil exports decreased by 0.4 per cent year on year in September (dragged down by a fall in non-U.S. exports), oil exports plunged by 49 per cent.

Energy update

Mexico's National Commission for Hydrocarbons announced that the country's third auction of oil blocks has so far proved to be highly attractive as 86 companies are currently undergoing the pre-qualification process. Interestingly, 55 of these are home-grown companies.

Said auction will take place on the 15th of December and is comprised of 25 onshore oil blocks.

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