



Mexico Intelligence Report – 24th June 2016

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GRUPO ATALAYA

Economic update

Mexico's economy decreased by 1.2 per cent month on month in April, according to the National Institute for Statistics and Geography (INEGI). This represented a 0.7 per cent increase compared to April 2015.

In terms of sectors, manufacturing and mining fell by 0.9 per cent year on year, in contrast to agriculture and services which grew by 1.9 and 2 per cent respectively compared to the previous year.

Moreover, Mexico's aggregate demand expanded 2.5% year on year during the first quarter of the year, down from the 3.1 per cent growth seen in 2015. Gross fixed investment and private consumption pushed up aggregate demand. While the former rose 0.63 per cent year on year, the latter did so by 3.3 per cent year on year. In contrast, public consumption fell by 0.45 per cent year on year, given recent budgetary cuts of \$123 billion pesos.

Governance crisis in southwest Mexico brewing

President Enrique Peña Nieto faced one of the most testing weeks of his administration, following violent clashes in the state of Oaxaca between the federal police and the CNTE -one of Mexico's teachers' unions- which left 8 protesters dead.

The protests in Oaxaca are the result of the tougher stance adopted by the government regarding the union's opposition to the education reform, one of the series of ambitious structural reforms Mr. Peña Nieto successfully passed through congress at the start of his presidency. The government recently arrested the leader of the CNTE under charges of money laundering and the Secretary of Education, Aurelio Nuño has repeatedly stated that the reform is non-negotiable.

There are indications that the CNTE's movement has been joined by radical left wing groups, which presumably are pushing for an escalation of violence in Oaxaca. It should be noted that in 2006 left-wing protest groups seized the state's capital for months.

In an attempt to break the deadlock -which has now resulted to the protest group to block main highways in the state- the Secretary for the Interior, Miguel Angel Osorio Chong has initiated negotiations with the CNTE.

The government faces a dilemma given that although it is under pressure to prevent the governance crisis in the state from deepening, if it gives in to the CNTE's demand it will not only appear weak but will have diluted what was one of Mr. Peña Nieto's most popular reforms.

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