



Mexico Intelligence Report – 7th August 2015

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GRUPO ATALAYA

Economic update

Mexico's Central Bank published the most recent findings of its monthly survey of private sector economic analysts, who further reduced their expectations of economic growth for 2015 from 2.91 per cent to 2.82 per cent, in line with what has been the trend for the survey throughout the year. For the twentieth month in a row, the most pressing headwind for the economy according to respondents is the country's security situation, followed by a weak global economy.

Although 58 per cent of respondents expect Mexico's business environment to improve in the next six months, this is a decrease from June when 65 per cent of respondents thought so. Likewise 41 per cent of respondents think now is a good time to invest in the country versus 56 per cent that aren't sure, and down from 44 per cent who thought so last month.

This somewhat patchy, yet negatively skewed outlook was mimicked in a series of monthly indicators. Fixed investment in May fell 0.9 per cent month on month with the largest decrease registered in the construction sector which fell by 1.1 per cent and a more modest decrease of 0.5 per cent in machinery and equipment. Year on year investment grew by 3.4 per cent.

Expectations in the private sector saw overall moderate gains in July compared to the same month last year. A noteworthy result is the 1.2 point increase in the indicator for expectations regarding exports, which befits what seems to be an increasingly stronger U.S. economy. However, indicators for sales and inventories decreased by 0.4 and 0.9 points respectively.

The bearish outlook from the private sector in regards to the domestic market is echoed by the indicator of consumer confidence published by Mexico's National Institute for Statistics and Geography (INEGI), which fell by 1.86 per cent in July month on month.

However, consumer behaviour seems slightly at odds with this result, given that INEGI's indicator for private consumption grew 0.8 per cent year on year in May and that car sales grew by 16.1 per cent in July year on year, which resulted in a total of 721,539 units sold during the first seven months of 2015, a 20 per cent increase on an annual basis for the same period.

New leader of the PRI: some things change, whilst others stay the same

President Enrique Peña Nieto's approval ratings sunk to 34 per cent, a historic low, according to a survey by Reforma. Although various circumstances and incidents have taken a substantial toll on the President's popularity, one underlying criticism thrown against him is his reluctance or hard-headedness (depending on who you ask) when it comes to making reshuffles in his cabinet and letting players from outside his closest team of collaborators into the fold of power.

However, this week President Peña Nieto made a move that although it won't hush his critics, at least quiets them for now. The decision in question was who to choose to become the new leader of his party, the PRI, given that the current president Cesar Camacho is on his way out.

The two likely candidates were Aurelio Nuño, a young and talented member of President Peña Nieto's team, as well as his Chief of Staff who many credit as being one of the masterminds behind the Pact for Mexico the political agreement supported by the country's three main parties which resulted in the approval of a series of ambitious structural reforms.

The second candidate is Manlio Fabio Beltrones, a longstanding figure within the PRI who is considered to be one of the savviest political operators in Mexico. He was also crucial in the negotiations behind the Pact for Mexico and has showed quintessentially PRI-like discipline in terms of his loyalty to the President, notwithstanding that he's distrusted, if not feared, by the President's team. It should be noted that Mr. Beltrones made a short-lived attempt to rival Mr. Peña Nieto as candidate of their party in the 2012 presidential elections and it would be disingenuous to think that he doesn't harbour the same aspirations for the next presidential race in 2018.

At the time of writing it seems that as the PRI's tradition dictates, the Head of the Executive power has handpicked the leader of the new party and all seems to indicate that Mr. Beltrones will be Mr. Camacho's successor. Although only two of the 34 past presidents of the PRI have run for the presidency of the country and only one of them succeeded, the new position will undoubtedly rekindle Mr. Beltrones' standing and give him precious air time in the run up to 2018.

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