

Economic update

Mexico's economy is showing renewed signs of strength as the Indicator for Overall Economic Activity produced by the National Institute of Statistics (INEGI) inched up by 0.7 per cent month on month in April adjusting for seasonality, its largest increase in 23 months and bouncing back from a 0.5 per cent decrease in March.

The strongest recovery was in the agricultural sector which grew by 3.6 per cent month on month and 4.6 per cent year on year. This was followed by the services sector which grew 0.4 per cent, compared to the month prior and 2.8 per cent year on year.

The industrial sector's indicator continues to be burdened by faltering growth in the U.S. and low oil prices and declines in the mining industry which has also been hit by low commodity prices and an increase in taxes on the sector after the 2013 fiscal reform. Thus it decreased 0.1 per cent from March to April this year and grew by 2.8 per cent compared to April 2014.

Despite weakness in the U.S. economy, Mexico's internal consumption has picked up the slack. According to INEGI, private consumption –which makes up more than 50 per cent of total demand- grew 3.3 per cent during the first quarter of the year, the highest increase in two years. This finding has also been seconded by Mexico's Association of Retailers which published that sales grew 4.5 per cent in May.

Furthermore, inflation during the first two weeks of June remained stable at 2.87 per cent year on year. Although low inflation throughout the year has certainly helped to bolster consumers' wallets, it should be noted that one of the factors that has helped to keep it as such low levels are important decreases in the price of electricity. This is relevant not only for Mexico's short-term growth but for its long-term prospects.

One of the key objectives of the Mexico's energy reform was precisely to reduce energy prices, which at 65 per cent higher than in the U.S. Given Mexico's already highly competitive labour force, if it was to add to the mix cheap energy it could be in a very strong position from which to capitalize on the U.S. next spurt of growth.

However, if Mexico is to reach sustained levels of high economic growth, investment has to pick up. Historically, investment has remained below 30 per cent of GDP. Disappointingly, private investment during the first quarter of 2015 accounted for only 17 per cent of GDP, which is a gain of one percentage point over the Q1 in 2014, yet 0.9 per cent below the previous quarter.

Yet as the effects of various structural reforms start to kick in, it is not unlikely that this trend could be reverted as of this year. Although it is still too early for exploration and production companies to start spending, given that the first bids for oil blocks will be announced on July 15th, this is not the case in the telecoms

sector. This week AT&T announced that is planning on spending \$3 billion USD on expanding its infrastructure in the country, this is on top of the \$4.4 billion USD it has already spent on acquisitions, in order to compete against América Movil.

Supreme court weighs-in in tussle with teachers' union

The ongoing saga of the Mexican government's arm-wrestle with the CNTE one of Mexico's teachers union, regarding the latter's opposition to various measures included in the 2013 education reform had turn of events favorable to the former. The Supreme Court of Justice ruled that is legal for the government to fire all teachers that fail to comply with performance assessments, one of the most contentious issues between both parties.

For months, the CNTE has staged violent protests in its stronghold of four southwestern states, as well as paralyzing Mexico City repeatedly by flooding its main avenues with its throngs of followers. Despite calls in the national press, NGO's and opinion leaders for the government to be more assertive towards the CNTE, it has so far tread cautiously.

The showdown between the government and the reached boiling point on the eve of the mid-term elections on June 7th as the teachers union threatened to sabotage the electoral process in the state of Oaxaca.

Although the threat failed to materialize, the CNTE has become not only a governance issue, but a red flag in terms of the government's ability to implement the reforms it successfully passed through Congress. This is a challenge that is not particular to the current government but to all Mexican governments, which score big on vision, yet often fall short on materializing the changes promised.

Out of all the structural reforms passed under President Enrique Peña Nieto's administration, perhaps the one that will have the most sway over Mexico's long-term growth prospects is the education reform. This is the case given the country's woeful quality of education, low levels of productivity and that it has a limited window in order to reap the benefits of a demographic boon.

In light of this, the Supreme Court's ruling is a encouraging in two accounts. In addition to upholding a policy meant to strengthen the country's education, it has also shown that although there is still vast amount of work yet to be done regarding the rule of law in Mexico; the country's maturing political and judicial framework is capable of asserting the law against those that oppose or flaunt it. A small and perhaps tentative, yet encouraging sign.