



Mexico Intelligence Report – 8th April 2016

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GRUPO ATALAYA

Economic update

Mexico’s economy lost momentum at the start of the year according to the country’s National Institute for Statistics and Geography (INEGI).

The coinciding index published by INEGI –which attempts to measure the overall state of the economy- fell by 0.01 units to 99.93, which positions it below its long term trend. Moreover, the leading indicator –which attempts to anticipate movements in the coinciding indicator- decreased by 0.17 points to 99.24.

In line with this, according to a poll of market expectations produced by Mexico’s Central Bank (Banxico), analysts expect the Mexican economy to grow by 2.96 per cent in 2016, down from 3 per cent in the previous poll carried out in February.

In regards to inflation, private sector analysts expect prices to rise by 3.31 and 3.38 per cent in 2016 and 2017, slightly up from 3.38 and 3.33 per cent in the previous survey. In terms of foreign exchange Banxico’s poll showed that analysts forecast the Mexican peso to finish this year at \$17.69 before improving to \$17.25 next year against the dollar (vs. the previous \$17.79 and \$17.45).

Furthermore, the latest minutes of Banxico showed that its board members do not discard a slowdown in private consumption, and an unfavourable change of trend in gross fixed investment at the beginning of 2016. In this sense, they anticipate a delay in the strengthening of the Mexican economy until next year.

Indeed, gross fixed investment had a weak start of the year, as it rose 0.76% month on month, which in turn represents 1 per cent increase on an annual basis. This was the result of a 0.6 per cent year on year retreat in investment in machinery & equipment that was not fully offset by a modest recovery in construction, which grew 1.7 per cent compared to January 2015.

However, Mexico’s private consumption reported its strongest performance for the first month of the year in the past four years. Given that it grew by 4.5 per cent year on year. January’s growth was boosted by both national purchases, which increased by 4.4 per cent year on year, and imported goods, which grew by 5.1 per cent year on year.

Another sign of strength in the domestic market came from Mexico’s Association of Car Distributors who revealed that car sales increased 11.4 per cent year on year in March to 117 thousand units.

It should be noted however that national automotive production in March decreased 11 per cent year on year. According to Eduardo Solis, AMIA Chairman, the low production is attributable to the Easter holidays.

Investment update

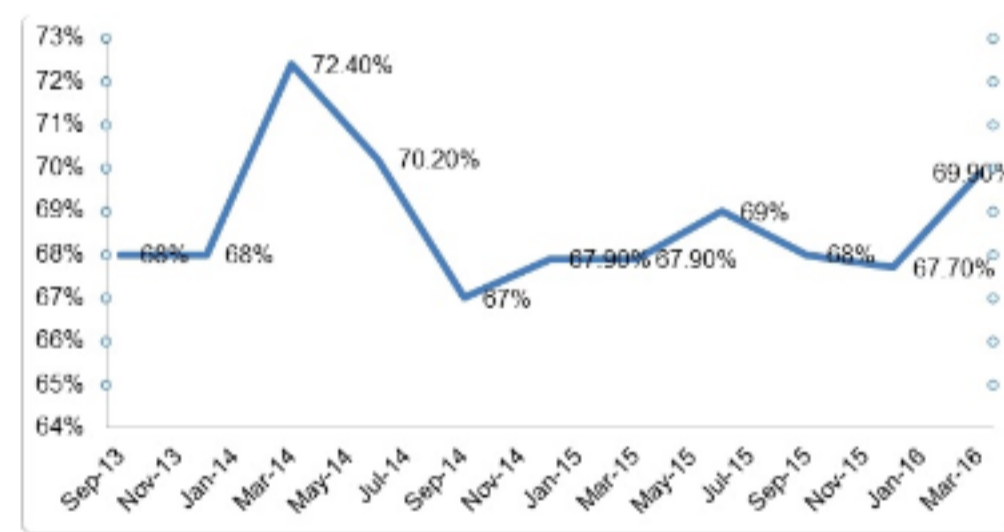
Ford announced that it plans to build a new plant in San Luis Potosi. The plant will represent a \$1.6 billion USD investment and will start operations in 2018.

Michelin, the French tire producer, plans to open a new a plant in the central state of Guanajuato, which will begin operations in 2017. This will entail an investment of \$510 million USD. The plant will produce 5 million tiers per year.

Security update

INEGI published the latest findings of its poll of citizens’ perceptions of security levels in the cities where they live. The poll shows that the proportion of citizens that feel unsafe slightly increased year on year -albeit in a non-statistically significant way.

Graph 1: Percentage of respondents that feel unsafe in their cities



Source: INEGI

The findings fall in line with continued headwinds in terms of high levels of violence, as homicides levels in February reached the highest level in two years.

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