



Canning House

Mexico Intelligence Report – 29th January 2016

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This briefing was produced for Canning House and published on 29th January 2016 by:



GRUPO ATALAYA

Economic update

The Mexican economy's momentum kept up its pace at the end of 2015. In November, the monthly economic indicator (IGAE) rose 0.1 per cent month on month and 2.4 per cent year on year. Sharp declines in industrial production acted as the main headwind, which hindered the economy from bouncing back with more force.

In contrast to industrial output's stagnant output in November, which remained unchanged in November compared to the year prior, services continued to be an important driver of the Mexican economy as sales in the sector grew by 8.2 per cent year on year in November.

Further to this point, the Mexican Retailers Association (ANTAD) announced that sales in the sector for December grew by 7.4 per cent year on year –the highest figure for December in ANTAD's history.

Unemployment –which remained low throughout 2015- increased slightly in at the end of the year, advancing 0.2 per cent compared to the month prior to 4.4% in December.

However on a positive note, the labour market kept strengthening in 2015 given that 664,000 new formal jobs were created, due to gains in manufacturing, business services and trade. Extractive industries -battered by the fall in oil prices- and electricity were the only two industries that reported lay-offs in 2015.

The effect of the fall in oil prices

As the price of Mexican crude oil hover around the mid-20's and Pemex continues to battle with declining levels of production, Moody's revealed that it has put the state owned enterprise credit rating under review for potential downgrade.

In this sense, Mexico's Minister of Finance Luis Videgaray announced a program to support Pemex. The plan's first course of action will be to pay Pemex's suppliers via the national investment bank, Nafin.

The government is also considering a possible injection of capital to improve Pemex's financial balance, with a particular focus on easing pressure on its working capital woes and its large labour liabilities.

It should be noted that the plunge in the price of oil has severely hurt oil-producing states, such as Campeche, Chiapas and Tabasco whose economy shrank by 6.5, 5.2 and 2.8 per cent during the third quarter of 2015 compared to the year prior.

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