Overview of the Mexican Economy

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Banco de México

U.S.-Mexico Manufacturing: Back in the Race
Federal Reserve Bank of Dallas, El Paso Branch

October 9th, 2015
I External Conditions

II Inflation

III Economic Activity

IV Outlook and challenges
The international economic environment has become even more challenging. In particular, global economic growth has been lower than expected.

**World GDP Growth**
Annual percentage change, s. a.

**Global Economic Growth Forecasts**
Annual percentage change

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s. a./ seasonally adjusted.
Note: The sample of countries represents 86.1% of the world's GDP measured by purchasing power parity.
Source: Elaborated by Banco de México with data from Haver Analytics.

Source: IMF.
Commodity prices, particularly oil prices, are well below the levels seen in recent years and are expected to remain low.

The CRB Index of Thomson Reuters is composed of 19 commodities, which are divided into 4 groups: energy (39%), agricultural (41%), precious metals (7%) and industrial metals (13%). Its subcomponent, CRB without energy, is composed of 15 commodities which are divided into 3 subgroups: agricultural (67%), precious metals (12%) and industrial metals (21%).

Source: Bloomberg.

1/ The CRB Index of Thomson Reuters is composed of 19 commodities, which are divided into 4 groups: energy (39%), agricultural (41%), precious metals (7%) and industrial metals (13%). Its subcomponent, CRB without energy, is composed of 15 commodities which are divided into 3 subgroups: agricultural (67%), precious metals (12%) and industrial metals (21%).

Source: Bloomberg.
Financial markets volatility has increased, mainly reflecting the uncertainty that prevails about the timing and pace of future increases in the FED´s policy rate.

Evolution of the Implicit Volatility Index of the S&P500 (VIX)$^1$

Source: Bloomberg.

1/ Refers to the weighted implicit-one-month-options volatility index for the S&P 500 published by the Chicago Board Options Exchange.
In this environment, emerging markets’ currencies have depreciated significantly.

Emerging Economies: Nominal Exchange Rate against USD
Index 01-Jan-2013 = 100

Source: Bloomberg.
Inflation in Mexico is at minimum historical levels. The currency depreciation has not visibly impacted it.
There seems to be some pass-through from the exchange rate to prices of durable goods, although there is no evidence of transmission to other prices in the economy.

Source: Banco de México and INEGI.
*/ Information up to September 2015.
Inflation expectations remain well anchored.

Source: Banco de México Survey.
I  External Conditions

II  Inflation

III  Economic Activity

IV  Outlook and challenges
The Mexican economy has continued to grow at a moderate pace.

Gross Domestic Product
Annualized quarterly % change, s.a.

Economic Activity Indicators
Index 2008 = 100, s. a.

s. a. / Seasonally adjusted data.
Source: Mexico’s System of National Accounts, INEGI.
While manufacturing shows a positive growth trend, mining has been a drag for industrial activity and construction has remained subdued.

**Industrial Activity**
Index 2008 = 100, s. a.

s. a. / Seasonally adjusted data.  
Source: Mexico’s System of National Accounts, INEGI.
Production of crude oil has experienced an important reduction.

Production Platform of Crude Oil
Thousand barrels per day

Source: Pemex.
Transport equipment production remains the main driver of manufacturing.

**Manufacturing GDP**
Index 2008 = 100, s.a.

**Production of Light Vehicles**
Thousand units, s.a. annualized

Source: INEGI.

Source: Banco de México with information from AMIA.
The performance of the automotive industry has been strong in recent years and is posed to continue that way.

Share of Imports from Mexico in total U.S. Automotive Imports

<table>
<thead>
<tr>
<th>Year</th>
<th>Share (%)</th>
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<tbody>
<tr>
<td>1995</td>
<td>15.03</td>
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<td>1996</td>
<td>18.43</td>
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<td>2014</td>
<td>30.51</td>
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<td>2015</td>
<td>33.00</td>
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Source: Prepared by Banco de Mexico with data from U.S. Census Bureau.

Light Vehicles Production and Installed Capacity

Thousands units, s.a. annualized

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<thead>
<tr>
<th>Year</th>
<th>Ford</th>
<th>VW</th>
<th>Chrysler</th>
<th>GM</th>
<th>Mazda</th>
<th>Nissan-Mercedes Benz</th>
<th>Nissan-Infiniti</th>
<th>Toyota</th>
<th>BMW</th>
<th>Kia</th>
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s. a. / Seasonally adjusted data for production.

Source: Production data elaborated and seasonally adjusted by Banco de México with information from AMIA. Installed Capacity estimation based on press releases of assemblers and news.
Exports lost some dynamism mainly because of weak performance of manufacturing in the U.S., given that manufacturing exports from Mexico are still tightly linked to U.S. industrial production.

**Manufacturing Exports**
Index 2008 = 100, s.a.

**U.S. Industrial Production and Mexico’s Manufacturing Exports to the U.S.**
Index 2009-II=100, s. a.

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Source: SAT, SE, Banco de México, INEGI, *Balanza Comercial de Mercancías de México* and SNIEG.

s.a. / Seasonally adjusted data.
Source: Federal Reserve Board and Banco de Mexico with information from SAT, SE, INEGI, *Balanza Comercial de Mercancías de México* and SNIEG.
Indeed, there is a high correlation between U.S. and Mexico’s manufacturing sectors.

Manufacturing Production of the U.S. and Mexico
Annual percentage change, s.a.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Mexico’s Production</th>
<th>US Production</th>
<th>US Production (previous)</th>
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<td>I-2008</td>
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</table>

s. a./Seasonally adjusted data.
Source: INEGI and Federal Reserve Board.
Consumption and investment are growing at a steady pace.

**Monthly Indicator of Private Consumption in the Domestic Market and Retail Sales**

Index 2008=100, s. a.

**Investment and its Components**

Index 2008=100, s. a.

s. a. / Seasonally adjusted data.

Source: INEGI.

s. a. / Seasonally adjusted data.

Source: Mexico’s System of National Accounts, INEGI.
The labor market still shows some slack.

National Unemployment Rate
% of LFP, s. a.

Average Nominal Wage of Salaried Workers
Annual percentage change

LFP/ Labor Force Participation.
s. a. / Seasonally adjusted data.
Source: National Employment Survey (Encuesta Nacional de Ocupación y Empleo), INEGI.

Note: Top and bottom 1% percentiles not included in the nominal wage calculation, neither workers with zero income or not reporting wage not are included.
Source: National Employment Survey (Encuesta Nacional de Ocupación y Empleo), INEGI.
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Outlook for the Mexican economy.

**Annual Headline Inflation**

- **%**
- **s. a. / Seasonally adjusted data**
- **1/ Quarterly average of annual headline inflation.**
- **Source:** Quarterly Report April - June 2015, Banco de México

**Gross Domestic Product**

- **Annual % change, s.a.**
- **s. a. / Seasonally adjusted data**
- **Source:** INEGI and Quarterly Report April - June 2015, Banco de México
Risks to the Growth Outlook:

**Upward:**
- A greater dynamism of the exports’ sector, given a greater than expected recovery of external demand and a real exchange rate depreciation.
- Rapid progress in the implementation of structural reforms and in the strengthening of the rule of law.

**Downward:**
- That manufacturing exports keep registering a low dynamism, if the U.S. industrial sector maintains a weak performance.
- A deterioration in investors’ outlook.
- A delay in the recovery of the national oil production in Mexico.
- A further increase in international financial markets volatility.
U.S. Economic Forecast.

2015 US GDP Forecasts
Annual percentage change

2015 US IPIUS Forecasts
Annual percentage change

US Industrial Production Index
Annual percentage change, s.a.

Source: Blue Chip.

Source: Blue Chip.

Source: Federal Reserve Board and Blue Chip.
Challenges for the Mexican Economy

1. Given the complex international environment, it is key to preserve a solid macroeconomic framework.

2. The strength of institutions is crucial to back a good functioning of the economy. For this reason Mexico should make an additional effort to strengthen the institutions and the rule of law.

3. In order to achieve higher and sustainable growth rates, it is necessary to increase investment and productivity, which, in turn, requires clear progress in the implementation of structural reforms. Recent developments, like the auctions of oil fields and changes in telecommunications prices and retail conditions, suggest such implementation is starting to bear fruit.
**Global Competitiveness Index 2015-2016**

Mexico’s Relative Position in each of the 12 competitiveness pillars and in the Global Index

Sample of countries evaluated in both the previous and current reports

*Position in the ranking using the whole sample for each report. Ranking goes from 1 up to 136 according to the set of countries that compose the constant sample index. Source: Global Competitiveness Report 2014-2015 and 2015-2016, World Economic Forum.*

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**Mexico’s Ranking**
1) 2014-2015: 61
2) 2015-2016: 57
The timely and adequate implementation of growth enhancing reforms is crucial to achieve high and sustainable economic growth rates.

1. Labor
2. Education
3. Competition
4. Telecommunication
5. Energy
6. Financial
7. Transparency
8. Anti-corruption

A proper implementation of the reforms should boost productivity.