



Mexico Economic Profile

5th Bimonthly Report of 2019

Timely Macroeconomic Report
for Decision Making

October 2019

Economic Profile of Mexico

5th Bimonthly Report of 2019

In January-October 2019, Mexico's economy tends to stagnation. Gradually, the facts are imposed on the sayings. The harsh reality accounts for a production that does not grow while jobs are scarce in an economy that requires urgently both: products and jobs. The Fourth Transformation (4T) argues that there is no growth, but there is well-being and that it comes from salary increases and welfare support for the poor. All this, stands out, in a framework of price stability. However, great challenges prevail: one, safeguard price stability; two, make the new welfare regime sustainable over time, which demands huge amounts of resources; three, reactivate economic growth with all the instruments within reach since without it the new economic model will result in crisis and failure.

Null Economic Growth.- In January-June, GDP growth of 0.1% at an annual rate is reported (with seasonally adjusted data), which contrasts with 2% in 2018. That means that expectations are not encouraging for the near future. The forecasts fell from 2% to growth close to 0.0% for 2019 and around 1% for 2020. A big disappointment for the first years of 4T. The expectation of the new government is that private consumption (via social support) be strengthened, but so far all engines of demand (including consumption) tend to slow down. On the supply side, industrial activity decreases and services weaken, accounting for general atony in the production plant.

Inflation under control.- Despite the salary adjustment, inflation was 3% in October (in the last three years it went from 6.8% to 4.8% and then to 3%). The result was not surprising, given the low economic activity and the fiscal and monetary discipline promoted by the government. Therefore, at the moment there are no large inflationary pressures, although there is an underlying inflation higher than the general one. As the economy reactivates, in a future scenery, it is expected that new price realignment pressures will arise.

Wages improve, job creation worsens.- Insufficiency of jobs has worsened. The unemployment rate increased for most of the year and was adjusted downward in October (from 3.8% to 3.6%), although always within the recent range of 3-4%. Meanwhile, job creation collapsed, from 661 thousand in 2018 to 371 thousand in October 2019. There was, however, a significant real increase in minimum wages (of 13.2%), which has somewhat compensated the difficulties for working class.

Economic Profile of Mexico

5th Bimonthly Report of 2019

Discipline in Government Finance.- In January-September 2019, government revenues totaled 16.5% of GDP, expenses 17.4% of GDP, and that resulted in a negative balance of 0.7% of GDP. Thanks to fiscal discipline, public debt has remained stagnant since late 2016 to reach 45.3% of GDP in December 2018, the same level that it registered in 2019-III.

Financing to the Private Sector remains weak.- After two years of low dynamism, financing to the private sector continues to show no clear signs of revival in 2019. In fact, in 2019-II it reported an annual growth of only 0.7%. The three financing destinations showed a moderate dynamism: consumption (3.5%), housing (4.4%) and companies (-0.6%). This takes place in a context of very high interest rates that have begun to decline and are already at levels below 8%; meanwhile, the Stock Exchange recovered 4% in the January-October 2019 period.

International environment with lights and shadows.- The US economy remains strong: GDP reported a 1.9% increase in 2019-III (vs. 2% prior), but a moderate advance in the industrial sector (1.2%). For its part, unemployment remains at low levels (3.6 in October) and reflects good economic health. Such dynamism stimulates Mexican exports and helps sustain capital flows to Mexico.

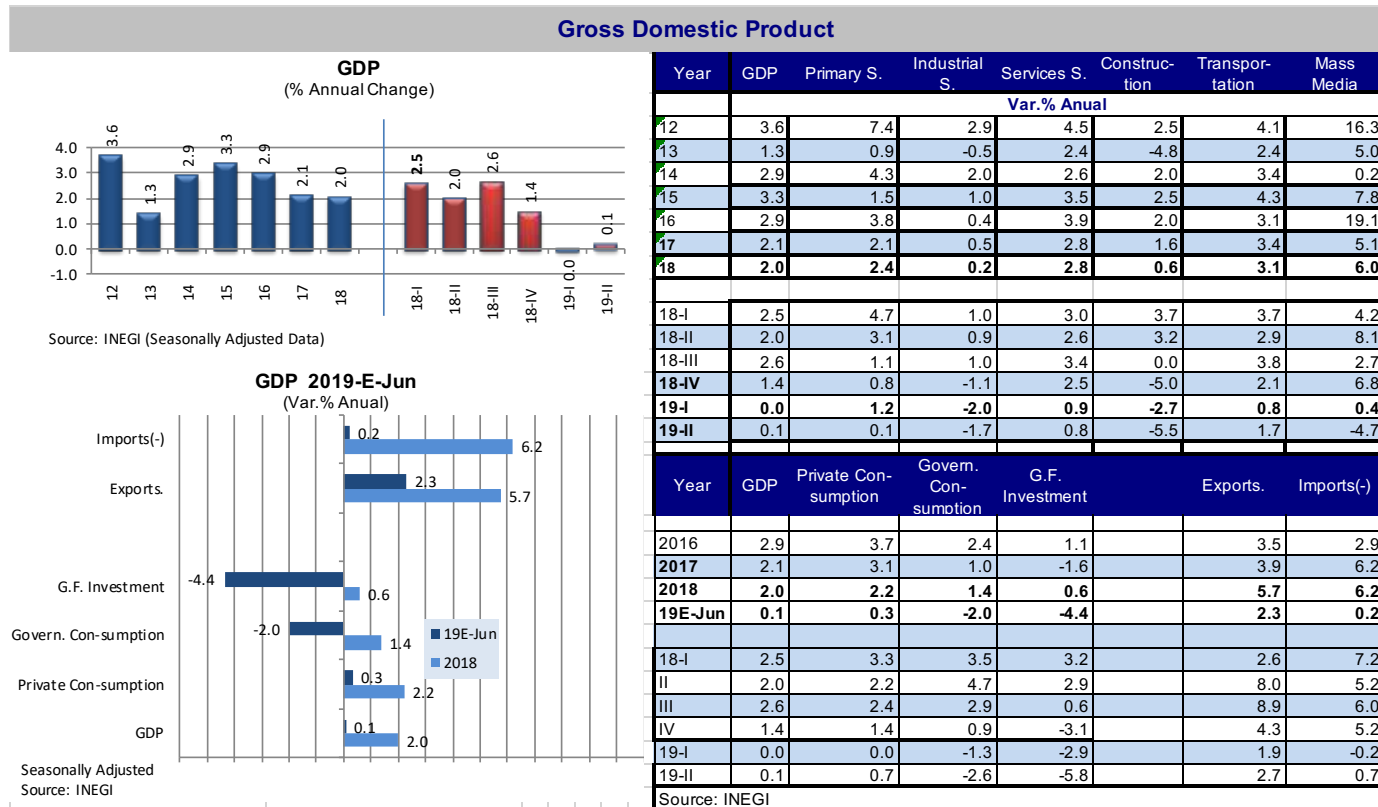
However, uncertainty prevails. While the formalization of the T-MEC is expected to energize the economy of North America, there are several clouds on the horizon: the eventual recession in the US, the US-China trade war, and the protectionist and anti-immigrant wave that has been flying the US.

In a context of the gradual recovery of the world economy and revitalization of the trade relationship in North America, Mexico faces more opportunities than threats.

Uncertain Economic Outlook.- The expectations for 2019 and 2020 are not very encouraging for Mexico. Mexican experts expect virtually zero growth for 2019 (0.3%) and a positive growth for 2020 (1.2%). For its part, the US would move towards a slightly more moderate growth in 2019-2020 (2.3 and 1.8%). However, the launch of the T-MEC in 2020 could make a difference.

Economic Activity

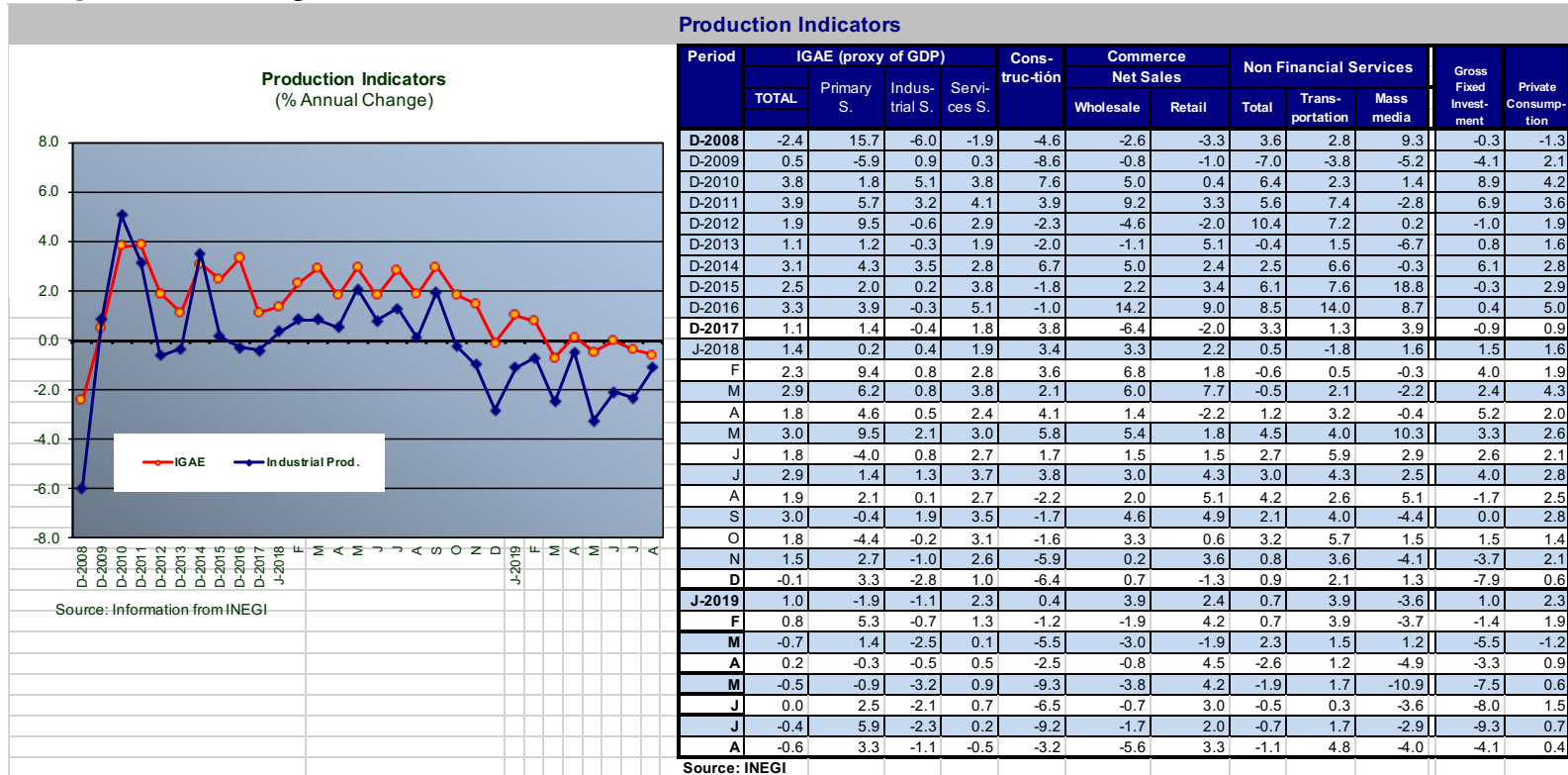
In 2019, the second quarter, GDP grew 0.1% at the annual rate (vs. 0.0% prior), which points to zero growth for 2019.



- GDP growth in the second quarter of 2019 was 0.1% (according to seasonally adjusted figures), which reflects the stagnation of productive activity in this first year of Q4, attributed mostly to internal factors.
- At the sector level, in 2019-II, the weakening is widespread: the industrial sector continues to fall (-1.7%) and the services sector and the primary sector grow at rates below 1%.
- On the demand side, in 2019 there is a weakening of consumption, the main driver of demand, in addition to the decline that is already observed in investment.

Economic Activity

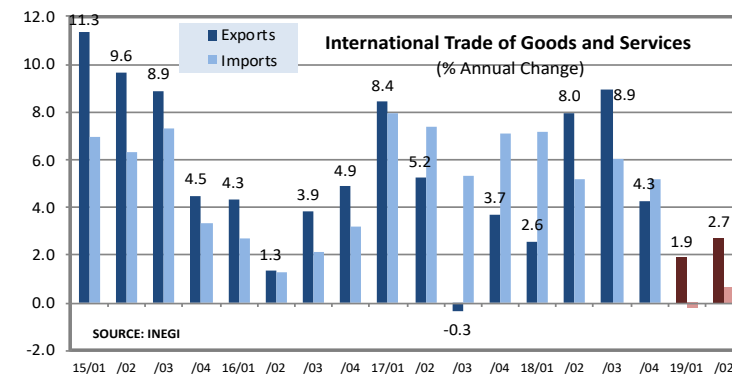
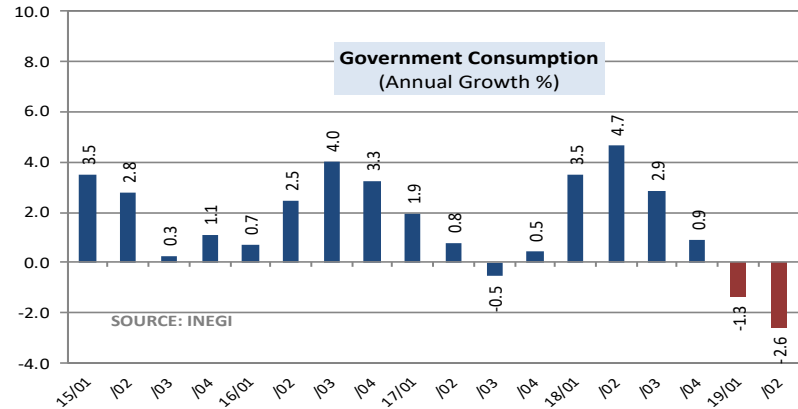
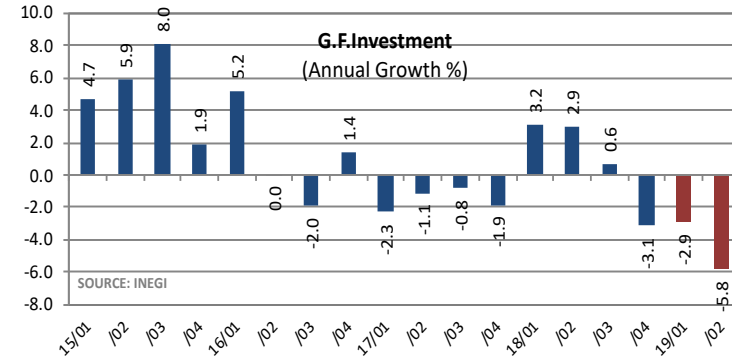
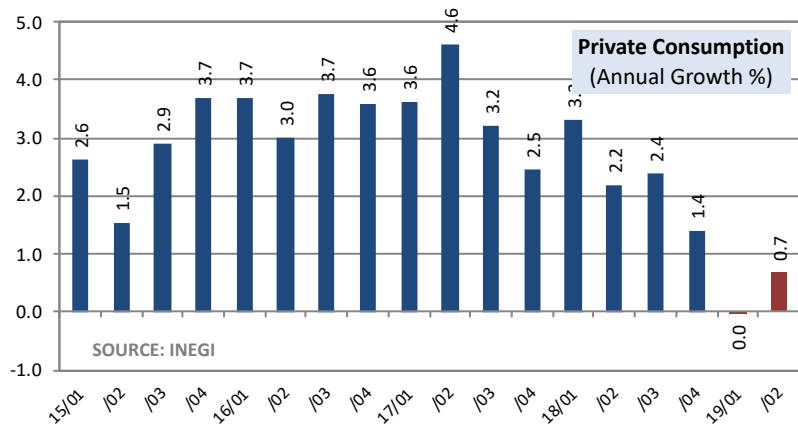
The IGAE, in the July-August 2019 period, presented negative growth, although less than 1%, reaffirming the deterioration in economic activity in the second part of the year.



- The IGAE (Global Economic Activity Indicator) since the end of 2018 showed a clear deceleration and in 2019 it had negative growth.
- The agricultural sector (the most volatile sector) is the one that has shown the greatest strength, while services are weakened and industrial production contracted.
- On the demand side, the weakening of private consumption, the main driver of demand, and the decline in investment is reaffirmed.

Economic Activity

In January-June 2019, there is a weakening of private consumption, a revival of exports and a decline in total investment and government spending.



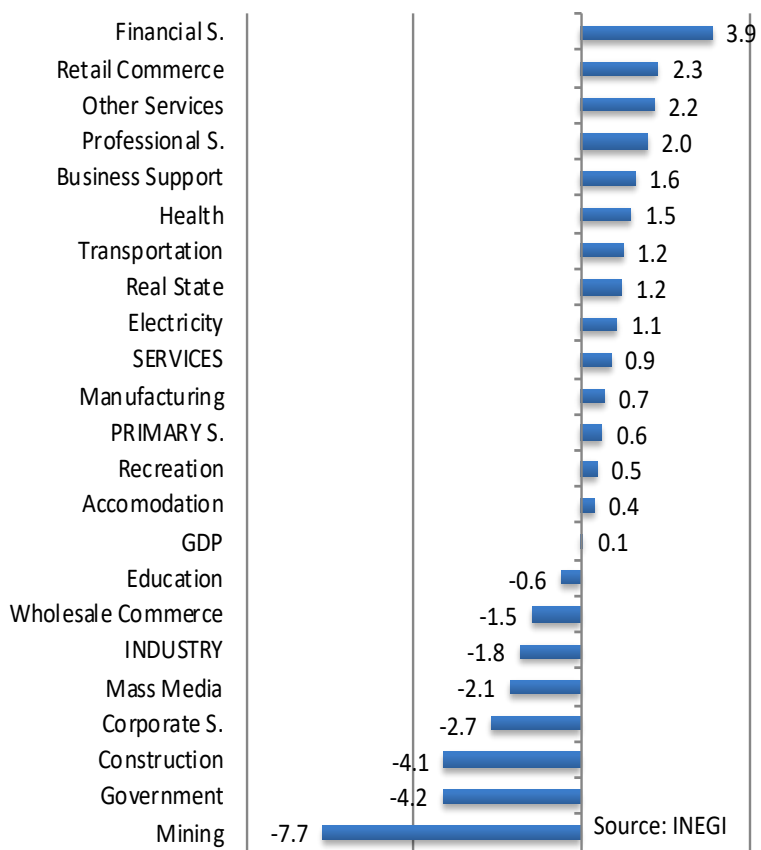
- Private consumption, with the greatest weight in demand (2/3 of GDP), showed small growth in January-June (less than 1%). Very bad signal, considering that it is the main engine of demand.
- The investment, which was beginning to recover, reported a strong annual contraction during that period.
- Exports of goods and services show a growing dynamism; not so imports that are practically stagnant, in line with the domestic market.

Economic Activity

In 2019, January-June, the economy is based on some services and the agricultural sector, while the industry, especially the oil and construction industry, remains weak.



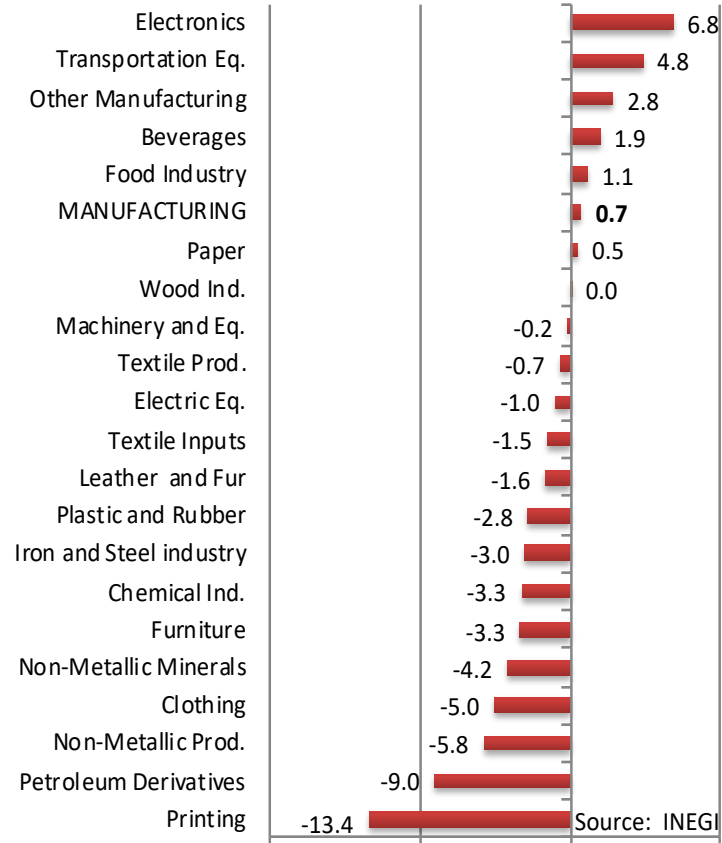
GDP 2019-II*
(% Annual Growth)



The most dynamic

The least dynamic

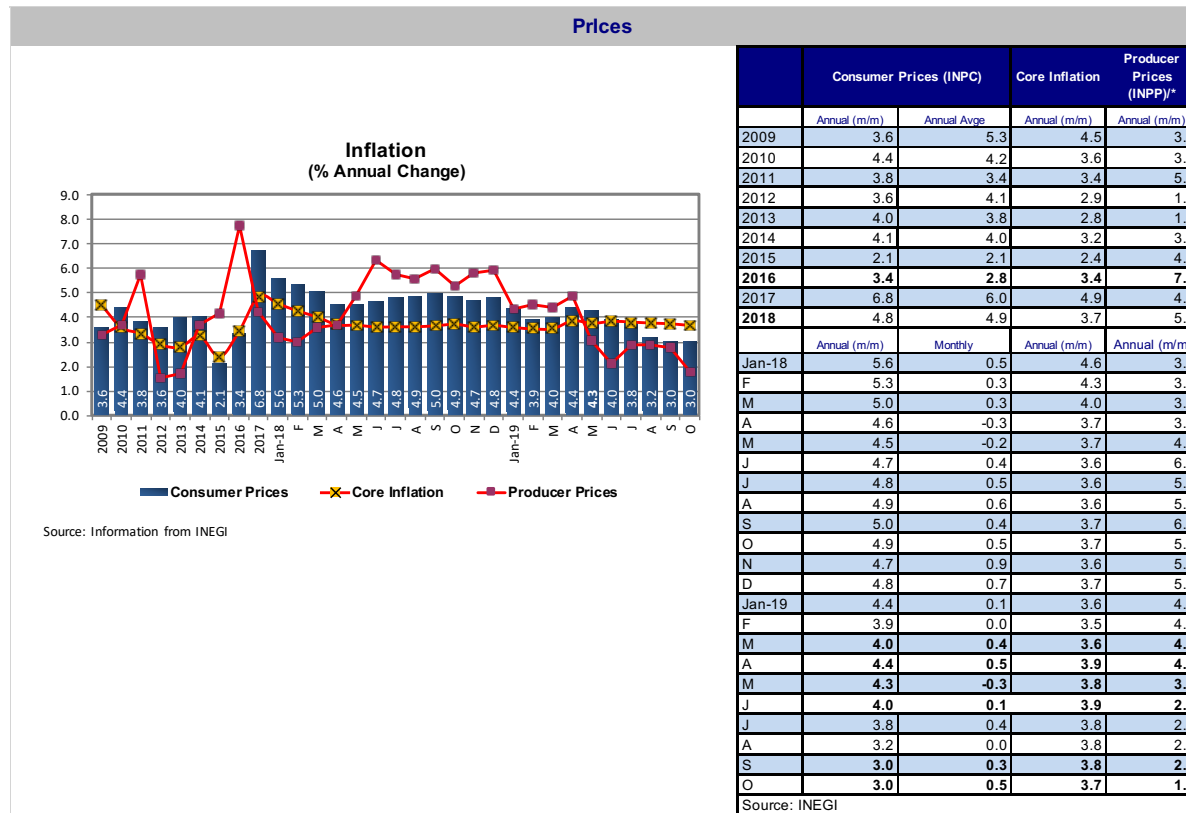
MANUFACTURING 2019-II*
(% Annual Growth)



Note: Average growth of 2019 (I and II Quaters)

Prices

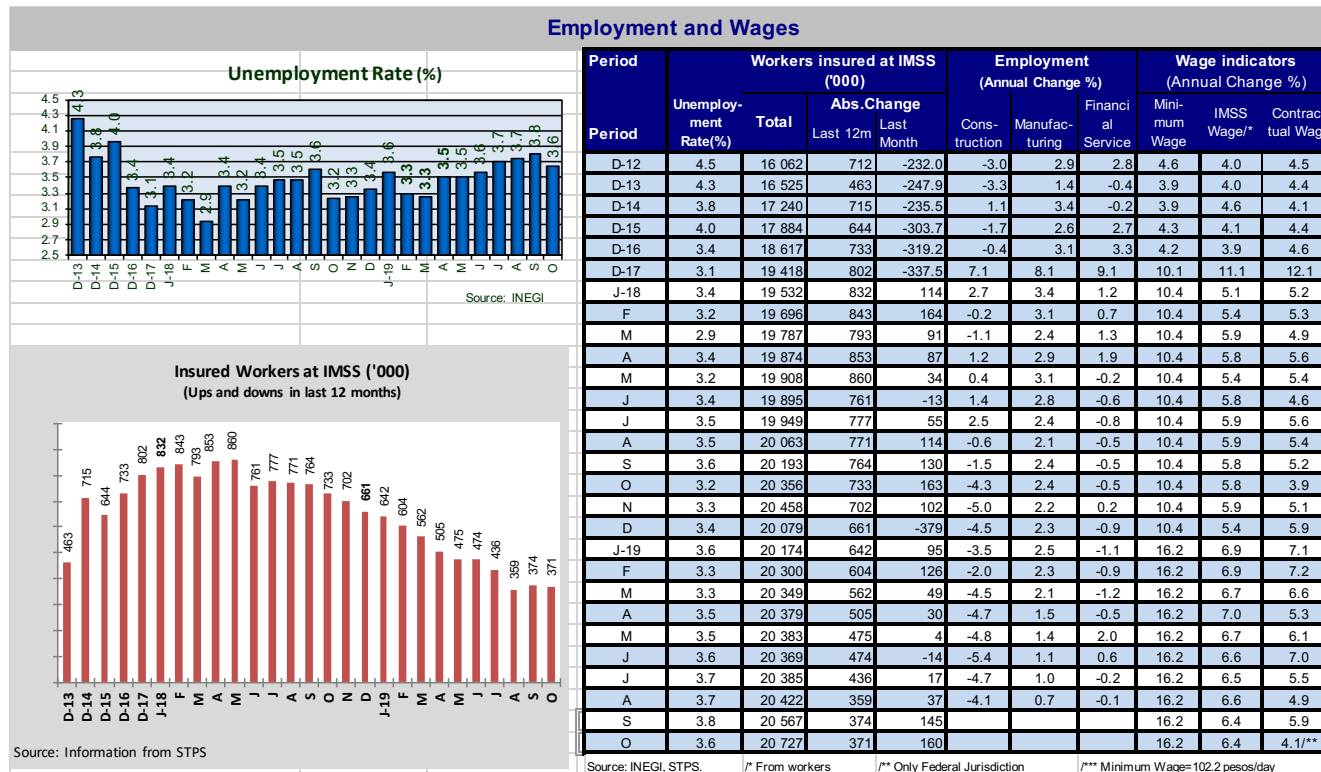
In October 2019, inflation stood at 3.0% (already within the institutional goal) with support on low economic dynamism and fiscal and monetary discipline.



- Inflation went from 4.8% in 2018 to 3% in October 2019, which implies a contraction of almost two percentage points in the last ten months.
- In this way, the institutional goal of the Bank of Mexico (3% +/- 1%) will most likely have been achieved by the end of the year.
- The convergence of the main price indicators is indicative that there are no strong inflationary pressures at the moment. The only concern is the core inflation that is higher than the general inflation.

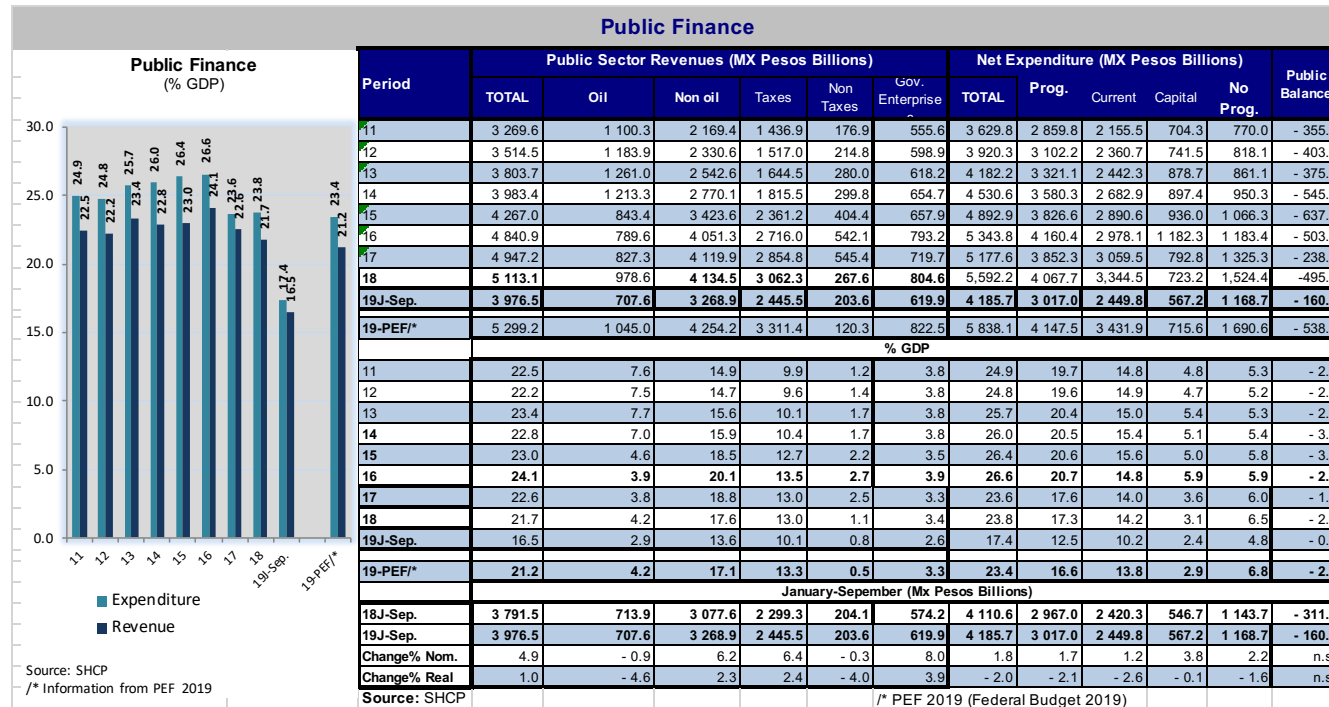
Laboral Sector

In 2019, the unemployment rate has maintained an upward trend (with a slight decline in October to 3.6%). Meanwhile, the annual creation of jobs shows a clear downward trend: October closed at 371 thousand jobs.



- The unemployment rate reported an increase in January-September 2019 to reach 3.8% and then decline in October to 3.6%. A rate that remains within the range of 3-4%, which has prevailed in the recent past.
- On the other hand, the creation of jobs observed an accelerated decline during the year, from 661 thousand in 2018 to 371 thousand jobs in October, practically half of those generated in the previous year.
- Real gain in the three main salary indicators: 13.2% in the minimum wage, 3.4% in the IMSS salary and 1.1% in the contractual salary. This is largely attributed to the extraordinary increases in the minimum wage promoted by the 4T.

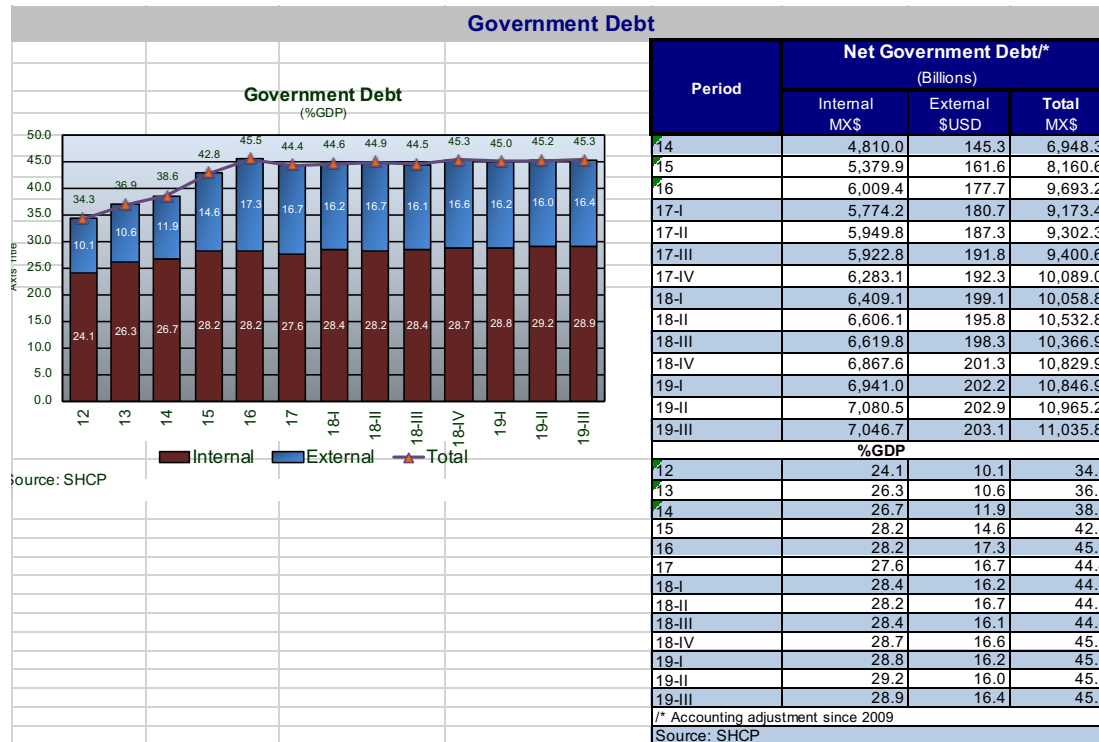
In 2019, January-September, government revenues totaled 16.5% of GDP and expenditures 17.4% of GDP, resulting in a 0.7% deficit of GDP.



- The results of public finances in 2019-J-September indicate that revenues evolve as expected while expenditures observe a sub-exercise, attributed in part to the learning curve.
- On the income side, the decline in oil revenues (-4.6%) is highlighted, which is offset by an increase in tax revenues (2.4%); On the expense side, there is a slight setback in programmable (-2.1%) and non-programmable (-1.6%) spending.
- A fiscal deficit of 0.7% of GDP is reported in the balance sheet, consistent with the expected fiscal discipline goals of 4T. Despite spending pressures, 4T reaffirmed its commitment to fiscal discipline.

Public Debt

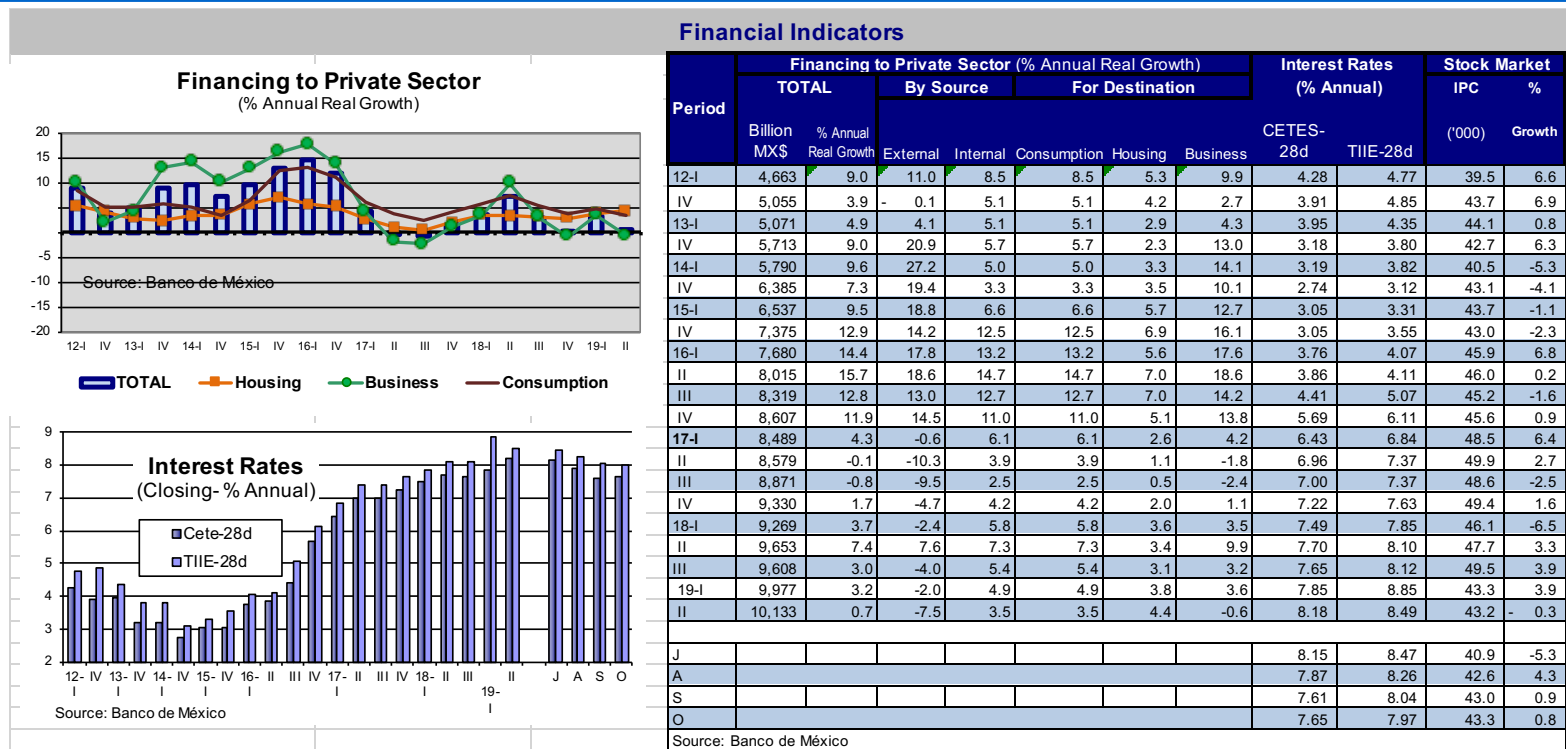
Government debt remains stagnant since late 2016: in 2018 it closed at 45.3% of GDP, the same level registered in 2019-III.



- In the global comparison, Mexico's public debt is relatively moderate: it does not exceed 50% of GDP and therefore the country is not located within the most indebted countries.
- The 4T has made the promise of not making grow the government debt and so far it has been fulfilled: in the last year, the debt has been maintained at around 45% of GDP and the purpose is to keep it under control.
- To achieve this goal, it is essential to keep, as until now, the fiscal deficit under control and, additionally, keep the exchange rate within manageable ranges, which has been met in 2019.

Financing to Private Sector

In 2019, the second quarter, financing to the private sector reported annual growth of only 0.7%, while interest rates are declining and are already below 8% in October.

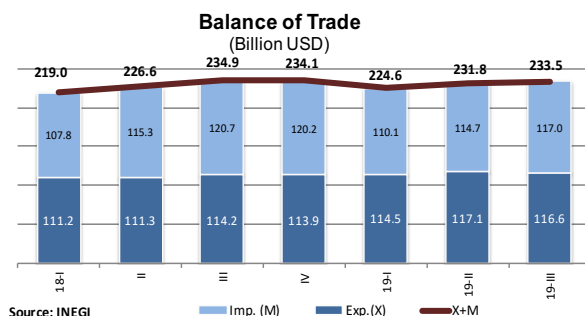


- In 2019, as in previous years, the growth of financing to the private sector has been moderate: in the second quarter of 2019, it grew only 0.7% at an annual rate, below the prior of 3.2%.
- In the third quarter, the three financing destinations showed a moderate dynamism: consumption (3.5%), housing (4.4%) and companies (-0.6%). Financing to companies is concerning given the low economic activity.
- Interest rates, after reaching levels above 8.5%, have begun to fall and are at levels below 8% in October 2019. Meanwhile, the Stock Exchange has made modest progress during 2019: it recovered 4% during the first ten months of the year.

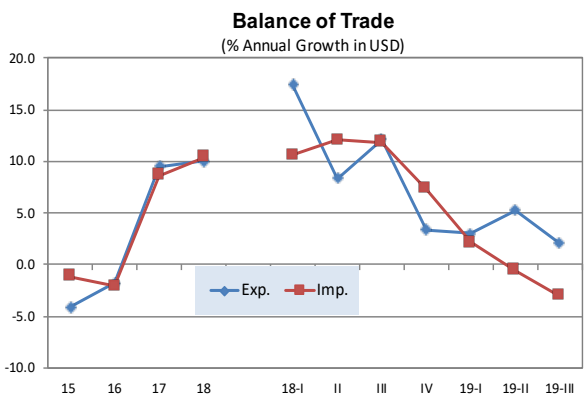
International Trade

In 2019, foreign trade in goods saw a clear slowdown in the first part of the year and a decrease in the third quarter.

International Trade



Source: INEGI



Source: INEGI

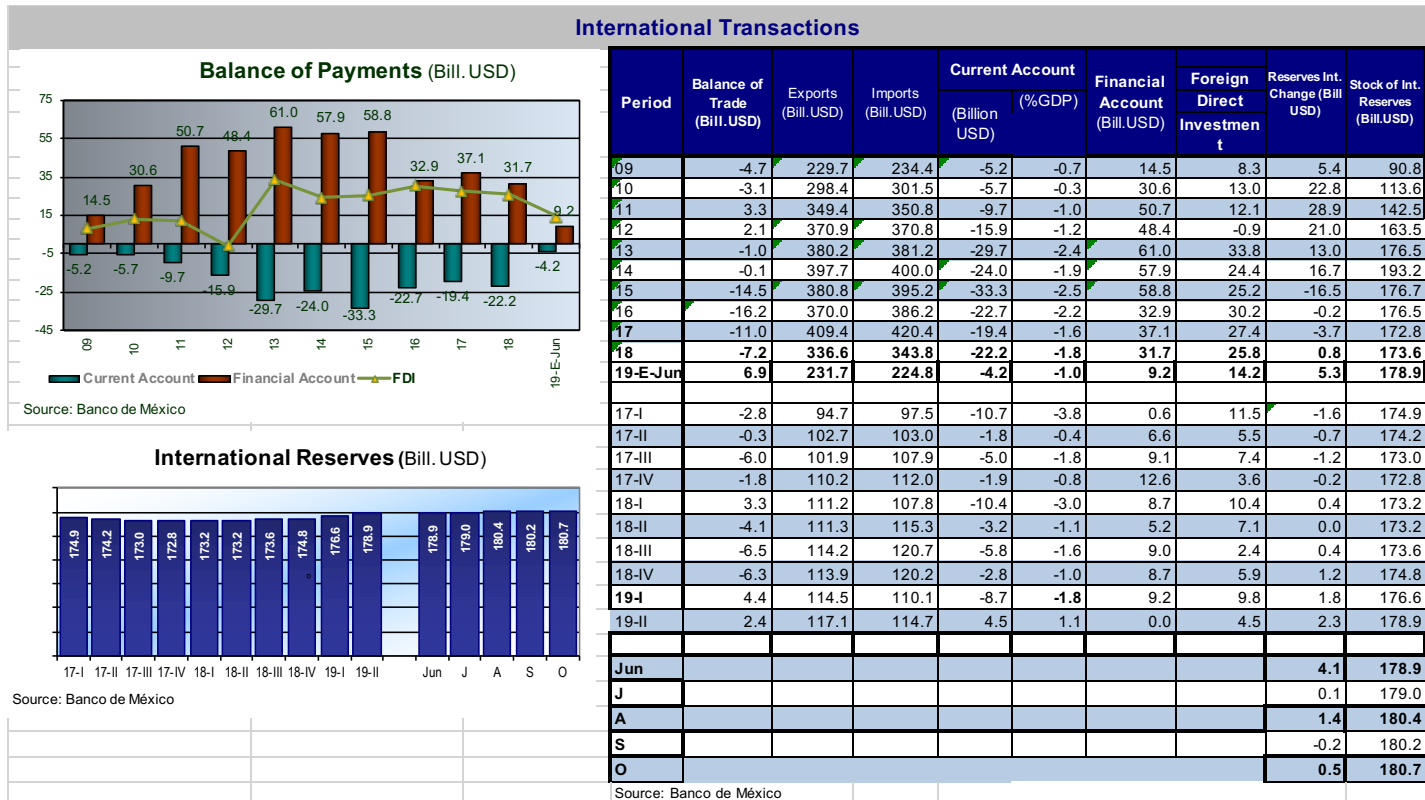
Period	Balance of Trade (Billion USD)			% Annual Change			Balance (Billion USD)	Remittances	
	Exp. (X)	Imp. (M)	X+M	Exp.	Imp.	X+M		Billion USD	% Annual Change
15	380.8	395.2	776.0	-4.1	-1.2	-2.6	-14.5	24.6	4.1
16	373.9	387.1	761.0	-1.8	-2.1	-1.9	-13.1	27.0	9.8
17	409.4	420.4	829.8	9.5	8.6	9.0	-11.0	28.8	6.7
18	450.5	464.0	914.5	10.0	10.4	10.2	-13.6	33.2	15.4
18-I	105.2	107.0	212.3	11.1	9.8	10.4	-1.8	7.0	5.9
18-II	113.8	116.6	230.5	10.9	13.3	12.1	-2.8	9.0	22.5
18-III	114.1	119.7	233.8	12.0	11.0	11.5	-5.7	8.4	15.2
18-IV	118.0	122.4	240.4	7.1	9.3	8.2	-4.4	8.8	16.9
19-I	114.5	110.1	224.6	3.0	2.1	2.6	4.4	7.7	9.1
19-II	117.1	114.7	231.8	5.3	-0.6	2.3	2.4	9.2	3.3
19-III	116.6	117.0	233.5	2.1	-3.1	-0.6	-0.4	9.7	14.9
J-18	30.7	35.1	65.9	12.5	14.1	13.3	-4.4	2.2	7.5
F	35.1	34.1	69.2	11.9	11.6	11.8	0.9	2.2	6.9
M	39.4	37.7	77.2	9.4	4.5	7.0	1.7	2.6	3.9
A	37.2	37.5	74.7	17.1	21.4	19.2	-0.3	2.7	17.8
M	39.2	40.8	79.9	10.5	11.5	11.0	-1.6	3.1	19.8
J	37.5	38.4	75.9	5.3	8.0	6.6	-0.9	3.1	29.9
J	36.7	39.6	76.3	14.2	17.6	15.9	-2.9	2.9	15.1
A	39.5	42.1	81.7	10.5	9.4	9.9	-2.6	2.9	15.2
S	37.8	38.0	75.8	11.9	6.4	9.1	-0.2	2.7	15.3
O	41.4	44.3	85.6	12.6	13.7	13.2	-2.9	2.9	11.3
N	38.5	40.9	79.5	2.8	10.4	6.6	-2.4	2.9	28.9
D	38.1	37.2	75.3	5.9	3.4	4.6	0.9	2.9	12.3
J-19	38.6	36.0	74.6	7.4	7.1	7.3	2.5	2.4	8.9
F	38.4	35.4	73.8	3.6	2.7	3.1	3.1	2.4	8.2
M	37.5	38.7	76.2	-1.6	-2.6	-2.1	-1.2	2.9	10.0
A	38.5	37.2	75.7	3.2	1.1	2.2	1.3	2.9	5.3
M	40.2	40.2	80.4	8.9	2.0	5.4	-0.1	3.2	3.5
J	38.4	37.3	75.7	3.7	-4.8	-0.6	1.2	3.2	1.4
J	38.8	38.7	77.5	4.8	-1.2	1.7	0.1	3.3	13.7
A	40.0	40.4	80.4	5.1	-2.6	1.1	-0.4	3.4	17.5
S	37.7	37.9	75.6	-3.6	-5.3	-4.5	-0.1	3.1	13.4

Source: INEGI

- Since the end of 2018, international merchandise trade began to slow down and in the second part of 2019 negative growth rates are already observed, despite the boom in the US economy.
- Unlike other similar episodes in the past, the lower dynamism is observed in imports, proof that the domestic market is depressed.
- On the other hand, remittances continue to show significant growth and everything points to a record level in remittance income this year.

External Sector

In 2019, January-June, the balance of payments reflects a current account deficit of -4.2 Billion (Bn) and a surplus in the financial account of 9.2 Bn, which includes a Foreign Direct Investment of 14.2 Bn.

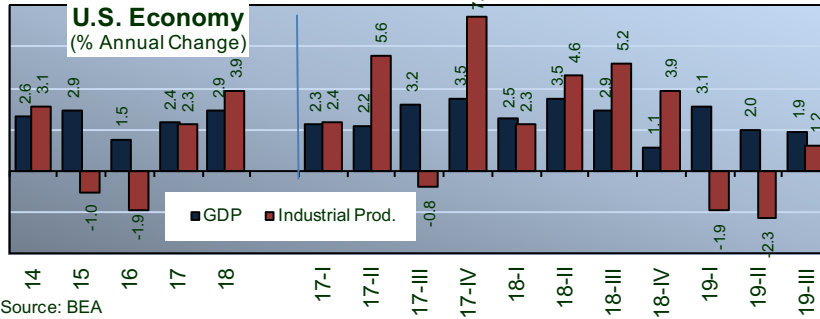


- In 2019-June, the current account deficit (-4.2 Bn) is unusually small and is offset by the positive balance in the financial account (for 9.2 Bn), which has as its main component Foreign Direct Investment (14.2 Bn).
- Throughout 2019, international reserves report a gradual increase, from 174.8 to 180.7 Bn, an approximate advance of 6 Bn during the year.
- Concerns remain over the decline in investor confidence and the potential brake on capital inflows.

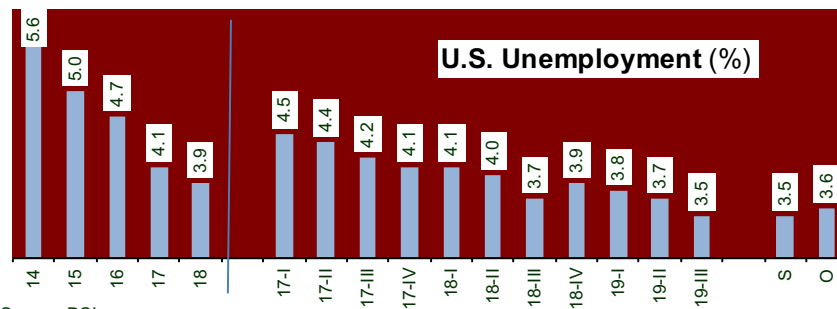
International Economy

In 2019, the third quarter, the US economy grew 1.9% (vs. 2% previously), but the industrial sector has shown less dynamism (1.2%); meanwhile, unemployment remains at low levels: 3.6% in October.

U.S. Economy



Source: BEA



Source: DOL

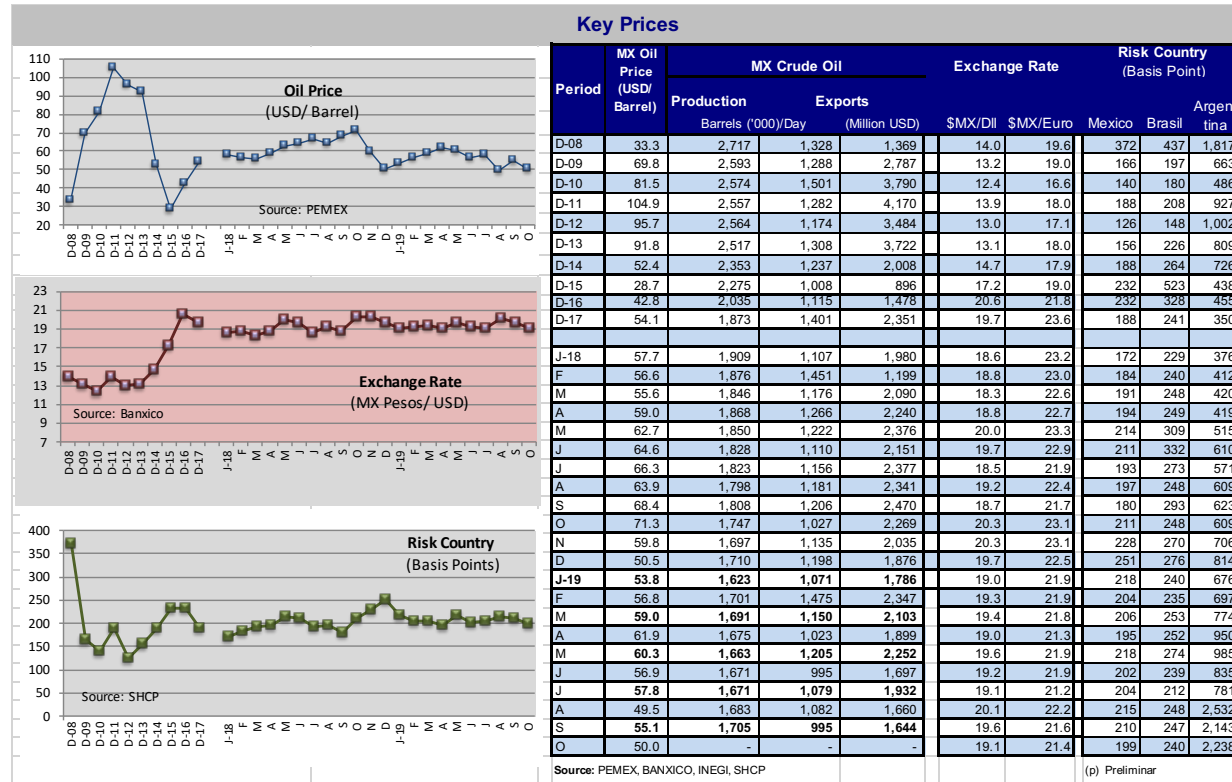
Period	GDP/*	Industrial Prod.	Manufacturing		Unemployment Rate	Inflation	
	% Annual Change of Quarter	% Annual Change	% Annual Change of Quarter	% Annual Change	%	% Annual Change	
14	2.6	3.1		1.2	5.6	0.8	
15	2.9	-1.0		-0.7	5.0	0.7	
16	1.5	-1.9		-0.5	4.7	2.1	
17	2.4	2.3		2.0	4.1	2.1	
18	2.9	3.9		2.3	3.9	1.9	
17-I	2.3	2.4	0.7	3.0	0.5	4.5	2.4
17-II	2.2	5.6	2.1	3.4	1.5	4.4	1.6
17-III	3.2	-0.8	1.7	-1.6	1.1	4.2	2.2
17-IV	3.5	7.5	2.5	5.3	1.0	4.1	2.1
18-I	2.5	2.3	2.0	1.6	0.4	4.1	2.4
18-II	3.5	4.6	2.1	2.0	0.3	4.0	2.9
18-III	2.9	5.2	3.6	3.6	1.6	3.7	2.3
18-IV	1.1	3.9	4.0	1.5	2.2	3.9	1.9
19-I	3.1	-1.9	3.7	-1.8	2.2	3.8	1.9
19-II	2.0	-2.3	1.9	-3.3	0.9	3.7	1.6
19-III	1.9	1.2	0.8	0.8	0.0	3.5	1.7
S		-4.3	0.4	-8.7	-0.7	3.5	1.7
O		-10.4	-0.6	-7.7	-1.0	3.6	1.8

Source: U.S. Bureau of Economic Analysis (BEA); The Federal Reserve System (FRS); Department of Labor (DOL)

- The US economy reported vigorous growth in 2019-III (1.9%), similar to the previous quarter (2%); although the industrial sector shows less dynamism (1.2%). Consequently, unemployment continues to fall (3.6% in October). The lower dynamism in the industrial sector and the expectation of an eventual recession in the near future could affect the US and the Mexican economy as well.
- By 2020, greater growth in the world economy is expected but an economic slowdown in the US. However, the eventual implementation of the T-MEC (USMCA) can make a difference and revitalize the economy of North America.

Key Prices

In 2019, January-October, the exchange rate and the country risk showed relative stability; meanwhile, the price of crude oil had a temporary improvement ($\approx 20\%$) but then returned to levels of 50-55 DPB.

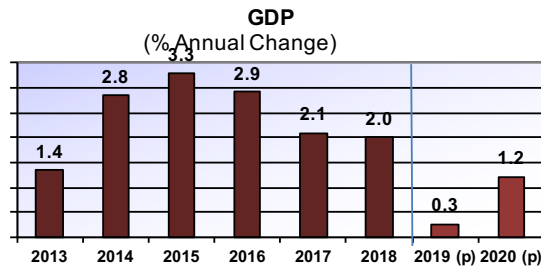


- The price of crude oil, after its collapse in the last quarter of 2018 (which took it from levels of 70 to 50 DPB), regained ground in the first part of 2019 and then moved back to levels of 50-55 DPB.
- Despite the prevailing uncertainty, the evolution of the exchange rate that has fluctuated around 19-20 PPD has been surprising.
- After its shot at the end of 2018, country risk gradually returned to its historical levels (200-220 basis points) and reached 199 basis points in October.

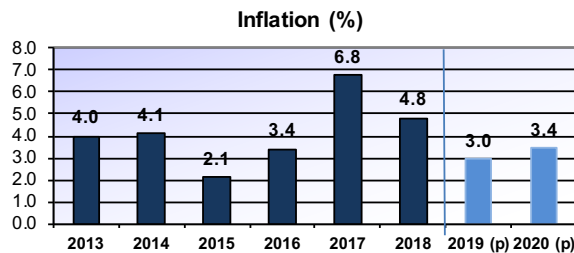
Mexico's Macroeconomic Framework

Growth expectations for 2019-2020 have gradually gone down (0.3 and 1.2% for the biennium), the same for inflation (3 and 3.4% for both years).

Macroeconomic Framework



Source: INEGI, EEEE-SP



Source: SHCP, INEGI, EEEE-SP

	Historical Figures						CGPE/*		EEESP/**	
	2013	2014	2015	2016	2017	2018	2019 (p)	2020 (p)	2019 (p)	2020 (p)
GDP										
% Annual Growth	1.4	2.8	3.3	2.9	2.1	2.0	1.6	1.9	0.3	1.2
GDP Current (MX Billions)	16,277	17,471	18,537	20,100	21,785	23,399	24,700	25,975	24,163	25,189
GDP Deflator	1.5	4.4	2.7	5.4	6.8	5.3	3.9	3.2	3.0	3.0
Inflation										
Dec/ Dec	4.0	4.1	2.1	3.4	6.8	4.8	3.4	3.0	3.0	3.4
Exchange Rate										
Average	12.9		16.0	18.7	18.9		19.9	20.1		
Closing		14.7	17.2	20.6	19.7	19.7	19.5	20.0	19.7	20.2
Interest Rate (Cete 28d)										
Average	3.7		3.0	4.3	6.9	7.8	8.0	7.6		
Closing	3.5	2.7	3.1	5.7	7.2	8.2	8.0	7.8	7.3	6.7
Current Account										
Billions USD	-22.3	-26.6	-32.4	-33.1	-22.7	-22.2	-22.7	-25.5	-12.8	-17.6
% GDP	-1.7	-2.1	-2.8	-3.4	-1.6	-1.9	-1.8	-2.0	-1.0	-1.4
Public Balance										
% GDP	-2.3	-3.1	-3.4	-2.5	-1.1	-2.1	-2.0	-1.6	-2.1	-2.3
USA										
GDP (% Annual Growth)	1.9	2.4	2.4	1.6	2.3	2.9	2.4	1.9	2.3	1.8
MX Crude Oil										
Avg. Price (USD/ Barrel)	98.6	86.0	43.7	35.4	46.3	61.4	57.0	55.0		
Exports ('000 barrels/day)	1,189	1,142	1,282	1,195	1,175	1,186	1,008	1,085		
Production ('000 barrels/day)	2,522	2,429	2,290	2,154	1,944	1,813	1,793	1,916		

* SHCP: CGPE-(Criterios Generales de Política Económica 2019)- Basis Document for Macroeconomic Policy

(p) Projected

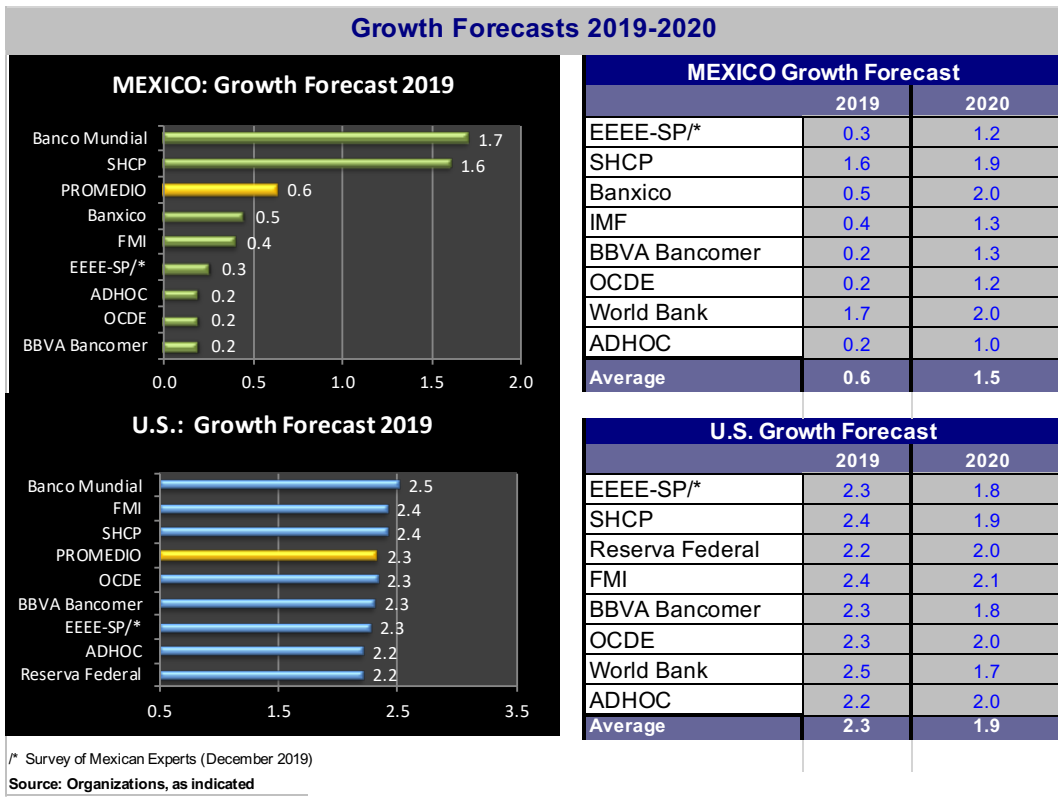
** Banxico: Encuesta de Expectativas de Expertos en Economía del Sector Privado-EEEE-SP/ Survey of Mexican Experts (October 2019)

- For 2019-2020 private experts expect more moderate economic growth than the previous ones: 0.3% and 1.2% respectively.
- For those same years, an inflation rate lower than the one previously projected is estimated: 3 and 3.4% for the biennium.
- According to forecasts, the fundamental balances will remain under relative control: the fiscal deficit around 2% (-2.1 and -2.3%) and the current account deficit slightly above 1% (-1 and 1.4% of GDP) for both years
- According to their forecasts, the US economy is losing strength; therefore, more moderate growth is expected in 2019 (2.3%) and 2020 (1.8%), in line with the slowdown forecasts.

Growth Forecasts



According to specialized agencies, the expected growth for 2019 is 0.6% for Mexico and 2.3% for the US. By 2020 the forecast is 1.5% and 1.9% for Mexico and the US respectively.



- For Mexico, the forecasts of eight specialized organizations fluctuate between 0.2% and 1.7% in 2019, with an average of 0.6%. By 2020, the average forecast is 0.6%.
- For the US, the forecasts of eight specialized organizations fluctuate between 2.2 and 2.5% for 2019, with an average of 2.3%. By 2020, the average forecast is 1.9%.
- As you can see, both economies are moving in parallel, but the US economy is emerging as more dynamic in this biennium.

Database Query	Available on our website: www.adhocconsultores.com.mx
Custom Query	Carlos López Bravo Tels. 55-5202-3687 y 3484 clopez@adhocconsultores.com.mx
General Information	Aurora Mora Tels. 55-5202-3687 y 3484 amora@adhocconsultores.com.mx

Disclaimer

Mexico Economic Profile is a regular publication of ADHOC Consultores Asociados, S.C. Total or partial reproduction by any means is prohibited, without the express written permission of ADHOC Consultores Asociados, S.C. Exclusive rights reserved: 04-2010-022609575200-106. ISSN Number: pending. Legality Certificates of Title and Content: pending.

The statistical information contained in this publication is freely accesible to all interested users and comes from official accredited sources. However, ADHOC is not responsible for the accuracy, consistency, content or timeliness of such information.

The statistical information is presented updated, at the time of publication with the preliminary information available; which can lead to discrepancies with the final information. ADHOC does not assume any responsibility for such discrepancies.

Additionally, ADHOC does not assume any legal responsibility or responsibility of any kind due to the use of the information contained in this publication by third parties.

ADHOC Consultores Asociados

ADHOC Consultores Asociados is a multidisciplinary group of experts in economics, finance, infrastructure, transport and energy providing tailored solutions to businesses and governments in structuring and implementation of their projects and investment programs and development.

In ADHOC we own our customers' challenges and accompany them in the difficult process of turning ideas into reality. We work together to ensure the success of their projects.



Services

- ✧ **Planning, structuring, promotion and development of strategic investment projects.**
- ✧ **Capital budgeting and feasibility studies.**
- ✧ **Support and coordination in the implementation of investment projects.**
- ✧ **Professional assistance in public contracts and public-private projects.**
- ✧ **Communications and transportation projects: roads, railways, ports, airports and telecommunications.**
- ✧ **Urban mobility projects and mass transit.**
- ✧ **Energy projects.**
- ✧ **Integrated solutions covering financial, legal, economic, social, technical and institutional aspects.**
- ✧ **Development of programs and state and municipal projects.**
- ✧ **Macroeconomic analysis.**
- ✧ **Economic and financial advice online for making strategic decisions.**

Contact us

We are at your service:

*ADHOC Consultores Asociados, S.C.
Av. Paseo de las Palmas No.555-601
Lomas de Chapultepec
Del. Miguel Hidalgo
C.P. 11000, México, D.F.*

*Phone numbers: 52-55-5202-3484
52-55-5202-3687*

E-Mail:

*aaron.dychter@adhocconsultores.com.mx
ocorzo@adhocconsultores.com.mx
clopez@adhocconsultores.com.mx*

Website: www.adhocconsultores.com.mx

