



Mexico Economic Profile

3rd Bimonthly Report of 2019

Timely Macroeconomic Report
for Decision Making

June 2019

Economic Profile of Mexico

2nd Bimonthly Report of 2019

In the third bimester of 2019, Mexico's economic outlook has become increasingly bleak. The Fourth Transformation (4T) has raised the flag of austerity in government finances and this austerity has extended to economic activity, projects, jobs and quality of life. Just seven months after its arrival in power, 4T has managed to convert low economic growth into zero growth and reduce business and employment creation at an accelerated pace. The worst part is that investment is decreasing: public investment due to lack of resources and private investment due to lack of confidence in the government and its policies. This brake on investment implies less growth in the present and also in the near future. And everything suggests that this brake will persist in the following months.

Downward Economic Growth.- GDP growth was -0.7% at an annual rate (0.4% with seasonally adjusted data) in the second quarter of 2019 (vs. 1.2% of the previous quarter). That means that expectations are not encouraging for the first year of 4T - the forecasts point to a growth of less than 1% -, despite the promise of 2% for the first year of government and an average of 4% for the mandate of six years. The expectation of the new government is that private consumption (via social support) be strengthened, but so far all engines of demand tend to slow down. On the supply side, the agricultural sector and services (not the industrial sector) are those that give a moderate boost to productive activity.

Inflation resumes its descent.- In response to the rise of inflation in 2017 (from 3.4% to 6.8%), measures were taken and inflation fell (from 6.8% to 4.8%) in 2018. In the first quarter of 2019, the Inflation continued to decline, experienced a rebound in April and then continued its fall to 4% in June. Hence, the forecasts point to rate of inflation of 3-4% by the end of the year.

Downward Creation of Jobs.- The unemployment rate remained high in the second quarter (3.5%), but still within the 3-4% range that has prevailed in recent years. In parallel, the annual job creation saw a clear slowdown in 2018, which worsened in 2019: last December, the annual creation fell to 661 thousand and in June 2019 this figure dropped to 474 thousand.

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Government Finances under control.- In 2019, first half, government revenues totaled 10.7% of GDP, expenses 11.3% of GDP, and that resulted in a negative balance of 0.5% of GDP. As a result of fiscal discipline, public debt has remained stagnant since late 2016 to reach 44.2% of GDP in December 2018 and 44.9% of GDP in June 2019.

Financing to the Private Sector is still weak.- After two years of low dynamism, financing to the private sector continues to show no signs of revival in 2019. In fact, in 2019-I reported annual growth of 3.2%. The three financing destinations showed also a moderate dynamism: consumption (4.9%), housing (3.8%), companies (3.6%). This takes place in a context of interest rates that are already around 8.5% in mid-2019 and a very fluctuating Stock Exchange that recovers very slowly from the collapse suffered at the end of 2018.

International Stage with lights and shadows.- The US economy continues to show vigorous growth: GDP showed an advance of 2.1% in 2019-II (vs. 3.1% previously); not so the industrial sector that observed a negative growth (-1.2%). On the other hand, unemployment maintains very low rates (3.7 in June), which accounts for a very strong economy. This economic dynamism in the US and the NAFTA 2.0 perspective are very favorable for Mexico and explain the dynamism of exports. However, the threat of cancellation of NAFTA 2.0, trade wars, migration conflicts and the expectations of a future recession in the US cloud the scene of the next biennium.

In particular, we should consider the protectionist and anti-immigrant wave in the United States, recurring issues in the Trump administration. Hence, financial or commercial turbulence of greater or lesser intensity in the future cannot be ruled out.

Downward Growth Expectations in Mexico.- As a result, economical expectations experienced a slight deterioration for Mexico and remained stable for the United States. Mexican experts expect moderate growth for Mexico of 1.1 and 1.7% for 2019-2020 versus more significant growth in the US (2.3% and 1.8%) for that biennium; all in an environment of great internal and external uncertainty.

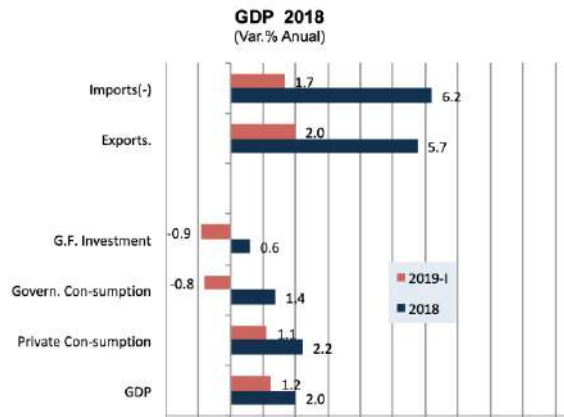
Economic Activity

In the second quarter of 2019, GDP decreased -0.7% at an annual rate (vs. 1.2% previously), reflecting a drop in production for the first time in years

Gross Domestic Product



Source: INEGI



Fuente: INEGI

Year	GDP	Primary S.	Industrial S.	Services S.	Construction	Transportation	Mass Media
Var.% Anual							
12	3.6	7.4	2.9	4.5	2.5	4.1	16.3
13	1.3	0.9	-0.5	2.4	-4.8	2.4	5.0
14	2.9	4.3	2.0	2.6	2.0	3.4	0.2
15	3.3	1.5	1.0	3.5	2.5	4.3	7.8
16	2.9	3.8	0.4	3.9	2.0	3.1	19.1
17	2.1	2.1	0.5	2.8	1.6	3.4	5.1
18	2.0	2.4	0.2	2.8	0.6	3.1	6.0
18-I	1.2	3.1	-0.8	2.0	1.7	3.1	3.0
18-II	2.6	1.3	1.3	3.2	2.4	3.8	7.7
18-III	2.5	2.0	1.1	3.1	0.8	3.4	4.5
18-IV	1.7	2.9	-0.9	2.7	-2.2	2.2	8.5
19-I	1.2	5.8	-0.7	1.9	-0.8	0.7	0.1
19-II	-0.7	1.4	-2.8	0.1	0.0	0.0	0.0
Year	GDP	Private Consumption	Govern. Consumption	G.F. Investment	Exports	Imports(-)	
2016	2.9	3.7	2.4	1.1	3.5	2.9	
2017	2.1	3.1	1.0	-1.6	3.9	6.2	
2018	2.0	2.2	1.4	0.6	5.7	6.2	
2019-I	1.2	1.1	-0.8	-0.9	2.0	1.7	
18-I	1.2	2.4	1.1	1.0	2.0	5.7	
II	2.6	2.9	3.0	3.4	8.3	7.2	
III	2.5	2.2	1.0	0.5	8.5	6.3	
IV	1.7	1.4	0.3	-2.2	3.9	5.6	
19-I	1.2	1.1	-0.8	-0.9	2.0	1.7	

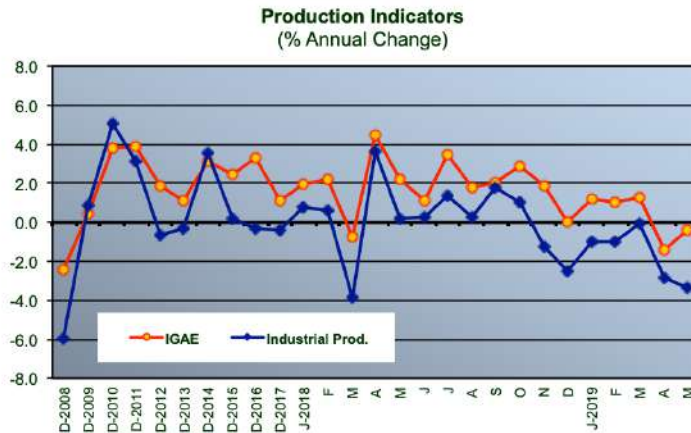
Source: INEGI

- The decrease in GDP in the second quarter of 2019 was -0.7% (0.4% if the seasonally adjusted rate is considered), a negative rate for the first time in years, mostly attributed to internal factors.
- At the sector level, in 2019-II, the weakening is generalized. The agricultural sector shows a tiny dynamism (1.4%), followed by the services sector (0.1%) and the industrial sector (-2.8%). The scenario could worsen, given the foreseeable economic slowdown of the United States and the internal policies of 4T.
- On the demand side, in 2019 there is a weakening of consumption, the main driver of demand, in addition to bad performance in other demand drivers.

Economic Activity

The IGAE, during April-May 2019, shows an average annual decline of -0.9%, which could worsen in the coming months.

Production Indicators



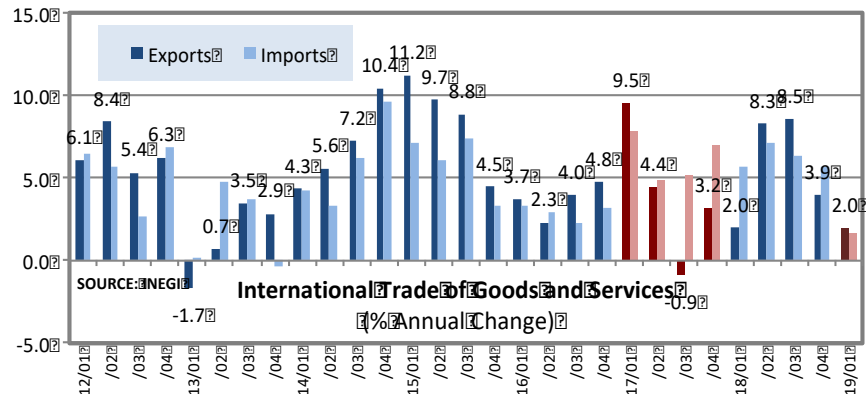
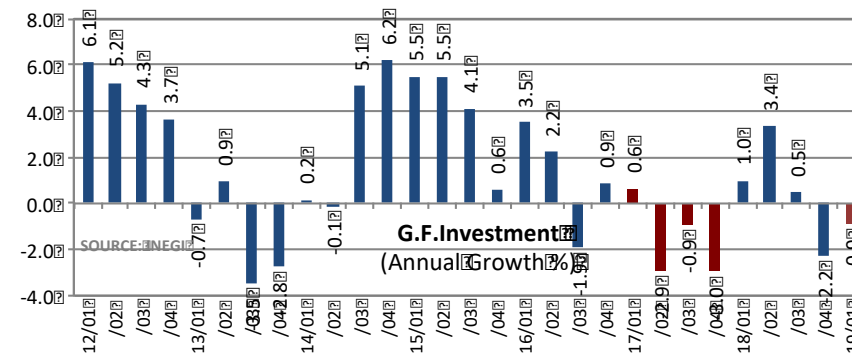
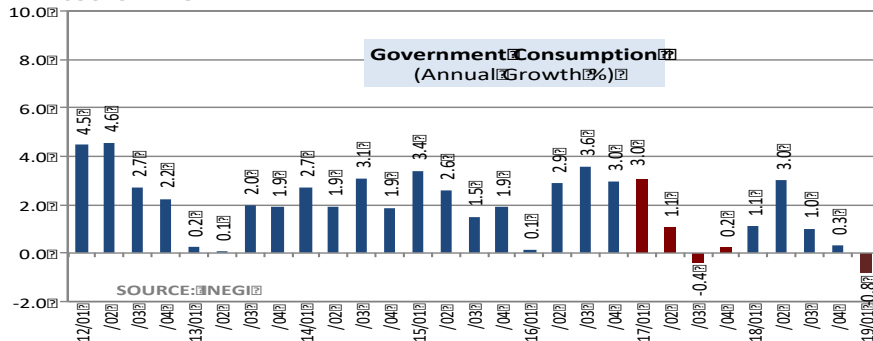
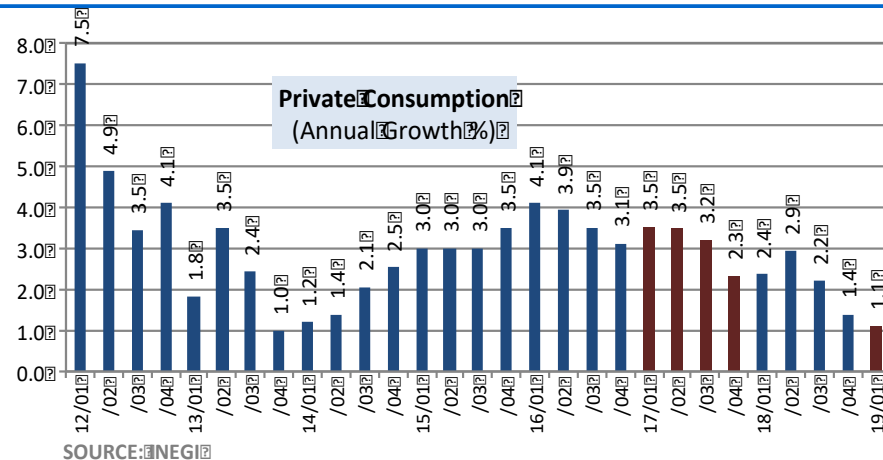
Source: Information from INEGI

Period	IGAE (proxy of GDP)				Construcción	Commerce Net Sales		Non Financial Services			Gross Fixed Investment	Private Consumption
	TOTAL	Primary S.	Industrial S.	Services S.		Wholesale	Retail	Total	Transportation	Mass media		
D-2008	-2.4	15.7	-6.0	-1.9	-4.6	-2.6	-3.3	3.6	2.8	9.3	-0.3	-1.3
D-2009	0.5	-5.9	0.9	0.3	-8.6	-0.8	-1.0	-7.0	-3.8	-5.2	-4.1	2.1
D-2010	3.8	1.8	5.1	3.8	7.6	5.0	0.4	6.4	2.3	1.4	8.9	4.2
D-2011	3.9	5.7	3.2	4.1	3.9	9.2	3.3	5.6	7.4	-2.8	6.9	3.6
D-2012	1.9	9.5	-0.6	2.9	-2.3	-4.6	-2.0	10.4	7.2	0.2	-1.0	1.9
D-2013	1.1	1.2	-0.3	1.9	-2.0	-1.1	5.1	-0.4	1.5	-6.7	0.8	1.6
D-2014	3.1	4.3	3.5	2.8	6.7	5.0	2.4	2.5	6.6	-0.3	6.1	2.8
D-2015	2.5	2.0	0.2	3.8	-1.8	2.2	3.4	6.1	7.6	18.8	-0.3	2.9
D-2016	3.3	3.9	-0.3	5.1	-1.0	14.2	9.0	8.5	14.0	8.7	0.4	5.0
D-2017	1.1	1.4	-0.4	1.8	3.8	-6.4	-2.0	3.3	1.3	3.9	-0.9	0.9
J-2018	2.0	-0.8	0.8	2.7	4.6	-1.9	0.5	1.6	1.5	-0.2	3.7	3.1
F	2.2	7.7	0.6	2.7	4.7	-1.4	1.2	1.9	3.8	-1.3	4.4	1.7
M	-0.7	5.6	-3.9	0.6	-3.9	-5.8	1.2	1.9	7.1	-0.3	-4.7	1.1
A	4.5	3.5	3.7	4.9	6.6	3.3	3.3	2.7	6.7	-1.4	9.6	4.6
M	2.2	7.8	0.2	2.9	0.0	6.5	2.5	4.6	8.7	7.1	0.5	2.6
J	1.1	-4.8	0.3	1.9	0.9	5.0	3.7	4.0	8.6	2.8	0.8	1.5
J	3.4	3.2	1.3	4.5	4.6	6.0	4.2	6.0	10.4	3.6	4.6	2.9
A	1.8	2.9	0.2	2.5	-1.9	3.6	3.9	4.5	8.3	3.8	-2.2	2.5
S	2.0	1.1	1.8	2.2	-0.5	2.1	4.1	2.9	7.4	-3.1	-0.8	1.8
O	2.9	-2.8	1.0	4.1	1.4	8.0	3.0	4.8	10.8	2.7	3.6	2.6
N	1.8	5.5	-1.2	3.1	-3.5	2.9	3.4	3.7	7.5	-1.1	-3.3	2.2
D	0.0	4.7	-2.5	0.9	-4.3	2.6	-1.3	0.3	4.5	1.4	-6.8	0.4
J-2019	1.2	3.0	-1.0	2.2	1.3	1.4	0.7	0.2	4.1	-3.9	1.6	2.3
F	1.1	10.9	-1.0	1.6	-1.0	-0.5	2.5	0.5	4.0	-4.2	-1.9	2.1
M	1.3	5.4	-0.1	1.8	-2.5	-1.5	1.6	1.6	-1.0	1.0	-2.3	0.6
A	-1.5	1.3	-2.8	-0.9	-4.2	-3.5	1.6	-2.3	3.3	-4.8	-5.7	0.2
M	-0.4	0.5	-3.3	0.9	-9.8	-3.9	2.8	-1.6	1.6	-11.0		

- The IGAE (Global Economic Activity Indicator) observed negative increases in April and May 2019 (-1.5 and -0.4), clear indications of the loss of economic dynamism in the first half of 2019.
- The very weakened economic activity is mainly based on the services sector and private consumption, which are now also losing momentum.
- On the demand side, the weakening of private consumption, the main driver of demand, and the decline in investment stand out.

Economic Activity

In the first quarter of 2019, private consumption and exports slow down, while government consumption and investment decreased.



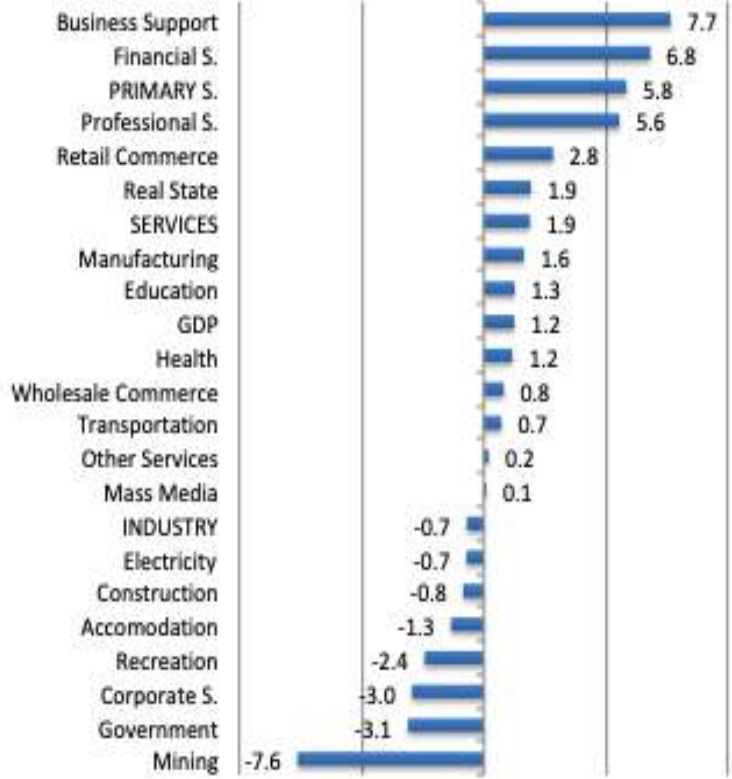
- Private consumption, with the greatest weight in demand (two-thirds of GDP), showed a tiny growth (1.1%) in the first quarter. Very bad signal, considering that it is the main engine of demand.
- The investment, which was beginning to recover, showed negative growth in the first quarter of 2019 (-0.9%).
- Exports of goods and services (2.0%), together with imports, continue to grow but at a slower pace, reflecting the low industrial dynamism in the US.

Economic Activity

In the first quarter of 2019, the economy is based on services and the agricultural sector, while the industry, especially the oil industry, remains weak.



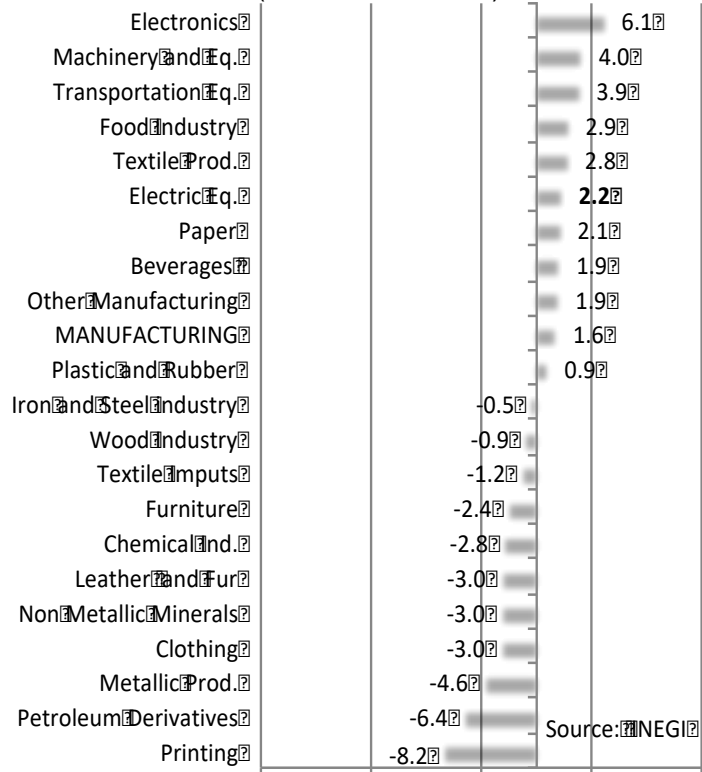
GDP 2019-I
(% Annual Growth)



The most dynamic

The least dynamic

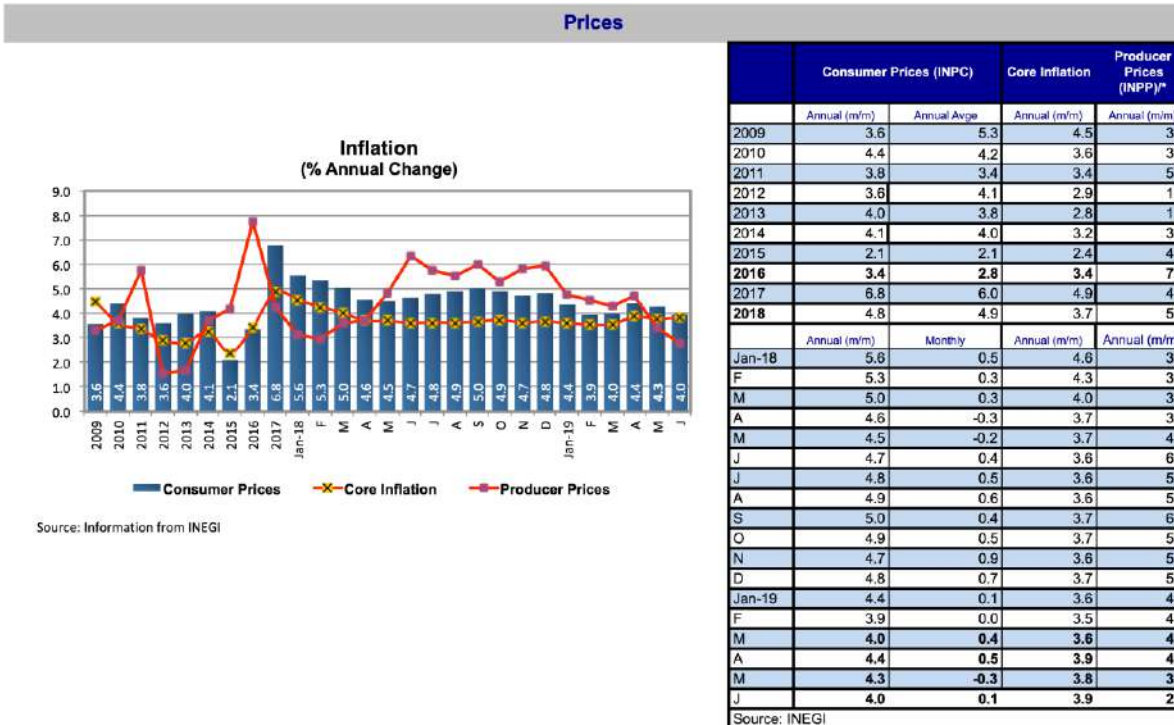
MANUFACTURING 2019-I
(% Annual Growth)



Source: INEGI

Prices

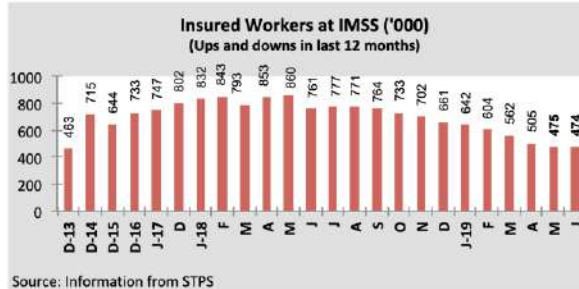
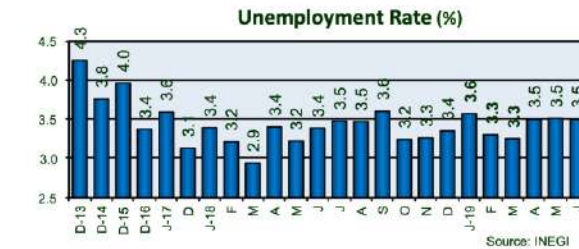
In the first half of the year, inflation continues to decline gradually amid ups and downs: in June it stands at 4%.



- Inflation shows downward resistance. It concluded 2018 at 4.8% and by mid-2019 it is already at 4%, after a decline full of ups and downs.
- However, it is foreseeable to achieve this year the institutional goal of the Bank of Mexico (3% +/- 1%). Inflation control and lower economic dynamism point towards lower inflation at the end of 2019.
- The convergence of the main prices indicators also supports the achievement of this objective.

In the second quarter of 2019, the unemployment rate has remained high (3.5% in June), while the annual creation of jobs loses strength and drops to 474 thousand jobs in June.

Employment and Wages

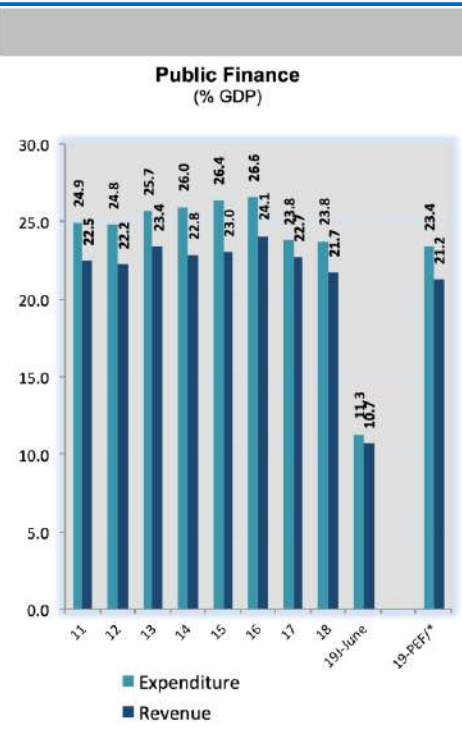


Period	Unemployment Rate(%)	Workers Insured at IMSS ('000)		Employment (Annual Change %)			Wage Indicators (Annual Change %)			
		Total	Abs.Change Last 12m	Construction	Manufacturing	Financial Service	Minimum Wage	IMSS Wage	Contractual Wage	
D-12	4.5	16 062	712	-232.0	-3.0	2.9	2.8	4.6	4.0	4.5
D-13	4.3	16 525	463	-247.9	-3.3	1.4	-0.4	3.9	4.0	4.4
D-14	3.8	17 240	715	-235.5	1.1	3.4	-0.2	3.9	4.6	4.1
D-15	4.0	17 884	644	-303.7	-1.7	2.6	2.7	4.3	4.1	4.4
D-16	3.4	18 617	733	-319.2	-0.4	3.1	3.3	4.2	3.9	4.6
J-17	3.6	18 700	747	83.3	-3.7	3.3	0.4	9.6/****	4.2	4.9
D	3.1	19 418	802	-337.5		2.9		9.6	5.5	5.2/**
J-18	3.4	19 532	832	113.7	0.0	3.0	2.1	10.4	5.1	5.2
F	3.2	19 696	843	164.3	-1.7	3.0	2.0	10.4	5.4	5.3
M	2.9	19 787	793	90.5	-1.1	2.8	1.0	10.4	5.9	4.9
A	3.4	19 874	853	87.1	1.3	3.2	1.0	10.4	5.8	5.6
M	3.2	19 908	860	34.0	0.4	3.3	0.9	10.4	5.4	0.0
J	3.4	19 895	761	-13.5	1.6	3.0	1.1	10.4	5.8	4.6
J	3.5	19 949	777	54.7	2.2	2.6	0.7	10.4	5.9	5.6
A	3.5	20 063	771	114.2	0.0	2.7	1.3	10.4	5.9	5.4
S	3.6	20 193	764	129.5	-1.5	2.6	0.1	10.4	5.8	5.2
O	3.2	20 356	733	163.2	-4.3	2.6	0.2	10.4	5.8	3.9
N	3.3	20 458	702	101.7	-5.0	2.4	0.5	10.4	5.9	5.1
D	3.4	20 079	661	-378.6	-4.5	2.7	-0.9	10.4	5.4	5.9
J-19	3.6	20 174	642	94.6	-3.5	2.3	-1.1	15.7	6.9	7.1
F	3.3	20 300	604	126.0	-2.0	2.3	-0.9	15.7	6.9	7.2
M	3.3	20 349	562	48.5	-4.5	2.1	-1.2	15.7	6.7	6.4
A	3.5	20 379	505	30.4	-4.7	1.1	-0.5	15.7	7.0	5.2
M	3.5	20 383	475	4.0	-4.8	1.3	2.0	15.7	6.7	6.0/**
J	3.5	20 369	474	-14.2				15.7		6.1/**

Source: INEGI, STPS. [†] Workers ^{††} Includes only Federal Jurisdiction ^{†††} Min Wage=102.2 pesos/day

- The unemployment rate, in the second quarter of 2019, has remained stable at 3.5%, a high rate compared to the recent past, but which keeps within the range of 3-4%.
- Meanwhile, job creation experiences a clear decline in the first half of the year: it went from 661 thousand at the end of 2018 to 474 thousand in June 2019. The lower the economic growth, the less employment.
- Salaries improve and exceed inflation. In June, real earnings are observed in the three main salary indicators: 11.7% in the minimum wage, 2.7% in the IMSS salary and 2.1% in the contractual salary. This is largely attributed to the extraordinary adjustments in the minimum wage promoted by 4T.

In 2019, January-June, revenues totaled 10.7% of GDP and the expenditure 11.3% of GDP, resulting in a deficit of 0.5% of GDP.



Source: SHCP
/* Information from PEF 2019

Public Finance												
Period	Public Sector Revenues (MX Pesos Billions)						Net Expenditure (MX Pesos Billions)					Public Balance
	TOTAL	Oil	Non oil	Taxes	Non Taxes	Gov. Enterprises	TOTAL	Prog.	Current	Capital	No Prog.	
11	3 269.6	1 100.3	2 169.4	1 436.9	176.9	555.6	3 629.8	2 859.8	2 155.5	704.3	770.0	- 355.5
12	3 514.5	1 183.9	2 330.6	1 517.0	214.8	598.9	3 920.3	3 102.2	2 360.7	741.5	818.1	- 403.2
13	3 803.7	1 261.0	2 542.6	1 644.5	280.0	618.2	4 182.2	3 321.1	2 442.3	878.7	861.1	- 375.3
14	3 983.4	1 213.3	2 770.1	1 815.5	299.8	654.7	4 530.6	3 580.3	2 682.9	897.4	950.3	- 545.0
15	4 267.0	843.4	3 423.6	2 361.2	404.4	657.9	4 892.9	3 826.6	2 890.6	936.0	1 066.3	- 637.7
16	4 840.9	789.6	4 051.3	2 716.0	542.1	793.2	5 343.8	4 160.4	2 978.1	1 182.3	1 183.4	- 503.7
17	4 947.2	827.3	4 119.9	2 854.8	545.4	719.7	5 177.6	3 852.3	3 059.5	792.8	1 325.3	- 238.5
18	5 113.1	978.6	4 134.5	3 062.3	267.6	804.6	5 592.2	4 067.7	3 344.5	723.2	1 524.4	- 495.0
19J-June	2 622.6	412.6	2 210.0	1 694.1	114.3	401.7	2 775.7	1 924.0	1 608.5	315.6	851.7	- 119.9
19-PEF*	5 299.2	1 045.0	4 254.2	3 311.4	120.3	822.5	5 838.1	4 147.5	3 431.9	715.6	1 690.6	- 538.9
% GDP												
11	22.5	7.6	14.9	9.9	1.2	3.8	24.9	19.7	14.8	4.8	5.3	- 2.4
12	22.2	7.5	14.7	9.6	1.4	3.8	24.8	19.6	14.9	4.7	5.2	- 2.5
13	23.4	7.7	15.6	10.1	1.7	3.8	25.7	20.4	15.0	5.4	5.3	- 2.3
14	22.8	7.0	15.9	10.4	1.7	3.8	26.0	20.5	15.4	5.1	5.4	- 3.1
15	23.0	4.6	18.5	12.7	2.2	3.5	26.4	20.6	15.6	5.0	5.8	- 3.4
16	24.1	3.9	20.2	13.5	2.7	3.9	26.6	20.7	14.8	5.9	5.9	- 2.5
17	22.7	3.8	18.9	13.1	2.5	3.3	23.8	17.7	14.0	3.6	6.1	- 1.1
18	21.7	4.2	17.6	13.0	1.1	3.4	23.8	17.3	14.2	3.1	6.5	- 2.1
19J-June	10.7	1.7	9.0	6.9	0.5	1.6	11.3	7.8	6.5	1.3	3.5	- 0.5
19-PEF*	21.2	4.2	17.1	13.3	0.5	3.3	23.4	16.6	13.8	2.9	6.8	- 2.2
January-June (Mx Pesos Billions)												
18J-June	2 502.0	475.7	2 026.3	1 558.1	103.6	364.6	2 789.2	1 956.7	1 629.8	326.9	832.5	- 206.7
19J-June	2 622.6	412.6	2 210.0	1 694.1	114.3	401.7	2 775.7	1 924.0	1 608.5	315.6	851.7	- 119.9
Change% Nom.	4.8	- 13.3	9.1	8.7	10.3	10.2	- 0.5	- 1.7	- 1.3	- 3.5	2.3	n.s.
Change% Real	0.6	- 16.7	4.7	4.4	5.9	5.8	- 4.5	- 5.6	- 5.2	- 7.3	- 1.8	n.s.

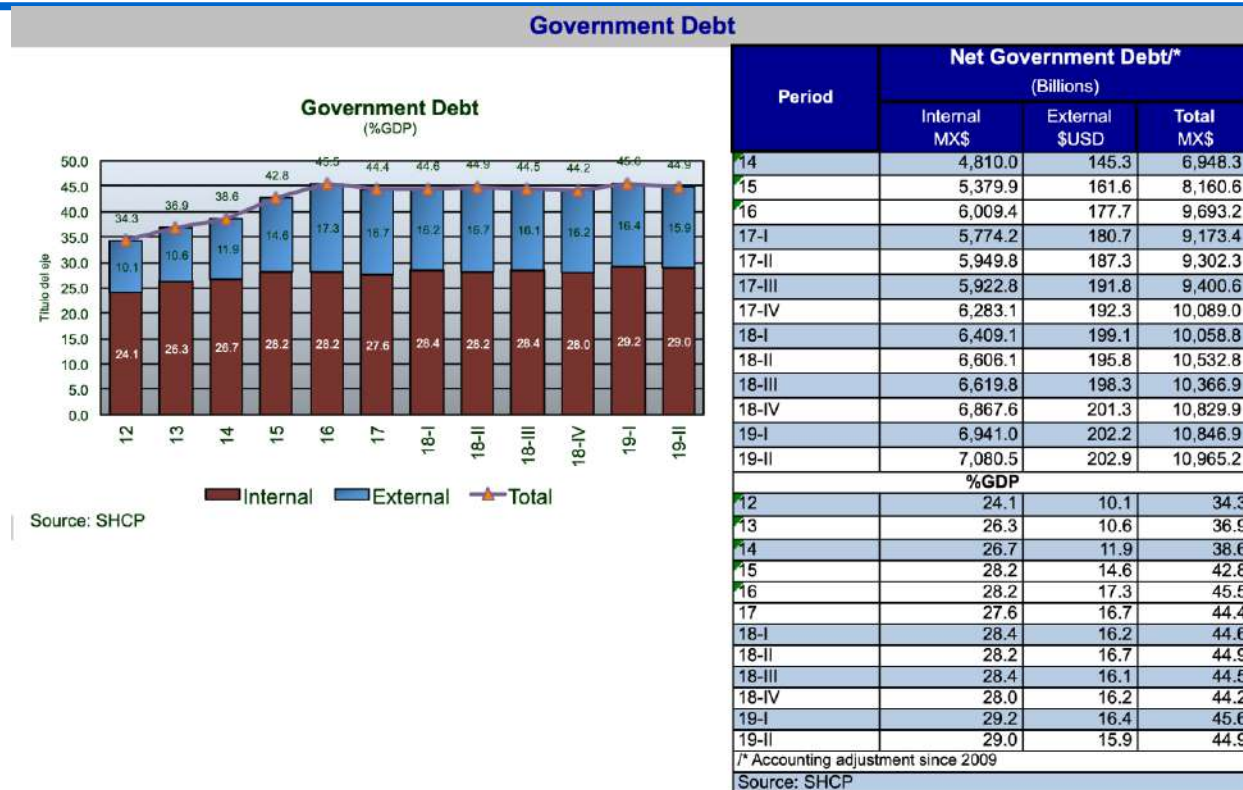
Source: SHCP

/* PEF 2019 (Federal Budget 2019)

- The results of public finances in 2019-E-June indicate that revenues evolve as expected while expenditures observe an underspending attributed to the learning curve.
- On the income side, the decline in oil revenues (-16.7%) is highlighted, which is offset by an increase in tax revenues (4.4%); on the expense side, there is a drop in programmable spending (-5.6%), both current and investment.
- A fiscal deficit of 0.5% of GDP is reported in the balance sheet, consistent with the expected fiscal discipline goals from the 4T.

Public Debt

Government debt has remained stagnant since late 2016: in 2018 it closed at 44.2% of GDP and in June 2019 it stood at 44.9% of GDP.

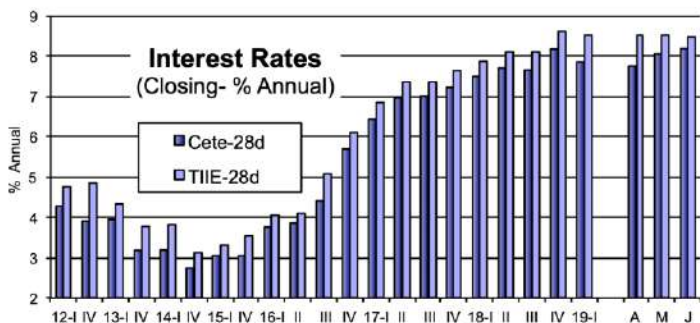
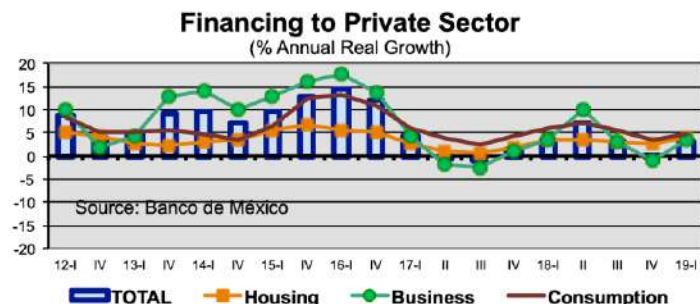


- In the global comparison, Mexico's public debt is relatively moderate: it does not exceed 50% of GDP. But from 2010 to date, it has increased by 13% of GDP.
- Its stagnation as of 2016 has been the government's response to alerts from analysts and rating agencies. The promise, according to the 4T, that the debt will not grow has generated some peace of mind for investors.
- To achieve this goal, it is essential to keep the fiscal deficit under control and, in addition, to keep the exchange rate within manageable ranges.

Financing to Private Sector

In the first quarter of 2019, financing to the private sector reported an annual growth of 3.2%, while interest rates are around 8.5% at the end of the first half of 2019.

Financial Indicators



Source: Banco de México

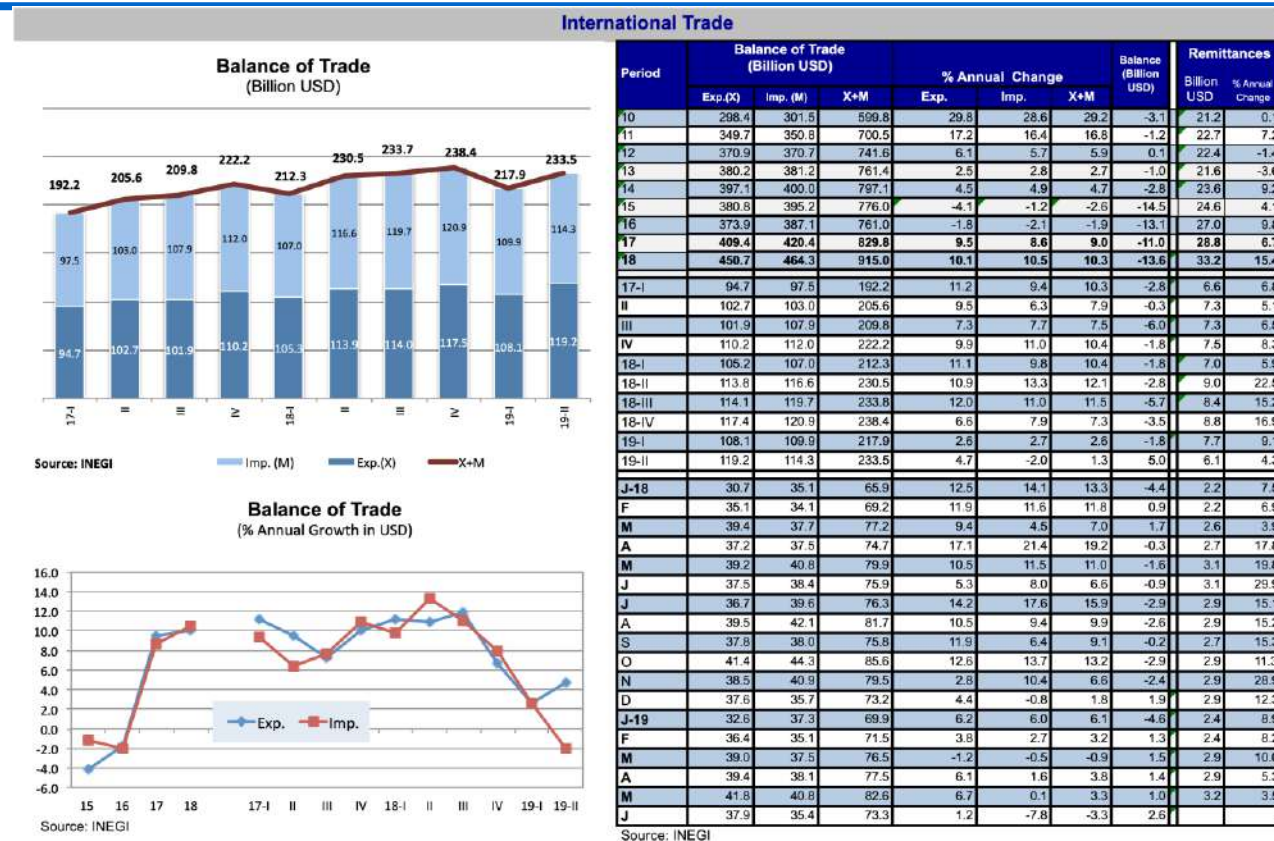
Period	Financing to Private Sector (% Annual Real Growth)							Interest Rates (% Annual)		Stock Market IPC %	
	TOTAL Billion MX\$	% Annual Real Growth	By Source		For Destination			CETES- 28d	TIIE-28d	('000)	Growth
			External	Internal	Consumer	Housing	Business				
12-I	4,663	9.0	11.0	8.5	8.5	5.3	9.9	4.28	4.77	39.5	6.6
IV	5,055	3.9	-0.1	5.1	5.1	4.2	2.7	3.91	4.85	43.7	6.9
13-I	5,071	4.9	4.1	5.1	5.1	2.9	4.3	3.95	4.35	44.1	0.8
IV	5,713	9.0	20.9	5.7	5.7	2.3	13.0	3.18	3.80	42.7	6.3
14-I	5,790	9.6	27.2	5.0	5.0	3.3	14.1	3.19	3.82	40.5	-5.3
IV	6,385	7.3	19.4	3.3	3.3	3.5	10.1	2.74	3.12	43.1	-4.1
15-I	6,537	9.5	18.8	6.6	6.6	5.7	12.7	3.05	3.31	43.7	-1.1
IV	7,375	12.9	14.2	12.5	12.5	6.9	16.1	3.05	3.55	43.0	-2.3
16-I	7,680	14.4	17.8	13.2	13.2	5.6	17.6	3.76	4.07	45.9	6.8
II	8,015	15.7	18.6	14.7	14.7	7.0	18.6	3.86	4.11	46.0	0.2
III	8,319	12.8	13.0	12.7	12.7	7.0	14.2	4.41	5.07	45.2	-1.6
IV	8,607	11.9	14.5	11.0	11.0	5.1	13.8	5.69	6.11	45.6	0.9
17-I	8,489	4.3	-0.6	6.1	6.1	2.6	4.2	6.43	6.84	48.5	6.4
II	8,579	-0.1	-10.3	3.9	3.9	1.1	-1.8	6.96	7.37	49.9	2.7
III	8,871	-0.8	-9.5	2.5	2.5	0.5	-2.4	7.00	7.37	48.6	-2.5
IV	9,330	1.7	-4.7	4.2	4.2	2.0	1.1	7.22	7.63	49.4	1.6
18-I	9,269	3.7	-2.4	5.8	5.8	3.6	3.5	7.49	7.85	46.1	-6.5
II	9,653	7.4	7.6	7.3	7.3	3.4	9.9	7.70	8.10	47.7	3.3
III	9,608	3.0	-4.0	5.4	5.4	3.1	3.2	7.65	8.12	49.5	3.9
IV	9,828	0.3	-9.2	3.7	3.7	2.8	-0.9	8.17	8.60	41.6	-15.9
19-I	9,976	3.2	-2.1	4.9	4.9	3.8	3.6	7.85	8.51	43.3	3.9
A								7.75	8.50	44.60	3.0
M								8.05	8.51	42.75	-4.1
J								8.18	8.49	43.16	1.0

Source: Banco de México

- Practically in the last two years, the growth of financing to the private sector has been very moderate. In the first quarter of 2019, it grew only 3.2%, slightly higher than the previous one (0.3%)
- In that quarter, the three main financing destinations show also moderate growth: consumption (4.9%), housing (3.8%) and companies (3.6%). The latter is particularly encouraging, given the disagreements between the 4T and the business sector.
- Interest rates already reach 8.5% at the close of the first half of the year. Meanwhile, the Stock Exchange regains ground very slowly and has made little significant progress in this first part of the year.

International Commerce

In the second quarter of 2019, foreign trade in goods shows a clear slowdown: 1.3% annual growth versus 2.6% in the previous quarter.



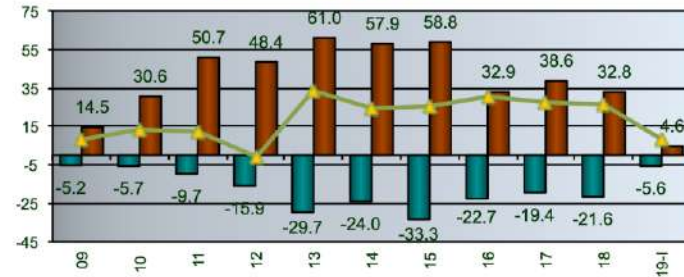
- After a notable dynamism of trade in the past biennium (2017-2018), from the fourth quarter of 2018 (7.3%) there is a clear slowdown that lasts until the second quarter of 2019 (1.3%).
- In 2019-II, a trade surplus of 5 MMD is surprising, something unusual in the Mexican economy and proof that the domestic market is depressed.
- For their part, remittances continue to show significant growth (4.3%), but they also begin to slow down.

External Sector

In the first quarter of 2019, the balance of payments reflects a current account deficit of -5.6 USD Bn and a surplus in the financial account of 4.6 USD Bn, which includes a Foreign Direct Investment of 8.3 USD Bn.

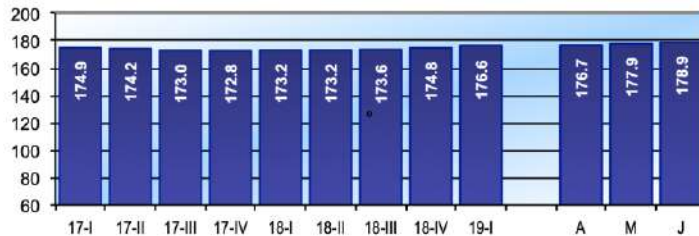
International Transactions

Balance of Payments (Bill. USD)



Source: Banco de México

International Reserves (Bill. USD)



Source: Banco de México

Period	Balance of Trade (Bill.USD)	Exports (Bill.USD)	Imports (Bill.USD)	Current Account		Financial Account (Bill.USD)	Foreign Direct Investment	Reserves Int. Change (Bill USD)	Stock of Int. Reserves (Bill.USD)
				(Billion USD)	(%GDP)				
09	-4.7	229.7	234.4	-5.2	-0.7	14.5	8.3	5.4	90.8
10	-3.1	298.4	301.5	-5.7	-0.3	30.6	13.0	22.8	113.6
11	3.3	349.4	350.8	-9.7	-1.0	50.7	12.1	28.9	142.5
12	2.1	370.9	370.8	-15.9	-1.2	48.4	-0.9	21.0	163.5
13	-1.0	380.2	381.2	-29.7	-2.4	61.0	33.8	13.0	176.5
14	-0.1	397.7	400.0	-24.0	-1.9	57.9	24.4	16.7	193.2
15	-14.5	380.8	395.2	-33.3	-2.5	58.8	25.2	-16.5	176.7
16	-16.2	370.0	386.2	-22.7	-2.2	32.9	30.2	-0.2	176.5
17	-11.0	409.4	420.4	-19.4	-1.6	38.6	27.4	-3.7	172.8
18	-10.2	333.2	343.4	-21.6	-1.8	32.8	26.4	0.8	173.6
19-I	-1.8	108.1	109.9	-5.6	-1.8	4.6	8.3	1.8	176.6
17-I	-2.8	94.7	97.5	-10.7	-3.8	0.6	11.5	-1.6	174.9
17-II	-0.3	102.7	103.0	-1.8	-0.4	6.6	5.5	-0.7	174.2
17-III	-6.0	101.9	107.9	-5.0	-1.8	9.1	7.4	-1.2	173.0
17-IV	-1.8	110.2	112.0	-1.9	-0.8	12.6	3.6	-0.2	172.8
18-I	-1.7	105.3	107.0	-9.8	-3.0	10.2	10.5	0.4	173.2
18-II	-2.7	113.9	116.6	-3.0	-1.1	5.5	7.4	0.0	173.2
18-III	-5.8	114.0	119.7	-5.9	-1.6	7.4	2.7	0.4	173.6
18-IV	-3.4	117.5	120.9	-2.9	-1.0	9.7	5.8	1.2	174.8
19-I	-1.8	108.1	109.9	-5.6	-1.8	4.6	8.3	1.8	176.6
A								0.1	176.7
M								1.1	177.9
J								1.0	178.9

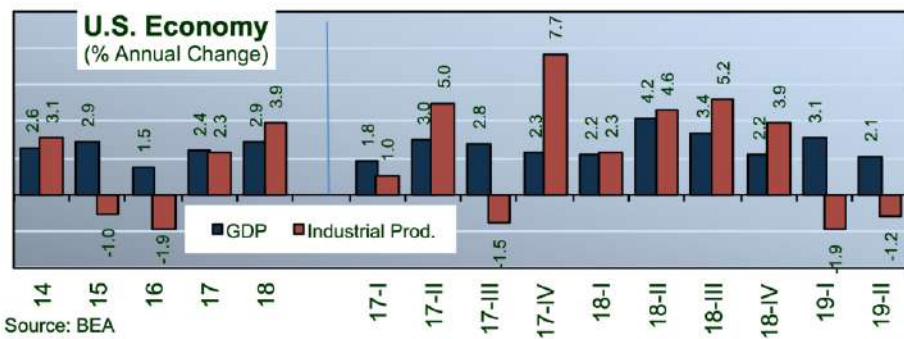
Source: Banco de México

- After an election year (2018) marked by uncertainty, international reserves report a moderate and very gradual increase in the first half of 2019: they started the year with 174.8 USD Bn and in June they arrived at 178.9 USD Bn, which represents an advance of 4 USD Bn.
- In 2019 there are two reasons for concern: the decrease in investor confidence and the potential brake on capital inflows due to internal policies.

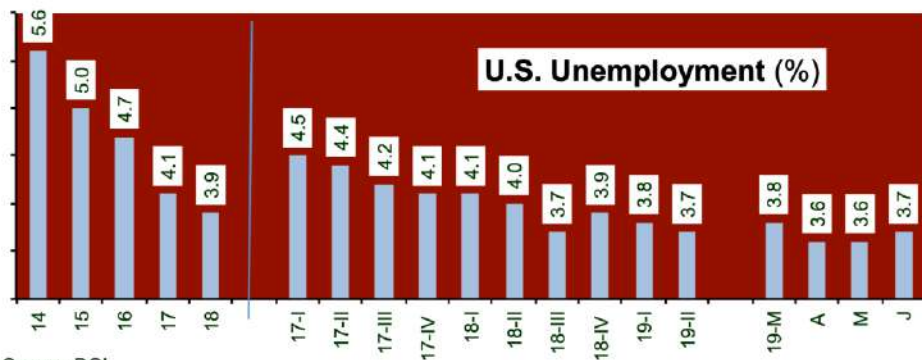
International Economy

In the second quarter of 2019, the US economy grew 2.1% (vs. 3.1% prior), but the industrial sector contracted (-1.2%); meanwhile, unemployment maintains low rates: 3.7% in June 2019.

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		
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

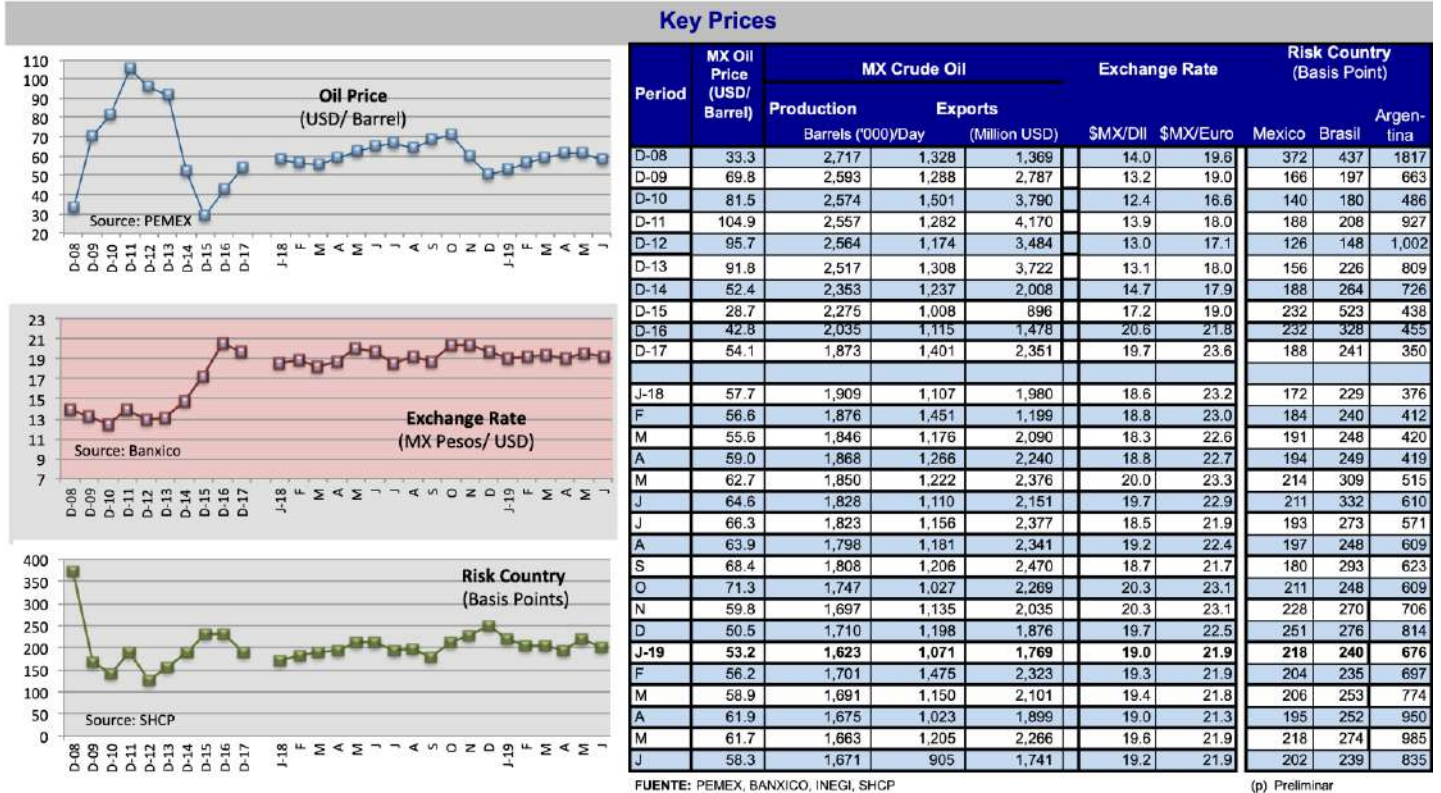
17-I	1.8	1.0	0.7	1.9	0.5	4.5	2.4
17-II	3.0	5.0	2.1	2.4	1.5	4.4	1.6
17-III	2.8	-1.5	1.7	-2.1	1.1	4.2	2.2
17-IV	2.3	7.7	2.5	5.3	1.0	4.1	2.1
18-I	2.2	2.3	2.0	1.6	0.4	4.1	2.4
18-II	4.2	4.6	2.1	2.0	0.3	4.0	2.9
18-III	3.4	5.2	3.6	3.6	1.6	3.7	2.3
18-IV	2.2	3.9	4.0	1.5	2.2	3.9	1.9
19-I	3.1	-1.9	3.7	-1.9	2.2	3.8	1.9
19-II	2.1	-1.2	2.0	-2.2	1.0	3.7	1.6
19-M		1.1	3.1	-1.1	1.5	3.8	1.9
A		-5.3	1.4	-6.6	0.3	3.6	2.0
M		4.5	2.6	2.3	1.5	3.6	1.8
J		0.0	2.0	4.7	1.2	3.7	1.6

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

- The US economy reported a very strong growth in 2019-II (2.1%), although lower than the previous quarter (-3.1%) and a negative growth in the industrial sector (-1.2%). In congruence, unemployment continues to fall (3.7% in June). Against this, the decline of the industrial sector and the expectation of an eventual recession in the coming years are of concern. Both events are not favorable for the Mexican economy.
- • For Mexico, a scenario of low growth in the US is not favorable, especially if domestic demand fails to reactivate. Moreover, the delay in the formalization of NAFTA 2.0 (T-MEC) and the US-Mexico disputes regarding the migration issue could reinvigorate the negative impacts on the Mexican economy.

Key Prices

In the first half of 2019, the exchange rate and country risk have shown relative stability, while the price of crude recovered in sustained form but in June suffered a stumble (from 62 to 58 DPB).

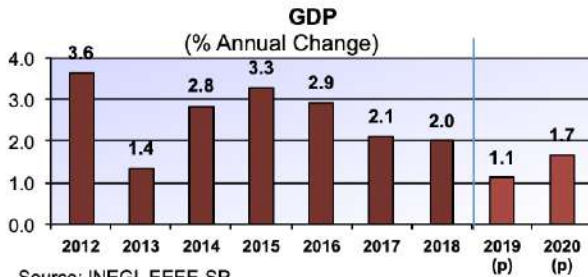


- The price of crude oil, after its collapse in the last quarter of 2018 (which led it from levels of 70 to 50 DPB), is recovering steadily in the first part of 2019, except for the stumble experienced in June (from 62 to 58 DPB).
- Despite the prevailing uncertainty, the exchange rate has shown ups and downs around 19 PPD.
- After its shot at the end of 2018, the country risk seems to resume its course in the first half of 2019 and closes June at 202 basis points.

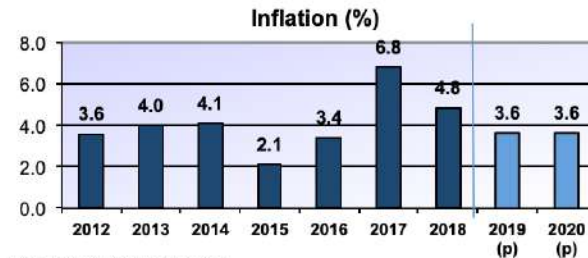
Mexico's Macroeconomic Framework

Growth expectations in Mexico for 2019-2020 have gone down (1.1 and 1.7% for the biennium), the same as for inflation (3.6% for both years).

Macroeconomic Framework



Source: INEGI FFFF-SP



Source: INEGI, EEEE-SP

	Histórico							CGPE/*		EEESP/**	
	2012	2013	2014	2015	2016	2017	2018	2019 (p)	2020 (p)	2019 (p)	2020 (p)
GDP											
% Annual Growth	3.6	1.4	2.8	3.3	2.9	2.1	2.0	1.6	1.9	1.1	1.7
GDP Current (MX Billions)	15,818	16,277	17,471	18,537	20,100	21,785	23,399	24,700	25,975	24,610	25,844
GDP Deflator	4.1	1.5	4.4	2.7	5.4	6.8	5.3	3.9	3.2	4.0	3.3
Inflation											
Dec/ Dec	3.6	4.0	4.1	2.1	3.4	6.8	4.8	3.4	3.0	3.6	3.6
Exchange Rate											
Average	13.2	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	19.9	20.3
Interest Rate (Cets 28d)											
Average	4.3	3.7		3.0	4.3	6.9	7.8	8.0	7.6		
Closing	4.2	3.5	2.7	3.1	5.7	7.2	8.2	8.0	7.8	8.0	7.5
Current Account											
Billions USD	-9.2	-22.3	-26.6	-32.4	-33.1	-22.7	-22.2	-22.7	-25.5	-22.3	-24.4
% GDP	-0.8	-1.7	-2.1	-2.8	-3.4	-1.6	-1.9	-1.8	-2.0	-1.8	-1.9
Public Balance											
% GDP	-2.5	-2.3	-3.1	-3.4	-2.5	-1.1	-2.1	-2.0	-1.6	-2.3	-2.4
USA											
GDP (%Annual Growth)	2.8	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)	101.7	98.6	86.0	43.7	35.4	46.3	61.4	57.0	55.0		
Exports ('000 barrels/day)	1,256	1,189	1,142	1,282	1,195	1,175	1,186	1,008	1,085		
Production ('000 barrels/day)	2,548	2,522	2,429	2,290	2,154	1,944	1,813	1,793	1,916		

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

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

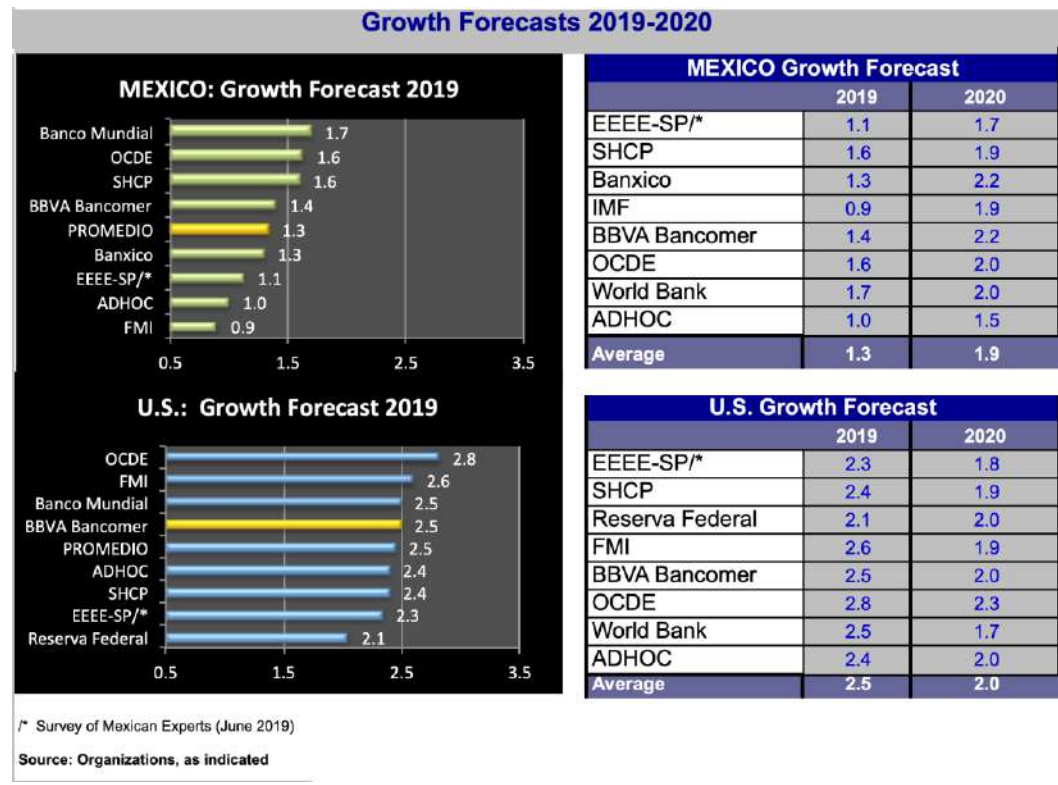
(p) Projected

- For 2019-2020 private experts expect more moderate economic growth than the previous ones: 1.1% and 1.7% respectively.
- For those same years, an inflation rate is estimated slightly lower than previously projected: 3.6% for the biennium.
- According to forecasts, the fundamental balances will remain under relative control: the fiscal deficit slightly above 2% of GDP (2.3 and 2.4) and the current account deficit around 1.8-1.9% of GDP in the biennium.
- The US economy will lose vigor in 2019 (2.3%) and 2020 (1.8%), according to the slowdown forecasts.

Growth Forecasts



According to specialized agencies, the expected growth for 2019 is 1.3% for Mexico and 2.5% for the US. By 2020 the forecast is 1.9% and 2.0% for Mexico and the US respectively.



- For Mexico, the forecasts of eight specialized organizations fluctuate between 0.9% and 1.7% in 2019, with an average of 1.3%. By 2020, the average forecast is 1.9%.
- For the US, the forecasts of eight specialized organizations fluctuate between 2.1 and 2.8% for 2019, with an average of 2.5%. By 2020, the average forecast is 2.0%.
- As you can see, both economies are moving in parallel, but the US economy is emerging as slightly more dynamic, at least in 2019.

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