

## **Economic update: glass half empty or half full?**

Mexico's economy continues to confuse as it shows mixed signs that are fodder for both optimists and pessimists.

Starting with the downside, the National Institute for Statistics and Geography (INEGI as known by its Spanish acronym) published the latest results for its coinciding indicator –which measures the overall state of the economy- and found that it fell back to its long term trend and decreased 0.03 units in January month on month, which makes this its second consecutive monthly fall. Furthermore, its leading indicator –which attempts to anticipate movements in the coinciding indicator- also slid 0.09 units.

As headwinds such as low oil prices and slowing growth in the U.S. have made for a more uncertain scenario in the short-term, the manufacturing confidence index decreased 1.16 points month on month in March. In terms of change in confidence within sectors year on year, retail, construction and manufacturing shrunk 5.9, 4.1 and 3.2 percent respectively.

The figures for manufacturing are to be expected in light of the fact that the index for new orders in the sector decreased .39 percent month on month and 0.8 percent year on year.

However what is slightly surprising is that the loss in confidence in the retail sector points in the opposite direction to both the confidence and the behavior of consumers. According to the INEGI and Banxico (Mexico's Central Bank), consumer confidence in March increased 0.11 percent month on month and was located 4.8 percentage points higher on annual basis.

Incipient consumer optimism is translating into increased dynamism in the internal market –which has been struggling for over a year- that increased 1.6 percent month on month in January. Although imported goods gained the largest growth (5.5 percent), domestic goods and services grew 3.5 percent compared to December 2014.

Given that durable goods purchases for March increased by 17.5 percent year on year and auto sales grew by a whopping 22.4 percent, there are reasons to believe that the abovementioned findings for more bullish consumer confidence might be sustained further into the year.

One of the various potential driving forces behind the renewed dynamism in the domestic market is the increase in lending which is a result of the financial reform approved under President Enrique Peña Nieto. Credit to the private sector has increased from 25.7 percent of GDP in 2012 to 29.2 percent of GDP in 2014. Scant lending has been one important drag on growth in Mexico.

There is also a case for optimism in light of the most recent figures for investment. The INEGI's fixed investment indicator increased 1.5 month on month in January and 8.4 percent year on year. Although the construction sector

saw a 0.1 percent decrease month on month -in line with the more bearish outlook in its results in the confidence index- machinery and equipment compensated by growing at 6.4 percent in comparison to December.

In regards to whether the outlook for the Mexican economy is positive or negative, foreign investors seem to have taken sides with the former view, particularly in regards to the country's macroeconomic stability. This week the Mexican government sold its first 100-year euro bond. What's perhaps even more telling about foreign investor's confidence in the country long term growth is that the bond was priced at a yield of 4.2 percent, which is lowest payment term the Mexican government has settled for such long maturity bonds.

### **"Choppergate"**

Corruption has been a longstanding challenge in Mexico and often features as a topic of conversation amongst Mexicans who complain about it with a certain degree of grudging resignation. However, in recent months it has come to the forefront of the political debate after a series of notorious conflict of interest scandals related to President Enrique Peña Nieto and some of his closest collaborators and the disappearance of 43 students in the state of Guerrero at the hands organized crime groups colluded with a local mayor from the PRD party, as well as corruption allegations made against senior figures in the PAN party. The tone in which it is discussed is now one of exasperation.

In light of this and the upcoming mid-term elections on June 7<sup>th</sup>, missteps by politicians from any affiliation can quickly give rise to social media storms and media feeding frenzies. In this context, the Head of the National Commission for Water, David Korenfeld, was photographed making use of a governmental helicopter for matters unrelated to his work, something that he publicly admitted.

As soon as the news was released last week, there was a large public outcry by political commentators and the public alike calling for his resignation. Although a few days later it was revealed that the leader of the PRD had also used a helicopter -albeit to attend a political rally for which he was running late- the pressure grew relentlessly on Mr. Korenfeld, and perhaps more importantly, on President Peña Nieto to dismiss one of his close collaborators since his days as governor of the State of Mexico.

The situation was reminiscent of the first months of Peña Nieto's Presidency, when he asked for the resignation of his close friend Humberto Benitez, who was then head of the Office for the Protection of Consumers, after his daughter was exposed on social media for having allegedly threatened to have her father close a restaurant after they wouldn't give her a table on a fully booked day.

Initially the government seemed to indicate that it was supporting Mr. Korenfeld -a move that critics leveraged to make the often-used accusation that Mr. Peña Nieto is out of touch with the citizenship. The government attempted to diffuse the pressure by instructing the National Auditor's office to launch an enquiry

into “choppergate” (as the scandal has been dubbed) but after this didn’t prove enough, Mr. Korenfeld announced this week that he was resigning his post.

When President Peña Nieto dismissed Benitez, which happened at the time that the series of ambitious structural reforms his government put forward were being approved, the move reinforced his image as an effective political leader. On this occasion, given the political storm that he has just come out of and the upcoming elections, it will be difficult for the government to capitalize on Korenfeld’s resignation in a similar fashion and would appear as having been left no choice due to the circumstances.

To many of his critics, Korenfeld’s actions were proof that when it comes to misuse of public resources it is still very much business as usual in Mexico, however, they fail to see that things are changing given new technologies such as social media (82 percent of internet users in Mexico use Facebook making it the fifth largest market for the social network) and an ever more biting press. Even if the culture inside politics might be stuck in old ways, it is being enveloped by a new set of circumstances that will continue to enact costlier penalties on those who fail to adapt accordingly.