Mexico Intelligence Report – 5th February 2016

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GRUPO ATALAYA

Economic update

Mexico´s National Institute of Statistics and Geography published the most recent figures for it´s coinciding index, which measures the overall state of the country´s economy. Said indicator showed that the Mexican economy slowed down at the end of 2015 by dropping 0.04 units to 99.92 in November—below its long-term trend—the leading indicator, which tries to anticipate movements in the coinciding indicator, ended 2015 at 99.54, which represented a decrease of 0.09 points compared to the month prior.

Mexico´s Central Bank (Banxico) published further sobering news given the findings of is first survey of 2016 of private sector analysts of the Mexican economy. The survey´s GDP estimate for 2016 decreased from the previous 2.74 to 2.69 per cent. The bearish mood also extended to 2017, for which the average estimate dropped from 3.29 to 3.18 per cent. Moreover, economists expect annual inflation for 2016 to end at 3.10 in 2016 and and 3.31% in 2017.

Remittances from people living abroad outpaced the $2.0 billion USD mark for the tenth consecutive month, at $2.19 billion USD in December. The number of money orders surpassed 7.0 million for the eighth time in the last ten months, as they rose 2.1% year on year to 7.55 million transactions. Meanwhile, the average amount sent to relatives decreased for the fourth consecutive time, standing at $290 USD in December, which represents a -4.0 year on year decrease.

On a bright note, manufacturing activity accelerated at the beginning of 2016, according to the Mexican Institute of Executives in Finance (IMEF), expanding 0.6 units month on month to 51.5 in January. In a similar fashion, services index hiked 0.9 units month on month to 50.2, after falling below the 50-point threshold in the previous month.

Reforms update

It´s now close to two years since the approval of President Enrique Peña Nieto´s set of highly ambitious structural reforms. Although implementation has hit stumbling blocks in certain areas, legislative changes are ever more starting to translate to on-the-ground changes.

In regards to telecommunications, the Ministry for Communications and Transport published rules for wholesale broadband network licensing, which will fall under a public private partnership and will entail a capital expenditure of $7 billion USD. The network will provide 4G coverage across the country. The winning network operator will only be able to offer wholesale broadband capacity to operators (both existing and entrant), who will resell the service to consumers. The winner of the licensing process should be declared by August, whilst the network should start operating in 2018, reaching national coverage by 2024.

In regards to the energy sector, electricity rates in February posted their 14th year on year consecutive reduction according to Mexico´s Federal Electricity Commission (known by its Spanish acronym CFE). One of the main objectives of Mexico´s energy reform was lowering the cost of electricity, which for the industrial sector is 65 per cent higher than that of the U.S.

A primary component of the strategy behind this reduction is the displacement of fuel oil by gas as the core of the country´s energy mix. According to CFE estimates tariffs for the industrial sector will decline between 16 and 24 per cent year on year in February, followed by reductions of 5 to 14 per cent in the commercial sector and of 5.1 per cent in the domestic sector of high consumption.

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