Mexico Intelligence Report – 27th May 2016

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GRUPO ATALAYA

Economic update

This week saw a series of encouraging news regarding the Mexican economy. Firstly, during the first quarter of the year, GDP grew 0.8 per cent quarter on quarter and 2.6 per cent year on year. Growth was primarily driven by the strength of the domestic market and by a revival in construction. More specifically, services grew by 3.7 per cent year on year, thus extending their positive run of 26 consecutive quarters of growth.

Despite the construction sector´s 2 per cent year on year growth, manufacturing barely grew at 1 per cent year on year as did utilities, which increased by 1.7 per cent year on year.

As has been the case for the past year, retail sales kept their momentum, growing at a seasonally adjusted rate of 3.0 per cent month on month and 8.4 per cent year on year in March. Therefore, retail sales increased by 6.5 per cent year on year during the first quarter of the year. In addition to low levels of inflation, the domestic market has been boosted by increased remittances coming from the U.S.

Perhaps more encouraging still, during the first quarter of 2016 foreign direct investment rose 4.3% year on year to $7.89 billion USD. This is the highest figure on record for the first quarter of the year

Broken down by industry, 67 per cent of FDI was channelled to manufacturing, 17.5 per cent to financial services, whereas commerce received 6.2 per cent and the remaining industries received 9.8%. As for the country of origin, the highest contributor was the US with 29.3 per cent, followed by Israel (25.5 per cent), Spain (12.8 per cent), Germany (6.4 per cent), and Korea (6.0 per cent), while other 41 countries contributed with the remaining 20.0%.

Lower manufacturing exports, together with the drop in oil prices, continued to hamper Mexico's trade balance, which reported a record deficit for April at $2.1 billion USD. This deficit was the result of an annual 7.7% drop in exports, which was accompanied by a milder contraction in imports (-1.6% YOY).

Energy update: (yet another) paradigm change

The Ministry of Energy announced yet another transformational step within Mexico´s energy sector. In January 2017 the price of gas will be liberalised first in the northern part of the country and then throughout the whole country as of 2018.

Whereas the current framework has Mexico´s Regulatory Commission for Energy (CRE as known by its Spanish acronym) set the price of natural gas, the new competitive system will be created by way of an information platform managed by the CRE which will centralize the price signals from different parts of the country.

Although Mexico´s Energy Reform has touted primarily due to the opening of the upstream oil market, changes like those announced this week by the Ministry of Energy are a reminded that the reform affects the entire industry. Specifically in this case, new private entrants will be able to compete in Mexico´s natural gas market.

Contact Us

Registered address:
Canning House
14/15 Belgrave Square
London SW1X 8PS
England

Phone: +44 (0)20 7811 5600
Fax: +44 (0)20 7811 5623
Email: enquiries@canninghouse.org
Web: www.canninghouse.org
Company number: 383775.
Registered Charity No: 314210