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FCO COUNTRY UPDATES FOR BUSINESS

# Mexico: Monthly Economic Report: May 2012

British Embassy Mexico City

June 2012

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## British Embassy, Mexico City: Economic report – May 2012

### Summary

- Mexico starting to make contingency plans for a Greek exit from the Eurozone and the potential knock-on effects with the US, and therefore Mexico. Most obvious impact will be on the Mexican Peso, which is suffering volatility. US\$ auction mechanism resumed this month.
- The Mexican macro economy remains strong: GDP grew 4.6% in annual terms during the first quarter of 2012, and the Central Bank has upgraded 2012 growth forecasts for Mexico (3.25%-4.25%)
- However, unemployment rose in April to 4.9% from 4.6% in March. OECD estimates youth unemployment in Mexico around 9.1%.
- Remittances grew by an annual 5.3% during the first quarter of 2012.
- Mexico improved 1 position in the IMD's Competitiveness Yearbook but lost one position in WEF's Enabling Trade Report. FDI fell 8.7% in annual terms during the first quarter of 2012
- Mexico and the EU signed a letter of intention on aerospace cooperation

Consensus Forecast	2012	Trend	2013	Trend
GDP (growth)	3.70%	↑	3.50%	=
Inflation	3.65%	↓	3.60%	=
Exchange Rate (year-end)	13.03	↑	12.96	↑
Unemployment (avg.)	5.73%	n.a.	5.73%	n.a.

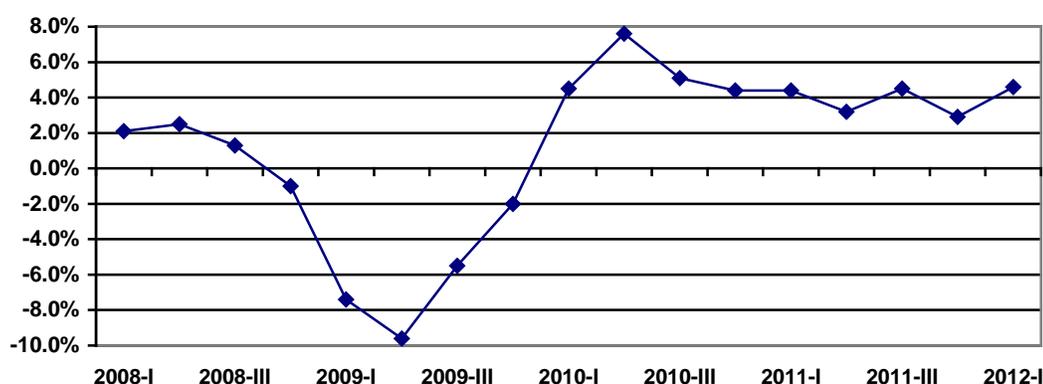
	2007	2008	2009	2010	2011
GDP (%)	3.2%	1.5%	-6.1%	5.5%	3.9%
Inflation (%)	3.8%	6.5%	3.6%	4.4%	3.8%
Unemployment (% year end)	3.4%	4.3%	4.8%	4.9%	4.5%
Minimum wage (avg. Pesos/day)*	n.a.	50.84	53.19	55.77	58.06
MXN / USD (avg.)	10.93	11.14	13.51	12.64	12.42
MXN / GBP (avg.)	21.92	20.41	21.24	19.51	20.04
MXN / EUR (avg.)	15.07	16.39	18.90	16.70	17.43

\* Minimum wage for 2012 has been set at 60.50 pesos

## OVERVIEW

1. The Mexican economy grew 4.6% in annual terms during Q1 2012, above the 4.4% recorded in the same period of 2011. On a quarterly basis, GDP grew 1.3%, up from the 0.7% quarterly increase during the last quarter of 2011. Growth was mainly a result of a strong manufacturing sector consistent with the recovery in US manufacturing, and a gradual but sustained gain in the services sector, supported by a better consumer outlook on the back of moderate inflation, as well as credit expansion.

GDP (% annual growth rates)



(Source: National Statistics Institute INEGI)

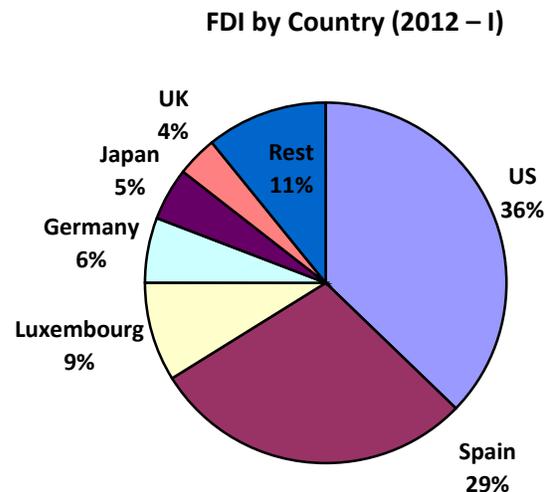
2. The Bank of Mexico upgraded its 2012 growth forecast for the Mexican economy to a range of 3.25 percent to 4.25 percent, or 0.25 percent higher than in its previous quarterly forecast. Governor Agustín Carstens reiterated that the country's strong macroeconomic framework made the Mexican economy more resilient than other economies when he presented Banxico's quarterly inflation report, explaining that Mexico's productive activity was performing well despite a wave of external instability. Nevertheless, Carstens warned that the United States still faced structural problems of fiscal sustainability, and that this problem would become more pressing, as market concerns at the end of the fiscal year would coincide with the US electoral period.
3. Unemployment rose in April to 4.9% from 4.6% in March. Much of this surge can be explained by the fading away of seasonal factors related to the 'Holy Week', as employers readjust their payrolls after having increased them towards the end of March to meet Easter period demand. Latest estimates are that the unemployment rate should gradually trend downwards, to end the year around the 4.5% level.
4. According to figures released by the Organization for Economic Cooperation and Development (OECD), youth unemployment in Mexico has increased by almost 2 per cent from 2007 to 2012, from 7.2 to 9.1 per cent. Francisco Díaz, director of Manpower Group Solutions (a headhunting company), declared that while job creation had risen in Mexico, it

had not increased enough to employ the entire active population and youths leaving school and university. Diaz estimated that Mexico needed to create 1.1 million jobs per year to reduce unemployment.

- The Mexican peso has experienced volatility during the last weeks due to financial uncertainty generated by the Eurozone crisis and by Greece's possible debt default and exit from the Euro. Banxico governor Agustin Carstens had declared that the conditions of the basic indicators of the Mexican economy did not justify the peso's current depreciation, but investors seeking safe values such as German or US treasury bonds have affected the currencies of emerging economies such as Mexico. On May 23, Banco de México sold US\$ 258 million out to commercial banks. This was the first time the US\$ auction mechanism has been triggered since it was reopened back in November 2011.

#### FOREIGN DIRECT INVESTMENT

- Official figures released by the Ministry of Economy (SE) show that FDI in Mexico dropped 8.7 to US\$ 4.37 bn during the first quarter of 2012 as compared to the same period in 2011,. FDI in Mexico mainly comes from the US (37.3%) and Spain (28.7%), with Luxembourg (9.1%); Germany (5.7%); Japan (4.7%); **UK (3.7%)**; rest (10.8%).



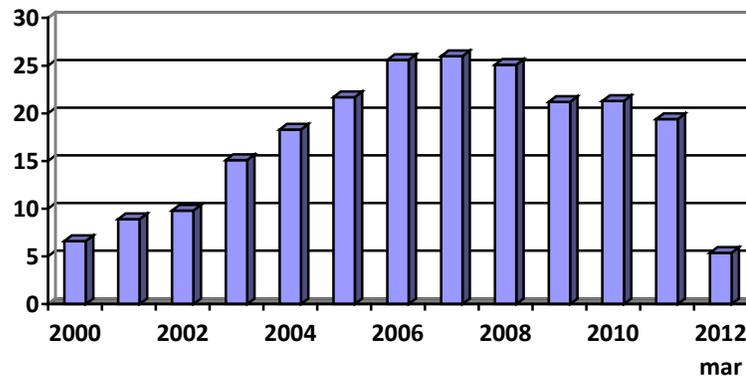
- Despite the drop in FDI, Jose Antonio Torre, Undersecretary of Competitiveness and Regulations at the Ministry of Economy said the Federal Government was maintaining its forecast that Mexico would receive \$19.8 billion in FDI in 2012. Torre predicted that there would be an adjustment in the second quarter, to reach the government's goal of almost \$20 billion.

#### REMITTANCES

- According to figures released by the Bank of Mexico, remittances sent by Mexican migrants abroad rose by 5.3 percent in annual terms during the first quarter of 2012, thanks to the US recovery, particularly in manufacturing. Thus, Banxico reported that during the period from

January to March 2012, the country had received US\$ 5.37 billion from Mexicans abroad, in 16.9 million transfers at an average of US\$ 318 each.

REMITTANCES (US\$ BN.)



Source: Banco de México

## COMPETITIVENESS

- WORLD ECONOMIC FORUM (WEF) GLOBAL ENABLING TRADE REPORT 2012

9. In this biannual report, Mexico went down one position to 65 out of 132 countries. The main issue is about security where Mexico stands in place 126. WEF stated in the report that this is the main obstacle for Mexico to increase benefits from trade.

10. The security pillar analyses three variables: *reliability of police services* (Mexico stood in the 123<sup>rd</sup> place), *business costs of crime and violence* (Mexico – 125<sup>th</sup> place) and *business costs of terrorism* (Mexico – 111<sup>th</sup> place).

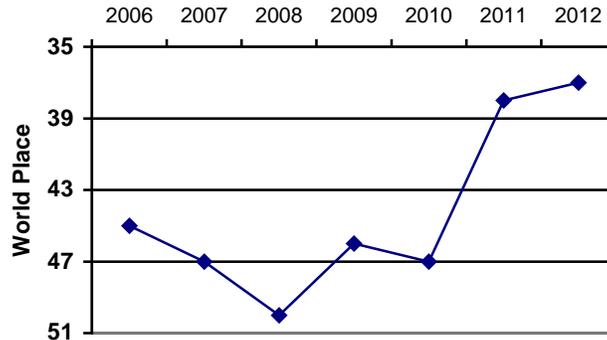
11. On the other hand, Mexico got the 18<sup>th</sup> place in the *Domestic and Foreign Market Access* pillar. Within this pillar's breakdown, Mexico was 11<sup>th</sup> in *Share of Duty-free imports* and 18<sup>th</sup> in *Non-tariff measures*.

- INTERNATIONAL INSTITUTE FOR MANAGEMENT DEVELOPMENT (IMD) WORLD COMPETITIVENESS YEARBOOK (WCY) 2012

12. Mexico improved 1 place in the WCY 2012 produced by the IMD. Mexico went up from 38 in 2011 to place 37 out of 59 countries in 2012. Furthermore, Mexico was the second most competitive economy in Latin America below Chile (above Brazil).

13. Mexico's improvement was based on an outstanding **Economic Performance** (moving from place 16 to 14) and a better **Government Efficiency** (climbing from place 43 to 35).

14. Mexico's Economic indicators have improved, with Prices (inflation control) being the best one, placing Mexico on the 3<sup>rd</sup> world place.



15. We spoke to our contacts in the Federal Competition Commission (CFC) to canvas views on these indexes. Their main feeling was that Mexico had achieved an overall improvement in competitiveness indexes (including WB's Doing Business, WEF Global Competitiveness Report and International Competitiveness, produced by Mexico's Institute for Competitiveness) but that Mexico still had a some way to go.
16. They consider that most important actions to be taken are in the area of structural reforms: energy, fiscal and labour. In this regard, there is some concern from our contacts about the change of government; CFC hopes that the new administration will pursue these reforms and follow up on improvements achieved through the past years. They also highlighted the importance of moving forward with simplification for FDI access.
17. They also pointed out the continuing need to increase competition in key sectors such as telecom and transport. Within the first one, Mexico is lagging in broadband service and needs more companies to supply telephone and tv services. In the transport sector, according to our contacts there is a need for a new airport tender and for Mexicana airline to resume operations.
18. On a more positive note, our contacts mentioned that the procedures for starting a business had been simplified; a one-stop shop is about to be launched, reducing red-tape and opportunities for corruption practices.

#### AEROSPACE

19. Over the past four years, the number of companies manufacturing aerospace equipment in Mexico has increased by 62.5 percent: from 160 companies in 2008 to 260 (there are around ten British companies in Mexico within the Aerospace sector, three of them based in Queretaro) by the end of 2011. Furthermore, the turnover of these companies has risen from 980 million pesos (US\$ 70 mn) to 4.88 bn pesos (US\$ 350 mn) over the same period. From 2006 to 2011, the number of companies in this sector increased at an average rate of 29 percent. Marcelo Funes-Gallanzi, Chairman of the Mexican Federation of the Aerospace Industry (Femia) explained that the sector's growth was due to the large number of free trade agreements signed by Mexico, to a stable dollar-peso exchange rate, and to the government's efforts to meet the sector's needs and opportunities.

20. This sector could be an attractive one for British Companies, due to the above mentioned factors and the fact that Mexico and the European Union (EU) have just signed a letter of intention (May 15) to establish a permanent dialogue on aerospace policies. After the signature of this letter, Dionisio Perez-Jacome Minister of Communications and Transportation and European Commission Vice-President Antonio Tajani explained that the agreement established a framework for cooperation in areas such as Earth observation and Earth sciences; contributions to the Earth Observation Group; global satellite navigation systems, and satellite communication systems, among others.
21. The aerospace industry has gained presence in the state of Queretaro. The aerospace cluster holds 44 companies that together employ 12% of the aerospace workers in the country. The Aerospace Industrial Park is home to 25 manufacturing companies and three institutions of higher education (none of them British), including the National Aeronautical University.

#### TOURISM

22. World Tourism Organization (UNWTO) placed Mexico 10th on its May ranking of top global destinations for international tourists. According to this preliminary report, Mexico returned to 10th place after having dropped to 12th in March's report.