

Country Insight Snapshot

Mexico

December 2016



Written 16 December 2016

Help us to improve the Country Insight content via a 3-minute survey.
For more information; **CLICK HERE**



OVERVIEW

OVERALL COUNTRY RISK RATING: DB3d

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Stable

CORE OUTLOOK

+ Economic, legislative and political reforms will, if implemented, pave the way for greater private investment in key sectors.

- Uncertainty surrounding US trade and immigration policies under Donald Trump has heightened near-term economic risks.

- Mexico still possesses one of the world's most rigid labour markets, despite recent reforms.

- The country will need to improve its educational policies if it is to benefit from its favourable demographics.

KEY DEVELOPMENT

Growth accelerates in the third quarter but forward-looking indicators point to ongoing subdued economic activity in coming quarters.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

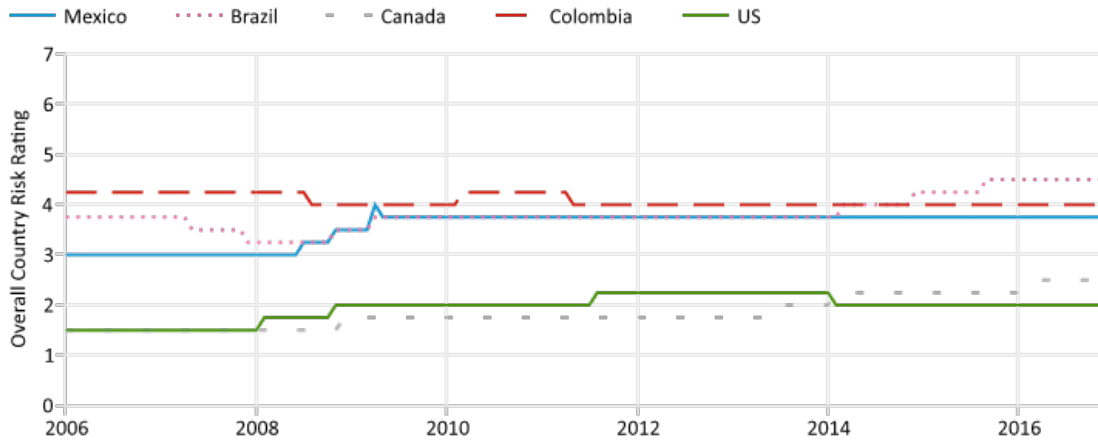
Trend: Stable

Key Development has had a negative impact on the outlook.



KEY INDICATORS

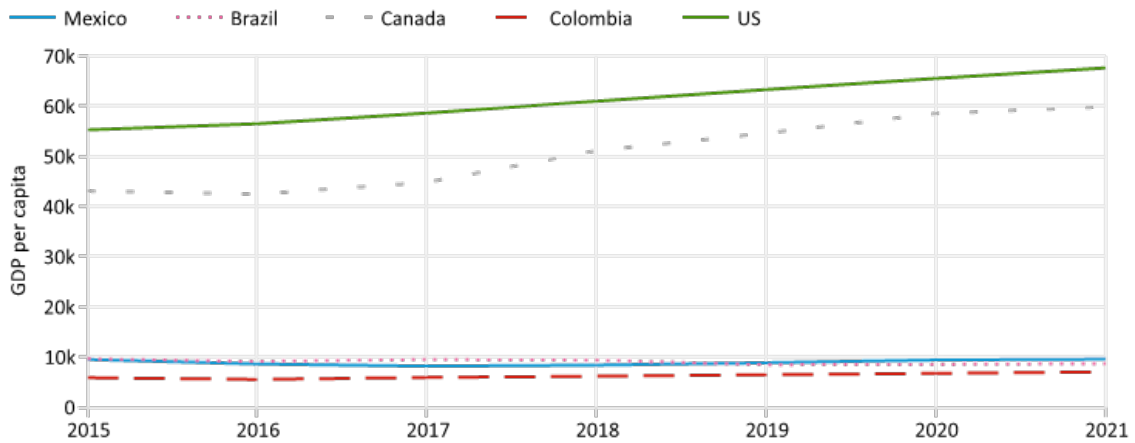
Rating History and Comparison



Source : Dun & Bradstreet

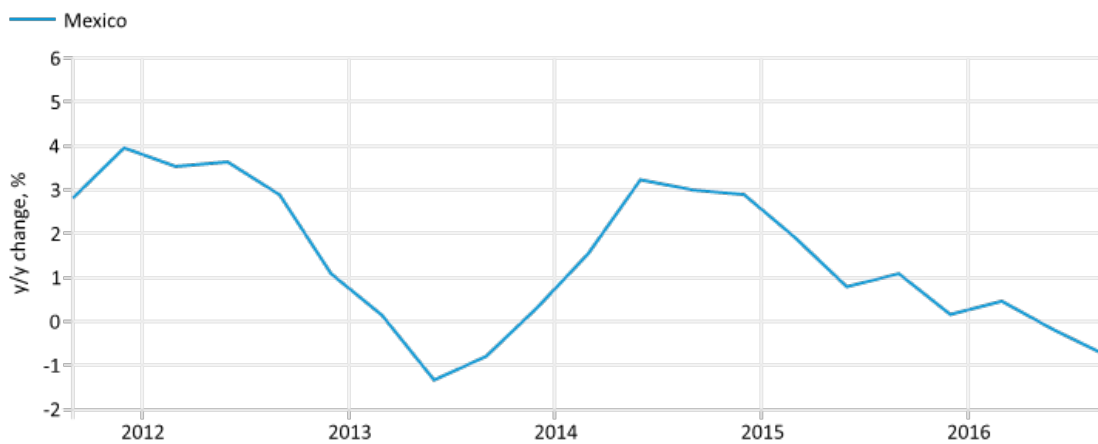
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016f	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-1.9	-2.8	-2.8	-3.0	-2.7	-2.8	-2.4	-2.4
Govt balance, % GDP	-3.4	-3.5	-3.1	-2.7	-2.6	-2.4	-2.3	-2.0
Inflation, annual avge %	4.0	2.7	2.8	3.8	3.9	3.9	3.6	3.6
Real GDP Growth, %	2.1	2.5	1.9	1.8	2.1	1.9	2.6	3.0
Unemployment, %	4.7	4.4	4.4	4.4	4.4	4.3	4.2	4.2

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Foreign reserves slipped 0.62% m/m to USD174.00bn as export earnings declined in November. However, with import cover of 5-6 months, USD liquidity remains fairly solid which, combined with an open capital account, will facilitate easy currency convertibility in our outlook period. Elsewhere, the central bank hiked its policy rate by 50bp to 5.25% on 17 November in its bid to anchor inflation expectations as Donald Trump's shock victory in the US Presidential election caused the peso to plummet to an unprecedented low against the dollar. Fears that Trump would implement his promised radical trade and immigration policies targeting Mexico, led to the currency plunging 13% to MXN21.00 against the dollar on election night; the peso has recouped some of its losses to trade at MXN20.25 on 13 December.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: SD

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

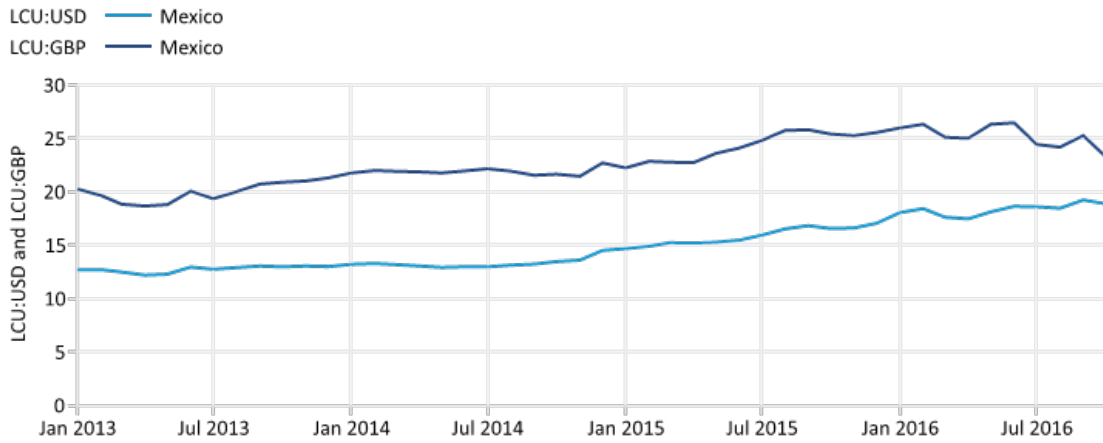
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



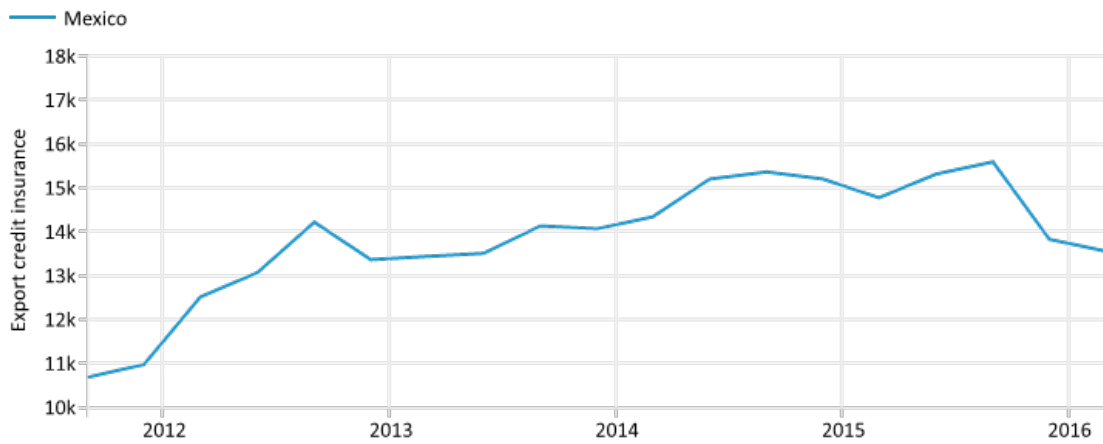
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Mexican peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Growth gathers pace

Economic activity accelerated with growth of 1.09% q/q in Q3 from -0.22% q/q in Q2 and +0.7% q/q in Q1. This was the fastest quarterly growth rate since Q2 2014. However, forward-looking indicators support our outlook for sluggish economic growth in coming quarters. Industrial production grew feebly at 0.10% m/m in October slightly up from 0.08% m/m in September, while the mining sector's decline slowed to 0.06% m/m in October from -1.42% in the previous month. The IHS Markit Manufacturing PMI slipped to 51.1 in November from 51.8 and was the slowest growth pace in August, and one of the weakest in the last 3 years. Similarly, the INEGI consumer confidence index fell to 84.9 in November from 85.6 in October. Related to this, consumer expectations and buying expectations declined by 1.84% and 4.34% respectively in November, and augurs poorly for the services sector.

Household spending will continue to be supported by remittances which rose by 7.0% to USD2.2bn in October and is expected to reach a historic high of USD27.8 in 2016, partly due to the weakening peso and the 'Trump effect' - Mexicans in the US fear remittances would be taxed under Trump. If the construction bonanza promised by Trump occurs in the US, and there is no new controls on remittances, household spending in Mexico would be boosted by the projected rise in remittance inflow projected at USD27.4bn in 2017. We have estimated real GDP growth at 1.9% in 2016, and project a mild deceleration in pace to 1.8% in 2017 as uncertainty continues to cloud the economic outlook following Donald Trump's victory in the US presidential election. Trump's protectionist and anti-immigration campaign rhetoric largely targeted Mexico, and could now potentially be converted to new US trade and immigration policies. During campaigning, Trump had threatened to seek radical revisions to NAFTA or 'tear it up' and deport up to three million undocumented Mexicans living in the US.

Meanwhile, the 12-month headline inflation rate rose to 3.31% in November from 3.05%, and is expected to inch up in the near-term, partly on account of the weaker peso although central bank intervention will mitigate the full pass-through effect. Thus, average headline inflation is projected at 2.8% for 2016 and 3.3% in 2017, but still within the central bank's target range of 2.0-4.0%.

Business Regulatory Environment

Carstens resigns

Central bank governor, Agustin Carstens, has resigned with effect from July 2017. While this was a surprise announcement from Carstens, who will be leaving to lead the Bank for International Settlements, the government has assured markets that this is not a cause for concern. At this time, we do not anticipate a radical policy shift under Carstens' successor, but note that the incoming governor will be challenged by a Mexican economy with a tepid short-term growth outlook.



COUNTRY PROFILE AND STATISTICS

Overview

Bordered by the Gulf of Mexico, the Caribbean Sea and the Pacific Ocean, Mexico's topography includes a high central plateau, mountains and tropical plains. Mexico has abundant natural resources and has a history of producing agricultural and mineral goods (including petroleum). Economic liberalisation in the 1980s and the North American Free-Trade Agreement (NAFTA) in 1996 spurred the development of manufacturing in northern Mexico, although the south remains less prosperous. NAFTA has also reinforced economic dependency on the US, Mexico's main trading partner. Since assuming office in December 2012, President Enrique Pena Nieto has been pursuing reforms to improve competitiveness and encourage private sector investment in key sectors, including energy and telecommunications.

Key Facts

Key Fact	Detail
Head of state	President Enrique Pena Nieto
Capital	Mexico City (Distrito Federal)
Timezone	GMT -4-00
Main language	Spanish
Population (millions)	121
GDP (USD billions)	1,159.1
GDP per capita (USD)	9,579
Life expectancy (years)	76
Literacy (% of adult pop.)	94
Surface area (sq km)	1,958,000

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016f
Real GDP growth (%)	4.0	1.4	2.1	2.5	1.9
Nominal GDP in USDbn	1,175	1,297	1,290	1,159	1,057
Nominal GDP in local currency (bn)	15,506	16,601	17,160	18,314	19,663
GDP per Capita in USD	9,720	10,602	10,422	9,579	8,665
Population (year-end, m)	120.9	122.3	123.8	121.0	122.0
Exchange rate (yr avge, USD-LCU)	13.2	12.8	13.3	15.8	18.6
Current Account in USDbn	-16.4	-33.1	-25.0	-32.1	-29.1
Current Account (% of GDP)	-1.4	-2.6	-1.9	-2.8	-2.8
FX reserves (year-end, USDbn)	160.4	175.4	193.2	173.4	176.0
Import Cover (months)	5.2	6.3	6.8	5.7	5.5
Inflation (annual avge, %)	4.1	3.8	4.0	2.7	2.8
Govt Balance (% GDP)	-3.7	-3.8	-3.4	-3.5	-3.1

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.8	2.1	1.9	2.6	3.0
Nominal GDP in USDbn	1,011	1,055	1,122	1,215	1,251
Nominal GDP in local currency (bn)	20,919	22,269	23,794	25,505	26,150
GDP per Capita in USD	8,216	8,443	8,908	9,488	9,625
Population (year-end, m)	123.0	125.0	126.0	128.0	130.0
Exchange rate (yr avge, USD-LCU)	20.7	21.1	21.2	21.0	20.9
Current Account in USDbn	-30.5	-28.0	-32.0	-29.4	-29.7
Current Account (% of GDP)	-3.0	-2.7	-2.8	-2.4	-2.4
FX reserves (year-end, USDbn)	179.5	188.5	197.9	207.8	218.2
Import Cover (months)	5.6	5.9	6.2	6.5	6.8
Inflation (annual avge, %)	3.8	3.9	3.9	3.6	3.6
Govt Balance (% GDP)	-2.7	-2.6	-2.4	-2.3	-2.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	9,579	9,717	43,152	5,918	55,326
Country Population (m)	121	208.8	35.9	48.2	321.8
Internet users (% of population)	57.4	59.1	88.5	55.9	74.5
Real GDP Growth (% p.a., 2017 - 2026)	2.5 - 5	1 - 2	1.25 - 2.25	4.2 - 6.7	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



LINKS

User Guide

Please [click here](#) to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

Dun & Bradstreet provides information relating to more than 240m companies worldwide. Visit www.dnb.com for details. Additional information relevant to country risk can be found in the: *International Risk & Payment Review* : Provides timely and concise economic, political and commercial information and analysis on 132 countries. Available as a subscription-based internet service (www.dnbcountryrisk.com) and monthly update journal, the IRPR carries essential information on payment terms and delays. It also includes the unique D&B Country Risk Indicator to help monitor changing market conditions.

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

© All rights reserved. No part of this publication may be reproduced or used in any form or by any means graphic, electronic or mechanical, including photocopying, recording, taping, or information storage and retrieval systems without permission of the publisher.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.

Help us to improve the Country Insight content via a 3-minute survey.
For more information; **CLICK HERE**