Country Insight Snapshot

Mexico

March 2019

Written 15 March 2019

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: Deteriorating ↘

CORE OUTLOOK

+ The signing of USMCA - which will replace NAFTA once ratified by the respective Congresses - has reduced - but not eliminated - recent trade-related uncertainties.

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

- 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

Slower growth in December 2018, mainly due to declines in manufacturing output, has contributed to weaker q/q economic activity in the fourth quarter.

CREDIT ENVIRONMENT OUTLOOK

G

Trend: Stable →

Key Development has had a negative 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 neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

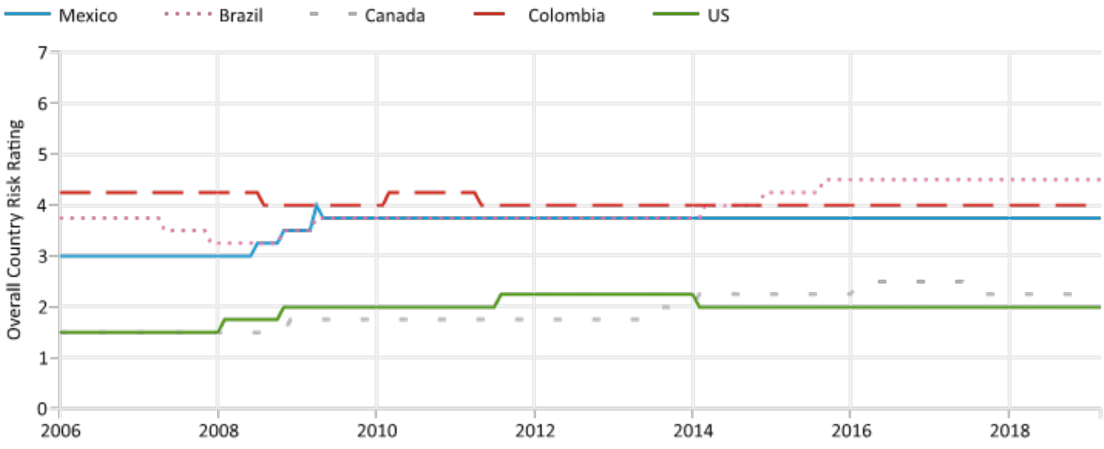
A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

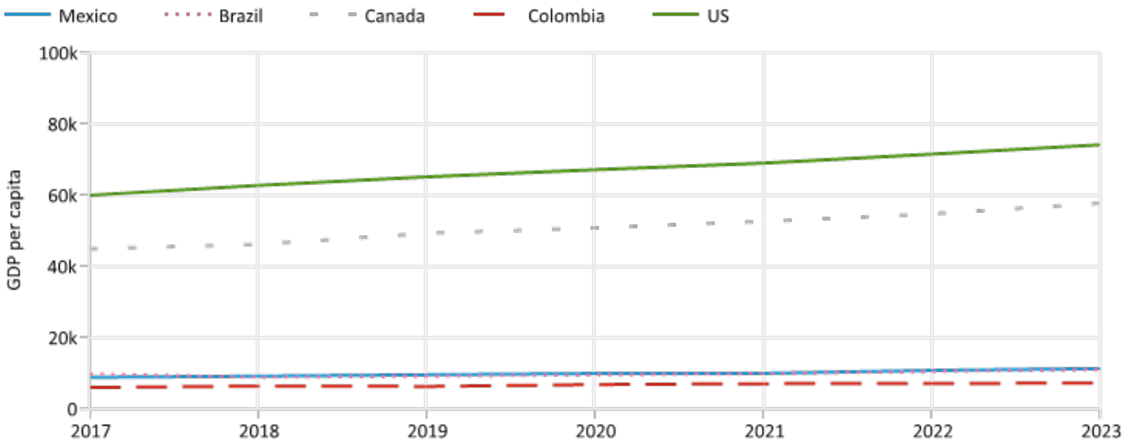
Rating History and Comparison



Source : Dun & Bradstreet

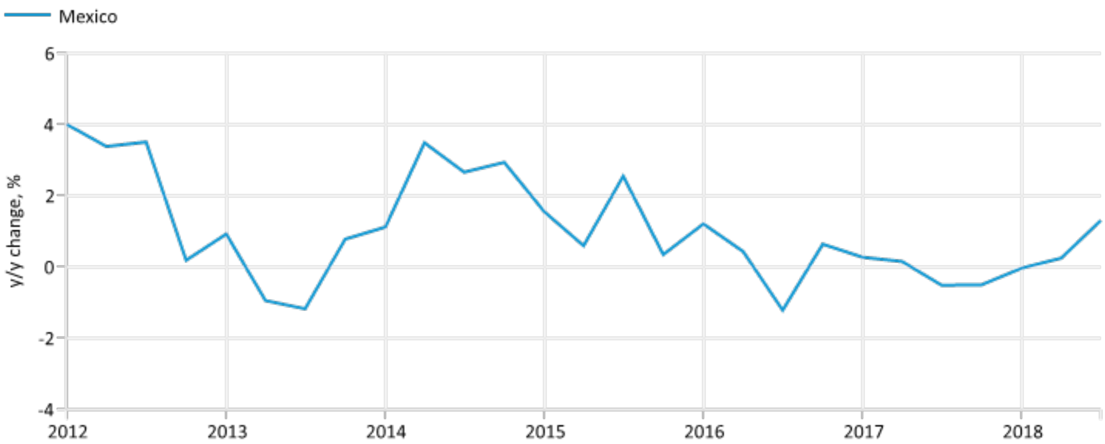
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-2.1	-1.6	-1.7	-1.9	-2.5	-2.0	-1.8	-1.7
Govt balance, % GDP	-2.5	-1.1	-2.5	-2.4	-3.0	-2.8	-2.5	-2.4
Inflation, annual avge %	2.8	6.0	4.9	4.5	3.8	3.6	3.7	3.5
Real GDP Growth, %	2.9	2.0	2.1	1.8	1.6	2.0	2.2	2.3
Unemployment, %	4.0	3.8	3.5	3.4	4.0	3.9	3.6	3.4

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 7 February the central bank held its policy interest rate at a ten-year high of 8.25% which it had reached after two consecutive 25bp rises in November and December 2018. Disinflation in January and the US Federal Reserve's recent dovish tone contributed to the bank's decision. With the further easing in price pressures in February, we hold to our forecast that the rate will remain unchanged in H1 2019, especially as economic activity cools. However, risks to the near-term inflation outlook remain tilted to the upside and a rise in the Fed Funds rate would trigger a rate hike in the next few months. Moreover, ongoing concerns about the Bolsonaro administration's policy direction remain a key near-term risk. Meanwhile, remittances rose by 10.5% y/y to an all-time high of USD33.48bn in 2018. Elsewhere, FX reserves of USD175.0bn offer both good currency protection and import cover. Given solid USD liquidity and an open capital account, currency convertibility remains easy. Our recommended trade terms for Mexico are SD and we advise that FX/Bank delays are 0-1 month.

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.

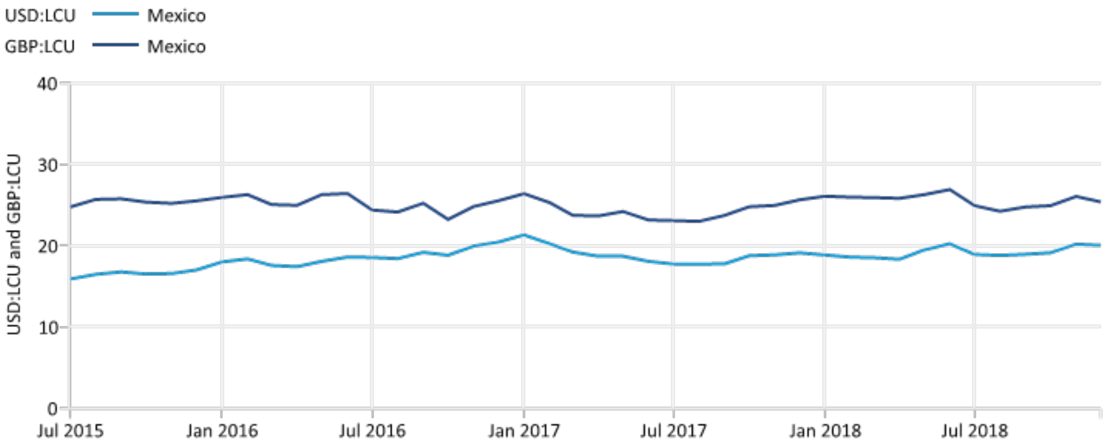
Local Delays: 0-1 month

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.

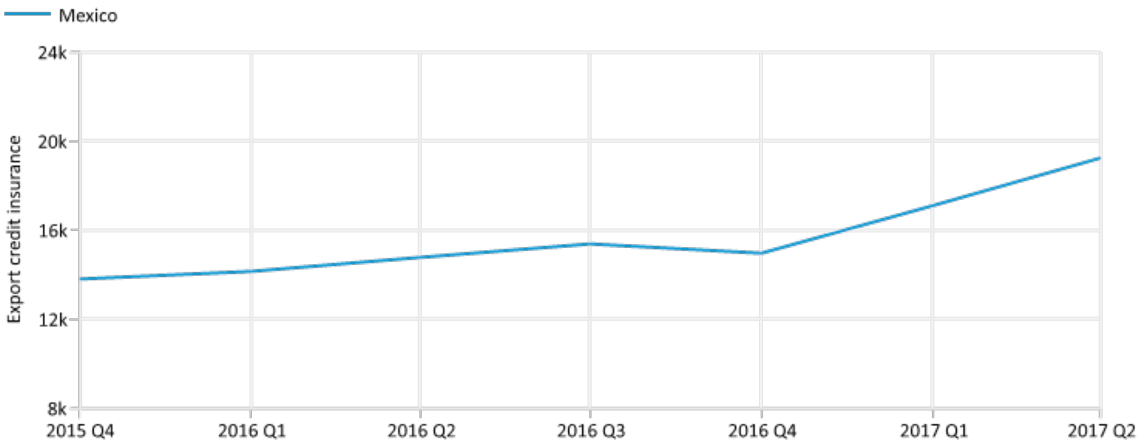
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Mexican peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Marked slowdown

The economy slowed markedly in Q4 2018. Preliminary data reflects a contraction of 0.4% m/m in December, which was attributed to declines in manufacturing, mining and construction. This is on the heels of seasonally-adjusted growth of 0.9% y/y in Q3; this was due to the expansion of 3.4% y/y in services, 2.2% y/y in agriculture and 1.1% y/y in the industrial sector. On the demand side, strong remittances will continue to be very supportive of household spending in the rest of H1. However, ongoing weakness in extractive industries will continue to weigh on overall industrial output. This, in addition to domestic policy uncertainty and a slowdown in economic activity in the US, underpins our real GDP forecast for 2019 which is now 1.8%.

Meanwhile, consumer price inflation fell to its lowest level in 26 months. The 12-month rate slid to 3.94% with a m/m rate of 0.03% recorded for February - from 0.2% m/m in January and a 12-month rate of 4.4%. Lower prices of agriculture output were key contributors to the weaker price pressures in February. This has brought headline inflation within the central bank's official target range of 2.0-4.0%. However, we are forecasting just a small decline in the average annual inflation rate to 4.8% in 2019 - from 4.9% in 2018 - partly because higher utility prices will exert upward pressure on consumer prices. Moreover, the recent hike in the minimum wage could drive up inflation if not matched by rises in productivity.

Political/Insecurity Risk

New National Guard to fight drugs cartels

Congress has approved legislation to create a National Guard with 50,000 members to fight the drug cartels. Under the administrative purview of the ministry of public security, the newly-created National Guard will be operated by the military and is expected to comprise recruits from the federal police, army and marines. The National Guard will be prohibited from holding detainees in military facilities and it will be transformed into civil entity five years after its formation. This is the first definitive step taken by the government to tackle rising violence, particularly homicides, that are linked to the expanding drugs trade. The 34,200 homicides that were recorded last year were the highest in four years, and evidence of the ineffective crime-fighting plans implemented under previous administrations.

While there are concerns that the new National Guard could perpetrate human rights abuses, the population is largely supportive of President Andres Manuel Lopez Obrador's efforts to reduce socio-economic inequities while fighting corruption and crime, as promised during his presidential campaign. The probability of the new unit significantly reducing cartel operations - without additional measures to tackle the drugs trade - is low, given the ineffective use of militarised groups by the previous government.

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.

The US, Mexico and Canada have signed the United States-Mexico-Canada Agreement (USMCA), which will replace NAFTA once it is ratified by the respective Congresses. Mexico's president is expected to sign, and we also expect the new pact to be easily approved in Canada. However, there is some uncertainty about its approval by the US. This development has significantly reduced (but not eliminated) NAFTA-related uncertainties.

Key Facts

Key Fact	Detail
Head of state	President Andres Manuel LOPEZ OBRADOR
Capital	Mexico City (Distrito Federal)
Timezone	GMT -4-00
Main language	Spanish
Population (millions)	124.7
GDP (USD billions)	1,159.8
GDP per capita (USD)	9,298
Life expectancy (years)	77.0
Literacy (% of adult pop.)	94.9
Surface area (sq km)	1,958,000

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	2.8	3.3	2.9	2.0	2.1
Nominal GDP in USDbn	1,290	1,159	1,057	1,107	1,160
Nominal GDP in local currency (bn)	17,160	18,314	19,663	20,919	22,269
GDP per Capita in USD	10,778	9,579	8,646	8,961	9,298
Population (year-end, m)	119.7	121.0	122.3	123.5	124.7
Exchange rate (yr avge, USD-LCU)	13.3	15.8	18.6	18.9	19.2
Current Account in USDbn	-25.0	-32.1	-22.4	-17.5	-20.2
Current Account (% of GDP)	-1.9	-2.8	-2.1	-1.6	-1.7
FX reserves (year-end, USDbn)	190.9	173.5	173.5	172.8	174.6
Import Cover (months)	6.7	5.7	5.4	6.1	6.0
Inflation (annual avge, %)	4.0	2.7	2.8	6.0	4.9
Govt Balance (% GDP)	-4.0	-2.8	-2.5	-1.1	-2.5

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	1.8	1.6	2.0	2.2	2.3
Nominal GDP in USDbn	1,220	1,275	1,295	1,411	1,488
Nominal GDP in local currency (bn)	23,794	25,505	26,150	28,504	30,214
GDP per Capita in USD	9,690	10,034	10,095	10,909	11,409
Population (year-end, m)	125.9	127.1	128.2	129.4	130.5
Exchange rate (yr avge, USD-LCU)	19.5	20.0	20.2	20.2	20.3
Current Account in USDbn	-23.1	-32.0	-26.1	-25.6	-25.0
Current Account (% of GDP)	-1.9	-2.5	-2.0	-1.8	-1.7
FX reserves (year-end, USDbn)	176.4	178.1	179.9	181.7	185.3
Import Cover (months)	5.7	5.6	5.7	5.7	5.8
Inflation (annual avge, %)	4.5	3.8	3.6	3.7	3.5
Govt Balance (% GDP)	-2.4	-3.0	-2.8	-2.5	-2.4

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Mexico	Brazil	Canada	Colombia	US
Income per Capita (USD)	9,690	9,310	49,419	6,393	65,242
Country Population (m)	125.9	210.7	37.3	50.0	329.1
Internet users (% of population)	59.5	59.7	89.8	58.1	76.2
Real GDP Growth (% p.a., 2019 - 2028)	2.5 - 5.0	1.0 - 2.0	1.3 - 2.3	4.2 - 6.7	1.8 - 2.5

Source : Various sources/Dun & Bradstreet

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