Mexican Economy: Recent Performance and Outlook
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* The views expressed here are exclusively the responsibility of the author and do not necessarily reflect the institutional view of Banco de México or its Governing Board.
Summary of Mexico’s economic performance in 2019.

a) Strong macroeconomic fundamentals.
   i. Fiscal responsibility (primary surplus was approximately 1% of GDP).
   ii. Low inflation (2.83%).

b) No growth (0%).
How did Mexican financial assets performed in 2019?

**Asset Performance in 2019**

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Currencies</th>
<th>Stock indices</th>
<th>2Y Interest rates</th>
<th>10Y Interest rates</th>
<th>CDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>Mexico</td>
<td>3.68%</td>
<td>4.56%</td>
<td>-194</td>
<td>-204</td>
<td>-76</td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>-4.02%</td>
<td>31.58%</td>
<td>-210</td>
<td>-255</td>
<td>-108</td>
</tr>
<tr>
<td></td>
<td>Chile</td>
<td>-8.38%</td>
<td>-8.53%</td>
<td>-155</td>
<td>-114</td>
<td>-20</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>-1.01%</td>
<td>19.26%</td>
<td>-20</td>
<td>-58</td>
<td>-85</td>
</tr>
<tr>
<td></td>
<td>Argentina</td>
<td>-58.95%</td>
<td>37.56%</td>
<td>5,238</td>
<td>809</td>
<td>2,497</td>
</tr>
<tr>
<td>Europe</td>
<td>Russia</td>
<td>11.08%</td>
<td>28.55%</td>
<td>-324</td>
<td>-224</td>
<td>-98</td>
</tr>
<tr>
<td></td>
<td>Poland</td>
<td>-1.53%</td>
<td>0.25%</td>
<td>-6</td>
<td>-63</td>
<td>-9</td>
</tr>
<tr>
<td></td>
<td>Turkey</td>
<td>-12.51%</td>
<td>25.37%</td>
<td>-852</td>
<td>-394</td>
<td>-79</td>
</tr>
<tr>
<td></td>
<td>Czech Rep.</td>
<td>-1.16%</td>
<td>13.08%</td>
<td>24</td>
<td>-3</td>
<td>-6</td>
</tr>
<tr>
<td></td>
<td>Hungary</td>
<td>-5.45%</td>
<td>17.74%</td>
<td>-44</td>
<td>-68</td>
<td>-19</td>
</tr>
<tr>
<td>Asia</td>
<td>China</td>
<td>-1.23%</td>
<td>22.30%</td>
<td>-13</td>
<td>-48</td>
<td>-36</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>1.03%</td>
<td>-6.02%</td>
<td>-43</td>
<td>-17</td>
<td>-75</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>-2.30%</td>
<td>14.38%</td>
<td>-65</td>
<td>-67</td>
<td>-45</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>3.67%</td>
<td>4.68%</td>
<td>-241</td>
<td>-248</td>
<td>-55</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>7.93%</td>
<td>1.02%</td>
<td>-64</td>
<td>-84</td>
<td>-19</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>3.64%</td>
<td>1.70%</td>
<td>-152</td>
<td>-90</td>
<td>-70</td>
</tr>
<tr>
<td>Africa</td>
<td>South Africa</td>
<td>2.42%</td>
<td>8.24%</td>
<td>-75</td>
<td>-51</td>
<td>-60</td>
</tr>
<tr>
<td>North America</td>
<td>United States</td>
<td>2.22%</td>
<td>28.88%</td>
<td>-92</td>
<td>-77</td>
<td>-8</td>
</tr>
</tbody>
</table>

Note: Interest rates correspond to swap rates for a period of two and ten years, except for Indonesia and Turkey, where the government values of these terms are used as a reference. Additionally, for Argentina, the sovereign debt rates denominated in US dollars of 2- and 9-year terms are used, as they are the most liquid and those that best reflect the performance of this country's fixed income market.

Source: Banco de México using data from Bloomberg.
Summary of perspectives for 2020.

a) Strong macroeconomic fundamentals.
   i. Fiscal Responsibility (committed primary surplus of 0.7% of GDP).
   ii. Low inflation (approximately 3% by the end of the year).

b) Slight recovery (expected GDP growth of 1.3% /1).

1/ See Quarterly Report, July-September 2019, Banco de México.
Mexico’s current fiscal stance.

Debt to GDP Ratio\(^1\)/

\[
\text{Debt to GDP Ratio} = \frac{\text{Debt}}{\text{GDP}} \times 100
\]

Fiscal (RFSP) Primary Balance \(^2/\)

Thousands of millions of pesos of 2018

1/ The debt concept used to compute this ratio corresponds to the “Saldo Histórico de los Requerimientos Financieros del Sector Público” or SHRFSP which is the widest concept of public debt in Mexico.

\(^*/\) For the year 2019, the ratio is estimated by the author based on the latest figures.

Source: Author’s own calculations using data from SHCP.

2/ The fiscal RFSP primary balance corresponds to the primary result of the “Requerimientos Financieros del Sector Público” or RFSP, which is the widest concept of fiscal deficit in Mexico.


Source: Author’s own calculations, using data from SHCP.
Mexico’s current inflation.

Inflation Rate (Monthly Frequency)

%  

Inflation Rate (Annual Frequency)

%  

CPI\(^1\)/

3.98 5.19 4.05 6.53 3.33 4.40 3.82 3.82 3.97 4.08 3.36 6.77 4.83 2.83

Note: The red line represents the average inflation in the 2003-2019 period (4.13%).

Source: Author’s own calculations, using data from INEGI.

1/ CPI = Consumer Price Index

2/ Since 2003, a permanent inflation target of 3%, with a variability interval of +/-1%, was established.

Source: Author’s own calculations, using data from INEGI and Banco de México.

1/ CPI = Consumer Price Index

2/ Since 2003, a permanent inflation target of 3%, with a variability interval of +/-1%, was established.
Absence of growth occurred since the second quarter of 2018.

Gross Domestic Product
Quarterly growth rate, %, s.a.

s.a. Seasonally adjusted data.
Notes: The dotted red line corresponds to the average in the 2018Q2 – 2019Q4 period. For the fourth quarter of 2019 the growth rate is estimated by the author.
Source: Author’s own calculations using data from INEGI.
Why was there 0% growth in 2019?

a) Global context of weak economic activity.

b) Beginning of a new administration.

c) Some controversial public policy decisions.

d) Restrictive monetary policy.
Weak global economic conditions.

Global Activity Indicators
Annual % change of 3-month moving average and deviation from threshold of 50

Source: Banco de México using information from CPB Netherlands and Markit.
The Mexican economy is closely linked to the US economy.

Manufactures (US vs. Mexico)
Annual percentage change from s.a. series

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufactures, Mexico</th>
<th>Manufactures, United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>-20</td>
<td>-20</td>
</tr>
<tr>
<td>2006</td>
<td>-15</td>
<td>-15</td>
</tr>
<tr>
<td>2007</td>
<td>-10</td>
<td>-10</td>
</tr>
<tr>
<td>2008</td>
<td>-5</td>
<td>-5</td>
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<tr>
<td>2009</td>
<td>0</td>
<td>0</td>
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<tr>
<td>2010</td>
<td>5</td>
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<tr>
<td>2011</td>
<td>10</td>
<td>10</td>
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<tr>
<td>2012</td>
<td>15</td>
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<td>2016</td>
<td>-5</td>
<td>-5</td>
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<tr>
<td>2017</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2019</td>
<td>-10</td>
<td>-10</td>
</tr>
</tbody>
</table>

Correlation coefficient: 0.86

Source: Author’s own calculations using data from INEGI and Federal Reserve Economic Data (FRED).

US Manufactures vs. Mexico’s Overall Activity
Annual percentage change from s.a. series

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufactures, United States</th>
<th>Overall activity (IGAE), Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>-20</td>
<td>-20</td>
</tr>
<tr>
<td>2006</td>
<td>-15</td>
<td>-15</td>
</tr>
<tr>
<td>2007</td>
<td>-10</td>
<td>-10</td>
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<tr>
<td>2008</td>
<td>-5</td>
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<td>2009</td>
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<td>2010</td>
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<td>2011</td>
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<td>2012</td>
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<td>2016</td>
<td>-5</td>
<td>-5</td>
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<tr>
<td>2017</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2019</td>
<td>-10</td>
<td>-10</td>
</tr>
</tbody>
</table>

Correlation coefficient: 0.83

s.a. \ Data is seasonally adjusted.

Source: Author’s own calculations using data from INEGI and Federal Reserve Economic Data (FRED).
External conditions at the beginning of new administrations.

**Mexico’s Gross Domestic Product (GDP)**

Index = 1 for the last quarter before entry of each new administration, s.a.

- 2001: PRI to PAN
- 2013: PAN to PRI
- 2019: PRI to Morena

**US Manufacturing Output**

Index = 1 in the last quarter before entry of each new administration, s.a.

- 2001: PRI to PAN
- 2013: PAN to PRI
- 2019: PRI to Morena

s.a.\ Data is seasonally adjusted.
Source: Author’s own calculations using data from INEGI.

s.a.\ Data is seasonally adjusted.
Source: Author’s own calculations using data from Federal Reserve Economic Data (FRED).
The beginning a new federal administration is typically costly for the economy.

The table below shows the real GDP growth at the beginning of recently elected federal administrations:

<table>
<thead>
<tr>
<th>Year</th>
<th>Previous Year</th>
<th>First Year</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001: PRI to PAN</td>
<td>4.9</td>
<td>4.5</td>
<td>2.3</td>
</tr>
<tr>
<td>2007: PAN to PAN</td>
<td>2.3</td>
<td>3.6</td>
<td>1.4</td>
</tr>
<tr>
<td>2013: PAN to PRI</td>
<td>-2.2</td>
<td>-2.3</td>
<td>-2.1</td>
</tr>
<tr>
<td>2019: PRI to Morena</td>
<td>-6</td>
<td>-5</td>
<td>-4</td>
</tr>
</tbody>
</table>

Note: The first year growth rate for 2019 is constructed using the mid-point of the GDP Growth Forecast interval from Banco de Mexico. See Quarterly Report July-September 2019.

Source: Author’s own calculations using data from INEGI and Banco de México.
Controversial decisions.

a) Mexico City Airport.

b) Pipe-lines contracts renegotiations.

c) No farm-outs (yet).

d) Some public investment projects.
The real interest rate is high.

Short-Term Ex-Ante Real Rate and Estimated Range for the Short-Term Neutral Real Rate\(^1\)

1/ The short-term ex-ante real rate is constructed using the Target for the Overnight Interbank Interest Rate and 12-month inflation expectations from Banco de México Survey. The dotted line corresponds to the midpoint of the range. See box no. 4 in the April-June 2019 Quarterly Report: “Actualización de la tasa neutral de interés de largo plazo en México.”

Source: Banco de México.
The real interest rate is high relative to other countries.

Real Interest Rates across Countries

1/ The real interest rate is calculated subtracting the expected inflation for 2020 from the current policy rate as of January 2020.
Source: Author’s own calculations using data from Banco de México.
Real policy rates and neutral rates estimates from IMF.

Sources: IMF, World Economic Outlook database; national authorities; and IMF staff calculations.

Obtained from IMF report “Regional Economic Outlook: Stunted by Uncertainty”, October 2019.
Consumption and investment have been weak since 2016.
Credit growth for non-financial firms has decreased since 2016.

Performing Commercial Banks Credit to Non-Financial Private Firms\(^1/2\)  
Real annual % change

[Graph showing credit growth for different categories: Large Firms, All Firms, SMEs.]

1/ Data adjusted due to exchange rate variations. 2/ It also includes financing granted by multiple-purpose non-bank financial corporations, regulated entities (sofomes E.R.) subsidiaries of banks and financial groups. 3/ Small and medium-sized enterprises (SMEs)

Source: Banco de México.
Outlook for 2020.

a) Reduction in global trade tensions.

b) Approval of USMCA.

c) People are optimistic, which may increase consumption.

d) Margin for reduction in interest rates (unlike other economies).

e) More experienced federal administration.
Household survey shows there is unprecedented optimism in Mexico.

“During the last 12 months, economic conditions have:”

“For the next 12 months you expect that economic conditions will:”

Source: Household Survey performed by Parametría. Published as “¿Qué mide el Índice de Confianza del Consumidor?” by Francisco Abundis at Milenio website.
Consumer confidence, the wage bill and remittances are reaching historical records.

Consumer Confidence
Response balance

Total Real Wage Bill
Index 2013=100, s. a.

Remittances
Billion of USD and of constant pesos, s. a.

s. a. / Seasonally adjusted figures.
Source: Prepared by Banco de México with information from the National Survey of Occupations and Employment (ENOE, for its acronym in Spanish) and the National Survey of Consumer Confidence (ENCO, for its acronym in Spanish), INEGI and Banco de México.

1/ Prices as of the second fortnight of July 2018.
Source: Banco de México and INEGI.
Conclusions.

- Mexico has strong macroeconomic fundamentals.
- External conditions for this year seem more favorable.
- Monetary and fiscal policies might become less restrictive.
- There is widespread optimism among the general population.
Minimum wage relative to mean wage.

Minimum Wage Relative to Mean Wage, 2000-2019 /1

/1 Mean wages are obtained from IMSS data. Starting in 2019, the minimum wage in the northern border differs from that in the rest of the country. Thus, we take a weighted average between the two regions for that year.

Source: Author's own calculations, using data from Minimum Wage National Commission, INEGI and IMSS.
The output gap in Mexico has gone negative.

**Total Output Gap Estimates 1/**

- **% of potential output, s. a.**

![Graph showing Total Output Gap Estimates](image)

- **IGAE 2/**
- **GDP**
- **95% confidence interval 3/**

![Graph with data points and trend lines](image)
