



Mexico Macroeconomic Report



Macroeconomic Thesis:

Mexico is one of the 15 largest economies in the world and second largest in Latin America. After researching various economic indicators, I believe the Mexican economy to be in a point of expansion. Though expanding, I am bearish due to theories of continued slow recovery for the Mexican economy following the COVID-19 pandemic, various geopolitical factors leading to some uncertainty, and Mexico's dependence on the United States as a trading partner and the current state of the United States economy.

Mexico's initial economic response to the pandemic was lacking, especially in comparison to what was observed in other large economies around the world. They were hesitant to issue new debt for spending, which ran the risk of creating a more severe recession and slowing the resulting recovery. This appears to be the case given the current state of the Mexican economy and its apparent slow expansion, but also creates some uncertainty for the future as they continue that recovery. The economic factors in this report, including unemployment, inflation of consumer prices, consumer confidence, and the performance of one of the top index funds of corporations displays the potential for growth but reinforces the potential for uncertainty and turbulence into the future.

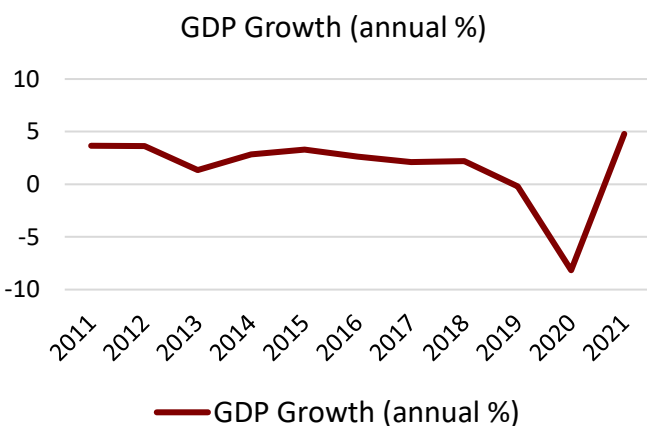
Aside from economic factors and indicators, there are several geopolitical factors to keep in mind that could create benefits or disadvantages for the economy. A significant portion of Mexico's economy depends on having the United States as a trade partner. This could intrinsically tie issues happening in the United States economy to the economic health of Mexico. Additionally, climate change and global warming could pose a considerable threat to several different industries in Mexico.

Economic Profile

Country	Mexico
Currency	Mexican Peso
Population	131.96 Billion
Economy	Developing/ Emerging
GDP	1.29 trillion USD
GDP Per Capita	\$9,926.4
Largest Trading Partner	The United States

Market Outlook

Point in economic cycle	Expansion
Outlook	Bearish



Source: World Bank national accounts data, and OECD National Accounts data files



Economic Indicators

Unemployment Rate:

Unemployment rate can be a strong indicator of an economy's performance and health. It seems like unemployment in Mexico was greatly impacted by the economic crisis and that it took a long time to recover. Following the recovery and like many other countries, Mexico saw a spike in unemployment during the pandemic and appears to have experienced a rapid recovery. Regarding that recovery, it is important to note that the government did not offer much aid or benefits in response to the pandemic and recession. Mexico also has a general lack of unemployment benefits in comparison to their peers potentially creating a more urgent need to return to work. There was also a general disparity of who was returning to work and discussions regarding income inequality remaining consistent or potentially worsening as a result, with the most recent GINI coefficient reported was 45.4 in 2020.

Unemployment Rate: Aged 15-64



Source: Organization for Economic Co-operation and Development, Unemployment Rate: Aged 15-64: All Persons for Mexico (Federal Reserve)

Inflation, Consumer Prices (annual %)



Source: International Monetary Fund, International Financial Statistics and data files (World Bank)

Inflation, Consumer Prices:

The increase of consumer prices can be a generally good indicator of inflation. It measures the the cost of a general basket of goods and services regularly purchased by consumers. The annual change in consumer prices has been fluctuating in Mexico and has been continuously increasing since the dip during the pandemic. The Consumer Price Index itself in Mexico has recently reached a record high of 123.8 and, similarly to other countries, policymakers are trying to manage the increase of inflation through rate adjustments. The uptrend's accepted cause seems to be attributed to internal and external supply shocks, leading to increased pressure on on food prices. Efforts to address the increase of inflation and resulting increase of consumer prices in Mexico do not seem to be having a considerable impact.



Economic Indicators (continued)

Consumer Confidence:

Consumer confidence is measured by averaging varying indices relating to current and expected economic situations of interviewed households and incorporates economic indicators and purchasing realities of consumer goods. Mexico made a considerable recovery following the pandemic, almost to pre-pandemic levels. Over the past year, confidence has decreased which can likely be attributed to increasing inflation and the resulting increase in consumer goods and services. Consumer confidence has been on a consistent decline since the beginning of 2022, reported as 40.3 in August.

Consumer Confidence

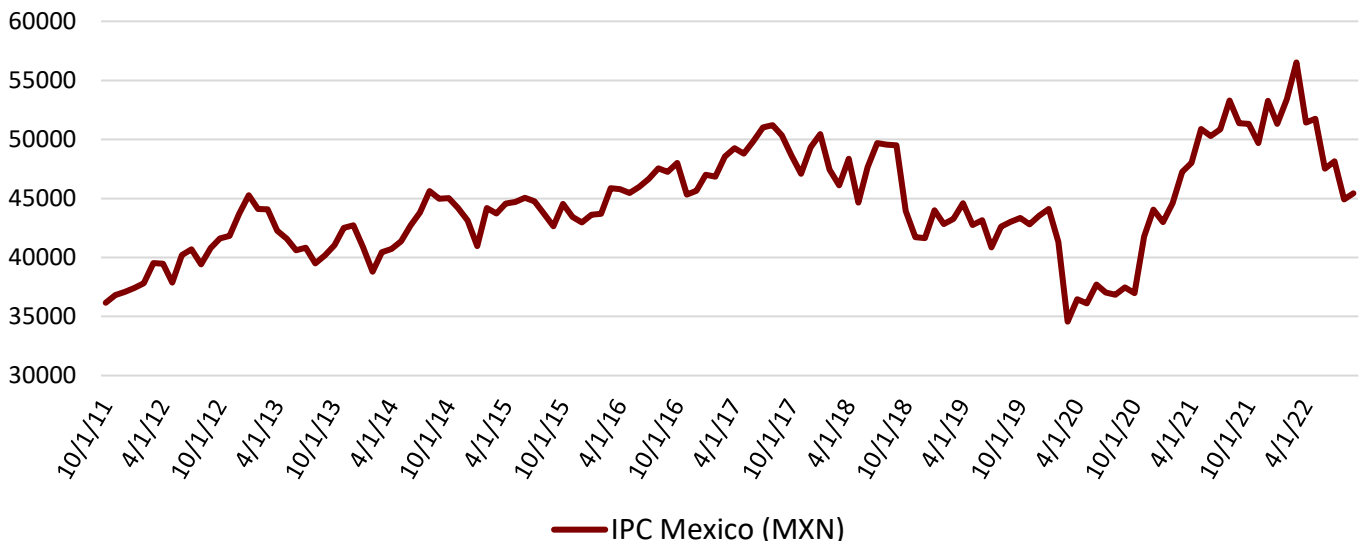


Source: Consumer Confidence (National Institute of Statistics and Geography – INEGI & Bank of Mexico)

IPC Mexico Performance:

Recognized by a few different names and tickers, MEXBOL or The S&P/BMV IPC measures the performance of some of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The Bolsa Mexicana de Valores is one of two stock exchanges in Mexico and the second largest in Latin America. The index can be a good representation of the largest companies in Mexico and a resulting indicator of how well the economy is performing. The performance appears to be following other trends, likely impacted by restrictions and tensions on supply. I've encountered various sources indicating a decrease in manufacturing and exportation of key industries, which is notably reflected in the indexes decreased performance.

IPC Mexico (MXN)



Source: Yahoo Finance & Bloomberg



Geopolitical Factors

Mexico U.S. Trade Relations:

The United States is Mexico's largest trading partner developed over the past 20+ years through the North American Free Trade Agreement. Additionally, Mexico is one of the United States' top export market. One of the primary advantages and continued engagement with trade relations between the United States and Mexico has to do with proximity and sharing a border, but also makes Mexico's economy dependent on the economic health of the United States. There's been increased economic uncertainty in the United States which could be a potential risk for the income generated from exports in Mexico.

Climate Change:

Increased uncertainty and extremity of natural disasters poses a threat for Mexico's economy. Changing severity of tropical storms present a risk for numerous industries, including agriculture, oil, tourism, and more. An extreme natural disaster could impact the strength of any one of these industries and the wellbeing of those who provide those services. In the case of significant damage, it could pose a long rebuild and recovery time. Additionally, and in addition to natural disasters: as global temperatures continue to increase there continues to be the risk of changing travel interests for tourism.