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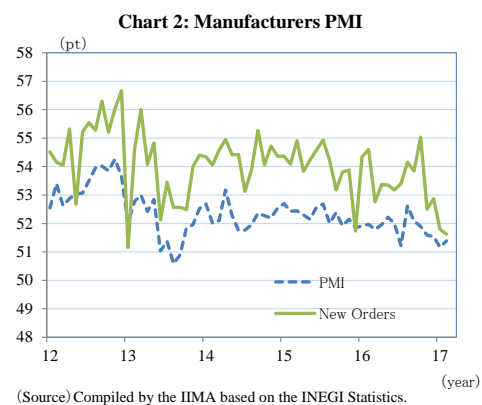
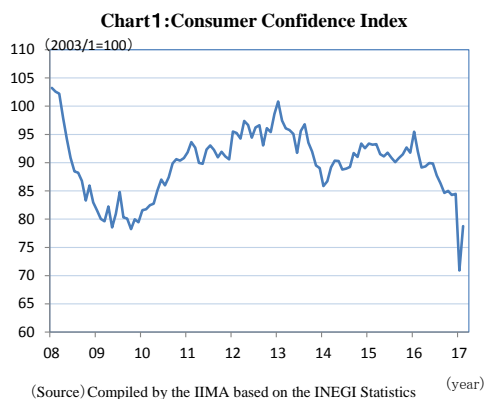
## Shadow of Recession Creeping into Mexico

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Deteriorating foreign relationship between the US and Mexico has been gradually exerting influence on the Mexican economic indicators.

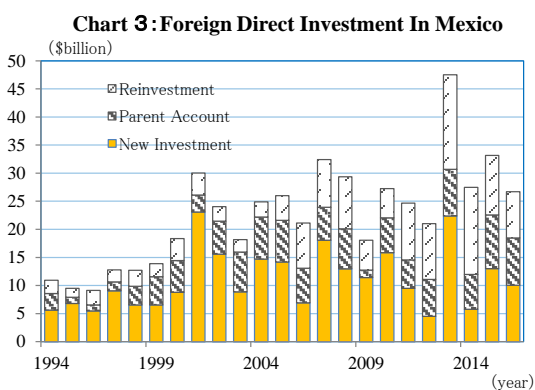
First, the consumer confidence index plunged in January to 70.9 from 84.5 in December. In Mexico, there were expectations that Mr. Trump, despite his extreme remarks during the election campaign, would shift to somewhat more realistic line after he assumed the office of president. However, the words and actions of Mr. Trump around the time of his inauguration betrayed their expectations. The plunge of the confidence index may have reflected the disappointment of Mexicans. Although the index rebounded a bit in February, it stayed at 78.8, only recovering less than 60% of a January drop.

Business outlook also has become gloomier. Manufacturers' PMI improved a little in February to 51.4 from 51.2 in January. There is no significant influence seen on production and sales. However, the new orders, one of the leading indices, remained at 51.6 in February, following 51.8 in January, resulting in an unsatisfactorily low level for Mexico. Since the recovery phase from the Lehman Crisis, it has been only in 4 months that the new orders fell to the level of 51.

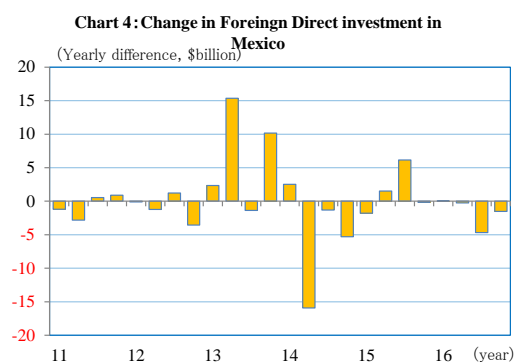


Inflation has also been markedly rising. Consumer price index increased in February by 4.9% from a year earlier, reaching the highest level since March 2010. Mainly prices of imports including cars are rising, and the index excluding foods and energy also increased by 4.3% yoy in February from 3.8% yoy increase in January.

What is more concerned is the flow of direct investment. Foreign direct investment in Mexico amounted to US\$26.7 billion in 2016, decreasing by \$6.5 billion, or 19.6% from the net inflow of \$33.2 billion in 2015. The yearly total remained at the level of 2014, but it will be taken with caution that the decrease concentrated in the latter half of the year (decreasing by \$6.2 billion). The inflow of direct investment accounts for about 10% of Mexico’s fixed capital formation. When we look at its spillover effect together, the foreign direct investment can be said to be an important factor that will determine the middle-term growth capacity of Mexico.



(Source) Compiled by the IIMA based on the statistics of Banco de



(Source) Compiled by the IIMA based on the statistics of Banco de Mexico.

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