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Mexican Economy Surprisingly Strong in early 2017 despite Trump Concerns

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The Mexican economy experienced a much better than expected performance during the first four months of 2017, but uncertainty about future economic relations with the US could restrict economic growth for the rest of the year.

The national statistics agency (Instituto Nacional de Estadística y Geografía, INEGI) said Mexico's GDP for January-March grew by 2.7% relative to the same three-month period in 2016. Furthermore, the economy grew by a seasonally adjusted 0.6% relative to October-December 2016.

According to the INEGI report, the services sector contributed most to the growth, while industrial production largely remains unchanged. The flat growth in the industrial sector was attributed to weak demand in the US, due in part to slow economic growth north of the border in January-March.

"The balance of the economy in the first 100 days of the Trump administration can be summarized in the numbers published by INEGI today," said Luis Madrazo, chief economist at the Finance Ministry (Secretaría de Hacienda y Crédito Público, SHCP). "A higher-than-expected growth rate, and a higher rate of growth compared with last year that is showing resistance to the uncertainty that has hit us from abroad."

Analysts said other positive trends were a drop in unemployment to a nine-year low and a recovery in the peso, which has been rated one of the world's best-performing currencies in 2017. The Mexican currency reached a record low at the beginning of the year, surpassing 21 pesos per US $1.00, due to concerns about US President Donald Trump's policies toward Mexico. Trump's threats to renegotiate or withdraw from the North American Free Trade Agreement (NAFTA) and impose tariffs on Mexican goods (SourceMex, Feb. 1, 2017, and April 26, 2017) sent the peso on a downward spiral, but the peso recovered gradually to reach 19 pesos per US$1.00 in early May.

"The election of Donald Trump last year raised the specter of recession in Mexico as he threatened to shred the North American Free Trade Agreement. This sent the country's peso into a tailspin and prompted several economists to lower growth forecasts," said a Reuters report at the end of April. "While those threats resurfaced this week, slow progress in starting NAFTA talks and an overall softening of rhetoric about US companies that invest in Mexico have calmed the situation."

The online site Market Realist noted that Trump had toned down his rhetoric, which had helped boost the value of the peso. "And the Trump administration has now stated that it plans to stay in NAFTA, a free trade agreement between the US, Canada, and Mexico. Mexico's central bank has also taken steps to lift its depreciated currency," it said.

Lingering uncertainty

Still, the continued uncertainty about NAFTA and Trump's policies has resulted in cautious forecasts about the performance of the Mexican economy. In a report published in mid-April, the International Monetary Fund (IMF) projected Mexico's GDP growth for 2017 at 1.7%.

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"The perspectives for Mexico, one of the world's largest economies, have weakened," said the IMF report in reference to the uncertain nature of Mexico's relationship with the US.

According to the IMF, a major uncertainty for Mexico is whether foreign companies, particularly from the US, would invest in Mexico if the Trump government imposed restrictions.

A US domestic economic policy decision could have negative repercussions for Mexico, according to BBVA Bancomer. Trump has proposed reducing the US corporate tax to 15% from the current 35%, which could encourage US companies to invest at home rather than taking their capital overseas.

"The tax rate in any country creates a cost of production [for the company], and so if your tax rate falls, the country is more competitive," BBVA Bancomer chief executive officer Eduardo Osuna said during the release of the bank's economic results for January-March.

Automobile sector appears healthy

One manufacturing sector that experienced strong growth during the first quarter of the year was the motor vehicle industry, which reported strong sales in January-March. More than 378,000 units were sold in the first quarter of the year, an increase of almost 9% from the same period in 2016, according to the top industry organizations, the Asociación Mexicana de la Industria Automotriz (AMIA) and the Asociación Mexicana de Distribuidores de Automotores (AMDA).

Sales in March alone surpassed 137,000 vehicles, up more than 17% from March of 2017, according to the two auto-industry organizations.

Mexican auto companies exported more than 568,000 units to the US market in January-March, an increase of more than 14% from the first quarter of 2016. The strong trend continued in April, with sales surpassing year-ago levels by 16%. The increases came despite threats by President Trump at the beginning of the year to impose a tax on motor vehicles imported from Mexico (SourceMex, Jan. 11, 2017, and Feb. 22, 2017), said the AMIA.

"Not even the threats from US President Donald Trump were able to disrupt the success of the Mexican auto sector in the US market," said the daily business newspaper El Economista. "The US accounted for 78.6% of the vehicles that were exported during April."

AMIA president Eduardo Solís said the increase in exports of motor vehicles to the US came at a time when overall sales within the US market have contracted. Autos assembled in Mexico previously accounted for 12% of US sales, but the ratio increased to 14% during January-March, the official noted.

According to AMIA, Mexican auto manufacturers also increased exports to other parts of the world in January-March, with sales increasing by more than 26% to Latin America and 34% to European destinations.

Some industry sources are optimistic that the motor vehicle industry will continue to experience growth the rest of the year. According to Alfredo Arzola, director Cluster Automotriz de Guanajuato, auto manufacturers were expected to create 20,000 new jobs in central Mexico this year. Arzola declined to give specific examples, saying that "absolutely all" the auto sector companies in Guanajuato, which include General Motors, Honda, and Volkswagen, were adding jobs.

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