

1. Summary

The Mexican economy continues to grow but at a slower pace. Most important sectors decelerated, mostly those focused on the domestic market. Others with an export focus have been affected by lower international demand, particularly by that of the main trading partner in the North American Free Trade Agreement (NAFTA). However, some service sectors accelerated. Progress in Telecommunications, Financial Services and Insurance stands out.

Mexico's manufacturing exports, which represent about 90% of the total, have been slowing since 2011 with four consecutive quarters of negative growth to the third quarter of 2016. This performance is crucial to the dynamics of business growth and employment. According to **BBVA Research's** estimates, growth of 1.8% of GDP is expected in 2016. Only 12 states would continue to grow more than in 2015. Campeche and Tabasco may continue to decline sharply, while Veracruz might experience a drop in its GDP in 2016.

Mexico's automotive industry has grown in recent years; on average the sector accounts for 10% of Foreign Direct Investment and exports 80% of its production. Mexico stands out as a producer, not only for its advantages in labour or the lower value of its currency compared to other exporting countries, but because it has established free trade agreements with 46 countries, which means direct access to 47% of the world automobile market. Domestic demand recorded the highest consumption levels of the past few years, despite the modest growth of the national economy. This progress is due to a diverse and competitive credit supply, with a low default rate and increasing amounts

In the telecommunications sector we reviewed the effects of asymmetric regulation after the reform of 2014. The strategy of the new legislation focuses on strengthening the regulatory powers of the Federal Telecommunications Institute (FTI), which seeks to eliminate entry barriers, increase penetration rates and encourage infrastructure. Currently, the Institute is empowered to impose limits on market concentration, impose fines and revoke licenses. Despite the reform having recently taken effect, prices have fallen by almost 40% in the last 5 years, contrary to the trend of the economy as a whole.

The flow of trade between the US, Mexico and Canada tripled following the creation of NAFTA. Integration between countries is evident, for example, for US exports. Canada is the first country of destination and Mexico the second, with 16 and 13 percent respectively. At the same time, most of Mexico's exports go to the United States and in 2015 they were eight times higher than in 1995. But the improvement is seen not only through volume, after 22 years, the economies have had the opportunity to specialise according to their advantages. According to the Index of Economic Complexity (IEC) Mexico's productive capacities and knowledge have increased through atomisation within sectors.

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Editorial Board

Carlos Serrano

Jorge Sicilia

This report has been produced by

Editor

Carlos Serrano
carlos.serrano@bbva.com

Alma Martínez
ag.martinez@bbva.com

Alfredo Salgado
alfredo.salgado@bbva.com

BBVA Research

Group Chief Economist

Jorge Sicilia

Macroeconomic Analysis

Rafael Doménech
r.domenech@bbva.com

Financial Systems and Regulation

Santiago Fernández de Lis
sfernandezdelis@bbva.com

Spain and Portugal

Miguel Cardoso
miguel.cardoso@bbva.com

South America

Juan Manuel Ruiz
juan.ruiz@bbva.com

Global Macroeconomic Scenarios

Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets

Sonsoles Castillo
s.castillo@bbva.com

Global Modelling and Long Term Analysis

Julían Cubero
juan.cubero@bbva.com

Innovation & Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

Countries Coordination

Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation

Álvaro Martín
alvaro.martin@bbva.hk

Regulation

María Abascal
maria.abascal@bbva.com

Financial Systems

Ana Rubio
arubiog@bbva.com

Financial Inclusion

David Tuesta
david.tuesta@bbva.com

United States of America

Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico

Carlos Serrano
carlos.serrano@bbva.com

Turkey, China & Geopolitics

Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey

Álvaro Ortiz
alvaro.ortiz@bbva.com

China

Le Xia
le.xia@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Peru

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
julio.pineda@bbva.com

BBVA Research Mexico

Paseo de la Reforma 510
Colonia Juárez
C.P. 06600 México D.F.
Publications:
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