

Mexico Business Forecast Report Q3 2014

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Abstracts

Core Views

We remain optimistic toward Mexico's long-term growth outlook on the back of a booming manufacturing sector, an increasingly strong private consumer and favourable demographics.

The passage of energy sector reform will bolster sentiment towards Mexican assets and contribute to stronger real GDP growth in the coming years.

Major Forecast Changes

After real GDP growth came in at 1.1% in 2013, below our initial 1.6% estimate, we have revised our 2014 growth forecast. We now forecast real GDP to expand by 3.3% in 2014, compared to 3.5% previously.

We have revised our 2014 average exchange rate forecast from MXN12.55/US\$ to MXN12.85/US\$, following a weaker peso than initially expected in Q114, when it averaged MXN13.23/US\$. We revised our 2014 fiscal deficit forecast from 3.1% of GDP to 3.0%, after the fiscal shortfall came in below our 2.5% estimate last year, at 2.5% of GDP.

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BMI Political Risk Ratings

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Potential For A Deterioration In Security Following Chapo's Arrest

We believe that the arrest of international drug kingpin Joaquín Guzmán Loera 'El Chapo', while symbolically important for the fight against illicit-drug trafficking and for President Enrique Peña Nieto's popularity, will not directly lead to significant improvements in Mexico's security environment.

Table: Political Overview

Long-Term Political Outlook

Strengthening, But Challenges Remain

The next decade looks set to be challenging for Mexico owing to a weak security situation, high levels of income inequality and endemic corruption. That said, our core view remains that the country will end the decade in a better position than where it is starting, with potential for some economic reform and a modest improvement in the country's security situation which will strengthen Mexico's political risk profile.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Growth Will Accelerate As Public Investment And Manufacturing Improve

We expect Mexico's economic recovery to gain traction in the coming months, following erratic economic activity in Q413 and Q114. We believe that accelerating manufactured goods exports growth and stronger household spending levels will be the main drivers of faster real GDP expansion. In addition, a recovery in public investment, following significant delays in 2013, will also contribute to stronger growth in 2014 and 2015.

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Manufacturing Sector To Drive External Account Improvements

We expect Mexico's current account deficit to narrow in the next couple of years, driven by an acceleration in export growth, especially of manufactured goods.

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Pacific Alliance: Integration Paves The Way For Enhanced Competitiveness

The Pacific Alliance is fast becoming Latin America's pre-eminent trade bloc, particularly following an ambitious plan to eliminate most tariffs on goods announced in February. We believe that there is still significant room for integration between member states in the coming years, highlighting the services and capital sectors as areas that will require further attention in order to increase investment and realise supply chain efficiencies.

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Stronger Growth Ahead Following The Passage Of Key Reforms

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