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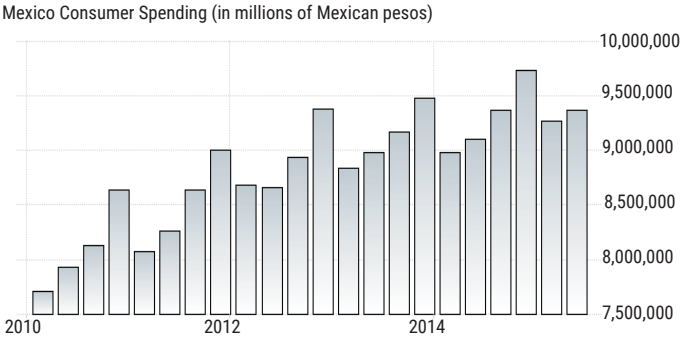
THEDIALOGUE

FEATURED Q&A

Will Mexican Consumers Keep Spending?



Mexican consumer spending has been steadily increasing since 2010. // Chart: TradingEconomics.com with data from INEGI.

Q Mexican consumer spending is on the rise, due at least in part to the recent decline in the value of the Mexican peso, especially for those who receive remittances from the United States. Lower utility and mobile phone bills, as well as a low inflation rate, have also contributed to what the government has called a consumer-led recovery. What is driving consumer spending in Mexico, and what is the outlook for continued growth? How important is consumer spending to Mexico's overall economy? Which sectors are benefiting most from the current trend? Are the government's economic policies working to reduce unemployment and increase Mexicans' disposable income?

A Alfredo Coutiño, senior economist for Latin America at Moody's Analytics: "Household consumption is the largest component of GDP since it represents a little more than two-thirds of domestic production. Thus, changes in its behavior can have strong impacts on growth. However, propelling growth by stimulating consumption through expansionary policies is only transitory. To promote sustainable growth and consequently create permanent and high-quality jobs, an economy requires an increase in the accumulation of capital through fixed investment. Certainly, Mexico's real private consumption seems to show some recovery this year, increasing at an annual rate of 3 percent in the first half of 2015, compared with an advance of 1.5 percent in the first half of 2014, while the economy grew 2.4 percent in the same period of this year. There are two important factors explaining the advance in consumption. First, even though employment has

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TODAY'S NEWS

ECONOMIC

Quito Awards $1.5 Bn Contract for Metro System

The Ecuadorean capital awarded the contract to a consortium led by Odebrecht and Acciona in order to construct part of the city's subway system.

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BUSINESS

Walmex Reports 22% Rise in Profit

Walmart de México reported a net profit of 5.9 billion pesos ($350 million) for the quarter that ended in September. Mexico's largest retailer is focusing on increasing operational efficiency and reducing costs, said Ostalé.

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POLITICAL

Guatemala's Morales Vows to Rein in Military

Guatemalan President-elect Jimmy Morales vowed to curb the influence of the military in his government by not naming any former army officers to top cabinet posts, except for those directly related to the military.

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Morales // File Photo: Morales Campaign.

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POLITICAL NEWS

Guatemala's Morales Vows to Rein in Military

Guatemalan President-elect Jimmy Morales is vowing to curb the influence of the country's military by not naming any former army officers to top cabinet posts except for those directly related to the military, The Wall Street Journal reported Tuesday. Morales made the commitment in an interview with the newspaper late Monday at the end of his first full day as president-elect. "I pledge to not put them in [the cabinet]," said Morales. The United Nations and other groups have accused Guatemala's military of human rights violations, including massacres committed against indigenous groups during the country's civil war. Some Guatemalans have expressed fears that the military could influence Morales' decisions as president. "In order to avoid any suspicion, we are going to name recognized professionals in each government area," he told The Wall Street Journal. Since the Central American country's civil war ended in 1996, the judiciary has repeatedly connected former army officers to corruption and other crimes. Last month, Otto Pérez Molina, a former army officer, stepped down as president after being accused of participating in a fraud scheme involving the country's customs agency. He has denied the charges and is currently imprisoned, awaiting trial. Morales, a former comedian, defeated former First Lady Sandra Torres on Sunday in a landslide, garnering 67.5 percent of the vote. Also the day after his election, Morales said he plans to begin a program to give smartphones to children in 45 of the country's municipalities, Reuters reported. "We are going to give [the phone companies] school and government walls to paint their brand logos on to compensate them," said Morales, adding that he has been in contact with some of the largest telecommunications companies in the country, the wire service reported. Morales has also vowed to fight corruption by boosting the attorney general's budget, increasing transparency of government spending and auditing institutions. Morales also has said he will renew the mandate of the United Nations' International Commission Against Impunity in Guatemala (CICIG), whose investigation led to the resignation of Pérez Molina and other top officials. However, Morales has said little about how he would deal with other issues, such as gang violence. [Editor's note: See **Q&A** on Morales' victory in Monday's Advisor.]

> **"In order to avoid any suspicion, we are going to name recognized professionals in each government area."**
>
> **— Jimmy Morales**

Dominican Republic to Seek Extradition of Pilots From France

The Dominican Republic's government said Tuesday that it would seek the extradition from France of two pilots who were convicted in of drug trafficking in the Caribbean country, BBC News reported. The French pilots, Pascal Fauret and Bruno Odos, were arrested in 2013, found guilty of drug trafficking and sentenced to 20 years in prison. Police reportedly found 1,500 pounds of cocaine inside of 26 suitcases on their plane. Fauret and Odos fled the Dominican Republic and returned to France while their case was on appeal. The pilots' lawyer said in Paris that the men were not fleeing justice and are innocent. However, the Dominican Republic's attorney general, Francisco Dominguez Brito, said his office had contacted authorities in France "to determine how they escaped the country." He added that the Caribbean country's government is seeking an arrest warrant. France's government said it had nothing to do with the pilots' decision to flee, adding the pilots' return to France "was a decision individual to them."

NEWS BRIEFS

U.N. Again Votes to Condemn U.S. Embargo of Cuba

The United Nations General Assembly voted almost unanimously in favor of a resolution that condemns the U.S. trade embargo against Cuba, BBC News reported Tuesday. The motion received more support than in past years. The United States and Israel voted against the resolution, and the other 191 members voted in favor.

Quito Awards $1.5 Billion Contract for Metro System

The city of Quito awarded a $1.5 billion contract on Tuesday to the lowest-costing bidders to build part of the Ecuadorean capital's metro system. A consortium led by Brazilian conglomerate Odebrecht and Spain's Acciona was the winning bidder. The deal comes as Odebrecht's CEO and other senior executives are jailed in Brazil, facing trial for corruption charges, which they deny. The auction process had a slow start before Tuesday, as the city struggled to obtain financing for the infrastructure project.

Brazil to Closely Study Oi, Tim Merger: Communications Minister

Brazilian Communications Minister André Figueiredo said Tuesday the government would have to closely study any potential merger between telecommunications companies Oi and Tim Participações, in order to make certain there wasn't too much concentration in the sector. This comes after Oi announced Monday that the head of the Russian investment firm LetterOne, Mikhail Fridman, was planning on investing $4 billion in Oi, pending a successful merger between Oi and Tim Participações, which is the Brazilian unit of Telecom Italia.

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BUSINESS NEWS

Walmex Reports 22% Higher Profit for Q3

Walmart de México on Tuesday said strong sales boosted its profits in the third quarter by 22 percent year-on-year, Reuters reported. For the three-month period that ended in September, Walmex had a net profit of 5.9 billion pesos ($350 million), beating analysts' expectations.

Ostalé // Photo: Walmex.

Walmex's revenue for the quarter amounted to 117.3 billion pesos, a 12 percent increase from the third quarter of last year. "Overall, we delivered a solid third quarter, with strong top-line growth, and growing earnings faster than sales," Enrique Ostalé, the president and CEO for Walmart Mexico, Central America and Latin America, told analysts on a conference call. "Our focus is on reinforcing our price leadership by driving simplicity, improving operational efficiency and reducing costs."

ECONOMIC NEWS

Brazilians Unwilling to Pay More to Close Fiscal Gap: Poll

Brazilian President Dilma Rousseff's approval rating remains in the single digits, and Brazilians are unwilling to pay more taxes to help close the government's fiscal deficit, according to an opinion poll published Tuesday. The results of the survey, conducted by MDA and commissioned by national transportation lobby group CNT showed that 80.6 percent of Brazilians are not confident that Rousseff can pull the country out of its worst recession in 25 years, and 86.7 percent are unwilling to pay taxes that the government says would be necessary to help recover the economy. One tax the government is hoping to revive, a tax on financial transactions, was met with 70.5 percent disapproval, and most Brazilian lawmakers are opposed to the tax, as well. Of those polled, 69.2 percent said they believe Rousseff is to blame for the Petrobras bribery scandal, and 68.4 percent also blame former president Luiz Inácio Lula da Silva for the corruption. Rousseff's approval rating inched up to 8.8 percent from 7.7 in July. The poll did not ask respondents if they favored Rousseff's impeachment, which her opponents in Congress are currently seeking. The survey of 2,002 people was conducted from Oct. 20-24 and has a margin of error of plus or minus 2.2 percentage points.

Rousseff's approval rating inched up to 8.8 percent.

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advanced at an insufficient rate to absorb the additional labor force, real wages have improved, mainly as a result of higher nominal increases and low inflation, despite no significant advance in productivity. Second, remittances have increased this year because of the improvement in the U.S. labor market for Mexican workers. An additional benefit for recipient families in Mexico is the fact that the strong dollar implies more pesos for them, consequently increasing their purchasing power. However, since the boost that the peso's depreciation gives consumers is only transitory and because the economy continues to advance at a rate below capacity, consumption growth will have to moderate to rates more consistent with the economy's limited growth. Therefore, the rebound has nothing to do with public policies to reduce unemployment or improve disposable income."

Luis Foncerrada Pascal, director at the Center for Private Sector Economic Studies (CEESP): "Remittances have had a critical impact on consumption. From January to August, the country received $16.58 billion, up from $15.63 billion in 2014. That, together with the effect of the decline of the Mexican peso, has led to, for these eight months, an increase of almost half a percentage point of GDP for all of 2015. By far, this is the main reason for the recent trend in consumption. Inflation of 2.7- 3 percent for 2015 has increased real wages by about 1.5 percent. Nevertheless, since June, there has been a loss of more than 600,000 jobs making more than twice the minimum wage. The new jobs created, of about the same number, are lower paying. The total wage mass has an increase in real terms of 0.8 percent year-on-year for the second quarter. Inflation isn't really an element in the so-called consumer-led recovery. The labor gap, which takes into account both unemployed and underemployed persons, adds up to more than 12 million people, or 21 percent of the potential labor force. Last year, the economy did not create jobs, contrary to what the government says, but rather lost 121,000 jobs. The job loss figures come from INEGI, the national

Remittances have had a critical impact on consumption."

— Luis Foncerrada Pascal

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statistics institute. The figure the government and the president use for employment is the affiliation to social security IMSS, which are not new jobs, but mainly the 'formalization' of existing jobs. The government policies are not directed to create jobs, nor to investment. Most of resources are used for government consumption and undoubtedly for electoral expenses."

William Glade, professor emeritus in the Department of Economics at University of Texas-Austin: "With each passing day, it becomes clearer that there is not much difference between the new PRI and the old PRI. Corruption and favoritism continue in their accustomed paths. And ineptitude in law enforcement is as common as ever before. Crimes go unpunished, and criminals go uncaught. Nonetheless, significant changes have been made in economic policy during Peña Nieto's term, over and beyond the partial and belated privatization of petroleum. The simmering unrest in the South is geographically marginal to national stability. On the other hand, the economy has done quite well, considering the sluggishness of so much of the world economy and the modest rate of growth achieved in the domestic economy. Manufacturing production continues to be robust and has been expanding, most notably, in terms of what it says about new capabilities, in the aircraft industry and computers, while the flourishing automotive industry is making continuing headway in export markets. Wagering a guess, one might expect the problems of China and trade liberalization on the Pacific Rim to sustain a further incursion of Mexican products into foreign markets. Indeed, whereas China, earlier on, out-competed Mexico and did damage to a number of Mexican fields of production, today the price level in China has, despite some adjustments in the exchange rate, helped to push demand back toward Mexican producers. Thus, employment and incomes have been sustained in manufacturing, services and agriculture, even though little headway has been made in shifting the labor force into more remunerative jobs. Considering the weakness of demand in Europe, the United States and Canada, not to mention Japan and China, one is inclined to give Mexico high marks for what it has accomplished on the economic side of the ledger, notwithstanding all that remains to be done on the political/administrative front."

> **"Manufacturing production continues to be robust...."**
>
> **— William Glade**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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