

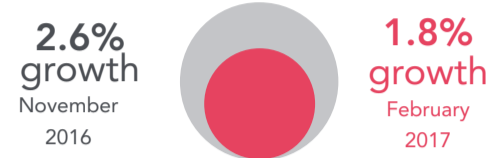


THE CONFERENCE BOARD
GLOBAL ECONOMIC OUTLOOK 2017

Downward revisions to Mexico's short-term growth prospects:

- Domestic policy issues mount
- Tensions with US on trade and immigration increase

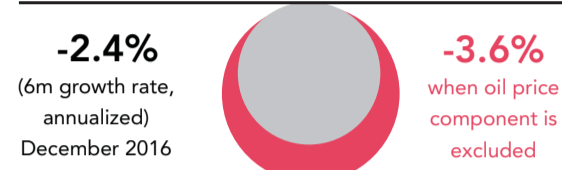
Mexico 2017 GDP projection revised down following Trump's election win



Monetary policy rising policy rate has made credit conditions more restrictive



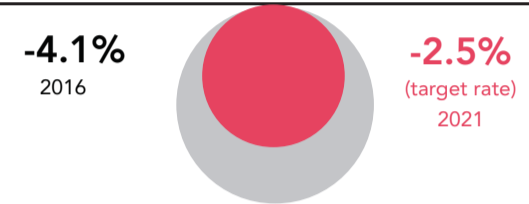
Mexico's Leading Economic Index weakened rapidly during the last quarter of 2016, despite improvement in oil prices



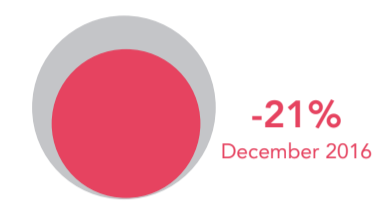
Inflation was up more than 1 percentage point in a year



Fiscal consolidation Public spending reduction will constrain growth in the coming years



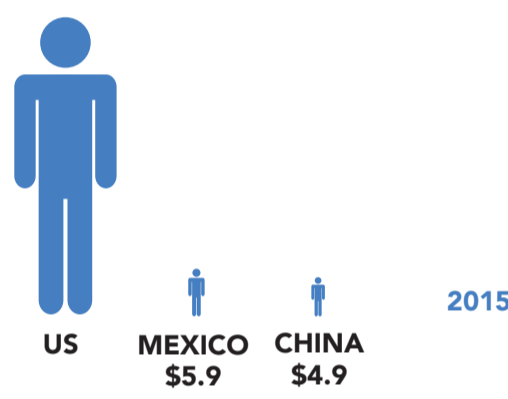
Peso vs. dollar is 21% weaker than a year ago



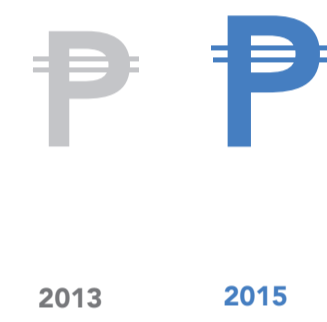
Source: The Conference Board; Banco de México; Haver Analytics

Mexico's competitiveness hinges not on productivity but on low wages and a depreciated currency

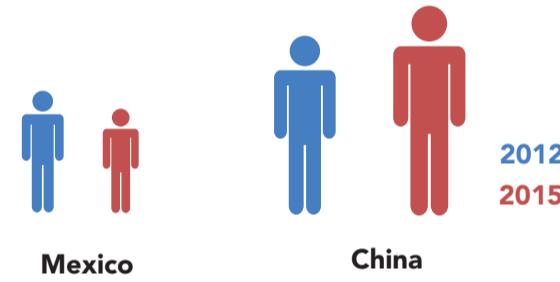
Labor compensation per hour in the manufacturing sector in Mexico was 16% of that in the US but \$1.00 above Chinese levels



Labor compensation in Mexican manufacturing increased 8% between 2013 and 2015 in terms of local currency...



Compensation per unit of output in Mexican manufacturing in US\$ terms has dropped since 2012 and made the economy more competitive despite weak productivity growth



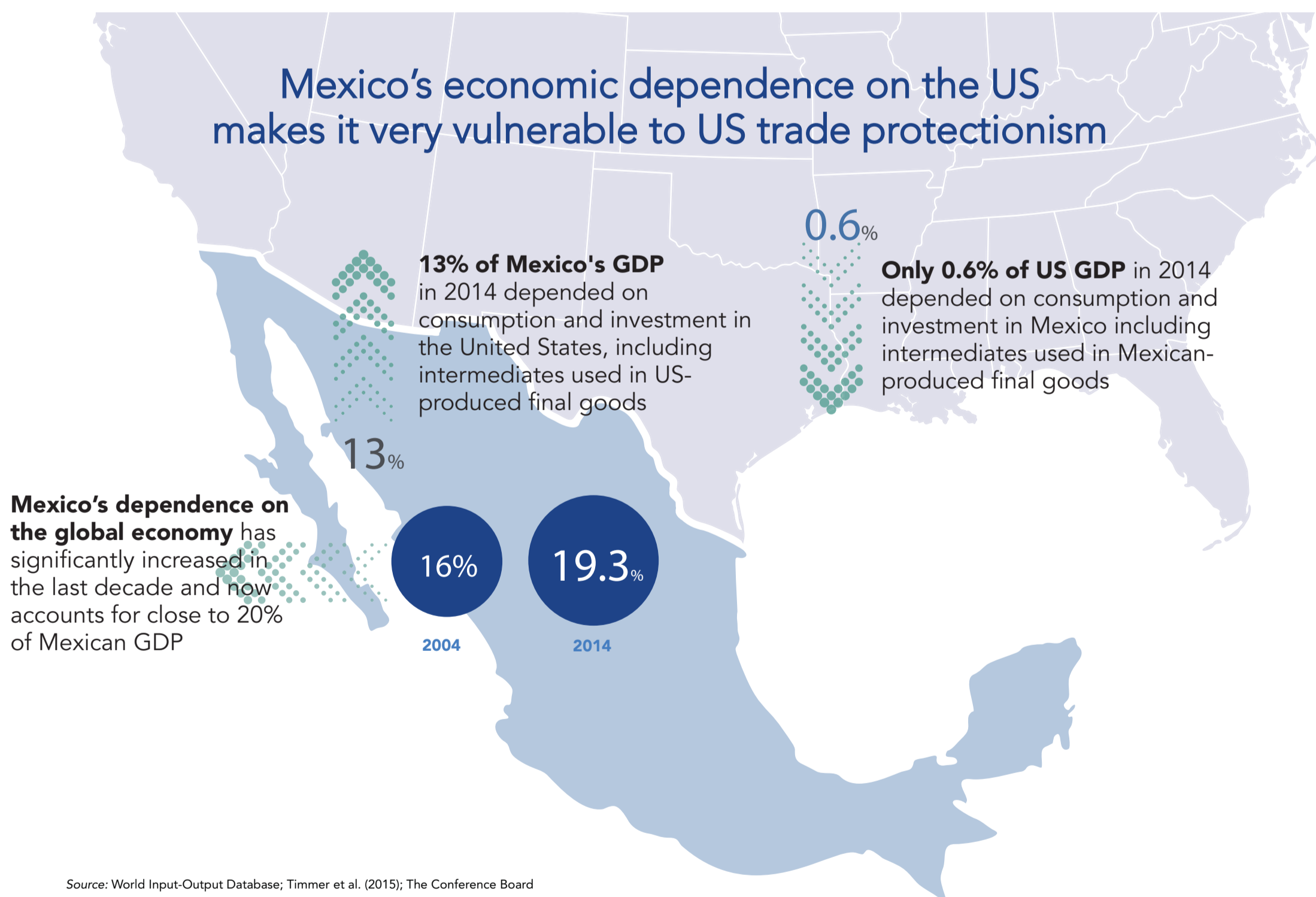
...but dropped 16% in terms of US\$ due to the depreciation of the peso



Source: Instituto Nacional de Estadística y Geografía; The Conference Board

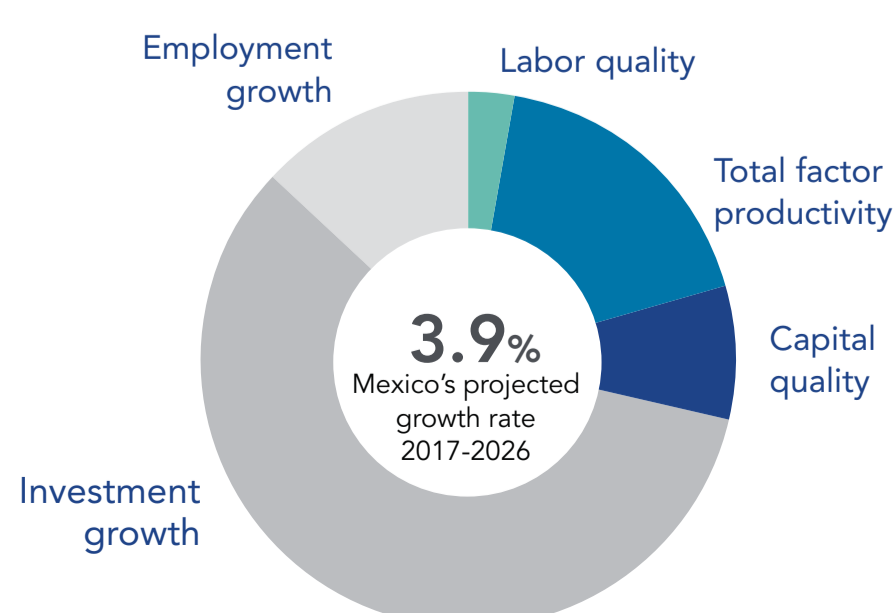
- Labor productivity in Mexican manufacturing is only about a quarter of the US
- Unit labor costs (compensation per unit of output) in Mexican manufacturing were 35% of US costs in 2015

Mexico's economic dependence on the US makes it very vulnerable to US trade protectionism



Source: World Input-Output Database; Timmer et al. (2015); The Conference Board

Qualitative growth sources are critical to Mexico's achieving its economic potential in the next decade



28% Qualitative growth sources —human capital, improved efficiency and innovation (i.e., TFP), and digital transformation— will need to account for 28% of Mexico's growth over next decade to achieve projections

2.8% Without any contribution from qualitative growth sources, Mexico's projected growth rate would be 2.8%

Source: The Conference Board Global Economic Outlook, 2017