Will Mexico's Manufacturing Sector Rebound Soon?

25 November 2019
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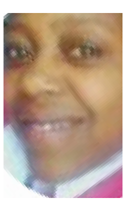

Mexico has been a popular destination for investors in recent years. Although the North American country is still struggling with corruption and organized crime, it has managed to maintain steady economic growth over the last decades. Mexico is now the 11th largest economy by Purchasing Power Parity in the world. Its proximity to the US also makes it a strategic nation to diversify your portfolio.

But of a late, Mexico's manufacturing sector has been facing many challenges. According to The IHS Markit Mexico Manufacturing Purchasing Managers' Index MXPMIM, a metric used to track manufacturing activity in the country, Mexican manufacturing activity dropped for a fourth straight month. It is also the sixth time monthly manufacturing activity has contracted since President Andres Manuel Lopez Obrador took over in December 2018.

The third quarter of 2019 also recorded the worst manufacturing performance in over eight and a half years. But despite this gloomy trend, there are several solid reasons why the sector may rebound sooner than we think.

Mexico Manufacturing Potential

In the last few months, Mexico has managed to negotiate important trade deals with strategic trading partners. The United States Mexico Canada Agreement or USMCA in particular, was a huge achievement for the North American country. The trade deal effectively opened up the US and Canadian markets for Mexican made goods, a huge positive in enhancing growth in the manufacturing industry.

At the moment, trade accounts to a significant percentage of Mexico's total GDP. Additionally, manufactured goods account for a huge percentage of all Mexican exports to other countries. A declining manufacturing industry could pose serious risks to economic growth, something that is likely to draw the attention of the government and policy makers in the country. As a result, it is very likely that we may see a government stimulus to try and revitalize manufacturing in the coming months.

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Mexico has also been gaining some competitive edge in attracting manufacturing investments over rivals like China. There are several reasons for this. First, the North American nation has an abundance of cheap natural gas. This means that energy costs are low and therefore it is possible to produce goods at relatively lower price points. Mexico is also a stone throw away from the US, one of the most important consumer markets in the world. Moving manufactured goods from Mexico towards US consumers is therefore cheaper compared to goods coming from far away manufacturing nations like China.

We are also seeing the labor costs in the country dropping as well. For example, it is estimated that labor costs in Mexico are cheaper right now compared to China. All these factors provide the right conditions for increased investments in Mexican manufacturing moving forward.

Investing In Mexico

In case you want to get some exposure into the Mexican financial markets, the best way to go about it would be through a managed portfolio. The Mexico Fund is offering you this opportunity. The closed end fund invests in equity securities of Mexican companies, including those in the manufacturing sector.

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