



CAPITAL
PARTNERS

CURRENT STATUS AND ECONOMIC PERSPECTIVE US-MEXICO

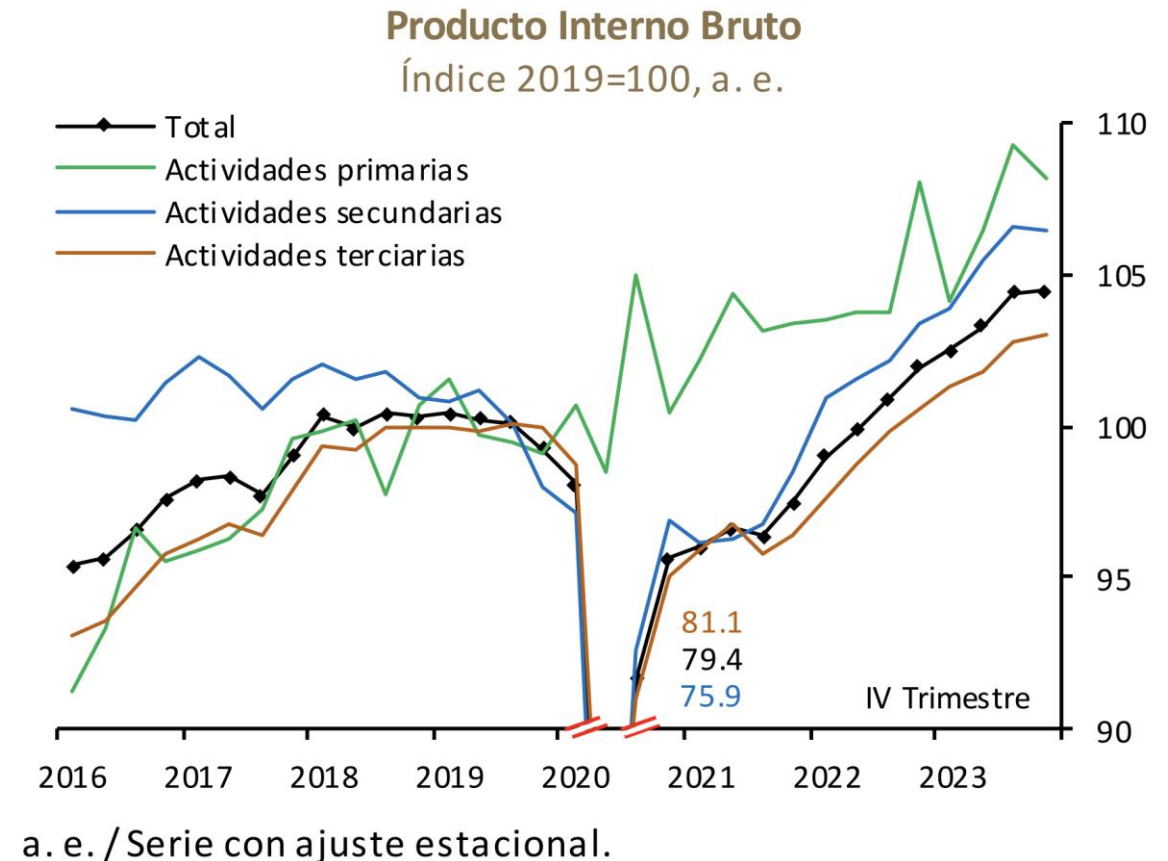
April 2024

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Generalized Slowdown in Economic Growth

In the last quarter, there was a notable deceleration in regional economic activity, with the southern region experiencing a particularly pronounced slowdown. This phenomenon could be attributed to various factors, including sluggish or negative growth in specific industrial sectors. Manufacturing weakness persisted throughout all regions, while challenges in mining were observed in the central and southern areas. Moreover, construction in the southern region exhibited mixed performance despite substantial investment in public works.

Additionally, a decline in tertiary activities, such as tourism and commerce, was evident. Agricultural production notably declined in the north-central region, primarily due to the impact of drought.

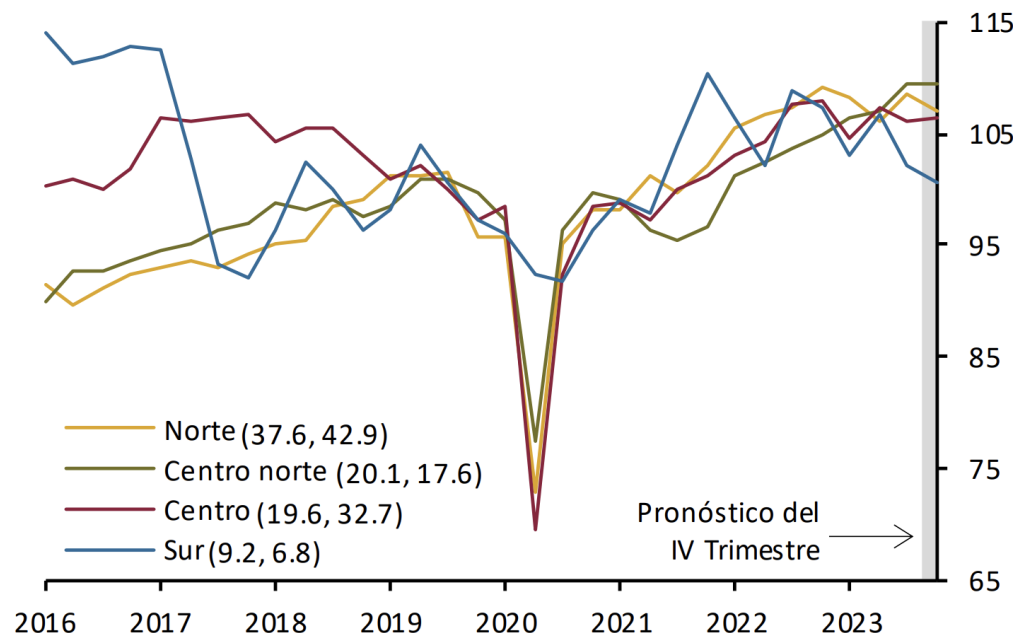


Manufacture in Mexico

From October to December 2023, manufacturing activity in Mexico experienced a downturn, particularly in transportation equipment manufacturing and the automotive sector, influenced by production adjustments. Regional variations were evident, with declines in the northern and southern regions and modest growth in the central area. Challenges included technical interruptions, recruitment difficulties, and the effects of the peso's appreciation on export competitiveness and the cost of imported materials.

Executives in the northern and central regions noted a surge in manufacturing due to the relocation of production lines from Asia. However, they encountered obstacles such as reduced demand stemming from the U.S. economic slowdown, disruptions caused by automotive strikes, intensified border inspections in Texas, competition with Asian products, currency appreciation, high interest rates, and elevated levels of public insecurity. The latter issue notably impacted the plastics industry through incidents of highway robbery.

Indicador Regional de Actividad Manufacturera
Índice 2019=100, a. e.



a. e. /Cifras con ajuste estacional.

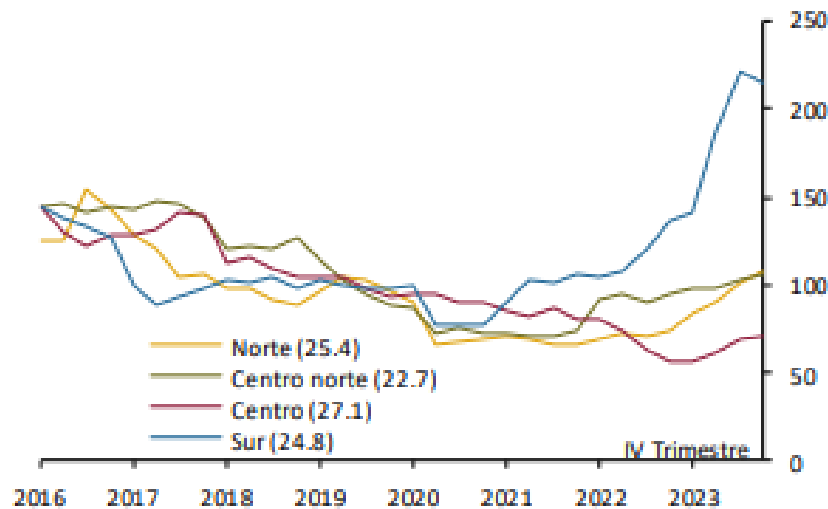
Nota: Entre paréntesis se presenta la contribución del sector manufacturero al PIB de la región y la contribución del PIB de manufacturas de la región al PIB nacional de manufacturas, en ese orden para 2022.

Decrease in Construction in the Southern Region

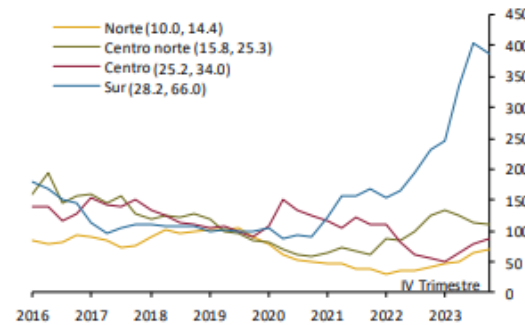
It seems that construction remains as an exogenous and short-term element that generates disproportionate growth in employment and economic activity in the southern part of the country. It is noteworthy that several aggregate indicators appear positive due to railway infrastructure projects in the southern region, but they show signs of starting to decline.

Valor real de la producción en la industria de la construcción por región
Índice 2019=100, a. e.

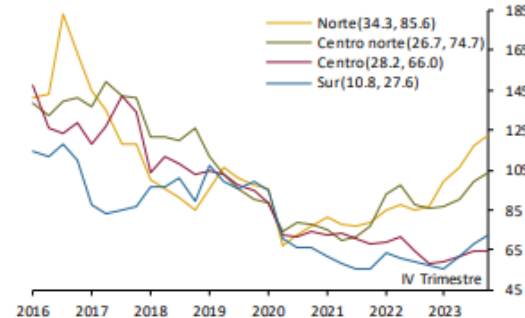
a) Total



b) Pública

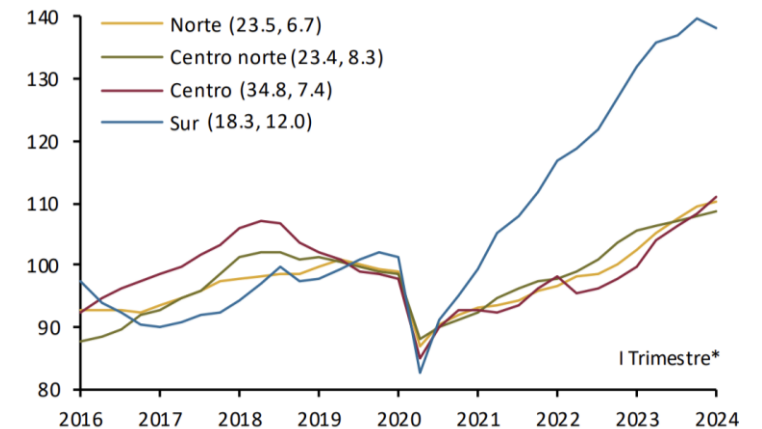


c) Privada



Number of positions affiliated with the IMSS by region, Construction

a) Construcción



Early Evidence of Global Value Chains Realignment

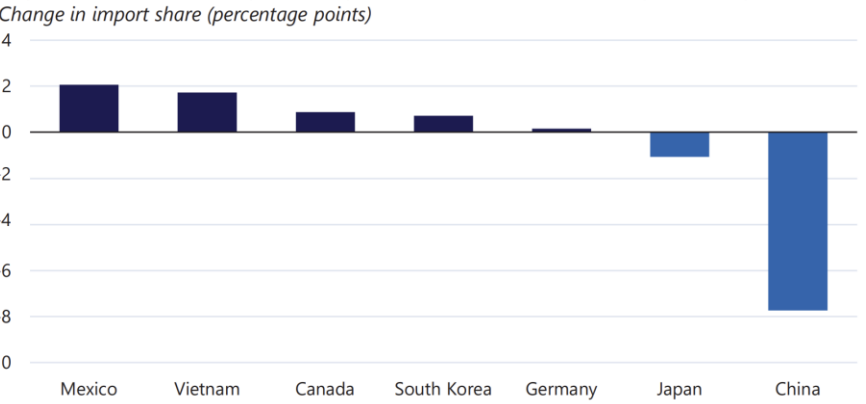
USA's participation in Global Value Chains (GVCs) has decreased since the global financial crisis, as evidenced by the decline in the proportion of industrial supplies imported by the USA from 43% in 2008 to 25% in 2022. This shift indicates a reduction in the establishment of new GVC connections and cross-border investments. However, the USA's involvement in downstream value chains has increased, signaling ongoing global integration.

GVCs have demonstrated their susceptibility to recent economic shocks such as the SARS-CoV-2 pandemic and Russia's invasion of Ukraine, particularly due to geographical concentration in the manufacturing of intermediate goods. Dependence on a single supplier has exacerbated these vulnerabilities. For instance, China's role as the primary supplier of industrial inputs to USA has significantly expanded, rising from being the largest supplier to around 5% of U.S. manufacturing sectors in 1995 to 60% in 2018.

China's portion of USA imports of advanced technology products has notably decreased in recent years. The rise in the USA market share by Mexico and Canada suggests a preference for Nearshoring, while other beneficiary countries remain reliable partners, indicating a trend toward "Friendshoring". These shifts are particularly noticeable in industries affected by high tariffs on Chinese imports.

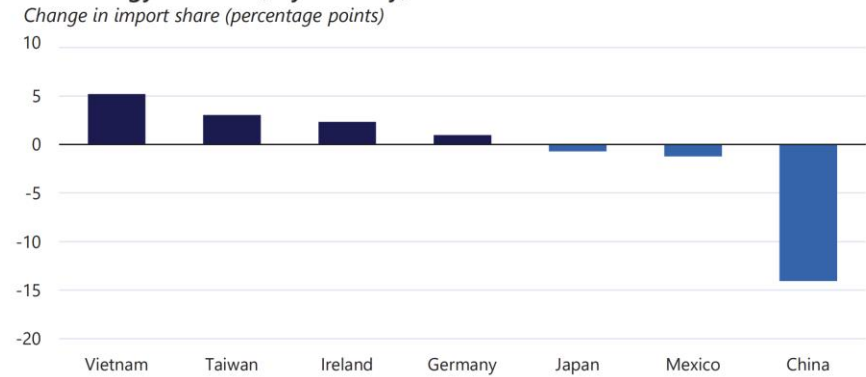
Since 2017, USA import prices from Mexico, Singapore, South Korea, Taiwan, and Vietnam have risen in sectors that have reduced the proportion of imports from China. While diversifying import sources, USA supply chains remain indirectly connected with China. This situation implies that global value chains have expanded, encompassing various Asian economies, reflecting both underlying fundamentals and a potential increase in evasion of U.S. trade restrictions.

Figure 5-11. Percentage Change in U.S. Import Share, by Country, 2017–23



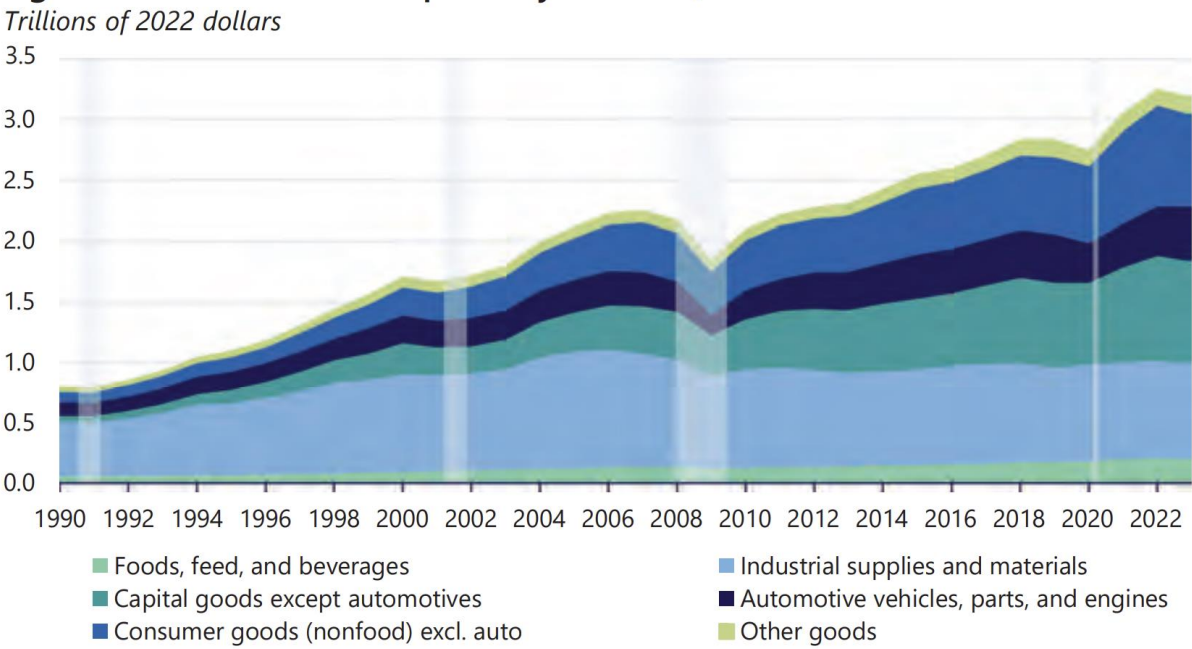
Council of Economic Advisers
Sources: Trade Data Monitor; CEA calculations.
Note: These changes were calculated using nominal import values between 2017 and 2023. These countries were selected based on having the highest import shares in 2023 and largest changes in import shares between 2017 and 2023.
2024 Economic Report of the President

Figure 5-12. Percentage Change in U.S. Import Share of Advanced Technology Products, by Country, 2017–23



Council of Economic Advisers
Sources: Trade Data Monitor; CEA calculations.
Note: Advanced Technology Products (ATP) definition from U.S. Census Bureau. Calculated using nominal ATP import values between 2017 and 2023. These countries were selected based on having the highest ATP import shares in 2023 and largest changes in ATP import shares between 2017 and 2023.
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Figure 5-10. U.S. Goods Imports by End Use, 1990–2023



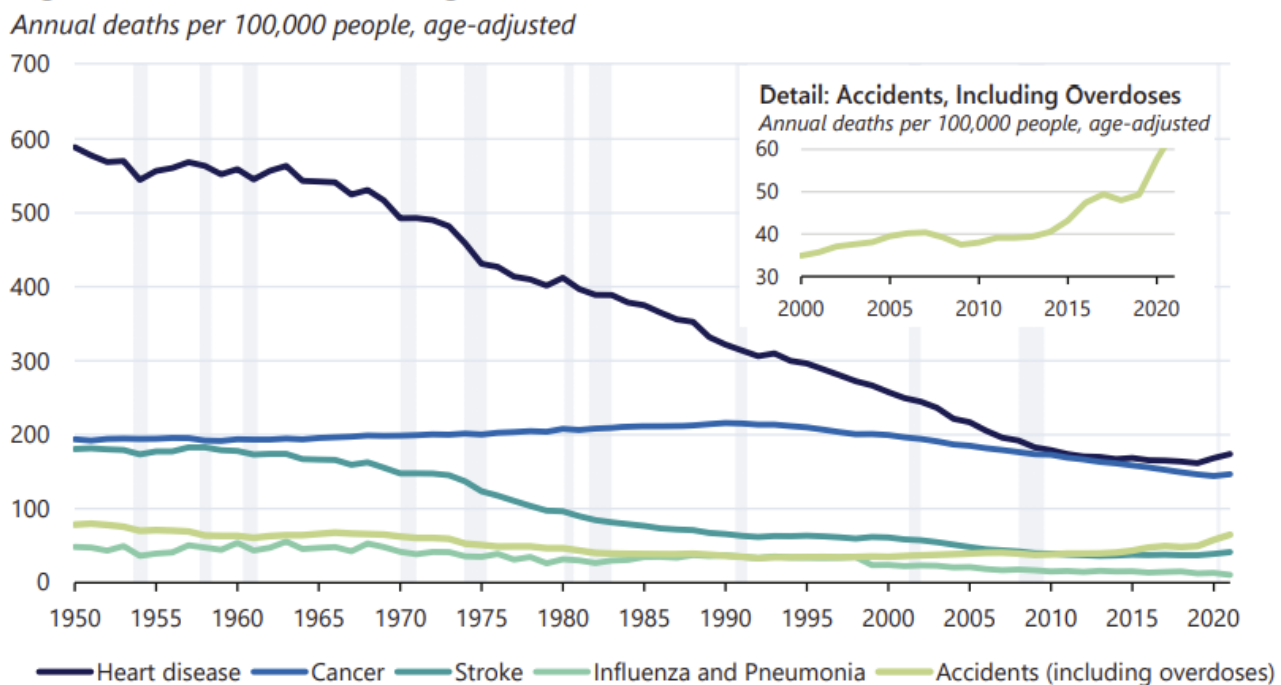
Council of Economic Advisers
Sources: Census Bureau; Bureau of Economic Analysis; CEA calculations.
Note: Trade data are on a Census basis. Deflated using industry-specific import price indexes. Gray bars indicate recessions.
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Substantial Increase in Overdose as a Cause of Death in the USA

While infectious diseases tend to affect the very young and elderly more severely, deaths from external causes predominantly impact older children and middle-aged adults in the USA. Notably, deaths from drug overdoses, categorized as accidental deaths, have surged, emerging as the leading cause of death among individuals aged 25 to 44 in 2021.

Research suggests that the widespread legal prescription of opioids has fueled the current overdose epidemic. Despite regulatory measures, the persistent demand for opioids has spurred an increase in the availability of prescription opioid alternatives, contributing to the escalating rates of fatal overdoses.

Figure 3-5. Selected Leading Causes of Death, 1950–2021



Council of Economic Advisers
Sources: National Center for Health Statistics; Centers for Disease Control and Prevention WONDER.
Note: Accidents refer to all "unintentional injuries," which include accidental overdoses. Gray bars indicate recessions.
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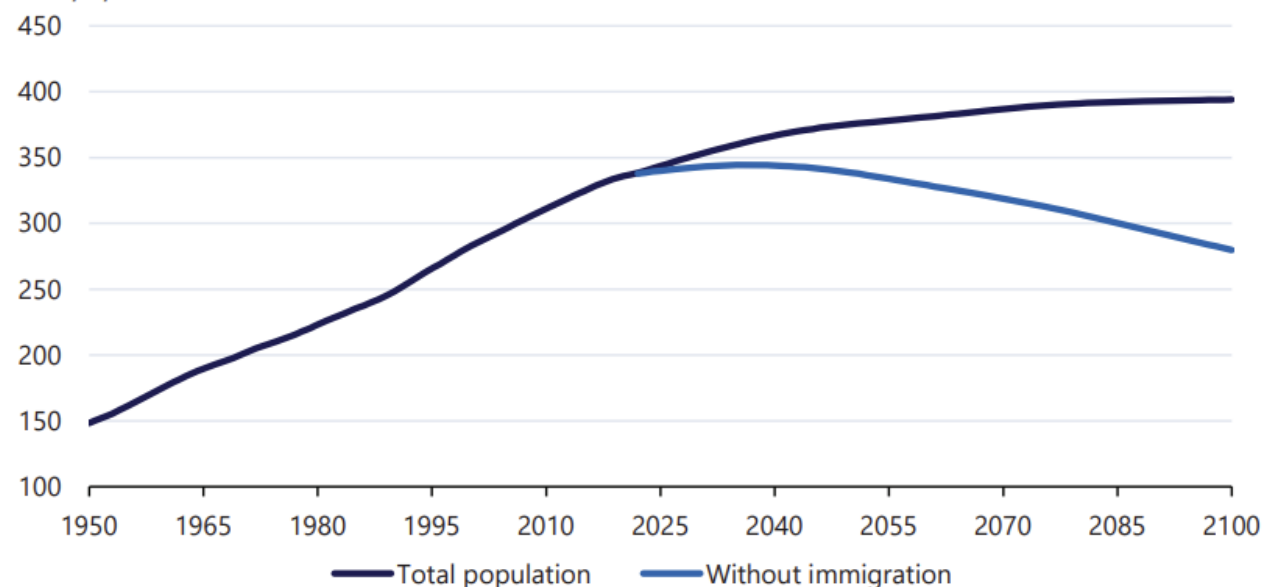
Population and Migration Projections in the USA

It is projected that the population of the USA will begin to decrease in the next 14-16 years without immigration, but could reach nearly 400 million by the end of the century if immigration continues. According to this report, immigration significantly benefits the USA economy by enhancing productivity, entrepreneurship, and innovation. However, the impacts vary among groups and regions, and some low-wage workers may face wage pressure. Localities with many recent immigrants or lower educational levels may experience initial fiscal strains due to lower per capita tax revenues and increased demands on public services.

Population dynamics are crucial in setting the taxable base of the population and, in turn, determining its tax burden. While migration rhetoric tends to surface during electoral cycles, it has remained relatively constant and is essential to the economic and fiscal outlook in the USA.

Figure 3-7. Total Population through 2100

U.S. population, millions



Council of Economic Advisers

Sources: United Nations World Population Projections (2022), medium variant.

Note: The medium variant estimation was used to compute immigration population projections.

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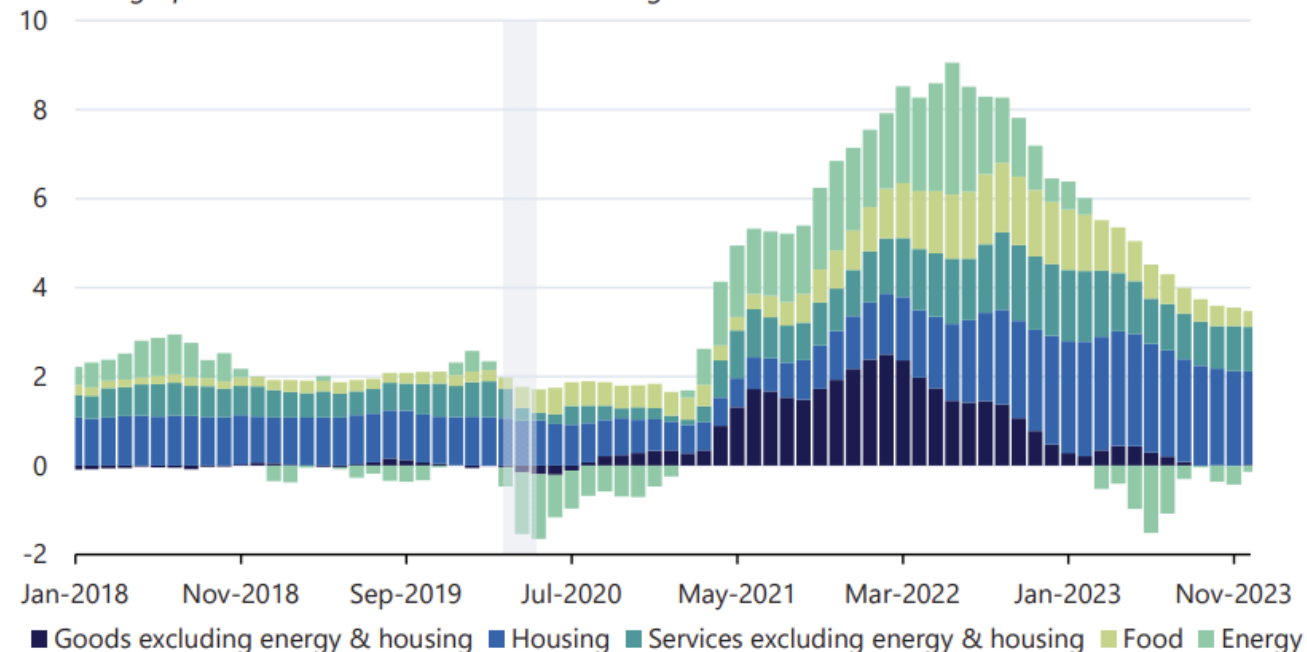
Housing and Inflation in the USA

After reaching its peak level in the summer of 2022, inflation in the USA showed a downward trend until late 2023, mainly influenced by deflation in the food, energy, and goods sectors. Inflation in services, closely linked to wages, decreased more slowly.

Housing inflation, affected by infrequent lease contract renewals, played a significant role in keeping inflation above target. However, a reduction in housing inflation is anticipated, indicating future relief. Stricter monetary policy, resolution of supply bottlenecks, and lower import prices have contributed to the decrease in inflation.

Figure 2-19. Contributions to Headline CPI Inflation

Percentage-point contribution to 12-month change



Council of Economic Advisers

Sources: Bureau of Labor Statistics; CEA calculations.

Note: CPI = Consumer Price Index. Gray bars indicate recessions.

2024 Economic Report of the President

- Banxico, Report on Regional Economies, October - December 2023, Published March 14, 2024
- <https://www.banxico.org.mx/publicaciones-y-prensa/reportes-sobre-las-economias-regionales/%7B55C1BDBE-C08A-2AD8-AA0F-ECDA84C8A940%7D.pdf>
- Economic Report of the President, Council of Economic Advisers
- <https://www.whitehouse.gov/wp-content/uploads/2024/03/ERP-2024.pdf>