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Mexico Suffers Largest Quarterly Decline in GDP in 50 years in April-June

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According to the Finance Secretariat (SHCP), Mexico's GDP fell by a staggering 10.5% in April-June, the largest decline for any quarter during the past 50 years. The report on Mexico's economic growth was part of the financial update presented by President Ernesto Zedillo's administration to the Chamber of Deputies in mid-August. The quarterly report also contained statistics on Mexico's public debt, employment, and other economic data. According to the report, the sharp decline in the second quarter of the year resulted in a drop in GDP of 5.8% for the first semester of 1995, since the GDP had declined 0.6% during the first quarter of the year. The SHCP noted that the decline for the second quarter of this year contrasts sharply with the second quarter of 1994, when the GDP grew by 3.8% (see SourceMex, 08/24/94).

During the second quarter of this year, the only broad category where an increase was reported was utilities, which includes electricity, gas, and water. The increase in GDP in this sector was attributed to continued government expenditures for utility-based public works projects. For other broad categories, the report said agricultural production during April-June declined by 14.7%, while growth fell by 11.3% for the industrial sector, and by 5% for the service sector. In manufacturing, six of the nine subcategories reported declines.

The subcategories that experienced small growth, included the food, beverages, and tobacco category, plus the publishing and editorial products category. In the service category, the report said growth declined by 21.3% for the sector comprising retailing, restaurants, and hotels. Coincidentally, a few days before the SHCP presented its report to the legislature, one of Mexico's largest retail organizations, the Asociacion de Tiendas de Autoservicio y Departamentales (ANTAD), reported that sales by self-service stores as a whole declined by 15% during the first half of the year. According to the ANTAD report, sales by department stores during January-June declined by about 35% from a year ago, while those for supermarkets fell by 10%. The report said sales were especially slow for such products as clothing and "general merchandise," which fell 34% and 24%, respectively.

Meantime, the response of the private sector to the Zedillo administration's GDP statistics ranged from indifference to criticism of the economic policies taken by the administration to deal with the devaluation of the peso and Mexico's economic crisis. "The news only confirmed what we already anticipated, given the high growth in unemployment throughout our country," said Alberto Fernandez Garza, president of the Centro Patronal de Nuevo Leon. In the same report to the Chamber of Deputies, the SHCP said that the country's open unemployment reached only 6.6% in June, unchanged from May. The SHCP said the employment figures were a sign that unemployment had "bottomed out."

However, many business and labor leaders viewed the government's unemployment statistics with strong suspicion, since they only include jobless rates in selected urban areas, and omit

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underemployed workers in the cities and unemployed workers in the countryside. On the other hand, columnist Alva Senzek of El Financiero International weekly business newspaper said the Zedillo administration's unemployment statistics should not be discounted as a method to measure the recessionary trends. "Possibly the most healthy indicator that the recession has finally bottomed out is to be found in the open unemployment index," said Senzek. He noted that the percentage of month- to-month increases in the index have fallen steadily since January. Senzek acknowledged, however, that statistics themselves do not reflect the social costs of the huge job loss created by the economic recession. "Along the way, a minimum of two million persons lost their employment, and it will probably be a year or two before they get it back," he said.

Meantime, in an effort to help reactivate employment, the business organization Consejo Coordinador Empresarial (CCE) during August announced plans to present an "emergency" proposal for the Zedillo administration to promote increased employment. "We have to collaborate in the effort to boost our country's productive capacity and employment," said CCE director Hector Larios. Larios said full details of the CCE report, which has been produced jointly with some labor unions, will be made public by late August or early September. Despite the CCE's good intentions, however, critics remain skeptical on whether the Zedillo administration will pay much attention to the CCE proposal or any other proposals from business organizations.

In a report in early August, the daily newspaper La Jornada said the Zedillo administration has "closed the door" on at least five short- to long-term proposals to reactivate the economy offered by prominent business groups such as the bankers association (Asociacion de Banqueros de Mexico, ABM) and the manufacturing industry chamber (Camara Nacional de la Industria de Transformacion, Canacintra). The proposals have dealt with a wide range of areas, including debt restructuring, tax reduction, support for small businesses, export promotion, and other areas.

Meantime, a new report released by the UN in early August predicts that the Mexican economy will show the greatest GDP decline this year among the world's so-called "developing countries." According to the report, Mexico's GDP will decline by 3% this year, compared with flat growth in Argentina and a GDP increase of 4% in Brazil. The UN's forecast appears to be somewhat optimistic when compared with other recent predictions. However, some analysts suggest this is because the UN report was compiled before the GDP statistics for the second quarter of the year were fully known. In a projection in mid-August, prominent US economist Rudiger Dornbusch of the Massachusetts Institute of Technology projected that Mexico's annual GDP this year would decline by between 5% and 8%.

Dornbusch, who is considered an expert on the Mexican economy, specifically referred to the sharp decline of 10.5% in the second quarter of the year as the principal basis for his forecast. Meantime, the report presented by the SHCP to the Chamber of Deputies also showed that the government had attained a relatively high budget surplus of 15.293 billion nuevo pesos (US$2.46 billion) for January-June, about 302% higher than during January-June of last year. The higher budget surplus was partly the result of the increase in the value added tax (Impuesto al Valor Agregado, IVA), effective on April 1 of this year (see SourceMex, 03/15/95). In addition, the budget surplus also indicated that in January-June the Zedillo administration had only spent about 37% of its planned budget for this year.

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"The budget surplus only means that the government withheld from the public through taxes and other means more resources than were returned to society," said political columnist Julio Boltvinik of the daily newspaper La Jornada. "This withholding of resources represents a direct reduction in demand for goods and services, and in turn a drop in employment levels and in the GDP." Boltvinik also noted that the government's methods to calculate the GDP decline for the year do not take into account the full impact of the peso devaluation and the resulting decline in the economy. "If you compare the GDP for the second quarter of the year with the fourth quarter of 1994, then the decline should be 15%," he said.

Another significant set of statistics reported by the SHCP to the Chamber of Deputies in the quarterly report was a surge in Mexico's foreign debt, which totaled US$83.897 billion as of the end of June, an increase of 9% compared with US$76.889 billion as of the end of December. As a percentage of GDP, Mexico's debt fell from 45.8% at the end of 1994 to about 40.5% in June of this year, due mainly to the completion of payments for expiring Treasury bonds (Tesobonos) and the government's ability to expand its budget surplus through increased taxes. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug 21, reported at 6.21 nuevo pesos per US$1.00] (Sources: Excelsior, 08/09/95, 08/16/95; Notimex, 08/16/95; Reforma, 08/10/95, 08/16/95, 08/17/95; Reuter, Diario de Monterrey, El Economista, 08/17/95; La Jornada, 08/16/95, 08/18/95).

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