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Mexico's Economic Performance in 1995 was Worst Since 1932

by LADB Staff

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In mid-February, the Finance Secretariat (SHCP) announced the final 1995 economic growth statistics for Mexico, which showed that the country's GDP declined by 6.9%, compared with a GDP increase of 3.5% in 1994. According to private economists, last year's decline represented Mexico's worst economic performance since 1932, when the country's GDP fell by 14.9%. In the report, which detailed other economic indicators for 1995, the SHCP acknowledged that the country's poor economic performance resulted in the loss of more than 814,000 jobs and the forfeiture of more than 171.2 billion pesos (US\$22.6 billion) in potential tax revenues.

Indeed, a separate government report released earlier this year said government revenues from all tax sources declined by 21% last year, despite an increase in the value-added tax to 15%. According to the latest SHCP report, last year's GDP decline had an especially negative impact on the construction sector, which experienced a 22% decline. Other sectors that showed major declines were retailing and services, which fell by 14.4%, and manufacturing, which was down 6.4%.

Additionally, declines ranging from 1.9% to 3.8% were reported for agriculture, forestry, and fisheries; transportation and communications; and social services. On the other hand, the SHCP reported modest growth during the year in the financial sector and in the energy sector (which includes gas and electricity generation). The SHCP's final GDP statistics for the year were at the lower end of estimates compiled by Dow Jones-Associated Press before the release of the report. Those estimates of GDP decline, which were based on interviews with economists in Mexico City, ranged between 6.9% and 8%.

Many economists who responded to the survey estimated that Mexico's GDP had declined between 6.8% and 9.3% during the October-December quarter. Therefore, the SHCP's reported decline of only 6.6% for the three-month period was construed as positive by some economists. The SHCP also interpreted the fourth-quarter figure as a sign that Mexico's economy is on the rebound, since the decline of 6.6% was much smaller than the declines of 10.5% and 9.6% reported during the second and third quarters of the year, respectively. "The statistics confirm that the most severe declines in economic activity occurred during the second and third quarters of 1995," the SHCP report said.

Among other things, the SHCP noted that the decline for the manufacturing sector was only 5.5% in the fourth quarter of last year, compared with respective declines of 11% and 9.2% in the second and third quarters. In fact, the SHCP optimistically predicted that the Mexican economy would continue its steady recovery during 1996, resulting in a GDP growth of 3% for this year. In addition, some private analysts pointed to the government's recent report on industrial production for November as evidence that some stability is returning to the Mexican economy. In the report, released in January, the government said industrial production in November was up 4.1% from October, the second consecutive monthly increase. "Recent government statistics do provide some evidence that

a modest economic recovery is in process," said economic analyst Gray Newman of the brokerage company James Capel in Mexico City. However, Newman cautioned that the government has not yet released all the relevant economic statistics to offer an accurate forecast for the economy.

"The question now is whether the government can promote any sort of sustained economic recovery," Newman said.

Indeed, a number of analysts expressed doubt that the Mexican economy has fully turned the corner, especially given the continued high rate of monthly inflation, with a 3.6% rise in consumer prices reported in January (see SourceMex, 02/14/96). In addition to the statistics on inflation, they cited the disappointing income reports by several major companies in Mexico during the fourth quarter. "We simply don't believe that the economic recovery is really beginning to move," said Latin America specialist Geoffrey Dennis at Bear, Stearns and Co. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 19, reported at 7.55 pesos per US\$1.00] (Sources: Associated Press-Dow Jones, 02/15/96; Agence France-Presse, 02/16/96; Reuter, 02/16/96, Excelsior, 02/16/96; New York Times, 02/17/96; La Jornada, 02/17/96, 02/20/96)

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