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## Reports Confirm Negative Impact of Peso Devaluation on Mexican Economy

by LADB Staff

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In early March, the government and a private industry organization issued separate but related reports confirming that the devaluation of the peso in late 1994 had a profoundly negative impact on key sectors of the economy last year. One report, released by the Finance Secretariat (SHCP) on March 7, said Mexico's industrial production last year declined by 8% compared with 1994, reflecting a sharp contraction of the domestic market. A separate report, released by the top retailers organization in Mexico City (Camara Nacional de Comercio, CANACO) on March 11, showed that 1995 sales of goods and services at the retail level declined by 48% compared with 1994. Both reports said the sluggish performance in the industrial and retail sales areas reflected the decline of 6.9% in Mexico's GDP last year (see SourceMex, 02/21/96).

In the industrial-production report, the SHCP said three of the four broad categories of production in Mexico experienced a severe contraction. The only category to show overall growth was energy production, which increased by 3% relative to 1994. This category includes electricity generation, which is one area the Zedillo administration is opening to the private sector. Some growth was reported in some subcategories. For example, production of basic metals, which falls under the manufacturing category, increased by a whopping 9%, compared with 1994. However, this increase was more than offset by declines in seven of the other eight manufacturing subcategories. This, in turn, resulted in a contraction of 6.6% in the overall manufacturing category, which accounts for one-fifth of Mexico's total GDP.

The SHCP report attempted to put the figures in a positive light, suggesting that, despite the overall decline in industrial production for 1995, statistics for December indicated that the Mexican economy was about to recover. To prove its point, the SHCP said the 4.9% decline in industrial production for December was the smallest for any month in 1995. The December decline was indeed small when compared with declines of 13.9% in April, 11.8% in June, 12.1% in August, 11.9% in October, and 8.1% in November. The SHCP report made special mention of the strong performance by the mining sector last year, which reported a 3.1% increase in production compared with 1994. The increase in mining production was primarily the result of greater extraction rates for such minerals as fluorite, coal, and copper.

In addition, higher extraction rates were also reported for such products as crude oil and natural gas, partially compensating for reductions in production in October and November. Still, the SHCP report acknowledged that the two categories that remained severely depressed during December were construction and manufacturing. The construction industry experienced an 18.6% contraction during December, compared with the same period in 1994, while the manufacturing sector reported a 3.2% decline in production that month. A number of economists, while acknowledging that the December statistics could be construed as a sign of recovery, said overall trends must be measured over a longer period. For example, they noted that statistics for the fourth quarter of the year show a

decline of 8.3% in industrial production, compared with the same period in 1994, which is the worst performance for any quarter since 1986.

According to the daily newspaper Reforma, the industrial production statistics also show that the Mexican economy is becoming more and more polarized, with a handful of companies thriving, but the vast majority facing the danger of bankruptcy. The March 8 Reforma article said a few large companies are surviving and even prospering because they have managed to establish a presence in the export market. This means that only 3% of Mexico's companies did well during last year's economic crisis, since 97% of the country's businesses are small- and medium-sized operations. The article said that even seemingly successful sectors, such as the steel industry, have some companies that are succeeding and others that are performing poorly. The steel companies that have reported at least moderate profits over the past year include AHMSA, Hylsamex, TAMSA, and ISPAT. These companies have managed to expand by an average of 42.5% because of an increase of more than 300% in exports.

On the other hand, Reforma noted that other steel companies, such as Aceros Automotrices, Aceros Estructurales, and Compania Mexicana de Perfiles y Tubos, whose production depends heavily on the domestic market, reported declines of up to 70% in total sales. Executives for Compania Mexicana de Perfiles y Tubos and Aceros Estructurales told the newspaper that a large percentage of their business involves sales to the construction industry, which was one of the most depressed sectors last year. Luis Gonzalez, director of Aceros Estructurales, said sales have remained depressed during the first two months of 1996, which raises doubts about the government's forecasts for an economic recovery this year.

Indeed, many business organizations continue to pressure the government to keep its pledges under the economic and anti-inflation agreement reached with labor and business (Alianza para la Recuperacion Economica, APRE) to increase government expenditures on key areas of the economy. The agreement, while focusing on limiting inflation, is also intended to promote growth. "We have yet to see signs of economic recovery," read a joint statement by Hector Larios, president of the business coordinating council (Consejo Coordinador Empresarial, CCE), and Manuel Robleda, head of the Mexican Stock Exchange (BMV).

While the recent SHCP report mentioned only sales of industrial products, CANACO's report of a 48% decline in sales of goods and services in 1995 also caused some alarm among economists. According to CANACO, the depressed retail economy last year had a direct impact on nearly nine out of 10 retail businesses in Mexico City. The greatest declines were reported by companies that rely on sales to construction-related enterprises. Additionally, sales of automobile parts also declined significantly. CANACO's statistics primarily covered trends in Mexico City and the organization said the severe contraction in retail sales last year forced many small- and medium-sized companies to go bankrupt or to seek a different product or service to sell.

The CANACO report suggested that the domestic market will remain depressed at least until 1997. Even if the economy undergoes some recovery by that time, the organization said, there is no guarantee that the Mexican population would see the same level of purchasing power that prevailed before the devaluation of the peso in 1994. CANACO said other areas necessary to overall economic

growth in Mexico will be very slow in recovering, including domestic savings, construction, and sales of real estate.

On a related matter, a survey conducted by the Gallup organization in Mexico showed that consumption levels in Mexico's three largest cities Mexico City, Guadalajara, and Monterrey are now one-half of what they were before the devaluation of the peso in December 1994. A large percentage of the respondents to the Gallup poll, which was conducted on Jan. 20-28, expressed strong skepticism about the Zedillo administration's economic policies. Many respondents said they were confident that the private sector will not remain idle in the face of the crisis but will begin to take a stronger initiative in the country's economic recovery.

Still, only 68% of the respondents said the economy is worse or much worse than it was in 1995. In a similar poll taken after the devaluation of the peso in January 1995, 94% of respondents said the economy was worse than the year before. "Many respondents feel that the economic crisis has touched bottom and cannot get worse," said a Gallup summary of the findings. The depressed Mexican economy has created other social problems for Mexico, including a significant increase in crime. According to a report published by the Interior Secretariat (Secretaria de Gobernacion, SG), several categories of crime have increased significantly during the past year, especially robberies, assaults, homicides, bank holdups, and kidnappings.

"A public-opinion poll reveals that seven out of 10 Mexicans feel their greatest concern now is the lack of personal security," said the SG report. "Only six months ago, the greatest concern for most Mexicans was the country's economic decline." The increase in crime has prompted Interior Secretary Emilio Chuayffet Chemor to create a special task force to coordinate a national fight against crime. (Sources: El Financiero, 02/29/96, Agence France-Presse, 03/05/96, 03/07/96; Reforma, 02/29/96, 03/08/96; La Jornada, 03/07/96, 03/08/96, 03/11/96)

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