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In early May, the Finance Secretariat (SHCP) reported a negative GDP growth of just 1% for the January-March quarter of this year, the smallest three-month decline in Mexico since the country slipped into economic crisis in the first quarter of 1995. Although only a modest improvement in economic performance, the first-quarter showing encouraged President Ernesto Zedillo's administration to forecast a relatively strong GDP expansion of 5% for the second quarter of the year. In fact, the administration said the first-quarter statistics have reinforced the government's original forecast of an overall growth of 3% for 1996. If accurate, it would mark a major turnaround from 1995, when the GDP declined by 6.9%. "The economic performance during the quarter under study is encouraging because it shows that our economic measures have been right on target," said Zedillo in a speech to a group of insurance executives in mid-May.

In fact, the Zedillo administration and some private economists now insist that full economic recovery is just around the corner. At a press conference in early May, Trade Secretary Herminio Blanco Mendoza said that the Mexican economy has improved gradually but steadily since mid-1995, going from a 2.9% decline in GDP in the third quarter, to a 2.3% drop in the fourth quarter, and finally to just a 1% fall in the first quarter of this year. Indeed, the SHCP's report for GDP growth during the first quarter showed some encouraging trends, such as a 2.4% expansion in the industrial sector as a whole, and a 4.2% growth rate in manufacturing. On the other hand, the services sector experienced a decline of 3.2% in GDP during the first quarter, while construction fell by 6.8% in the same period.

Within the manufacturing sector, five out of nine categories reported growth, including the category for textiles and footwear, which in recent months had declined noticeably. Growth was also reported in the mining sector, in utilities (electricity and gas), and in agriculture and fisheries. Still, growth in those sectors was largely offset by sharp declines in retailing, restaurant and hotel businesses, and the publishing and paper industry. A separate set of data published in mid-May by the national statistics institute (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) provided further insight on economic performance. The INEGI report, which only covered the January-February period, indicates that 29 out of a total of 49 economic categories registered positive GDP growth in the first two months of the year, while economic performance in the other 20 categories remained weak.

According to INEGI, the most prominent recovery took place in the production of motor vehicles, electric machinery, steel, and fertilizers. In contrast, nonmetallic minerals, nonelectric machinery, transportation equipment, and editorial products all showed GDP declines that ranged from 14% to 25%. Meanwhile, at least one steel industry executive projected a positive performance for his sector for the rest of the year. "We see quite a few projects coming on-line," said Hylsamex president Alejandro Elizondo. "We anticipate a good second half of the year." The government's

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GDP forecasts for 1996 coincide with the release of the latest official report on employment trends. According to the report, in April the unemployment rate declined slightly to 5.9% of the economically active population (EAP), a drop of one-tenth of one percent from the 6% rate registered in March. In fact, the rate has declined gradually each month from a high of 6.4% in January. According to INEGI, the April statistics represent a substantial improvement over the rate of 6.3% registered in April of last year. "The indicator at least shows that the economy is generating jobs, which should be reflected in stronger consumption," said Pablo Riveroll, Latin America analyst for Merrill Lynch in New York.

Indeed, President Zedillo predicted that, when updated INEGI statistics are released later this year, they will show a constant decline in the unemployment rate throughout the first half of 1996. He said the increase in jobs in Mexico is reflected in the growing number of Mexican workers who are eligible to receive benefits through the social security institute (Instituto Mexicano del Seguro Social, IMSS). Those benefits are usually offered through an employer. As of April, the number of new workers who began receiving IMSS benefits this year surpassed 52,000.

Additionally, the Zedillo administration's efforts to control inflation appear to be generally on track, although the government is not likely to meet its original target of 20.5% annual inflation this year. Statistics published by the Banco de Mexico (central bank) show that the consumer price index (Indice Nacional de Precios al Consumidor, INPC) only climbed by 0.95% during the first half of May. That brings accumulated inflation for January 1 to May 15 to 11.8%. According to a Trade Secretariat (SECOFI) projection, the INPC for May will amount to less than 2%, which would bring accumulated inflation for January-May to about 13%. If that projection is accurate, it would mean that the INPC must average only 1% each month between June and December for the administration to meet its original target of 20.5%.

However, the government will be hard pressed to keep inflation to 1% per month because of an expected jump in food prices later this year. A lingering drought in northern Mexico is expected to take its toll on prices in the second half of 1996. "There is general anxiety about the possibility that price hikes for basic grains could reach as much as 80% because of the drought," said Arturo Lomeli, director of Mexico's largest consumer rights group (Asociacion Mexicana de Estudios para la Defensa del Consumidor, AMEDEC). According to deputy trade secretary Eugenio Carrion, the Zedillo administration is attempting to ease the impact of the drought by authorizing the import of 5 million metric tons of corn and more than 250,000 MT of beans this year.

Indeed, the national agricultural council (Consejo Nacional Agropecuario, CNA) reports that, as a result of the drought, total basic grain imports will reach 11.23 million MT this year, an increase of almost 35% from 1995. Another inflation forecast, offered by economists at El Inversionista Mexicano, suggests that the INPC will remain relatively low in the coming months but will increase somewhat in the third and fourth quarters, resulting in an annual inflation rate of about 27%. "From May through July or August, prices will increase at a smaller rate than they did in the first four-month period of the year," said the report, which was published in the daily newspaper Excelsior. However, at the start of the school year in September, and then again during the Christmas holiday shopping season in December, the INPC is likely to increase much more, according to the report.

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Meantime, the business community offered a mixed reaction to the Zedillo administration's economic projection for this year. Leaders from several industrial and business chambers agreed that conditions are ripe for the Mexican economy to show sustained growth this year, even beyond the 3% GDP growth forecast by the Zedillo administration. "This report confirms that the Mexican economy is in the midst of a solid recovery now, and it supports our optimistic 1996 GDP forecast of 4%," said the market analysis unit MMS International. Similarly, the business coordinating council (Consejo Coordinador Empresarial, CCE) forecast a GDP increase of 3.5% for this year.

On the other hand, some members of the business community disagree with what they perceive as "overly optimistic" forecasts. "I don't think there is enough evidence right now for us to say the country is recovering," said Alfredo Livas Cantu, financial director of Mexico's giant conglomerate Fomento Economico Mexicano (FEMSA). "Maybe after the end of the second quarter, with half the year behind us, we can tell if there is going to be an important recovery." Some business leaders and economists also cautioned that growth will only occur if the Zedillo administration creates a more stable political environment, and if it moves to rectify structural weaknesses in the Mexican economy, such as a feeble banking sector, an erosion of worker purchasing power, and the still relatively high unemployment rate in Mexico.

A number of these business leaders also demanded that the administration take more direct action to push economic recovery, such as a reduction in business taxes. Victor Manuel Diaz Romero, president of the national confederation of industrial chambers (Confederacion Nacional de Camaras Industriales, CONCAMIN), said the administration could reduce income taxes (Impuesto Sobre la Renta, ISR) for businesses, and it could lower the value-added tax (Impuesto al Valor Agregado, IVA) back to 10%. The Zedillo administration raised the IVA to 15% in March 1995 as part of the emergency economic measures imposed after the devaluation of the peso in late 1994 (see SourceMex, 03/15/95).

"We are pushing for a tax reform that will stimulate reinvestment of profits into the economy," said Carlos Abascal Carranza, president of the employers confederation (Confederacion Patronal de la Republica Mexicana, COPARMEX). He said any tax reform should also encourage the creation of new businesses throughout the country and allow existing companies to invest more in research and development. The business community's call for lower taxes appears to have attracted the attention of key legislators. In early May, Senator Carlos Sales Gutierrez, who chairs the Senate Finance Committee (Comision de Hacienda), told reporters he expects a tax-reform package to reach the Senate floor by the next legislative session, which begins in September. Sales said the changes will be geared toward providing assistance to small- and medium-sized businesses.

Separately, in early May Mexico's Catholic Bishops' Conference issued a report on Mexico's economic system. The bishops urged the Zedillo administration to take steps to address the disparities caused by the economic crisis, which has led to a concentration of 40% of Mexico's earnings in the hands of the wealthiest 10% of the population. According to the report, Mexico's ability to address the needs of its population are hampered by a surge in foreign debt, which stands at US$170 billion, or the equivalent of 58% of Mexico's annual GDP. The bishops said Mexico's 6.9% decline in GDP in 1995 placed the country in last place among Latin American nations last year in economic performance. "As a result, our country experienced a surge in unemployment, a large

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rate of business bankruptcies, and a decline in the daily consumption of average Mexicans," the report said. (Sources: Inter Press Service, 05/17/96; Reuter, 05/21/96; Agence France-Presse, 05/17/96, 05/21/96; La Jornada, 05/10/96, 05/22/96; The News, 05/21/96, 05/22/96; Novedades, 05/21-23/96; Reforma, 05/14/96, 05/24/96; Excelsior, 05/21/96, 05/22/96, 05/28/96)

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