High Unemployment, Debt Reflect Structural Weakness in Mexican Economy

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President Ernesto Zedillo's administration is still predicting substantial economic recovery in the next several months. Nevertheless, the Mexican economy continues to show signs of structural weakness. In late July, in an address to the national federation of bank workers' unions (Federacion Nacional de Sindicatos Bancarios, FNSB), President Ernesto Zedillo proudly described his administration's economic policies as a "great success." The administration bases its optimism on the continuation of relatively low inflation and a large expansion in exports, which are expected to contribute to a recovery in the country's GDP by mid-1997. Indeed, government reports released in June showed moderate price increases and steady growth in the country's trade surplus (see SourceMex, 07/17/96).

According to Zedillo, in the first several months of the year, production indexes for several economic sectors demonstrated with "complete clarity" that the country's recovery is underway. And, notwithstanding some adverse indicators, the Zedillo administration has forecast overall positive growth of 3% for 1996. Nevertheless, private analysts warn that the Mexican economy continues to show structural weaknesses, such as the administration's inability to bring down still high unemployment rates and an expansion of overdue debt, despite a government program to restructure loans.

In fact, contrary to Zedillo's assessment that recovery is already underway, the government reported a 1% drop in GDP during the first quarter of the year (see SourceMex, 05/29/96). "The economy is not recovering as expected," said Carlos Sanchez of Grupos de Economistas y Asociados. "What the economy needs for growth is time, maybe years." For most Mexicans, the most notable impact of the economic crisis is the unemployment rate. A survey in early July by the official statistics agency (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) reported the current unemployment rate at 5.6% of the country's economically active population (EAP) of 36 million. INEGI attributed the high unemployment rate to the seasonal influx of students into the job market. According to the report, the level of unemployed among Mexicans aged 20 to 24 increased to 9.6% in June from 8.4% in May.

The rate of 5.6%, however, was higher than an average rate of 5.4% forecast by many private analysts, even taking into account the out-of-work students. "The recovery in jobs has been very small," said Pedro Javier Gonzalez, chief economist with the Mexican Institute of Political Studies. "The job problem is not really improving, it's just not as bad as last year. Moreover, the figure does not include temporary work or salary conditions or the many people in family businesses who work without salaries."

According to INEGI, almost 80% of all jobs in Mexico are concentrated in the trade, manufacturing, and service sectors. INEGI reported that 32 of the 41 cities used for the job survey reported a smaller
unemployment rate than the national average. This means a severe rate of unemployment in the nine cities that were above average. That list included the industrial cities of Saltillo, Monclova, and Durango, as well as Mexico City. The city of Monterrey came in exactly at the average of 5.6%, while Guadalajara was slightly below the average, with unemployment at 5.2% of EAP. Also having lower unemployment rates than the national average were Tijuana, Acapulco, Leon, Ciudad Juarez, and Oaxaca. Tijuana and Ciudad Juarez are located near the US-Mexico border, where maquiladora plants provide ample employment opportunities.

Similarly, workers in Acapulco enjoy a tourist-based economy, which provides plentiful jobs in the service sector. Some business executives say they are concerned about the unemployment picture. For example, Hector Larios Santillan, president of the business coordinating council (Consejo Coordinador Empresarial, CCE), estimates that the Mexican economy needs to generate at least 1.2 million new jobs per year to meet the country's employment demands, but this will only occur if conditions begin to improve dramatically for the country's businesses. "Our productive sectors are struggling to survive," he said.

According to Larios Santillan, the private sector has on average managed to create between 60,000 and 70,000 new jobs per month during 1996. "If we are able to increase that average to 100,000 or 110,000 jobs per month, we may be able to cover the needs of the country," he said. Larios Santillan estimates that Mexico needs an annual GDP growth rate of 5% each year to meet the country's growing demand for jobs. Some economists suggest an increase in consumer demand could contribute to the creation of new jobs. However, there are conflicting reports about whether the commercial sector is on the upswing. According to a study produced by one of the country's largest retail organizations (Asociacion Nacional de Tiendas de Autoservicio y Departamentales, ANTAD), sales declined by 7.4% during May, compared with April.

Nevertheless, a separate study by INEGI reports that retail sales during May showed considerable improvement from those reported in the same month last year, thus providing evidence that the commercial sector may be experiencing a recovery. Still, ANTAD president Luis Santana said many large retailers have continued to experience a slump in sales during the first five months of the year. Santana said reduced purchasing power of the general population has lowered sales each month from January to May by between 12.8% and 21.5%. He noted that even large employers have been forced to impose hiring freezes because of a lack of sales. For example, he said sales by giant retailer Cifra-Aurrera in the January-March quarter were down 17.7% from a year ago.

Separate government statistics released in early July confirm job reductions in the retail sector. According to INEGI, the number of retail workers declined by 1.2% in May, compared with the same month in 1995. And, compared with April, the number of retail workers declined by about 0.9% in May. On the other hand, INEGI reported that in May the number of workers employed by wholesale businesses increased by 1.8% compared with the same month last year. INEGI also reported the average wage for employees in the retail sector was down by about 7.2% from May of last year in real terms. For workers employed in wholesale businesses, wages were down about 3.3% from May of last year. However, the INEGI report said retail sales in May were up 0.7% from a year ago, providing the first promising variation in the last 16 months. The INEGI report based on data obtained from commercial establishments in 33 metropolitan areas said increases in sales of furniture, clothing, hardware and motor vehicles contributed to the overall increase. INEGI also
reported that wholesale business in May was up 7.7%, with increases attributed to strong sales of construction and industrial materials, agricultural services, and pharmaceutical products.

According to a report published by Grupo Financiero Bancomer (GFB), the slump in the commercial sector is reflected in the increase in overdue debt owed by many retail and wholesale businesses. Indeed, the commercial sector, along with the agriculture and construction industry, have the largest debts among all sectors of the economy. Another potential red flag for the Mexican economy is the government's inability to make significant progress in reducing the rate of overdue debt, despite the creation of a special debt restructuring program (Acuerdo para el Apoyo de Deudores, ADE). The principal element of the ADE, launched in August 1995, is to set ceilings on interest rates for a wide range of borrowers (see SourceMex, 08/30/95).

Separate studies released by the US-based financial consultant Securities Auction Capital (SAC) and the Mexican financial institution Grupo Financiero Bancomer (GFB) show that the rate of overdue debt remained a problem through June of this year. The SAC study, released in mid-July, showed that Mexico's total overdue debt increased by 0.26% in June alone. According to SAC, June was the "worst" of the last 19 months in terms of liquidity for the banking sector. Furthermore, the report said roughly 48% of all borrowers held overdue debts in June. SAC pointed out that only 20% of the total overdue debt can be labeled "minimally risky," meaning that there is a medium or high risk that the other 80% will not be repaid. According to the study, roughly one-third of the borrowers who restructured overdue debts through the ADE had again fallen in arrears on their payments. Under the program, the government provided debtors with the opportunity to restructure overdue loans by converting them to investment units (unidades de inversion, UDIs).

Separately, Grupo Financiero Bancomer (GFB) reported that overdue debts owed to banks rose by 8% in the January-March quarter of this year. The report said overdue debt stood at 106.6 billion pesos (US$14 billion) as of March of this year, or 12.9% of the banking system's total loan portfolio. If loans acquired by the government are included, overdue debt totaled the equivalent of 8.4% of Mexico's GDP as of March. The report said that three banks: Banca Cremi, Banca Union, and Banpais held roughly one-third of the total overdue debt through March. Three other banks Inverlat, Bancen, and Banorie accounted for another 20% of the country's total overdue debt. The government has taken control of most of these banks because of low capitalization levels.

A parallel report, released in late July by the CNBV, showed that only the largest banks have managed to overcome economic risk caused by overdue debt. One such bank, Banamex reported net earnings of 1.293 billion pesos (US$170 million) for January-June, an increase of 35% relative to the same period in 1995. According to the Banamex report, the improved performance was attributed in large measure to the bank's ability to encourage debtors to pay overdue debts during the April-June quarter of this year. Notwithstanding the economic success of Banamex and others, the GFB warned that the Mexican banking system remains in a perilous situation. The report suggested that the debt restructuring process via UDIs could be masking the true state of overdue debt in Mexico. "Many of the debtors became current on their payments by simply signing a restructuring agreement," the report said. "This does not imply that many debtors necessarily made any payments on their debt, or that they will be able to make such payments in the near future."
The GFB report suggested that many of these debtors could again become overdue on their payments in a month or two. Meanwhile, according to a third study released by the national banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV), consumer debt via credit cards reached a total of 20.9 billion pesos (US$2.75 billion) by the end of March. The debt was owed principally to 15 banks that issued the credit cards. The report said the credit-card debt increased despite a moratorium by several banks on the issuance of new credit cards and the creation of limits on the amount of credit available to consumers. The greatest overdue debt via credit cards was owed to Mexico's largest bank, Banco Nacional de Mexico (Banamex), which accounted for 35.4% of the total. Mexico's second largest bank, Banco de Comercio (Bancomer), accounted for 25.3% of all overdue credit-card debt. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 19, reported at 7.59 pesos per US$1.00] (Sources: Agence France-Presse, 07/16/96, 07/17/96; La Jornada, 07/12/96, 07/18/96; The News, 07/12/96, 07/18/96, 07/19/96; Excelsior, 07/12/96, 07/18/96, 07/21/96; Novedades, 07/12/96, 07/18/96, 07/23/96)

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