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LADB Staff

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Industrial Sector Helped Strong Recovery in Mexican Economy in Third Quarter

by LADB Staff

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In late November, the Finance Secretariat (SHCP) reported a surge of 7.4% in Mexico's GDP for the July-September quarter, following a similarly strong performance in the second quarter of the year. In the April-June quarter of this year, the government had reported GDP growth at 7.2% (see SourceMex, 08/21/96). The SHCP report which was based on data compiled by the government statistics agency (Instituto Nacional de Estadísticas, Geografía e Informática, INEGI) showed the strongest growth during the July-September quarter was in the industrial category, which surged by a whopping 14.6%.

Within the industrial category, mining grew 5.7%; manufacturing, 13.9%; and utilities (electricity, gas and water) by 5.6%. Construction, which declined by more than 23% in 1995, skyrocketed to 24.9% growth in the third quarter. "The construction industry has been recovering quite fast in the past four to five months," said analyst Enrique Ramirez Mena of Santander brokerage. Many of the manufacturing categories showed significant growth relative to a year ago, particularly production of metallic products and machinery.

Production of textiles, non-metal mineral products, and basic metals also showed growths of close to 20%. Significantly, paper production, which suffered a dramatic decline for several quarters after the peso devaluation in late 1994, grew by 2.2% in July-September of this year. Similarly, the service sector grew at a rate of 5.4%. Within this sector, the category comprising transportation, storage, and communications turned in the strongest performance, with growth of 11.3%. Still, the overall GDP growth rate was tempered by the continued poor performance of the primary industries category, which includes agriculture, fisheries, and forestry. This category declined by 4.3% in July-September.

According to the SHCP, the agricultural sector has been affected by a severe drought in some northern and central areas of Mexico during July-September. For January-September, the SHCP reported a GDP growth of 4.4%. The high growth rates of the second and third quarters were tempered by negative growth of 1% during the January-March quarter. According to private and government analysts, the relatively strong GDP statistics for the second and third quarters of the year are evidence that the Mexican economy has begun a steady recovery from the devaluation of the peso in late 1994 and the ensuing economic crisis in 1995.

"(The report) does not leave any room for doubt that a recovery is under way," said economist Sergio Martin of the Mexico City-based financial services company ING Barings. "The Mexican economy is recovering at a faster pace than we anticipated," added Ernest Brown, a Latin America specialist for the US-based brokerage company Morgan Stanley. Trade Secretary Herminio Blanco offered a similarly optimistic assessment during a meeting with business leaders in the Philippines. "Mexico is clearly back on track," said Blanco, who projected an annual GDP growth rate of close to

4% for 1996. The 4% growth estimate is almost one percentage point higher than the government's original target for this year. As recently as May, President Ernesto Zedillo's administration was still projecting a 3% growth rate for 1996 (see SourceMex, 05/29/96). A 4% growth rate would represent a sharp contrast to Mexico's extremely poor economic performance in 1995, when the country's GDP declined by 6.9%. The SHCP report prompted some private economic forecasters to raise their growth projections for this year.

According to Santander brokerage's Enrique Ramirez, his company has revised its forecast to expect a 4.5% growth for the year. Meantime, Trade Secretary Blanco said Mexico was projecting a similar GDP rate in 1997, which is still below the government's eventual target for annual growth rates. "Our goal is to generate an annual growth rate of at least 5%," Blanco told business leaders at the Asia-Pacific Economic Cooperation (APEC) forum in the Philippines on Nov. 24-25. Still, despite the relatively encouraging GDP statistics for the April-June and July-September quarters, some analysts pointed out that the statistics for those two periods may be somewhat skewed because they are based on comparisons with figures from the same quarters in 1995, when the Mexican economy was still feeling the effects of the peso devaluation.

In fact, many domestic and foreign economists were quick to point out that the GDP growth of 7.4% for the third quarter of this year failed to compensate for the decline of 9.6% reported during the third quarter of 1995. "The bottom-line is the economy is recovering, but the country is not yet at 1994 levels," one economist told the English-language Mexico City daily newspaper *The News*. A similar argument was presented when the government reported growth of 7.2% for the second quarter of this year, which also compared with a negative growth of about 10% in the same three-month period in 1995.

A number of economists also cautioned the Zedillo administration against adopting an overly optimistic stance, given such negative factors as the recent drop in the value of the peso, a still unstable banking system, and the continuing poor living conditions among large segments of the population. The peso declined in value to more than 8.00 pesos per US\$1.00 in late October before recovering slightly in the ensuing weeks of November. As of Nov. 26, the Mexican currency stood at 7.87 per US\$1.00. In contrast, the peso was trading at about 7.20 per US\$1.00 on Oct. 31, 1995. (Sources: *El Universal*, *El Economista*, *El Financiero*, 10/31/96; *The News*, 11/22/96; *Reuter*, 11/22/96; *Excelsior*, 11/22/96; *La Jornada*, 11/22/96; *New York Times*, 11/22/96; *El Financiero International*, 11/25/96)

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