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The Mexican economy showed surprising strength during the first quarter of the year despite a slump in petroleum prices and the ongoing Asian financial crisis. Unofficial projections by the government and by private economists show Mexico attained a GDP growth of 6% to 7% during January-March. The Secretaria de Hacienda y Credito Publico (SHCP) is scheduled to release official statistics on GDP growth for the quarter before the end of May.

GDP growth estimated at 6% in first quarter

Economist Alfredo Coutino of Mexico City-based economic forecaster Ciemex-Wefa attributes the strong first-quarter performance to strength in the industrial sector, increased exports, and a recovery in domestic demand for goods and services. "The growth in industrial activity was led by a dynamic construction sector," said Coutino. "Both the government and private investors have launched new construction projects during the quarter."

Trade Secretary Herminio Blanco, speaking at the opening of a new automobile-assembly plant in Monterrey, also attributed the growth in industrial activity to strong performance by the motor-vehicle sector. Blanco said the industrial sector grew by about 7% in January-March, contributing to an overall GDP growth of 6% or higher. The growth in retail demand was evident in recent statistics for retail sales published by the Instituto Nacional de Estadisticas, Geografia e Informatica (INEGI). In its most recent report, INEGI said retail sales have increased for eleven consecutive months. INEGI reported an increase of 11% in retail sales during February.

Economist Hector Chavez of Santander Investments said the growth in retail sales coincides with higher wages in some industries, such as automobiles. The possibility of a continuing slump in oil prices and the Asian economic crisis are expected to hurt the economy during the rest of the year. Because of the sharp drop in petroleum prices, President Ernesto Zedillo's administration has already been forced to reduce the 1998 budget twice, which is expected to limit public expenditures on major construction projects (see SourceMex, 01/21/98 and 03/25/98). The Zedillo administration has raised the possibility of another budget reduction this year if petroleum prices remain low.

Even with the budget cuts, the administration is continuing to project an annual GDP growth of 5% for 1998. But some private economic-consulting companies, such as Grupo Financiero Bancomer (GFB), are forecasting 1998 annual growth of slightly more than 4%.

Concerns grow about widening trade, current-account deficits

Beyond the impact on economic growth, the slump in global petroleum prices has raised concerns about widening trade and current-account deficits. For the first quarter, Mexico incurred a trade deficit of US$1.8 billion, despite total exports of US$28.8 billion. The SHCP said revenues from

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nonpetroleum exports during the quarter increased by almost 18% from a year ago. This is a sharp contrast to the 32% decline in revenues obtained from petroleum-related exports.

In addition to the slump in petroleum exports, the widening of the trade deficit was attributed to a surge in imports, particularly products used in manufacturing. Imports totaled US$29.9 billion in January-March, an increase of 27% relative to the first quarter of 1997. The widening trade deficit led to concerns that the Zedillo administration will raise interest rates or allow the peso to weaken against the US dollar to curb imports.

The Organization for Economic Development and Cooperation (OECD) has urged the Zedillo administration to take steps to reduce the trade deficit. "If the trade balance worsens, at some point the government may be forced to take steps to constrain domestic demand," said Benedicte Larre, the OECD's chief economist for Mexico.

The OECD's main concern is that the current-account deficit could reach US$20 billion by 1999, close to the risky levels that led to the devaluation of the peso in late 1994. Private economists are projecting the current-account deficit at US$13 billion to US$14 billion for this year. As a buffer against this risk, the government accumulated a record US$30.7 billion in foreign-currency reserves as of April 20. (Sources: The News, 04/21/98, 04/23/98; El Economista, 04/22/98, 04/23/98; Novedades, 04/23/98; El Universal, 04/23/98, 04/27/98; Excelsior, 04/23/98, 04/24/98, 04/27/98; El Nacional, 04/27/98; Reuters, 04/21-24/98; 04/28/97)

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