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Mexican Trade Deficit Wides Significantly in June, First Half of 1998

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The latest trade-statistics report from the Secretaria de Hacienda y Credito Publico (SHCP) put Mexico's preliminary trade deficit at US$530 million during June, bringing the accumulated trade deficit for January-June to US$2.9 billion. The deficit for the first half of this year is a stark contrast to the trade surplus of US$2.2 billion for January- June 1997. The June trade deficit, which was wider than many economists had anticipated, compared with a negative trade balance of about US$382 million in May.

Responding to a survey conducted by the Reuters News Agency, 13 economists had forecast the deficit at an average of US$490 million. June deficit fueled by slump in oil prices & GM strike The widening of the deficit in June was attributed to two key factors: the continuing weakness in global oil prices, and the strike at two US General Motors (GM) plants. Because of the slump in global oil prices, the Mexican government has had to lower its forecast for export prices for crude oil to US$11.50 per barrel from an earlier projection of US$15.50 per barrel. The reduction in oil-export revenues was reflected in the SHCP trade data. Crude oil accounted for about 5.7% of Mexican exports in June, compared with a share as high as 10% in some months in 1997.

Meanwhile, a prolonged strike at GM metal-stamping and parts plants in Michigan stopped or slowed production at many of the company's assembly facilities in North America, including plants in Guanajuato and Coahuila states. A large percentage of the output from the two Mexican plants is exported to the US market (see SourceMex, 07/15/98). "We had predicted a deficit closer to US $490 million, but we didn't weigh the full effects of the GM situation on auto exports," said financial analyst Martin Delgado of Value brokerage company.

The June trade deficit was also affected by the impact of an extended drought on the Mexican agriculture sector. Extreme dry conditions, particularly in the central and northwestern areas, brought increased imports of corn and other grains used for livestock feed during the month. Imports growing twice as fast as exports An analysis by the daily business newspaper El Economista, published shortly after the release of the trade report, said the widening trade deficit in the first half of the year was inevitable because imports had been growing almost twice as fast as exports. For example, imports for June were almost 19% higher than a year ago, while exports increased by only 9.8% from June 1997. January-June imports were 21.3% higher than in the first half of 1997, while exports during the same period grew by only 10.5%.

Still, the slow growth in exports clearly reflected the slump in the global oil market, with petroleum sales during January-June down about 31%. In contrast, exports of manufactured goods and agricultural products increased by about 16% and 10%, respectively, during the first six months of the year. The manufacturing sector was largely driven by exports by the maquiladora industry, particularly textiles, electronic goods, and transportation equipment. In the first half of the year,

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maquiladora-based manufacturers recorded a trade surplus of almost US$4.9 million, while nonmaquiladora manufacturers suffered a deficit of US$7.9 million. Regarding imports, El Economista said all three major categories recorded a healthy growth during the first half of the year: intermediate goods, 19%; capital goods, 25%, and consumer goods, 35%. (Sources: Reuters, 07/22/98; The News, El Economista, 07/23/98; Excelsior, 07/23/98, 07/24/98; Novedades, 07/23/98, 07/27/98; El Financiero International, 07/27/98)

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