8-26-1998

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LADB Article Id: 54631
ISSN: 1054-8890

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by LADB Staff
Category/Department: Mexico
Published: 1998-08-26

In late August, the Secretaria de Hacienda y Credito Publico (SHCP) released two reports showing a mixed performance for the Mexican economy for early and mid-1998. One report showed surprisingly strong GDP growth in January- June. A second report, however, showed Mexico's trade deficit continuing to widen during July. Both reports were overshadowed, however, by the impact of the ongoing economic crisis in Russia and Asia, which sent the Mexican stock market (Bolsa Mexicana de Valores, BMV) tumbling and brought the Mexican currency to 9.50 pesos per US$1.00.

The sharp drop in value led the Banco de Mexico (central bank) to reduce the money supply to shore up the peso. Even with the bank's intervention, the currency was trading at 9.80 pesos per US$1.00 on Aug. 25. GDP growth reported at 5.4% in January-June The economic-growth report released Aug. 19 said Mexico's GDP increased by a surprising 5.4% in January-June. The GDP growth rate was very similar in the first and second quarters, reported at 5.5% in January-March and at 5.3% in April-June.

The SHCP said the economy grew despite a sharp decline in oil-export revenues and the federal government's decision to implement three budget reductions in the first half of the year. The favorable GDP growth during the first half was led by strong performances in the industrial and services sectors, which more than compensated for the 5.6% decline in GDP in the agriculture sector. Agriculture was hit particularly hard by a drought in the first half of the year.

Private economists said Mexico is unlikely to repeat the strong performance in the second half of 1998. In addition to the impact of weak global financial markets and low oil-export prices, an increase in interest rates and an expected slowdown in the US economy will likely limit growth in Mexico. The US accounts for 80% of Mexico's exports. Because of the negative factors affecting the Mexican economy, the SHCP has not discarded the possibility of taking strict measures later this year, including a fourth budget reduction or an increase in taxes.

Trade deficit widens to US$3.6 billion in January-July

A SHCP report published Aug. 24 said the trade deficit widened to US$692 million in July, bringing the accumulated deficit for January-June to US$3.6 billion. The SHCP attributed the negative July trade balance to a reduction in automotive and agricultural exports, along with the continuing drop in oil-export revenues. Lower automotive exports were attributed primarily to a strike by workers at two General Motors plants in the US that disrupted shipments of key components to the company's plants in Coahuila and Guanajuato states (see SourceMex, 07/15/98).

The SHCP attributed the reduction in agricultural exports primarily to extreme dry conditions this year that affected grain, livestock, and coffee producers (see SourceMex, 08/05/98 and 08/19/98).

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The SHCP report showed that imports continued to surpass exports both during July and for the seven-month period. Total exports for January-July were reported at US$67.2 billion, an increase of 8.7% relative to a year ago. But imports, which rose to US$70.8 billion were up 18.6% from January-July 1997. (Sources: Reuters, 08/17/98, 08/19/98, 08/24/98; El Financiero International, 08/24/98; La Jornada, Novedades, El Economista, Excelsior, 08/20/98, 08/25/98)

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