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Third-quarter GDP growth higher than expected

The Secretaria de Hacienda y Credito Publico (SHCP) announced that Mexico's GDP grew by a surprising 5% in the third quarter of the year, bringing accumulated growth for January-October to 7%. In two separate surveys, private economists had forecast growth for the quarter at between 3.7% and 3.8%. A report published in mid-November by the SHCP said the strong third-quarter performance was led by the industrial sector, which grew by 6.2%. The industrial sector includes manufacturing, construction, mining, and energy. The services sector also turned in a strong performance in July-October, with growth reported at 4.4%.

The SHCP said the most encouraging category was agriculture, which grew by 7.6% in July-October after falling for four consecutive quarters. Still, the value of agricultural production in the third quarter was only 69.9 billion pesos (US$7 billion) in real terms, the lowest level of the last four quarters. Economists attributed the economy's strong performance to relatively heavy consumer demand, which countered the impact of high interest rates and a weak peso. At one point during the quarter, short-term interest rates reached 50%, but eventually dropped to about 30%. The Mexican currency at one point declined to 10.60 pesos per US$1.00, but later strengthened to less than 10.00 pesos per US$1.00.

With the economy's strong third-quarter performance, some private economists predicted that Mexico would attain or surpass its target of 4.6% growth for 1998. But economists were divided on growth prospects for the fourth quarter of the year, given the continued high interest rates. Some economists and private brokerage companies raised concerns about a slowdown in industrial growth to only 5.9% in September, compared with 7% in July.

But others suggested strong consumer demand could make up for some of the sluggish performance of the industrial sector. Many economists anticipate GDP growth will taper off in the first quarter of 1999 if interest rates do not come down significantly. In early December, the Banco de Mexico (central bank) tightened money supply for the sixth time this year, which drove short-term interest to 36.2%, almost four percentage points higher from the previous week.

Under the move, the Banco de Mexico increased the amount by which it leaves the money markets short every day to 130 million pesos (US$13.0 million) from the previous 100 million pesos (US$10.0 million). "[The third-quarter statistics] must be seen with moderate optimism, because a slowdown is now expected for 1999," said analyst Juan Pablo Chavez of IDEA brokerage company.

A Banco de Mexico survey of 30 private economists showed an average forecast of 2.71% GDP growth for the Mexican economy in 1999. A previous survey, conducted in September, projected an

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average GDP growth rate of 2.9% for next year. Some forecasters such as Grupo Banamex-Accival (Banacci) project next year's growth rate as low as 2%. President Ernesto Zedillo's budget proposal for 1999, which has yet to be approved by the Mexican Congress, assumes GDP growth of 3% for next year.

Consumer prices increase by 1.43% in October

The consumer price index (Indice Nacional de Precios al Consumidor, INPC) rose by 1.43% in October, bringing accumulated inflation to 13.77% in the first 10 months of the year. The Banco de Mexico said the increase was fueled by higher-than-expected prices for heating oil, tortillas, some fruits and vegetables, and electricity. Higher prices were also reported for basic products like cheese, sugar, chocolate, and medicines. The increased prices for these products was balanced by lower-than-expected costs for other items such as poultry, seafood, bread, and pork. Still, the central bank reported the index for the basic basket of goods at 1.79% in October, which was higher than the INPC of 1.43%.

The accumulated inflation rate for January-October is already close to two percentage points higher than the government's original target of 12% annual inflation for 1998. With price increases expected to continue during the last two months of the year, the Secretaria de Hacienda y Credito Publico (SHCP) unofficially projects annual inflation for this year at about 17.8%.

Some private economists predict the rate could approach 19% or 20%, partly because gasoline and fuel prices have remained relatively high in Mexico despite a global slump in the petroleum market. The INPC for the first half of November already reached 0.97%. Higher prices will also be influenced by the federal government's reduction in subsidies for basic products like tortillas and the decision to allow manufacturers of sugar- based products like soft drinks to raise their prices. Some economists pointed to evidence that manufacturers will be passing on higher production costs to consumers.

The producer price index (Indice Nacional de Precios al Productor, INPP) rose by 2.03% in October, almost half a percentage point more than the INPC. Economists said Banco de Mexico actions to curb inflation are intended to slow the price increases in the first quarter of 1999. President Zedillo's administration has projected annual inflation for 1999 at 13%, but this target may not be met if prices begin the year at higher-than-expected levels. The effort to curb inflation could dampen consumer spending during the busy Christmas season, since high interest rates will discourage credit-card purchases.

Trade deficit widens to US$818 million in October

Mexico incurred a trade deficit of US$818 million during October, the widest monthly trade imbalance so far in 1998. The SHCP said the October statistics brought Mexico's trade deficit for January-October to US$5.99 billion. The SHCP attributed the October deficit to increased imports of industrial and consumer products, which could represent a healthy trend for the Mexican economy.

Imports in October were US$11.093 billion, an increase of 6.2% from the same month in 1997. The automobile sector accounted for the largest increase in industrial imports. Motor-vehicle manufacturers were importing large amounts of auto parts anticipating relatively strong sales of

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1999 models. Many of these models could end up in the export market, particularly if interest rates remain high. The SHCP said the increased imports of consumer products could represent seasonal demand by retailers ahead of the Christmas season.

October exports also grew by more than 6% over a year ago to US$10.275 billion, although weak sales of crude oil continued to offset an increase in manufactured products. Petroleum exports were only US$575 million in October, down about 43.7% from a year ago. Nonpetroleum exports, on the other hand, grew by 4.7% from October 1997 to reach US$9.7 billion. SHCP data showed imports during January-October totaled US$102.945 billion, while exports reached US$96.947 billion, accounting for the accumulated trade deficit of US$5.998 billion. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 2, reported at 9.98 pesos per US$1.00] (Sources: El Financiero International, 11/16/98, 11/23/98; Excelsior, 11/10/98, 11/19/98, 11/24/98, 11/25/98; El Economista, 11/02/98, 11/10/98, 11/24/98, 12/01/98; Reuters, 11/13/98, 11/18/98, 11/30/98; El Universal, 11/19/98, 11/24/98, 12/01/98; The News, 11/19/98, 12/01/98; Novedades, 11/10/98, 11/19/98, 11/24/98, 12/01/98, 12/02/98)

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