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Mexico's GDP Reported at Only 1.8 Percent in January-March Quarter

by LADB Staff

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Mexico's GDP grew by a disappointing 1.8% in the first quarter of the year, which is partly a reflection of the tight monetary policies adopted by the Banco de Mexico (central bank) in the past year. The Secretaria de Hacienda y Credito Publico (SHCP) released the statistics in a report in mid-May. Private economists had generally projected a GDP growth rate of 2% to 2.5% for the quarter. "I expected a better number, but you can't say it's a huge disappointment," analyst Fernando Losada of ING Barings told Reuters news agency.

But the SHCP said the GDP report does not fully reflect the country's recent economic stability, since the data for January-March considers the growth rate in comparison with the same period a year ago. GDP growth was reported at 7.5% in the first quarter of 1998.

Losada said the GDP growth of 1.6% for the manufacturing industry was below expectations during January-March. Within this sector, the maquiladora industry grew by 7.1%, but this was balanced by growth of only 1.2% in nonmaquiladora manufacturing operations. Analyst Jim Conklin of Lehman Bros. in New York said the sluggish GDP growth is a direct result of the central bank's policies.

"We are seeing the impact of the tight monetary policy being pursued by the central bank," said Conklin. "We have had relatively high interest rates and tight monetary policy and this is the result. The high interest rates contributed to reduced consumer purchases, particularly for more expensive items like automobiles and refrigerators.

Analyst Sergio Garcia Marquez of Value brokerage house in Mexico City also attributed the sluggish performance of the industrial sector to reduced government investments. The prospect of low oil-export revenues forced Zedillo and the Mexican Congress to impose limits on public expenditures in the 1999 budget (see SourceMex, 1999-01-06). The subpar performance of the manufacturing industry and negative growth in mining contributed to the generally sluggish performance in the industrial sector.

But two other components in this category, construction and utilities, showed moderate growth. The construction sector grew by 3.7% relative to a year ago, but large engineering firms have accounted for most of the activity, said the Camara Nacional de la Industria de la Construccion (CNIC). The SHCP report said the primary sector had the most surprisingly strong performance with a growth of 5.5%.

The agriculture industry performed particularly well, especially production of basic grains, coffee, and sugar, the SHCP said. Several analysts predicted better results for the second and third quarters of this year. "The economy reached bottom during the March-April period, and we will see a

recovery," said Losada. Many private estimates put Mexico's GDP growth this year at 2.5% to 3%, compared with the government's projection of 3%. In a recent report, the Organization for Economic Cooperation and Development (OECD) projected Mexico's GDP growth for this year 3.2% (Sources; Notimex, Deutsche Press Agentur, 05/18/99; Novedades, 05/17-19/99; Excelsior, 05/18/99, 05/19/99; El Diario de Yucatan, La Jornada, El Economista, El Universal, The News, 05/19/99)

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