7-28-1999

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LADB Article Id: 54225
ISSN: 1054-8890

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by LADB Staff
Category/Department: Mexico
Published: 1999-07-28

Mexico managed to reduce its trade deficit significantly during the first six months of the year, but the trend could reverse in the second half of 1999 with an expected slowdown of the US economy. In a report published in late July, the Secretaria de Hacienda y Credito Publico (SHCP) said Mexico's trade deficit narrowed to US$2.141 billion in January-June, compared with US$2.919 billion in the same six-month period in 1998.

The SHCP said exports continued to grow during the six- month period, particularly manufactured products. Exports during the six-month period amounted to US$63.638 billion, an increase of 10% from a year ago. However, a recovery in some sectors of the economy increased demand for imports of capital and intermediate goods, with total imports reaching US$65.779 billion. In June, imports reached US$12.304 billion, an increase of almost 13% from the same month in 1998.

Pablo Alvarez Icaza, analysis director at Bursametrica, attributed the increase in imports during June to strong demand for industrial products. Intermediate and capital goods accounted for more than 90% of all imports in June. The growth in imports during the month contributed to widening Mexico's trade deficit in June to US$413 million. An increase in global oil prices during the second quarter helped boost the value of exports for the petroleum sector during April-June, but this was insufficient to compensate for weak sales in the first quarter.

The SHCP said the value of petroleum exports for January-June was down 5.1% from the same period in 1998. But the value of petroleum exports in June was 23% higher than in the corresponding month in 1998. June was the third consecutive month that the value of oil exports increased from a year ago, the SHCP said. Oil-export prices have increased in recent months because of a concerted effort by petroleum producers last year and this year to reduce supplies on the world market. An agreement by oil producers in late March appears to have been particularly effective in boosting prices in recent months (see SourceMex, 1999-03-24).

The state-run oil company PEMEX reported the average export price for Mexican crude oil was US $14.18 per barrel in June, compared with US$13.61 in May. The SHCP report was released only a few days after a US Commerce Department report confirmed that Mexico's trade surplus with the US widened to US$2.249 billion during May from US$1.706 billion in April. The Commerce Department said strong exports from the Mexican automobile and auto-parts sectors to the US contributed significantly to widening the surplus in May.

At the same time, the Commerce report said, Mexico continued as the second-largest market for US products during May, surpassed only by Canada. US exports to Mexico in January-May were 6% higher than in the same five-month period in 1998. US economy could determine trade balance in

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coming months Some economists said the US-Mexico trade balance in the second half of the year and next year will depend heavily on the performance of the US economy. In a recent study, the Centro de Estudios Economicos del Sector Privado (CEESP) raised the possibility of an increase in interest rates in the US in the near future, which could slow down growth in the US to about 2.5% or 3%.

The CEESP said a slowdown in the US economy could have a negative impact on Mexican exports to the US, particularly durable goods like automobiles. The CEESP report called on the Mexican government to continue efforts to diversify Mexico's trade partners to reduce reliance on the US market, which accounts for 80% of Mexican exports. (Sources: Associated Press-Dow Jones news service, 07/20/99; Excelsior, 07/21/99, 07/23/99; Notimex, 07/23/99; El Economista, 07/27/99; La Jornada, 07/27/99)

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