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by LADB Staff
Category/Department: Mexico
Published: 2000-05-24

The Secretaria de Hacienda y Credito Publico (SHCP) reported Mexico's GDP growth at a whopping 7.9% during the first quarter of the year. The news elicited mixed reactions from economists, business leaders, and politicians, who were pleased about the strong economic results but also worried that the Mexican economy may be overheating. The 7.9% growth rate, the strongest in eleven quarters, surpassed most private forecasts. In a briefing with reporters, Finance Secretary Jose Angel Gurria Trevino attributed the strong economic performance to a recovery in domestic demand. "In previous years, exports boosted the economy," said Gurria. "Now we are seeing much more that growth in consumption and growth in internal investment are the main motors of the economy." The government's statistics agency (Instituto Nacional de Estadisticas, Geografia e Informatica, INEGI) confirmed Gurria's assessment. In a report published in mid-May, INEGI said retail sales increased by 9.2% during January-March, the largest quarterly increase since the economic crisis of 1995. The growth in domestic consumption has promoted steady imports during the first four months of the year, expanding Mexico's trade deficit. In late May, a SHCP report said the preliminary deficit for January-April was US$1.69 billion, about 12.8% wider than in the same four-month period in 1999. Some economists said the Mexican economy has benefitted significantly from the surge in global oil prices and strong US economic growth. The US accounts for about 90% of Mexico's total exports.

Rapid growth could cause economy to overheat

Still, some economists and business leaders are uneasy about the sudden surge in Mexico's GDP, which could leave the economy vulnerable to external factors. "I believe the current growth of 7.9% is totally risky in that it is not sustainable," said Alberto Fernandez Garza, president of the Confederacion Patronal de la Republica Mexicana (Coparmex). The inflation rate the rest of the year could be key for the Mexican economy, some analysts said. The SHCP reported accumulated inflation at 3.3% for January-April, which means the government's target of 10% annual inflation in 2000 remains realistic. But Gurria disputes the assessments that the excessively rapid growth in the economy will promote a rapid growth in inflation through year-end 2000. "We have no real indication that the economy is overheating, especially since prices are actually on a decline," said Gurria. The finance secretary predicted that the growth rate would moderate in the next quarters, resulting in an overall GDP growth of 5% for this year. Economists believe that the low inflation rates reported in the first four months cannot be sustained during the rest of 2000. In a report published in May, economic analyst Bursametrica said recent increases in wholesale prices will ultimately be passed on to consumers, resulting in moderate increases in the consumer price index (indice nacional de precios al consumidor, INPC) in the next several months. In addition, the peso is not likely to sustain its recent strength against the dollar, which will also contribute to a higher inflation rate in Mexico, the analysts said.
Zedillo administration failed to diversify economy

Some economists warned that an economic downturn is a real possibility because President Ernesto Zedillo's administration has failed to diversify the Mexican economy, which continues to rely heavily on oil-export revenues. "Oil will not continue rising, and US interest rates are now rising, which will be negative," said Raul Feliz, director of macroeconomic studies at the Centro de Investigaciones y Docencia Economica (CIDE). Some business leaders faulted the narrow scope of the government's actions. Raymundo Winkler, director of the Consejo Coordinador Empresarial (CEE), said the policies adopted by Zedillo and former president Carlos Salinas de Gortari have focused entirely too much on limiting inflation and not on improving the purchasing power of Mexicans. Salaries have fallen by 41% in real terms since 1988. "For many years, the government has attempted to correct its economic mistakes by restricting purchasing power," said Winkler. Alejandro Villagomez, also a CIDE economist, said Mexico should continue to develop safeguards in its own economy, since the government has little control over developments in the US economy. "We cannot define the policies of the US Federal Reserve, nor do we know how investors and the US stock markets are going to react," he said. Nevertheless, there is concern that the Mexican economy still relies extensively on bonds and other indirect foreign investment to attract capital for growth.

The sudden withdrawal of indirect investments was a major cause of the peso devaluation in 1994 and the ensuing economic crisis (see SourceMex, January 11, 1995, January 18, 1995, January 25, 1995). The 1994 crisis was attributed in part to the economic downturn that frequently occurs during the transition between administrations. But the SHCP and the Banco de Mexico (central bank) insist that the Zedillo administration has taken sufficient steps to prevent this kind of downturn during the transition to the next administration. Last year, the government secured a US$23.7 billion in international credits to protect Mexico from financial turmoil during and immediately after the 2000 presidential and congressional elections (see SourceMex, June 30, 1999). A panel of respected economists, speaking at a forum in Mexico City, said they are concerned that the same conditions exist today that caused the economic crisis at the end of Salinas' presidency. The panel included Marcos Chavez and Alejandro Nadal of Colegio de Mexico, Eugenia Correa of the Universidad Nacional Autonoma de Mexico (UNAM), and Alicia Giron of the Instituto de Investigaciones Economicas (IEE). "It is easy to say a new crisis is imminent, but it is difficult to predict when this will happen," Chavez said on behalf of the panel. "We are certain, however, that all the conditions exist for the crisis to occur." The panel said there is concern that Mexico's close integration with the US economy could be detrimental, particularly since the US Federal Reserve has recently adopted a policy of raising interest rates. Chavez said the panel was also concerned that Zedillo has taken the same path as Salinas, tightening fiscal and monetary policy at the expense of growth. The Banco de Mexico is keeping close tabs on inflation by controlling the money supply. In mid-May, the bank announced plans to increase the amount of money withheld from the Mexican economy to 200 million pesos (US$20.94 million) daily, compared with the previous US$180 million pesos (US$18.84 million). While some analysts suggested the central bank should have tightened the money supply further, independent economist Jonathan Heath said the bank's decision not to ease its monetary policy was an important change during this election year. "The good news is that the Bank of Mexico is acting autonomously from the federal government and independently of the electoral process," Heath wrote in a column.
Opposition parties fear economic downturn after July election

But others fear the government may be manipulating the economy to benefit the governing Partido Revolucionario Institucional (PRI) in the July 2 presidential election. "There are concerns these positive figures will only last until the elections, and a hefty price will have to be paid later," said economist Luis Pazos, affiliated with the center-right Partido Accion Nacional (PAN). But some analysts say the booming economy could work to the detriment of the PRI. "The strength of the economy today makes people confident, it allows us the luxury of voting for change," said political commentator Lorenzo Meyer. The strength of the Mexican economy has translated into a high level of popularity for President Zedillo. In a public opinion poll conducted by the Centro de Estudios de Opinion (CEO), 77% of respondents said they approved of Zedillo's performance as president. But analysts say PRI presidential candidate Francisco Labastida has not necessarily benefitted from Zedillo's popularity. "People have memories," said Hector Chavez, chief economist for the Mexican unit of Santander Investment. "The PRI has not been able to benefit [from this trend] because of the long history of economic crises that have been caused by the very same party." [Note: Pesos-dollar conversions in this article are based on the Interbank rate in effect on May 24, reported at 9.55 pesos per US$1.00] (Sources: The Dallas Morning News, 05/17/00; The News, 05/17/00, 05/18/00; Reforma, 05/17/00, 05/18/00, 05/22/00; Excelsior, 05/10/00, 05/18/00, 05/19/00; Los Angeles Times, 05/19/00; Notimex, 05/22/00; El Universal, 05/10/00, 05/17-19/00, 05/23/00; Reuters, 05/16/00, 05/18/00, 05/21/00, 05/23/00; El Economista, 05/10/00, 05/17-19/00, 05/22-24/00; El Financiero, 05/10/00, 05/18/00, 05/19/00, 05/22-24/00; Novedades, 05/12/00, 05/17-19/00, 05/22-24/00; La Jornada, 05/18/00, 05/22-24/00)