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Mexico Attained Anemic Growth of Only 1.3 Percent in 2003

by LADB Staff
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Mexico attained an anemic GDP growth of 1.3% in 2003, well short of the 3% rate targeted by President Vicente Fox's administration, the Secretaria de Hacienda y Credito Publico (SHCP) said in its report published in mid-February. The report acknowledged that Mexico's economy has performed poorly during the first three years of Fox's presidency.

Last year's economic performance followed a contraction of 0.2% in 2001 and growth of less than 1% in 2002 (see SourceMex, 2002-02-13 and 2003-02-05), the SHCP said. This brought the accumulated GDP growth in the first three years of the Fox government to about 1.9%, or an average of 0.63% per year. This was the worst economic performance for any three-year period since 1935-1937, when Adolfo Ruiz Cortines was president. The 1.9% growth rate for 2001-2003 compares with the administration's original target of 3% to 4% for the three-year period. Fox had set a goal of 7% growth for his full six-year term.

The contraction of the Mexican economy in 2001 and the weak growth in 2002 is attributed in large measure to an major slowdown in US economic activity following the attacks on the World Trade Center in New York and the Pentagon in Washington on Sept. 11, 2001 (see SourceMex, 2001-09-26). The Mexican economy has suffered further from a loss of its manufacturing base during the last three years, with several maquiladora factories shifting their operations to China and Central America (see SourceMex, 2002-07-17 and 2003-05-14). Mexico has lost more than 350,000 jobs since Fox took office in December 2000.

In addition to these external factors, many business leaders have faulted Fox for failing to implement policies to stimulate job creation and promote growth (see SourceMex, 2003-06-11, 2003-07-02, 2004-01-28).

Some business leaders place equal blame on the Mexican Congress for failing to approve tax and energy reforms, which would stimulate growth. "The president's goal of structural changes which would promote growth and generate jobs is stuck," said Vicente Yanez, president of the Asociacion Nacional de Tiendas Departamentales (ANTAD). "That is why we need to work closer together.

Government, analysts anticipate recovery in 2004
Fox is optimistic that Mexico will attain the target of 3.1% GDP growth in 2004. He said the relatively strong GDP growth of 2% in the fourth quarter of 2003 will continue into the next year. "Key indicators such as industrial production, domestic sales, and exports signal a recovery in economic activity," Fox said in a speech to business leaders in mid-February.
The president also cited three consecutive months in the global index of economic activity (Indicador Global de la Actividad Economica, IGAE), which measures economic tendencies in the short term. Some analysts noted, however, that the GDP data for October-December still exhibited some weakness, especially in manufacturing, which as a whole expanded by only 0.3% during the quarter. Of the 49 categories that comprise the manufacturing sector, 22 experienced a contraction in October-December relative to the same period in 2002. These included machinery and electronics, editorial products, clothing and apparel, pharmaceuticals, and alcoholic beverages.

Still, many economists and the Banco de Mexico (central bank) share Fox's optimism about a recovery in 2004, largely because the US economy is expected to improve or at least hold steady. "We're expecting a 3.3% growth rate for 2004," economist Jonathan Heath of Mexico City-based consultant LatinSource told The Dallas Morning News. "But I wouldn't be surprised if we revise it upwards."

Some business leaders were also optimistic about the coming year. "Business owners expect this to be an important year of growth if only because recent years were very slow," said Antonio del Valle Ruiz, president of the Consejo Mexicano de Hombres de Negocios (CNMH).

Chief central bank governor Guillermo Ortiz Martinez said he projects a growth rate of 3% to 3.5%. The central bank, however, is also projecting an increase in the annual inflation rate to 4%, which is one percentage point higher than the 3% target set by the administration and the Congress when they formulated the 2004 budget. The prospects of higher inflation could mean intervention by the central bank to reduce the money supply, some bank sources said. (Sources: Milenio Diario, 01/14/04; The Dallas Morning News, 01/26/04; El Financiero, 01/21/04, 02/18/04; La Cronica de Hoy, 01/28/04, 02/18/04; El Sol de Mexico, 01/28/04, 02/02/04, 02/16/04, 02/18/04; La Jornada, 02/16/04, 02/18/04; Unomasuno, 02/18/04; The Herald-Mexico City, 02/18/04)