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by LADB Staff
Category/Department: Mexico
Published: 2005-11-02

The Banco de Mexico (central bank) has reduced its projection for Mexico's economic growth in 2005, partly because of the effects of Hurricanes Wilma and Stan on the economy. Guillermo Ortiz Martinez, chief governor at the central bank, said the Banco de Mexico now estimates GDP growth at 2.75%. As recently as July, the central bank was projecting GDP growth in a range between 3.25% and 3.75%.

Ortiz said the downward revision is partly a reaction to the economic downturn linked to Hurricanes Stan and Wilma, which hurt important sectors like agriculture and tourism (see other articles in this issue of SourceMex). The damage Wilma caused to Cancun and the Riviera Maya, which are top tourist destinations in Mexico, will result in an estimated loss of US$15 million daily in tourism revenues during November and December.

The effect of the slowdown in the tourism industry will be greatest in December, continuing into the first quarter of 2006, said Ortiz. Fox government maintains more optimistic stance The central bank's forecast contrasts with estimates by President Vicente Fox's administration, which insists that economic growth will still reach the 3.5% forecast by the Secretaria de Hacienda y Credito Publico (SCHP).

"The federal government continues to endorse the SHCP's projection, which does not change with recent events [Hurricanes Stan and Wilma]," said presidential spokesperson Ruben Aguilar Valenzuela. "There is even the possibility that we may have a small economic recovery in the fourth quarter of the year, as the SHCP has noted."

The administration is basing its optimism on the strong growth in the Mexican economy in the third quarter of the year, which the SHCP reported at 3.5%. Some analysts said, however, the SCHP may have overestimated third-quarter growth, as was the case with the first and second quarters. "A rate of 3.5% is possible but it's quite optimistic," said Eduardo Torres, an economist with Banco Bilbao Vizcaya Argentaria SA's unit in Mexico City. "The data shows growth closer to 3%."

Other private analysts say there is some basis for optimism because of an expected spike in retail activity in the second half of the year and continued strong oil-export revenues, which are supporting increased public spending. Conversely, the administration's forecast of 3.5% annual growth is at odds with projections made by the International Monetary Fund (IMF) in September, which reduced its forecast for GDP growth in Mexico in 2005 to 3%.

Structural problems limit growth
The IMF forecast, issued before the two hurricanes, cited a lack of reforms in the country's tax structure and the energy sector as reasons why growth remains sluggish in Mexico. Ortiz agreed
with the IMF position, saying Mexico's growth is inhibited by the lack of key economic reforms. "We have frequently talked about the need for Mexico to develop a more flexible economy, where a lot more effort is placed on education and development of technology," said Ortiz. "For this we need reforms [in key sectors of the economy]."

The IMF also attributed the sluggish growth in Mexico to a weakness in the US economy in the first half of the year. "In Mexico, growth slowed more than expected in the first half of 2005, reflecting the soft patch in US industrial production and a corresponding slump in automobile-related exports and weak agricultural production," said the IMF. Economist Gerardo Esquivel of the Colegio de Mexico said Mexico would have had to attain a GDP growth of 3.25% in January-June to attain annual growth of 3.5%. Instead, Mexico's growth rate for the first six months of the year was only 2.75%. The Organization for Economic Cooperation and Development (OECD) said a projected growth of 3.5% in the US economy this year could give a slight lift to Mexico in the fourth quarter of the year. The OECD noted, however, that the projected US economic growth is below the 4.2% growth registered in 2004. (Sources: The Herald-Mexico City, 09/22/05; El Financiero, 09/22/05, 10/28/05; Bloomberg news service, 10/31/05; La Cronica de Hoy, 10/17/05, 10/31/05, 11/02/05; La Jornada, 11/02/05)

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