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The Mexican government has revised its projections for economic growth in 2008 because of an expected slowdown in the US. The Secretaria de Hacienda y Credito Publico (SHCP) is now projecting GDP growth at 2.8% for this year, compared with previous forecasts of as much as a 3.7% growth. The weak US economy will not only reduce exports of Mexican products to the US, but will likely lower remittances sent by expatriates residing in the US. There is also some concern that the mortgage crisis in the US could affect Mexico’s housing market, which has remained fairly strong in recent months. Although it is uncertain just how weak the US economy will be in 2008, most projections point to a significant slowdown. Some international organizations like the International Monetary Fund (IMF) are predicting that US GDP growth in 2008 will only reach 1.5%, compared with a 2.2% increase in 2007 and 2.7% growth in 2006.

The weakness in the US economy is almost certain to spill over to Latin America, with the Economic Commission for Latin America and the Caribbean (ECLAC) projecting growth for the region at 4.5%, compared with earlier predictions of 4.9%. "We believe that we could see a small slowdown," said ECLAC secretary-general Jose Luis Machinea. The impact is expected to be greater for regions whose economies are tied directly to the US, such as Central America (NotiCen, January 31, 2008), and Mexico, which ships about 80% of its exports to its northern neighbor. UN economist Robert Vos predicted Mexico’s economic growth could reach just 1% in 2008 if the US economic downturn becomes a full recession. Under those circumstances, Latin America as a whole would only grow by 2.6%, he said.

The potential decline in US imports of Mexican goods in 2008 was one of the major factors that prompted the SHCP to reduce its GDP forecasts for Mexico to 2.8%. This is slightly lower than the 3% rate that President Felipe Calderon projected in the budget submitted to Congress in September (SourceMex, September 26, 2007). That forecast was issued as the US economy was beginning to show signs of a major slowdown.

The US Commerce Department recently confirmed that the US GDP growth was just 0.6% in the fourth quarter of 2007, its worst performance since 2002. The SHCP’s new estimate stands in sharp contrast to the 3.7% growth forecast in the 2008 budget plan that the Mexican Congress approved in November. That budget, the largest in Mexican history, assumed record-high oil-export revenues and took into account newly approved tax-reform legislation (SourceMex, September 19, 2007 and November 14, 2007). "It is expected that the prevalent international economic scenario in 2008 will be less favorable for Mexico than what was anticipated," the SHCP said in announcing its new projection. Private analysts concurred with the SHCP revisions. "The reduction is logical because the world is experiencing an economic slowdown," said Jaime Alvarez Meyer, an analyst at BBVA Bancomer.
The US slowdown is expected to have other negative impacts on the Mexican economy, such as reducing the amount of tax revenues obtained by the federal government. Tax collections in 2008 could drop by at least 10 billion pesos (US$923 million) below the anticipated levels, said Juan Manuel Perez Porrua, who heads the SHCP's revenues unit. The Banco de Mexico (central bank) also revised its economic projections for Mexico, reducing its estimate for GDP growth to a range between 2.75% and 3.25%, compared with its previous estimate of 3.25% to 3.75% growth. Despite the downward revision, the Central Bank's chief governor Guillermo Ortiz Martinez ruled out any changes in the bank's recent tight policies, which have contributed to a buildup in foreign reserves and stabilized the country's economy.

Remittances expected to remain flat in 2008

Another area where the US slowdown will significantly impact the Mexican economy is in the remittances sent back home by Mexican expatriates. In late December, the central bank reported that expatriates sent about US$24 billion in 2007, compared with US$23.74 billion in 2006. The nearly flat growth, largely the result of a slowdown in the US construction industry and other service sectors, was already evident by the middle of the year (SourceMex, August 15, 2007). Remittances increased by only 0.2% in the fourth quarter of 2007, said the bank. The flat growth came after several years of double-digit increases (SourceMex, February 09, 2005, February 22, 2006 and January 17, 2007).

The Banco de Mexico predicted that remittances would again remain nearly unchanged in 2008 because of the US slowdown and its impact on the construction sector. "[This industry] provides jobs for a large number of workers of Mexican origin," said the bank. In addition to the slowdown, remittances are affected by the move by the federal government and states like Arizona to crack down on US employers who hire undocumented workers. Without citing the increased enforcement directly, the Banco de Mexico noted the "growing difficulties for undocumented migrants" at the workplace as another reason why remittances would not grow much this year. Government counting on infrastructure expenditures to boost economy Still, the SHCP said a number of factors would reduce the impact of the US economic slowdown, including a plan to boost spending on infrastructure and housing and projections of high oil-export revenues during the year.

In an interview with the Mexico City daily newspaper Milenio Diario, deputy finance secretary Dionisio Perez-Jacome said the administration was planning to spend the largest share of the budget for infrastructure and housing projects during the first half of 2008. “Our instructions are that we spend this portion of the budget as soon as possible,” said Perez Jacome, who is in charge of the office that oversees the administration's budget allocations. The infrastructure expenditures will be necessary to avert the negative effects of the US-based slowdown, including a much smaller growth in employment, said Ortiz. The central bank said Mexico was expected to produce only about 620,000 formal jobs during the year, about 136,000 below the level recorded in 2007. Some private analysts believe infrastructure expenditures could actually boost GDP growth above the most recent levels projected by the SHCP. The private financial-rating company Moody’s, for example, said that, because of the planned increase in expenditures on roads, bridges, and other major projects, Mexico's economic growth could even surpass the 2007 GDP growth of 3.2% by a slight margin.
Opposition legislators demand action

Central bank governor Ortiz and opposition legislators applauded the administration's plans to boost infrastructure expenditures in the first half of 2008, but the members of Congress also called on the administration to take other emergency measures. Sen. Manlio Fabio Beltrones, who coordinates the Partido Revolucionario Institucional (PRI) in the upper house, called on the administration to consider revisions to the country's tax policy, including suspending the new corporate tax (Impuesto Empresarial de Tasa Unica, IETU), which Congress approved as part of a tax-reform package in September 2007 (SourceMex, September 19, 2007). "It is up to the SHCP to offer a new proposal regarding the IETU," said Beltrones. Deputy Ruth Zavaleta, president of the Chamber of Deputies, also called on the Calderon administration to take emergency steps to avert an economic crisis in Mexico. "We don't need a lot of studies to determine that the US slowdown is going to have an impact on our economy," said Zavaleta, a member of the center-left Partido de la Revolucion Democratica (PRD). The concern of the Mexican Congress is backed by the World Economic Forum (WEF), which suggested that Mexico take steps to prepare for the negative impact of a US economic slowdown. "Evidently a proactive approach has to be taken because so much of the Mexican economy is exposed to the US economy," said WEF director Emilo Lozoya.

Housing market also a concern

Mexico is also watching the potential effect of the US economic crisis on its housing market, because of concerns that US housing-sector problems and the related problems in the credit markets could spill over to Mexico. Industry sources said, however, that there are very few direct links between the US and Mexican mortgage sectors, so the US housing-sector crisis will have little direct impact on Mexico. "The fundamental aspects of the housing industry in Mexico remain very positive," Sandor Valner, president of the Asociacion Mexicana de Fondos Inmobiliarios y de Infraestructura (AMFII), told the Spanish news service EFE. "In Mexico, we are not experiencing the same problems as the US. I have not heard of any investor who is planning to reduce expenditures on housing in Mexico." Still, the construction industry is attempting to attract more capital into the sector, with key officials, led by Carlos Gutierrez Ruiz, director of the Consejo Nacional de Vivienda (CONAVI), planning trips to New York and London to meet with potential investors to reassure them that the Mexican housing and mortgage sectors are a good investment option, said the Mexico City daily newspaper La Cronica de Hoy. Valner projected that the housing industry would receive about US$25 billion in new investments in the next four years.

The housing industry is not without its problems, with credit for private housing already tight in 2007. A recent report from the Camara Nacional de Vivienda (CANADEVI) indicated that 735,000 loans were awarded for homes in 2007, down about 8% from 2006. Another concern for the housing industry is the increasing cost of construction materials, which could slow construction activity during the year. CANADEVI projects the cost of steel will increase by 30% and cement by 12% in 2008. Even so, CONAVI said home construction would represent about 3% of Mexico's GDP in 2008. "This will contribute substantially to the growth of our country," said Gutierrez. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb. 6, reported at 10.83 pesos per US$1.00.]