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In a surprising trend, Mexico recorded a GDP growth of 2.6% in the first quarter of this year, bucking predictions that the country’s economy would suffer from the downturn in the US, which is its top trading partner. The relative strength of the Mexican economy in January-March is attributed in part to strong oil-export revenues, which have allowed President Felipe Calderon's government to invest money in infrastructure projects, and to a diversification of Mexican trade partners. But some administration officials caution that the sluggish US economy could have a greater impact in Mexico later in 2008.

The GDP estimate for the first quarter, which the Secretaria de Hacienda y Credito Publico (SHCP) released in late May, pales in comparison with the 3.8% economic growth figure reported in the fourth quarter of 2007.

Still, the growth rate for the first quarter of the year may be comparable to October-December of 2007 when considering two factors that might have skewed the data. For one, Easter week fell in March this year. If the week of slow economic activity is taken into account, the actual growth rate for January-March should be about 3.7%, said the SHCP.

A second consideration is that the SHCP this year adopted a new international standard to calculate GDP, which may have resulted in a lower number than it would under the old standards.

*Infrastructure expenditures help support economy*

As part of an effort to cope with the US slowdown, the Calderon administration announced a stimulus package in late March, including tax breaks and other financial incentives and increased expenditures on infrastructure (see SourceMex, 2008-04-02).

The impact of the economic stimulus was not expected until the second half of the year, so the relative strength of the economy in the first quarter was somewhat surprising. Some analysts note that the government had already begun expenditures on highways and schools because of the budget surplus created by record oil-export revenues. The average price for Mexican crude oil was US$83.10 per barrel in the first quarter of the year, about 73% higher than in January-March 2007.

With the increased revenues, the Calderon administration has been able to boost spending on public-works projects by 9.5% in the first three months of the year, compared with the same period in 2007. "Fiscal policy is one of the main weapons that the Mexican government is activating to protect the economy from the American recession monster," said Alfredo Coutino, Latin America analyst with Moody's Economy.com. "We're already seeing the effects."
Because of the strong oil-export revenues, the government's budget this year will be about US $20 billion above earlier projections, said Paulo Leme, managing director for emerging markets at Goldman Sachs.

Still, some analysts contend that the impact of increased infrastructure spending was still not reflected in the first-quarter data. For example, analyst Felipe Ilanes of Merrill Lynch in Mexico City noted that the GDP growth in the first quarter was led by the services and retail sectors, while the performance of construction and manufacturing was not as strong.

**Export diversification also helps boost growth**

But government expenditures have not been the only tool used by the government to reduce the impact of the US economic slowdown. Mexico has over the past several years made strong efforts to diversify its trade partners, expanding commercial relations with the European Union (EU) and South America (see SourceMex, 2006-06-14, 2006-08-02 and 2007-08-08). Mexico has also negotiated trade accords with Japan (see SourceMex, 2004-12-01) and China (see SourceMex, 2001-01-19) and has recently been involved in talks with India (see SourceMex, 2007-05-30).

The efforts to diversify its trade partners have begun to bear fruit. During the first quarter of the year, Mexico's exports to the US increase by only about 16%, compared with 32% for the rest of the world. Exports to European countries increased by 56%. Even with the trade diversification efforts, the US still accounts for about 80% of Mexico's exports. "Mexico

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