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## **Finance Secretary Agustin Carstens Says Mexican Economy Could Decline By More Than 5 Percent In 2009**

by LADB Staff

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Mexico is facing an economic crisis of major proportions, as the outbreak of the H1N1 virus in April has exacerbated the impact of the global economic crisis on the country. In a press conference in mid-May, Finance Secretary Agustin Carstens reluctantly acknowledged that Mexico could experience a contraction of 5.5% of GDP this year, bringing back memories of the crisis that followed the 1994 peso devaluation. The Mexican economy had already been dragging because of the downturn in global economic activity, particularly in the US.

As recently as February, President Felipe Calderon's administration had raised the possibility of negative growth in 2009, a revision from earlier projections for a modest increase (SourceMex, February 11, 2009). "At the start of the year, the federal government was projecting that GDP could increase by 1.8% in 2009," said the Mexico City daily newspaper Excelsior. But on May 19, Carstens told reporters: "The annual decline in GDP for 2009 will have to be revised to about 5.5%." The downward revision is to some extent because of the recent outbreak of the H1N1 virus, which forced economic activity to come to a near halt at the end of April and into May.

In April, the government was projecting a decline of only about 1% (SourceMex, May 06, 2009). Some analysts predict that the economic downturn could rival the crisis in the mid-1990s, when a sudden peso devaluation caused the Mexican economy to plummet (SourceMex, January 04, 2005). The Secretaria de Hacienda y Credito Publico (SHCP) reported that Mexico's economy declined by 8.2% in the first quarter of the year, but analysts said the situation was going to deteriorate before experiencing some recovery in the second half of the year. "The worst part [of the downturn] is occurring in the second quarter of the year," said analyst Cesar Castro Quiroz of the Centro de Analisis y Proyecciones Economicas para Mexico (CAPEM). Castro attributed the crisis in large measure to continuing weakness in the US economy. The US downturn has affected two of Mexico's sources of foreign exchange: tourism and remittances (SourceMex, October 01, 2008, October 22, 2008 and March 11, 2009). In addition, the weak US economy has caused demand for capital goods such as cars to lag significantly. "We have to reduce inventories and that means cutting production as quickly as possible," Thomas Karig, a spokesman for Volkswagen de Mexico, told Reuters.

### ***Unemployment figures rise sharply***

The economic crisis is manifesting itself especially in Mexico's unemployment picture. In its most recent data, the government's statistics agency (Instituto Nacional de Estadística, Geografía e Informática, INEGI) estimated the unemployment rate at 5.1% in the first quarter of the year, meaning that more than 2.3 million members of the country's economically active population (EAP) do not have a job. INEGI said the unemployment rate had not been this high since the economic crisis of the mid-1990s. The unemployment data for the first quarter of the year compares with a rate

of 3.1% in January-March 2008. Economists said the employment picture is likely to worsen during the rest of this year.

Jonathan Heath, director of economic research at the Instituto Mexicano de Ejecutivos de Finanzas (IMEF), said unemployment could reach 8% or 9% of the EAP in 2009. This would translate to the loss of more than 800,000 jobs by the end of the year. "This means the situation would be worse than in 1995," said Heath. Fortino Vela Peon, a researcher at the Universidad Autonoma Metropolitana (UAM) in Mexico City, said projected unemployment figures for this year compare with a rate of 6.8% in 2008, the equivalent of more than 422,000 jobs.

The job losses have been especially hard on the population between 14 and 24 years of age, Vela noted. Statistics for the first part of this year already showed an extremely difficult employment picture for Mexicans, with 484,000 jobs lost between January and April. Analysts said the data is extremely bad news for the Mexican economy, which needs to create, not lose, jobs. "Every year we need to generate 1 million additional jobs to keep up with population growth," said Jose de la Cruz, a researcher at Tecnologico de Monterrey,

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