

9-2-2009

Mexico's April-june Economic Decline Largest Quarterly Contraction In 25 Years

LADB Staff

Follow this and additional works at: <https://digitalrepository.unm.edu/sourcemex>

Recommended Citation

LADB Staff. "Mexico's April-june Economic Decline Largest Quarterly Contraction In 25 Years." (2009).
<https://digitalrepository.unm.edu/sourcemex/5335>

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.

Mexico's April-June Economic Decline Largest Quarterly Contraction In 25 Years

by LADB Staff

Category/Department: Mexico

Published: 2009-09-02

The news that Mexico's economy experienced its greatest decline in 25 years during the second quarter of 2009 coincided with similar depressing reports that remittances from expatriates were down about 18% during that same period. In late August, the government's statistics agency (Instituto Nacional de Estadísticas, Geografía e Informática, INEGI) reported that Mexico experienced a contraction of 10.3% in GDP in April-June, battered by a severe slowdown in exports to the US and the decline in economic activity resulting from the outbreak of the H1N1 virus. On top of that came the sharp drop in remittances, one of the country's top-three sources of foreign exchange. There are some predictions that remittances will decline by 15% this year.

Manufacturing, services lead decline

In its report for the second quarter, INEGI said the most significant declines occurred in secondary and tertiary activities. Secondary activities which include mining, construction, utilities, and manufacturing experienced an 11.5% decline. Construction, considered an engine of economic growth, saw a contraction of 9.2%. The GDP for tertiary activities which include services like real estate, transportation, retail sales, education, and tourism fell by 10.4%. These sectors were hit especially hard by the H1N1 virus outbreak in March and April (SourceMex, April 29, 2009 and May 06, 2009).

GDP for the retail sector another bellwether of economic activity contracted by 20.9% during the quarter. Similarly, tourism and the restaurant sector declined by 17.3%. The transportation and warehousing industries, also included in the tertiary category, declined by more than 13%. One of the few areas of growth was in so-called primary activities such as agriculture and forestry, which expanded by a modest 1.1%. There was also growth of 4.1% in the health sector, partly because of increased government spending on measures to address the H1N1 outbreak.

Some government officials, particularly Finance Secretary Agustín Carstens, suggest that the H1N1 outbreak was primarily responsible for the huge contraction in the second quarter. Carstens suggested that the data be considered without comparing it to a year ago but rather to the previous quarter. In that case, he noted, GDP contraction was only 1.2%. "I would say that, in the absence of this outbreak, we would definitely have had positive growth." The dire results for the second quarter of the year, combined with a weak GDP in the first quarter, resulted in a contraction of 9.2% in January-June. Even with these results for the first half of the year, forecasters have made few changes to projections of a few weeks ago, which anticipate a GDP contraction of about 6% to 7% (SourceMex, July 15, 2009). For example, Goldman Sachs sees a contraction of 7.5%, while Credit Suisse sees growth at a negative 6.5%. Still, the reality is that this decline would be the greatest since 1932, when the economy shrank by 15%.

Economists say gradual recovery around the corner

Many analysts suggest that the economy has already hit bottom and that economic conditions will not be as difficult in the second half of the year. Some analysts even point out that the contraction was not as bad as some had anticipated. "There were several analysts who were forecasting a contraction of as much as 12% during the second half of the year because of sharp decline in productive activity, the outbreak of the H1N1 virus, and the downturn in the global economy," said the Mexico City daily newspaper *La Cronica de Hoy*. A number of economists believe that an improvement is inevitable in July-September. "The economy had a heart attack and you're starting to see a recovery," Rafael de la Fuente, chief Latin American economist at BNP Paribas SA in New York told Bloomberg news service. "The bottom of the recession is behind us." "We expect things to improve from here until the end of the year, though it is premature to talk about full recovery," said Luis Flores, senior economist at Grupo IXE in Mexico City. Alfredo Coutino, director for Latin America at Moody's Economy.com, echoes those comments. "Mexico will probably emerge from its recession at the end of the third quarter," he said. And there is similar optimism at the Banco de Mexico (Banxico), the central bank. "We'll have a better GDP in the third quarter compared with the second, and in the fourth compared with the third," Central Bank Governor Guillermo Ortiz said in a television interview. "But on average for the year, it will be very ugly." What is the source of this optimism? Many are pointing to projections that the US economy will see some recovery in the second half of this year.

Salvador Orozco, deputy director of financial markets at Grupo Santander, notes that Mexico's industrial sector would benefit the most from a rebound in the US. Orozco also projected some recovery in Mexico's construction industry but acknowledged that the service and retail sectors will continue to lag this year in concert with weak consumption and a drop in wages. He projected that Mexico's GDP would grow 1.5% in 2010. Still, some observers suggest that the Mexican government and private analysts put that data into perspective. In a piece published in the Mexico City daily newspaper *La Jornada*, columnist Roberto Gonzalez Amador pointed out that the anticipated decline for this year could cancel out GDP increases during the first two years of the Calderon government. Furthermore, said Gonzalez Amador, the administration should look beyond pure numbers. "This recession caused at least 4.2 million people in Mexico to fall into poverty," said the columnist, citing World Bank data. "These are in addition to the 5.9 million that suffered this fate between 2006 and 2008. When the 4.2 million people are added to the 50.6 million people that the government reported in 2008 as living in poverty, Mexico would have about 54.8 million people in that condition, more than half its population. "Mexico is the country in Latin America that is most affected by the crisis and also the one in which poverty increased by the greatest rate," said Gonzalez Amador.

In a separate article, *La Jornada* pointed out that the Calderon administration has actually spent about 70% more on anti-poverty programs than the preceding administration of ex-President Vicente Fox with few tangible results. The problem, said the newspaper, is that resources are not reaching those who need them. "We know there is enormous corruption," said *La Jornada*. "No one can deny that, when these resources are allocated to the various municipalities around the country, they are administered by small mafias close to the mayors."

Remittances also fall sharply in second quarter

The news is also not good for Mexicans who depend on money sent by relatives working in the US. In a report published in late August, Banxico reported remittances at only US\$5.6 billion during the second quarter of the year, a decline of almost 18% from the same three-month period in 2008. This is a much sharper decline than in the previous two quarters, when remittances fell by about 5% and 2% respectively. Banxico said the slowdown in US construction and housing activity was a major factor behind the lower remittances, since many Mexicans work in those sectors. "The tendency has been for remittances to decline, a trend compatible with the contraction of the US economy and, in particular, the construction and housing sectors," said the central bank. Remittances fell for the first time last year (SourceMex, January 21, 2009), and the decline is expected to be more pronounced this year. The downward trend was already evident in the third quarter of the year and into April (SourceMex, June 03, 2009). "At this stage, it seems reasonable to think it is going to be a weak year for remittances," said Salvador Bonilla, a remittances expert at the central bank.

The central bank has yet to release a projection for the full year, but other forecasts point to a major decline in remittances this year. One of those forecasts, released by the migration work group of the opposition Partido Revolucionario Institucional (PRI), projects a decline of as much as 15% in remittances in 2009. Deputy Edmundo Ramirez, who helped put together the report, noted that some communities in states like Hidalgo, Michoacan, Guerrero, and Oaxaca could see a decline of as much as 50%. Some studies have been conducted for states like Michoacan, which account for a large share of emigrants to the US. One study by Jose Cesar Lenin Navarro Chavez, a specialist at the private-sector think tank Instituto de Investigaciones Economicas y Empresariales (ININEE), predicted that remittances coming to the state could decline by about 6% this year to about US\$2.4 billion. The study suggested a recovery in coming years, however. By 2011, remittances reaching Michoacan are projected to increase to about US\$3.5 billion. Another contributing factor to the drop in remittances is a 15% decline in the number of Mexicans seeking to emigrate to the US during the past year. "People are still leaving-

-- End --