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# Mexico Reports Strong Gdp Growth In January-march Relative To Last Year, But Number Weak Relative To Fourth Quarter

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# Mexico Reports Strong Gdp Growth In January-march Relative To Last Year, But Number Weak Relative To Fourth Quarter

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Did Mexico's economy grow significantly during the first quarter of the year, or did it decline slightly? It all depends on how you spin it and your point of comparison. In late May, the government statistics agency (Instituto Nacional de Estadística y Geografía, INEGI) reported 4.3% GDP growth for January-March. That figure was in comparison with the first quarter of 2009, when Mexico's economy was in a deep slump. But INEGI also acknowledged that GDP growth in the first quarter of the year was down 0.35% from the fourth quarter of 2009. The Organization for Economic Development and Cooperation (OECD) focused on the latter comparison as it released its report on the economic performance of member countries, including Mexico, during the first quarter of the year. The OECD said Mexico was one of the few members not to register an increase relative to the fourth quarter.

The INEGI report said there was some cause for optimism in the data for January-March, since the 4.3% GDP increase in January was the first year-on-year growth in more than a year. Mexico's GDP declined by about 6.8% in the first quarter of 2009 and 10.3% in the second quarter. The second-quarter decline was the largest contraction in 25 years(SourceMex, Sept. 2 2009). The outbreak of the H1N1 virus halted most economic activity in Mexico in April and May, contributing to the sharp downturn(SourceMex, May 6, 2009).

## *Economists say domestic consumption still very weak*

The OECD report said Mexico's GDP decline broke a string of small quarter-to-quarter increases last year, with the largest improvement occurring between the second and third quarters in 2009.

Mexico's slump between the fourth quarter of 2009 and the first quarter of 2010 compared with a growth rate of 0.7% during the same period for OECD countries as a whole. "With this result, the recovery that occurred in the previous three quarters was halted," said Eduardo González, an analyst at Grupo Banamex. "The data for the first quarter represents a pause in the strong recovery that occurred in the second half of 2009."

Analysts agreed that the recovery in the first quarter relative to a year ago is somewhat good news but pointed out that the 4.3% growth in January-March is only a partial recovery in contrast to the 6.9% slump in the first quarter of 2009 relative to the same period in 2008.

"We have to take the GDP growth of 4.3% with a grain of salt," said José Luis de la Cruz, director of the Centro de Investigación en Economía y Negocios, a unit of Tecnológico de Monterrey. "It is a positive number and does reflect a recovery. But it is supported by seasonal factors, and domestic consumption has yet to recover."

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Other analysts expressed similar sentiments. "We are far from recovering what we lost [a year ago]," said José Luis Calva, an economic researcher at the Instituto de Investigaciones Económicas (IIE), which is affiliated with the Universidad Nacional Autónoma de México (UNAM).

The INEGI report cited growth in industrial-related activities in January-March, including manufacturing, mining, and utilities. Favorable trends were also reported in the transport, real estate, and health sectors. But the construction sector remained in a slump, declining by 3.8% in January-March, the sixth consecutive quarter in which construction activity has shown a negative tendency.

GDP trends were also negative for the agriculture and livestock sector, which contracted by 1.5% in January-March. INEGI said this was the first time that this sector showed a decline since the first quarter of 2008.

The analysts said many indicators of economic strength remained very weak in Mexico, including employment, earnings, and the overall well-being of the population. "There are still a lot of reasons for concern both in the external and internal market," said de la Cruz.

Calva said the service sector, one of the biggest indicators of domestic consumption, did not register any growth in the first quarter of the year. "As long as there is no recovery in private consumption, we won't have a robust growth in the economy," said the UNAM researcher.

Other factors contributed to the first-quarter slump, including an increase in taxes effective in January and a 12% decline in remittances from Mexican expatriates in the first quarter of the year (SourceMex, April 14, 2010), Calva noted.

Mexico's uneven growth in the first quarter of the year was also attributed in part to the government's overly strict anti-inflationary policies. "This policy places a higher priority on attaining a fiscal balance at the expense of economic growth," said the Centro de Estudios de las Finanzas Públicas (CEFP).

Still, administration officials insist that deficit-reduction will remain a central point of Mexico's economic policy. Miguel Messmecher, an official with the Secretaría de Hacienda y Crédito Público (SHCP), suggested that the government would like to place a stronger emphasis on the revenues side. Speaking at a forum in Monterrey, Messmecher, who heads the SHCP's economic-planning division, said Mexicans should be willing to "pay more taxes."

## *Some optimistic forecasts for the rest of 2010*

Messmecher and some private analysts believe that the fortunes of the Mexican economy could turn around this year if the domestic market recovers. "What we need to do is strengthen domestic demand," said the SHCP official, who projected this year's GDP growth at 4.1%.

A group of analysts who responded to a survey by the Banco de México (central bank) offered a similar optimistic forecast. On average, the analysts projected GDP growth at 4.3%.

Both figures are a stark contrast to 2009, when the Mexican economy suffered a 6.5% contraction (SourceMex, Dec. 2, 2009). This was the worst economic performance of any country in Latin America.

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Some analysts believe the prognosis may not be good in the long term. "There are historical and structural reasons to believe that the Mexican economy will grow less in 2011 than in 2010," analyst Alfredo Coutiño of Moody's Latin America told the Associated Press.

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