

THE DRIVING FORCES OF THE MEXICAN ECONOMIC SLOWDOWN

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The Mexican economy is facing a deep deceleration this year, which marks the end of an economic cycle and the beginning of a new one. The expansion phase of the old cycle ended last year with a growth rate of 6.9 percent, and the new cycle will commence with a modest growth of around 1.0 percent this year.

Two key factors can explain the slowdown of the Mexican economy, one originating from the internal side and the other external. First, Mexico is importing the deceleration of the U.S. economy, given that 80 percent of its international trade is done with the U.S. On the domestic side, the lower economic activity is explained by the restriction of economic policy implemented since mid-2000 — in particular by tight monetary policy.

Certainly, the effects of the U.S. slowdown are transmitted to Mexico through a lower demand for its exports. Last year's exports to the U.S. accounted for 89 percent of total Mexican exports. As U.S. economic growth declines, so does its consumption of Mexican exports — which in turn reduces the production activity of Mexican industries.

Regarding the effects of economic policy restrictions, monetary policy last year was restrictive in order to fight inflation, but fiscal policy wasn't. This year, however, both policies are tight. As a consequence of tight monetary policy, nominal interest rates went up since the second half of last year. In fact, from May to December 2000, Banxico activated the monetary restriction through the "short [corto]" mechanism five times (out of six during the year). As a result, the short-term nominal interest rates rose from 12.93 to 17.59 percent from April to December. Monetary restriction was implemented not only through the quantity but also through the cost of money. In addition, fiscal policy this year became restrictive in order to keep public finance in line.

As a consequence of the combined effects (economic policy restriction and U.S. slowdown), the Mexican economy faces a deep deceleration this year, which is slowing GDP growth to 1.2 percent, versus 6.9 percent last year. In other words, the combination of the two effects will generate a deceleration of around 5.7 percentage points. In terms of seasonally adjusted figures, this means that Mexico will decelerate by about 4.8 percentage points, passing from a rate of 5.3 percent last year to 0.5 percent this year.

While the Mexican economy will decelerate by about 4.8 percent this year, the U.S. economy will do so by 3.5 percent (from 5.0 to 1.5 percent). According to estimates obtained from *A Model of the Speed of Adjustment of the Mexican Economy to the Deceleration of the U.S. Economy*, each percentage point of the U.S. deceleration generates a deceleration of 0.89 points in Mexico. It follows that, of the 4.8 percentage points of the Mexican deceleration, 3.1 points are explained by the U.S. deceleration of 3.5 percent. The remaining 1.7 points of the Mexican deceleration are explained by the restriction of economic policy.

Using the above formula, the slowdown of the Mexican economy this year may be attributed 65 percent to the U.S. slowdown and 35 percent to the restrictive Mexican economic policy. In other words, two thirds of the Mexico's deceleration is imported from the U.S. slowdown.



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	Annual Percent Change 2001 from 2000						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER MEXICO	0.5	1.4	-0.4	-0.4	1.0	1.9	5.0	9.280	11.4
BANAMEX	0.8	3.9	-2.8	-1.1	0.3	1.9	5.2	9.330	11.6
BANCOMER	0.2	2.9	-0.4	4.8	5.1	6.6	5.3	9.350	12.4
CAIE -ITAM	0.7	3.9	0.7	-5.0	-0.4	0.7	5.0	9.300	11.6
CIEMEX-WEFA	1.2	3.5	-3.0	-2.5	5.5	5.8	6.3	9.380	11.5
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	0.6	3.2	1.6	-7.0	-3.5	-2.6	5.0	9.320	11.4
GEA	0.8	3.7	0.2	2.8	1.2	2.7	4.1	9.340	11.5
GRUPO FINANCIERO INVERLAT	0.6	1.8	-0.3	-1.1	-1.8	-1.1	4.7	9.400	11.5
LATIN SOURCE MEXICO	0.1	2.6	-2.2	-1.4	1.6	3.1	4.8	9.345	11.6
Consensus — This Quarter	0.6	3.0	-0.7	-1.2	1.0	2.1	5.0	9.338	11.6
— Last Quarter (Q2)	2.6	3.4	1.2	3.9	3.6	5.5	7.3	9.506	14.3

	Annual Percent Change 2002 from 2001						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER MEXICO	4.2	4.6	1.5	5.5	9.6	10.0	6.4	9.280	9.0
BANAMEX	4.5	5.3	2.7	3.9	7.9	10.2	4.8	9.420	8.0
BANCOMER	3.5	3.4	3.7	12.6	10.2	11.5	3.9	9.480	8.8
CAIE - ITAM	4.2	4.0	2.7	4.9	11.9	15.3	6.6	9.570	8.2
CIEMEX-WEFA	4.5	4.5	3.5	7.5	10.5	11.2	5.7	9.800	8.0
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	3.9	4.4	3.7	11.3	12.0	12.4	6.1	9.840	9.2
GEA	1.9	3.9	4.2	4.2	12.5	10.7	3.5	9.540	6.2
GRUPO FINANCIERO INVERLAT	3.1	3.7	1.6	6.4	7.7	10.5	7.1	10.000	11.7
LATIN SOURCE MEXICO	3.5	4.7	1.8	8.6	12.9	8.6	3.9	9.510	8.0
Consensus — This Quarter	3.7	4.3	2.8	7.2	10.6	11.2	5.3	9.604	8.6
— Last Quarter (Q2)	4.7	4.7	3.2	8.7	11.7	13.4	6.1	10.123	12.4

	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment* 1993 Pesos (billions)	Exports** US Dollars (millions)	Imports** US Dollars (millions)	Consumer Price Index 1994 Base Dec./Dec.	Exchange Rate (Pesos/Dollars)	CETES 28 Day
2000	1,609.1	1,119.0	158.0	372.6	166.4	174.4	323.8	9.5	15.4%
% Change	7.2	9.4	6.6	12.5	22.1	22.9	9.5	-1.1	
1999	1,501.0	1,022.8	148.1	331.1	136.3	141.9	295.8	9.6	21.4%
% Change	3.7	4.3	1.0	1.5	16.1	13.2	16.6	4.7	
1998	1,448.1	980.3	146.7	326.1	117.5	125.4	253.7	9.1	24.5%
% Change	4.8	5.4	2.2	9.6	6.4	14.2	15.9	15.4	
1997	1,381.5	930.2	143.6	297.4	110.4	109.8	218.8	7.9	19.8
% Change	6.8	6.5	2.9	24.9	15.0	22.7	20.6	4.2	
1996	1,293.9	873.7	139.6	238.2	96.0	89.5	184.4	7.6	31.4%
% Change	5.1	2.2	-0.7	25.6	20.7	23.5	34.4	18.4	

Source: INEGI and Banco de México. *Due to data unavailability, the annual average of the gross fixed capital formation was used for 1999 **Trade balance



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