

THE MEXICAN RECESSION REGISTERS ITS FOURTH QUARTER

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The 1.57 percent decline in Mexico's Gross Domestic Product for the third quarter confirms a consistent decline in the economy during the past four quarters. In comparison to U.S. data, business cycles seem to be completely synchronized. While Mexico has moved from 5.10 percent growth in the fourth quarter of 2000 to 1.87, 0.02 and -1.57 percent respectively in the first three quarters of this year, the United States has moved from 1.91 percent in the fourth quarter of last year to 1.32, 0.31 and -0.36 percent in the same period. The only difference seems to be that Mexico's deceleration has been more pronounced, given that it was moving at a faster pace from the start.

This comparison, which is carried out by most analysts, is actually quite deceiving. While the U.S. reports its data in seasonally adjusted annual quarter-over-quarter rates, Mexico typically discloses nonadjusted year-over-year rates. The United States looks at its growth at the margin, which gives us a better picture of what is happening at the moment. Mexico looks at its growth over a one-year time frame, which is like using a moving average — that is, it behaves as if it smooths out the growth picture by averaging the last quarter with the previous three.

That Mexico reports its data in this fashion is due to a traditional lack of sophistication — that is, it had never carried out seasonal adjustment in its data. A quarter-over-quarter comparison would be confusing, given that it would be “contaminated” by pronounced seasonal fluctuations. In order to avoid this, year-over-year growth rates are reported — a naive way to factor out seasonality.

The problem with this form of reporting data is that it does not tell us what is happening at the margin — that is, what the latest quarter really means. After years of lobbying by many economists, the Mexican statistics institute, INEGI, started to divulge seasonally adjusted data as of last year. If we calculate quarter-over-quarter growth rates from this data and then annualize them, we obtain data that is comparable to the U.S. growth rates. These numbers reveal four consecutive quarters of negative growth: -2.89 percent in the fourth quarter of last year, and -1.77, -1.01 and -0.89 percent respectively for the first three quarters of this year.

Seasonally adjusted data confirms this trend. Industrial production peaked in June of last year and has registered positive growth in only three of the last 15 months. Retail sales peaked in January and have grown in only three of the next eight months. Total fixed investment peaked in August of last year and has positive rates in five of the last 12 months. This means that Mexico has been in a recession since the fourth quarter of last year, in contrast to the United States, which seems to have entered into a recession in the third quarter of this year.

The United States started its recession phase in March (six months after Mexico) and most economists expect it to last at least through mid-2002. This means that the recovery for Mexico is not yet in sight and the economy will suffer negative growth rates on the quarter during the next one to three quarters. This explains the sharp downward revision in the consensus forecast, from 3.7 to 1.3 percent for 2002.

In the past, Mexico's recessions always have been accompanied by bouts of instability. This time, however, the business cycle downturn is characterized by declining inflation, low interest rates and a very strong exchange rate. Nothing in the forecast suggests that this stability will be interrupted or affected.

— LIC. IVONNE ORDÓÑEZ
Latin Source Mexico

	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	-0.3	2.5	-2.5	-6.8	-3.7	-2.9	5.4	9.350	11.3
BANAMEX	-0.2	3.1	-2.5	-8.7	-3.2	-1.9	5.3	9.350	11.5
BANCOMER	-0.4	2.0	-2.5	-7.2	-3.9	-3.6	5.7	9.310	12.8
CAIE -ITAM	-0.3	3.5	-0.4	-6.0	-5.6	-5.1	5.4	9.350	11.4
CIEMEX-WEFA	-0.2	2.2	-1.5	-5.0	-0.7	-0.6	5.7	9.400	11.7
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	-0.2	2.9	-3.1	-5.4	-5.7	-3.9	5.5	9.350	11.4
GEA	0.3	3.1	-2.3	-3.0	-3.7	-3.2	5.1	9.400	11.8
GRUPO FINANCIERO INVERLAT	-0.4	1.0	-1.1	-5.1	-4.5	-3.4	5.3	9.400	11.4
LATIN SOURCE MEXICO	-0.2	2.5	-2.2	-5.4	-4.8	-4.4	5.2	9.352	11.5
Consensus — This Quarter	-0.2	2.5	-2.0	-5.8	-4.0	-3.2	5.4	9.362	11.5
— Last Quarter (Q3)	0.6	3.0	-0.7	-1.2	1.0	2.1	5.0	9.338	11.6

	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	1.5	2.1	-1.8	1.9	2.1	4.3	4.9	9.490	9.8
BANAMEX	2.0	1.8	0.9	5.6	0.9	2.5	4.6	9.430	8.0
BANCOMER	0.4	0.6	-0.3	-1.7	-1.5	-1.2	4.6	9.370	7.7
CAIE - ITAM	1.8	0.7	2.1	3.1	-1.2	0.9	6.7	9.750	7.4
CIEMEX-WEFA	1.5	3.0	2.5	5.5	5.5	6.5	6.5	9.850	8.9
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	1.1	-0.8	0.1	4.3	-3.8	-2.7	7.3	9.870	9.9
GEA	1.6	2.1	3.8	2.4	2.4	3.1	4.8	9.700	10.2
GRUPO FINANCIERO INVERLAT	1.3	1.5	2.3	4.8	-3.8	-0.4	6.0	10.200	11.0
LATIN SOURCE MEXICO	0.9	1.5	0.8	3.7	0.6	-0.7	4.5	9.547	8.1
Consensus — This Quarter	1.3	1.4	1.2	3.3	0.0	1.4	5.5	9.690	9.0
— Last Quarter (Q3)	3.7	4.3	2.8	7.2	10.6	11.2	5.3	9.604	8.6

	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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