

MEXICO'S ECONOMIC RECOVERY: A GAME OF TWO FORCES

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The late third quarter of 2000 (specifically September) may be cited as the last peak in the Mexican Business Cycle. After this turning point a contraction in supply and foreign demand started to characterize the slowing down phase in the business cycle. In contrast to the economic experience in the last two decades, the current economic situation was not provoked by a structural shock derived either from a capital flow instability, a major increase in the international price of oil, a policy mistake or an exchange rate crisis. The current situation can be interpreted as the effect of the business cycle “renaissance” in Mexico. This time the economic slowdown has been mainly motivated by market forces and not by a new economic crisis.

The role that the U.S. economy has played in the Mexican cycle is evident, due to the fact that the trade and the capital markets have been the major source of synchronization between both economies. Given the extent of the American economic influence over the Mexican economy, it is relevant to analyze how the new potential scenario in the industrialized country — the “W” shape in the American recession — could affect the Mexican incipient economic recovery. This new fear has its basis in the revisions to the U.S. GDP data, the recent U.S. economic indicators, where a trough or minimum in the cycle has not been possible to determine yet, and the Wall Street accounting scandals.

From the recent Mexican indicators, it is not possible yet to identify a low point in the cycle. Mixed results in unemployment, industrial production, manufacturing and a weak external trade sector could derive from two possibilities: It could be the beginning of a turning process (where a low point has been reached) with recovery becoming evident in a couple of months. Or, the Mexican economy could be experiencing the last effects of the economic weakness, with a low point in the cycle approaching.

Internal and external demand are the two forces with the potential to determine the Mexican economic recovery. During the recession, internal demand (private and governmental consumption plus investment) played a supporting role by smoothing the declining phase in the cycle: private consumption emerged as the main force behind the Mexican economic strength during the recession. External demand, together with internal supply, played the “catalyst” role since the beginning of the recession by translating the negative economic influences from the United States into an economic slowdown in Mexico. Thus, the Mexican economic recovery and a potential “W” shape in the recession could be determined by these two forces in the coming months.

Elements such as the outcome of electricity market reform, the revision of the fiscal reform, and the recent cancellation of the airport in Texcoco will determine the internal demand in the short run. By sending the correct signals to the market, the internal demand will be stimulated by foreign and national investment and the scenario of a “double fall” (initiated in the United States) in Mexico will become less probable. However, the U.S. accounting scandals, the possibility of an attack on Iraq, and the economic instability in South America could negatively influence the external demand (due to their effects on U.S. economic performance) — and the economic recovery for Mexico could be delayed at the same time as the scenario of a “W” shape in the Mexican recession becomes more probable.

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	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	1.8	1.9	1.1	3.4	3.1	1.9	5.1	9.600	7.1
BANAMEX	1.9	1.2	0.8	6.3	2.3	1.7	5.1	9.490	7.3
BANCOMER	1.9	2.0	0.7	2.9	3.1	3.7	4.8	9.590	7.3
CAIE -ITAM									
CIEMEX-WEFA	1.9	2.5	1.3	2.5	4.2	4.3	4.9	9.450	6.8
CONSULTORES ECONOMICOS ESPECIALIZADOS	1.8	1.8	1.2	2.6	2.1	1.2	5.0	9.590	7.1
GEA	1.3	1.2	0.8	-0.6	0.0	-0.3	4.9	9.570	7.1
GRUPO FINANCIERO INVERLAT									
LATIN SOURCE MEXICO	1.3	1.6	-1.9	3.8	3.9	3.1	4.9	9.544	7.3
CONSENSUS - THIRD QUARTER	1.7	1.7	0.6	3.0	2.7	2.2	5.0	9.548	7.1
- SECOND QUARTER	1.7	2.0	0.9	2.3	3.1	3.4	4.7	9.354	7.2

	Annual Percent Change 2003 from 2002						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	3.8	3.6	2.2	4.1	5.1	5.9	4.1	10.050	7.1
BANAMEX	4.4	4.6	3.2	5.1	10.3	11.4	4.2	9.830	8.1
BANCOMER	4.4	5.1	1.6	3.2	10.4	11.5	3.5	9.960	7.5
CAIE -ITAM									
CIEMEX-WEFA	4.8	4.2	3.5	7.7	11.5	12.0	3.9	10.000	6.2
CONSULTORES ECONOMICOS ESPECIALIZADOS	4.5	4.6	2.7	6.8	9.1	9.8	4.5	10.150	8.7
GEA	2.5	2.9	1.9	4.0	7.9	8.8	4.5	9.990	7.5
GRUPO FINANCIERO INVERLAT									
LATIN SOURCE MEXICO	4.8	5.3	0.5	10.5	11.2	13.1	2.9	10.080	7.3
CONSENSUS - THIRD QUARTER	4.2	4.3	2.2	5.9	9.4	10.4	3.9	10.009	7.5
- SECOND QUARTER	4.4	4.4	3.2	5.8	8.9	10.5	4.0	9.740	7.6

	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
2001	1598.8	1118.3	154.7	351.3	158.5	168.3	344.4	9.4	11.3
Percent Change	-0.6	-0.1	-2.1	-5.7	-4.7	-3.6	6.4	-0.9	
2000	1609.1	1119.0	158.0	372.6	166.4	174.4	323.8	9.5	15.4
Percent Change	7.2	9.4	6.6	12.5	22.1	22.9	9.5	-1.1	
1999	1501.0	1022.7	148.1	331.1	136.3	141.9	295.8	9.6	21.4
Percent Change	3.7	4.3	1.0	1.5	16.1	13.2	16.6	4.7	
1998	1448.1	980.3	146.7	326.1	117.5	125.4	253.7	9.1	24.5
Percent Change	4.8	5.4	2.2	9.6	6.4	14.2	15.9	15.4	
1997	1381.5	930.2	143.6	297.4	110.4	109.8	218.8	7.9	19.8
Percent Change	6.8	6.5	2.9	24.9	15.0	22.7	20.6	4.2	
1996	1293.9	873.7	139.6	238.2	96.0	89.5	181.4	7.6	31.4
Percent Change	5.1	2.2	-0.7	25.6	20.7	23.5	34.4	18.4	



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