

THE MEXICAN ECONOMY: AN OVERVIEW OF RECENT PERFORMANCE

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The Mexican economy's recovery is continuing, although the pace has slowed. While foreign demand, especially for manufactured exports, has registered faster annual growth, the recovery of the U.S. market is not yet firm.

Consumer spending is losing its vitality due to the slow growth of employment and lower increases in wages. Investment is growing only in the construction segment.

GDP growth for the third quarter was 1.9 percent, lower than our estimate of 2.2 percent. While the process of economic recovery continues, reflected in three consecutive quarterly advances, its pace has been slowing since the third quarter of last year. In fact, the month-on-month increase was lower than estimated for the fourth quarter (0.15 vs. 0.8 percent, respectively), increasing the risks for economic growth this year. It should be mentioned that an important part of the slowdown in the third quarter was due to the poor result in the farm sector, and to a lesser extent in industry. Meanwhile, according to the panel's estimates, services grew by 0.6 percent during the quarter.

Several elements slowed the growth rate during the last quarter of 2002:

- The slow revival of employment and lower increases in real wages weakened private consumer spending. Although formal employment registered three consecutive monthly increases, its pace was slow. At the same time, although the service sector registered an advance (annual and quarterly) during the fourth quarter, retail sales statistics, particularly for the auto industry, show that the recovery in private consumption was continuing slowly.

- Although foreign demand, especially for manufacturing exports, registered higher annual growth in parallel with the U.S. market, the latter still registered negative monthly growth, increasing the uncertainty about a recovery in Mexican shipments. However, the panel estimates that the external recovery will continue to strengthen; the gain made by U.S. industrial production in January points in that direction.

- The lack of recovery in investment spending, despite the improved performance of construction, does not exhibit any firm improvement trend, especially in the machinery and equipment area.

In 2002, GDP grew by 0.9 percent. Of the three broad sectors, only services supported growth, climbing by 1.6 percent. Meanwhile, industry registered zero growth and agriculture fell by 0.4 percent. The slight annual advance followed a drop in GDP in 2001 (-0.3 percent), resulting in two years of economic weakness.

The balance of payments registered a good result. A substantial increase in Foreign Direct Investment stands out for the fourth quarter, the largest in the last five quarters. As a result, the inflow of capital, which grew compared with the period July through September, shows a predominance of FDI, while there was a slight increase in public sector debt.

Recent data (fourth quarter GDP, the labor market, trade balance and sales) show that growth for the first part of this year will be lower than had been forecast, especially for domestic demand. This leads the panel to revise its GDP estimate for this year from 3.2 to 2.8 percent.

— **Lic. Arturo Vieyra Fernandez**
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	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	2.0	2.8	1.2	0.7	5.8	5.6	4.7	10.970	8.8
BANAMEX	2.8	3.3	1.9	2.2	6.2	6.6	4.4	10.930	8.7
BANCOMER	2.0	1.9	1.8	3.1	2.3	2.3	3.9	10.730	7.5
CENTER KLEIN	3.3	4.5	2.5	6.5	7.7	8.7	3.4	11.060	7.0
CONSULTORES ECONOMICOS ESPECIALIZADOS	2.7	2.4	3.6	3.5	7.2	8.9	4.9	10.720	8.8
GRUPO FINANCIERO INVERLAT	4.5	4.1	1.2	6.0	8.5	9.5	4.0	11.110	8.4
LATIN SOURCE MEXICO	2.9	3.8	1.0	7.7	5.2	6.4	4.0	11.050	8.7
CONSENSUS — THIS QUARTER	2.9	3.3	1.9	4.2	6.1	6.9	4.2	10.939	8.3
— 4TH QUARTER	1.3	1.6	-0.2	1.7	1.7	0.8	5.3	9.658	7.1

	Annual Percent Change 2004 from 2003						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	4.1	3.4	0.9	4.1	4.8	7.3	3.6	11.210	7.9
BANAMEX	4.5	4.4	4.7	4.6	10.0	11.8	3.8	10.540	8.8
BANCOMER	3.7	3.3	2.4	5.1	7.1	8.4	3.8	11.290	8.0
CENTER KLEIN	4.4	4.2	4.0	7.5	7.7	8.7	3.4	11.170	7.0
CONSULTORES ECONOMICOS ESPECIALIZADOS	4.8	4.5	4.7	4.1	7.4	9.2	5.0	10.900	9.3
GRUPO FINANCIERO INVERLAT	4.5	4.0	1.2	5.6	6.0	6.4	4.5	11.600	8.7
LATIN SOURCE MEXICO	4.9	4.8	1.5	9.0	10.0	10.7	3.9	11.610	8.9
CONSENSUS — THIS QUARTER	4.4	4.1	2.8	5.7	7.6	8.9	4.0	11.189	8.4
— 4TH QUARTER	3.1	3.2	1.8	4.6	6.9	8.1	4.2	10.230	7.7

	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	1,598,832.3	1,118,315.9	154,719.5	351,339.6	158,546.8	168,276.0	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	1,609.1	1,119.0	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	1,501.0	1,022.7	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	1,448.1	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	1,381.5	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	1,293.9	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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