

ECONOMIC GROWTH REMAINS SLOW IN ABSENCE OF STRUCTURAL REFORMS

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Recent economic performance in Mexico presents conflicting results. Stability continues to grow despite the ups and downs in the financial markets. However, economic growth has been weak — especially in the industrial sector — producing an increase in unemployment, which last July reached its peak since the beginning of the “sexenio” (six-year term of the presidency).

Many factors are relevant in the explanation of recent economic events, Perhaps the most important has been the decision of the Exchange Rate Commission to start selling dollars in order to slow the accumulation of international reserves. This reversed the upward trend in the exchange rate, which had reached close to 11.2 pesos per dollar prior to the announcement and fell to near 10.1 pesos per dollar less than a couple of months afterward.

Another consequence of this step was a sharp decline in interest rates, which reached their lowest level on record, pushing the Cetes 28-day rate to 4.9 percent from 9.7 percent in the same two-month period.

Inflation is not a significant concern at this time, since year-to-year inflation has been declining lately and inflation forecasts are correcting downward.

So, the bad news in economic performance is centered in productive activity. Economic growth has been practically stagnant since 2002, and the improvement in macroeconomic stability is not enough to set the economy in motion.

Aggregate demand, which typically generates growth in production, has been weak, growing only 0.2 percent on a yearly average in 2001-2002. Private consumption, the biggest component of aggregate demand, has been sluggish because the employment outlook has been lackluster. This is due to a lack of new investment since 2002 despite the notable drop in nominal and real interest rates. Finally, public expenditure has been severely restricted by the structural weakness in tax revenues.

The loss of dynamism in the U.S. economy has, of course, affected Mexico’s economic pace. Most of Mexico’s manufacturing activity is closely related to industrial production in the United States.

For the near future, economic recovery in Mexico will depend on many things, including the recovery of the U.S. economy. In addition, a strong increase in new investments will be necessary, from both private and public sectors. This will require large amounts of capital, most of which must come from abroad. In order to attract the desired capital, it will be necessary to make significant reforms in fiscal policy, energy and labor. Without these reforms, the amount of disposable capital will be quite scarce, thus limiting the expansion of the economy and the job creation.

Up until now, these reforms have been mired in Congress due to a lack of agreement among the main political forces.

The latest economic indicators suggest that an economic recovery is under way in the United States. As this recovery goes on, the Mexican economy will start showing some vigor. Higher levels of growth will be observed, but as long as structural reforms are not in place, this economic growth will be limited. The good news is that economic stability will prevail, at least in the near future.

— Mario Correa
Grupo Financiero INVERLAT

	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	1.5	1.9	0.3	0.4	2.6	1.2	3.7	10.700	6.4
BANAMEX	1.6	2.1	0.8	-3.2	2.5	1.3	3.9	10.600	6.3
BANCOMER	1.6	1.5	-0.8	0.2	6.7	2.7	3.9	10.590	6.8
CENTER KLEIN	1.6	2.5	2.2	-2.9	4.5	4.2	3.8	10.500	6.3
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	1.7	1.6	2.1	1.1	2.9	1.4	3.5	10.700	6.6
GRUPO FINANCIERO INVERLAT	2.1	2.6	2.8	0.4	1.0	0.8	4.3	10.700	6.5
LATIN SOURCE MEXICO	1.4	1.4	1.5	1.9	1.1	0.4	3.5	10.740	6.6

CONSENSUS — THIS QUARTER	1.6	1.9	1.3	-0.3	3.0	1.7	3.8	10.647	6.5
— LAST QUARTER	2.9	3.3	1.9	4.2	6.1	6.9	4.2	10.939	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	3.2	2.3	0.5	2.8	1.6	4.4	3.6	11.045	6.3
BANAMEX	4.0	3.9	2.0	4.7	4.3	6.2	3.7	10.630	6.4
BANCOMER	2.7	2.4	1.5	5.5	8.2	7.7	3.8	10.900	7.2
CENTER KLEIN	4.5	3.8	4.0	6.3	7.4	8.7	3.4	10.826	6.0
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	4.2	4.0	3.2	3.2	7.0	9.0	4.5	10.800	7.7
GRUPO FINANCIERO INVERLAT	4.3	4.2	1.4	5.2	5.4	8.9	4.1	11.160	6.2
LATIN SOURCE MEXICO	3.9	4.0	0.6	7.6	9.8	10.7	3.8	10.820	6.0

CONSENSUS — THIS QUARTER	3.8	3.5	1.9	5.0	6.2	7.9	3.9	10.883	6.6
— LAST QUARTER	4.4	4.1	2.8	5.7	7.6	8.9	4.0	11.189	8.4

Source: INEGI	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment 1993 Pesos (billions)	Exports (Trade Bal.) US Dollars (millions)	Imports (Trade Bal.) US Dollars (millions)	Consumer Price Index June 00=100 Dec./Dec.	Exchange Rate Pesos/Dollars (annual av.)	CETES 28 Day (annual av.)
2002	1,611.7	1,175.1	153.1	360.8	160.8	168.7	102.9	9.803	7.18
Percent Change	0.9	1.3	-1.3	1.2	1.5	0.2	5.7	4.6	-36.5
2001	1,597.2	1,160.5	155.0	356.5	158.4	168.4	97.4	9.371	11.31
Percent Change	-0.3	2.4	-1.2	-5.8	-4.8	-3.5	4.4	-1.7	-26.3
2000	1,602.3	1,133.8	157.0	378.6	166.5	174.5	93.2	9.535	15.36
Percent Change	6.6	7.6	2.0	11.4	22.0	22.9	9.0	-1.0	-28.3
1999	1,503.5	1,053.5	153.8	339.9	136.4	142.0	85.6	9.630	21.43
Percent Change	3.7	3.9	4.7	4.0	16.1	13.2	12.3	3.6	-13.3
1998	1,449.3	1,013.8	146.9	327.0	117.5	125.4	76.2	9.293	24.73
Percent Change	4.9	5.3	2.3	9.9	7.7	14.2	18.6	16.3	25.0
1997	1,381.5	963.1	143.6	297.4	109.1	109.8	64.2	7.988	19.77
Percent Change	6.8	6.2	2.9	24.9	13.6	22.7	15.7	4.9	-36.9

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