Mexico Flash

There are signs that economic activity has started to improve. For this reason, we estimate that the low growth-rate cycle is over

- INEGI's coincident indicator suggests that the economy was declining in February and operating below its potential. INEGI considers the economy to be in recession if this condition is met and if, furthermore, the coincident indicator has been decelerating for at least nine months and if there are at least 21 months between the current peak and the indicator's previous peak (see Figure 1).The distance between the two peaks is the length of the economic cycle.
- There is no consensus among countries and institutions on the definition of a recession.
- For example, in the United States, an independent committee of economists decides that a recession has begun if it establishes that there has been a significant decline in economic activity. Normally, this is reflected in two consecutive quarters of negative growth rates, a definition of recession which is also used in other countries. Under this criterion, Mexico is not in recession.
- Under INEGI criteria, with data from February, the economic cycle's current phase seems to qualify as a recession. Nevertheless, we estimate that, even were this the case, the recession appears to have ended and the economy is now in a phase of recovery.
- This statement is supported by the most recent figures on exports, public expenditure and employment, which suggest that March and April have shown an improvement. Thus, we expect the coincident indicator to go up over the next few months, for GDP to have positive growth, and that it will accelerate in the second half.

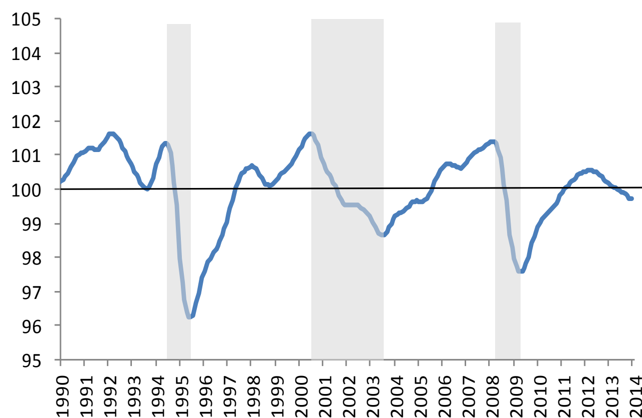
On 7 May INEGI published its Coincident Indicator which allows it to establish what stage of the economic cycle the Mexican economy has reached. This indicator stood at 99.7 points in February, which represents a variation of -0.04 points compared to the month before. According to INEGI, the recessive phase is when the indicator's cyclical component is decreasing and is positioned below its long-term trend, represented by 100 points; this would mean that the February indicator meets this definition (see Figure 1). Furthermore, INEGI considers that this indicator is not sufficient to determine that the economy is in recession. To decide this, the coincident indicator must have been decelerating for at least nine months, and there must be a minimum of 21 months between the indicator's current and previous peak. The distance between the two peaks is the length of the economic cycle.

There is no standard international definition of recession. Some countries consider that an economy has fallen into recession when it has had two consecutive quarters of negative GDP growth. In the US, the non-profit National Bureau of Economic Research (NBER) is the association which monitors the country's economic cycles. It defines recession as a significant reduction in activity throughout the economy, lasting more than a few months, visible in industrial production, employment, real revenue and trade. A recession begins right after the economy reaches a production and employment peak, and ends when the economy falls to its lowest point. Likewise, in Europe another private organisation, the Centre for Economic Policy Research (CEPR) indicates the periods of the economic cycles in the eurozone and defines recession as a significant drop in the level of economic activity which affects the entire eurozone economy, largely visible with two or more consecutive quarters of negative GDP growth, employment and other aggregate economic indicators in the eurozone as a whole.

Although the Mexican economy has suffered a major deceleration in January and February, the figures for March and April point to a significant improvement. In the first two months of the year, there was a lag in retail sales and in private investment, probably partly influenced by the fiscal reform. In addition, the US economy grew slowly over these months, largely as a result of adverse climatic conditions over this period, as well as foreign demand in the rest of the world for Mexican products remaining weak. In contrast, in March, once these adverse climatic effects were diluted, exports to the US grew at an annual rate of 8% (see Figure 2), and in April vehicle exports to this

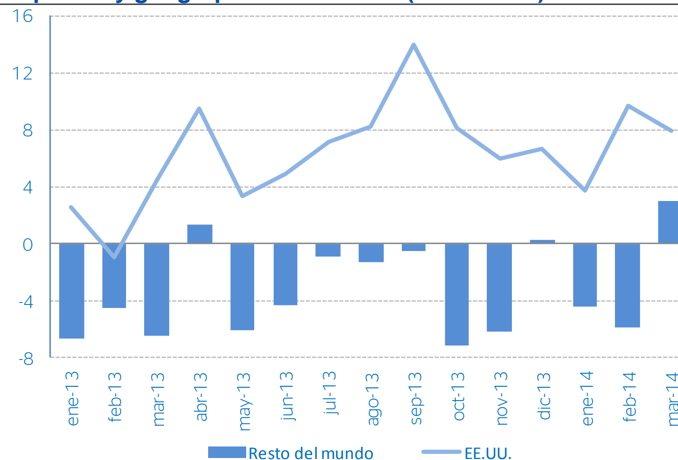
market reached an annual rate of 19%. Furthermore, the US economy seems to be speeding up in the second quarter, in particular the figures for employment and manufacturing orders for April were higher than market expectations. So, US demand for Mexican products should continue to accelerate in the second half. On the other hand, the drive in public spending continued and in March grew at a real annual rate of 13% with an increase in capital and current expenditure of 40% and 9% respectively. For all these reasons, GDP growth in the first quarter is expected to be positive, and in the second to show additional acceleration, so that at the moment we estimate that the economy is already in a growth recovery phase.

Figure 1
Coincident Indicator (points)



Source: INEGI.
Note:
The Coincident Indicator's long-term trend is shown by the line drawn on 100. The shaded area shows the period between a peak and a trough in the Coincident Indicator.

Figure 2
Exports by geographic destination (% var. YoY)



Source: BBVA Research with data from INEGI.

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