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FOREIGN AFFAIRS & TRADE
Manatū Aorere

Mexico: Economic Update
Market Report

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Prepared by the New Zealand Embassy in Mexico City

Summary

- Mexico, one of the hardest hit countries in the world by COVID-19 (currently ninth in confirmed cases and fourth in deaths), is also shaping up as one of the worst affected economically.
- In the second quarter of 2020, Mexico's GDP shrank by 17.1% compared to the previous quarter, leading Finance Secretary Arturo Herrera to describe the economic crisis that Mexico is facing as the worst recession since the 1930s.
- The central bank has estimated that Mexico's economy will take up to six years to recover from the damage caused by the pandemic, and in a worst-case scenario, up to 10 years.
- The Mexican government has focused on infrastructure spending, rather than economic stimulus, to reactivate the economy. As of October, government economic stimulus during the pandemic represents 0.7% of total GDP.
- Based on year-to-date trade statistics, 2020 exports from New Zealand to Mexico are on track to exceed those of 2019, and imports from Mexico are already higher than in 2019. The increase in exports has been driven by exports of medical equipment, which tripled compared to last year.

Report

Impact of the pandemic on the Mexican economy

1 Mexico, one of the hardest hit countries in the world by COVID-19 (currently ninth globally in confirmed COVID-19 cases and fourth in the number of deaths), has also been one of the worst affected economically. The country was already in a technical recession when the pandemic started, having registered a growth rate of -0.3% in 2019. With an economic shutdown compounding existing economic problems, in the second quarter, Mexico's GDP shrank by 17.1% compared to the previous quarter, leading Finance Minister Arturo Herrera to describe the economic crisis that Mexico is facing as the worst recession since the 1930s.

2 Out of the world's 17 biggest economies, Mexico is expected suffer the most economically in 2020 and 2021, according to the United Nations Conference on Trade and Development (UNCTAD). The governing board of the Central Bank of Mexico has estimated that Mexico's economy will take two to six years to recover from the damage caused by the pandemic, and in a worst-case scenario, it could take ten years.

3 While Mexico's lockdown was not as strict as some during the initial period, (April and May), all but "essential" economic activities were shut down. Essential industries included medical equipment production and distribution, food production and distribution, security, transport, energy, communications, and critical manufacturing. Industries heavily affected by the shutdown included non-essential manufacturing (including the auto sector), construction, hospitality and tourism. During this two-month period, GDP contracted by 18.7% compared to the previous year. Between May 2019 and May 2020, Mexico's economic activity index shrank by a record 22.7%.

4 According to government statistics, 12.5 million jobs (across both the formal and informal sectors) were lost in April, though 7.1 million have since been recovered. The informal sector – the part of the economy that is not taxed or regulated by the government - was the most heavily affected, but has also been the fastest to recover: of the 650,000 people who returned to work in August, 71% were in the informal sector. Forecasts estimate that 6.64 million more people will be living in extreme poverty in Mexico because of the pandemic.

5 While big industry has been heavily affected, the pandemic has had a disproportionately negative impact on small and medium enterprises (SMEs), who are finding it increasingly difficult to access credit from banks and paying higher interest rates. The balance of credit lent to Mexican SMEs fell by 4.6% between June 2019 and June 2020. In the absence of a government wage subsidy scheme to support businesses during lockdown closure, many SMEs found it impossible to retain employees and afford wages. In April, the government announced an emergency loan scheme that would allow certain SMEs to access loans of US$1000,with interest rates of 6.5-10%. No government assistance has been provided to large firms and corporations, the nation's largest employers.

6 Tourism, which usually represents around 8% of Mexico's GDP, continues to be one of the most severely impacted sectors. International travel to Mexico decreased by 96.6% in May, and domestic air travel dropped by 83.2%. Tourism activities have been in the process of reopening since July, but most hotels, airlines, and other businesses continue to operate at reduced capacity (for example, hotels are only allowed to operate at 30% capacity). Foreign direct investment in tourism contracted by 30.9% in the first quarter of 2020 compared to the same period in 2019.

7 The agriculture sector has proven resilient, and continued operating during the economic shutdown, due to its designation as an essential activity. Mexican agricultural exports increased 4.3% in the first half of 2020, and Mexico's avocado exports registered a record increase in exports of 11% amidst the pandemic.

Government response

8 The Mexican government has focused on infrastructure spending, rather than economic stimulus, to reactivate the economy. As of October, government economic stimulus during the pandemic represents 0.7% of total GDP. Earlier this month, the federal government, in partnership with CCE, Mexico's biggest business association, announced an "Agreement for Economic Reactivation" to promote investment and lift the economy. The package, mostly privately financed, comprises 39 projects with a total investment value of US$13.8 billion, including a concession to revive highways, a planned train link between Mexico City and Querétaro, communications projects and further investments in state-owned oil company PEMEX. According to the Ministry of Finance, the projects are expected to create between 185,000 and 190,000 jobs.

Some positive news

9 Despite the negative outlook, it is not all doom and gloom for New Zealand business in Mexico: on the contrary, many businesses are continuing to do well despite the pandemic. Based on year-to-date trade statistics, 2020 exports from New Zealand to Mexico are on track to exceed those of 2019, and imports from Mexico are already higher than in 2019. Dairy and meat exports have remained stable, while exports of medical equipment have tripled. Mexican imports to New Zealand have either remained steady or experienced an increase in the top 15 tariff lines. Alcohol imports from Mexico have increased; however, alcohol exports from New Zealand remain stable.

10 Given the high level of reliance of Mexico on the US market, particularly for exports, there are concerns that the slowdown of the US economy will have an outsized impact on Mexico. These predictions however, have not yet come to pass. Despite a surge in unemployment in the US, due to the pandemic, remittances from the US to Mexico rose by 10.5% in the first six months of 2020, and a hit a record high in March, up 35% from the previous year. The increase was partly driven by a favourable exchange rate between the Mexican peso and US dollar, a rise in the number of individual remittance transactions, and an increase in the average amount of each remittance, and reflects the high number of Mexicans working in essential industries in the US.

Where to from here: A long road ahead

11 The World Bank has recently estimated that the Mexican economy will contract by 10% in 2020, and the Economist Intelligence Unit estimates that GDP will not return to 2018 levels before 2025. The IMF recently released revised figures, which estimate an economic contraction of 9% in 2020 - only marginally better than its June estimate of 10.5%. However, the gradual economic reopening is slowly reversing negative trends. Data for August and September showed the recovery of 206,000 formal jobs, amounting to 18.7% of the 1.1 million jobs lost in this sector between March and July. The challenge though, following the initial rebound after the lifting of the economic shutdown, will be sustaining the economic recovery into 2021 and beyond.

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