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MEXICO

Mexico's economy shows signs of stress

Mexico's new president struggles to keep food staple prices down and sustain the economic growth that Mexico has been undergoing for some time.

By Laurence Iliff

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MEXICO CITY - As President Felipe Calderón marched across the nation unveiling social programs and touting the military-led crackdown against drug lords, a round shadow followed him, darkening his sunny message.

It was the ubiquitous tortilla, rising rapidly in price and reminding Mexicans that all is not well with the once-humming economy.

At public events, angry women intercepted the new president, who faced his first mini-crisis since taking office Dec. 1. Hundreds of thousands of protesters took to the streets in the Mexican capital last Wednesday, demanding an emergency wage hike to counter surging prices for sugar, onions and tortillas.

"There is no doubt that the biggest challenge is going to be the economy," said economist Rogelio Ramírez de la O, who served as an advisor to losing presidential candidate Andrés Manuel López Obrador.

"The issue of insecurity is important and gets a lot of media attention," said Ramírez de la O. "But the economy is a huge challenge because the government believes it can resolve everything through continuity, and if they continue insisting on this path, it will not solve the real issues and there will be many small crises."

Mexico, which has been gobbling up U.S. goods and exporting record amounts to America, may face the end of a charmed period during which it grew rapidly with low inflation and managed to generate budget surpluses.

More serious economic problems would mean fewer Mexican shoppers in Dallas malls and more illegal immigrants, analysts say. In addition to the specter of higher food prices and higher inflation, a drop in oil prices for Mexican crude exports could push the government's budget into a deficit. Likewise, oil production is falling. And officials

acknowledge a coming economic slowdown and, with it, a possible increase in unemployment.

"The real challenge to Mexico is the same it's been for the last decade: to have enough economic growth to create jobs for young people," said Bernard L. Weinstein, director of the Center for Economic Development and Research and a professor of applied economics at the University of North Texas in Denton.

U.S. SUPPORT

U.S. Commerce Secretary Carlos M. Gutierrez said after meeting with Calderón last week that Mexico is on its best financial footing in many years, but, like all developing nations, it faces stiff global competition.

"This is a very important commercial relationship, and my whole purpose in being here is to make it bigger, to make it grow," Gutierrez said. Despite growing U.S.-Mexico trade, China has taken Mexico's place as the United States' No. 2 trade partner, he noted. Mexico remains Texas' biggest trading partner.

The head of Mexico's central bank, Guillermo Ortíz, predicted late last month that economic growth will fall to about 3.5 percent in 2007 from 4.8 percent in 2006.

Meanwhile, inflation could run as high as 4.5 percent in coming months, well above the government's 3 percent goal, Ortiz said. The bank was worried that isolated price hikes could "contaminate" the larger economy, but, he said, the central bank would step in to tame inflation if necessary.

Mexico's stock market remained a strong performer, and many economic analysts don't see serious danger in the short term.

But they also don't see the types of structural reforms in the energy industry or other sectors that would bring new dynamism to the economy.

"The great problem is the lack of competition," said Raul Feliz, an economist at the Center for Economic Research and Teaching in Mexico City. "The first thing we must understand is that because of the close presidential election, this is not a president who has a big mandate" to push through controversial reforms.

"The great problem with the Mexican economy is that while it has had macroeconomic stability, its performance has been very mediocre," said Feliz, who sees more of the same under the new president.

Calderón's limited choices were made clear as he tried to get a handle on tortilla prices.

The price hike varied greatly from region to region, but a kilo (2.2 pounds) nearly doubled to 10 pesos (92 cents) in some communities over the course of a year, with December particularly bad.

Producers blame higher global corn prices. The issue has caught the attention of average Mexicans because the tortillas remains the greatest source of calories for the poor.

PRICE CAP

In mid-January, Calderón quickly convinced many producers and distributors to hold prices or lower them, with a cap at 8.5 pesos (78 cents) per kilo. But the accord was voluntary, many small tortilla makers ignored it, and some even used the 8.5-peso cap to raise their prices.

And the "tortilla pact" expires in three months.

The Mexican government also raised limits on imports of tariff-free corn from abroad, mostly from the United States.

Consumers remained skeptical of the new deal.

"I don't think it's going to work," said Maria del Carmen Santiago Lopez, 49, a Mexico City secretary. "What does not rise in price now is going to rise once their famous pact is over. I would have liked to see an agreement that raised prices on luxury cars. This hits the poor directly."