

Macroeconomic Situation

National economic activity, as measured by gross domestic product, registered a moderate expansion during 2002. In spite of the more vigorous GDP growth recorded in the last 9 months of the year, the weakness of economic activity during the first quarter had a negative impact on the overall annual rate of GDP growth. This situation, along with the uncertainty that characterized the international financial markets, continued to delay the consolidation of the recovery process that the Mexican economy saw in the second half of 2002. As a result, the Mexican economy expanded at a real annual growth rate of 0.9%¹.

This rate of GDP growth was uneven among different economic sectors. In particular, the rate of growth of economic sectors closely linked to external markets was weaker than that of sectors associated with domestic sources of demand.

In this context, GDP of the activities services sector increased an average of 1.6% in real terms, while the GDP of activities that are included within the industrial sector showed an average real increase of 1.2%, compared with 2001². The GDP of the agricultural sector decreased 0.4% in real terms compared with 2001.

The growth of the service sector resulted from the positive performance of three of its four components. In particular, the financial services sector; the transportation, storage, and communications sector; and the personal services sector expanded at real annual rates of 4.4%, 2.2%, and 1.3%, respectively, during 2002 relative to 2001. By contrast, the commerce, restaurant, and hotel sector contracted at a real annual rate of 0.4% during the period of analysis.

The industrial sector clearly reflected the asymmetry that exists between domestic and external demand. On the domestic side, the construction and electricity sector and the gas and water sector expanded at real annual growth rates of 1.7% and 3.8%, respectively, during 2002. On the other hand, the weakness of external demand was reflected in real annual contractions of 0.6% in the manufacturing sector and 0.3% in the mining sector.

Within the manufacturing sector, the sharpest real annual decreases in 2002 occurred in textiles, clothing; and leather goods (6.2%); other manufacturing industries (2.0%); machinery and equipment (1.7%); lumber and wood products (1.3%); chemical industries (0.6%); and paper (0.1%). By contrast, non-metallic minerals increased at a real annual rate of 3.5% in 2002, while the food, beverages, and tobacco sector and the basic metal products sector expanded at real annual growth rates of 1.2% and 0.7%, respectively.

The labor markets reflected the weakness of the industrial sector and domestic demand. The number of employees registered with the Mexican Institute of Social Security (*Instituto Mexicano del Seguro Social*), a measure of employment in the formal sector of the economy, increased by 61,495 workers—a moderate rise over the 2001 level for total of 12,225,582 workers in 2002.

Similarly, the unemployment rate (*Tasa de Desempleo Abierta*) aver-

aged 2.71% of the active labor force during 2002, 0.25 percentage points higher than the average for 2001.

The annual inflation rate, measured by the change in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*), stood at 5.7% during 2002, a figure higher by 1.3 percentage points than the inflation rate registered in 2001. The most important events that influenced price behavior during 2002 were the partial elimination of electricity subsidies and a significant increase in the price of domestic gas, driven by the evolution of international oil prices³.

Net international reserves totaled US\$47,984.0 million at the end of 2002. This is the highest level registered. During 2002, the 28-day Cetes primary rate averaged 7.08%, 4.2 percentage points lower than the average observed in 2001.

The weakness of the U.S. dollar with respect to other major currencies had a negative impact on value of the peso against the U.S. dollar. In particular, during 2002, the exchange rate averaged 9.67 pesos per U.S. dollar, a depreciation of 3.5% compared with the 2001 average.

Notwithstanding 2002, the free-floating exchange rate policy continued to demonstrate its importance as an instrument for absorbing shocks to the Mexican economy in an orderly manner, taking into account the complex international environment.

During 2002, Mexico's foreign trade registered a modest expansion. Total exports amounted to US\$160,682.0 million, 1.4% higher than in 2001. Of the total Mexican exports, 92.0% corresponded to the Asia-Pacific Economic Cooperation (APEC) area in 2002.

Total imports during 2002 amounted to US\$168,678.9 million, 0.2% higher than in 2001. Of total Mexican imports, 81.9% came from APEC area.

In this context, the trade balance for 2002 registered a deficit of US\$7,996.8 million, 19.7% lower than in 2001. With the APEC region, Mexico registered a superavit of US\$9,687 million in 2002⁴.

The current account deficit during 2002 totaled US\$14,058.3 million, equivalent to 2.2% of GDP. This deficit was significantly lower than that registered in 2001 both in dollar terms (US\$18,008.0 million) and as a percentage of GDP (2.9%). As in previous years, the current account deficit was financed with long-term private external resources, concentrated mainly in foreign direct investment (FDI).

The capital account registered a surplus of US\$20,377.5 million during 2002. This result was largely due to substantial inflows from the private sector. In particular, FDI during 2002 totaled US\$12,495.8 million, a significant amount considering the volatility in international markets. It is worth mentioning that FDI has reached a cumulative level of US\$110,292.1 million—a figure achieved between 1994 and 2002—from which 74.1% came from the APEC area.

During 2002, the public sector balance registered a deficit of 75,606.6 million pesos (1.2% of GDP), 0.5 percentage points below the 2001 figure. This increase is explained by a 37,934.0-million-peso adjustment associated with the liquidation of the *Banco Nacional de Crédito Rural* ("Banrural") and the creation of the *Financiera Rural* in

accordance with a decree authorized by Congress in December 2002.

This fiscal discipline has allowed to Mexico to reach the “investment grade” on its foreign currency long-term debt, as determined by important international rating agencies. These events reflect growing investor confidence in the Mexican economy over the medium term⁵.

Food Prices and Consumption

The prices of basic consumer goods, measured by the Index of Prices of Consumer Goods included in the Basic Consumption Basket, increased 6.06% during 2002, 2.23 percentage points higher than in 2001. Likewise, the price index for agricultural products registered an increase equivalent to 8.65%, which is 2.95 percentage points above general index⁶.

Taking into account the Input Consumed Index (*Índice de Precios de Materias Primas Consumidas*), agricultural products showed a 6.9% increase during 2002, with livestock products increasing 5.7%, fisheries, 22.3%, and forestry, 20.7%.

The National Producer Price Index (*Índice Nacional de Precios al Productor*) increased by 9.23% during 2002, 7.61 percentage points above its 2001 increase. For agricultural products, the index showed a 10.4% increase in 2002.

As a result of the improvement in population purchasing power in recent years, per capita consumption of some agricultural products has decreased, and consumption of other more value-added agricultural and processed food products has increased. For example, between 1980 and 2002, per capita consumption of dry edible beans and maize fell 52.9% and 22.2%, respectively. Otherwise, *per capita* consumption of rice increased 7.9% and wheat increased 2.1% over the same period.

Also, this improvement in the real population's earnings has affected the consumption of major livestock products. In the same period, poultry *per capita* consumption registered a 185.1% increase; eggs, a 184.1% increase; milk, a 63.2% increase; beef, a 57.1% increase; and pig meat, a 9.5% increase.

According to the 2000 National Household Income and Expenditure Survey, an average household spends about 22.7% of its total expenditure on food. Meanwhile, on average, a rural household spends about 31% of its total expenditure on food.

Likewise, of its expenditure on food, a rural household in Mexico spends 22% on cereals, 18% on meat products, 16% on vegetables, 9% on milk, 9% on beverages, and 26% on other food products like fish and seafood, egg, fruits, sugar, and coffee.

Within the cereals group, a rural household spends, on average, 57% on maize and its derivatives, 31% on wheat and its derivatives, and 9% on rice. Other cereals account for only 4%⁷.

Food Processing and Marketing

During 2002, the processed food and beverages sector's share in manufacturing GDP was 28.9%, which is 3.7 percentage points higher than in 2001. With respect to national GDP, the processed food and beverage

sector's share increased to 4.9%. As mentioned above, within manufacturing, only this sector (1.2%) and non-metallic minerals (3.5%) showed real positive growth in 2002.

From 1994 to 2002, FDI in the agricultural sector has reached a cumulative level of US\$265.9 million, from which 73.9% came from countries belonging to the APEC area. In the same period, FDI in the agrifood⁸ sector reached a cumulative level of US\$9,737.5 million, from which 57.3% came from countries belonging to the APEC area.

Agricultural Production and Trade.

According to preliminary figures, during 2002, the GDP of the agricultural sector (agriculture, livestock, forestry, and fisheries) registered a 0.9% real decrease with respect to last year; however, in absolute terms, 2002 marks the second largest agricultural GDP in Mexican history.

The estimated production of the ten basic crops in 2002⁹ is 30,142.6 thousand tons, 7.5% below the production registered in 2001. This decrease is mainly explained by the reductions in maize and sorghum production levels (1,679 and 1,088 thousand tons respectively). The crops that registered a positive production variation were dry edible beans (454.9 thousand tons), wheat (18.2 thousand tons), and barley (94.3 thousand tons).

The estimated livestock production for 2002 will be larger compared to 2001. Meat production is 1.2% higher, reaching 4,625.8 tons; milk production increased 0.6%, reaching 9,699.9 million liters; egg production reached 1,885.1 million tons, an 0.2% increase; and honey increased 8.6% to reach 60.6 million tons¹⁰.

In 2002, agrifood exports¹¹ amounted to US\$8,290 million (2.0% higher relative to last year). Agrifood imports amounted to US\$11,700 million (5.6% higher relative to 2001). The Mexican agrifood trade balance presented a deficit 15.7% higher than that registered in 2001.

Mexican agricultural exports that showed a significant increase between 2001 and 2002 were cacao (82.4%), fresh fruits (71.6%), and rough tobacco (26.9%). Processed food exports that showed a significant increase in the same period were concentrated alcohol extracts (276.9%), tomato juice (128.8%), orange juice (50.6%), and frozen lobster (50.5%).

The agricultural imports that registered a significant increase between 2001 and 2002 were dry edible beans (13.9%), maize (30.3%), and other fruits and oilseeds (13.3%). Processed food products imports that showed a significant increase were soybean oil (137.7%), vegetable conserves (105.0%), and evaporated milk (48.4%).

Food and Agricultural Policy

Two factors triggered the need for a more detailed Action Plan for Agriculture and Rural Developments in the second half of 2002. First, the approval in the United States of the “Agricultural Security and Rural Investment Act 2002” and, second, the completion on January 1, 2003, of the transition period of 10 years considered in NAFTA for

most agricultural products (with the exception of maize, edible dry beans, milk powder, and sugar). These factors motivated the Mexican government announced a comprehensive policy package in November 2002, usually referred to as “*Blindaje Agroalimentario*,” but officially labeled as the “Agricultural and Fisheries Policy Actions for Sectorial Strengthening.”

The “*Blindaje Agroalimentario*” contains measures related to trade and agricultural policies, including both administrative and legislative actions. In trade policy, this document refers to the need for a more effective framework to face unfair competition from imports and calls for changes in the Mexican Law on Grade and Standards. In agricultural policy, the document also seeks a greater degree of a harmonization in the NAFTA area.

The government states that the support program for the grains and oilseeds sector should be transformed, mainly by means of reshaping PROCAMPO and Marketing Support Programs. The intention was to switch from a concept of target price per ton to a concept of target *income* per ton. The support program would cover a wide range of crops and be fixed for 5 years to allow producers to make decisions on a multiyear basis to overcome the problems associated with the lack of predictability and facilitate the diversification of production¹²

All measures established in the “*Blindaje Agroalimentario*” were intended to be put in place in 2003. Nevertheless, because of severe political and social pressures from most producer organizations that arose on January 1st, seeking among other things to renegotiate NAFTA, the government established a so-called “Dialogue to Reach a National Agreement for the Countryside.”

Given the relevance of such dialogue, President Fox instructed all the ministers and agencies related to rural development to lead and coordinate efforts to reach feasible solutions to the demands of the different producer organizations.

In this context, the Mexican government recognized the need to implement structural reforms for improving the competitiveness of agricultural activities and increasing the welfare of rural population.

The resulting document of the dialogue (signed April 28th), states that the government will make a comprehensive evaluation of NAFTA's impact on the agricultural sector. The analysis will incorporate the participation of farmer's organizations, the Congress, and academic institutions, among others.

It is important to stress out that, for first time, and as a result of this dialogue, agricultural and rural development policies will be implemented on a multiyear budget basis.

¹ Preliminary data. The figures for GDP correspond to the annual average real variation. Source: *Instituto Nacional de Estadísticas, Geografía e Informática (INEGI)*,

² The Services sector is composed by of commerce, restaurant and hotel sector; transportation, storage and communications sector; financial services sector; and personal services sector. The Industrial sector is composed of by: the Mining sector; manufacturing sector; construction sector; and electricity, gas, and water sector.

³ Source: *Banco de Mexico*.

⁴ Source: *Banco de Mexico*.

⁵ Source: *Secretaría de Hacienda y Crédito Público (SHCP)*.

⁶ All figures correspond to the December 2002-December 2001 variation of the index.

⁷ *Encuesta Nacional de Ingreso y Gasto de los Hogares*, 2000. INEGI.

⁸ Includes: Agriculture, livestock, forestry, fisheries, hunting, processed food, beverages, and tobacco.

⁹ Includes rice, dry edible beans, maize, wheat, sesame seed, safflower, soybeans, cottonseed, barley, and sorghum.

¹⁰ Source: Servicio de Información y Estadística Agroalimentaria y Pesquera. (SIAP/SAGARPA).

¹¹ Includes: Agriculture, livestock, forestry, fisheries, hunting, processed food, beverages, and tobacco

¹² Products covered by the Target Income Program are: maize, wheat, sorghum, safflower, canola, cotton, rice, soybean, and triticale.

MEXICO

	Units	1996	1997	1998	1999	2000	2001
FOOD CONSUMPTION PATTERNS							
Per capita caloric intake	Cal/day	3,142	3,113	3,127	3,141	3,154	3,160
From animal products	Cal/day	501	522	537	559	583	599
From vegetable products	Cal/day	2,641	2,591	2,589	2,581	2,571	2,561
Protein (% of calories)	%	na	na	na	na	na	na
Fat (% of calories)	%	na	na	na	na	na	na
Carbohydrates (% of calories)	%	na	na	na	na	na	na
INCOME AND FOOD PRICES							
Per capita income	US\$/capita	1,245	1,456	1,537	1,823	2,268	2,849
% of disposable income spent on food	%	35.8	34.8	33.8	31.8	29.9	28.6
% spent eating out	%						
Food price index ^a	1990=100	296	352	409	474	503	530
General price index (CPI)	1990=100	302	364	422	492	539	573
POPULATION ^b							
Total population	Million	95.1	96.5	97.9	99.3	100.6	101.8
Urban	Million	70.3	71.6	72.9	74.1	75.3	76.4
Non-Urban	Million	24.8	24.9	25.0	25.1	25.3	25.4
Share of population in the following age groups							
0-4 years	%	11.6	11.5	11.3	11.1	10.9	10.7
5-14 years	%	23.5	23.3	23.1	22.8	22.5	22.1
15-19 years	%	11.0	10.8	10.6	10.5	10.3	10.0
20-44 years	%	37.2	37.2	37.1	37.0	36.8	36.5
45-64 years	%	11.9	12.1	12.2	12.4	12.5	12.6
65-79 years	%	3.6	3.6	3.7	3.8	3.9	3.9
80-over years	%	1.0	1.0	1.0	1.0	1.0	1.0
Not specified	%	0.4	0.6	0.9	1.4	2.1	3.2
Median age of population	Years	23.2	23.1	23.0	22.9	22.8	22.5
Female labour force participation	%	32.7	33.9	33.9	33.7	34.2	34.1
LIFE EXPECTANCY							
Males	Years	70	71	71	71	72	72
Females	Years	75	76	76	76	77	77
FOOD INFRASTRUCTURE							
Trade capacity							
Grain exports	1000 Tons	202	568	481	416	578	545
Grain imports	1000 Tons	5,886	6,259	7,261	12,447	18,379	20,472
Total food and agricultural trade ^c	Million US\$	13,533	14,077	15,342	15,674	17,449	18,528
Total food and agricultural exports	Million US\$	5,782	6,379	6,709	7,105	7,703	7,540
Perishable products	Million US\$	na	na	na	na	na	na
Fishery exports	Million US\$	798	784	676	682	657.7	731
Total food and agricultural imports	Million US\$	7,752	7,698	8,633	8,569	9,746	10,988
Perishable products	Million US\$	na	na	na	na	na	na
Fishery imports	Million US\$	104	138	134	161	184	199
Port capacity ^d	1000 M2	341	346	346	433	na	na
Road access	1000 Kms	311	314	320	330	334	340
Rail access	1000 Kms	27	27	27	27	27	27
Telecommunications	1000 lines	8,826	9,254	9,927	10,927	12,332	13,773
Power generation (domestic sales)	Million US\$	5,032	6,668	6,762	7,774	na	na
Percent of lodgings with refrigerators	%	na	na	na	na	na	na
FOREIGN INVESTMENT IN THE FOOD SECTOR							
Inward FDI in the food sector, total	Million US\$	469	2,786	701	1,070	1,288	608
From other PECC economies	Million US\$	421	1,133	622	794	na	na
Outward FDI in the food sector, total	Million US\$	na	na	na	na	na	na
To other PECC economies	Million US\$	na	na	na	na	na	na
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY							
Agriculture as a share of GDP	%	6.3	5.9	5.8	5.7	5.3	
Self sufficiency in grains	%	na	na	na	na	na	na
Self sufficiency in horticultural products	%	na	na	na	na	na	na
POLICY TRANSFERS							
Consumer subsidy equivalents	%	4.1	-8.6	-12.4	-14.2	-19.6	-16.8
Total transfers to agriculture (subsidy/tax)	Billion US\$	1.00	-2.10	-3.10	-3.80	-5.70	-5.30
Total transfers per capita	US\$/capita	10.5	-21.8	-31.7	-38.3	-56.7	-52.0
MACROECONOMIC INDICATORS							
GDP Growth	Percent	5.1	6.8	4.9	3.7	6.6	-0.3
Interest Rate (CETES 28 days)	Percent	31.4	19.8	24.8	21.4	15.2	11.3
Exchange Rate	MXPeso/US\$	7.65	8.03	9.35	9.70	9.60	9.4

na = not available.

e = estimated.

f= forecast

a. Index for Food, Beverages and Tobacco.

b. Population average increase rate of 2.06%.

c. Includes Food and Agricultural results.

d. Includes pacific and gulf sea-board

Sources:

Food and Agriculture Organization

4o. Informe de Gobierno

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