

Macroeconomic Situation and Outlook

In 2001, the slowdown in economic activity that began at the end of 2000 became more pronounced. Gross Domestic Product decreased by 0.3 percent in real terms during 2001 as compared to the previous year. The economic slowdown had an uneven impact across different sectors of the economy. In particular, the industrial sector contracted by 3.5 percent in real terms, while the agriculture and services sectors grew by 2.5 percent and 1.1 percent, respectively, in real terms, as compared with 2000.

The 3.5 percent contraction observed by the industrial sector was driven by a 4.5 percent real terms decrease in construction, 3.9 percent real decrease in manufacturing and a 0.6 percent real decrease in mining activities. On the other hand, electricity, gas, and water production increased by 1.7 percent in real terms.

The contraction of economic activity negatively affected the labor market, both in terms of the number of layoffs and in the creation of new jobs. The contraction in formal employment was reflected in an increase in the open unemployment rate (Tasa de Desempleo Abierta or TDA). During 2001, the TDA averaged 2.46 percent, 0.25 percentage points higher than the average in 2000.

Notwithstanding the unfavorable external economic environment, the government's fiscal discipline and monetary policy led to a significant reduction in inflation during 2001. The National Consumer Price Index (*Índice Nacional de Precios al Consumidor*) registered its lowest annual increase since the INPC was established in 1968, registering an increase of 4.4 percent for the 12-month period ending on December 31, 2001, significantly lower than the official target of 6.5 percent established at the beginning of the year.

In this context, the government's fiscal discipline contributed to a stable domestic environment characterized by lower inflation and interest rates. Despite a significant slowdown in economic activity and lower oil-related revenues, the overall public sector deficit amounted to 0.73 percent of GDP, a figure consistent with the target originally established for the year and 34.8 percent lower in real terms than the deficit recorded in 2000.

Likewise, in the course of 2001, the domestic financial markets experienced favorable behavior. In the last months of 2001, domestic interest rates showed a strong downward trend. In fact, in December, the Cetes rate reached its lowest level in history (6.29 percent). For the year as a whole, the Cetes rate averaged 11.3 percent, 3.9 percentage points lower than the average for 2000. Along the same lines and despite the unfavorable external environment, the value of the peso has appreciated since February 2001, primarily due to increasing investor confidence regarding medium-term economic conditions in Mexico, as reflected in the unprecedented inflows of foreign direct investment, which reached US\$27,733 million, 104 percent higher than last year.

The worldwide slowdown in economic growth in 2001 inhibited the growth of Mexico's foreign trade. Total exports amounted to

US\$158,546.8 million in 2001, 4.8 percent less than in 2000.

Similarly, total imports amounted to US\$168,276.0 million in 2001, a 3.5 percent decrease as compared to 2000. The decrease in total exports was primarily attributable to the fall in international oil prices and recession in the United States.

The 2001 current account registered a deficit equivalent to 2.8 percent of GDP, 0.3 percentage points lower than deficit recorded in 2000. The capital account registered a surplus of US\$22,707 million, US\$5,777 million higher than the surplus recorded in 2000. This surplus was mainly attributable to a significant increase in foreign direct investment as noted lines above.

Food Prices and Consumption

During 2001, the price index for agricultural products accumulated an increase equivalent to 1.35 percent, which is 3.05 percentage points below the general index, and 8.72 percentage points lower than that observed during 2000. The following products registered price reductions in this period: orange (43.15 percent), avocado (21.8 percent), cucumber (20.61 percent) and lettuce (18.4 percent). As a result, this index showed a slight increase equivalent to 1.35 percent during the year.

In the last years, the Mexican population has experienced an improvement in their real earnings, which has contributed to improving the population's purchasing power. This fact has allowed per capita consumption of some agricultural products, mainly in agroindustrial products, to increase. For example, per capita consumption of beans and maize fell 52.2 and 21.9 percent, respectively, between 1980 and 2001. Otherwise, per capita consumption of soybeans and rice increased 200.0 percent and 7.9 percent, respectively, over the same period.

The improvement in the real population's earnings has been a factor in helping to increase national consumption in almost all livestock and products¹. For example, in the period of 1980-2001, poultry consumption increased 428.1 percent (the largest increase); eggs registered a 184.6 percent increase; milk, 64 percent; beef, 57.3 percent; and pig meat, 9.3 percent.

The Ministry of Agriculture, Livestock, Rural Development, Fisheries, and Food now faces the challenge to implement policies that foster a competitiveness along the value-added chains, including production, marketing, processing, and distribution in order to increase producer income and also to deliver high-quality products to consumers competitively. Food consumption patterns in the medium term will be shaped by the following factors: an older population, an increasing number of women in the workforce, a steady increase in per capita incomes, and an increasing share of food expenditure outside the home.

According to the latest Household Income and Expenditure Survey, an average household spends about 22.7 percent of its total

expenditure on food. Of this, 20.5 percent is spent on meals and beverages away from home. In rural areas², the scenario differs largely because an average rural household spends about 31 percent of its total expenditure on food, but of this only spends 2.1 percent on meals and beverages away from home.

Food Processing and Marketing

In 2001, the processed food and beverages sector maintained its manufacturing GDP share registered in 2000 (25.2 percent), though its share with respect to national GDP fell to 4.8 percent as a consequence of a slowdown in national economic activity. It is worth mentioning that almost all subsectors within manufacturing experienced decreases in real terms during 2001 (the textiles sector, for example, registered a 10.1 percent contraction; metallic products, 6.2 percent; basic metals, 5.7 percent; and so on). By contrast, food, beverages, and tobacco registered a real annual increase of 1.8 percent.

Foreign Direct Investment in the agrifood sector amounted to US\$ 763.1 million during 2001, reaching a cumulative level of US\$9.5 billion since 1994. This amount is equivalent to 19.4 percent of total Foreign Direct Investment in the manufacturing sector³.

Agricultural Production and Trade

In 2001, the agricultural sector grew by 2.5 percent in real terms⁴. Aggregate production for the 10 most important commodities (rice, dry edible beans, maize, wheat, sesame seed, safflower, soyabeans, cotton seed, barley, and sorghum) registered a nimble increase, reaching 32,392.1 thousand tons in the whole year. The products that registered the highest variation with respect to 2000 were: safflower (15.7 percent), soyabeans (19.1 percent), and cotton seed (25.4 percent). Otherwise, some other commodities such as wheat and barley registered negative growth.

The performance of the livestock sector during 2001 was positive. Meat production grew from 4,359,400 tons in 2000 to 4,568,700 tons in 2001 (4.8 percent) and egg production increased from 1,787,900 tons in 2000 to 1,881,600 tons in 2001 (5.2 percent). Likewise, milk production increased 2.1 percent from 2000 to 2001⁵.

In the period of 1993-2001, agrifood exports showed an annual rate of growth of 10.4 percent, a figure that is 2.3 percentage points higher than total agrifood⁶ imports' growth rate. In 2001, agrifood exports amounted to US\$8,142 million (0.8 percent lower relative to 2000). Otherwise, agrifood imports in 2001 showed a 12.6 percent increase with respect to last year, amounting to US\$11,026 million dollars. The agrifood deficit increased from US\$1,572 to US\$2,884 million in the 2000-2001 period.

Mexican agricultural exports that showed a significant increase between 2000 and 2001 were: fresh vegetables (8.7 percent) and tomatoes⁷ (19.5 percent). Agrifood products that showed a significant increase in 2001 with respect to 2000 were: coffee extracts (54.6 per-

cent), Beer (12.9 percent), meat except horse meat (7.4 percent) and, tequila (4.0 percent).

Food and Agricultural Policy

At the end of 2001, the Rural Development Law was approved. This law establishes that the federal government, in coordination with municipal and local governments, will foster policies and programs in targeted rural areas in order to:

- Promote social and economic welfare through new sources of employment, both in agricultural and non-agricultural sectors
- Foster regional development through differentiated attention to low-income regions
- Support biodiversity preservation and natural resource management

To foster sustainable rural development, the government will promote sector capitalization through productive infrastructure and production.

Federal programs are considered by law such as:

- *Fostering competitiveness*
- *Raising human skills and abilities*
- *Providing access to new technologies suitable to specific geographic conditions*
- *Supporting producer organizations and rural enterprises*
- *Creating efficient links along the production-processing-distribution-consumption chains, in order to raise producers' income*

One of the most important features of the Rural Development Law is that, for the first time in Mexico, a coordination mechanism between all public agencies and entities was created. In the past, the lack of coordination led to the failure of several programs and projects. Moreover, a mandatory consultative body was also created by law, so that producer organizations and other important agents of rural society are involved in the decision-making process.

In 2001, Mexico presented its agrifood trade proposal to the World Trade Organization, which incorporates, among others, measures to improve the reform process in the worldwide agricultural sector.

¹ National consumption is estimated by using national production plus imports minus exports.

² According Mexican official surveys, rural areas are those localities where less than 2,500 persons live.

³ Source: Secretaría de Economía

⁴ Source: INEGI, Sistema de Cuentas Nacionales de México. PIB primario

⁵ Preliminary data

⁶ Including primary products and processed food, beverages, and tobacco

⁷ Other than vegetables

MEXICO

	Units	1998	1999	2000	2001	2002 ^E
FOOD CONSUMPTION PATTERNS						
Per capita caloric intake	Cal/day	na	na	na	3,231	na
From animal products	Cal/day	na	na	na	na	na
From vegetable products	Cal/day	na	na	na	na	na
Protein (% of calories)	%	na	na	na	15.7	na
Fat (% of calories)	%	na	na	na	33.4	na
Carbohydrates (% of calories)	%	na	na	na	50.9	na
INCOME AND FOOD PRICES						
Per capita income	US\$/capita	4,355	4,928	5,062	6,112	6,191
% of disposable income spent on food	%	25.5	na	22.7	na	na
% spent eating out	%			20.5	na	na
Food price index ^{a, e}	1990=100	436	466	501	508	531
General price index (CPI)	1990=100	422	492	539	563	588
POPULATION B/						
Total population	Million	96.7	98.1	99.5	100.8	102.4
Urban	Million	72.1	73.6	74.5	75.6	77.0
Non-Urban	Million	24.6	24.5	25.0	25.2	25.4
SHARE OF POPULATION IN THE FOLLOWING AGE GROUPS						
0-4 years	%	12.3	12.5	10.8	10.8	10.6
5-14 years	%	24.4	24.8	22.4	22.4	22.2
15-19 years	%	11.6	11.7	10.6	10.6	10.4
20-44 years	%	35.8	36.4	39.0	39.0	39.2
45-64 years	%	11.9	12.1	12.5	12.4	12.6
65-79 years	%	3.4	3.5	3.8	3.8	3.9
80-over years	%	1.0	1.0	1.0	1.0	1.1
Median age of population	Years	23.6	24.0	24.2	24.6	25.1
Female labour force participation	%	32.0	34.0	34.0	35.0	35.2
LIFE EXPECTANCY						
Males	Years	70.2	70.3	71	71.8	73.7
Females	Years	77.4	77.6	78	78.4	78.2
FOOD INFRASTRUCTURE						
Trade capacity						
Grain exports	1000 Tons	481	385	583	606	na
Grain imports	1000 Tons	7,261	17,763	18,245	20,108	na
Total food and agricultural trade ^c	Million US\$	15,501	15,541	17,421	19,168	na
Total food and agricultural exports	Million US\$	6,868	6,986	7,693	8,142	na
Exports of perishable products ^g	Million US\$	2,713	2,845	2,959	3,874	na
Fishery exports	Million US\$	629	645	658	737	na
Total food and agricultural imports	Million US\$	8,633	8,555	9,728	11,026	na
Imports of perishable products ^g	Million US\$	482	535	643	721	na
Fishery imports	Million US\$	101	125	146	168	na
Port capacity ^d	1000 M2	346	433	435	438	441
Road access	1000 Kms	322	330	332	336	341
Rail access	1000 Kms	27	27	27	27	27
Telecommunications	1000 lines	9,927	10,927	12,376	13,254	15,032
Power generation (domestic sales)	Million US\$	6,795	7,887	9,583	10,639	10,843
Percent of lodgings with refrigerators	%	na	na	na	na	na
FOREIGN INVESTMENT IN THE FOOD SECTOR						
Inward FDI in the food sector, total	Million US\$	725	1,041	1,037	763	na
From other PECC economies	Million US\$	622	794	867	259	na
Outward FDI in the food sector, total	Million US\$	na	na	na	na	na
To other PECC economies	Million US\$	na	na	na	na	na
ROLE OF AGRICULTURE AND TRADE IN THE ECONOMY						
Agriculture as a share of GDP	%	4.9	4.5	5.1	4.4	4.3
Self sufficiency in grains	%	na	na	na	na	na
Self sufficiency in horticultural products	%	na	na	na	na	na
POLICY TRANSFERS						
Consumer subsidy equivalents	%	-10	-18	-15	-15	na
Total transfers to agriculture (subsidy/tax)	Million US\$	5.8	6.7	7.4	7.9	na
Total transfers per capita	US\$/capita	60.2	68.2	74.0	78.1	na
MACROECONOMIC INDICATORS						
GDP Growth	Percent	4.8	3.7	6.9	-0.3	1.8
Interest Rate (CETES 28 days)	Percent	24.7	21.4	17.1	11.3	9.7
Exchange Rate	MXPeso/US\$	9.30	9.56	9.50	9.4	10.1

na = not available E = estimate F = forecast

Sources:

60. Informe de Gobierno, 2000

Instituto nacional de Estadística Geografía e Informática (INEGI)

Secretaría de Economía (SE)

Agricultural Policies in OECD Countries, 2000 OECD.

Secretaría de Agricultura Ganadería, Desarrollo Rural, Pesca y Alimentación (SAGARPA)

Banco de México (BANXICO)

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

g. Includes chapter 7 and 8 of the Harmonized Nomenclature System.