

MEXICO 2020-2024: TWO MACROECONOMIC SCENARIOS

Eduardo Loría¹
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Abstract

In a context of high internal uncertainty that has been aggravated by the complex global economic and political (and now health) environment, a numerical analysis is made through dynamic stochastic simulations derived from *Eudoxio: Macroeconometric Model of the Mexican Economy* (Loría, 2019a), that generates two macroeconomic scenarios for Mexico (inertial and pessimistic) in its main economic activity variables for 2020-2024 horizon. The inertial scenario shows an average growth of GDP and employment of 1.27% and 1.6% against 0.64% and 1.04% of the pessimistic scenario, respectively.

This prospective exercise does not visualize an optimistic scenario, due to the lack of articulation of clear and forceful policies and facts that foster economic growth by strengthening security and, therefore, of business confidence that recovers the dynamism of the investment.

To consider an optimistic scenario, a true “U-turn” will be needed: a dramatic change in public policies and official discourse to address the enormous challenges presented by the fiscal aspects of economic growth.

Table 1.
Forecasting Results. Average Annual Growth Rates, 2020-2024

Forecasting Assumptions							
PUI		CPE		GAS		USGDP	
I	P	I	P	I	P	I	P
-3.62	-6.85	0.82	-1.29	2.28	5.31	2.30	1.50

Forecasting Results									
GDP		PC		PI		RW		L	
I	P	I	P	I	P	I	P	I	P
1.27	0.64	2.71	2.46	0.75	-0.13	2.30	1.47	1.59	1.04

Note: I = Inertial Scenario, P = Pessimistic Scenario, PUI = Public Investment, CPE = Current Public Expenditure, GAS = Gasoline prices, USGDP = Real USA GDP, GDP = Mexico GDP, PC = Private Consumption, IFP = Private Investment, RW = Real Middle Wage of Mexican Manufacturing, L = Employment (million people).

¹ School of Economics, National Autonomous University of Mexico. Address: Centro de Modelística y Pronósticos Económicos (CEMPE), Circuito Escolar s/n, Facultad de Economía, UNAM. Edificio B cubículo 305, Ciudad Universitaria, Ciudad de México C.P.: 04510. Email: eduardol@unam.mx.

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TABLE 2
MEXICO: TWO FORECASTING SCENARIOS 2020-2024.
ASSUMPTIONS AND OUTCOMES

1. Inertial Scenario

Assumptions:	2020	2021	2022	2023	2024
Public Investment*	-5.6	0.5	-4.3	-8.2	-0.2
Current Expenditure*	0.8	1.2	0.8	0.7	0.6
CETES (Treasury Certificates) (28 days)	6.25	6.0	6.0	6.0	6.0
Nominal Exchange Rate**	20.3	20.8	20.8	20.8	20.8
Gasoline Prices*	3.8	7.8	0	0	0
GDP USA*	2.5	1.5	2.5	2.5	2.5
Prices USA (CPI)*	2.5	2.1	1.5	1.4	1.9
Outcomes:	2020	2021	2022	2023	2024
GDP*	0.56-1.04	1.56-1.68	1.01-1.48	1.25-1.67	1.86-2.04
Private Consumption*	2.41	2.23	2.5	2.66	3.73
Private Investment*	-0.09	0.89	-0.61	1.36	2.25
Prices (CPI)*	3.84	3.77	4.07	3.44	3.64
Middle Real Wage* ¹	1.53	2.47	2.22	2.38	2.9
Employment* ²	1.5	2.07	1.33	1.19	1.86
RCWC* ³	18.0	14.5	15.1	14.0	13.2
Unemployment Rate (% EAP)	3.6	3.7	3.8	4	4
CAGDP***	-0.7	-0.97	-1.94	-2.45	-2.66
Trade Balance****	-10.89	-9.5	-11.41	-12.63	-12.98
Direct Foreign Investment****	30.86	30.14	29.03	33.08	37.32

2. Pessimistic Scenario

Assumptions:	2020	2021	2022	2023	2024
Public Investment*	-8.0	-5.0	-6.0	-8.2	-7.0
Current Expenditure*	-3.1	0.5	-1.3	-1.3	-1.2
CETES (Treasury Certificates) (28 days)	8.2	8.2	8.2	8.2	8.2
Nominal Exchange Rate**	22.4	22.9	22.9	23.9	25.9
Gasoline Prices*	3.8	7.8	6.0	6.0	6.0
GDP USA*	1.5	1.5	1.5	1.5	1.5
Prices USA (CPI)*	2.5	2.1	1.5	1.4	1.9
Outcomes:	2020	2021	2022	2023	2024
GDP*	0.08	0.93	0.87	0.61	0.75
Private Consumption*	2.37	1.96	2.6	2.25	3.1
Private Investment*	-0.34	-1.48	-0.4	0.65	0.92
Prices (CPI)*	4.44	4.12	4.69	5.29	5.57
Middle Real Wage* ¹	1.14	1.9	2.1	1.3	0.94
Employment* ²	1.25	1.65	1.16	0.84	1.28
RCWC* ³	19.2	15.7	14.8	16.9	16.0
Unemployment Rate (% EAP)	4	3.4	3.8	4.3	4.8
CAGDP***	-0.36	-0.12	-1.57	-2.1	-2.12
Trade Balance****	-8.91	-6.84	-9.14	-10.32	-10.68
Direct Foreign Investment****	29.69	28.82	27.67	28.45	28.85

* Growth rates.

** Mexican pesos per 1 US dollar.

*** Current Account as % of GDP.

**** Billions of US current dollars.

¹ Middle wage of manufacturing sector.

² Economically Active Population as reported by ENOE, source INEGI (2019).

³ Rate of Critical Working Conditions (RCWC). It refers to the proportion of employed population working less than 35 hours a week due to market conditions plus the ones working more than 35 hours a week with monthly incomes below the minimum wage, or those who work more than 48 hours a week earning less than two minimum wages, INEGI (2020b). Data estimated at the last quarter of the year.

Main forecasting results:

1. In general terms, it is clear that the *inertial* scenario generates a substantially higher growth trajectory of GDP and jobs compared to the pessimistic one: 1.3% and 1.6%, against 0.6% and 1.04% respectively. But in any case, inferior to those reported in the previous years.
2. The GDP growth resulting from the inertial scenario is substantially lower (almost half) than the one the Mexican economy has observed for the last 30 years, which is around 2.4%.
3. It is striking that the sharp reduction in economic activity in any scenario would fundamentally affect the Foreign Direct Investment inflows, which in turn would deteriorate economic growth due to pressures on the current account.
4. Although in the pessimistic scenario towards the end of the forecast horizon, the unemployment rate increases slightly, it is very likely to expect an increase in the Rate of Critical Working Conditions (RCWC),² given the structural characteristics of the Mexican economy as labor-intensive and high levels of precariousness. The model and scenario analysis incorporate this important social dimension variable that measures the reality of employment and remuneration (quality) and reports very high growth rates. Nowadays the RCWC is around 20% of the employed population. At the end of 2024, in the inertial scenario it would exceed 30% and in the pessimistic one it would be around 40%.

² Rate of Critical Working Conditions (RCWC). It refers to the proportion of employed population working less than 35 hours a week due to market conditions, plus the ones working more than 35 hours a week with monthly incomes below the minimum wage, or those who work more than 48 hours a week earning less than two minimum wages, INEGI (2020b). Data estimated for the last quarter of the year.