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Report Highlights:

Central Bank Lowers Its Growth Forecast-Again*Slowdown Hits Manufacturing & Construction Industries*Higher Duties For Pineapple From Thailand*Urgency to Reactivate the Forest Sector*Mexico's Cattle Numbers Hampered By High Cost Of Money*Decrease of Sales in the Furniture Industry* Mexico Misses Deadline to Release Water to U.S.

Includes PSD changes: No
Includes Trade Matrix: No
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CENTRAL BANK LOWERS ITS GROWTH FORECAST - AGAIN

On Monday, July 30, 2001, the Mexican central bank, "Banco de Mexico," announced that it was scaling back growth expectations for the year to below 2 percent. The director of Economic Research at Banco de Mexico, Armando Baqueiro, held a press conference to announce that the central bank was lowering its expectations for the country's Gross Domestic Product (GDP) growth in 2001. The new figure is linked to a greater-than-expected effect from the slowdown in the U.S. economy, a drop in international crude oil prices, and uncertainty stemming from the Argentine situation, Baqueiro said. Baqueiro further stated that a spectacular recovery of the U.S. economy is not expected in the second half of the year, and this will have a negative effect on Mexico. In addition to external factors the possibility that the Mexican Congress will reject a tax reform bill proposed by Fox, or that it will approve a less far-reaching law, was having a dampening effect on the economy. The proposed tax bill has sparked much criticism as it seeks to have the Value Added Tax (VAT) applied to previously exempt items such as medicine, food, and books. Since no political party holds a majority in Congress, Fox's National Action Party will need support from the former ruling Institutional Revolutionary Party in order to pass the controversial tax law. (Source: *Reforma, El Financiero, The News*, 7/31/01)

SLOWDOWN HITS MANUFACTURING & CONSTRUCTION INDUSTRIES HARD

The economic slowdown in the U.S. has struck a strong blow to the Mexican economy causing the loss of 180,000 jobs, primarily in the manufacturing industry. Currently the industry provides more than 1.2 million jobs, but it only grew 1.7 percent last April when, during the same month last year, the growth rate was 12.5 percent. According to data from the Mexican Social Security Institute (IMSS), from January to June of this year, 180,000 layoffs were registered, half within the industrial sector. (Source: *The News* 7/31/01)

HIGHER DUTIES FOR PINEAPPLE FROM THAILAND

According to local news, the federal government agreed to increase duties for imported pineapple from Thailand. Pineapple producers from Veracruz were in trouble due to the collapse in domestic pineapple prices created by imported pineapple from Thailand at prices lower than costs of production. The Undersecretary of Agriculture, Mr. Victor Villalobos, announced that fresh pineapple will have a 35 percent duty and canned pineapple will have a 45 percent duty. Mr. Villalobos added that small pineapple producers from Veracruz, up to 4 hectares, will receive government support of approximately US\$100 per hectare for this season. The federal government will also help producers through a trust fund to finance the next planting season. (Source: *El Financiero*, 7/30/01)

URGENCY TO REACTIVATE THE FOREST SECTOR

According to the president of the of Rural Development, Environment and Natural Resources Committee of the Lower Chamber, Silvano Aureoles Rabbit, it is urgent to reactivate the Forest Sector in Mexico. During a meeting with the president of the Forest National Commission (FNC), Alberto Cárdenas Jiménez, the PRD legislator added that currently the contribution of the Forest Sector to the Gross Domestic Product (GDP) is less than 1 percent. While there are

countries where the contribution for this sector is almost 30 percent of its GDP, "which is really in contrast with our nation, as Mexico has all the conditions to have similar contribution," he said. Aureoles Rabbit wants to increase the Forest Sector's budget, since the 250 million pesos (roughly US\$26.3 million) that it receives from the federal treasury does not cover all Forest Sector needs.

At the same time, Cárdenas Jiménez, announced the Forest Strategic Plan for the next 25 years. He pointed out that FNC is negotiating a loan for US\$300 million with the World Bank (BM) and the Inter-American Development Bank (IDB), to combat the poverty and to create 200,000 jobs in the Forest Sector. The loan will be used for new equipment to combat forest fires and pests, he said. Moreover, the loan will also be for the restoration and conservation of soils, ecosystems and community forestry, increasing round wood production, and to preserve the bio diversity. Cárdenas Jiménez also announced to the legislators a fiscal policy proposal for the forest activity of Mexico. The proposal maintains the current fiscal system but eliminates 50 percent of the income tax (ISR) to the forest plantations. Also, will allow the import of machinery and equipment without tariffs. The objective is to improve the competitiveness of this industry. The proposal also includes tax deductions for companies which invest in reforestation and conservation of soils. Lastly, Cárdenas Jiménez, asked the legislators for a budget of three billion pesos (US\$315.8 million) for next year. (Source: *Notimex*, 7/15/01)

MEXICO'S CATTLE NUMBERS HAMPERED BY HIGH COST OF MONEY

Cattle inventories are projected to decline in CY2002 due to tight domestic credits and attractive export prices in addition to dry conditions in the states of Sonora and parts of Chihuahua. As a result, higher exports of calves are anticipated. Other regions of Mexico report normal rainfall and good pasture conditions. Most of the domestically produced beef continues to be from grass-fed cattle. Investments to expand cattle numbers have been hampered by restrictive interest rates on loans and reduced producer profits. For further information see MX1120. (Source: OAA/Mexico City, 8/02/01)

DECREASE OF THE SALES IN THE FURNITURE INDUSTRY

The furniture industry has decreased its sales, in both the domestic and foreign markets, due to unfair foreign competition and the slowdown of the U.S. economy, the president of the Association of Furniture Manufacturers, Jorge Salum, declared in Durango. He further said that the manufacturers do not fear the competition, but he complained about contraband. "We know that smuggling product enters free of any tariff, which causes these products to be marketed at prices below production costs," he said. Mr. Salum also stated that the local market in the first eight months of 2001 has had reductions, since some factories have had to reduce the number of workers and some companies have had to close temporarily. (Source: *El Sol de Durango*, 7/26/01)

MEXICO MISSES DEADLINE TO RELEASE WATER TO U.S.

On Tuesday, July 31, 2001, the Mexican government missed a key deadline for releasing tens of millions of gallons of water that it owes the United States along the Rio Grande Valley, leaving Texas farmers uncertain as to the future of their crops. Mexico must now look to other sources before its final September 30, 2001, deadline. (Source: *The News*, 8/1/01)

REMINDER FOR PUBLIC COMMENTS ON PENDING PROPOSED REGULATIONS

PROY-NOM-066-FITO-2001 Proposal for modification of the Mexican Official rule PROY-MOD-NOM-066-FITO-2001, Requirements and phytosanitary specifications for the transportation of avocado fruits for export and domestic market, dated July 10, 2001.

PROY-NOM-079-FITO-2000, Requirements and phytosanitary specifications for the production and mobilization of propagative material free of tristeza virus and other type of virus associated to citrus, dated July 12, 2001.

Mexican Official NORM NOM-060-ZOO-1999, specifications zoosanitarias for the transformation of animal spoils and their employment in the animal feeding, dated June 28, 2001.

REPORTS SUBMITTED RECENTLY BY FAS/MEXICO

Report #	Title	Date Sent
MX1114	Weekly Highlights & Hot Bites, Issue #25	7/25/01
MX1115	New Structure of the Ministry of Agriculture, Livestock, Rural Development, Fishery and Food	7/26/01
MX1116	The Mexican Market for Food Ingredients	7/30/01
MX1118	Modification to the Requirements and Specifications for Movement of Avocados	8/1/01

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