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MEXICO WATER REPORT

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Signs of Strong Economic Recovery in Mexico

As the name implies, *The Quarterly Mexico Water Report* is focused on water-related topics and products in the Mexican market. However, in this issue we would like to highlight some macroeconomic data that shows just how vibrant the overall Mexican economy is. Some commentators may cite security issues as a reason to avoid Mexico and perhaps revisit it in the second half of 2011 (or perhaps 2012). We feel that it is important, if not vital, to provide you with some information about just how dynamic Mexico's import sector has been so far this year, how it has improved since 2008, and how that growth will continue and expand further in 2011. Mexico is not a market to be avoided or ignored.

As we stated in a blog posting earlier this year, Mexico took a very hard hit in 2009. Brazil was touted for its quick exit from the global economic crisis and turnaround in the last quarter of 2009. The BRIC markets (Brazil, Russia, India, and China) were expected to greatly outpace Mexico in trade during the next few years, and therefore be better markets for U.S. products and services. This very negative perspective about the Mexican economy proved to be untrue for 2009 and the first half of 2010 is looking much better when one analyzes the Mexican economy and Mexican import figures. In addition, these half-year trends should only get better and stronger in the second half of 2010 and into 2011.

Mexico's Macroeconomic and Growth Figures

During the last quarter of 2009, Mexican economic growth for 2010 was expected to be 2.9%, somewhat similar to the 2.5% estimated economic growth in the United States. However, shortly after the beginning of the year, the figure for Mexico was increased significantly to 4.5%. As of October, that higher estimate continues to hold true. Economic growth in 2011 is currently expected to be more or less the same at 4%. By the end of 2011, Mexico should be able to return to pre-crisis GDP and per capita income figures.

Likewise, Mexican international commercial activity is dynamic again. From the beginning of the year through August, Mexican imports were up 33%. Total exports (including oil) were up 35.6%. When oil is removed from the equation, total exports were still up 34.5%. Manufactured exports grew by 35.2% and machinery and equipment exports were up 40.7%. These are strong signs of the commercial recovery in Mexico. However, with the U.S. consuming over 80% of Mexican exports, another slump in the U.S. economy could seriously impact Mexican export activity and the country's overall economy.

U.S. Exports as an indicator

If export volume and growth are good indicators of economic dynamic, one must conclude that the Mexican economy is experiencing a strong recovery. In the first half of 2010, U.S. exports to Mexico were up 32%. U.S. exports to China were up a very similar 35.2% in the same time period. It is important to note that U.S. export growth to Mexico in 2008 was positive and that in 2009 it fell by only 14.5%, meaning that U.S. exports to Mexico are already up in absolute terms 10-15% over pre-economic crisis levels. U.S. exports to Mexico increased from 11.75% of total exports in 2008 to 12.2% in 2009 to 12.64% in the first half of 2010. During the first half of 2010, the only top 25 export destinations where U.S. exports experienced greater than 30% growth were in several Asian countries, Brazil (38%), Colombia (35%), and Mexico (32%).

During 2009, total U.S. exports to all of the BRIC countries combined amounted to $118 billion while total U.S. exports to Mexico exceeded the figure by $11 billion and reached $129 billion. In the first half of 2010, U.S. exports to Mexico represented 12.4% of total exports while U.S. exports to BRIC countries represented 11.4%. U.S. export growth to Mexico (32%) also stayed on par with the dynamic average growth in the BRIC countries (32.7%).

Wisconsin Exports as an Indicator

Wisconsin numbers are even more pronounced in favor of the Mexican market in 2009 and 2010. In 2009, Wisconsin exports to Mexico dropped, as did U.S. exports to Mexico and the rest of the world, but only by single digit figures. Also, even with this decrease, as with total U.S. export figures, Wisconsin exports to Mexico as a percentage of total Wisconsin exports increased from 7.9% in 2007 to 8.6% in 2008 and 9.5% in 2009. In 2010, Wisconsin exports to Mexico represent 10.3% of total exports, and considerably more than the 6.6% of total exports for China. In 2009, Wisconsin exports to China fell more than they fell to Mexico. And, in 2010, Wisconsin exports to Mexico grew by an impressive 34%, three times the 10.5%-growth rate in Wisconsin exports to China.

In relation to other parts of the growing Latin America region, 2009 Wisconsin exports to Mexico decreased less than the average decrease to the top 10 Latin America export destinations. In 2010, Wisconsin export growth to Mexico (31%) was well above the average increase to the next top 10 Latin America export destinations (14%) and still double the figures to the five top Latin America export destinations (15%). Nonetheless, it is important to note that exports to Brazil are up 57% and to Colombia up 88%. It is also important to note that first half 2010 Wisconsin exports to Mexico ($963 million) remain more than a third more than total Wisconsin exports to the next top 10 Latin American export destinations ($640 million).

While Wisconsin exports to the four BRIC countries (11.1% of total exports) were somewhat more significant than Wisconsin exports to Mexico (10.4% of total exports), Wisconsin export growth to Mexico (34%) was almost double the average Wisconsin export growth in these supposedly much more growth-orientated BRIC countries (18%).

Conclusion

The above figures demonstrate that during the worst of the economic crisis in 2009 and during this year of recovery, Mexico has demonstrated to its doubters and critics that it could endure the economic crisis and recover. Mexico has always been a good market for almost all U.S. goods and it should neither be overlooked nor underestimated now. So, for those companies that decided to look elsewhere in 2009 and thus far in 2010, Wisconsin's Trade Office in Mexico would like to suggest that they reconsider Mexico. It is still the United States' second ranking export destination and one that is more than keeping pace with the rest of the world markets.