

Profitability and capital accumulation in Mexico: a first look at tradables and non-tradables based on KLEMS

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Abstract

The paper studies the determinants of private, non-residential capital accumulation in Mexico, during the period 1990–2013, distinguishing between the manufacturing (M), tradables (T), and non-tradables (NT) sectors using the KLEMS database. It estimates separate equations for the accumulation rate in each sector, as a function of the production growth rate and the profit rate or its components: the profit share, the output/capital ratio, and the relative price of capital goods; some specifications add the real exchange rate (RER) or the U.S. manufacturing profit share. Most of the equations focus on long-run effects, following the ARDL bounds testing approach of Pesaran et al. (2001), but in some cases short-run effects are studied by means of error-correction models (ECMs). The paper finds that, after controlling for an accelerator effect, the accumulation rate responds significantly to changes in the profit rate or its components in the M and T sectors, but much less so in the NT sector. It also finds that a real depreciation of the peso leaves the NT accumulation rate unaffected, but has a positive effect on accumulation in the M and T sectors. The latter effect appears to arise from the positive correlation between the RER and the profit rate. Unexpectedly, the U.S. manufacturing profit share affects positively the accumulation rate in the Mexican M sector, although the effect is small compared to that of other determinants. Finally, the ECMs indicate the existence of positive inter-sectorial effects, so that a higher accumulation rate in the M or T sectors raises the accumulation rate in the NT sector, with a similar effect of the latter on the T sector. The effects, however, appear to be of a transitory, short-run nature.

Keywords: Profitability; capital accumulation; tradables; non-tradables; real exchange rate; KLEMS; Mexico.

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