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Mexico Consensus Economic Forecast, Volume 18, Number 1

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CONSENSUS ECONOMIC FORECAST

MÉXICO

University of Texas at El Paso
Border Region Modeling Project

1st Quarter 2015

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1st Quarter 2015

Brother, Can You Spare a Dollar?

Real GDP grew by 2.6 percent in the last quarter of 2014 compared to one year earlier. Though still relatively modest, it was the largest year-over-year increase in quarterly GDP reported since the end of 2012. The consensus forecast for real GDP growth in 2015 is 2.9 percent.

Consumer confidence remains subdued amid political scandals and currency market volatility. Growth in manufacturing and other key sectors may, however, help boost consumer spending later this year. The consensus forecast calls for a moderate 2.7 percent increase in private consumption.

Low oil prices will strain government budget plans in 2015. This, together with ongoing economic stimulus efforts, contributes to uncertainty regarding future growth in government consumption. Forecasts in this category span a wide range and average 3.6 percent.

Growth in total investment spending has faltered over the last two years. Most panelists predict that spending in this category will recover in 2015. A rebound in the construction sector is driving expectations of increased total investment, which is forecast to grow at 4.1 percent.

While the drop in oil prices hurts Mexico as an oil exporter, improving economic activity in the United States and a weak peso are likely to stimulate exports of manufactures. Exports are expected to grow by 4.8 percent in 2015. Similarly, a 4.9 percent rise in imports is expected.

Most panelists expect that inflation will remain under control in a context of still unimpressive economic growth and low energy prices. All of the panelists predict lower inflation in 2015 than what was observed in 2014. The consensus inflation forecast is 3.3 percent.

The consensus exchange rate forecast for 2015 is 14.3 pesos per dollar. This figure reflects a marked depreciation of the peso relative to last year's average value. However, it also suggests that the nominal value of the peso will recover substantially relative to its current trading range.

One of the factors behind the peso depreciation is the expectation of higher interest rates in the United States. In this context, interest rates in Mexico are also expected to edge upward this year. The consensus forecast for the yield on 28-day CETES in 2015 is 3.4 percent.

In general, panelist forecasts for 2016 are slightly more optimistic than the 2015 forecasts. Real GDP is expected to grow by 3.1 percent next year. Private and government consumption are predicted to grow by 3.0 and 3.4 percent, respectively. The recovery in total investment is projected to continue into 2016, with 4.5 percent growth predicted for that category.

The 2016 consensus forecast calls for stronger growth in international trade. Exports are forecast to grow by 5.6 percent and imports by 5.7 percent. The 2016 inflation forecast is 3.5 percent. The predicted average exchange rate is 14.26 pesos per dollar, which is very close to the exchange rate forecast for the current year. In light of expected improvements in overall economic conditions, somewhat higher interest rates are expected for 2016. The predicted yield on 28 Day CETES is 4.0 percent.

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							Annual Averages		
Historical Data	GDP (2008 Pesos, billions)	Private Consumption (2008 Pesos, billions)	Government Consumption (2008 Pesos, billions)	Total Investment (2008 Pesos, billions)	Exports (2008 Pesos, billions)	Imports (2008 Pesos, billions)	Consumer Price Index Dec 2010 = 100	Nominal Exchange Rate Pesos/ Dollars	CETES 28 Day
2014	13,757.2	9,283.1	1,530.0	2,935.0	4,480.3	4,468.3	113.59	13.29	3.00
Percent Change	2.12%	1.94%	2.65%	1.48%	5.23%	4.19%	4.02%	4.07%	
2013	13,470.9	9,106.1	1,490.5	2,892.3	4,257.8	4,288.6	109.20	12.77	3.75
Percent Change	1.39%	2.26%	1.36%	-1.56%	2.23%	2.51%	3.81%	-3.02%	
2012	13,286.2	8,905.2	1,470.6	2,938.2	4,164.9	4,183.8	105.20	13.17	4.24
Percent Change	4.01%	4.85%	3.48%	4.78%	5.84%	5.47%	4.11%	6.01%	
2011	12,774.2	8,493.2	1,421.1	2,804.2	3,935.1	3,967.0	101.04	12.42	4.24
Percent Change	4.04%	4.80%	2.45%	7.82%	8.22%	8.05%	3.41%	-1.68%	
2010	12,277.7	8,103.9	1,387.1	2,600.8	3,636.4	3,671.4	97.71	12.64	4.40
Percent Change	5.11%	5.67%	1.71%	1.27%	20.55%	20.46%	4.16%	-6.49%	
2009	11,680.7	7,669.3	1,363.8	2,568.1	3,016.6	3,047.8	93.81	13.51	5.43
Percent Change	-4.70%	-6.46%	2.25%	-9.27%	-11.78%	-17.59%	5.30%	21.42%	
2008	12,256.9	8,198.8	1,333.8	2,830.4	3,419.4	3,698.3	89.09	11.13	7.68
Percent Change	1.40%	1.90%	3.03%	4.95%	-1.35%	4.40%	5.12%	1.84%	
2007	12,087.6	8,046.2	1,294.5	2,696.8	3,466.2	3,542.3	84.75	10.93	7.19
Percent Change	3.15%	3.04%	2.45%	5.99%	3.65%	5.93%	3.97%	0.27%	
2006	11,718.7	7,809.0	1,263.5	2,544.4	3,344.2	3,344.0	81.52	10.90	7.19
Percent Change	5.00%	5.52%	3.40%	8.69%	7.67%	10.19%	3.63%	0.01%	
2005	11,160.5	7,400.8	1,222.0	2,341.0	3,106.0	3,034.7	78.66	10.90	9.20
Percent Change	3.03%	4.40%	3.05%	5.90%	5.71%	7.71%	3.99%	-3.44%	
2004	10,832.0	7,088.9	1,185.9	2,210.5	2,938.2	2,817.5	75.64	11.29	6.82
Percent Change	4.30%	5.57%	2.39%	7.52%	9.13%	9.71%	4.69%	4.61%	
2003	10,385.9	6,715.1	1,158.2	2,055.9	2,692.3	2,568.1	72.26	10.79	6.23
Percent Change	1.42%	1.11%	-0.54%	2.97%	0.89%	2.39%	4.55%	12.04%	
2002	10,240.2	6,641.5	1,164.5	1,996.7	2,668.6	2,508.1	69.11	9.63	7.09
Percent Change	0.13%	1.39%	-1.19%	0.53%	2.06%	2.74%	5.03%	3.10%	
2001	10,226.7	6,550.2	1,178.6	1,986.1	2,614.8	2,441.2	65.80	9.34	11.31

Note: The components of 4th quarter GDP for 2014 are estimated

*GDP: Producto Interno Bruto, INEGI, 2008 Pesos

*Private Consumption: Consumo Privado, INEGI, 2008 Pesos

*Government Consumption: Consumo de Gobierno, INEGI, 2008 Pesos

*Total Investment: Formacion bruta de capital fijo, INEGI, 2008 Pesos

*Exports: Exportacion de bienes y servicios, INEGI, 2008 Pesos

*Imports: Importacion de bienes y servicios, INEGI, 2008 Pesos

*CPI, Banco de Mexico, Annual Average, Base = Dec 2010

*Exchange Rate, Banco de Mexico, Peso-to-dollar, Fecha de Liquidacion, Annual Average

*CETES 28 Days, Banco de Mexico, Annual Average

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México Consensus Economic Forecast, a quarterly publication of the Border Region Modeling Project, a research unit within the Department of Economics & Finance at the College of Business Administration of The University of Texas at El Paso, is available on the Web at: <http://academics.utep.edu/border>. Econometric research assistance is provided by Juan Cárdenas and Alejandro Ceballos. For additional information, contact the Border Region Modeling Project - CBA 236, UTEP Department of Economics & Finance, 500 West University Avenue, El Paso, TX 79968-0543, USA. (915) 747-7775.

