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Thomas M. Fullerton Jr.
University of Texas at El Paso, tomf@utep.edu

Adam G. Walke
University of Texas at El Paso, agwalke@utep.edu

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CONSENSUS ECONOMIC FORECAST

MÉXICO

University of Texas at El Paso
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4th Quarter 2014

Slow Growth and a Weak Peso

INEGI estimates that real GDP In the third quarter of 2014 was 2.15 percent higher than it was during the corresponding period from the previous year. While this pace of growth is slightly above the rates registered in most recent quarters, it is still below expectations. In light of this, the consensus real GDP growth forecast for 2014 has been revised downward to 2.0 percent.

Seven of the nine panelists project that private consumption will act as a drag on GDP in 2014. On average, panelists forecast just 1.8 percent growth for that variable. By contrast, most panelists project that government consumption will grow faster than overall GDP. That is primarily due to ongoing efforts to stimulate the economy. The consensus forecast calls for 3.7 percent growth in government consumption.

Lackluster growth is projected for total investment this year. The estimated increase of 1.9 percent reflects a downward revision since last quarter. The weakness of the construction sector in the first half of the year contributes to sluggish annual investment growth projections.

Exports are predicted to grow by 4.1 percent in 2014. Increased demand from Mexico's main trading partner, the United States, will help cushion the effects of a recent sharp drop in oil prices on the value of total exports. Imports are predicted to rise by an estimated 4.2 percent.

Inflation has largely remained in check in 2014, but recent peso declines may lead to somewhat higher consumer prices. Inflation is projected at 4 percent, which lies at the upper end of the target range set by the Bank of Mexico. The yield on 28-day CETES is projected at 3.1 percent. The lethargic state of the economy contributes to this low rate of return.

All panelists have revised their estimates of the 2014 annual average exchange rate upwards since last quarter. The forecast now stands at 13.74 pesos per dollar. Falling oil prices and the prospect of higher interest rates in the United States likely contribute to the peso depreciation.

While energy sector reforms and improvements in manufacturing and construction activity seem to bode well for Mexico's economic performance in 2015, the horizon is clouded by turbulence in world energy markets and domestic political uncertainties. GDP is forecast to grow by 2.9 percent while private consumption is projected to rise 2.7 percent next year. If oil prices continue to falter, that will eventually put a heavy strain on the government budget. The consensus forecast of government consumption growth in 2015 has been revised downward to 3.5 percent. Total investment is expected to grow by 3.3 percent next year.

With various downside risks emerging on the global economic horizon, forecasted growth in trade for 2015 has been revised downward since last quarter. The consensus forecast now calls for 4.0 percent growth in exports and a 4.5 percent increase in imports. An inflation rate of 3.7 percent is predicted for next year. In spite of the tighter monetary policy conditions expected to prevail in the United States in 2015, the peso is projected to essentially hold steady in nominal terms next year. That is partly because the predicted yield on 28-day CETES for 2015 increases by 40 basis points to 3.5 percent.

Thomas M. Fullerton, Jr. and Adam G. Walke
University of Texas at El Paso Border Region Modeling Project

4th Quarter 2014

American Chamber México
Dr. Deborah L. Riner

Wells Fargo Bank
Dr. Eugenio J. Alemán

Center for Economic Forecasting of Mexico
Dr. Alfredo Coutiño
Rodrigo Pulido

BBVA Bancomer
Dr. Arnoldo López Marmolejo
Cecilia Posadas

Universidad Autónoma de Ciudad Juárez
Dra. Patricia Barraza de Anda
Mtra. Cely Ronquillo Chávez

El Colegio de la Frontera Norte
Dr. Eduardo Mendoza Cota

Instituto Tecnológico y de Estudios Superiores de Monterrey
Dr. Jorge Ibarra Salazar

Universidad Autónoma de Coahuila
Dr. Alejandro Dávila Flores

Universidad Autónoma de Nuevo León
Dra. Cinthya Caamal Olvera

2014 Mexico Consensus Economic Forecast	Annual Percent Change, 2014 from 2013							Annual Average	
	GDP	Private Consumption	Government Consumption	Total Investment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
American Chamber Mexico	2.0	2.5	3.6	2.0	4.2	4.3	4.2	13.26	3.0
BBVA Bancomer	2.1	1.6	9.1	1.1	4.3	3.9	4.0	14.40	3.0
Wells Fargo Bank	2.2	2.0	2.3	0.9	5.3	3.4	4.0	13.27	3.0
Center for Economic Forecasting of Mexico	2.0	1.8	3.5	4.0	3.5	4.2	4.3	13.75	3.3
UACJ	1.9	1.5	0.5	0.5	0.1	0.8	3.6	13.20	3.0
ITESM	2.0	1.3	2.5	2.0	4.6	4.1	4.1	13.50	2.9
COLEF	1.9	2.1	3.3	1.9	2.0	2.9	4.0	14.50	3.8
UAdeC	2.2	1.6	5.6	3.0	5.8	7.3	4.0	13.30	3.1
UANL	2.1	2.0	3.3	1.4	7.0	6.5	4.0	14.50	3.0
Consensus -- this quarter	2.0	1.8	3.7	1.9	4.1	4.2	4.0	13.74	3.1
-- last quarter	2.3	2.3	4.0	2.6	4.1	4.0	4.0	13.11	3.1

2015 Mexico Consensus Economic Forecast	Annual Percent Change, 2015 from 2014							Annual Average	
	GDP	Private Consumption	Government Consumption	Total Investment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
American Chamber Mexico	3.0	2.8	3.1	5.7	6.9	8.6	3.7	13.82	3.2
BBVA Bancomer	3.5	3.0	6.9	6.1	4.0	4.8	3.6	13.30	3.5
Wells Fargo Bank	2.8	2.8	2.2	2.3	4.0	3.5	4.0	14.23	3.1
Center for Economic Forecasting of Mexico	3.2	2.8	4.5	5.5	4.8	5.5	4.0	14.00	4.0
UACJ	1.5	1.1	0.4	0.4	0.0	0.4	3.5	13.31	2.8
ITESM	3.0	2.5	2.0	1.0	1.0	1.0	3.6	13.20	3.6
COLEF	1.8	1.9	2.8	1.1	1.6	2.6	3.9	14.25	4.0
UAdeC	3.5	3.4	5.0	5.0	6.1	7.3	3.5	13.20	3.6
UANL	3.5	3.7	4.3	2.4	7.5	7.0	3.5	14.90	3.5
Consensus -- this quarter	2.9	2.7	3.5	3.3	4.0	4.5	3.7	13.80	3.5
-- last quarter	3.3	3.4	4.1	5.0	4.9	5.0	3.6	13.01	3.5

							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
2013	13,425.2	9,131.6	1,486.9	2,878.6	4,217.3	4,244.6	109.20	12.77	3.75
Percent Change	1.07%	2.54%	1.16%	-1.77%	1.16%	1.45%	3.81%	-3.02%	
2012	13,283.1	8,905.2	1,469.8	2,930.5	4,168.8	4,183.8	105.20	13.17	4.24
Percent Change	3.98%	4.85%	3.43%	4.50%	5.94%	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
Percent Change	*-0.61%*	*2.01%*	*-3.13%*	*-3.30%*	*-3.40%*	*-0.60%*	*6.37%*	*-1.27%*	
2000	10,289.0	6,420.9	1,216.7	2,053.8	2,706.7	2,456.0	61.86	9.46	15.24

*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 Period = December 2010
*Exchange Rate, Banco de Mexico, Peso-to-Dollar, Fecha de Liquidación, Annual Average
*CETES 28 Days, Banco de Mexico, Annual Average

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.