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Mexico Consensus Economic Forecast

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CONSENSUS ECONOMIC FORECAST

MÉXICO

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2nd Quarter 2010

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Mexico Economic Rebound Continues

The Mexican economy grew slowly during the first half of 2008, but with the arrival of the financial crisis in late 2008, Mexico fell deeply into the global downturn. In 2009, Mexico's output plunged 6.6 percent — more than during the peso crisis of 1995. The second half of 2009 saw growth return, and economists have revised upward their growth projections — including those that participate in this publication. Recent data for 2010 point in the direction of 4.0 to 4.5 percent, up from around 2 percent a year ago. Given the apparent strength now anticipated for the Mexican economy, we briefly address three questions below.

First, what changed from last year? Most important, the US and global recessions ended. The key for Mexico was a sharp upturn in U.S. industrial production in the summer of 2009. The essential economic link between the U.S. and Mexican economies is the trade of manufactured goods, and Mexico's industrial sector quickly followed the lead of U.S. manufacturing by rising 11 percent in the second half of 2009. Mexican manufacturing responded most strongly to the return of U.S. demand for autos and auto parts. Mexico's GDP jumped 8 percent during the fourth quarter of 2009, only to fall back by 1.4 percent in the first quarter of 2010.

Second, is the growth broad-based? While the external sector is burgeoning, the domestic economy is tepid, at best. Private consumption only added 1.5 percentage points to output growth during the fourth quarter of 2009 while exports contributed 7.3 percentage points. Retail sales have posted only mediocre gains in the past few months and have far to go before reaching 2008 peak levels. Tight credit is one issue. Despite being well-capitalized, Mexican banks froze lending in late 2008. Consumer credit declined at double-digit annual rates after September 2008, but now appears to be stabilizing. Remittances, another important source of income for many Mexican households, also dried up, and only now appear to be bottoming.

Third, what have we learned from this recession? In spite of the sizeable contraction of the Mexican economy, the Mexican economy is now better-equipped than ever to face economic adversity. Mexico's history is one of past recessions quickly ballooning into major financial crises. Since 1995, as Mexico has put its monetary, fiscal, and banking policies in good order. The last two recessions in Mexico – one minor, one major – have passed without an internal financial crisis. The recent rebound in the peso broadly underscores the value of these 15 years of institutional reforms. In addition, three more specific, cyclical reasons can be offered for the peso's renewed strength: The peso probably fell too far after August 2008; the continued zero-interest-rate policy in the U.S. makes Mexico attractive for capital inflows; and Mexico is seen as part of a group of developing nations now leading the global recovery.

To conclude, the Mexican economy is on its way to recovery. For now, economic growth is driven by the external sector while the domestic market remains sluggish. The recent vigorous growth of demand for U.S. manufactured goods may not be sustainable going forward, as the post-recession restocking of inventories by U.S. companies comes to an end. If Mexico is to approach a growth rate of 4.5 percent, a more rapid acceleration of Mexican domestic demand is required in 2010.

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Mexico Consensus Economic Forecast
2nd Quarter 2010 Summary

Cautious Optimism

As the second quarter of 2010 comes to an end, Mexico's economic recovery continues on track. Despite recently published INEGI figures showing a decrease of 4.8 percent in inflation adjusted GDP during the first quarter of 2010 compared to the fourth quarter of 2009, the consensus outlook remains optimistic in the overall performance of the Mexican economy for the remainder of the year and through 2011. The same figures show that inflation adjusted GDP actually increased by 4.3 percent during the first quarter of 2010 compared to the same period in 2009. The export-driven manufacturing sector is the main driver behind this recovery. Higher than expected growth in the U.S. economy, translating into a higher volume of Mexican manufactured exports, have helped propel the Mexican economy forward.

Panelist projections for real gross domestic product are indicative of the level of optimism in the Mexican economic recovery. The current consensus forecast calls for a real GDP increase of 4.1 percent for 2010. This marks a noticeable increase from the consensus 3.5 percent rate of change projected in the previous quarter. There is slightly more variation in the individual projections for private consumption. Although four panelists anticipate growth of 4 percent or greater, two forecasts call for private consumption increases of only 1.5 percent. The consensus outlook points to an increase of 3.2 percent in private domestic consumption.

Government consumption is expected to increase at a consensus rate of 1.9 percent. This rate is a decrease from the 2 percent that the panelists projected last quarter. Panelists clearly expect fiscal discipline to remain firmly in place in Mexico City. Total fixed investment is projected to grow at a consensus rate of 3.6 percent as foreign direct investment accelerates and the central bank avoids any further belt tightening.

Better than expected U.S. economic growth has fostered an upward revision in the panelist projections for Mexican exports in 2010. The current consensus forecast projects exports will increase by 12.2 percent up from 8.4 percent in the previous forecast. Imports are also expected to increase at a double-digit pace in 2010. Consumer price inflation is projected at 5.2 percent this year, well above the upper end of the 2-to-4 percent target band of the central bank. The panelist projections are in substantial agreement on that issue, with none of the panelists projecting inflation of lower than 4.5 percent. The peso is expected to continue to exhibit stability against the dollar. Driven by increases in exports to the United States, the exchange rate is expected to appreciate to 12.92 P/$ for all 2010. The forecast for 28-day Treasury Certificates (CETES) predicts a 5.0 percent rate of return for 2010, a slight drop of 10 basis points relative to the previous consensus forecast.

Mexico's economic recovery is forecast to continue in 2011. Real GDP and private consumption are projected to increase by 3.3 percent and 3.0 percent, respectively. Government consumption is expected to rise by 2.4 percent in 2011. The revitalization of the economy is expected to lead to a substantial increase in total fixed investment next year. The current consensus forecast predicts a growth rate of 6.9 percent for this category. Exports and imports are also expected to continue to increase, albeit at slower rates than in 2010. Inflation is projected to decline to 4.4 percent for 2011, in part due to a tightening of monetary policy by the central bank. The panelists project a nominal depreciation of the peso to 13.24 P/$, partly stemming from an ongoing inflationary gap with the United States. The panel's expectations of tighter monetary policy are reflected by an uptick in the yield on 28-day CETES to 5.8 percent in 2011.

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2010 Mexico Consensus Economic Forecast **Annual Average**

Annual Percent Change, 2010 from 2009

	GDP	Private Consumption	Government Consumption	Total Investment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
American Chamber Mexico	4.0	4.2	2.2	5.9	15.9	16.0	4.7	12.57	4.5
JPMorgan Chase Bank	4.5	3.8	1.8	2.2	14.5	14.5	5.4	13.00	5.3
BBVA Bancomer	5.0	1.5	0.2	0.9	19.4	7.3	5.1	12.30	4.6
Wells Fargo Bank	4.1	4.3	2.2	2.5	8.3	6.7	5.4	12.80	4.5
Center for Economic Forecasting of Mexico	4.5	4.0	2.5	6.5	7.5	8.5	4.5	12.55	4.7
UACJ	3.0	3.0	2.0	2.0	3.1	6.0	5.2	14.00	6.0
ITESM	5.0	4.0	3.0	5.0	16.0	13.0	5.0	13.00	5.0
COLEF	3.2	1.5	2.0	3.0	10.0	10.5	6.0	13.10	5.8
UAdeC	4.0	2.5	1.5	4.5	14.8	15.3	5.0	13.00	5.0
Consensus -- this quarter	4.1	3.2	1.9	3.6	12.2	10.9	5.2	12.92	5.0
-- last quarter	3.5	2.9	2.0	4.0	8.4	9.3	5.3	13.14	5.1

2011 Mexico Consensus Economic Forecast **Annual Average**

Annual Percent Change, 2011 from 2010

	GDP	Private Consumption	Government Consumption	Total Investment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
American Chamber Mexico	3.5	2.9	1.8	6.1	8.0	10.8	3.9	12.69	5.3
JPMorgan Chase Bank	3.5	5.4	2.2	14.0	9.0	14.4	4.0	13.00	7.0
BBVA Bancomer	3.8	2.3	1.8	7.1	10.0	8.9	4.4	12.40	6.2
Wells Fargo Bank	3.5	2.2	3.1	7.6	7.7	6.9	5.4	12.99	4.6
Center for Economic Forecasting of Mexico	3.5	3.2	2.0	5.5	7.0	8.0	4.2	12.75	5.8
UACJ	3.2	3.5	2.5	5.0	4.0	8.0	4.0	14.50	7.0
ITESM	4.0	4.0	6.0	5.5	15.0	15.0	4.0	13.00	6.0
COLEF	1.9	2.0	1.5	3.2	7.0	7.5	5.2	14.00	4.8
UAdeC	3.2	1.8	0.5	7.9	10.5	9.2	4.3	13.80	6.0
Consensus -- this quarter	3.3	3.0	2.4	6.9	8.7	9.9	4.4	13.24	5.8
-- last quarter	3.5	3.2	2.3	6.6	7.6	8.9	4.2	13.39	6.0

Annual Averages

Historical Data	GDP (2003 Pesos, billions)	Private Consumption (2003 Pesos, billions)	Government Consumption (2003 Pesos, billions)	Total Investment (2003 Pesos, billions)	Exports (2003 Pesos, billions)	Imports (2003 Pesos, billions)	Consumer Price Index June 02 = 100	Nominal Exchange Rate Pesos/ Dollars	CETES 28 Day
2009	8345.6	5820.0	953.0	1886.0	2290.0	2561.0	136.04	13.51	5.39
Percent Change	-6.54%	-6.43%	2.42%	-8.03%	-15.50%	- 16.24%	5.29%	21.27%	
2008	8,929.5	6,220.0	930.5	2,050.6	2,710.2	3,057.6	129.2	11.14	7.68
Percent Change	1.49%	1.54%	0.59%	4.94%	1.40%	4.29%	*5.13%*	*1.92%*	
2007	8,798.3	6,125.5	925.0	1,954.0	2,672.9	2,931.7	122.9	10.93	7.19
Percent Change	*3.34%*	3.86%	2.14%	7.17%	*5.66%*	*7.00%*	3.97%	*0.28%*	
2006	8,513.9	5,897.8	905.6	1,823.3	2,529.7	2,740.0	118.2	10.90	7.19
Percent Change	*4.93%*	*5.68%*	*1.72%*	*9.78%*	*10.94%*	*12.57%*	3.63%	*-0.16%*	
2005	8,113.7	5,580.7	890.3	1,660.8	2,280.3	2,434.0	114.1	10.92	9.20
Percent Change	*3.21%*	*4.78%*	*2.44%*	*7.46%*	*6.75%*	*8.48%*	*3.99%*	*-3.29%*	
2004	7,861.7	5,326.0	869.1	1,545.5	2,136.1	2,243.8	109.7	11.29	6.82
Percent Change	*4.05%*	*5.62%*	*-2.76%*	*8.01%*	*11.50%*	*10.74%*	*4.69%*	*4.63%*	
2003	7,555.8	5,042.8	893.8	1,430.9	1,915.8	2,026.2	104.8	10.79	6.23
Percent Change	*1.35%*	*2.22%*	*0.80%*	*0.37%*	*2.70%*	*0.70%*	*4.55%*	*12.05%*	
2002	7,455.4	4,933.1	886.7	1,425.6	1,865.5	2,012.2	100.2	9.63	7.09
Percent Change	*0.09%*	*1.59%*	*-0.33%*	*-0.64%*	*1.44%*	*1.46%*	*5.03%*	*3.10%*	
2001	7,448.7	4,856.1	889.6	1,434.8	1,839.0	1,983.2	95.42	9.34	11.31
Percent Change	*-0.95%*	*2.48%*	*-1.98%*	*-5.64%*	*-3.60%*	*-1.63%*	*6.36%*	*-1.27%*	
2000	7,520.3	4,738.7	907.6	1,520.5	1,907.6	2,016.1	89.71	9.46	15.24
Percent Change	*5.97%*	*8.18%*	*2.38%*	*11.36%*	*16.28%*	*21.47%*	*9.50%*	*-1.05%*	
1999	7,097.0	4,380.3	886.5	1,365.4	1,640.5	1,659.7	81.93	9.56	21.41

Note: 2009 data are preliminary and subject to revision

*GDP: Producto Interno Bruto, INEGI, 2003 Pesos

*Private Consumption: Consumo Privado, INEGI, 2003 Pesos

*Government Consumption: Consumo de Gobierno, INEGI, 2003 Pesos

*Total Investment: Formacion bruta de capital fijo, INEGI, 2003 Pesos

*Exports: Exportacion de bienes y servicios, INEGI, 2003 Pesos

*Imports: Importacion de bienes y servicios, INEGI, 2003 Pesos

*CPI, Banco de Mexico, Annual Average, Base = June 2002

*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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