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CONSENSUS ECONOMIC FORECAST

MÉXICO

University of Texas at El Paso
Border Region Modeling Project

1st Quarter 2009

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Follow the leader: Mexico hurt by U.S. slowdown

As economic conditions in the United States have faltered, the impact on the Mexican economy has been negative. The short-term consensus projections for Mexico reflect this and suggest that the downturn is not likely to loosen its grip on the Mexican economy until the second half of 2009 or even early 2010.

Panelist projections for real gross domestic product (GDP) in 2009 are consistently negative, ranging from a relatively moderate contraction of -0.8 percent to a fairly sharp decline of -4.0 percent. The consensus GDP forecast anticipates GDP will shrink by -2.2 percent in 2009. Although this outlook translates into negative growth for private consumption, the consensus rate of decline is less severe, at -1.1 percent. For private consumption, there is less unanimity among the forecasters, with two predictions calling for slight growth as consumers dip into savings or increase household indebtedness.

Nearly all of the panelists expect counter-cyclical fiscal policy to result in greater government consumption in 2009, with a consensus growth rate of 2.8 percent. Total real fixed investment is largely expected to falter as a consequence of reduced cash flows and business profitability in 2009. North of the border economic weakness translates into a double-digit decline for exports of goods and services. Negative incomes growth is also anticipated to cause imports of goods and services to drop noticeably in 2009 in Mexico.

Against this general economic backdrop, an almost bi-modal outlook for inflation emerges from the panelists. Three forecasts expect prices to increase at rates in excess of 6 percent, while two projections call for consumer price increases of less than 4 percent. The consensus outlook for the peso per dollar nominal exchange rate is 14.32 for 2009, with a fairly tight clustering of the responses around that estimate. A somewhat wider range of responses emerges for 28-day Treasury Certificates (CETES). Two forecasts anticipate that the rate will average 8 percent or higher in 2009, while two predictions call for these instruments to yield 6.5 percent or less for the year as a whole.

All of the panelists expect the economy to expand by at least small amounts in 2010. Private consumption is expected to keep pace with GDP. Because growth is forecast to be moderate at best, the panel also anticipates that fiscal policy will remain mildly expansionary in 2010. The recovery is expected to stimulate fixed investment in Mexico along with increased export and import volumes. In spite of greater economic activity in 2010, consumer price inflation is projected to decline by 60 basis points to 4.5 percent. The latter forecast undoubtedly reflects a stronger currency market performance by the peso, which is predicted to appreciate to 13.98 P/\$ for the year as a whole. The panel members expect monetary policy to be relatively neutral in 2010, allowing the 28-day CETES rate to hold steady at 7.1 percent.

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		<i>Annual Averages</i>								
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)	CPI June 2002 = 100	Nominal Exchange Rate Pesos/ Dollars	CETES 28 Day
2008		8,928.6	6,220.0	930.5	2,050.6	2,710.2	3,057.6	129.2	11.14	7.68
	<i>Percent Change</i>	1.35%	1.54%	0.59%	4.94%	1.40%	4.29%	5.13%	1.92%	
2007		8,809.9	6,125.5	925.0	1,954.0	2,672.9	2,931.7	122.9	10.93	7.19
	<i>Percent Change</i>	3.33%	3.86%	2.14%	7.17%	5.66%	7.00%	3.97%	0.28%	
2006		8,526.0	5,897.8	905.6	1,823.3	2,529.7	2,740.0	118.2	10.90	7.19
	<i>Percent Change</i>	5.13%	5.68%	1.72%	9.78%	10.94%	12.57%	3.63%	-0.16%	
2005		8,110.2	5,580.7	890.3	1,660.8	2,280.3	2,434.0	114.1	10.92	9.20
	<i>Percent Change</i>	3.21%	4.78%	2.44%	7.46%	6.75%	8.48%	3.99%	-3.29%	
2004		7,857.7	5,326.0	869.1	1,545.5	2,136.1	2,243.8	109.7	11.29	6.82
	<i>Percent Change</i>	4.00%	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
	<i>Percent Change</i>	1.35%	2.22%	0.80%	0.37%	2.70%	0.70%	4.55%	12.05%	
2002		7,455.0	4,933.1	886.7	1,425.6	1,865.5	2,012.2	100.2	9.63	7.09
	<i>Percent Change</i>	0.83%	1.59%	-0.33%	-0.64%	1.44%	1.46%	5.03%	3.10%	
2001		7,393.9	4,856.1	889.6	1,434.8	1,839.0	1,983.2	95.42	9.34	11.31
	<i>Percent Change</i>	-0.16%	2.48%	-1.98%	-5.64%	-3.60%	-1.63%	6.36%	-1.27%	
2000		7,405.5	4,738.7	907.6	1,520.5	1,907.6	2,016.1	89.71	9.46	15.24
	<i>Percent Change</i>	6.60%	8.18%	2.38%	11.36%	16.28%	21.47%	9.50%	-1.05%	
1999		6,946.9	4,380.3	886.5	1,365.4	1,640.5	1,659.7	81.93	9.56	21.41

Note: 2008 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: Formación Bruta de Capital Fijo, INEGI, 2003 Pesos

*Exports: Exportación de Bienes y Servicios, INEGI, 2003 Pesos

*Imports: Importación de Bienes y Servicios, INEGI, 2003 Pesos

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

*Exchange Rate, Banco de México, Peso-to-Dollar, Fecha de Liquidación, Annual Average

*CETES 28 Days, Banco de México, 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 provided by Emmanuel Villalobos and Enedina Licerio. 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.

