

## 2001: COMING DOWN FROM LAST YEAR'S HIGH

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Last year was a terrific year for the Mexican economy, one that won't be matched in the near future. The U.S. economy and oil prices — the two critical exogenous variables affecting economic performance — could hardly have been more favorable. This year, the international environment will be much less auspicious. Those preoccupations show up in the Blue Chip Panel's latest forecast, which paints a much more somber portrait of Mexico's 2001 economic prospects than a quarter earlier.

The deterioration of the international environment has caused analysts and the government to cut their 2001 growth projections. This quarter's consensus growth projection is more than a percentage point less than three months ago. The 3.4 percent consensus growth forecast for this year is in line with the annual average of the Salinas administration but well below the 5.5 percent average of the last five years of the Zedillo administration. Sharp reductions in private consumption (to 4.1 percent, less than half 2000's 9.1 percent consensus projection), public consumption (to 2.1 percent, from the 5 percent consensus for last year), and investment (to just 6.2 percent, from the consensus 11.1 percent in 2000) all will contribute to the slowdown.

Reflecting the slowdown in the U.S. and Mexico, the growth rates of both exports and imports will fall significantly this year. Last year, exports grew 22 percent; imports shot up 22.9 percent. This year, the panel projects exports will increase only 7.6 percent and imports will grow 10.5 percent. Since U.S. demand for Mexican manufactured exports is falling more rapidly than domestic demand in Mexico, the gap between the growth rates of imports and exports will widen this year, swelling the current account deficit. This year, the panel's consensus has imports growing 2.9 percentage points more rapidly than exports; last year the difference was just 0.9 percentage points.

The widening current account deficit, which is likely to be over 4 percent of GDP, will put pressure on the peso. After two years of a virtually stable exchange rate, the peso will finally depreciate. The 6.7 percent depreciation projected by the panel a bit more than covers the expected inflation differential between the U.S. and Mexico this year but, for those who judge the value of a currency in purchasing power parity terms, the peso will continue to be "overvalued." In the first two months of the year, debt placements by public and private borrowers totaling about \$5 billion and portfolio investment inflows of around \$0.5 billion kept the peso's slippage to less than 1 percent. Capital inflows will not continue to pour in at this rate and the trade and current account deficits will widen, weakening the peso.

Money not only will continue to be scarce this year, it will be more expensive. Lending to the private sector isn't expected to return to "normal" for another two to three years. Last year, in spite of last year's extraordinary income from petroleum, the spending spree toward the end of the year left the public sector deficit at 1.1 percent of GDP, above the 1 percent target. This year, if inflation is to come in at the 6.5 percent objective, fiscal policy must complement monetary policy. Even so, nominal interest rates will be high in the first half of the year, putting the panel's consensus for the average one-month Cete rate at 16.2 percent in 2001, a percentage point higher than in 2000. With inflation expected to decline, the real rate in pesos will rise.

Inflation should come down this year, but not by much: the panel's consensus forecast for inflation — 7.7% — was the only number that did not change between last quarter and this one. The government's failure to take advantage of last year's propitious environment to reduce inflation further is disappointing. The new government appears much more committed to fighting inflation under less favorable circumstances.

Last year was a boom. This year will be much more subdued. But, the new government is sending the right signals and tackling key obstacles to putting the economy on the path of higher, sustainable growth rates.

— DEBORAH L. RINER

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	Annual Percent Change 2001 from 2000						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER MEXICO	6.9	8.3	3.9	13.3	22.0	22.9	9.0	9.460	15.3
BANAMEX	6.9	9.6	5.2	10.7	22.0	22.9	9.0	9.460	15.2
BANCOMER	6.9	9.0	5.1	10.2	22.0	22.9	9.0	9.460	15.2
CAIE	6.9	9.6	4.2	10.4	22.0	22.9	9.0	9.460	15.2
CIEMEX-WEFA	6.9	9.3	5.5	8.9	22.0	22.9	9.0	9.460	15.2
CONSULTORES ECONÓMICOS ESPECIALIZADOS	6.9	8.5	4.6	13.0	22.0	22.9	9.0	9.500	15.2
GEA	7.2	9.2	5.0	11.5	22.0	22.9	9.0	9.500	15.2
GRUPO FINANCIERO INVERLAT	6.9	8.9	6.7	11.5	22.0	22.9	9.0	9.500	15.3
LATIN SOURCE MEXICO	6.9	9.5	5.0	10.4	22.0	22.9	8.9	9.461	15.3
<b>Consensus – This Quarter</b>	<b>6.9</b>	<b>9.1</b>	<b>5.0</b>	<b>11.1</b>	<b>22.0</b>	<b>22.9</b>	<b>9.0</b>	<b>9.473</b>	<b>15.2</b>
<b>Last Quarter (Q4)</b>	<b>7.1</b>	<b>8.5</b>	<b>4.4</b>	<b>11.4</b>	<b>21.4</b>	<b>22.1</b>	<b>8.7</b>	<b>9.527</b>	<b>15.1</b>

	Annual Percent Change 2002 from 2001						Annual Average		
	GDP 1993 Peso	Private Con- sumption	Government Con- sumption	Total Invest- ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER MEXICO	3.8	3.9	2.0	7.6	6.0	10.5	7.7	10.200	15.6
BANAMEX	4.0	6.0	0.3	4.0	6.7	10.0	7.3	9.970	15.3
BANCOMER	3.7	5.1	1.9	7.0	7.2	9.9	7.0	9.940	17.0
CAIE	2.5	3.0	1.9	1.7	6.8	9.1	7.6	9.990	15.7
CIEMEX-WEFA	3.8	4.0	2.8	4.1	11.4	11.3	7.7	10.200	17.0
CONSULTORES ECONÓMICOS ESPECIALIZADOS	3.8	4.2	3.3	12.5	10.4	13.2	7.7	10.200	17.0
GEA	2.5	2.5	0.5	4.9	7.9	9.3	9.2	10.200	17.7
GRUPO FINANCIERO INVERLAT	3.3	3.8	4.6	6.8	6.3	9.8	7.8	10.200	15.5
LATIN SOURCE MEXICO	3.4	4.6	1.4	7.2	6.2	11.3	7.3	10.369	16.4
<b>Consensus – This Quarter</b>	<b>3.4</b>	<b>4.1</b>	<b>2.0</b>	<b>6.2</b>	<b>7.6</b>	<b>10.5</b>	<b>7.7</b>	<b>10.134</b>	<b>16.2</b>
<b>Last Quarter (Q4)</b>	<b>4.7</b>	<b>5.2</b>	<b>2.4</b>	<b>9.7</b>	<b>10.7</b>	<b>13.2</b>	<b>7.7</b>	<b>10.121</b>	<b>14.4</b>

	GDP – 1993 Pesos (000,000,000s)	Private Consumption 1993 Pesos (000,000,000s)	Government Consumption 1993 Pesos (000,000,000s)	Total Investment* 1993 Pesos (000,000,000s)	Exports** US Dollars (000,000s)	Imports** US Dollars (000,000s)	Consumer Price Index Dec./Dec.	Exchange Rate (Pesos/Dollars)	CETES 28 Day
1999	1,501.0	1,022.8	148.2	331.1	136,391.1	141,974.7	308.9	9.6	21.4%
% Change	3.7	4.3	1.0	1.5	16.1	13.2	12.3	4.7	
1998	1,448.1	980.3	146.7	326.1	117,459.4	125,373.0	275.0	9.1	24.5%
% Change	4.8	5.4	2.2	9.6	6.4	14.2	18.6	15.4	
1997	1,381.5	930.2	143.6	297.4	110,431.3	109,807.6	231.9	7.9	19.8%
% Change	6.8	6.5	2.9	24.9	15.0	22.7	15.7	4.2	
1996	1,293.9	873.7	139.6	238.2	95,999.7	89,468.8	200.4	7.6	31.4%
% Change	5.1	2.2	-0.7	25.6	20.7	23.5	27.7	18.4	
1995	1,230.6	854.7	140.6	189.6	79,541.6	72,453.0	156.9	6.4	48.4%
% Change	-6.2	-9.5	-1.3	-35.0	30.6	-8.7	52.0	90.2	

Source: INEGI and Banco de México. \*Due to data inavailability, the annual average of the gross fixed capital formation was used for 1999 \*\*Trade balance



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