

MEXICO'S ECONOMISTS LOOK TO A RECOVERY AT LAST

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During the first three years of Vicente Fox's administration, the Mexican economy was characterized by a recession, mainly as a result of weak external demand. Recent behavior indicates, however, that the economy is now clearly into a recovery phase. The seasonally adjusted annual rate of Gross Domestic Product (GDP) growth was 5.4 percent in the first quarter of 2004, after expanding 5.6 percent in the previous quarter. These last two quarters have shown the strongest performance since the second quarter of 2000. After hitting a trough in September 2003, the Composite Index of Coincidental Indicators shows a definite upward trend, characteristic of a recovering economy.

Domestic demand has shown important signs of expansion, given that retail sales have reached historical highs and seasonally adjusted imports have grown in six of the last seven months. Nevertheless, overall growth has been more contingent on the recovery of industrial production in the United States, which started to rebound as of mid-2003. Exports reached a new historical peak in March, after growing 20.5 percent year-over-year and expanding in the last seven months in a row. Although high oil prices have contributed to this growth, non-oil exports have been the most dynamic component of total exports. Domestic industrial production has responded to the pickup in external demand by growing in five out of the last six months and registering a high positive correlation with U.S. industrial production.

While our forecast anticipated a positive performance in the first quarter of 2004, the expansion in GDP was higher than expected. Nevertheless, the employment outlook remains bleak as growth has been achieved through higher productivity, providing a "jobless" recovery and still, growth below potential. The unemployment rate is expected to decline slowly throughout the rest of the year as growth continues and the recovery consolidates.

Gross fixed investment remains the weakest component of aggregate demand. However, recent data show an incipient recovery which we expect will gather steam in response to higher industrial production and export opportunities. Given that the political climate has not been conducive to an improving business environment and many businessmen complain about deteriorating competitiveness, investment growth is not expected to be a major contributor.

Although the inflation outlook remains almost unchanged, markets have faced rising concerns regarding the start of a restrictive cycle in monetary policy by the U.S. Federal Reserve. This has led to rising interest rates both in the United States and Mexico, and has caused depreciation in the Mexican peso. In order to avoid inflationary pressures in the near future, the Bank of Mexico has initiated its own restrictive cycle and is bound to continue with increases in the "corto" (short-term interest rate) over the coming months.

As a result, the consensus forecast continues to see inflation at 4.3 percent by year end, but sees interest rates at 6.3 percent compared to 6.2 percent in the previous forecast. Nonetheless, the exchange rate has been the most affected variable during the latest adjustment in U.S. markets and is now expected to average 11.3 pesos for the year.

— Lic. Lorena Dominguez
Latin Source Mexico

2004 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2004 from 2003						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	2.8	3.3	2.0	2.5	8.9	9.5	4.6	11.350	6.4
BANAMEX	3.8	4.0	2.9	3.4	7.8	8.0	4.2	11.300	6.5
BANCOMER	2.5	2.1	2.2	0.1	3.3	6.0	3.9	11.270	5.7
CTR. FOR ECON. FORECASTING	3.5	3.8	3.5	3.5	6.9	8.4	3.8	11.357	6.2
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	3.3	3.5	1.6	5.5	5.2	6.4	4.7	11.200	6.2
GRUPO FINANCIERO INVERLAT	3.1	3.1	2.4	2.9	4.3	5.4	4.5	11.310	6.9
LATIN SOURCE MEXICO	3.7	3.9	1.9	5.5	8.2	8.6	4.1	11.420	6.2
CONSENSUS — THIS QUARTER	3.2	3.4	2.4	3.3	6.4	7.5	4.3	11.315	6.3
— LAST QUARTER	3.5	3.4	2.1	4.7	5.5	7.2	3.9	11.104	6.2

2005 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2005 from 2004						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	3.7	3.2	2.2	1.9	5.5	8.7	4.4	12.120	7.4
BANAMEX	3.9	3.9	2.3	3.3	7.7	8.1	3.9	11.600	7.1
BANCOMER	3.3	3.1	-1.2	1.7	7.0	9.0	3.5	11.670	7.2
CTR. FOR ECON. FORECASTING	4.5	4.6	4.2	6.0	8.7	9.9	3.5	11.740	6.6
CONSULTORES ECONOMICOS									
ESPECIALIZADOS	4.5	4.4	3.1	6.1	5.9	7.0	4.3	11.670	7.7
GRUPO FINANCIERO INVERLAT	4.4	4.7	3.0	9.0	5.4	9.2	4.2	11.980	7.6
LATIN SOURCE MEXICO	3.8	4.2	-0.4	5.6	6.2	7.2	3.5	11.680	6.5
CONSENSUS — THIS QUARTER	4.0	4.0	1.9	4.8	6.6	8.4	3.9	11.780	7.2
— LAST QUARTER	4.4	4.1	2.8	5.7	7.6	8.9	4.0	11.189	8.4

HISTORICAL DATA

Source: INEGI	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment 1993 Pesos (billions)	Exports (Trade Bal.) US Dollars (millions)	Imports (Trade Bal.) US Dollars (millions)	Consumer Price Index June 02=100 Dec./Dec.	Exchange Rate Pesos/Dollars (annual av.)	CETES 28 Day (annual av.)
2003	1,634.2	1,198.6	155.4	354.6	165.1	170.7	106.9	10.717	6.4
<i>Percent Change</i>	1.4	2.0	1.5	-1.7	2.7	1.2	3.9	9.3	-11.0
2002	1,611.7	1,175.1	153.1	360.8	160.8	168.7	102.9	9.803	7.2
<i>Percent Change</i>	0.9	1.3	-1.3	1.2	1.5	0.2	5.7	4.6	-36.5
2001	1,597.2	1,160.5	155.0	356.5	158.4	168.4	97.4	9.371	11.3
<i>Percent Change</i>	-0.3	2.4	-1.2	-5.8	-4.8	-3.5	4.4	-1.7	-26.3
2000	1,602.3	1,133.8	157.0	378.6	166.5	174.5	93.2	9.535	15.4
<i>Percent Change</i>	6.6	7.6	2.0	11.4	22.0	22.9	9.0	-1.0	-28.3
1999	1,503.5	1,053.5	153.8	339.9	136.4	142.0	85.6	9.630	21.4
<i>Percent Change</i>	3.7	3.9	4.7	4.0	16.1	13.2	12.3	3.6	-13.3
1998	1,449.3	1,013.8	146.9	327.0	117.5	125.4	76.2	9.293	24.8
<i>Percent Change</i>	4.9	5.3	2.3	9.9	7.7	14.2	18.6	16.3	25.0

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