

## CONSENSUS ECONOMIC FORECAST

## MÉXICO

W. P. CAREY  
SCHOOL of BUSINESS

Consenso de Pronósticos Económicos

Bank One Economic Outlook Center • L. William Seidman Research Institute

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## Some thoughts on the outlook for the Mexican economy

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After three years of stagnation, the Mexican economy is once again on the path of growth. Much of this is explained by the expansion in U.S. industrial production, which has a significant impact on our industrial sector and exports. Additionally, over the last few months there has been vigorous recovery in investment which, coupled with healthy growth rates in private consumption, makes it clear that the internal engines of the economy are back on line. This will produce an impetus that will last at least through the first part of 2005, producing a GDP growth rate above 4.0 percent.

Another key factor for sustainable growth is macroeconomic stability, which has been in place in recent years and is mainly the result of responsible economic policy, both monetary and fiscal.

Several factors will affect the Mexican economy in the coming year. On the external front, the pace of growth of the U.S. economy will be of primary importance. Although it is likely that the U.S. economy will keep growing, the huge trade and budget deficits represent a serious threat; an eventual adjustment seems unavoidable. Part of this adjustment will take the form of higher interest rates, which will put some pressure on the conditions faced by emerging countries in the international markets, making available financing harder to get.

On the domestic front, it is expected that economic policy will continue to be used responsibly, thus assuring macroeconomic stability and allowing growth to continue, despite the pressures expected from the political side.

The political environment has been deteriorating gradually but persistently, and next year the focus will turn to the 2006 presidential election. The political struggle already has begun, and it is getting rougher. Political conditions have not been favorable to achieve the implementation of much-needed structural reforms in the economy. Since these conditions are becoming more complex, it seems highly unlikely that a significant advance in these reforms will occur at all. There are severe tensions between the president and Congress since the Chamber of Deputies modified the budget bill for 2005. The president considered the changes unworkable, and he was willing to veto the budget. So, 2005 will be a complicated year for the political sphere in Mexico.

Considering all of the above, it is likely that 2005 will be a year of adjustments in some macroeconomic variables — yet, economic growth should continue. Both the exchange rate and interest rates in Mexico should increase in reaction to higher interest rates in the United States. In addition, economic growth is allowing the revival of inflation. It would require a firm hand in monetary policy to achieve the goals established, since until now the market's inflation forecasts for 2005 have been well above the official target zone. This also will put some pressure on domestic interest rates.

Finally, political events could affect the behavior of financial markets at a certain point, since the presidential campaign struggle will become more intense. While no changes are expected in the current responsible use of economic policy, this could become a central issue in 2006.

— **Mario Correa**  
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# 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	4.1	3.8	0.6	5.7	14.2	14.3	5.2	11.330	6.8
BANAMEX	4.3	4.8	0.0	6.1	15.2	14.8	5.4	11.310	6.8
BANCOMER	4.0	3.9	3.5	6.0	12.4	11.8	4.1	11.400	6.5
CENTER FOR ECONOMIC FORECASTING OF MEXICO	4.1	4.2	0.5	6.5	11.9	12.2	5.2	11.325	6.8
GRUPO FINANCIERO INVERLAT	4.1	4.5	-1.1	4.9	14.3	14.2	5.5	11.360	6.9
LATIN SOURCE MEXICO	4.0	3.9	-0.2	4.9	11.9	11.6	5.2	11.707	6.7
<b>CONSENSUS — THIS QUARTER</b>	<b>4.1</b>	<b>4.2</b>	<b>0.6</b>	<b>5.7</b>	<b>13.3</b>	<b>13.2</b>	<b>5.1</b>	<b>11.405</b>	<b>6.7</b>
— LAST QUARTER	3.9	4.0	2.2	5.3	11.4	11.1	4.3	11.368	6.6

# 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	3.8	3.7	2.4	3.6	5.1	7.9	4.5	11.610	9.2
BANAMEX	3.7	4.4	2.0	4.6	7.0	7.8	4.4	11.610	8.7
BANCOMER	3.8	4.1	5.2	5.6	4.5	7.1	3.7	11.800	7.1
CENTER FOR ECONOMIC FORECASTING OF MEXICO	3.9	4.4	3.5	7.8	6.5	7.5	3.9	11.735	8.4
GRUPO FINANCIERO INVERLAT	4.4	4.3	4.8	6.7	4.7	6.9	4.4	12.040	8.6
LATIN SOURCE MEXICO	3.8	3.7	3.3	3.6	6.3	6.5	4.4	11.950	8.0
<b>CONSENSUS — THIS QUARTER</b>	<b>3.9</b>	<b>4.1</b>	<b>3.5</b>	<b>5.3</b>	<b>5.7</b>	<b>7.3</b>	<b>4.2</b>	<b>11.791</b>	<b>8.3</b>
— LAST QUARTER	3.9	3.8	3.3	4.2	6.1	6.8	3.9	11.818	7.3

## 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	1,633.1	1,207.7	158.5	331.8	164.9	170.6	107.0	10.906	6.23
Percent Change	1.3%	3.2%	2.5%	-8.1%	2.6%	1.1%	4.0%	11.3%	-12.1%
2002	1,612.1	1,170.3	154.6	361.1	160.8	168.7	102.9	9.803	7.09
Percent Change	0.7%	1.1%	0.1%	-0.9%	1.5%	0.2%	5.7%	4.6%	-37.3%
2001	1,600.4	1,157.0	154.4	364.3	158.4	168.4	97.4	9.371	11.31
Percent Change	-0.1%	2.1%	-2.0%	-3.8%	-4.8%	-3.5%	4.4%	-1.7%	-25.8%
2000	1,602.3	1,133.3	157.5	378.7	166.5	174.5	93.2	9.535	15.24
Percent Change	6.6%	7.6%	2.4%	11.4%	22.0%	22.9%	9.0%	-1.0%	-28.8%
1999	1,503.5	1,053.5	153.8	339.9	136.4	142.0	85.6	9.630	21.41
Percent Change	3.7%	3.9%	4.7%	4.0%	16.1%	13.2%	12.3%	3.6%	-13.5%
1998	1,449.3	1,013.8	146.9	327.0	117.5	125.4	76.2	9.293	24.76
Percent Change	4.9%	5.3%	2.3%	9.9%	7.7%	14.2%	18.6%	16.3%	25.0%

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