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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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Slightly slower growth expected for remainder of 2005

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The Mexican economy has continued its decelerating trend, with GDP growth dropping from 1.3 percent in the fourth quarter 2004 to 0.2 percent in the first quarter and 0.4 percent in the second quarter of this year, according to seasonally adjusted figures. Accordingly, it appears the economy will grow less than 3 percent this year.

However, based on figures not adjusted for seasonality, the Mexican economy reported a statistical rebound during the second quarter — thanks to a positive effect generated by the Easter holiday and higher prices of oil that boosted Mexican exports of crude. This year the Easter week was celebrated in March and last year in April; as a result, the second quarter of this year reported more working days than the second quarter a year ago. This seasonal effect contributed positively to GDP in the second quarter, which showed growth of 3.1 percent compared with 2.4 percent in the previous quarter.

Even though the second quarter GDP was higher, the Mexican economy presented a deceleration in the first half of the year. The slowdown was induced by moderation in the U.S. business cycle and the restriction of domestic monetary policy. Throughout the year, the three main sectors have moderated their growth, but industry has been the most affected by the slowdown of industrial activities in the United States. Record prices of oil in the international market have increased the value of Mexican exports of crude oil, which in turn has contributed to economic growth. While national production has tempered its rhythm, the domestic market has continued strong. Since domestic absorption is growing faster than national production, an incipient excess demand is showing up, which is also imposing pressures on the external deficit.

Strong private consumption and investment have caused the appearance of excess demand. Household consumption, measured by retail sales, has increased at a rate close to 5 percent during the first half of this year, while total investment has grown higher than 7 percent in the same period — both components clearly growing at rates higher than that of GDP. The strength of consumption is basically due to the huge amount of remittances received from abroad, plus the flexibility of credit conditions, and the effects of declining inflation. Increasing oil revenues and continued economic discipline have enhanced the country's attractiveness to foreign investors, which in turn has propelled fixed investment.

Looking ahead, for the year we expect the economy to report a deceleration with respect to the growth registered last year. We estimate a GDP growth of at most 3 percent for this year, compared with 4.4 percent last year. For the second half of the year, however, we expect a rebound based on both the multiplier effect of the public spending to finance the electoral process for the presidential elections next year, and the recovery of the industrial sector in the U.S. We also expect that the excess demand in the economy will increase, and this in turn will impose pressures on the external accounts. Given the openness of the Mexican economy to the rest of the world, the excess demand will be accommodated in a higher volume of imports instead of higher inflation.

— Dr. J. Alfredo Coutiño
Center for Economic Forecasting of Mexico

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	3.2	3.0	1.0	3.7	11.2	10.7	3.8	10.950	9.5
BANAMEX	4.0	4.6	2.0	6.5	7.7	9.7	3.8	11.330	6.8
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	3.0	4.0	1.8	2.8	9.5	9.8	3.7	11.050	9.5
GRUPO FINANCIERO INVERLAT	4.1	4.6	1.8	4.3	6.4	7.5	4.0	11.630	9.3
LATIN SOURCE MEXICO	3.1	4.0	0.7	4.9	8.0	9.5	4.1	10.960	9.8
CONSENSUS — THIS QUARTER	**3.5**	**4.1**	**2.1**	**4.6**	**7.9**	**9.1**	**3.8**	**11.3**	**8.7**
— LAST QUARTER	**3.9**	**4.1**	**3.5**	**5.3**	**5.7**	**7.3**	**4.2**	**11.800**	**8.3**

2006 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2006 from 2005							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	3.1	3.0	2.6	3.1	3.3	5.0	4.1	11.620	10.4
BANAMEX	3.3	3.9	1.7	4.7	5.7	7.8	3.7	12.020	9.1
BANCOMER									
CENTER FOR ECONOMIC FORECASTING FOR MEXICO	4.5	5.5	3.5	4.4	6.5	7.1	3.5	11.500	9.4
GRUPO FINANCIERO INVERLAT	3.7	4.3	3.1	7.7	4.7	9.7	4.1	12.170	9.7
LATIN SOURCE MEXICO	3.5	4.5	1.2	5.3	9.5	11.0	3.7	11.110	9.7
CONSENSUS — THIS QUARTER	**3.6**	**4.2**	**2.4**	**5.0**	**5.9**	**8.1**	**3.8**	**11.684**	**9.7**
— LAST QUARTER	**3.7**	**4.2**	**2.9**	**4.5**	**6.0**	**8.4**	**3.9**	**12.104**	**9.0**

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.)
2004	1,709.8	1,268.6	153.2	352.2	188.0	196.8	112.6	11.361	8.5
Percent Change	*4.4%*	*5.6%*	*-1.2%*	*1.5%*	*14.1%*	*15.4%*	*4.20%*	*4.20%*	*36.50%*
2003	1,638.3	1,200.8	155.1	346.9	164.8	170.5	107.0	10.906	6.2
Percent Change	*1.4%*	*2.3%*	*0.8%*	*-4.2%*	*2.4%*	*1.1%*	*4.00%*	*11.30%*	*-12.10%*
2002	1,615.6	1,173.4	153.9	362	161.0	168.7	102.9	9.803	7.1
Percent Change	*0.8%*	*1.4%*	*-0.3%*	*-1.1%*	*1.4%*	*0.2%*	*5.70%*	*4.60%*	*-37.30%*
2001	1,602.3	1,157.0	154.4	366.2	158.8	168.4	97.4	9.371	11.3
Percent Change	*-0.2%*	*2.1%*	*-2.0%*	*-3.9%*	*-4.4%*	*-3.5%*	*4.40%*	*-1.70%*	*-25.80%*
2000	1,604.8	1,133.3	157.5	381.2	166.1	174.5	93.2	9.535	15.2
Percent Change	*6.6%*	*7.6%*	*2.4%*	*11.5%*	*21.8%*	*22.9%*	*9.00%*	*-1.00%*	*-28.80%*
1999	1,505.4	1,053.5	153.8	341.9	136.4	142.0	85.6	9.630	21.4
Percent Change	*3.9%*	*3.9%*	*4.7%*	*4.6%*	*16.1%*	*13.3%*	*12.30%*	*3.60%*	*-13.50%*

* Consensus

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