

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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What now? Economic uncertainty reigns in Mexico

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Felipe Calderón has been officially declared Mexico's president, but because of continued protests from Andres Manuel Lopez Obrador (AMLO), uncertainty reigns. In Mexico City, AMLO sympathizers have occupied Avenida Reforma and the Zocalo for over a month; no one knows what will happen on September 16 when the military traditionally parades down Reforma to the Zocalo. It's an unsettling situation and people are nervous.

The financial markets, though, seem to have shrugged off the uncertainty, judging by their post-election trajectory. The Mexican stock market index (the IPC) soared 12.9 percent in dollars between the last trading day before the election (June 30) and August 25, far outperforming the major U.S. indices. In the eight weeks following the election, the peso appreciated 2.9 percent. The one-month CETES rate has ranged between 7.01 and 7.05 percent since the April 25 primary auction.

While we expect the economy to slow in the last six months of the year, the blistering first-half pace (up 5.1 percent year over year) virtually assures that the 2006 growth rate will be the best of the sexenio, exceeding 2004's 4.2 percent rate. Inflation will come in just below 3.5 percent this year, possibly the second consecutive year in which Mexican inflation will be lower than U.S. inflation.

It's too early to measure the economic impact of the AMLO-led civil resistance on the economy as a whole. To date, it is the economy of Mexico City that has suffered. In the city's historic center and on Reforma, businesses from museums and restaurants to shoeshine boys and bubblegum peddlers have all watched their sales plummet. Mexico City business organizations estimate that in three weeks the civil resistance translated into losses of \$3.85 billion pesos (about \$360 million in U.S. dollars).

Businesses that are not located near the blockade have also felt its effects. The logistics of getting from here to there in the city have become quite complicated. Mobile protestors move their short demonstrations from one place to another quickly; what was a good route one morning may not be passable later in the day. Mexico is so centralized that it's difficult to move product without going through Mexico City.

Business has not stopped, however, and will not stop. For most companies in Mexico City, it's just become less convenient and a bit more expensive to conduct business. "E-business" and the Internet make it easier to deal with the obstacles to physical movement. In the last decade, a considerable part of Mexico's manufacturing base has moved out of Mexico City, so manufactured exports haven't been hit by the problems in the city.

As uncomfortable as the political uncertainties make those of us in Mexico City, this year is stacking up as the best of the six years of the Fox Administration. It's not surprising: there's a long tradition in Mexico (and in democracies around the world) for the economy to do well in an election year.

Growth will undoubtedly be slower next year. The impact the current political situation has on domestic investment will help to determine just how much slower, along with such factors as oil prices, remittances, and the amount of slowing in the U.S. economy.

— Dr. Deborah L. Riner

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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 MEXICO	4.3	4.2	1.8	6.0	20.0	18.1	3.4	10.930	7.2
BANAMEX	4.3	5.2	2.2	8.8	17.4	16.0	3.4	10.913	7.2
BANCOMER	3.2	4.4	1.9	6.1	11.3	10.8	3.6	11.010	7.3
CENTER FOR ECONOMIC FORECASTING OF MEXICO	4.5	4.9	3.5	8.5	9.3	10.3	3.7	10.950	7.3
SCOTIABANK INVERLAT	3.7	4.3	3.1	7.7	4.7	9.7	4.1	12.170	9.7
LATIN SOURCE MEXICO	4.4	4.9	2.2	7.2	14.0	12.2	3.3	10.960	7.2
UTEP BORDER REGION MODELING PROJECT	3.8	4.1	3.6	5.5	14.2	11.2	3.2	10.800	7.3
CONSENSUS – THIS QUARTER	4.0	4.6	2.6	7.1	13.0	12.6	3.5	11.105	7.6
– LAST QUARTER	3.8	4.2	2.2	6.1	9.2	10.2	3.7	11.269	8.0

2007 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2007 from 2006						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	3.2	2.8	0.2	4.6	7.8	10.3	3.3	11.180	7.1
BANAMEX	3.4	3.8	0.8	5.6	9.8	12.8	3.3	11.140	6.5
BANCOMER	3.1	4.3	1.4	5.7	5.2	7.3	3.5	11.370	7.1
CENTER FOR ECONOMIC FORECASTING OF MEXICO	1.5	2.2	-0.5	2.5	5.1	4.6	3.3	11.800	7.8
SCOTIABANK INVERLAT
LATIN SOURCE MEXICO	3.9	4.4	1.2	4.6	10.0	9.2	3.3	11.160	7.3
UTEP BORDER REGION MODELING PROJECT	3.7	3.4	3.4	4.4	7.0	8.0	3.3	11.500	7.7
CONSENSUS – THIS QUARTER	3.1	3.5	1.1	4.6	7.5	8.7	3.3	11.358	7.2
– LAST QUARTER	3.1	3.7	1.2	4.3	7.6	8.3	3.5	11.500	7.4

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.)
2005	1756.2	1291.5	155.2	364.1	214.2	221.8	116.3	10.918	9.2
<i>Percent Change*</i>	3.0%	5.4%	0.5%	7.6%	14.0%	30.1%	3.3%	-4.0%	35.3%
2004	1705.8	1225.6	154.5	338.3	188.0	170.5	112.6	11.368	6.8
<i>Percent Change</i>	4.2%	4.1%	-0.4%	7.5%	14.1%	-5.0%	5.2%	4.2%	9.7%
2003	1637.4	1177.4	155.1	314.7	164.8	179.5	107.0	10.906	6.2
<i>Percent Change</i>	1.4%	2.2%	0.8%	0.4%	2.3%	6.4%	4.0%	11.1%	-12.7%
2002	1615.6	1151.8	153.9	313.5	161.0	168.7	102.9	9.813	7.1
<i>Percent Change</i>	0.8%	1.6%	-0.3%	-0.6%	1.4%	0.2%	5.6%	4.7%	-37.2%
2001	1602.3	1133.9	154.4	315.5	158.8	168.4	97.4	9.371	11.3
<i>Percent Change</i>	-0.2%	2.5%	-2.0%	-5.6%	-4.4%	-3.5%	4.5%	-1.7%	-25.7%
2000	1604.8	1106.5	157.5	334.4	166.1	174.5	93.2	9.535	15.2
<i>Percent Change</i>	6.6%	5.0%	2.4%	-2.2%	21.8%	22.9%	8.9%	-1.0%	-29.0%

* Consensus

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