

## CONSENSUS ECONOMIC FORECAST

## MÉXICO

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SCHOOL of BUSINESS

Consenso de Pronósticos Económicos

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## U.S. appetite for ethanol fuels rise in Mexican tortilla prices

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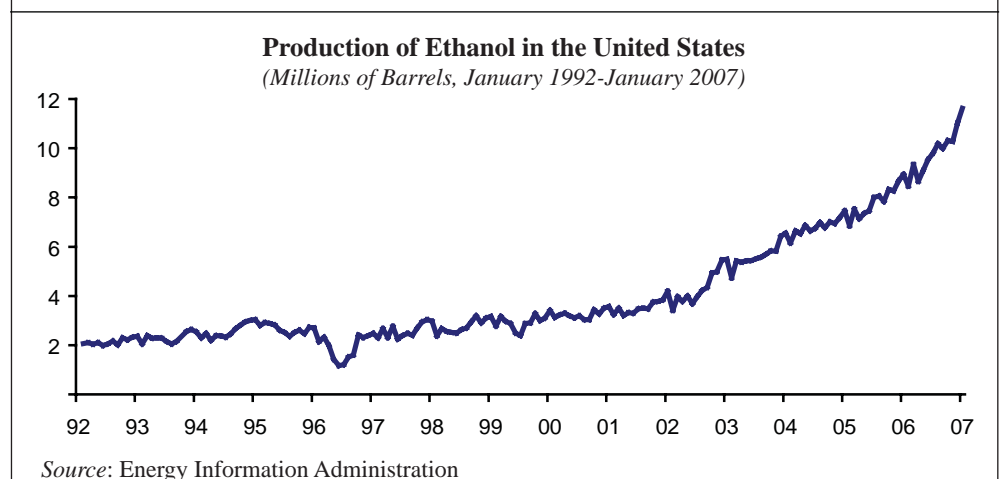
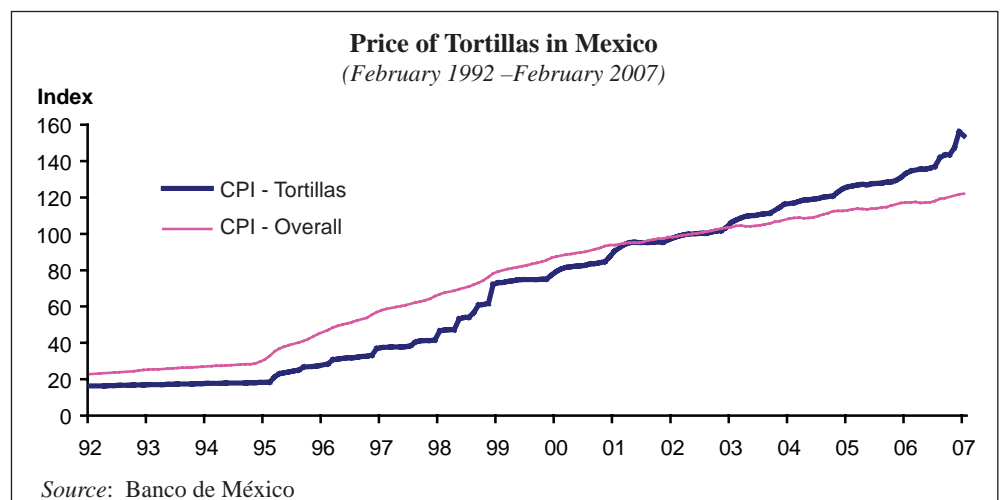
Dr. Thomas M. Fullerton Jr.

The Mexican economy is facing a tortilla crisis of sorts. The price of tortillas (see graph below) has escalated dramatically since the beginning of 2007, after already having risen at a rate higher than overall consumer prices for about three years. The tortilla is integral to the Mexican diet, especially among those of lower income. An effort to stabilize prices has been undertaken by the government; it includes increasing import allowances as well as handshake deals with various companies that are involved in the tortilla supply chain.

The problem began in earnest towards the end of 2006, when feed grain prices jumped in response to a worldwide increase in the price of corn. Pressure on corn supply has been increasing over the last few years: in the U.S. for ethanol (see graph below) and in Mexico for livestock feed. Relaxing import restrictions into Mexico may relieve some of the problem, but imports from the U.S. already increased close to 60 percent in 2006 compared to 2005. The U.S. price point for corn in 2007 is expected to rise compared to previous years. While some farmers, both domestically and in traditional export markets, may decide to shift from other crops into corn production because of the price point, there is evidence that factors such as capital equipment on hand and weather considerations will play a stronger role in such decision.

Thus, while the U.S. tackles its dependence on foreign oil by developing corn-based ethanol fuel, Mexico must address its issue with the supply of corn.

— Dawn McLaren, *Editor*



# 2007 MEXICO CONSENSUS ECONOMIC FORECAST

|  | Annual Percent Change 2007 from 2006 |                             |                                |                          |            |            | Annual Average             |                  |                 |
|--|--------------------------------------|-----------------------------|--------------------------------|--------------------------|------------|------------|----------------------------|------------------|-----------------|
|  | GDP<br>1993<br>Peso                  | Private<br>Con-<br>sumption | Government<br>Con-<br>sumption | Total<br>Invest-<br>ment | Exports    | Imports    | Consumer<br>Price<br>Index | Exchange<br>Rate | CETES<br>28 Day |
| AMERICAN CHAMBER MEXICO                      | 3.5                                  | 4.2                         | 3.1                            | 7.6                      | 4.0        | 9.3        | 3.7                        | 11.110           | 7.0             |
| BANAMEX                                      | 3.4                                  | 3.9                         | 0.3                            | 5.6                      | 7.4        | 12.3       | 3.6                        | 11.120           | 6.8             |
| BANCOMER                                     | 3.6                                  | 5.5                         | 0.4                            | 7.1                      | 6.9        | 10.1       | 3.7                        | 10.940           | 6.9             |
| CENTER FOR ECONOMIC<br>FORECASTING OF MEXICO | 2.0                                  | 2.8                         | -1.5                           | 1.5                      | 6.5        | 6.9        | 3.5                        | 11.250           | 7.4             |
| LATIN SOURCE MEXICO/ GEA                     | 3.9                                  | 4.4                         | 1.2                            | 4.6                      | 10.0       | 9.2        | 3.4                        | 11.000           | 7.1             |
| UTEP BORDER REGION<br>MODELING PROJECT       | 3.8                                  | 3.7                         | 3.9                            | 4.6                      | 8.4        | 7.0        | 3.8                        | 11.110           | 7.0             |
| <b>CONSENSUS – THIS QUARTER</b>              | <b>3.4</b>                           | <b>4.1</b>                  | <b>1.2</b>                     | <b>5.2</b>               | <b>7.2</b> | <b>9.1</b> | <b>3.6</b>                 | <b>11.088</b>    | <b>7.0</b>      |
| <b>– LAST QUARTER</b>                        | <b>3.1</b>                           | <b>3.6</b>                  | <b>1.0</b>                     | <b>4.2</b>               | <b>7.0</b> | <b>8.8</b> | <b>3.4</b>                 | <b>11.287</b>    | <b>7.2</b>      |

# 2008 MEXICO CONSENSUS ECONOMIC FORECAST

|  | Annual Percent Change 2008 from 2007 |                             |                                |                          |            |            | Annual Average             |                  |                 |
|--|--------------------------------------|-----------------------------|--------------------------------|--------------------------|------------|------------|----------------------------|------------------|-----------------|
|  | GDP<br>1993<br>Peso                  | Private<br>Con-<br>sumption | Government<br>Con-<br>sumption | Total<br>Invest-<br>ment | Exports    | Imports    | Consumer<br>Price<br>Index | Exchange<br>Rate | CETES<br>28 Day |
| AMERICAN CHAMBER MEXICO                      | 3.7                                  | 4.3                         | 2.9                            | 8.4                      | 10.5       | 12.5       | 3.5                        | 11.400           | 6.9             |
| BANAMEX                                      | 3.8                                  | 4.3                         | 0.4                            | 6.3                      | 9.4        | 10.7       | 3.3                        | 11.560           | 6.5             |
| BANCOMER                                     | 3.8                                  | 5.7                         | 0.4                            | 8.4                      | 7.3        | 9.5        | 3.5                        | 11.210           | 6.2             |
| CENTER FOR ECONOMIC<br>FORECASTING OF MEXICO | 4.0                                  | 4.2                         | 3.4                            | 7.3                      | 7.8        | 8.8        | 3.3                        | 11.650           | 7.2             |
| LATIN SOURCE MEXICO/ GEA                     | 3.9                                  | 4.4                         | 2.7                            | 4.6                      | 0.0        | 0.0        | 3.2                        | 11.200           | 7.2             |
| UTEP BORDER REGION<br>MODELING PROJECT       | 3.8                                  | 3.8                         | 4.0                            | 4.2                      | 6.2        | 6.1        | 3.5                        | 11.440           | 7.0             |
| <b>CONSENSUS – THIS QUARTER</b>              | <b>3.8</b>                           | <b>4.5</b>                  | <b>2.3</b>                     | <b>6.5</b>               | <b>6.9</b> | <b>7.9</b> | <b>3.4</b>                 | <b>11.410</b>    | <b>6.8</b>      |
| <b>– LAST QUARTER</b>                        |                                      |                             |                                |                          |            |            |                            |                  |                 |

## HISTORICAL DATA

| Source: INEGI  | GDP –<br>1993 Pesos<br>(billions) | Private<br>Consumption<br>1993 Pesos<br>(billions) | Government<br>Consumption<br>1993 Pesos<br>(billions) | Total<br>Investment<br>1993 Pesos<br>(billions) | Exports<br>(Trade Bal.)<br>US Dollars<br>(millions) | Imports<br>(Trade Bal.)<br>US Dollars<br>(millions) | Consumer<br>Price Index<br>June 02=100<br>Dec./Dec. | Exchange<br>Rate<br>Pesos/Dollars<br>(annual av.) | CETES<br>28 Day<br>(annual av.) |
|----------------|-----------------------------------|--|---|---|---|---|---|---|---------------------------------|
| 2006*          | 1837.3                            | 1373.8   | 164.3   | 394.6   | 250.3   | 256.1   | 121.0   | 10.981  | 7.2                             |
| Percent Change | 4.8%                              | 4.6%   | 6.0%  | 6.6%  | 16.8%   | 15.5%   | 4.1%  | 0.6%  | -21.8%                          |
| 2005           | 1753.6                            | 1313.2   | 155.1   | 370.0   | 214.2   | 221.8   | 116.3   | 10.918  | 9.2                             |
| Percent Change | 2.8%                              | 4.9%   | 0.4%  | -0.6%   | 14.0%   | 12.7%   | 3.3%  | -4.0%   | 35.3%                           |
| 2004           | 1705.8                            | 1251.7   | 154.5   | 372.1   | 188.0   | 196.8   | 112.6   | 11.368  | 6.8                             |
| Percent Change | 4.2%                              | 4.3%   | -0.4%   | 7.4%  | 14.1%   | 15.4%   | 5.2%  | 4.2%  | 9.7%                            |
| 2003           | 1637.4                            | 1200.1   | 155.1   | 346.5   | 164.8   | 170.5   | 107   | 10.906  | 6.2                             |
| Percent Change | 1.4%                              | 2.3%   | 0.8%  | -4.3%   | 2.3%  | 1.1%  | 4.0%  | 11.1%   | -12.7%                          |
| 2002           | 1615.6                            | 1173.4   | 153.9   | 362.2   | 161.0   | 168.7   | 102.9   | 9.813   | 7.1                             |
| Percent Change | 0.8%                              | 1.4%   | -0.3%   | -0.9%   | 1.4%  | 0.2%  | 5.6%  | 4.7%  | -37.2%                          |
| 2001           | 1602.3                            | 1157.7   | 154.4   | 365.5   | 158.8   | 168.4   | 97.4  | 9.371   | 11.3                            |
| Percent Change | -0.2%                             | 2.2%   | -2.0%   | -4.3%   | -4.4%   | -3.5%   | 4.5%  | -1.7%   | -25.7%                          |

\* Consensus

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