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CONSENSUS ECONOMIC FORECAST

MÉXICO

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ARIZONA STATE UNIVERSITY

Consenso de Pronósticos Económicos

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Public sector spending will mitigate effect of U.S. slowdown

The bleak panorama facing the U.S. economy is casting its shadow over Mexico. Growth projections for this year are considerably less optimistic than six months ago. Still, expectations are that fallout from whatever happens in the U.S. this year – recession or slowdown – will not be as devastating for the Mexican economy as it was seven years ago. Why? Mostly, thanks to public sector spending. Increasing public sector spending this year is possible in ways that it wasn't seven years ago for several reasons. One is the price of oil. Another is the government's financial picture.

A barrel of Mexican export crude sold for US$18.57 in 2001. In the first two months of this year, it's fetching about US$79/barrel and is projected to remain high. The oil price in the 2008 budget is US$49.80. Half of the "excess" oil income (the difference between the budgeted and the actual price) will be spent, a boon in a year when private demand, responding to the slowdown in the U.S., will be lower.

Mexico's public sector has dealt with its deficit problem. Going into 2000, the year of the last U.S. recession, Mexico's public sector deficit had been cut to the equivalent of 1.1 percent of GDP. In 2001, the recession year, it was reduced to 0.7 percent of GDP. In 2007, public sector finances were in equilibrium, a position in which they are projected to remain this year. In 2000, IPAB (the banking system rescue) still claimed 11.9 percent of GDP; seven years later, it was off the government's books. In 2000, the public sector's foreign debt was 12.8 percent of GDP; last year, it was 3.6 percent of GDP, a dramatic reduction in the country's vulnerability to devaluation. (The total public sector debt has also declined, but not by nearly as much: from 23.4 percent of GDP to 19.8 percent of GDP. The peso-denominated debt has risen from 10.6 percent of GDP to 16.2 percent of GDP.)

Not only is the public sector free from deficit-cutting this year, it also has more money to spend, thanks to last year's passage of the Impuesto Empresarial a Tasa Única (IETU). Hacienda projects the IETU will generate incremental revenues equivalent to 1.1 percent of GDP this year, money that will be spent. Of the additional Ps$82.8 billion the fiscal reform makes it possible to spend this year, Ps$55.7 billion is to be spent on infrastructure. Then, there's the Ps$40 billion that the National Infrastructure Fund (Fondo Nacional de Infrastructura) will spend this year (PS$250 billion over the next five years).

Could the privates sector have spent the incremental revenue more efficiently than the public sector? Most likely, yes. However, it's not so clear that the private sector would have invested the money in a year in which so much uncertainty surrounds the economy's prospects. So, given that the government was going to collect more taxes and increase spending commensurately in any case, this year is a better one than most for that to happen.

The rate at which Mexico grows this year will demonstrate the extent to which the domestic market is capable of offsetting the drag on growth that troubles in the U.S. provoke.

— Deborah L. Riner
American Chamber Mexico

2008 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2008 from 2007							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	2.0	3.0	2.6	5.3	5.5	5.0	3.7	10.970	7.2
BANAMEX	2.9	3.8	0.8	5.7	4.1	6.4	3.8	10.880	7.3
CENTER FOR ECONOMIC FORECASTING OF MEXICO	3.3	4.2	3.5	8.5	2.5	2.8	3.7	11.100	6.9
LATIN SOURCE MEXICO/ GEA	2.8	3.7	1.9	5.1	8.3	8.9	3.9	10.854	7.3
UTEP BORDER REGION MODELING PROJECT	2.2	2.8	3.0	5.2	2.0	6.0	3.5	11.000	6.9
WELLS FARGO	2.5	2.4	8.6	3.3	14.2	14.4	4.5	10.960	7.2
CONSENSUS -- THIS QUARTER	**2.6**	**3.5**	**2.4**	**6.0**	**4.5**	**5.8**	**3.7**	**10.961**	**7.1**
-- LAST QUARTER	**3.6**	**4.3**	**2.1**	**7.1**	**8.2**	**8.8**	**3.7**	**11.227**	**7.0**

2009 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2009 from 2008							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	3.5	4.1	1.7	8.4	7.2	11.4	3.3	11.050	7.0
BANAMEX	3.7	4.4	0.5	8.4	8.1	9.2	3.2	10.980	6.5
CENTER FOR ECONOMIC FORECASTING OF MEXICO	4.5	4.8	4.0	9.2	6.5	7.8	3.4	11.300	7.0
LATIN SOURCE MEXICO/ GEA	3.1	3.9	1.5	5.3	-	-	3.5	10.913	7.2
UTEP BORDER REGION MODELING PROJECT	3.2	3.6	4.1	6.2	3.2	7.2	3.4	11.110	6.8
WELLS FARGO	3.2	2.5	2.9	6.4	13.7	13.7	4.4	11.200	7.3
CONSENSUS – THIS QUARTER	**3.6**	**4.2**	**2.4**	**7.5**	**6.3**	**8.9**	**3.4**	**11.071**	**6.9**
– LAST QUARTER									

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.)
2007	1,745.3	1,426.7*	166.2*	416.4*	272.0	283.2	125.6	11.0	7.2
Percent Change	3.3%	3.9%	1.2%	5.6%	8.9%	10.6%	3.8%	0.0%	-0.1%
2006	1,689.7	1,373.8	164.3	394.6	249.9	256.1	121.0	11.0	7.2
Percent Change	4.8%	4.6%	6.0%	6.6%	16.7%	15.4%	4.1%	0.6%	-21.8%
2005	1,612.2	1,313.2	155.1	370.0	214.2	221.8	116.3	10.9	9.2
Percent Change	2.8%	4.9%	0.4%	-0.6%	14.0%	12.7%	3.3%	-4.0%	35.3%
2004	1,568.2	1,251.7	154.5	372.1	188.0	196.8	112.6	11.4	6.8
Percent Change	4.2%	4.3%	-0.4%	7.4%	14.1%	15.4%	5.2%	4.2%	9.7%
2003	1,505.4	1,200.1	155.1	346.5	164.8	170.5	107.0	10.9	6.2
Percent Change	1.3%	2.3%	0.8%	-4.3%	2.3%	1.1%	4.0%	11.1%	-12.7%
2002	1,485.4	1,173.4	153.9	362.2	161.0	168.7	102.9	9.8	7.1
Percent Change	0.8%	1.4%	-0.3%	-0.9%	1.4%	0.2%	5.6%	4.7%	-37.2%

* Consensus

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