Published by the College of Business Administration at the University of Texas at El Paso

CONSENSUS ECONOMIC FORECAST

# MÉXICO

University of Texas at El Paso
Border Region Modeling Project

**1st Quarter 2011**

**American Chamber México**
Dr. Deborah L. Riner

**Wells Fargo Bank**
Dr. Eugenio J. Alemán

**Center for Economic Forecasting of Mexico**
M.A. Rodrigo Pulido

**BBVA Bancomer**
Octavio Gutiérrez Engelman
Pedro Uríz
Cecilia Posadas

**Universidad Autónoma de Ciudad Juárez**
Dra. Patricia Barraza de Anda
Dra. Lisbeily Domínguez

**El Colegio de la Frontera Norte**
Dr. Eduardo Mendoza Cota
Dr. Eliseo Díaz González

**Instituto Tecnológico y de Estudios Superiores de Monterrey**
Dr. Jorge Ibarra Salazar

**Universidad Autónoma de Coahuila**
Dr. Alejandro Dávila Flores

Mexico Consensus Economic Forecast, Volume 14, Number 1
1st Quarter 2011

## Chinese Economic Ascendancy and Mexican Maquiladora Payrolls

The maquiladora export industry (MEI) has been a dynamic component of the Mexican economy for more than four decades. Its growth has been particularly impressive in the northern border region of the country. The MEI has served as an important source of employment, foreign exchange, and, to a lesser extent, new technology.

Following impressive rates of expansion during the 1990s, the MEI fell into a severe downturn as a consequence of the dot.com recession of the United States in 2001. Valued in real pesos, exports fell by 1.8 percent in 2001 and then rebounded in 2002. Payrolls, however, fell much more steeply in 2001 and continued to decline all the way into 2003. In a departure from prior historical patterns, total MEI employment never really recovered from the 2001 recession and growth in the sector did again reach the rapid rates of expansion observed during the prior decade.

During the same period, deregulation in China allowed it to become a major recipient of direct foreign investment from the United States, especially for the production and export of manufacturing goods. The "China syndrome" is widely considered to have exercised negative impacts on many so-called newly industrialized countries, including Mexico. However, relatively few quantitative estimates of these international linkages have been completed.

A number of maquiladora employment studies have confirmed the important role played by industrial conditions in the USA. Given how much the maquiladora industry exports to the United States, and because of the high concentration of intermediate inputs among those exports, the estimates in those papers are not surprising. Many of those analyses also indicate that employment in the in-bond manufacturing sector tends to increase whenever wages are relatively low.

Recent research examines the dual impacts of industrial activity in the United States and China on labor demand in the maquiladora industry located in the northern border states of Mexico. Maquiladora wages and the real exchange rate between the peso and the dollar are also included as explanatory variables. As many have argued subsequent to 2001, industrial production in China is negatively correlated with impact on labor demand in Mexico. In contrast, industrial activity in the United States and the real exchange rate are positively correlated with in-bond assembly payrolls. Increases in real wages also exercise a negative effect on maquiladora employment.

An increasing number of studies indicate that the Mexican maquiladora industry operates in a competitive global environment rather than a bilateral trade setting with the United States. Successful economic development strategies will, therefore, need to go beyond the comparative advantages of lower wages and proximity to the United States. Efforts to improve labor resource productivity and enhance physical infrastructure are likely to meet with success. Similarly, policies that accelerate technological development may also prove useful.

**Dr. Jorge Eduardo Mendoza Cota**
**El Colegio de la Frontera Norte**

Mexico Consensus Economic Forecast
1st Quarter 2011 Summary

## Moderation and Caution

As the first quarter of 2011 reaches its conclusion, the Mexican economy exhibits solid macroeconomic conditions that reflect the recovery taking hold in much of the rest of the world. Figures recently published by INEGI indicate that real gross domestic product (GDP) grew by 5.5 percent. That represents a sharp turnaround from 2009 and was accompanied by lower inflation, nominal currency appreciation, and lower short-term interest rates. Given that unique set of events, it is perhaps not surprising that the consensus GDP forecast for 2011 has been revised upwards by the panelists.

Panelist expectations for real GDP call for a growth rate of 4.0 percent for 2011. That represents an 80 basis point jump from the 3.2 percent growth rate predicted in last quarter's report. The predicted rates of expansion range from a low of 2.8 percent to a high of 4.5 percent. Private consumption is expected to swell by 4.3 percent as payrolls continue to expand across the country. There is some division among the panelists with respect to private consumption, however. Only two of the eight sets of panelist predictions anticipate that consumer expenditures will grow more rapidly than the economy as a whole. It remains to be seen, then, whether consumption will lead or follow the rest of the economy in 2011.

The public sector is projected to lag behind others sectors by a wide margin again this year. Although the consensus outlook for government consumption is stronger than it was last quarter, all of the panelists indicate that the public sector will grow more slowly than real GDP. Most of the forecasts anticipate total fixed investment to outpace the overall economy in 2011. The consensus rate of change for this category of GDP is 4.8 percent, slightly stronger than what was predicted last quarter. Greater access to credit as the recovery takes hold probably underlies part of the optimism behind this forecast.

Better than expected economic conditions in the United States contributed to the upswing in total exports last year. Of course, strong linkages between the U.S. industrial sector and south-of-the-border manufacturing make Mexican exports very sensitive to oscillations in the U.S. business cycle. As a result, the consensus forecast for total exports calls for a growth rate of 13.2 percent in 2011. That marks a dramatic increase of 5 percentage points from the previous consensus outlook. Mexican imports are also expected to ascend. Driven by the increase in manufacturing activity, total imports are expected to increase by 13.6 percent this year as the demand for intermediate inputs continues to strengthen.

By historical standards, inflationary pressures remain moderate according to the panelists. Because many analysts believe the output gap (defined as the difference between actual GDP and potential GDP) in Mexico to be negative, domestic price concerns remain muted. The latter combines with a benign outlook for import prices, courtesy of a robust peso, to allow inflationary forces to remain in check. Consumer prices are expected to increase by 4.1 percent in 2011, virtually the same rate as was experienced in 2010.

As noted above, the peso has appreciated against the dollar in recent months. The panelists anticipate this pattern to remain in place this year, with the peso per dollar exchange rate averaging 12.2 P/$ for the year as a whole. The latter is in part due to a highly expansionary interest rate policy in the United States, making yields in Mexico more attractive and encouraging short-term capital inflows. With respect to interest rates, the consensus forecast for 28-day Treasury Certificates (CETES) is 4.4 percent. The latter figure matches what was observed in 2010. If the forecast proves accurate, it will mark an unprecedented period of money market stability in Mexico.

A similarly favorable outlook is anticipated for 2012. GDP growth is projected to average 3.8 percent. Although private consumption is expected to accelerate, the public sector is expected to lag behind GDP again next year. Total investment is predicted to increase again next year, rising to 5.1 percent according to the consensus. The slight downtick in real GDP is mainly a consequence of an expected increase in the current account deficit for 2012. Panelists predict total exports to grow more slowly than imports, at least partly due to increased capital goods purchases associated with the growth in fixed investment. Consumer prices are expected increase by 4.2 percent in 2012, while a slight depreciation of the peso to 12.5 P/$ should materialize. Finally, the yield on 28-day CETES is forecast to rise by 60 basis points to 5.0 percent.

**Thomas M. Fullerton, Jr. and Teodulo Soto**
**University of Texas at El Paso Border Region Modeling Project**

**2011 Mexico Consensus Economic Forecast** **Annual Average**

**Annual Percent Change, 2011 from 2010**

| | GDP | Private Consumption | Government Consumption | Total Investment | Exports | Imports | Consumer Price Index | Exchange Rate | CETES 28 Day |
|---|---|---|---|---|---|---|---|---|---|
| American Chamber Mexico | 4.1 | 4.0 | 2.8 | 4.5 | 11.3 | 13.1 | 3.9 | 12.15 | 4.5 |
| BBVA Bancomer | 4.3 | 3.8 | 1.3 | 5.2 | 11.2 | 10.1 | 3.7 | 12.00 | 4.6 |
| Wells Fargo Bank | 4.3 | 4.0 | 2.8 | 5.5 | 12.1 | 14.1 | 4.7 | 12.01 | 4.1 |
| Center for Economic Forecasting of Mexico | 4.0 | 4.2 | 3.3 | 5.5 | 8.6 | 10.5 | 4.5 | 12.10 | 4.0 |
| UACJ | 4.0 | 3.5 | 3.0 | 5.0 | 9.0 | 10.0 | 3.8 | 12.00 | 4.5 |
| ITESM | 4.0 | 4.0 | 3.0 | 5.5 | 15.0 | 13.0 | 4.0 | 12.30 | 4.8 |
| COLEF | 2.8 | 7.0 | 3.0 | 4.0 | 15.0 | 18.0 | 4.1 | 12.30 | 4.2 |
| UAdeC | 4.5 | 3.7 | 3.2 | 3.5 | 23.6 | 20.2 | 4.5 | 12.70 | 4.5 |
| | | | | | | | | | |
| Consensus -- this quarter | 4.0 | 4.3 | 2.8 | 4.8 | 13.2 | 13.6 | 4.1 | 12.20 | 4.4 |
| -- last quarter | 3.2 | 3.1 | 2.4 | 4.5 | 8.2 | 9.7 | 4.2 | 12.72 | 4.8 |

**2012 Mexico Consensus Economic Forecast** **Annual Average**

**Annual Percent Change, 2012 from 2011**

| | GDP | Private Consumption | Government Consumption | Total Investment | Exports | Imports | Consumer Price Index | Exchange Rate | CETES 28 Day |
|---|---|---|---|---|---|---|---|---|---|
| American Chamber Mexico | 4.4 | 4.3 | 2.9 | 5.3 | 9.7 | 14.0 | 4.1 | 12.37 | 5.2 |
| BBVA Bancomer | 3.8 | 6.6 | 2.9 | 3.1 | 14.2 | 17.9 | 3.8 | 12.50 | 5.3 |
| Wells Fargo Bank | 4.2 | 3.8 | 2.3 | 4.8 | 12.0 | 12.1 | 4.8 | 12.13 | 4.2 |
| Center for Economic Forecasting of Mexico | 4.8 | 4.6 | 4.6 | 7.5 | 10.4 | 12.2 | 4.9 | 12.50 | 5.0 |
| UACJ | 4.5 | 4.0 | 2.5 | 6.0 | 10.0 | 13.0 | 3.6 | 12.50 | 5.0 |
| ITESM | na | na | na | na | na | na | na | na | na |
| COLEF | 2.0 | 8.0 | 5.0 | 2.5 | 12.5 | 19.2 | 4.0 | 12.10 | 4.5 |
| UAdeC | 3.2 | 3.9 | 2.3 | 6.3 | 12.7 | 15.0 | 4.0 | 13.50 | 5.5 |
| | | | | | | | | | |
| Consensus -- this quarter | 3.8 | 5.0 | 3.2 | 5.1 | 11.6 | 14.8 | 4.2 | 12.5 | 5.0 |
| -- last quarter | na | na | na | na | na | na | na | na | na |

**Annual Averages**

| | **Historical Data** | GDP (2003 Pesos, billions) | Private Consumption (2003 Pesos, billions) | Government Consumption (2003 Pesos, billions) | Total Investment (2003 Pesos, billions) | Exports (2003 Pesos, billions) | Imports (2003 Pesos, billions) | Consumer Price Index June 02 = 100 | Nominal Exchange Rate Pesos/ Dollars | CETES 28 Day |
|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | | 8860.7 | 6024.7 | 999.3 | 1834.0 | 2758.8 | 2924.3 | 141.38 | 12.64 | 4.40 |
| | *Percent Change* | *5.50%* | *3.85%* | *2.10%* | *0.03%* | *19.01%* | *19.16%* | *4.16%* | *-6.47%* | |
| 2009 | | 8398.7 | 5801.1 | 978.7 | 1833.5 | 2318.2 | 2454.1 | 135.74 | 13.51 | 5.39 |
| | *Percent Change* | *-6.08%* | *-7.06%* | *3.47%* | *-11.27%* | *-13.73%* | *-18.64%* | *5.06%* | *21.27%* | |
| 2008 | | 8,942.4 | 6,241.6 | 945.9 | 2,066.3 | 2,687.2 | 3,016.3 | 129.2 | 11.14 | 7.68 |
| | *Percent Change* | *1.50%* | *1.77%* | *1.09%* | *5.88%* | *0.45%* | *2.81%* | *5.13%* | *1.92%* | |
| 2007 | | 8,810.1 | 6,133.1 | 935.7 | 1,951.6 | 2,675.1 | 2,934.0 | 122.9 | 10.93 | 7.19 |
| | *Percent Change* | *3.26%* | 3.99% | 3.07% | 6.94% | *5.75%* | *7.08%* | 3.97% | *0.28%* | |
| 2006 | | 8,532.0 | 5,897.9 | 907.8 | 1,824.9 | 2,529.7 | 2,740.0 | 118.2 | 10.90 | 7.19 |
| | *Percent Change* | *5.15%* | *5.67%* | *1.87%* | *9.88%* | *10.94%* | *12.57%* | 3.63% | *-0.16%* | |
| 2005 | | 8,114.1 | 5,581.3 | 891.1 | 1,660.8 | 2,280.3 | 2,434.0 | 114.1 | 10.92 | 9.20 |
| | *Percent Change* | *3.21%* | *4.78%* | *2.52%* | *7.46%* | *6.75%* | *8.47%* | *3.99%* | *-3.29%* | |
| 2004 | | 7,862.1 | 5,326.6 | 869.2 | 1,545.6 | 2,136.1 | 2,243.8 | 109.7 | 11.29 | 6.82 |
| | *Percent Change* | *4.05%* | *5.63%* | *-2.76%* | *8.01%* | *11.50%* | *10.74%* | *4.69%* | *4.63%* | |
| 2003 | | 7,555.8 | 5,042.8 | 893.8 | 1,430.9 | 1,915.8 | 2,026.2 | 104.8 | 10.79 | 6.23 |
| | *Percent Change* | *1.35%* | *2.22%* | *0.81%* | *0.37%* | *2.69%* | *0.70%* | *4.55%* | *12.05%* | |
| 2002 | | 7,455.4 | 4,933.1 | 886.7 | 1,425.6 | 1,865.5 | 2,012.2 | 100.2 | 9.63 | 7.09 |
| | *Percent Change* | *0.09%* | *1.59%* | *-0.33%* | *-0.64%* | *1.44%* | *1.46%* | *5.03%* | *3.10%* | |
| 2001 | | 7,448.7 | 4,856.1 | 889.6 | 1,434.8 | 1,839.0 | 1,983.2 | 95.42 | 9.34 | 11.31 |
| | *Percent Change* | *-0.95%* | *2.48%* | *-1.98%* | *-5.64%* | *-3.60%* | *-1.63%* | *6.36%* | *-1.27%* | |
| 2000 | | 7,520.3 | 4,738.7 | 907.6 | 1,520.5 | 1,907.6 | 2,016.1 | 89.71 | 9.46 | 15.24 |

Note: 2010 data are preliminary and subject to revision

*GDP: Producto Interno Bruto, INEGI, 2003 Pesos

*Private Consumption: Consumo Privado, INEGI, 2003 Pesos

*Government Consumption: Consumo de Gobierno, INEGI, 2003 Pesos

*Total Investment: Formacion bruta de capital fijo, INEGI, 2003 Pesos

*Exports: Exportacion de bienes y servicios, INEGI, 2003 Pesos

*Imports: Importacion de bienes y servicios, INEGI, 2003 Pesos

*CPI, Banco de Mexico, Annual Average, Base = June 2002

*Exchange Rate, Banco de Mexico, Peso-to-dollar, Fecha de Liquidacion, Annual Average

*CETES 28 Days, Banco de Mexico, Annual Average

**University of Texas at El Paso**
Diana Natalicio, President
Howard Daudistel, Interim Provost
Roberto Osegueda, Vice Provost

**UTEP College of Business Administration**
Robert Nachtmann, Dean
Steve Johnson, Associate Dean
Tim Roth, Templeton Professor of Banking & Economics
*Border Economics & Trade*

**UTEP Border Region Modeling Project Corporate and Institutional Sponsors:**
El Paso Electric Company
Hunt Communities
JPMorgan Chase Bank of El Paso
Universidad Autónoma de Ciudad Juárez
UTEP College of Business Administration
UTEP Department of Economics & Finance
UACJ Instituto de Ciencias Sociales y Administración

***México Consensus Economic Forecast***, a quarterly publication of the Border Region Modeling Project, a research unit within the Department of Economics & Finance at the College of Business Administration of The University of Texas at El Paso, is available on the Web at: **http://academics.utep.edu/border**. Econometric research assistance is provided by Enedina Licerio and Teodulo Soto. For additional information, contact the Border Region Modeling Project - CBA 236, UTEP Department of Economics & Finance, 500 West University Avenue, El Paso, TX 79968-0543, USA. (915) 747-7775.