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Mexico Consensus Economic Forecast, Volume 20, Number 1

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CONSENSUS ECONOMIC FORECAST

MÉXICO

University of Texas at El Paso
Border Region Modeling Project

1st Quarter 2017

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Mexico Consensus Economic Forecast, Volume 20, Number 1
1st Quarter 2017

Back to the Past?

Preliminary GDP figures indicate that Mexico's economy grew by 2.3 percent in 2016. In the context of a weak peso, rising interest rates, and uncertainty regarding trade prospects, most panelists expect slower growth in 2017. The consensus GDP growth forecast is 1.0 percent.

Private consumption is projected to grow by 1.6 percent this year. Higher price levels and lower consumer confidence levels seem likely to prevent robust consumption growth. On the other hand, expansion of formal-sector employment may help buoy private consumption somewhat.

Growth in public spending is expected to remain subdued as the government seeks to reduce the budget deficit. Oil revenues remain low, though a moderate rise in oil prices may help reduce pressure for further budget cuts. Government consumption is expected to rise by 1.1 percent.

Total investment is predicted to decline by 0.7 percent in 2017. Similar to last year, higher interest rates represent one factor curtailing investment. Uncertainties regarding the outcome of trade negotiations with the United States represent a further drag on investment this year.

The panelists have revised trade growth projections substantially downward since last quarter. The consensus forecast now calls for a 1.7 percent increase in exports. Given the reduced purchasing power of the peso, imports are projected to rise by only 1.3 percent.

Sharp increases are projected for inflation this year. Peso depreciation and a hike in gasoline prices at the beginning of the year contribute to that outlook. The consensus inflation forecast has been revised upward to 5.1 percent.

The annual average value of the peso-to-dollar exchange rate is expected to stabilize near current levels this year. The consensus exchange rate forecast for 2017 is 20.24 pesos per dollar. The peso has strengthened in recent weeks, but future jitters are likely.

Given increased inflation in Mexico and expected interest rate hikes in the United States, the Mexican central bank is likely to continue raising interest rates. The yield on 28-day CETES is projected to rise to 6.4 percent in 2017. Panelist estimates range from 4.6 to 7.2 percent.

On average, panelists anticipate modest improvements in 2018. The consensus calls for 1.7 percent growth in real GDP, 2.3 percent growth in private consumption, and a 1.5 percent increase in government consumption. Investment and exports are expected to recover

somewhat as questions regarding trade relations are answered. Total investment is predicted to grow by 1.8 percent in 2018 while exports and imports are predicted to increase by 3.4 and 2.9 percent, respectively.

Higher real interest rates may help quell inflation in 2018. Consumer prices are predicted to rise by 4.2 percent next year. The exchange rate is expected to average 20.39 pesos per dollar and the yield on 28-day CETES may rise to 6.8 percent next year.

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							Annual Averages		
Historical Data	GDP (2008 Pesos, billions)	Private Consumption (2008 Pesos, billions) ¹	Government Consumption (2008 Pesos, billions) ¹	Total Investment (2008 Pesos, billions) ¹	Exports (2008 Pesos, billions) ¹	Imports (2008 Pesos, billions) ¹	Consumer Price Index Dec 2010 = 100	Nominal Exchange Rate Pesos/ Dollars	CETES 28 Day
2016	14,461.0	9,779.5	1,569.2	3,107.4	5,006.4	5,072.4	119.97	18.66	4.15
<i>Percent Change</i>	2.30%	3.20%	1.08%	0.09%	-0.46%	2.66%	2.82%	17.77%	
2015	14,135.5	9,476.4	1,552.5	3,104.6	5,029.7	4,941.1	116.68	15.85	2.98
<i>Percent Change</i>	2.46%	3.10%	2.31%	3.79%	8.99%	5.03%	2.72%	19.23%	
2014	13,773.4	9,267.4	1,517.7	2,978.4	4,560.0	4,548.1	113.59	13.29	3.00
<i>Percent Change</i>	2.27%	1.80%	2.14%	2.97%	6.95%	5.97%	4.02%	4.07%	
2013	13,468.3	9,103.6	1,485.9	2,892.6	4,263.5	4,291.9	109.20	12.77	3.75
<i>Percent Change</i>	1.36%	2.14%	1.04%	-1.55%	2.37%	2.58%	3.81%	-3.02%	
2012	13,287.5	8,912.8	1,470.6	2,938.2	4,164.9	4,183.8	105.20	13.17	4.24
<i>Percent Change</i>	4.02%	4.94%	3.48%	4.78%	5.84%	5.47%	4.11%	6.01%	
2011	12,774.2	8,493.2	1,421.1	2,804.2	3,935.1	3,967.0	101.04	12.42	4.24
<i>Percent Change</i>	4.04%	4.80%	2.45%	7.82%	8.22%	8.05%	3.41%	-1.68%	
2010	12,277.7	8,103.9	1,387.1	2,600.8	3,636.4	3,671.4	97.71	12.64	4.40
<i>Percent Change</i>	5.11%	5.67%	1.71%	1.27%	20.55%	20.46%	4.16%	-6.49%	
2009	11,680.7	7,669.3	1,363.8	2,568.1	3,016.6	3,047.8	93.81	13.51	5.43
<i>Percent Change</i>	-4.70%	-6.46%	2.25%	-9.27%	-11.78%	-17.59%	5.30%	21.42%	
2008	12,256.9	8,198.8	1,333.8	2,830.4	3,419.4	3,698.3	89.09	11.13	7.68
<i>Percent Change</i>	1.40%	1.90%	3.03%	4.95%	-1.35%	4.40%	5.12%	1.84%	
2007	12,087.6	8,046.2	1,294.5	2,696.8	3,466.2	3,542.3	84.75	10.93	7.19
<i>Percent Change</i>	3.15%	3.04%	2.45%	5.99%	3.65%	5.93%	3.97%	0.27%	
2006	11,718.7	7,809.0	1,263.5	2,544.4	3,344.2	3,344.0	81.52	10.90	7.19
<i>Percent Change</i>	5.00%	5.52%	3.40%	8.69%	7.67%	10.19%	3.63%	0.01%	
2005	11,160.5	7,400.8	1,222.0	2,341.0	3,106.0	3,034.7	78.66	10.90	9.20
<i>Percent Change</i>	3.03%	4.40%	3.05%	5.90%	5.71%	7.71%	3.99%	-3.44%	
2004	10,832.0	7,088.9	1,185.9	2,210.5	2,938.2	2,817.5	75.64	11.29	6.82
<i>Percent Change</i>	4.30%	5.57%	2.39%	7.52%	9.13%	9.71%	4.69%	4.61%	
2003	10,385.9	6,715.1	1,158.2	2,055.9	2,692.3	2,568.1	72.26	10.79	6.23

¹ Components of GDP for 2016 are based on figures reported by INEGI for quarters 1 through 3 and estimates for quarter 4.

*GDP: Producto Interno Bruto, INEGI, 2008 Pesos

*Private Consumption: Consumo Privado, INEGI, 2008 Pesos

*Government Consumption: Consumo de Gobierno, INEGI, 2008 Pesos

*Total Investment: Formacion bruta de capital fijo, INEGI, 2008 Pesos

*Exports: Exportacion de bienes y servicios, INEGI, 2008 Pesos

*Imports: Importacion de bienes y servicios, INEGI, 2008 Pesos

*CPI, Banco de Mexico, Annual Average, Base = Dec 2010

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

*CETES 28 Days, Banco de Mexico, Annual Average

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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 Juan Cárdenas and Alejandro Ceballos. 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.

