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CONSENSUS ECONOMIC FORECAST

MÉXICO

University of Texas at El Paso
Border Region Modeling Project

2nd Quarter 2015

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2nd Quarter 2015

Low Inflation and a Weak Peso: An Uneasy Coexistence?

INEGI data show that Mexico's economy continued to grow at a moderate pace in the first quarter of 2015. Real GDP increased at a year-over-year rate of 2.5 percent. On average, the panelists expect a similar rate of GDP growth, 2.4 percent, to prevail in 2015 as a whole. Private consumption is also expected to increase by 2.4 percent this year. That is because rising formal-sector employment should support consumer demand growth in spite of broad uncertainty.

Planned government spending has been reduced due to faltering oil revenues. Most of the panelists have lowered their government consumption forecasts relative to last quarter. The consensus forecast now stands at 2.1 percent growth in this variable.

Relatively low interest rates and gradually improving economic prospects are propelling solid growth in total investment. In particular, construction activity appears to be recovering steadily. The consensus forecast calls for 4.1 percent investment growth in 2015.

Panelists disagree about Mexico's foreign trade prospects in 2015. A continuation of depressed oil prices could hurt export income as would a weakening of economic conditions in major export markets. However, low fuel prices and a low currency market value of the peso would also encourage exports of manufactured goods. The average forecast of export growth is 3.6 percent. Given the recent peso depreciation, imports are expected to grow by only 3.4 percent.

The consensus inflation forecast for 2015 is 3.1 percent, which is only slightly above the central bank's target rate of 3.0 percent. Relatively low energy prices have helped to curb inflation this year. Reforms promoting competition in the telecommunications industry may also be helping to suppress price levels.

Most panelists have revised their exchange rate predictions upward this quarter. The consensus forecast now stands at 15.14 pesos per dollar. Factors contributing to the relatively low value of the peso include a slump in oil prices and the prospect of higher United States interest rates.

Mexico's interest rates would likely face upward pressure if the US Federal Reserve raises rates. Yet, with inflation under control, most panelists foresee relatively little change in Mexico's interest rates this year. The consensus forecast calls for a 3.2 percent yield on 28 day CETES.

The 2016 consensus forecast is only slightly more optimistic than that for 2015. Real GDP is expected to rise 2.9 percent, while growth in private consumption is projected at 2.8 percent. Government consumption is expected to grow by 2.3 percent and investment by 4.3 percent.

International trade is projected to grow at a healthy pace in 2016, with real exports and imports both rising by 5.2 percent. Inflation is likely to pick up slightly relative to this year. The consensus inflation forecast is 3.6 percent. Due, in part, to somewhat higher predicted inflation, the yield on 28 day CETES is expected to rise to 3.8 percent. The exchange rate is forecast to remain near 15 pesos per dollar in 2016.

2015 Mexico Consensus Economic Forecast	Annual Percent Change, 2015 from 2014							Annual Average	
	GDP	Private Consumption	Government Consumption	Total Investment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
American Chamber Mexico	2.6	2.7	0.2	4.1	0.7	1.8	2.9	15.20	3.0
BBVA Bancomer	2.5	2.5	1.8	3.4	7.2	2.8	2.7	14.30	3.3
Wells Fargo Bank	2.6	2.7	2.3	5.4	6.8	7.1	3.1	15.27	3.0
Center for Economic Forecasting of Mexico	2.5	2.3	2.8	3.5	-0.5	1.5	3.5	15.25	3.3
UACJ	1.5	1.6	1.2	5.6	4.3	2.7	2.1	15.50	2.8
ITESM	2.7	3.0	1.5	5.0	-2.0	-1.0	3.0	15.00	3.5
COLEF	2.1	1.9	2.6	3.0	3.5	3.5	3.7	15.70	3.7
UAdeC	2.8	2.3	4.0	4.0	6.0	7.4	3.5	15.00	3.6
UANL	2.5	3.1	2.5	3.4	6.4	4.6	3.2	15.05	2.9
Consensus -- this quarter	2.4	2.4	2.1	4.1	3.6	3.4	3.1	15.14	3.2
-- last quarter	2.9	2.7	3.6	4.1	4.8	4.9	3.3	14.30	3.4

2016 Mexico Consensus Economic Forecast	Annual Percent Change, 2016 from 2015							Annual Average	
	GDP	Private Consumption	Government Consumption	Total Investment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
American Chamber Mexico	3.2	3.5	0.5	7.7	7.1	6.8	3.5	15.21	3.5
BBVA Bancomer	2.7	2.8	1.0	3.6	9.2	8.7	3.3	13.48	4.0
Wells Fargo Bank	3.1	2.9	3.4	5.9	7.0	7.4	3.6	15.23	3.2
Center for Economic Forecasting of Mexico	3.3	3.0	3.5	4.5	1.5	3.5	4.0	15.00	4.5
UACJ	2.0	2.2	2.0	2.5	3.6	1.9	3.2	15.89	2.4
ITESM	3.3	2.0	1.0	3.0	2.0	2.0	3.5	14.20	4.2
COLEF	2.5	2.3	3.1	3.5	4.1	4.1	4.4	15.95	4.0
UAdeC	3.2	3.2	4.1	4.7	6.1	7.3	3.5	15.00	4.5
UANL	2.6	3.1	2.3	3.4	6.5	4.9	3.1	15.17	4.2
Consensus -- this quarter	2.9	2.8	2.3	4.3	5.2	5.2	3.6	15.01	3.8
-- last quarter	3.1	3.0	3.4	4.5	5.6	5.7	3.5	14.26	4.0

							Annual Averages		
Historical Data	GDP (2008 Pesos, billions)	Private Consumption (2008 Pesos, billions)	Government Consumption (2008 Pesos, billions)	Total Investment (2008 Pesos, billions)	Exports (2008 Pesos, billions)	Imports (2008 Pesos, billions)	Consumer Price Index Dec 2010 = 100	Nominal Exchange Rate Pesos/ Dollars	CETES 28 Day
2014	13,760.2	9,286.8	1,527.5	2,959.8	4,567.1	4,531.5	113.59	13.29	3.00
<i>Percent Change</i>	<i>2.14%</i>	<i>1.98%</i>	<i>2.48%</i>	<i>2.33%</i>	<i>7.26%</i>	<i>5.66%</i>	<i>4.02%</i>	<i>4.07%</i>	
2013	13,471.8	9,106.1	1,490.5	2,892.3	4,257.8	4,288.6	109.20	12.77	3.75
<i>Percent Change</i>	<i>1.39%</i>	<i>2.18%</i>	<i>1.36%</i>	<i>-1.56%</i>	<i>2.23%</i>	<i>2.51%</i>	<i>3.81%</i>	<i>-3.02%</i>	
2012	13,287.5	8,911.8	1,470.6	2,938.2	4,164.9	4,183.8	105.20	13.17	4.24
<i>Percent Change</i>	<i>4.02%</i>	<i>4.93%</i>	<i>3.48%</i>	<i>4.78%</i>	<i>5.84%</i>	<i>5.47%</i>	<i>4.11%</i>	<i>6.01%</i>	
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>	<i>4.04%</i>	<i>4.80%</i>	<i>2.45%</i>	<i>7.82%</i>	<i>8.22%</i>	<i>8.05%</i>	<i>3.41%</i>	<i>-1.68%</i>	
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>	<i>5.11%</i>	<i>5.67%</i>	<i>1.71%</i>	<i>1.27%</i>	<i>20.55%</i>	<i>20.46%</i>	<i>4.16%</i>	<i>-6.49%</i>	
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>	<i>-4.70%</i>	<i>-6.46%</i>	<i>2.25%</i>	<i>-9.27%</i>	<i>-11.78%</i>	<i>-17.59%</i>	<i>5.30%</i>	<i>21.42%</i>	
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>	<i>1.40%</i>	<i>1.90%</i>	<i>3.03%</i>	<i>4.95%</i>	<i>-1.35%</i>	<i>4.40%</i>	<i>5.12%</i>	<i>1.84%</i>	
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>	<i>3.15%</i>	<i>3.04%</i>	<i>2.45%</i>	<i>5.99%</i>	<i>3.65%</i>	<i>5.93%</i>	<i>3.97%</i>	<i>0.27%</i>	
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>	<i>5.00%</i>	<i>5.52%</i>	<i>3.40%</i>	<i>8.69%</i>	<i>7.67%</i>	<i>10.19%</i>	<i>3.63%</i>	<i>0.01%</i>	
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>	<i>3.03%</i>	<i>4.40%</i>	<i>3.05%</i>	<i>5.90%</i>	<i>5.71%</i>	<i>7.71%</i>	<i>3.99%</i>	<i>-3.44%</i>	
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>	<i>4.30%</i>	<i>5.57%</i>	<i>2.39%</i>	<i>7.52%</i>	<i>9.13%</i>	<i>9.71%</i>	<i>4.69%</i>	<i>4.61%</i>	
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
<i>Percent Change</i>	<i>1.42%</i>	<i>1.11%</i>	<i>-0.54%</i>	<i>2.97%</i>	<i>0.89%</i>	<i>2.39%</i>	<i>4.55%</i>	<i>12.04%</i>	
2002	10,240.2	6,641.5	1,164.5	1,996.7	2,668.6	2,508.1	69.11	9.63	7.09
<i>Percent Change</i>	<i>0.13%</i>	<i>1.39%</i>	<i>-1.19%</i>	<i>0.53%</i>	<i>2.06%</i>	<i>2.74%</i>	<i>5.03%</i>	<i>3.10%</i>	
2001	10,226.7	6,550.2	1,178.6	1,986.1	2,614.8	2,441.2	65.80	9.34	11.31
*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.

