



# Mexico

## Commentary

■ **Political outlook** - The centre-right National Action Party (PAN) won a closely fought election in 2006, with a margin of just 0.6% of votes over the centre-left Democratic Revolutionary Party. Felipe Calderon's win was confirmed after weeks of legal wrangling and he took office in December 2006. One year into his six year term, Calderon has made an impressive start and has succeeded in passing fiscal and electoral reforms, despite holding a minority position in Congress. Calderon's administration will continue to advance structural reforms aimed at spurring economic growth and reforms of the oil industry which should help boost private investment.

■ **Economic growth** - The Mexican economy has advanced solidly into 2008 propelled by high oil prices and healthy domestic demand. A pick up in industrial production and strong consumer spending will drive economic growth to 3.0% this year, rising to 3.5% in 2009. The official unemployment rate is forecasted at 3.8% in 2008, but the real rate of unemployment is well above this level. Mexico's economic growth is closely tied to the economic cycle in the US; with 89% of Mexican goods exported to the US, growth prospects there remain the key to Mexico's outlook. Counter cyclical macroeconomic measures, such as a fiscal stimulus package, are already in place and we believe Mexico will be able to ride out the US cycle. However, export growth is forecast to slow reflecting weakening US import demand and declining Mexican oil production, in part due to lack of investment. This will weigh on overall economic growth prospects and contribute to a worsening current account deficit some 12.3% of gdp this year, worsening further to 12.7% of gdp in 2009.

■ **Inflation and prices** - Strong domestic demand growth and rising food prices will cause inflation to remain at the top end of the central banks target of 2%-3% in 2008. However, inflation should ease in 2009 in line with lower commodity prices.

■ **Interest rates and Forex** - The central bank has kept monetary conditions unchanged since last November because inflationary pressures have persisted. Interest rates are currently at 7.5%, above the banks neutral level of 6.5% but we expect the bank to ease monetary policy towards the end of the year towards the neutral level. Against the US\$, we expect the peso to end 2008 at 10.80.

## Key economic and market indicators

Annual % change	2007e	2008f	2009f	2010f
Gdp growth	3.3	3.0	3.5	3.6
Industrial production	1.3	2.4	4.0	3.8
Consumer spending	4.2	4.1	3.5	3.5
Consumer price inflation	4.0	4.1	3.1	3.0
Average earnings (whole economy)	5.0	5.0	5.0	5.0
Unemployment rate (% average)	3.7	3.8	3.5	3.4
Current account balance (% of gdp)	-0.8	-12.3	-12.7	-13.4
Budget balance (% of gdp)	-1.8	-0.8	-0.8	-0.8
Short-term interest rate (3m interbank, % average)	7.4	7.3	6.7	6.6
Bond yield (10-year government bond, % average)	7.6	7.7	7.9	8.1
Exchange rate (Peso/US\$, end year)	10.91	10.80	11.20	11.20

## Country profile

- President: Felipe Calderon
- Parliament: National Action Party (PAN) (52/128)
- Next election: July 2012 (Presidential)
- Nominal GDP: \$845.4bn (2006)
- Population: 105.3 million (mid-2006)
- Exchange rate: Kr/\$ rate - 10.32 (May 2008)
- Interest rates: short term interest rate - 7.6% long term interest rate - 3.6% (May 2008)
- Rating investment grade: Baa1 (Moody's), BBB (S&P)

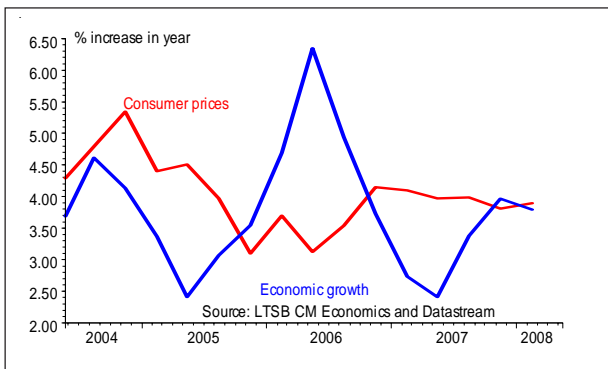
## Trade statistics (2004)

Main export markets		Main suppliers	
United States	88.5%	United States	56.6%
Canada	1.6%	China	7.3%
Germany	1.0%	Japan	5.4%

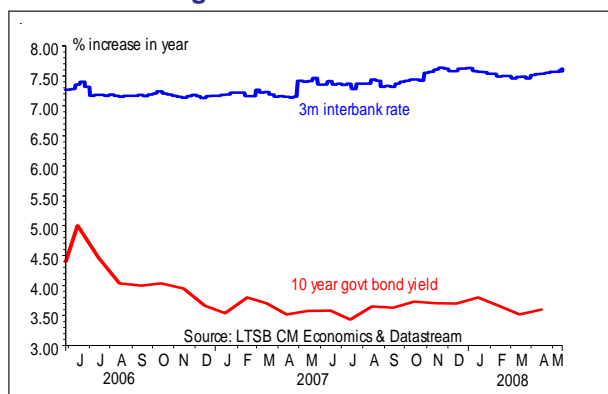
  

Key country exports		Key imports	
Road vehicles	15.2%	Electric Machinery	15.9%
Electric machinery	13.4%	Road Vehicles	9.4%

## Growth and inflation



## Short and long term interest rates



**FMD client support**

**Economics Team:** Trevor Williams, 020 7158 1748, [trevor.williams@lloydstsb.co.uk](mailto:trevor.williams@lloydstsb.co.uk)  
Nichola James, 020 7158 1741, [nichola.james@lloydstsb.co.uk](mailto:nichola.james@lloydstsb.co.uk)  
Kenneth Broux, 020 7158 1750, [kenneth.broux@lloydstsb.co.uk](mailto:kenneth.broux@lloydstsb.co.uk)  
Jeavon Lolay, 020 7158 1742, [jeavon.lolay@lloydstsb.co.uk](mailto:jeavon.lolay@lloydstsb.co.uk)  
Rabia Bhopal, 020 7158 1747, [rabia.bhopal@lloydstsb.co.uk](mailto:rabia.bhopal@lloydstsb.co.uk)  
Hann-Ju Ho, 020 7158 1745, [hann-ju.ho@lloydstsb.co.uk](mailto:hann-ju.ho@lloydstsb.co.uk)  
Nikesh Sawjani, 020 7158 1749, [nikesh.sawjani@lloydstsb.co.uk](mailto:nikesh.sawjani@lloydstsb.co.uk)

**Team e-mail:** [FMDEconomicResearch@lloydstsb.co.uk](mailto:FMDEconomicResearch@lloydstsb.co.uk)

**Distribution:** Sarah Pedder, 0207 158 1746

**Information Officer:** Hugh Geen, 0207 158 1740

**Sales & marketing:** Andrew Willett, 0207 158 1616, [andrew.willett@lloydstsb.co.uk](mailto:andrew.willett@lloydstsb.co.uk)  
John Haines, 0207 158 1675, [john.haines@lloydstsb.co.uk](mailto:john.haines@lloydstsb.co.uk)

Lloyds TSB Bank, Economic Research, Corporate Markets, 10 Gresham Street, London, EC2V 7AE

Switchboard: 0207 626 1500

**DISCLAIMER**

Any documentation, reports, correspondence or other material or information in whatever form be it electronic, textual or otherwise is based on sources believed to be reliable, however neither the Bank nor its directors, officers or employees warrant accuracy, completeness or otherwise, or accept responsibility for any error, omission or other inaccuracy, or for any consequences arising from any reliance upon such information. The facts and data contained are not, and should under no circumstances be treated as an offer or solicitation to offer, to buy or sell any product, nor are they intended to be a substitute for commercial judgement or professional or legal advice, and you should not act in reliance upon any of the facts and data contained, without first obtaining professional advice relevant to your circumstances. Expressions of opinion may be subject to change without notice. Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. The facts and data contained are therefore not intended for the use of private customers (as defined by the FSA Handbook) of Lloyds TSB Bank plc. Lloyds TSB Bank plc is authorised and regulated by the Financial Services Authority and a signatory to the Banking Codes, and represents only the Scottish Widows and Lloyds TSB Marketing Group for life assurance, pension and investment business.