Mexico Watch

Economic Research Department

Second Quarter 2008

U.S.: base scenario toward a "soft recession", doubts regarding the strength of the recovery

Economic activity: toward a sharper slowdown in the 2nd and 3rd quarters

Inflation: will price increases of raw materials continue?

Monetary Policy: a complex outlook for Banco de México

Markets: a strengthened peso in the next few months

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This publication was prepared by:

Editor: Jorge Sicilia j.sicilia@bbva.bancomer.com
Editor: Adolfo Albo a.albo@bbva.bancomer.com
Javier Amador javier.amador@bbva.bancomer.com
Octavio Gutiérrez o.gutierrez3@bbva.bancomer.com
Ociel Hernández o.hernandez@bbva.bancomer.com
Cecilia Posadas c.posadas@bbva.bancomer.com
Design: Fernando Tamayo fernando.tamayo@bbva.bancomer.com

Editorial

During 2008, data on U.S. economic activity indicated a pronounced weakness, although there are still doubts as to whether or not a recession will be officially declared. In 1Q08, domestic demand contracted, although the strength of the country's exports is allowing it to partially offset this weakness. In addition, although the risk of a credit crisis has not vanished, the extreme financial risk has decreased following the intervened purchase of Bear Stearns by JP Morgan. The negative effects of the adjustment in the real estate sector and the associated financial turbulence are being partially counteracted by: a) the Federal Reserve policies; b) the availability of capital; c) companies' solid financial situation; and d) the international disassociation. We expect the rhythm of expansion to continue weakening in 2Q08 and 3Q08 before beginning to strengthen very moderately during 2009. Nevertheless, doubts exist regarding the strength of the recovery and the risks continue to be clearly on the downside.

In Mexico, the country's leading indicators indicate that there was a turning point in the economic growth rate. GDP growth in the first quarter confirms that the economy has begun to slow down, a process that will continue to intensify in 2Q08 and 3Q08, in response to the dynamics of the U.S. economy. However, some elements will allow for counteracting the external slowdown and for Mexico to disassociate itself from the U.S. cycle. These include the strength of domestic demand, the fiscal boost provided by the anti-cyclical policies, and a greater diversification of the country's exports.

The upside inflationary risks have intensified. International food and oil prices have posted major increases, which can be attributed to factors involving both supply (for example, climate and availability) and demand (i.e., ethanol production, changes in the world diet, the strength of the emerging economies). With a view toward the future, the precise moment in the economic cycle — with growth below potential—, the strength of the peso, the anchoring of long-term inflationary expectations, and wage restraints would suggest a decrease in medium-term inflation. However, we anticipate a continuation of supply shocks due to high prices of raw materials and greater inflationary pressures in the short term, before they begin to give way toward the end of the year, when the shocks from food and energy prices subside.

The current environment poses difficulties for the Banco de México. On the one hand, the short-term inflationary pressures have become more pronounced. On the other, the downside risks for economic activity have intensified. We feel that the central bank will not modify its monetary policy in the next few months as it continues to evaluate the incoming information. A significant weakening in economic activity could justify a monetary relaxation of 50 bp toward the end of the year in response to the absence of demand pressures. However, in the short term, there is an increased risk of the emergence of second-round effects on prices due to the accumulation of supply shocks.

The greater spending projected in infrastructure could contribute to increasing productivity and the potential growth of the economy. It is important to continue with the reform agenda to improve the economy's competitiveness. The modernization of the energy sector continues to be a pending challenge and the first steps of the educational reform are a welcome development.

U.S.: Toward a Soft Recession; Doubts About the Strength of the Recovery

Economic weakness to continue; the risks are lower

Recently, most of the indicators of U.S. activity caused surprise due to an upturn, although within a context of marked weakness in the economy. The absence of strong adjustments in industrial production, employment (not in the unemployment rate), and even in the dynamics of credit to companies and, to a lower extent, to families, are surprising favorably, given the collapse of the real estate sector and the financial crisis. This has translated into a more positive view of the economy than what it was at the beginning of the year, although the real economy continues to weaken, and it is unlikely that this trend will change in the coming months. Our base scenario remains unchanged: economic growth will continue with a downward trend throughout 2008 before picking up slightly in 2009, due more to a reduced drag from residential investment and solid demand abroad than to a recovery in private consumption. Jointly, our most probable scenario is the one to which our timely indicators point: more to a marked slowdown than to a prolonged recession. Nevertheless, the probability that the greater loan restrictions will end up turning into a credit crisis for companies and families cannot be underestimated, and, should this occur, it would have important implications for economic growth and public policies.

Improvement in the financial markets: is it solid?

In recent weeks, conditions in the international financial markets have improved. The risk perception indicators have distanced themselves from their maximum levels, in particular, in corporate bonds (see graph), and the bonds with an investment grade and speculative grade. At the same time, companies with an investment grade, particularly the financial institutions, have been able to refinance themselves—a necessary action after the loss of capital due to the recognition of losses—and have begun to issue new loan instruments. Thus, a small part of the enormous rise in risk aversion since August 2007 has been reverted. Nevertheless, risk-taking continues to be limited; the inter-bank market continues to show strong tensions and the banks continue to toughen loan standards. This suggests that the aversion to risk continues and that the recent improvement is vulnerable to, for example, bad economic news or to the banks acknowledging greater losses.

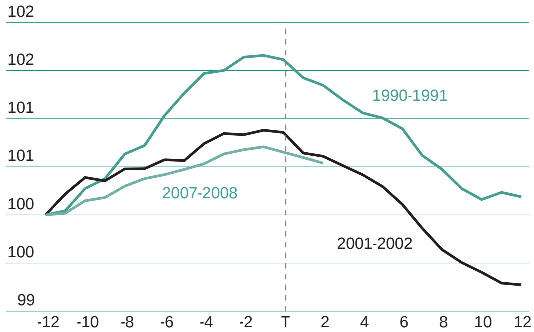
The improvement in the financial markets seems to respond to several factors. We believe that these are helping to contain the negative effects of the recession in the real estate sector and the associated financial turbulence: a) Federal Reserve policies—aggressive policies injecting liquidity through monetary relaxation and other less conventional tools, and rescue packages guaranteeing "orderly" bankruptcies (i.e. Bear Stearns); b) availability of capital—on the part of agents outside the banking system, which has allowed for the refinancing of the most important financial institutions; c) the solid financial situation of companies—aggressive adjustments in the current cycle to reduce costs and debt have allowed the firms to continue with their investment projects despite the lower credit availability; and d) international disconnection—the economic performance has remained solid in the rest of the world, which represents an important source of demand, mainly in Asia and Europe.

Corporate Spreads in the U.S.
Basis points

Source: BBVA Bancomer with Federal Reserve data

Performance of the Labor Market in Recession Periods

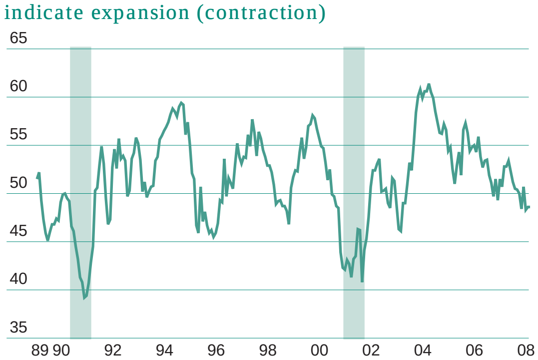
Non-farm payroll, index, T-12 months = 100, T = start of recession



Source: BBVA Bancomer with Bloomberg data

ISM

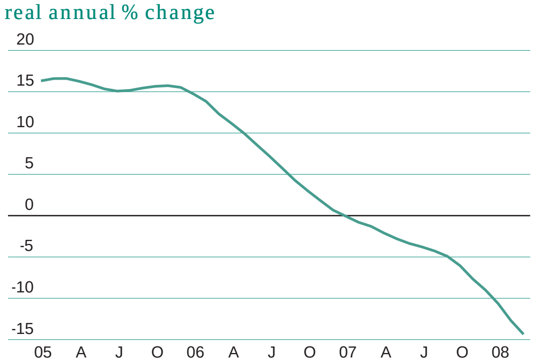
Index, higher (lower) levels than 50 indicate expansion (contraction)



Note: Shaded areas correspond to recession periods
Source: BBVA Bancomer with Bloomberg data

Housing Prices

S&P Case-Schiller index for 20 cities, real annual % change



Source: BBVA Bancomer with Bloomberg data

"Better than expected" timely indicators; the adjustment in the real estate sector continues

In 1Q08, economic growth was weak and stood at 0.9% in the annualized quarter, slightly better than expectations. The most positive news was not that the datum was better than expected but that growth remained positive—some analysts had anticipated a contraction of GDP in the quarter—. Nonetheless, the report points to an evident economic weakness. The contents of the report indicate that private domestic demand contracted. In fact, if we were to eliminate the contribution of net exports and government spending to growth, GDP would have contracted an annualized quarterly 0.3%.[1] Going forward, the accumulation of inventory during the quarter will translate into lower production so as to eliminate inventory surpluses in view of weak domestic demand. There was a sharp slowdown in consumption, which would have contracted had it not been for the services sector. Non-residential investment stopped boosting growth and began to limit it, while residential investment continues to be a burden for expansion. The only positive point was the strength of exports, which continues to offset, although partially, the weakness of domestic demand.

Timely indicators indicate that growth could be very low or even negative in 2Q08 in view of the weakness of the housing market—without any symptoms yet of a slowdown—, and the lower existing available income, in view of the price hikes in food and energy and the weakness in the labor market.

The slowdown in economic activity is being reflected in the labor market. Layoffs continue to rise while new hiring continues to drop. Net job creation in the first five months of the year has decreased by almost 325,000 persons and, given that the hiring of around 125,000 new workers is required to absorb the new incomers to the labor market, the unemployment rate has rallied 5.5%. Nevertheless, it should be noted that there are notable divergences in the performance of the labor market. Job losses in the goods producing sectors and in the construction sector are important, while the services sector is not so weak and the number of workers has remained practically unchanged. If we were to compare the labor market with the previous recession cycle, we should expect greater weakness going forward (see graph). As a reaction to the greater adversities—the drop in families' net wealth, job losses, greater restriction of credit conditions—, families' trust has decreased to levels consistent only with previous recession periods and forecast the weakness of consumption going forward.

In turn, industrial activity is stagnant, which is not necessarily bad news when compared to its performance in previous recession or sharp slowdown periods (see graph). The strength of foreign demand and the weakness of the dollar could be the main factors that are allowing for a less abrupt contraction of manufacturing production.

1 Both the consumption of goods, as well as non-residential investment, contracted (although the consumption of services continued to grow). Residential investment continued to strongly reduce growth. Private domestic demand subtracted 0,28 pp from growth, which was offset by a positive contribution of government spending (+0.38 pp), net exports (+0.30 pp), and inventory accumulation (+0.21 pp).

The sector, where in general recent rallying data have not been surprising, is precisely the one that gave rise to a large part of the economic problems. Despite the marked contraction in home construction during 2007 and so far in 2008, the excess of supply on the real estate market has continued to rise. With an upward trend in home foreclosures by the banks, a lower demand by first-time purchasers (in view of more restrictive loan conditions and greater expectations of price drops), excess supply could take a longer time to be absorbed despite the reduction in housing starts and construction permits. The measure most accepted for evaluating excess supply on the market is the vacancy rate—because it includes all homes on sale, notwithstanding whether the owners are builders, individuals or banks—, which reached a historic high in 1Q08. As a result, the housing price drop has accelerated (see graph). In annualized monthly terms, home prices are dropping at a 25% rate. In this sense, an indispensable prerequisite to begin to think of an improvement in the economic situation is the end of the real estate adjustment, and, in this respect, the news has not only been bad but worse than expected, even though the plan announced by Congress could end by helping stability that could start toward the end of 2008 or the beginning of 2009. .

Outlook: doubts about the strength of the recovery

Timely indicators point to a significant slowdown in the rhythm of economic activity and not to a severe recession. In our central scenario, we expect that the expansion rate will continue to weaken in the second and third quarters before starting to strengthen moderately toward the end of 2008 and during 2009. In the near future, private consumption will receive a boost from US$100 billion in tax rebates to families, equivalent to 0.9% of GDP or 1.2% of private consumption. Nevertheless, we estimate that the support could have a lower impact to the extent that part of the tax rebate checks will be used to amortize debt, since the current situation of the pillars of consumption is not good. Also, the recent increase in the price of gasoline is reducing families' purchasing power. Families' wealth will continue to decrease (with the housing price drop), by which, very probably, the savings rate will tend to rise—to finance retirement or other future expense, which will not permit solid increases in consumption.

Furthermore, in view of the expected weakness in demand, it will be difficult for companies to accelerate their investment plans and their hiring rate. Finally, more restrictive credit conditions will more perceptibly limit financing to families.

On the investment side, we expect more modest growth in capital within a context of weakness in demand (and lower expected demand), higher costs and a marked decrease in the profit growth rate. Moreover, the adjustment in residential investment has not touched bottom and excess supply in the real estate market—added to the possibility that it will continue to increase—will cause additional drops in housing prices. The contraction of residential investment will continue to be the main dead weight for economic growth in 2008. In contrast, the solid growth rate in exports will continue to partially compensate for the weakness in domestic demand.

Federal Reserve Economic Projections for the U.S.

Base trend, %, May 2008

	2008	2009	2010
GDP	0.3 – 1.2	2.0 – 2.8	2.6 – 3.1
January proyections	1.3 – 2.0	2.1 – 2.7	2.5 – 3.0
Unemployment	5.5 – 5.7	5.2 – 5.7	4.9 – 5.5
January proyections	5.2 – 5.3	5.0 – 5.3	4.9 – 5.1
Headline inflation	3.1 – 3.4	1.9 – 2.3	1.8 – 2.0
January proyections	2.1 – 2.4	1.7 – 2.0	1.7 – 2.0
Core inflation	2.2 – 2.4	1.9 – 2.1	1.7 – 1.9
January proyections	2.0 – 2.2	1.7 – 2.0	1.7 – 1.9

Note: Inflation projections correspond to PCE. GDP and inflation estimates are inter-annual changes in the fourth quarter of each year. The unemployment forecasts are the average of the unemployment rate in the fourth quarter of each year.
Source: BBVA Bancomer with Federal Reserve data

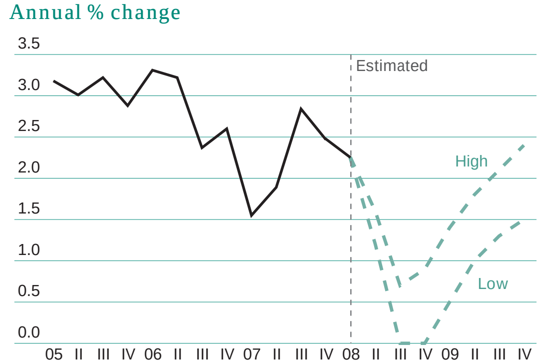
BBVA Economic Projections for the U.S.

	2007	2008e	2009e
GDP (real annual % change)	2.2	0.8 – 1.4	1.1. – 1.9
Inflation (CPI, annual average)	2.8	3.3 – 4.0	1.5 – 3.6
Core	2.3	2.0 – 2.4	2.0 – 2.9
Federal Funds (eop)	4.25	1.5 – 2.75	1.5 – 4.0
Treasury Note (10-year, eop)	4.62	3.5 – 3.9	3.6 – 4.3
Dollar/Euro*	1.46	1.47 – 1.54	1.39 – 1.48

e estimate
* For the dollar/euro forecasts, the highest (lowest) exchange rate corresponds to the lower(higher) GDP scenario
Source: BBVA

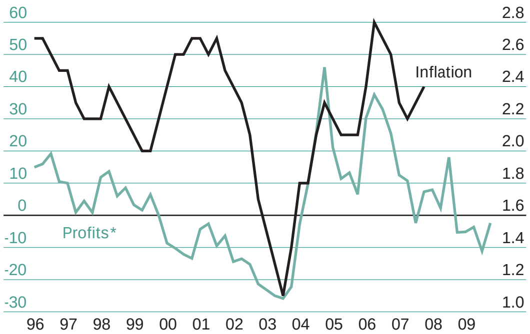
Gross Domestic Product

Annual % change



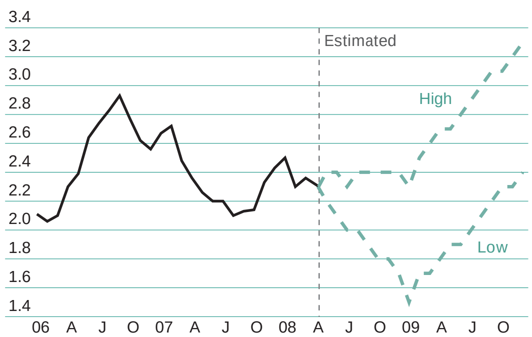
Note: Estimated as of the second quarter 2008
Source: BBVA Bancomer with Bloomberg data

Core Inflation and Unit Corporate Profits
Annual % change



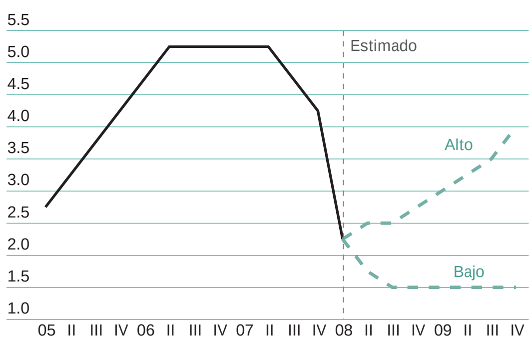
* Leading 2 years
Source: BBVA Bancomer with Bloomberg data

Core Inflation
Annual % change



Note: Estimated as of May 2008
Source: BBVA Bancomer with Bloomberg data

Federal Funds
%, end of period



Note: Estimated as of the second quarter 2008
Source: BBVA Bancomer with Bloomberg data

Going forward, risks in economic activity continue to be clearly biased downward and a more negative scenario cannot be ruled out. If within a few months the beginning of the end of housing price drops is not perceived, insolvency topics could generate the need for commercial banks to protect their capital, and, without accompanying capital procurement, they could end up with credit restrictions to companies and families. Also, the greater weakness of the labor market, in the absence of legislative solutions, could translate into a massive increase in the non-payment of real estate loans and home foreclosures by the banks, which would lead to an even more pronounced drop in families' confidence and, therefore, would translate into a greater weakness in domestic demand, in addition to making the rise in loan restrictions more likely. In this sense, there are some doubts as to whether the recovery would be more evident in 2009 (once the tax rebate boost ends).

We anticipate a period without changes in monetary policy

Within a context of downward risks in economic activity and core inflation with a downward trend (see graphs) in face of lower demand and the lower price power of companies, we expect monetary policy to continue to be expansive, notwithstanding pressure on headline inflation from energy and food. We anticipate that the Federal Reserve will not raise its reference rate until housing prices and the unemployment rate have stopped deteriorating, which we do not foresee happening until the second half of 2009. In our central scenario, we expect that the federal funding rate will remain at 2.0% until 2Q09, at which time the Federal Reserve will begin to raise its reference rate. However, even though it is not our base scenario, currently, a resumption of the lowering of interest rates is more probable than an increase in the near future if the economic outlook deteriorates and a more pronounced period of weakness is envisioned. Once economic activity recovers, the main risk is that pressure in food and energy will continue, and that this can be translated with greater ease into a rise in the medium- and long-term expectations, which, in turn, will contaminate the determination of other prices in the economy, particularly wages. But this is still some months away, despite the current fears of the market.

Mexico: Moderate Growth; Internal Demand, Key to the Future

During the first quarter of the year, even though surprises[1] in economic activity indicators that for the most part were positive continued to emerge, the dynamics in key variables such as industrial production and employment show an economy that is growing at a slower rhythm than in the previous three-month period.

Figures of the Global Indicator of Economic Activity (IGAE) indicate that as of last December, the trend in growth has slowed. In 1Q08, GDP grew 3.7% compared to the same period the previous year (in seasonally adjusted terms), and 0.5% with regard to the previous quarter.[2]

In the first quarter: strength in the auto industry in contrast with other manufacturing sectors

On the production side of the equation, among the important positive data of the first quarter are figures from the auto industry, which has benefited from greater exports in recent months. Through April, almost 550,000 cars had been exported (mainly to the United States), 20% more than in the same period last year. Within this industry, as of mid-2007 the activities that have most contributed to its growth are the manufacturing and assembly of chassis as well as everything related to auto transmission systems. The transportation equipment branch was responsible for practically all of the growth in manufacturing, which in the first quarter grew an annual 2.7%. As opposed to 2006, the contribution of the rest of the branches to the industry's growth is very small and even negative.[3]

On the demand side, it should be noted that in the first few months of the year, the growth in capital formation —whose seasonally adjusted growth rates in the first two months reached 10.2%—surpassed the increase in investment in the same period last year, when the corresponding figure was 5.6%, which was several percentage points higher than the growth of the economy. It should be pointed out that particularly important in the growth in investment was the machinery and equipment item, in contrast with investment in construction, which rose an annual 1%.[4]

1 BBVA's "Activity Surprises Index" for Mexico (see graph and box at the end of this section) is defined on the basis of the standardized difference between the indicators registered and expected by the market consensus. July 2002 base year = 100

2 As we wrote at the time (see "GDP Observatory" 29/April/08), the National Statistics Institute (INEGI) updated the Mexican National Accounts System based on the 2004 Economic Census and whose new base year is 2003. As part of the new estimates, the information has been reclassified and brought in line with production accounts. The items that changed are GDP and its components (including the monthly measurement through the IGAE), gross fixed investment, and industrial production. One of the most important results is that with the new data, there are some changes in the structure and growth of the sectors with more weight in primary and secondary, and to a lesser extent on tertiary activities.

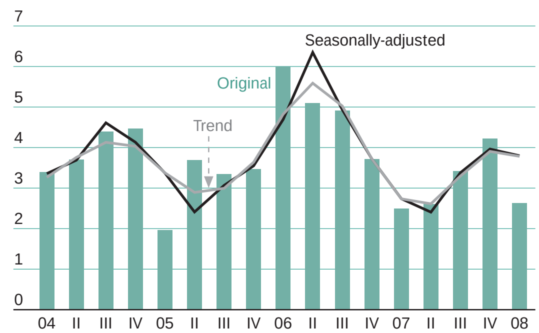
3 The calculation considers that the weight of the auto industry in total manufacturing is around 20%, with this industry representing 37% of GDP, a record high.

4 With the publication of up-to-date figures on foreign trade corresponding to April, data was strongly revised on capital goods imports that were based on erroneous reports to the Tax Administration System (SAT) by the mining industry. This correction could also imply downside modifications to investment statistics, still to be published.

BBVA Activity Suprises Index for Mexico
July 2002 Index = 100

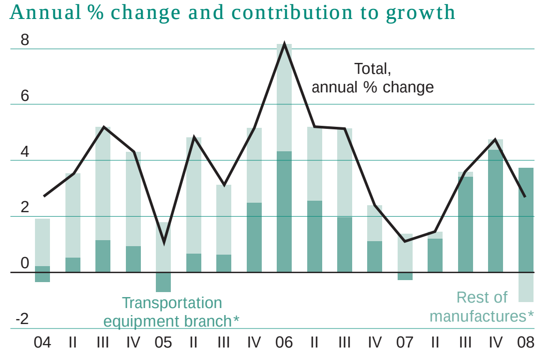
Source: BBVA Bancomer with Bloomberg data

Gross Domestic Product
Annual % change



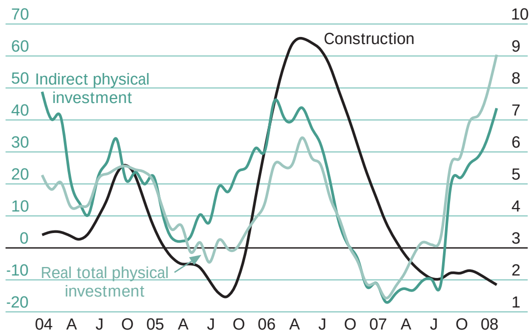
Source: BBVA Bancomer with INEGI data

Manufacturing Production
Annual % change and contribution to growth



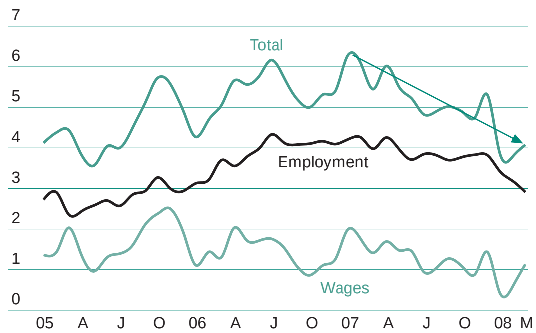
* Contribution to growth
Source: BBVA Bancomer with INEGI data

Government Physical Investment and Construction
Annual % change, trend and 6-month moving average



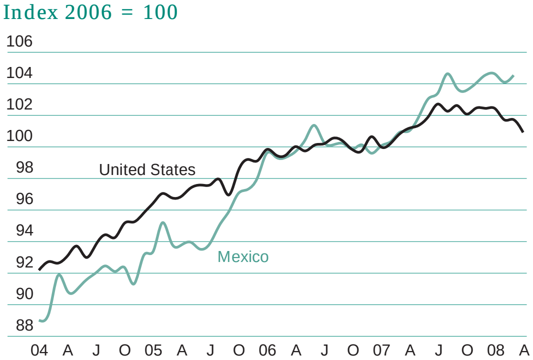
Source: BBVA Bancomer with INEGI data

Total Wages
Annual % change



Source: BBVA Bancomer with INEGI data

Manufacturing Production
Index 2006 = 100



Source: BBVA Bancomer with INEGI and U.S. Federal Reserve data

Mexican exports, both oil as well as non-oil, have increased compared to a year ago. It should be noted that the high oil prices have boosted the turnaround in exports, which have gone from posting negative annual numbers in the first quarter of last year (-13.3%) to having experienced growth of around 50% in the first three months of 2008, while non-oil exports (tied to manufacturing) are showing growth rates of around 12%.

In contrast with the positive data from the auto industry and the investment in machinery and equipment, the lower growth in construction should be mentioned. During the first quarter, this industry grew an annual 1% (in seasonally adjusted terms). Even though government spending on total physical investment has increased at record levels, this can be attributed to capital expenditure outlays for goods related to machinery. In the next few quarters this could translate into important growth for the industry.

Among the indicators that showed the greatest symptoms of moderation in the first quarter of the year was employment. Considering the new methodology in how to measure workers affiliated to the country's social security institutions[5], the annual growth in new jobs in the formal sector of the economy has consistently been slowing down since the end of 2006, both in the case of full-time as well as part-time employment. This slowdown in employment growth has been more pronounced in the past few months, at increases of 3% (permanent workers), which implies that 250,000 jobs have been created from the close of 2007 to April 2008, which is almost 114,000 less than the figures reported for the first four months of the previous year. Based on these data as well as in the indicators of the National Survey on Jobs and Employment (ENOE), through the first quarter, the sectors that have lost the most jobs are construction and manufacturing, in contrast with financial services and tourism- and restaurant-related services.

The slowdown in the growth of employment as well as of real wages could be reflected in the deceleration in private consumer spending in the first few quarters of the present year. Statistics available on retail sales from the National Association of Supermarket and Department Stores (ANTAD) show that in the past six months of the year, department store sales rose 1.3% on average, which compares unfavorably with the 3.2% in the same period of the previous year.

The slowdown will continue in 2008, but an improved outlook is expected for 2009

Different leading economic activity indicators coincide in pointing to a moderation in the months to come. The following factors are particularly important in this outlook of a downturn in economic activity.

Manufacturing production in the United States has begun to show signs of a more pronounced slowdown. The data on growth for April

5 On May 9 the Mexican Social Security Institute (IMSS) issued a change in methodology with which it corrects some errors in measuring the number of affiliated workers. With the new methodology, the number of workers obtaining jobs in the formal economy changes substantially. For example, during 2007, the number went from 756,000 to 529,000.

is negative for the first time since 2002 and analysts' consensus projection for this year points to an even more pronounced downturn in industrial production for the rest of 2008. Given the close ties with the Mexican economy, this will be a risk factor for exports of domestically produced manufactured goods.

At the same time, even though up to now domestic demand has remained solid, with a view toward the future, as was already mentioned, elements such as the growth in jobs in the formal sector, the trends in real wages, and the slowdown in the flow of remittances will have an impact on total wages, one of the most important determining factors for private consumer spending. An additional element to be considered involves the source of the strong investment of the past few months. Based on the available information, through the first quarter part of the new investments are of foreign origin, which contrasts with those of national origin, whose growth was very modest. This situation could pressure the net exports in the aggregate demand item, whose contribution to growth would be less, with which the net contribution of the external sector will be slightly negative.

In contrast with these risk factors, the strong inflow of resources that the public sector will receive from oil surpluses should not be underestimated. At the same time, it is necessary to consider the effect of the high tax collection levels due to the fiscal reform and of the infrastructure program announced as part of the anti-cyclical policies. Therefore, we feel that the growth in tax revenue will be key in cushioning the extent of the coming slowdown.[6]

Moreover, it should be noted that the greater diversification in exports in terms of both products and destinations, mainly to Europe, makes Mexican exports less vulnerable to the U.S. economic slowdown. In terms of where Mexican exports are earmarked, those sold to the United States are at record minimum levels (80% of the total), which contrasts with overseas sales to Europe and Latin America, which together represent close to 10% of the total.

Based on the available projections in relation to the adjustment in U.S. economic growth, and considering that this will take place more slowly and will be affecting key variables such as consumption and industrial production, we believe that the Mexican economy will feel these effects as of the second quarter. We have revised our projections for GDP growth for 2008 to a range of 1.9% to 2.8%, and our more probable estimate places it at 2.3%.[7]

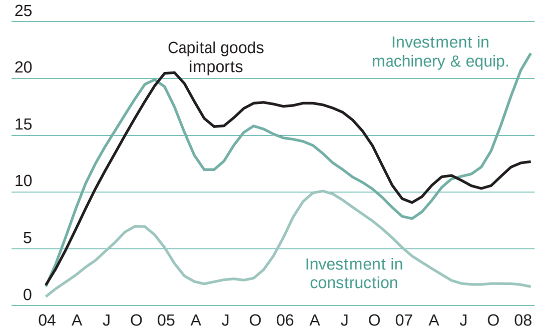
For 2009, and depending to a large extent on how the recovery of the U.S. economy occurs, we believe that the investment projects will generate more positive effects, spurring growth gradually toward its potential, but it will possibly remain far from reaching it.

6 During the first quarter of the year, oil revenue was 3.8% lower, despite the favorable oil prices. Surplus revenue was generated by non-oil sources, particularly the Flat Rate Business Tax (IETU), Income Tax (ISR), imports, and the VAT.

7 It should be pointed out that this growth is in the high range in terms of long-term elasticity in relation to the United States.

Investment and Imports

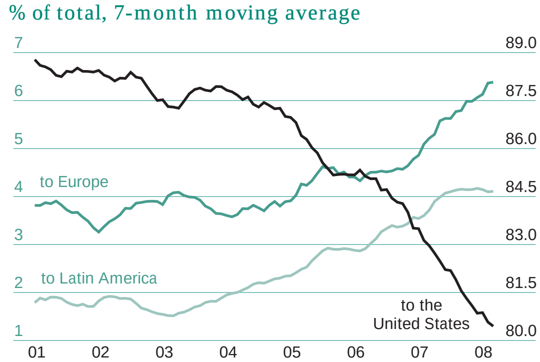
Annual % change, trend series



Source: BBVA Bancomer with INEGI data

Destination of Mexican Exports

% of total, 7-month moving average



Source: BBVA Bancomer with INEGI data

Macroeconomic Projections for Mexico

Annual % change, seasonally-adjusted series

	2005	2006	2007	2008e	Cont*
GDP	**3.1**	**4.9**	**3.1**	**2.3**	**2.3**
Total demand	4.4	6.9	4.8	4.3	5.9
Domestic	5.2	6.1	4.4	3.5	3.7
Consumption	4.6	5.1	3.8	2.6	2.2
Private	5.1	5.0	4.1	2.6	2.0
Public	0.2	6.1	0.6	2.4	0.2
Investment	7.6	9.9	6.6	6.8	1.5
Foreign	7.0	11.1	5.5	6.0	2.5
Imports	8.5	12.1	8.1	7.8	3.7
Net external	na	na	na	na	-1.2

* Estimated contributions 2008.
na does not apply
e estimated
Source: BBVA Bancomer with INEGI data

Leading Indicator of Economic Activity

Introduction

As part of the effort to anticipate possible changes in trends, we have created a series of leading indicators that tend to identify and anticipate turning points in economic activity.[1] Given the nature of the current period, the identification of the turning points that could mark the end of the most recent cycle that began at the end of 2001 is especially important.[2]

This article will describe the creation of two leading indicators. The first is prepared on the basis of information on Mexican imports broken down by category and the second is based on statistical data from the United States that are timely and of greater coverage.

The classification of all the data analyzed for the two leading indicators is undertaken in accordance with the turning points of the recent cycle, using the IGAE (Spanish initials for Global Indicator of Economic Activity) as a reference point. Five maximum and four minimum turning points were identified in the growth of the IGAE in a trend series, with the most recent high point located in December 2007.[3,4]

All the data series are classified as "Leading (A)", "Coincident (C)" or "Lagging (R)" depending on the distance of their turning point in relation to that of the IGAE with the criteria of between 1 and 5 months, 0 to conclude "coincidence." For all the cases, the trend series are used and in case they do not exist, they are approximated with a size seven arithmetic moving average. The manner of classifying the leading indicators is through a simple average of the standardized series, thus evening out the magnitudes of the mean and variance.

1 A turning point is understood as the moment in which an economy passes from a growth phase to a slowdown.

2 Although at the level of macroeconomic cycles it is possible to say that the most recent cycle began as of the end of 2001, within it as, is natural, there are fluctuations on a smaller scale. For a broader study of the characteristics of the economic cycles of recent years, see "Determining factors and characteristics of the economic cycles in Mexico" in the series Economic Watch, June 2007

3 The identification of the turning points of the trend series is based on the IGAE issued with the new base year (2003=100) from 2004 to March 2008. For the previous data a simple retropolation was made of the data, given that at the date of publication of this report, IGAE statistics prior to 2003 have not been published.

4 The maximum and minimum points identified are the following: maximums in July 2000, December 2002, December 2004, June 2006, and December 2007. Minimums in November 2001, June 2003, June 2005, and March 2007.

Leading Indicator based on imports

The first indicator is based on information on Mexico's main imports on a product level. Some 151 items belonging to the nine import categories with the greatest weight in the total were analyzed, representing 60% of all imports. To create this index, it was not considered whether or not they involved consumer, intermediary or capital goods, but if they tended to anticipate or not overall economic activity. On average, 38% of the items analyzed tended to anticipate fluctuations in the IGAE.[5] The characteristic of anticipating trends in economic activity ranges from 10% in imports of "chemical industry products" to as much as 60% in imports of "plastic and its manufactured goods."

Leading Indicator of Economic Activity Based on Large-Scale Imports*
Annual % change

* A=Leading, C=Coincident, between parenthesis the difference in months with regard to the IGAE turning point

Source: BBVA Bancomer with INEGI data

Description of Imports Included in the Indicator

	Average share 2007-2008	Products by category	% leading / total
Aluminum and its manufactures	1.5	7	57.1
Chemical industry products	1.1	10	10.0
Cardboard and its manufactures	1.6	9	44.4
Iron or steel manufactures	2.3	10	40.0
Organic chemical products	2.5	16	18.8
Plastics and its manufactures	5.7	10	60.0
Land vehicles and their parts	9.3	14	42.9
Mechanical app., boilers, & parts	15.5	39	33.3
Machinery and electrical material	20.9	36	33.3

Source: BBVA Bancomer with INEGI data

5 The indicators were classified as A, C, and R depending on their most frequent characteristic, that is, if in most of the 9 turning points they were shown to be A, C, or R.

The turning points of the leading indicator based on imports preceded those of the IGAE in eight of the nine turning points detected between January 2000 and March 2008.

Broad leading indicator

The second indicator contributes variables that usually anticipate the turning points of the IGAE. This indicator includes both variables of Mexico as well as of the United States and in both cases includes both "hard data", mainly related to industrial production, as well as data related to surveys and consumer and producer confidence.[6] The turning points of the aggregate indicator preceded those of the IGAE in seven of the nine turning points detected, and only in one of them was the turning point detected to occur subsequently.

Because of the way it is constructed, the indicator has the advantage of being able to have its "production" data and the expectations analyzed independently. In this sense, it should be emphasized that in relation to the most recent turning point, the leading indicators of expectations coincided in better anticipating it than the "hard" data. The expectations for Mexico had their turning point in July 2007 (in the case of the United States, it was August). Subsequently, U.S. industrial indicators changed their trend as of October and in the indicator with data only on Mexico, the turning point did not occur until December and a slight turnaround can be observed in March, influenced by purchases of capital goods from abroad.[7]

6 "Opinion" indicators for Mexico involve a breakdown of the Mexican Institute of Financial Executives Indicator, Banco de México Survey of the Period, and the Consumer Confidence Survey. For the United States, it would be the ISM, Philadelphia Fed, Consumer Confidence Index (University of Michigan), and Chicago PMI, among others.

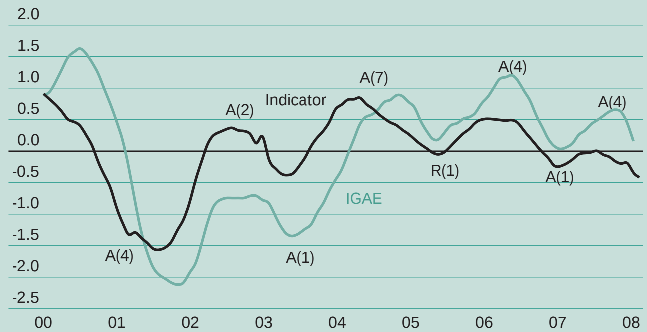
7 The "hard" data for Mexico included retail purchases, construction industry, capital goods imports, total employment, manufacturing production, basic metals industry, machinery and equipment, exports of manufactured goods, imports of intermediate goods, and auto production.

Description of Variables Included in the Broad Indicator
Number of variables

	Analized	Leading
Mexico		
(1) Real Sector - Mexico	36	15
(2) Expectations and surveys	34	6
United States		
(1) Real sector Mexico	53	15
(2) Expectations and surveys	27	10

Source: BBVA Bancomer with INEGI data

Broad Leading Indicator with U.S. Statistics*
Annual % change



* A=Leading, C=Coincident, between parenthesis the difference in months with regard to the IGAE turning point

Source: BBVA Bancomer with INEGI and Bloomberg data

Conclusions

In synthesis, the two leading indicators created here have been good for anticipating turning points (more than 75% of the cases in the past). With them we conclude that economic activity had a turning point at the end of last year between October and November, mainly beginning with U.S. data and followed by expectations and economic activity in Mexico.

Cecilia Posadas c.posadas@bbva.bancomer.com

Surprise Indexes: Activity and Inflation

Activity and inflation surprise indexes are created to measure the differences between what is expected by the market and the actual data.[1] In both cases they have turned out to be useful tools to complement macroeconomic and financial analysis. To the extent that positive or negative surprises are accumulated, it is common that the different analysts adjust their expectations to a "new level" which again generates surprises. This article briefly describes the creation of the activity and inflation surprise indexes for Mexico.

Their creation

The activity surprise index is prepared with daily data since 2002. It includes ten variables of economic activity of the real sector, while the inflation surprise index considers headline and core inflation starting from 2004.[2] Both cases consider the mean value expected by Bloomberg analysts and the information is compared with the data recorded without subsequent revisions. It should be mentioned that the size of the analysts' sample varies depending on the specific index, but it involves, on average, 12 opinions and can be corrected one week prior to publication.

The difference between what is actually recorded and what is expected is standardized with the historical absolute value of each indicator. Subsequently, the daily indicators are added and this series is re-standardized with its historical absolute value. Based on this latter series an index is prepared with its base period in July 2002.

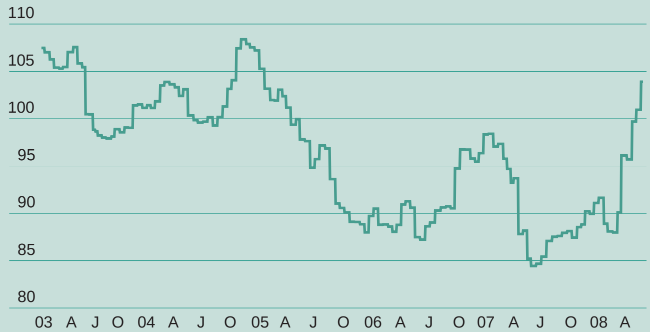
Their evolution

In relation to the activity surprise index, it should be noted that starting in 2004 and as the growth in activity increased, the surprises began to be consistently positive. Expansion in 2004 was, in fact, greater than in the four previous years. The analysts constantly adjusted their growth expectations for that year from 3.1% at the beginning of 2004 to 4.1% at the end of the year. These expectations, however, started to overestimate the new data and began to be corrected downward at the beginning of 2005.

BBVA's Mexico Activity Surprise Index
Index July 2002 = 100

Source: BBVA Bancomer with Bloomberg data

BBVA's Mexico Inflation Surprise Index
Index July 2002 = 100



Source: BBVA Bancomer with Bloomberg data

In that year the opposite situation arose, as reflected in the indicator, with the annual growth in economic activity being below what was estimated at the beginning of 2005. Toward the end of 2005, and accompanied by the boom in the auto industry, positive surprises again emerged. In the past few months, even though surprises were plentiful with positive signs in Mexico's indicators, for the corresponding U.S. indicators the situation was the opposite. This situation can, to a large extent, be attributed to analysts' revision of GDP growth expectations.

In the case of inflation, of particular importance were the positive surprises (negative slope) of the index throughout 2005, which was a reflection of the dilution of supply shocks that occurred in 2004 (processed foods and housing). Toward mid-2006 and the beginning of 2007 a counter-effect took place, tied to prices of agricultural products and raw materials, as is the case to a greater extent in recent months.

Cecilia Posadas c.posadas@bbva.bancomer.com
Javier Amador javier.amador@bbva.bancomer.com

1 The surprise indicators were first developed by the BBVA team in the United States (see "USA: Activity and Inflation Surprise Indexes" in the Economic Watch series, May 2005), in which 29 and 9 indicators were included for economic activity and inflation, respectively.

2 The variables that are included are IGAE, Industrial Production, Trade Balance, Retail Sales, Unemployment, Consumer Confidence, Investment, GDP at current prices, at constant prices, and Aggregate Demand.

Inflation in Mexico within a Context of External Pressure

During the second two months of the year, the international food markets (grains and livestock) and energy products have posted significant rises in their prices, which have been motivated both by supply factors (i.e. climate and availability) and by demand (i.e. the change in the world diet and the strength of emerging economies). The rise in the price of these inputs intensified during April and May in such a way that it generated significant increases to the final consumer on a global level. Mexico has not been the exception. The rise of prices of processed foods was at an annual 8.52% through the month of April, quite distant from the minimum reached prior to the first increases (3.46% in June 2006). Despite this, it should be noted that these rises have been lower in our country than those observed in other emerging economies in this same period. In a parallel way, the global markets have posted a significant rise in prices of energy products that inflict additional pressure. In Mexico's case, consumer prices directly linked to those of energy products (gasoline, domestic gas, electricity) are regulated. However, the rules for determining some of these prices (particularly electricity rates) lead to a greater linkage with international prices and, therefore, generate additional pressure.

In this environment, headline inflation in Mexico has been increasing gradually since April 2006, to stand at an annual 4.95% in May 2008 (vs. 3.95% and 3.00%, one and two years previously, respectively), with core inflation at 4.86% (vs. 3.88% and 3.41% in 2007 and 2006 respectively). Even if the main pressure on consumer prices is due to external factors, it is relevant to question: the duration that high international prices could have, whether other prices in the economy have been contaminated; to what point can inflation rise in the coming months, what is the expected dynamics for the coming years given the current cycle in the economy, and the main risks that we can expect in terms of prices.

External determining factors of inflation and the outlook

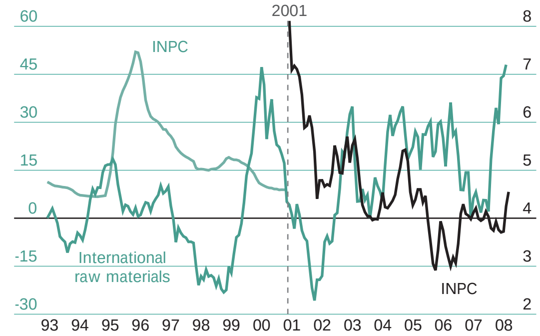
During 2001, the China's entry into the World Trade Organization implied major world exploitation of the regional advantages of production, a redistribution of global productive capacity and, simultaneously, an intensification of competition in the international markets. As a result we have observed a rise in the per capita income of those economies that increased their share in the global market (i.e. China), as well as low levels of inflation in tradable goods.

In Mexico's case, this situation was positively manifested in the inflation of merchandise other than that of food, which stood at its lowest level in the history of this index at the close of 2002 (an annual 0.6%). This international condition, together with a growth period below the potential, the management of monetary policy and the anchoring of long-term inflationary expectations gave way to a period of contained inflationary fluctuations between 2002 and 2006 (between 3% and 5.4%) and where the occurrence of supply disruptions ended up correcting itself over time.

Recently, this international environment has changed in such a way that it began to exert pressure on inflation at a global level since

Historic Evolution of Headline Inflation* and International. Raw Material Index

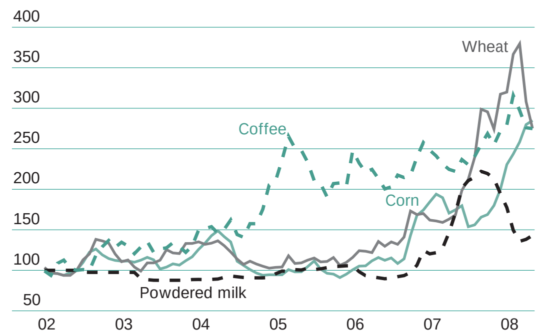
Annual %; INPC; IMF index



Source: BBVA Bancomer with Banco de México and Bloomberg data

International Food Prices that Could Stabilize

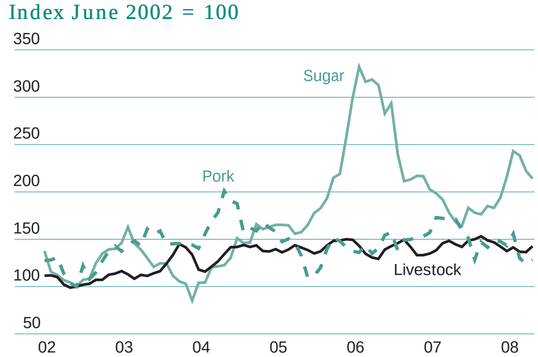
Index June 2002 = 100



Source: BBVA Bancomer with Bloomberg data

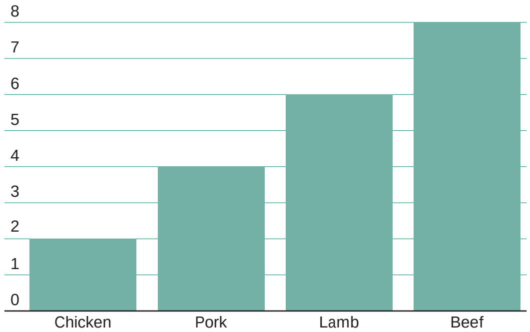
International Food Prices that Could Be Pressured Upward

Index June 2002 = 100



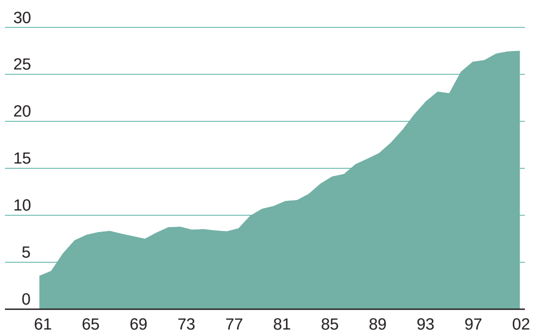
Source: BBVA Bancomer with Bloomberg data

Conversion Rates from Grains to Meat
Kilos of grain needed to produce one kilo of meat



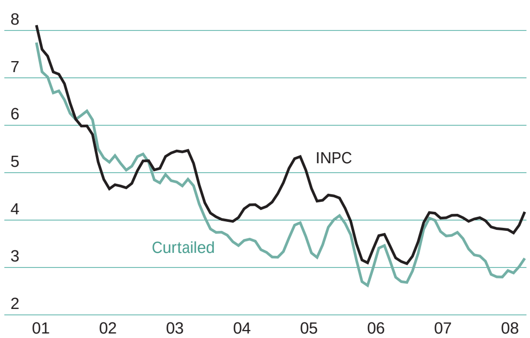
Source: BBVA Bancomer with Bloomberg data

China's Share in World Meat Consumption
%



Source: BBVA Bancomer with Bloomberg data

Headline and Curtailed Inflation
Annual %



Source: BBVA Bancomer with Banco de México data

the end of 2006. In China, the availability of capital (its own due to its trade surplus and that of the world, due to foreign investment), together with the rise in the country's per capita income, has led to the increase in the country's liquidity and to domestic inflationary pressure. To these factors may be added the change in the patterns of demand for foods (greater consumption of animal protein thanks to higher per capita income), the persistence of high consumption in the U.S. (low personal savings), the strength in demand for productive inputs (energy, food and material products) by emerging countries and supply problems of these inputs due to geo-political conflicts (i.e. oil) and climate (i.e. grains).

Going forward, world uncertainty persists regarding the upward trend in the inflation of productive inputs and the duration of this high-price phase. On the one hand, the slowdown in the U.S. points to moderation of its aggregate demand and lower price hikes. In fact, to the extent that the slowdown becomes more pronounced and prolonged, the probability of a drop in external inflation is greater. In a counter position, there are elements that align themselves to maintaining high price levels: emerging countries (i.e. China) continue to gain market share in developed economies, which could indicate the persistence of their comparative advantage in costs, and therefore, their demand for international inputs could continue. Even though this is a phenomenon that will be diluted over time, it is foreseeable that, in the short term, it persists and can be extended to the extent that we observe a quick recovery of countries with greater economic development. Another aspect that could prolong high prices in foods is the greater demand for final consumption, supported by the evolution of their entry (in China, such as the input of livestock products) and the growing use of biofuels. The World Bank estimates that 70% in the grain price variation is attributable to its greater demand for the production of ethanol.

To summarize, raw material prices (food and energy products) could be stabilized at high levels in the next two years, in face of the new conditions of world demand. This condition could lead to a drop in purchasing power, mainly in lower income non-agricultural communities, which could limit (in the absence of subsidies) a small part of international food demand. Beyond its social repercussions, the apparent stabilization of prices recently observed, will imply that annual inflation in grains on the international markets will begin to gradually decrease in the second half of 2008. For their part, the international risks of price hikes are concentrated on sugar and livestock products, which could register rises in the third quarter of this year due to the higher cost of fodder (meat and milk) and high prices of energy products (sugarcane for ethanol).

In a longer term perspective, the outlook is also complex. It is probable that the effect of a slowdown in demand in the U.S. made it easy for international inflation to moderate. In such a way that lower inflation in tradable goods will be palpable for Mexico toward 2009. However, there is high risk that the food supply problems will become acute due to climate phenomena, which could generate certain episodes of a lack of adequate supply in the future.

Internal determining factors of inflation

International pressure has dominated the recent dynamics of domestic prices, in particular of processed foods, livestock products and government-regulated products (electricity and natural gas). In fact, if we were to exclude these components from the National Consumer Price Index (INPC for its Spanish initials), inflation in the economy would stand in April at 3.4% (vs. 4.5% of the INPC). From a structural perspective, and assuming that the international food shocks would not be repeated, the conditions for a drop in domestic inflation for the second half of the year and 2009 are a given: 1) the current cycle of economic growth below the potential and the consequent idleness of the factors of production would suggest a drop in annual inflation; 2) wage negotiations result in relatively stable nominal increases (4.5% as the average for 1Q08), that do not generate additional pressure on costs and that, together with the slow expansion in employment, suggest that there will be no significant boost to domestic consumption via growth in total wages; 3) long-and medium-term inflationary expectations (3 and 10 years) are relatively anchored at 3.3% to 3.4% levels, and even the 12-month expectations stand within the course set by the central bank for that date; and, to a lower extent, 4) the strength in foreign exchange reduces the transmission of different international prices to food and energy products.

Despite this, in the short term, domestic inflationary risks are high relative to: 1) the transmission of high international grain prices (particularly corn) to processed foods in Mexico is still not totally evident, and there could be pressure (particularly on corn tortillas) toward the 3Q08; 2) electricity prices show an upward bias for high consumption domestic users, inasmuch the rate is more closely linked to the international prices of natural gas; 3) we do not rule out the pressure on housing services (ascribed rent) since a rise in construction material is foreseeable, in view of the greater demand for public works and reconstruction projects in China following the recent earthquake; and 4) volatility in agricultural and livestock products due to climate factors.

Scenarios and outlook

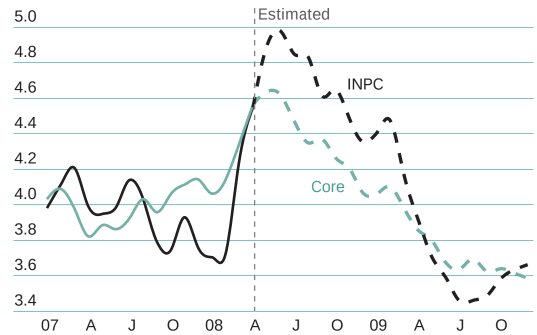
Our evaluation of the environment described points to—in our base scenario—greater inflationary pressure in the short term, which could tend to 5% in the 2Q08 and 3Q08, to then gradually converge to levels close to an annual 4.4% in the 4Q08 to the extent in which the low-growth cycle materializes in Mexico and the U.S. This gradual convergence process would continue throughout 2008 should the shocks in food and energy products that we have seen since 2006 be diluted. At the same time, the dynamics of core inflation could be similar to that of headline inflation.

The current environment is facing two sources of uncertainty that motivate the establishment of alternate scenarios of lower probability. The first would imply higher inflation and a slower convergence with the central bank target. This scenario would imply inflation close to 5% in the 4Q08 and 4.4% in the 4Q09, and it would detonate should the international food shock be prolonged, and in the event of a more vigorous international economic growth than contemplated. The second alternate scenario of lower inflation—and also of less probability—(4% and 3% for the 4Q08 and the 4Q09 respectively) would occur mainly due to a strong international slowdown that would quickly dilute the international input shocks.

Inflationary Expec. - Analysts' Consensus
Annual %

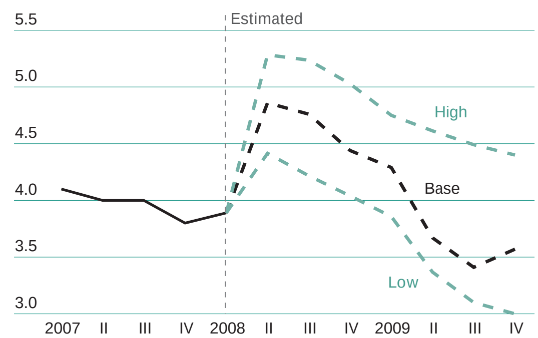
Source: BBVA Bancomer with Banco de México data

BBVA Inflation Estimate
Annual %



Source: BBVA Bancomer with Banco de México data

BBVA Inflation Scenarios
INPC, annual %



Source: BBVA Bancomer with Banco de México data

BBVA Inflation Projections
Annual %, end of period

		Headline	Core
2007		3.8	4.1
2008	High	5.0	—
	Estimated	**4.4**	**4.3**
	Low	4.0	—
2009	High	4.4	—
	Estimated	**3.6**	**3.6**
	Low	3.0	—

Source: BBVA Bancomer with Banco de México data

Inflationary Pressures to Monitor in 2008

Since mid-2006 the world has entered a period marked by increases in production costs, which has generated inflationary pressures on a global level. Nevertheless, such pressures affect each economy differently given the dissimilar income levels and consumption patterns in each society. For this reason, we will describe the international factors that are critical for determining inflation in Mexico, as well as the potential course that the situation could take in the short term.

Price transmission process in food

As of October of 2006, rises in a great variety of food prices (wheat, corn, sugar, milk, soy, rice, oatmeal, etc) have intensified, the combined increases of which had not occurred in decades. In the case of corn, prices rose close to 80% in one year (through Oct. 07). To date, corn prices have increased 160%, which makes the production of food that is of critical importance in Mexico's INPC such as tortillas more expensive.

Our external pressure indicators on food prices point to continued high growth rates in the short term (annual 8.5%) given the recent symptoms of stabilization in most food inputs. Despite this, the extent of the rise in corn prices will imply a latent transmission to the price of tortillas and other processed foods included in core inflation. If we consider the latest rise in corn prices —in October 2003, which lasted 10 months— in which they grew as much as 40%, the effect on food costs in core inflation was up to 3.5 pp in relation to their level before the major increases. The effects were only fully reflected in six months.

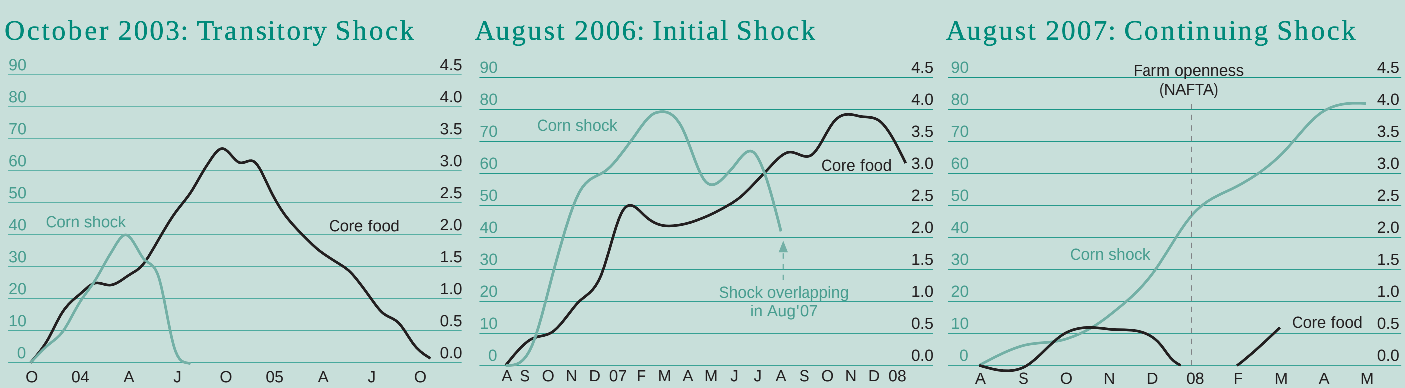
In the current situation, two significant moments of increases in international corn prices can be identified that overlap and to date have not completely subsided. The first occurred in August 2006 when prices increased up to 80%. This increase was also reflected over a period of six months and boosted food prices by 3.5 pp. Even though the increase in the cost of corn was double what was registered in October 2003, the impact on final food prices in Mexico was similar. One reason for this is the implementation of federal government programs to contain the rise in tortilla prices, which limited the scope of the impact.

The second moment —which overlapped with the first— was in August 2007, when corn prices resumed their upside trend, rising by up to 80% in May of this year and whose levels have not subsided. Despite this rapid growth in corn prices, and contrary to the previous experiences in this regard, the response in the level of final inflation has been more limited and delayed. This can be attributed to the implementation of policies designed to contain inflation in the basic basket of foods and services in the first quarter of the year, the agricultural opening of the Mexican economy, and plans for high levels of domestic production of corn.

In relation to the data from not too long ago in 2006, the recent increases in corn prices could bring the growth in food prices to between 1.9 and 5.9 pp of their current inflationary level (annual 8.5%), which would imply a contribution to headline inflation of between 0.4 and 1.0 pp. To date, the rises in costs have not completely materialized, but they will do so over the course of the year. Based on data through May, it is likely that the maximum transfer to the growth in food prices will extend up to 4Q08 and its scale will taper off to the extent that the large harvests planned for the year materialize.

International Corn Shock Transmission

Accumulated increase in corn price, %; pp increase in core-food prices



Source: BBVA Bancomer with Banco de México and Bloomberg data

In terms of food prices, the risks continue to be on the upside and the transmission to the final consumer could increase, since high oil prices continue to boost the demand for corn for biofuel production.

Prices of housing services

To date, the evolution of the prices of housing services has remained confined in ranges of close to 3.4%, but there are elements that point to a rise to levels of close to 4% through the remainder of 2008: first, the rise in the prices of certain building materials due to supply situations in the world and an unexpected demand as a result of reconstruction projects in China following the recent earthquake; second, the rapid growth of public work projects in Mexico toward the end of the year will impose high local demand for housing-related inputs; and third, the low price levels in housing services registered at the end of 2007.

Although these pressures could be partially compensated by the reduced economic activity in the following quarters, it is important to monitor the situation given that these increases (housing) could be accompanied by rises in other items (food and energy) and could result in relatively high inflation levels for the year.

Regulated prices on the rise due to energy costs

The prices for electricity, natural gas, and gasoline are determined by the federal government and are subject to taxes and public subsidies that do not necessarily reflect the relative shortage of these items in the country. Nevertheless, in the case of electricity, the new rules for determining rates assign a greater weight to international energy conditions for domestic users with high consumption levels. The adjustment of electricity rates due to higher energy costs will tend to boost annual inflation for the rest of 2008. The contribution of electricity to higher inflation could be greater in the months of October and November.

Adjustment Factor in CFE Electricity Rates

Multiplying factor

Source: BBVA Bancomer with CFE data

In conclusion, the critical points to monitor…

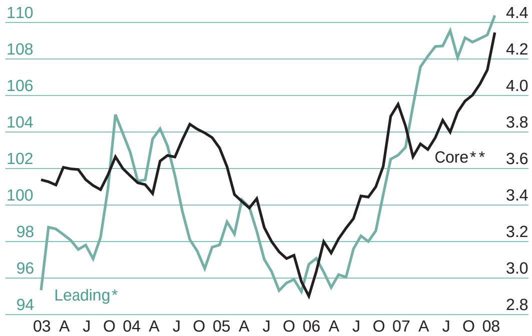
As is the case with other economies around the world, Mexico faces a period of inflationary pressures due to international factors that have prevailed in the short term and in which the risk is being run that they will extend into the second half of 2008.

For the next few months we feel that the critical factors to monitor in order to reach a judgment on whether we face a scenario of higher inflation are the persistence of international shocks in corn prices and the advantage provided by the domestic harvests of this product; the evolution of oil prices in 3Q08; the transfer to other prices (particularly services other than housing) in the current cycle of economic activity; the occurrence of new price increases for building materials during 3Q08; and, simultaneously, the degree of the strength of domestic demand and the characteristics of the recovery of the economy (United States and Mexico).

The current risks for inflation are considerable and there is a high probability that this panorama of uncertainty will continue in the following months.

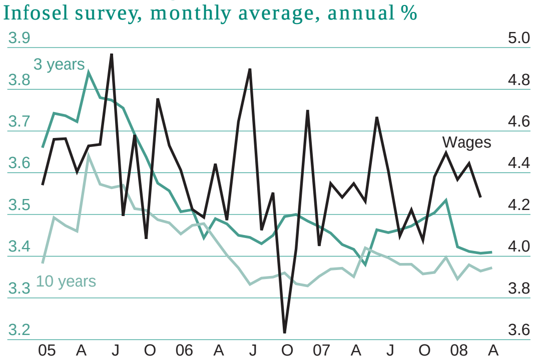
Octavio Gutiérrez o.gutierrez3@bbva.bancomer.com

Leading Inflation Index and Core Inflation



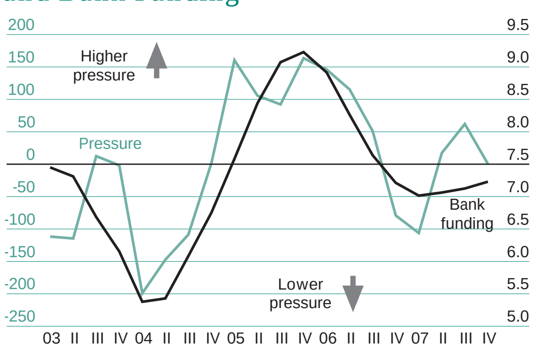
* Index 1987-2005 = 100
** Annual % change
Source: BBVA Bancomer with Banco de México data

Inflationary Expectations and Contract Wages Revision
Infosel survey, monthly average, annual %



Source: BBVA Bancomer with Infosel and Banco de México data

Index of Demand Pressure* and Bank Funding**



* Measure of available production capacity and, therefore, of future inflationary pressure. Index constructed based on the equilibrium gap between domestic demand and GDP adjusted by the contribution of investment growth. Two quarter moving average, %
** Four quarter moving average
Source: BBVA Bancomer with Banco de México and INEGI data

Monetary Policy: the panorama continues to become difficult for Mexico's central bank

The materialization of some inflationary risks throughout the last three months and the deepening of the slowdown in the U.S. have complicated the economic risk balance of Banco de México.

The accumulation of supply shocks, the result of imbalances in foodstuffs and raw materials on the international markets, has had a gradual impact on core inflation (see section on inflation). The above has given way for the central bank to move its short-term inflation forecasts upward (core inflation moving indicators suggest that the price levels will remain high, see graph). However, the estimated horizon of annual inflation convergence toward levels close to 3.0% in 2009 has not changed. That is, the central bank recognizes that the conditions that would favor a convergence in the times foreseen some months ago continue to be present.

The nature of inflationary pressure (supply shocks) suggests that Banco de México will be monitoring those prices that could generate second round effects or inflationary spirals in the medium term. In this sense, both the medium and the long-term inflationary expectations and wage growth will remain relatively anchored: the former around its historic average and the latter has not favored an increase in real wages. Nevertheless, the sensitivity of inflation to international shocks could rise and end up affecting the longer-term expectations. In this sense, the fact that the short-term inflationary risks are very high is reason enough for concern going forward.

At the same time, economic activity risks have been on the rise as a result of the slowdown in the U.S. economy. In this sense, despite the fact that annual growth in the Mexican economy in this 1Q08 was a seasonally-adjusted 3.7%, this strength is not expected to persist longer. In fact, timely official indicators and structured by us (see macro inset) indicate that the slowdown in the Mexican economy has already started and will grow in the coming months. This justifies that the strength in economic activity will continue to play an important role in the risk balance in the near future. Up to now, there are no indications that this is being generated in an environment of lower available production capacity, which would imply that the strength in domestic demand is not contributing additionally to pressure on inflation (different measures indicate this point, see graphs). It would seem that the economy is maintaining a balance between its capacity to generate supply and the current strength in demand. Also, the growth risks in the United States and, therefore, in Mexico are on a downtrend. Due to this, conditions prevail that would point to a gradual drop in inflation toward 2009. But, it will be necessary to monitor the use of the federal government's extraordinary resources, since a less concentrated expense on infrastructure projects could, at some time, exacerbate inflationary pressures.

The complexity of the current economic situation, to which Banco de México has referred, could be illustrated by a simple exercise derived from a model of a bank funding rate estimate based on a monetary policy rule derived from a macroeconomic model. Based on these parameters, we simulate different scenarios, using the central bank's inflation bands and economic growth ranges for 2008 that include an 80% probability that they will be met. According to this exercise, if the GDP growth range for this year were between 2.0% and 2.5% (which is the one with the highest probability), the bank funding rate should end the year between 7.5% and 7.0% (depending on the inflation strength, whether it converges at a high, medium or low central bank range. See attached table with different inflation and growth scenarios.) The uncertainty and the intensification of downward risks in activity and the rise in inflation lead to the expansion of the range of possibilities, which is why the current context is complex. Nevertheless, in our opinion, the scenario of GDP activity between 2.0% and 2.5% and inflation fluctuating between its medium and low level predominates.

To summarize, the balance of economic risks is in equilibrium and complicated, given the inflationary pressures and the increased downward risks on economic activity. Thus, at this time, the strategy for preserving the bank funding rate at 7.5% over a longer period dominates the scenario of monetary policy.

In our opinion, Banco de México will continue to evaluate the incoming information in order to determine whether the risk balance is once again biased toward a level that would justify changing its monetary position. We do not expect adjustments in the coming months; currently, there are solid bases for the monetary pause. However, given that the risks in activity are considerable, we do not yet rule out a slight adjustment downward in the bank funding rate toward the end of this year. We are expecting an important slowdown in the economy in the second and third quarters, which has already started at monthly and quarterly rates. Given certain conditions, this drop in activity could justify a 50 bp slackening for the end of 2008, but there is no doubt that the degree of uncertainty is not low and that the panorama is difficult for monetary policy decisions.

Governmental yield curve: pressured through the 3Q08

U.S. economic data, between the end of last year and the early months of 2008, quickly revealed that a context of a more pronounced slowdown than anticipated by the Federal Reserve (Fed) in the summer of 2007 was being produced and that the financial risks were rising considerably. The Fed began an extremely aggressive cycle of interest rate reduction of over 300 bp and, in coordination with other central banks, liquidity was massively injected into the financial system.

The Mexican economy, solidly based on the strength of its domestic demand and on how soft the U.S. slowdown appeared up to now, was beginning to be much more exposed to this new economic scenario in the neighboring country. Undoubtedly inflationary pressure on foodstuffs and raw materials was a constantly monitored topic, but the weight of the downward risks in economic activity gradually gained importance in the total balance, as the communications from the central bank also revealed.

Estimate of the Bank Funding Rate*

Inflation	Economic growth		
Ranges	1.0 - 2.0	2.0 - 2.5	2.5 -
High	7.00	7.50	8.00
Medium	7.00	7.50	7.75
Low	6.50	7.00	7.50

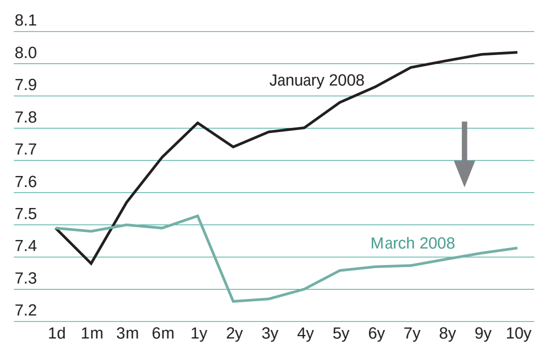
* Estimate derived from a rule of a monetary policy implicit in a macro-forward looking model
Source: BBVA Bancomer

BBVA Projections of Bank Funding
End of period, %

	Range
December 2008	7.00 - 7.50
December 2009	6.50 - 7.50

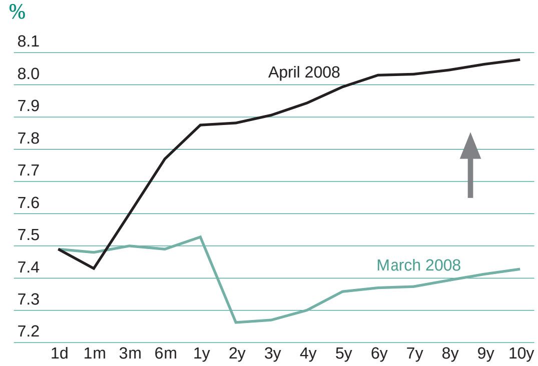
Source: BBVA Bancomer

Government Yields Curve
%



Source: BBVA Bancomer with Bloomberg data

Government Yields Curve
%



Source: BBVA Bancomer with Bloomberg data

Foreign Investment Balance in Government Bonds
Billions of dollars

Source: BBVA Bancomer with Banco de México data

Implicit Inflation Expectation in the 10-Year Government Bonds

Source: BBVA Bancomer with Bloomberg data

BBVA M10 Projections
End of period, %

	Range
December 2008	7.7 - 8.2
December 2009	7.0 - 7.9

Source: BBVA Bancomer

Thus, the structure of government bond interest rates completely ruled out the possibility of an additional rise in the bank funding rate, and the market positioned itself waiting for a preventive monetary slackening by the Banco de México ("Curve Structures" Graphs). The flattening of the curve and investment in some segments, in addition to reflecting the expectation of a less hawkish monetary stance, was influenced by a significant drop in the yield of international bonds (particularly in the U.S.) Also, the relative solidity of public finances, together with the expectation that the Mexican economy is well-positioned in terms of macroeconomic stability and/or possible systemic risks, pressured bond yields downward (lower risk premiums): it is significant that, for the first time, this was observed in a period of financial turbulence and an interest rate decrease at the same time (see financial chart). Also, the international situation favored the entry of around US$9 billion of foreign capital in fixed-income bonds in the last seven months.

However, the continued pressure on the core component, derived from the shocks observed in the international prices of foodstuffs and raw materials, gradually deviated inflation from the short-term course foreseen by the monetary authorities. This favored an upward revision in the expected inflationary ranges for the coming four quarters. The bond market has incorporated a less benign scenario in inflation and is currently considering the possibility of an additional monetary policy restriction of 25 bp for the second half of 2008. The interest-rate structure has incorporated a higher inflationary premium and, in fact, increases in the funding rate in the coming months.

According to our estimates, if the market were in a neutral position, the curve slope should be positioned close to 40 bp[1]; today, the curve pays a surcharge of over 70 bp. The short part is also covering this possibility. In the coming months, we would expect the curve to maintain a level and a cautious slope, given the inflationary levels and the possible preventive increases by Banco de México, which is why the ranges between 7.9% and 8.3% for the M10 could prevail until the end of 3Q08. Toward the end of 2008, the context of inflationary convergence should begin to dominate once again, which is why the range for the M10 would stand at between 7.7% and 8.2% at the end of this year. This would clearly be in line with the monetary stance of the central bank, depending on whether a monetary slackening of 50 bp is implemented or not.

The peso will continue strong in the coming months

The international situation has favored the strength of the peso. On the one hand, the expansion and prolonging of the monetary gap between Mexico and the U.S. backs the higher foreign investment flows. The risk-adjusted yield has been rising, partly as a result of the solidity in public finances (due to high oil prices and higher tax revenues).

On the other, the expansion in the interest rate spread in an environment of a relatively low risk perception on Mexico, supports the

1 See financial chart of "The Mexico Situation 1Q08". The risk premium was estimated between the M10 and the Cetes 28-day rate, eliminating the implicit effects of interest rate and inflation expectations.

positions in the futures market in favor of the peso.[2] The Banco de México monetary stance, should short-term interest rates be maintained at a pause when the risks on activity have been rising and, therefore, in which the inflation scenario toward 2009 would point to a gradual decrease, has boosted the (situational) strength of the peso. That is, the perception that Banco de México will not lower short-term interest rates has favored, in view of negative surprises of inflation, the appreciation of the peso, in contrast to what has been observed in the past. The above can only be explained within a context of assimilation and gradual consolidation of the inflation targets plan (the current regime of monetary policy), the foundation of which is based, among others, on reaching a pre-determined level in inflation in the medium and long term (and meeting it), reflecting a greater credibility of Banco de México.

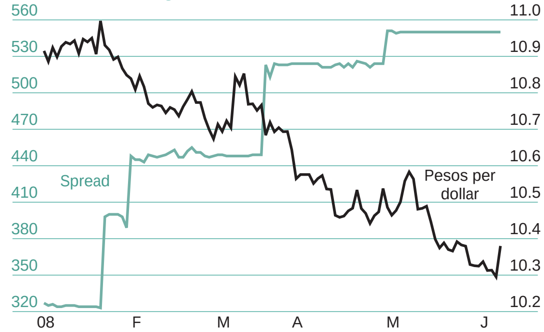
It should be noted that the actual exchange rate has not followed the same pattern as the peso-dollar parity. This is a reflection that the financial situation has not offset the structural differences between Mexico and other emerging countries. The Mexican economy is growing at lower rates and is facing a less favorable structural position in its balance of payments (without the current deficit representing a risk), and inflation, although lower, shows upward risks. Notwithstanding the above, it has not been an obstacle for the exchange rate to remain among the most stable, because it overreacts less to the positive impulse of the international situation, and the macroeconomic solidity has served as an anchor in the face of negative impulses. Even though the Mexican economy is exposed more to a greater slowdown in the U.S., other emerging countries are more vulnerable to the international prices of raw materials.

We believe that the conditions that have favored the peso-dollar exchange rate will continue throughout this year, which is why we would expect it to quote between 10.3 and 10.7 ppd. At this time we anticipate an exchange rate at 10.7 ppd for the end of 2008 if the central bank were to relax the bank funding rate by 50 bp as we expect. The interest rate spread would continue to support an attractive debt market and the expected rally in interest rates, influenced by the start of the drop in inflation in 2009, would back a strong peso. In conclusion, we continue to believe that the current situation will preserve the strength of the peso, but we warn that this trend will end when the market considers that the times to obtain "carry" earnings are ending. More structural factors will prevail at this time. Probably, time is still lacking for this, but 2009 will present an interesting panorama for the peso.

The risks regarding the exchange rate depend on the international development of oil prices which, given the expected slowdown, play an important anchoring role. Also, the risks could surge once again if the economic data in the U.S. continue to deteriorate and, with them the outlook for the Mexican economy.

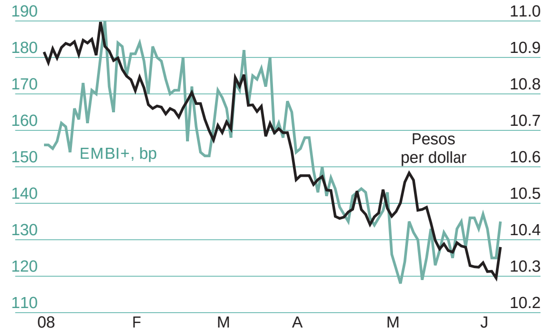
2 In fact, the investment strategies carried out in the futures and spot markets (through the purchase of bonds and stock market investment) tend to be complementary —anticipated conclusion of a study that is being realized in the area— which favors the strength of the peso exchange rate.

Interest Rate Spread* and Exchange Rate



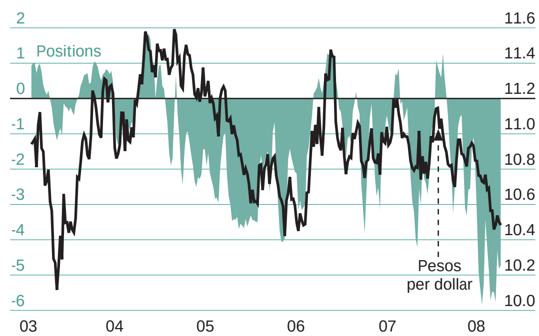
* Bank funding - federal funds, basis points
Source: BBVA Bancomer with Banco de México and Federal Reserve data

Embi + Mexico and Exchange Rate



Source: BBVA Bancomer with Bloomberg data

Net Positions* and Exchange Rate



* Non-trade net positions in Chicago for the peso
Source: BBVA Bancomer with Bloomberg data

BBVA Exchange Rate Projections
End of period, pesos per dollar

	Range
December 2008	10.30 - 10.70
December 2009	10.65 - 10.95

Source: BBVA Bancomer

Financial Markets: Structural Changes in Times of Turbulence

In an environment of financial and economic opening, the (global) financial markets, by definition, are far from being immune to international developments that spark significant increases in volatility. Based on their efficiency (liquidity, depth, diversity, and quality of information) the markets can magnify or, depending on the case, cushion these shocks, and cause a limited transfer of their effects to the least number of assets.

An understanding of the correlation of financial assets, a central topic in the creation of portfolio diversification strategies, is even more important in periods of stress. The statistical relationship in times of low volatility tends to break apart, for a large majority of assets, when uncertainty is the dominant factor in the markets. Different studies have emphasized this financial phenomenon, and sustained their arguments in this evidence to criticize the predominant models of risk valuation.[1]

The recent episode of financial volatility in the international markets revealed some new aspects in the statistical relationship between financial variables and some macroeconomic indicators in Mexico. We wish to emphasize two of them, so as not to mention more in this section. In previous periods of turbulence prior to the episode at the end of the summer of 2007 and the early months of 2008, the negative correlation between changes in the Mexican stock market index and long-term interest rates remained in effect. In the four periods selected for discussion, in which an important growth in the volatility of the financial variables was detected, a significant drop in the Mexican Stock Exchange was reflected in increases in the "M10" representative instrument. On average, the M10 increased by 7.5% or 70 bp when falls averaged 17.0%.

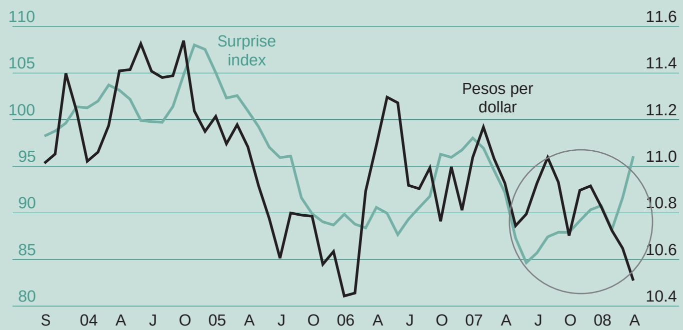
Evolution of M10 Yields in Episodes of Sharp Drops in the Stock Market

	Stock market	%	M10	%
17 Apr 2002	7,574		9.34	
06 Aug 2002	5,747	-24.1	10.12	8.35
12 Apr 2004	10,844		8.64	
19 May 2004	9,768	-9.9	9.66	11.81
09 Mar 2005	13,671		9.96	
20 Apr 2005	11,842	-13.4	10.63	6.76
10 May 2006	21,781		8.37	
14 Jul 2006	16,802	-22.9	8.64	3.22
04 Jan 2008	28,318		8.20	
22 Jan 2008	25,285	**-10.7**	7.70	**-6.10**

Source: BBVA Bancomer

The recent experience, a representative fall in the market index of 10.7%, was associated with a 50 bp decrease in the M10 yield. This can be attributed to the greater impact of monetary policy criteria, not only reflecting the better understanding of the implementation of the policy, but also the degree of maturity and improved debt structure. The risk premium on bonds was more than compensated by the economic expectations; in the past, the risk premium associated with the uncertainty of the moment was more prevalent.

Surprise Index* and Exchange Rate



* BBVA Bancomer index of inflation surprises (increases reflect negative surprises)
Source: BBVA Bancomer with Banco de México data

In another representative example, the negative inflationary surprises, which were followed by a period marked by the depreciation of the peso in relation to the dollar, subsided in recent months. The materialization of the recent inflationary pressures has been accompanied by a trend toward the appreciation of the peso. This is a phenomenon that characterizes monetary systems with inflation targets.[2] Credibility regarding the scope of this objective is one explanation. In addition, in the past 12 years we had not seen such a prolonged monetary time lag (interest rates) between Mexico and the United States. The importance of the Mexican peso due to its higher volumes and liquidity in the foreign exchange market, is another explanation. Going forward, nothing guarantees that these new statistical relationships will prevail, but we do indeed know that, in response to certain conditions, we should wager on a diversification strategy that contemplates these structural changes.

Ociel Hernández o.hernandez@bbva.bancomer.com

1 See, for example, Chan, Getmansky, Haas, and Lo (2005).

2 See Clarida and Walkman (2007).

United States Indicators and Forecasts

	2007	2008	2009	I'07	II'07	III'07	IV'07	I'08	II'08	III'08	IV'08
Economic Activity											
GDP (real annual % change)	2.2	1.0	1.6	1.5	1.9	2.8	2.5	2.5	1.2	0.1	0.1
Personal consumption expenditures	2.9	0.9	1.3	3.2	2.9	3.0	2.6	1.9	1.3	0.5	-0.1
Gross fixed investment	-2.9	-2.3	1.9	-4.5	-3.3	-2.3	-1.5	-2.4	-2.4	-2.7	-1.8
Non-residential	4.7	3.1	2.6	2.5	4.1	5.1	7.1	6.4	3.8	1.7	0.6
Structures	13.0	7.7	3.8	10.2	12.4	13.8	15.1	13.7	9.5	5.7	2.8
Equipment and software	1.3	1.7	2.4	-0.5	0.7	1.5	3.6	3.3	2.2	0.8	0.5
Residential	-17.0	-20.6	-3.5	-16.5	-16.5	-16.5	-18.6	-20.9	-23.3	-21.1	-16.7
Total exports	8.1	5.3	3.2	6.6	7.1	10.3	8.4	8.8	7.3	3.2	2.1
Total imports	1.9	-0.6	2.6	2.9	2.0	1.7	1.0	-0.6	-0.1	-1.1	-0.6
Government consumption	2.0	2.2	2.7	1.2	1.9	2.7	2.3	2.9	1.8	2.0	2.1
Contribution to Growth (pp)											
Personal consumption expenditures	2.1	0.6	0.9	2.3	2.1	2.1	1.8	1.3	0.9	0.3	-0.1
Private investment	-0.8	-0.4	0.4	-1.1	-1.0	-0.6	-0.6	-0.5	-0.4	-0.7	0.0
Net exports	0.6	0.7	0.0	0.2	0.5	0.9	0.8	1.2	0.9	0.6	0.4
Government consumption	0.4	0.4	0.5	0.2	0.3	0.5	0.4	0.5	0.3	0.3	0.4
Prices and Costs (annual % change, average)											
CPI	2.9	3.7	2.5	2.4	2.7	2.4	4.0	4.1	3.8	3.8	3.2
Core	2.3	2.2	2.4	2.6	2.3	2.2	2.3	2.4	2.3	2.1	2.0
PCE	2.5	3.1	2.2	2.3	2.3	2.1	3.4	3.4	3.1	3.1	2.8
Core	2.1	2.0	2.1	2.4	2.0	1.9	2.1	2.0	2.1	1.9	1.9
GDP deflactor	2.7	2.9	2.2	2.9	2.7	2.4	2.6	2.2	3.2	3.3	3.0
Productivity	1.9	1.3	1.4	0.7	1.0	2.9	2.9	3.2	0.7	0.7	0.7
Real compensation per hour	2.1	0.2	1.0	2.4	2.6	3.3	-0.1	-0.7	0.5	0.5	0.5
Unit labor cost	3.1	0.4	1.0	4.3	4.3	2.8	0.9	0.2	0.5	0.5	0.5
Other Indicators											
Industrial production (real annual % change)	1.7	0.4	1.5	1.3	1.5	1.9	2.2	1.7	0.5	-0.2	-0.3
Capacity utilization (%)	81.0	79.5	80.1	80.7	81.0	81.3	81.0	80.6	79.5	78.9	79.0
Light weight vehicle sales (millions, annualized)	16.2	15.2	15.3	16.5	16.1	15.9	16.2	15.2	15.0	15.3	15.3
Housing starts (thousands, annualized)	1,341	770	962	1,453	1,460	1,298	1,151	1,042	811	573	656
Nonfarm payrolls (thousands of new jobs, average)	91	-89	20	109	105	71	80	-80	-67	-100	-110
Unemployment rate (average, %)	4.6	5.1	5.4	4.5	4.5	4.7	4.8	4.9	5.0	5.1	5.2
Personal savings rate	-0.2	0.0	0.0	-0.6	-0.4	-0.1	0.2	-0.3	-0.2	0.1	0.4
Trade balance (US$ billions)	-706	-671	-718	-177	-179	-174	-177	-179	-157	-162	-173
Current account balance (US$ billions)	-726	-688	-758	-193	-187	-177	-170	-172	-166	-164	-186
% of GDP	-5.3	-4.8	-5.1	-771.8	-746.4	-706.3	-680.9	-689.1	-664.8	-656.6	-742.9
Fiscal balance (US$ billions, fiscal year)	-163	-399	-388	—	—	—	—	—	—	—	—
% of GDP	-1.2	-2.8	-2.6	—	—	—	—	—	—	—	—
Financial Markets (eop)											
Fed Funds (%)	4.25	2.00	2.50	5.25	5.25	4.75	4.25	2.25	2.00	2.00	2.00
10-year Treasury Note (%)	4.10	3.89	4.40	4.56	5.10	4.51	4.10	3.48	3.89	3.80	3.89
Dollar/euro	1.46	1.49	1.40	1.32	1.34	1.39	1.46	1.55	1.53	1.54	1.49

eop end of period
CPI Consumer price index
PCE Personal consumption expenditures index

Mexico Indicators and Forecasts

	2005	2006	2007	2008	2009	I'07	II'07	III'07	IV'07	I'08	II'08	III'08	IV'08
Economic Activity													
GDP (seasonally-adjusted series)													
Real annual % change	3.1	4.9	3.2	**2.3**	**2.6**	2.7	2.4	3.4	4.0	3.7	**2.6**	**1.5**	**1.6**
Per inhabitant (US dollars)	7,493	8,126	8,542	**9,358**	**9,658**	8,209	8,385	8,612	8,960	9,029	**9,301**	**9,479**	**9,621**
US$ billions	769	842	893	**987**	**1,028**	855	876	902	940	949	**980**	**1,001**	**1,019**
Inflation (eop, %)													
Headline	3.3	4.1	3.8	**4.4**	**3.6**	4.2	4.0	3.8	3.8	4.2	**5.1**	**4.7**	**4.4**
Core[1]	3.4	3.8	4.1	**4.3**	**3.6**	4.0	3.9	4.0	4.1	4.3	**5.0**	**4.7**	**4.3**
Financial Markets													
Interest rates (eop, %)													
Bank funding	8.25	7.00	7.50	**7.00**	**7.00**	7.00	7.25	7.25	7.50	7.50	**7.50**	**7.50**	**7.00**
28-day Cetes	8.00	7.00	7.44	**6.97**	**6.97**	7.04	7.22	7.22	7.44	7.43	**7.45**	**7.44**	**6.97**
28-day TIIE	8.60	7.40	7.93	**7.43**	**7.43**	7.46	7.70	7.70	7.93	7.93	**7.93**	**7.90**	**7.43**
10-year Bond	8.50	7.60	8.04	**7.70**	**7.50**	7.82	7.67	7.81	8.04	7.66	**7.96**	**8.03**	**7.70**
Exchange rate													
Pesos per dollar, average	10.69	10.88	10.85	**10.65**	**10.95**	11.12	10.83	11.03	10.85	10.73	**10.33**	**10.45**	**10.65**
Public Finances													
Fiscal balance (% of GDP)	0.1	-0.1	0.0	**0.0**	**0.0**	na	na	na	0.0	na	**na**	**na**	**0.0**
FRPS (% GDP)	-1.4	-0.9	-1.3	**-2.0**	**-2.0**	na	na	na	-1.3	na	**na**	**na**	**-2.0**
External Sector													
Trade balance (US$ billions)	-7.6	-6.1	-10.1	**-12.8**	**-25.3**	-2.5	-2.3	-2.4	-2.9	-1.6	**-2.8**	**-3.3**	**-5.0**
Current account (US$ billions)	-5.2	-2.2	-5.5	**-8.0**	**-21.9**	-2.2	-1.5	-0.9	-0.9	-1.5	**-1.8**	**-1.8**	**-2.9**
Current account (% of GDP)[2]	-0.6	-0.2	-0.5	**-0.7**	**-1.9**	-0.5	-0.7	-0.7	-0.5	-0.5	**-0.5**	**-0.6**	**-0.7**
Oil (Mexican mix, dpb, eop)	45.1	49.8	79.5	**85.1**	**66.7**	50.5	60.0	67.5	79.5	88.1	**100.1**	**90.9**	**85.1**
Monetary Aggregates & Banking Activity (ann. % chge., eop)													
Core bank deposits	3.4	1.3	8.2			-2.0	0.6	2.3	8.2	6.7			
Commer. banks performing loans[3]	29.0	26.9	23.4			25.3	25.2	28.2	23.5	21.0			
Aggregate Demand[4] (ann. % chge., seasonally-adjusted)													
Total	3.1	4.9	3.2	**4.3**	**4.1**	3.7	4.1	5.4	5.9	**5.8**	**4.4**	**3.4**	**3.8**
Domestic demand	5.2	6.1	4.4	**3.5**	**3.5**	3.3	4.4	4.0	5.7	**4.7**	**3.4**	**2.8**	**3.2**
Consumption	4.6	5.1	3.8	**2.6**	**2.9**	2.8	3.8	3.5	4.9	**3.5**	**2.3**	**2.0**	**2.6**
Private	5.1	5.0	4.1	**2.6**	**3.1**	3.5	4.5	3.7	4.8	**3.6**	**2.4**	**2.1**	**2.5**
Public	0.2	6.1	0.6	**2.4**	**2.0**	-3.2	-1.6	1.7	5.6	**3.1**	**1.8**	**1.5**	**3.2**
Investment	7.6	9.9	6.6	**6.8**	**5.6**	5.1	6.7	5.9	8.8	**9.0**	**7.2**	**5.7**	**5.5**
Private	9.9	11.8	6.6	**5.4**	**5.4**	6.9	6.8	6.3	6.3	**7.0**	**5.3**	**4.3**	**4.9**
Public	3.1	1.6	7.4	**12.6**	**1.1**	-1.9	7.4	10.0	14.0	**15.4**	**16.2**	**7.2**	**11.5**
External demand	7.0	11.1	5.5	**6.0**	**5.5**	4.3	3.3	8.0	6.3	**8.0**	**6.7**	**4.5**	**4.9**
Imports	8.5	12.1	8.1	**7.8**	**6.9**	5.6	7.0	9.2	10.6	**11.4**	**8.2**	**6.3**	**5.7**
GDP by sectors (ann. % chge., seasonally-adjusted)													
Primary	-2.4	6.3	2.1	**2.4**	**1.0**	1.3	2.2	3.6	1.2	-0.6	**6.7**	**1.9**	**1.6**
Secondary	2.7	5.4	1.9	**2.3**	**2.1**	1.5	0.9	2.1	2.9	2.6	**2.2**	**2.3**	**2.2**
Mining	-0.3	1.4	-3.5	**-2.5**	**-2.0**	-2.5	-3.1	-4.5	-3.8	-5.9	**-2.3**	**-1.5**	**-0.2**
Manufactures	3.5	5.2	2.7	**2.0**	**2.3**	1.2	1.4	3.6	4.7	2.8	**2.4**	**1.5**	**1.4**
Construction	2.5	7.9	3.1	**4.1**	**4.4**	5.9	1.7	1.9	2.9	0.1	**4.4**	**5.8**	**6.2**
Electricity, gas and water	2.0	12.2	7.2	**5.8**	**5.7**	8.1	5.5	6.7	8.5	8.1	**7.1**	**5.0**	**3.1**
Tertiary	4.2	5.2	4.1	**3.2**	**3.3**	3.6	3.8	4.4	4.9	4.5	**4.2**	**2.2**	**2.4**
Retail, restaurants and hotels	4.5	6.3	4.0	**3.5**	**3.6**	2.4	3.9	5.1	4.8	5.4	**5.0**	**1.3**	**2.2**
Transportation and communications	5.0	7.0	6.0	**4.8**	**5.0**	5.5	4.9	6.3	7.4	6.4	**5.7**	**3.3**	**3.8**
Financial, insurance and real-estate	6.1	8.4	6.1	**4.1**	**4.4**	6.4	5.8	6.3	6.0	5.2	**4.9**	**3.0**	**3.3**
Community and personal	4.5	6.3	4.0	**3.5**	**1.7**	2.4	3.9	5.1	4.8	5.4	**5.0**	**1.3**	**2.2**

eop end of period
dpb dollars per barrel
FRPS Financial Requirements of the Public Sector, % of GDP
na not available
Note: **Bold** figures are forecast

1 Core index that does not include education
2 Accumulated, last 12 months
3 To the private sector, includes Hipotecaria Nacional
4 Base 1993=100; GDP by sectors base 2003=100. The observed data of the primary, secondary and tertiary sectors are seasonally-adjusted by INEGI, the rest are own seasonally-adjusted

BBVA Bancomer

For further information please contact:

Economic Research Department   Av. Universidad 1200   Col. Xoco   03339 México D.F.   Tel. (52) (55) 5621 5994   Fax (52) (55) 5621 3297   www.bancomer.com

Economic Research Department BBVA Group

Chief Economist
José Luis Escrivá

Unit Heads
North America: Jorge Sicilia
Mexico: Adolfo Albo
United States: Nathaniel Karp

LatAm and Emerging Markets: Alicia García-Herrero
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Quantitative Analysis: Giovanni di Placido
Quantitative Research and Development: Rodolfo Méndez

North America Economic Research Dept.

Jorge Sicilia	j.sicilia@bbva.bancomer.com
Mexico	
Adolfo Albo	a.albo@bbva.bancomer.com
Javier Amador	javier.amador@bbva.bancomer.com
David Aylett	david.aylett@bbva.bancomer.com
Fernando González	f.gonzalez8@bbva.bancomer.com
Leonardo González	leonardo.gonzalez@bbva.bancomer.com
Octavio Gutiérrez	o.gutierrez3@bbva.bancomer.com
Ociel Hernández	o.hernandez@bbva.bancomer.com
Carlos Herrera	carlos.herrera@bbva.bancomer.com
Alma Martínez	alma.martinez@bbva.bancomer.com
Fco. Javier Morales	francisco.morales@bbva.bancomer.com
Cecilia Posadas	c.posadas@bbva.bancomer.com
Eduardo Torres	e.torres@bbva.bancomer.com
United States	
Nathaniel Karp	nathaniel.karp@bbvausa.com
Marcial Nava	marcial.nava@bbvausa.com
Alejandro Neut	alejandro.neut@bbvany.com
Ignacio San Martín	ignacio.sanmartin@bbvausa.com
Fernando Tamayo	fernando.tamayo@bbva.bancomer.com
Elisa Sánchez	elisa.sanchez@bbva.bancomer.com

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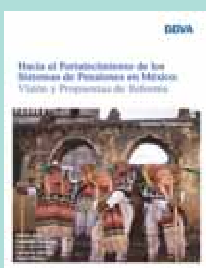
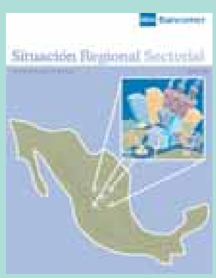


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- Argentina
- Chile
- Colombia
- Peru
- Spain
- Venezuela