



February 9th, 2009

# economic outlook®

Base Scenario • Unfavorable Scenario • Favorable Scenario

## United States

Given the ongoing economic deterioration, we have lowered our forecast of GDP growth for '09 from -0.5% to -1.8%.

## Mexico

Taking into account the US recession, we expect Mexico's GDP to fall by 1.6% in 2009

**USA: Given the ongoing economic deterioration, we have lowered our forecast of GDP growth for '09 from -0.5% to -1.6%.**

> In the first seven years of this decade, consumer's wealth and the companies capitalization value almost doubled. Home prices rose 92% from Jul-00 to Aug-06, and stock markets rallied by 83% from Sep-02 to Oct-07. The increase in consumer's wealth was tied with a growing debt and falling savings. Total consumer debt (mortgage and consumption) as a % of its personal disposable income increased from 88% in 2000 to 127% in 2007. The ongoing economic and credit crisis was unleashed by a sudden drop in consumer's wealth in a context of a relatively high level of debt. Average National Home prices have fallen 25% from mid Jul-06 to date (in some regions the fall is even of 50%) and stock markets (*Nasdaq index*) have dropped 47% from their Oct-07 peak. In this context, consumer's credit capacity has decreased, its savings have begun to grow and its debt levels to ease. Meanwhile, banks have registered large losses as delinquency rates on sub-prime mortgage credits have increased, which has reduced their own capital and therefore their credit capacity. Lower banking and consumers credit capacity has been reflected in lower demand of those goods usually purchased via credit. Concluding, in order for the ongoing crisis to end it is needed that banks increase their capital and credit capacity along with consumer also rising their credit capacity, which implies an increase in their wealth or the value of their assets (home prices and stock markets) and an ease in their debt levels.

> Delinquency rates on mortgage credits and the number of homes being returned to banks are growing. The price of the houses being auctioned by banks is 40% below the average home prices. Two-thirds of the existing home sales are currently really bargains. The result of the above is that new homes for sale in terms of months of current sales rose to an all time high of 13 months and their prices continued to fall. There is still a long way to go for inventories to return to normal levels of 6 months in terms of sales and for prices to stabilize. We could probably experience an improvement until 2010.

> Even though the US government has injected around \$350 billion into the banking system, outstanding consumer credit is still not growing

In fact, outstanding credit fell in October and remained unchanged during November. Meanwhile, the spread between 3-months LIBOR and 3-month Treasuries has narrowed from 4.6 percentage point in early Oct '08 to 1.0 pp these days. Nevertheless, this spread is still above pre-crisis levels (0.3 pp). Additionally, some government's measures as increasing sharply the direct credit to companies and consumers via commercial paper will take their time to be approved, implemented and reflected in the economic activity. The economic worsening of companies and consumers via lower sales, higher unemployment rate, lower wealth is hurting the banks' willingness to lend. Taking all the above into account, the credit would begin to register a modest recovery in the IIH '09 when the bulk of the fiscal and monetary aid measures start to bear fruit.

> As we already mentioned, when consumer's wealth fell, their debt rose in terms of the value of their assets. As a response, consumers have begun to increase their savings and to reduce their absolute debt levels. Personal savings as a % of disposable income have increased from 0.2% in IQ '08 to 3.0% in IVQ '08, and expectations are for this ratio to increase to around 5% by the end of this year. Regarding debt levels, the outstanding consumer debt as a % of the personal disposable income has eased from 18.1% in IQ '08 to 17.6% in IVQ '08.

> In sum, home prices will continue to fall during this year and will stabilize until 2010 and credit markets will begin to experience some improvement until the IIH of this year. The consumers decision of increasing their saving and lowering their debt will limit the positive effect on the economy of the government's fiscal and monetary policies. In this context, we expect the US GDP to contract by -1.8% in a base scenario and by -3.0% in an unfavorable scenario

## Mexico: Taking into account the US recession, we expect Mexico's GDP to fall by 1.6% in 2009

> US economy is now officially in recession and in the IVQ '08 it contracted at a seasonally adjusted annual rate of 3.8%. Additionally, US industrial production fell in Dec '08 by 7.8% in annual terms. The above is having broad negative effects in the Mexican economy:

> **Manufacturing exports fell at an annual rate of 11.5% in Dec '08** (the largest annual decline since Nov '01), oil exports fell by 58% and remittances by 10%.

> **Dollar inflows to Mexico via foreign direct investment, government bonds purchasing and stock markets investment have practically stopped.** The above has hurt the Mexican currency (which is trading above 14 pesos/dollar) and has been partly reflecting in Mexico's industrial production falling at annual rate of 3.5% (updated to Nov '08)

> **Value of construction dropped 3.7% in real annual terms in Nov '08 and 0.3% in the Jan-Nov '08 period.**

> **Total private banking credit fell 2% in a monthly basis during December, the first monthly decrease since Sep '05.**

> From Dec '07 to Dec '08, total delinquency rate as a percentage of total private commercial banking credit has remained at 2.6%. Nonetheless, **delinquency rate on consumer credit has increased** by 2.0 pp (from 5.7% to 7.7%), while delinquency rate on mortgage credit has modestly grown from 2.5% to 3.2%.

> **Net formal jobs have fallen by 37,500 in 2008** vs. a 525,000 net job creation in 2007.

> In 2008, **wages' purchasing power decreased** by 0.5% as they grew in average by 4.6%, while annual average consumer inflation was 5.1%.

> **Real retail sales as measured by the ANTAD plunged 11% in Dec '08 and 1.7% in all 2008.**

> **Retail sales of new cars dropped 6.8% (in units) in annual terms during 2008.**

> **Public spending rose by 13% in real annual terms in the January-November '08 period.**

For 2009:

> **Mexican manufacturing exports will fall between 7 and 9% amid a 9% expected decrease in US industrial production.**

> **Oil exports would plummet 43% from \$50.6 billion in 2008 to \$28.8 billion in 2009.** Exports volume will fall 10% at least and the average price of the Mexican export mix will shrink 30%, considering that 68% of the sales will be done at \$70 per barrel and the other 32% at \$42.5 per barrel.

> **This year, at least 300,000 formal jobs will be lost** given falling investment and sales.

> **Cumulative inflation will ease in 2009** from 6.5% to 3.8% due to lower commodity prices and demand. **Nonetheless, average annual inflation is expected to be 5.4%, which is roughly the same of 2008 (5.1%).**

> **Wages' purchasing power will fall again,** and now slightly more than 1.0 percentage point. Wages will grow by 4.0% (vs 4.6% in 2008), considering there will be no rises in some companies, will be reductions in others and in several more will be increases between 4.0% and 4.6%.

> **In general, there will be lower credit and interest rates will remain high** given the higher risk of delinquencies on payment.

> **Consumers are cutting spending, lowering debt levels and increasing savings.** The above given a growing unemployment rate, an ongoing decrease in wages' purchasing power, high interest rates on consumer credit and tightening credit conditions.

> **Meanwhile, companies are reducing their consumption and investment spending, and in some cases cutting jobs** as a result of lower sales and tightening credit conditions.

> **Taking all the above into account, we expect Mexico's GDP to contract by 1.6% in a base scenario and 2.5% in an unfavorable scenario.**

# HISTORICAL MACROECONOMIC SCENARIO

## ANNUAL 1997 - 2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>REAL GDP_1/</b>												
% GROWTH	6.8	4.9	3.9	6.6	-0.2	0.8	1.4	4.4	3.0	4.8	3.3	1.5
<b>INFLATION</b>												
DEC-DEC % GROWTH	15.7	18.6	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.0	3.8	6.5
AVERAGE % GROWTH	20.6	15.9	16.6	9.5	6.4	5.0	4.5	4.7	4.0	3.6	4.0	5.1
<b>EMPLOYMENT_2/</b>												
% GROWTH	4.5	3.2	2.6	4.4	-0.1	0.6	0.9	2.9	2.0	3.1	2.2	1.0
<b>REAL SALARIES_3/</b>												
AVERAGE % GROWTH	-0.9	1.4	-0.1	2.7	2.6	0.7	0.2	0.1	0.6	0.7	0.5	-0.5
<b>NOMINAL SALARIES_3/</b>												
AVERAGE % GROWTH	19.5	17.5	16.5	12.4	9.1	5.8	4.8	4.8	4.6	4.4	4.5	4.6
<b>28 DAYS CETES RAT</b>												
NOMINAL AVERAGE RATE_4/	19.8	24.5	21.5	15.3	11.3	7.1	6.2	6.7	9.2	7.2	7.2	7.7
COMPOUND RATE_5/	21.8	27.4	23.7	16.4	11.9	7.3	6.4	6.9	9.6	7.4	7.4	7.9
REAL COMPOUND RATE_6/	5.2	7.5	10.2	6.8	7.2	1.5	2.4	1.6	6.0	3.2	3.5	1.3
<b>TIIE</b>												
NOMINAL AVERAGE RATE	21.9	26.9	24.1	17.0	12.9	8.2	6.8	7.2	9.6	7.5	7.7	8.3
COMPOUND RATE	24.3	30.5	26.9	18.3	13.7	8.5	7.0	7.4	10.0	7.8	7.9	8.6
REAL COMPOUND RATE	7.4	10.0	13.0	8.6	8.9	2.6	3.0	2.1	6.5	3.6	4.0	1.9
<b>EXCHANGE RATE</b>												
End of the year												
Floating rate	8.0650	9.9080	9.5000	9.6500	9.1600	10.3950	11.2300	11.1400	10.6300	10.8000	10.9200	13.8150
Under (-) or Over (+) valuation	2.2	22.9	-4.1	1.6	-5.1	13.5	8.0	-0.8	-4.6	1.6	1.1	26.5
Year average												
Floating rate	7.9232	9.1527	9.5592	9.4610	9.3399	9.6704	10.7927	11.2867	10.8933	10.9050	10.9283	11.1545
Under (-) or Over (+) valuation	4.2	15.5	4.4	-1.0	-1.3	3.5	11.6	4.6	-3.5	0.1	0.2	2.1
<b>U.S. INFLATION</b>												
DEC-DEC % GROWTH	1.7	1.6	2.7	3.4	1.6	2.5	2.0	3.3	3.4	2.6	4.1	(0.1)
AVERAGE % GROWTH	2.3	1.5	2.2	3.4	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.8
<b>U.S. G.D.P._7/</b>												
REAL % GROWTH	4.5	4.2	4.4	3.7	0.8	1.6	2.5	3.6	2.9	2.8	2.0	1.3
<b>US INDUSTRIAL PRODUCTION</b>												
REAL % GROWTH	7.2	6.1	4.7	4.6	(3.5)	0.1	1.1	2.5	3.2	4.0	1.9	(1.1)
<b>3 MONTHS LIBOR RATE</b>												
NOMINAL AVERAGE RATE	5.8	5.6	5.4	6.5	3.8	1.8	1.2	1.6	3.6	5.2	5.3	2.9

\_1/ Real GDP in constant 1993 pesos measured by the new INEGI methodology.

\_2/ Include minimum salaries, industrial salaries and salaries from other sectors of the economy.

\_3/ Simple interest rate = Monthly interests are not reinvested, Net annual rate = Interest rate after taxes.

Compound interest rate = Monthly interests are not reinvested. Real rate: Deflated by Dec-dec. inflation.

CETES = Mexican Treasury Bills TIIE = Equilibrium Interbank Interest Rate

\_4/ Pesos per dollar. Wholesale selling rate.

\_5/ GDP measured by the U.S. Department of Commerce new methodology.

SOURCE: Banco de Mexico, INEGI and U.S. Department of Commerce.

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# BASE SCENARIO

## ANNUAL 2008-2014

	2009	2010	2011	'09-'11	2012	2013	2014	2015	'12-'15
<b>REAL GDP _1/</b>	<h1>SÓLO PARA SUSCRIPTORES</h1>								
% GROWTH									
<b>INFLATION</b>									
DEC-DEC % GROWTH									
AVERAGE % GROWTH									
<b>EMPLOYMENT _2/</b>									
% GROWTH									
<b>REAL SALARIES _3/</b>									
AVERAGE % GROWTH									
<b>NOMINAL SALARIES _3/</b>									
AVERAGE % GROWTH									
<b>28 DAYS CETES RATE</b>									
NOMINAL AVERAGE RATE _4/									
COMPOUND RATE _5/									
REAL COMPOUND RATE _6/									
<b>TIIE</b>									
NOMINAL AVERAGE RATE									
COMPOUND RATE									
REAL COMPOUND RATE									
<b>EXCHANGE RATE</b>									
End of the year									
Floating rate									
Under (-) or Over (+) valuation									
Year average									
Floating rate									
Under (-) or Over (+) valuation									
<b>U.S. INFLATION</b>									
DEC-DEC % GROWTH									
AVERAGE % GROWTH									
<b>U.S. G.D.P. _7/</b>									
REAL % GROWTH									
<b>US INDUSTRIAL PRODUCTION</b>									
REAL % GROWTH									
<b>3 MONTHS LIBOR RATE</b>									
NOMINAL AVERAGE RATE									

\_1/ Real GDP in constant 1993 pesos measured by the new INEGI methodology.

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SOURCE: Banco de Mexico, INEGI and U.S. Department of Commerce .

# UNFAVORABLE SCENARIO

## ANNUAL 2008-2014

	2009	2010	2011	'09-'11	2012	2013	2014	2015	'12-'15
<b>REAL GDP _1/</b>	<h1 style="color: white;">SÓLO PARA SUSCRIPTORES</h1>								
% GROWTH									
<b>INFLATION</b>									
DEC-DEC % GROWTH									
AVERAGE % GROWTH									
<b>EMPLOYMENT _2/</b>									
% GROWTH									
<b>REAL SALARIES _3/</b>									
AVERAGE % GROWTH									
<b>NOMINAL SALARIES _3/</b>									
AVERAGE % GROWTH									
<b>28 DAYS CETES RATE</b>									
NOMINAL AVERAGE RATE _4/									
COMPOUND RATE _5/									
REAL COMPOUND RATE _6/									
<b>TIIE</b>									
NOMINAL AVERAGE RATE									
COMPOUND RATE									
REAL COMPOUND RATE									
<b>EXCHANGE RATE</b>									
End of the year									
Floating rate									
Under (-) or Over (+) valuation									
Year average									
Floating rate									
Under (-) or Over (+) valuation									
<b>U.S. INFLATION</b>									
DEC-DEC % GROWTH									
AVERAGE % GROWTH									
<b>U.S. G.D.P. _7/</b>									
REAL % GROWTH									
<b>US INDUSTRIAL PRODUCTION</b>									
REAL % GROWTH									
<b>3 MONTHS LIBOR RATE</b>									
NOMINAL AVERAGE RATE									

\_1/ Real GDP in constant 1993 pesos measured by the new INEGI methodology.

\_2/ Include minimum salaries, industrial salaries and salaries from other sectors of the economy.

\_3/ Simple interest rate = Monthly interests are not reinvested, Net annual rate = Interest rate after taxes.

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\_4/ Pesos per dollar. Wholesale selling rate.

\_5/ GDP measured by the U.S. Department of Commerce new methodology.

SOURCE: Banco de Mexico, INEGI and U.S. Department of Commerce .

# FAVORABLE SCENARIO

## ANNUAL 2008-2014

	2009	2010	2011	'09-'11	2012	2013	2014	2015	'12-'15
<b>REAL GDP _1/</b>	<h1>SÓLO PARA SUSCRIPTORES</h1>								
% GROWTH									
<b>INFLATION</b>									
DEC-DEC % GROWTH									
AVERAGE % GROWTH									
<b>EMPLOYMENT _2/</b>									
% GROWTH									
<b>REAL SALARIES _3/</b>									
AVERAGE % GROWTH									
<b>NOMINAL SALARIES _3/</b>									
AVERAGE % GROWTH									
<b>28 DAYS CETES RATE</b>									
NOMINAL AVERAGE RATE _4/									
COMPOUND RATE _5/									
REAL COMPOUND RATE _6/									
<b>TIIE</b>									
NOMINAL AVERAGE RATE									
COMPOUND RATE									
REAL COMPOUND RATE									
<b>EXCHANGE RATE</b>									
End of the year									
Floating rate									
Under (-) or Over (+) valuation									
Year average									
Floating rate									
Under (-) or Over (+) valuation									
<b>U.S. INFLATION</b>									
DEC-DEC % GROWTH									
AVERAGE % GROWTH									
<b>U.S. G.D.P. _7/</b>									
REAL % GROWTH									
<b>US INDUSTRIAL PRODUCTION</b>									
REAL % GROWTH									
<b>3 MONTHS LIBOR RATE</b>									
NOMINAL AVERAGE RATE									

\_1/ Real GDP in constant 1993 pesos measured by the new INEGI methodology.

\_2/ Include minimum salaries, industrial salaries and salaries from other sectors of the economy.

\_3/ Simple interest rate = Monthly interests are not reinvested, Net annual rate = Interest rate after taxes.

Compound interest rate = Monthly interests are not reinvested. Real rate: Deflated by Dec-dec. inflation.

CETES = Mexican Treasury Bills TIIE =Equilibrium Interbank Interest Rate

\_4/ Pesos per dollar. Wholesale selling rate.

\_5/ GDP measured by the U.S. Department of Commerce new methodology.

SOURCE: Banco de Mexico, INEGI and U.S. Department of Commerce .

# CONSUMER INFLATION

## BASE SCENARIO

Month	Index Numbers (2q. july 2002 = 100)			% Growth								
	2008	2009	2010	Monthly			Cumulative _1/			Annual _2/		
				2008	2009	2010	2008	2009	2010	2008	2009	2010
January	126.15			0.46			0.46			3.70		
February	126.52			0.30			0.76			3.72		
March	127.44			0.72			1.49			4.25		
April	127.73			0.23			1.72			4.55		
May	127.59			-0.11			1.61			4.95		
June	128.12			0.41			2.03			5.26		
July	128.83	SÓLO PARA SUSCRIPTORES		0.56	SÓLO PARA SUSCRIPTORES		2.60	SÓLO PARA SUSCRIPTORES		5.39	SÓLO PARA SUSCRIPTORES	
August	129.58			0.58			3.20			5.57		
September	130.46			0.68			3.90			5.47		
October	131.35			0.68			4.61			5.78		
November	132.84			1.14			5.80			6.23		
December	133.76			0.69			6.53			6.53		

## UNFAVORABLE SCENARIO

Month	Index Numbers (2q. july 2002 = 100)		% Growth					
	2009	2010	Monthly		Cumulative _1/		Annual _2/	
			2009	2010	2009	2010	2009	2010
January								
February								
March								
April								
May								
June	SÓLO PARA SUSCRIPTORES							
July	SÓLO PARA SUSCRIPTORES	SÓLO PARA SUSCRIPTORES			SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES	
August								
September								
October								
November								
December								

\_ 1 / With respect to last December.

\_ 2 / With respect to the same month of the last year.

## FAVORABLE SCENARIO

Month	Index Numbers (2q. july 2002 = 100)		% Growth					
	2009	2010	Monthly		Cumulative _1/		Annual _2/	
			2009	2010	2009	2010	2009	2010
January								
February								
March								
April								
May								
June	SÓLO PARA SUSCRIPTORES							
July	SÓLO PARA SUSCRIPTORES	SÓLO PARA SUSCRIPTORES			SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES	
August								
September								
October								
November								
December								

# INTEREST RATES

## BASE SCENARIO

28 days CETES \_1/

TIIE \_2/

Month	Nominal annual rate _1/						Real annual rate _2/			Nominal annual rate		
	End of the month			Monthly average			Monthly average			Monthly average		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
January	7.43	SÓLO PARA SUSCRIPTORES		7.41	SÓLO PARA SUSCRIPTORES		1.84	SÓLO PARA SUSCRIPTORES		7.93	SÓLO PARA SUSCRIPTORES	
February	7.42		7.43			7.43			3.85			7.93
March	7.43		7.43			7.43			(1.26)			7.93
April	7.43		7.44			7.44			4.70			7.94
May	7.44		7.44			7.44			8.74			7.93
June	7.74					7.52			2.54			8.00
July	8.09					7.87			1.18			8.28
August	8.21					8.14			1.20			8.56
September	8.15					8.17			(0.01)			8.66
October	7.22					7.83			(0.35)			8.68
November	7.82					7.34			(6.23)			8.73
December	7.97					8.02			(0.29)			8.74

## UNFAVORABLE SCENARIO

Month	Nominal annual rate _1/				Real annual rate _2/		Nominal annual rate	
	End of the month		Monthly average		Monthly average		Monthly average	
	2009	2010	2009	2010	2009	2010	2009	2010
January	SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES	
February								
March								
April								
May								
June								
July								
August								
September								
October								
November								
December								

\_1/ Mexican Treasury Bills.

\_2/ Equilibrium Interbank Interest Rate.

\_3/ Simple interest rate = Monthly interests are not reinvested. Net annual rate = interest rate after taxes.

\_4/ Average monthly nominal simple interest rate divided by 12, deflated with the monthly inflation and the result multiplied by 12.

## FAVORABLE SCENARIO

Month	Nominal annual rate _1/				Real annual rate _2/		Nominal annual rate	
	End of the month		Monthly average		Monthly average		Monthly average	
	2009	2010	2009	2010	2009	2010	2009	2010
January	SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES	
February								
March								
April								
May								
June								
July								
August								
September								
October								
November								
December								

## EXCHANGE RATE

### BASE SCENARIO

Month	Pesos per U.S. dollar					
	End of the month			Monthly average		
	2008	2009	2010	2008	2009	2010
January	10.83	SÓLO PARA SUSCRIPTORES		10.91	SÓLO PARA SUSCRIPTORES	
February	10.72					
March	10.64					
April	10.51					
May	10.33					
June	10.31					
July	10.04					
August	10.29					
September	10.95					
October	12.86					
November	13.42					
December	13.82					
Annual Devaluation (+) or Revaluation (-):	26.5%	-0.8%	-1.5%			

### UNFAVORABLE SCENARIO

Month	Pesos per U.S. dollar			
	End of the month		Monthly average	
	2009	2010	2009	2010
January	SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES	
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Annual Devaluation (+) or Revaluation (-):	6.4%	-2.7%		

1\_ / February 1977 =  
0. Ratio of  
equilibrium  
exchange rate (in  
which overvaluation  
level is zero) to  
floating exchange  
rate minus one and  
multiplied by one  
hundred.

2\_ / Exchange rate  
adjusted monthly  
since March 1977  
by inflation  
differentials between  
Mexico and U.S.A.

### FAVORABLE SCENARIO

Month	Pesos per U.S. dollar			
	End of the month		Monthly average	
	2009	2010	2009	2010
January	SÓLO PARA SUSCRIPTORES		SÓLO PARA SUSCRIPTORES	
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Annual Devaluation (+) or Revaluation (-):	-4.5%	-2.3%		