

INTEREST RATES LAST 20 YEARS (1997 to 2017)
(CANADA – USA - MEXICO)

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CONCLUSIONS

- a) We would like to have an idea of how rates could be in the future. Although this is difficult, it is important to first make an analysis of what the different rates in different countries have been in the last years.
- b) Nominal annual interest rates are not comparable between countries. But if we add the compound effect and adjust them with the inflation, we can get real interest annual rates that are comparable between countries. If not a perfect method, it is much better than working with nominal rates.
- c) Average annual real interest rates for the last 20 years have been 3.59% for Mexico's TIIE, 3.21% for USA's Prime Rate and 2.53% for Canada's Prime Rate. The Libor in USD has been 0.54%. If we get an index for comparison, making the USA real Prime Rate equal to 100, then Canada's real Prime Rate would be 79 and Mexico's real TIIE rate would be 112.
- d) The difference between rates among countries is initially explained by the level of risk of each country. Also, some inaccuracy can be in assumptions in the computation as well as in the original determination of rates in the markets.

NOMINAL ANNUAL INTEREST RATES

- a) We did our analysis with some reference rates commonly used in each country to determine the cost of debt. We used Prime Rate for Canada and the USA, TIIE rate for Mexico and we have included the Libor in USD as another international reference.
- b) We have the monthly rates for each case in Acus Consulting data bases. From here, we obtained the average annual rates and the annual average rates for the last 20 years (January 1997 to July 2017) and for the last 10 years (January 2007 to July 2017). These average rates are presented in Table I and in Graph I.
- c) The average annual rates for the last 20 years have been, from larger to smaller, 9.56% for TIIE rate in Mexico, 5.31% for Prime Rate in the USA, 4.30% for Prime Rate in Canada and 2.63% for the Libor in USD. If we get an index for comparison, making the USA Prime Rate equal to 100, then Canada's Prime Rate would be 81, Mexico's TIIE rate would be 180 and Libor would be 50.

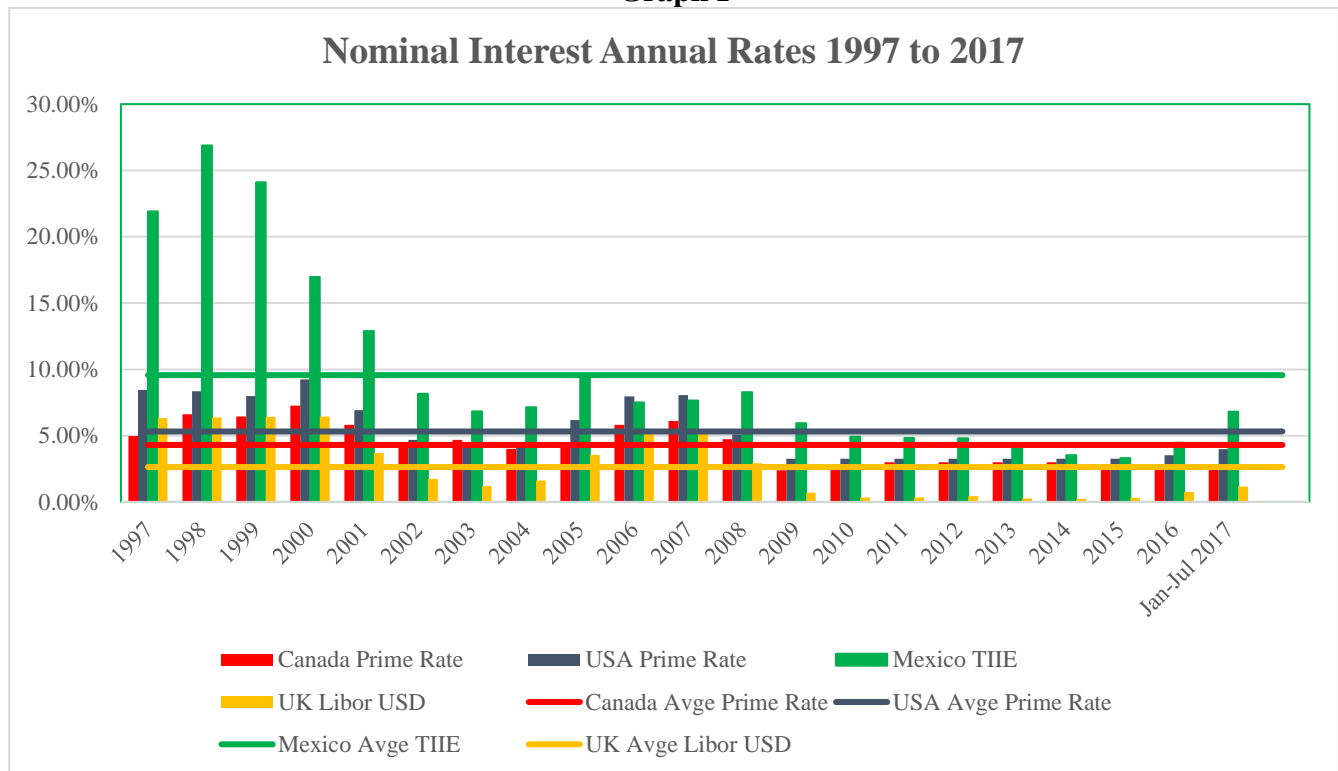
d) If we only analyze the last 10 years then the proportion between the Prime Rates of the USA and Canada remain similar, but Mexico’s TIIE and the Libor have been significantly lower in these last years.

e) It is worth saying that these rates are difficult to compare among them since they are in nominal terms. This is, inflation has not been adjusted from these rates. Inflation rates in each country, as we will present in a moment, are different for each one.

Table I: Annual Nominal Interest Rates

	Rate	Rate	Index	Index
	Average 97-17	Average 07-17	Average 97-17	Average 07-17
	Last 20 years	Last 10 years	Last 20 years	Last 10 years
Canada Prime Rate	4.30%	3.28%	81	83
USA Prime Rate	5.31%	3.94%	100	100
Mexico TIIE	9.56%	5.34%	180	135
UK Libor USD	2.63%	1.16%	50	29

Graph I



INFLATION FOR EACH COUNTRY (CPI)

- a) In Table II we are presenting the inflation rates for the last 20 and 10 years for Canada, USA and Mexico. In all cases, the inflation rate refers to the Consumer’s Price Index.
- b) Average annual inflation rate in the last 20 years in Mexico has been 6.08%, 2.10% in the USA and 1.77% in Canada. Once again, if we get an index for comparison, where USA inflation is 100, then Canada is 84 and Mexico 289.
- c) If we look only at the last 10 years then proportion would be 100 for USA, 87 for Canada and 230 for Mexico.
- d) Rates in Mexico have been higher, but inflation has been too.

Table II: Inflation Rates (Consumer’s Price Index CPI)

	Rate Average 97-17 Last 20 years	Rate Average 07-17 Last 10 years	Index Average 97-17 Last 20 years	Index Average 07-17 Last 10 years
Canada	1.77%	1.56%	84	87
USA	2.10%	1.80%	100	100
Mexico	6.08%	4.14%	289	230

REAL ANNUAL INTEREST RATES

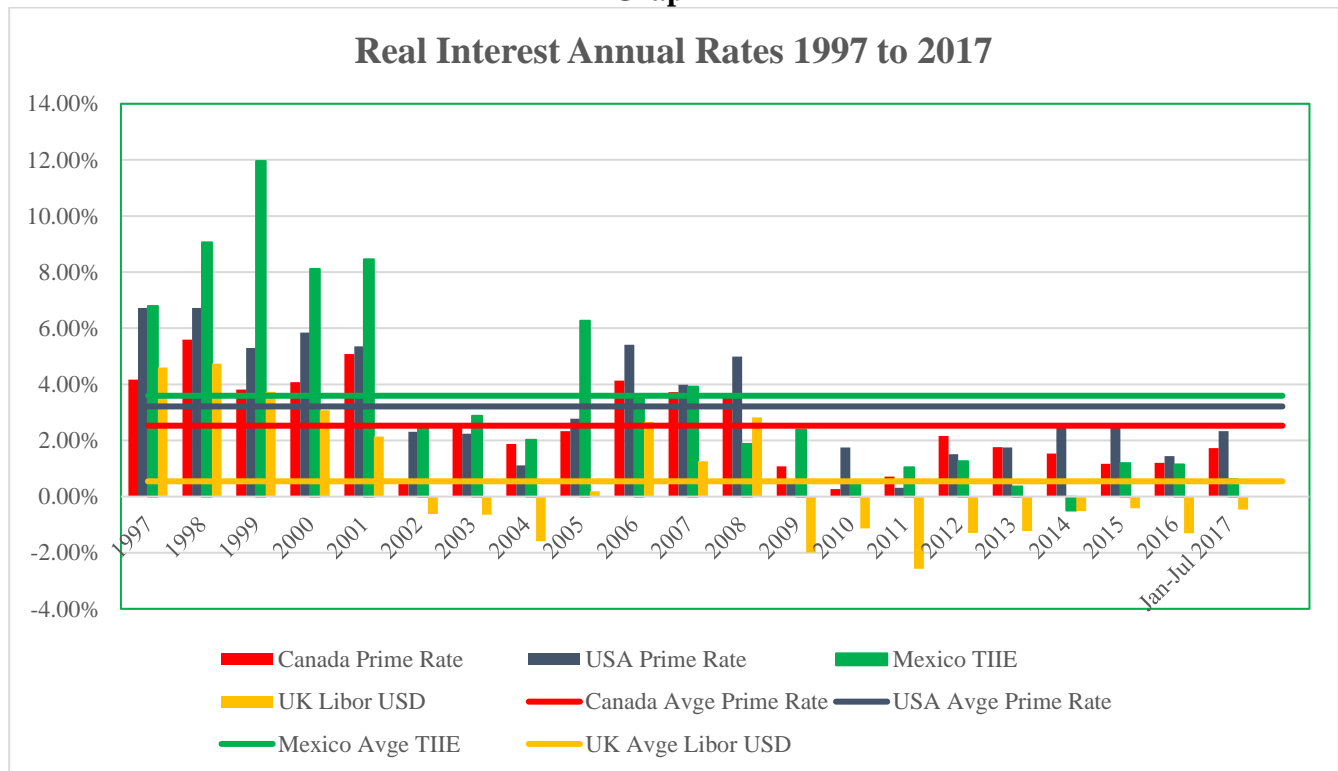
- a) In Table III and Graph II we are presenting the Real Annual Interest Rates for each country. For this, the nominal annual interest rates are compounded, then inflation is adjusted to get rates in real terms, and lastly the rate is returned again to a simple rate (not compounded). These rates are now more likely to be compared between them, since the rate is above the inflation of each country. This is, besides domestic inflation, the rate here presented is above the price effect.
- b) The average annual real interest rates for the last 20 years have been, from larger to smaller, 3.59% for TIIE in Mexico, 3.21% for Prime Rate in the USA, 2.53% for Prime Rate in Canada and 0.54% for the Libor in USD. If we get an index for comparison, making the USA real Prime Rate equal to 100, then Canada’s real Prime Rate would be 79, Mexico’s real TIIE rate would be 112 and real Libor rate would be 17.
- c) The difference between rates among countries is initially explained by the level of risk of each country, although some inaccuracy can be in assumptions in the computation as well as in the original determination of rates in the markets.

d) If we only analyze the last 10 years then proportion between the Prime Rates of the USA and Canada remain similar, but Mexico’s TIIE and the Libor rates have been significantly lower in these last years.

Table III: Real Annual Interest Rates

	Rate	Rate	Index	Index
	Average 97-17	Average 07-17	Average 97-17	Average 07-17
	Last 20 years	Last 10 years	Last 20 years	Last 10 years
Canada Prime Rate	2.53%	1.72%	79	80
USA Prime Rate	3.21%	2.15%	100	100
Mexico TIIE	3.59%	1.26%	112	59
UK Libor USD	0.54%	-0.62%	17	-29

Graph II



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About Alberto Calva. His expertise field is finance and economy. He has been a business consultant for more than 20 years. He has given seminars and workshops in 8 different countries having trained with this around 10,000 executives and entrepreneurs from 20 different countries. He has a unique mix of academic, practical, entrepreneurial, hands on experience and board member background. He holds a Bachelor degree of Industrial Engineering, a Master degree of Economics and an MBA with a major of Finance.

About this report. We prepare several reports every month regarding financial, economic and business issues. These reports are sent free of any charge to our database of clients and friends. We have been preparing and sending our reports for 20 years. We send each report to around 16,000 people.

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