

Mexico

Lackluster Growth: Mexico's Economy Expands at a Modest Pace**June 20, 2013**

Mexican economic indicators in recent months have been mixed, pointing to either continued modest or decelerating growth. Exports are down year to date, and industrial production continues falling. Employment growth was strong in April, but payrolls have grown more slowly this year than last. Retail sales ticked up in March but not enough to overcome the year-end slump. The rate of inflation was unchanged in May, and the peso reversed course and lost some ground against the dollar.

Output Growth Modest

The Global Economic Activity Index (IGAE), a monthly proxy for Mexico gross domestic product, grew 0.25 percent in March after growing 0.21 percent in February. IGAE has turned up since January but is still down from its November level (*Chart 1*). In March, service-related activities (including trade, transportation and government) expanded 1 percent. Goods-producing industries (including manufacturing, construction, utilities and mining) contracted 0.3 percent. Agricultural output fell 8 percent. The 2013 gross domestic product growth forecast from the latest central bank survey of economic analysts has been revised down to 3 percent from 3.4 percent in April.

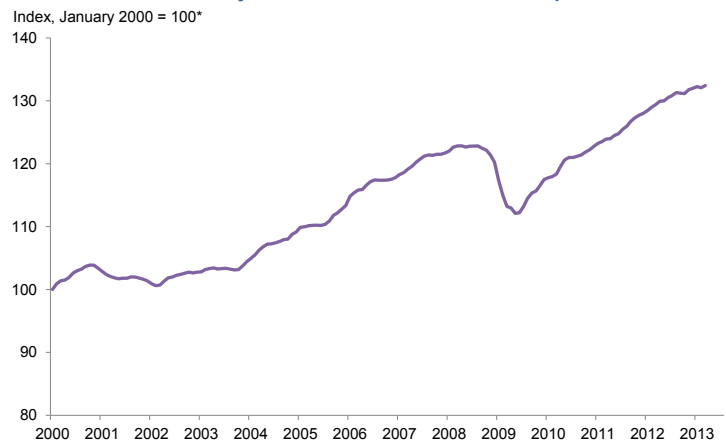
Exports Continue Falling

Exports fell 1.8 percent in April and are down 1.5 percent in the first four months of 2013 compared with the same period last year. However, three-month moving averages show a slight improvement in total exports despite falling oil shipments (*Chart 2*). Exports rose a meager 3.8 percent in 2012, a substantially slower pace than the 13.9 percent growth of the prior year. Manufacturing exports increased 6.3 percent, while oil exports fell 7.8 percent last year.

Industrial Production Remains Below 2012 Levels

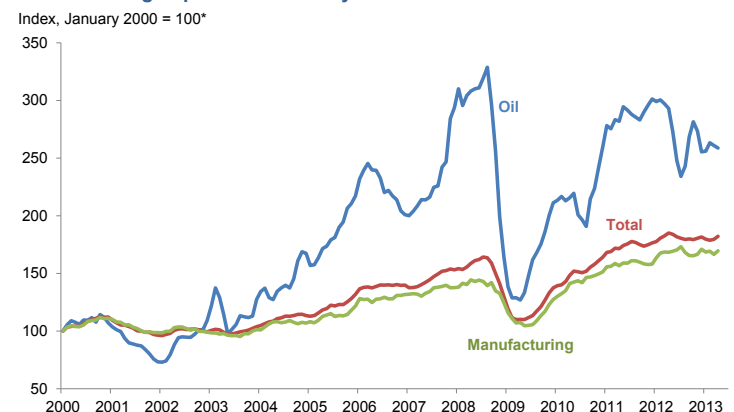
Industrial production (IP) fell for the second consecutive month in April; it fell 1.7 percent after declining 0.4 percent month over month in March. Three-month averages show slowing as Mexico IP remains below the levels reached in mid-2012 (*Chart 3*). On a monthly

Chart 1
Latest Economic Activity Index Consistent With Slow Output Growth



*Seasonally adjusted, three-month moving average.
SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Manufacturing Exports Hold Steady



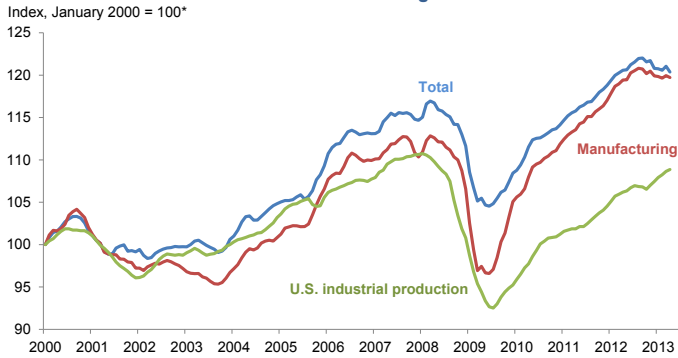
*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Banco de México.

basis, U.S. IP fell 0.6 percent in April after growing 0.3 percent in March. Mexico's industrial production typically tracks U.S. industrial production, due in part to the U.S. automotive industry's large presence in Mexico, but the two trends have diverged recently.

Retail Sales Have Not Recovered From Their Year-End Dip

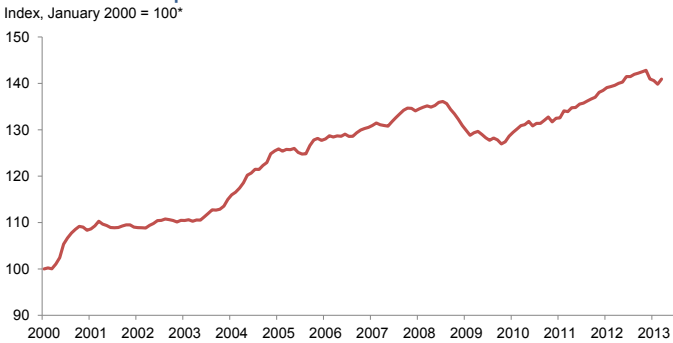
Retail sales increased 0.3 percent in March after falling 0.1 percent in February. However, the three-month moving aver-

Chart 3
Mexico Industrial Production Continues Falling



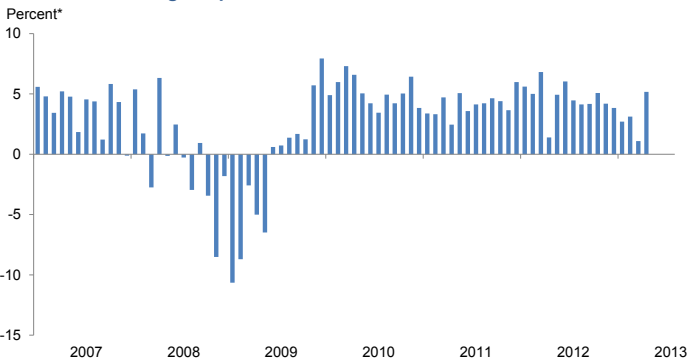
*Seasonally adjusted, three-month moving average.
 SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Tick Up in March



*Seasonally adjusted, three-month moving average; real pesos.
 SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 5
Job Growth Strong in April



*Month/month; seasonally adjusted, annualized rate.
 SOURCE: Instituto Mexicano del Seguro Social.

Chart 6
The Peso Loses Some Ground Against the Dollar in May



SOURCE: Banco de México.

age shows that retail sales remain at mid-2012 levels despite the March gain (*Chart 4*). In 2012, retail sales fell 0.4 percent (December over December). In 2013, consumer confidence declined in the first three months, rose in April but fell again in May.

Employment Growing but Slower Than Last Year

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 5.2 percent in April (*Chart 5*). Despite strong job growth in April, formal-sector employment has grown at 3 percent annualized growth year to date, below the 4.6 percent pace realized in 2012.

Peso/Dollar Exchange Rate

The exchange rate averaged 12.3 pesos per dollar in May. The peso has appreciated 4.2 percent since December 2012; however, it lost some ground from April, when the peso/dollar exchange rate averaged 12.2 pesos per dollar (*Chart 6*).

Inflation Rate Unchanged in May

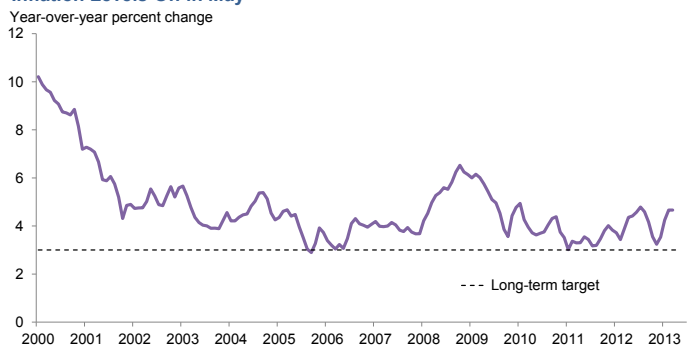
May inflation came in at the same pace as in April as prices rose 4.7 percent year over year (*Chart 7*). Prices excluding food and energy rose 2.9 percent, below the central bank’s long-term inflation target of 3 percent. The central bank lowered the policy rate to 4 percent in March, its first easing since July 2009, over concerns that growth was slowing. There has been no further easing in the past two monetary policy meetings.

—Jesus Cañas

About the Author

Cañas is business economist in the Research Department at the Federal Reserve Bank of Dallas.

Chart 7
Inflation Levels Off in May



SOURCE: Instituto Nacional de Estadística y Geografía.