

Mexico

Mexico's Economy Has Yet to Grow in 2013

September 13, 2013

Mexico's economy contracted in the second quarter after being flat during the first three months of the year. Overall, the Mexican economy shrank 1.4 percent at an annualized rate in the first half of the year (December to June). More recent data continue to show signs of weakness. Industrial production and employment growth remain below last year's levels. Retail sales are flat. Exports ticked up in July but are still down year to date. The rate of inflation fell to its lowest level in six months, and the peso depreciated against the dollar in August.

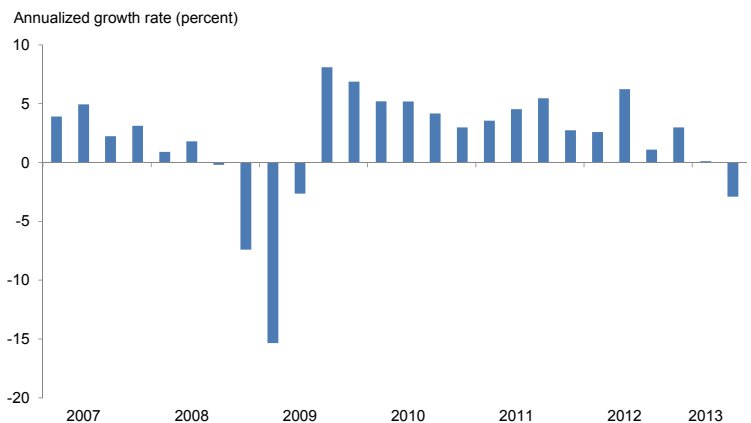
Output Falls

Mexico's economy contracted 2.9 percent in the second quarter after growing at a revised rate of 0.1 percent during the first quarter (Chart 1). Service-related activities (including trade, transportation and government) fell 1.7 percent in the second quarter, while goods-producing industries (including manufacturing, construction, utilities and mining) fell 4.3 percent. Agricultural output increased 5 percent. The 2013 gross domestic product growth forecast from the latest central bank survey of economic analysts has been revised down to 2.7 percent from 2.8 percent in June. The official growth estimate was revised down to 1.8 percent from 3 percent earlier in the year.

Exports Still Sluggish

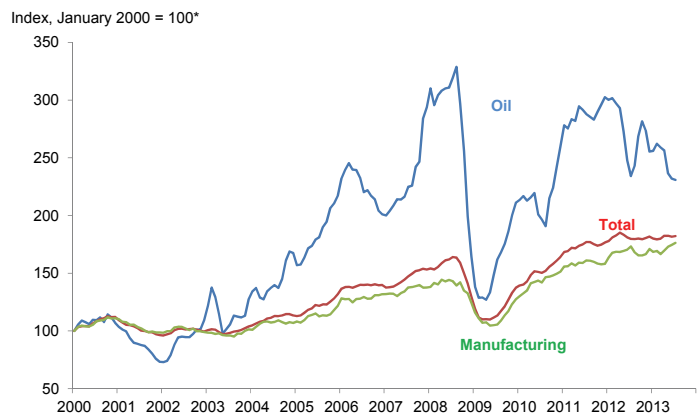
Exports grew 0.8 percent in July but are down 0.4 percent in the first seven months of 2013 compared with the same period last year. Three-month moving averages show a slight improvement in manufacturing exports, while oil shipments show considerable losses (Chart 2). Exports are posting their second consecutive year of little-to-no growth, having risen a meager 3.8 percent in 2012. Exports grew at double-digit rates in 2010 and 2011.

Chart 1
Mexico's Gross Domestic Product Fell in the First Half of the Year



SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Manufacturing Exports Improve as Oil Exports Continue Falling

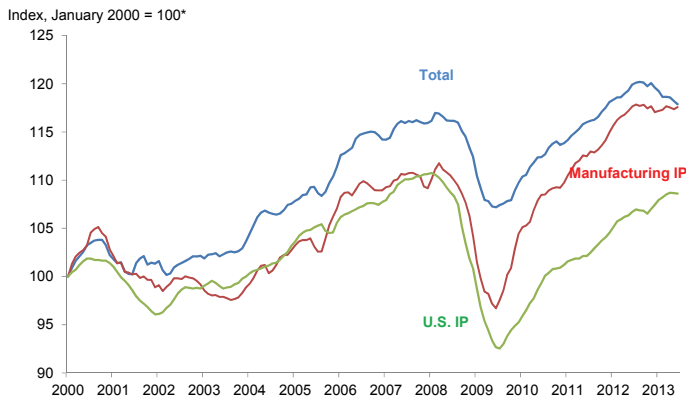


*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Banco de México.

Industrial Production Remains Below 2012 Levels

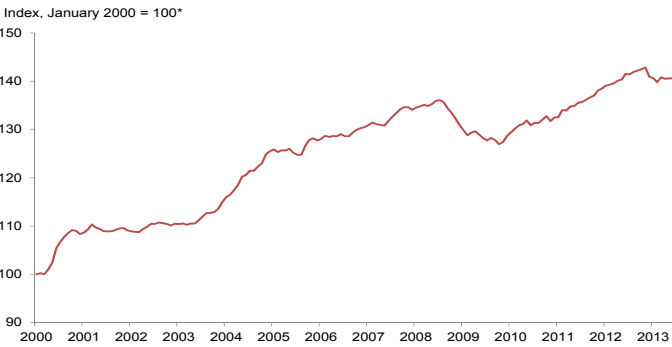
Industrial production (IP) fell 0.1 percent month over month in June after growing 0.2 percent in May. Three-month moving averages continued slowing, and Mexico IP remains below the levels reached in mid-2012 (Chart 3). U.S. IP was flat in July after growing 0.4 percent in June. Mexico's industrial production typically tracks U.S. industrial production, due in part to the U.S. automotive industry's large presence in Mexico.

Chart 3
Industrial Production Slows Further, but Manufacturing Holds Steady



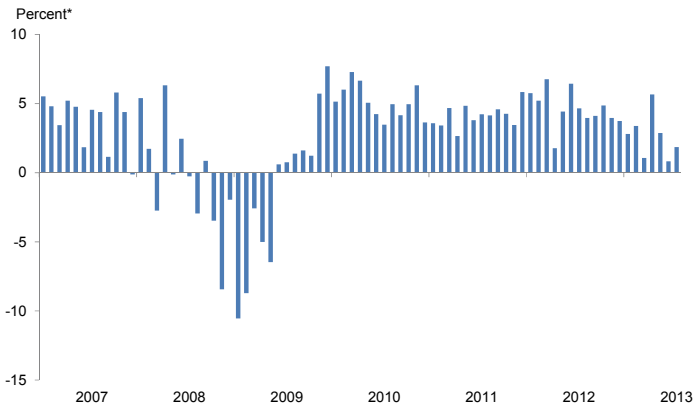
*Seasonally adjusted, three-month moving average.
 SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Flatten



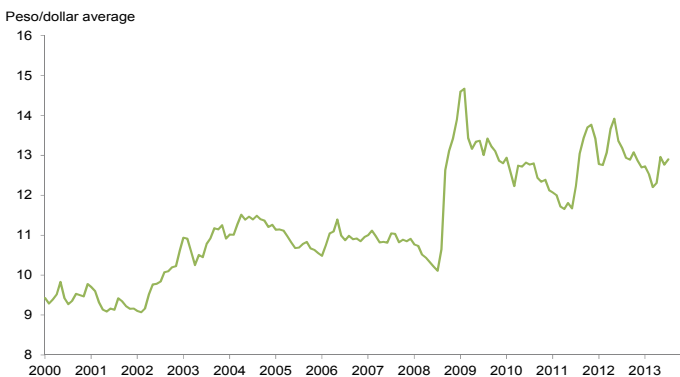
*Seasonally adjusted, three-month moving average; real pesos.
 SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 5
Modest Job Growth in July



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

Chart 6
Peso Depreciates in August after Gaining Some Ground in July



SOURCE: Banco de México.

Retail Sales Stagnating

Retail sales grew 0.1 percent in June after growing 0.8 percent in May. The three-month moving average shows flat retail sales at around mid-2012 levels (Chart 4). Year over year, retail sales are down 1.2 percent. In 2012, retail sales fell 0.4 percent (December over December). Consumer confidence improved in July after falling for two consecutive months.

Job Growth Picks Up in July

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 1.9 percent in July, slightly better than June’s growth of 0.8 percent, but below the average monthly growth rate of 2.6 percent for the year (Chart 5). Formal-sector employment grew at a 4.6 percent pace in 2012.

Peso Loses Ground Against the Dollar in August

The peso depreciated 1 percent in August when the exchange rate averaged 12.9 pesos per dollar, up from 12.8 pesos per dollar in July (Chart 6). Higher U.S. interest rates may be pushing up the dollar relative to the peso.

Inflation on the Downside

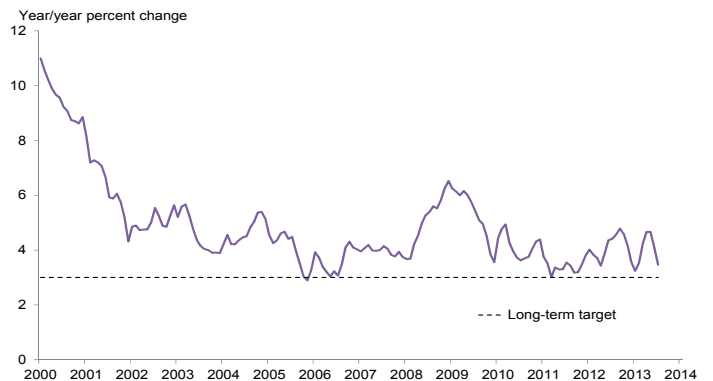
Inflation fell to 3.5 percent year over year in July, down from 4.1 percent in June (Chart 7). Prices excluding food and energy rose only 2.5 percent, below the central bank’s long-term inflation target of 3 percent. The central bank lowered its policy rate to 3.75 percent in September over concerns that the economy is slowing. This was the second easing so far this year.

—Jesus Cañas

About the Author

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

Chart 7
Inflation Continues Falling



SOURCE: Instituto Nacional de Estadística y Geografía.