

## Mexico

## Mexico's Economy Grows in Third Quarter

December 18, 2013

Mexico's economy expanded in the third quarter after contracting in the second quarter. Annualized growth through the third quarter was 0.7 percent higher relative to fourth quarter 2012. Recent data show mixed signals. Exports and employment grew; however, industrial production and retail sales fell. The rate of inflation is now at its lowest level since January, and the peso depreciated against the dollar in November.

**Output Grows**

On a quarter-over-quarter basis, Mexico's economy grew 3.4 percent in the third quarter after falling at a revised rate of 2.2 percent during the second quarter (*Chart 1*). Service-related activities (including trade, transportation and business services) grew 5.3 percent in the third quarter, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 3.6 percent. Agricultural output contracted 2 percent. The latest central bank survey of economic analysts puts 2013 GDP growth at 1.3 percent and forecasts 2014 growth of 3.3 percent.

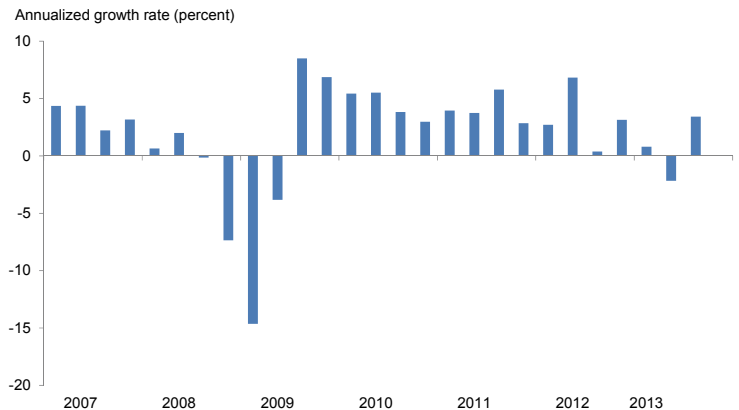
**Exports Inching Up**

Exports grew 0.7 percent in October and are up 0.9 percent in the first nine months of 2013 compared with the same period last year. Three-month moving averages continue to show slight improvement in total and manufacturing exports while oil shipments ticked down (*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.

**Manufacturing Output Improving**

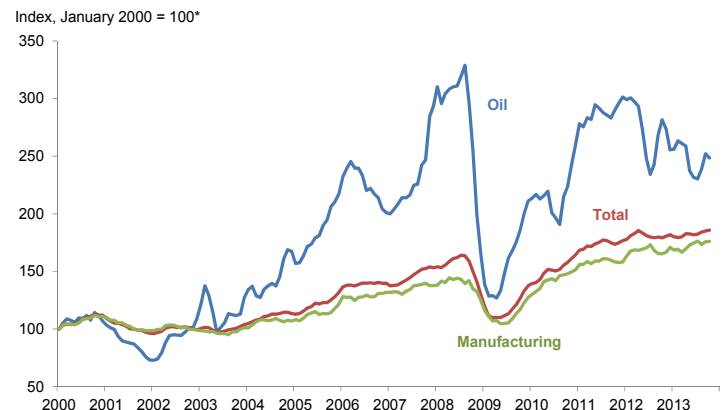
Industrial production (IP) fell 1.2 percent month over month in September after growing in the prior four months. Three-month moving averages show significant improvement in manufacturing output since June while total IP continues trending down due to lethargic construction (*Chart 3*). Meanwhile, U.S. IP fell 0.1 percent in October after growing 0.6 percent in September. 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 1**  
Mexico's Gross Domestic Product Grows in Third Quarter



SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 2**  
Total Exports Hold Steady as Oil Exports Tick Down



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

**Retail Sales Take a Dip**

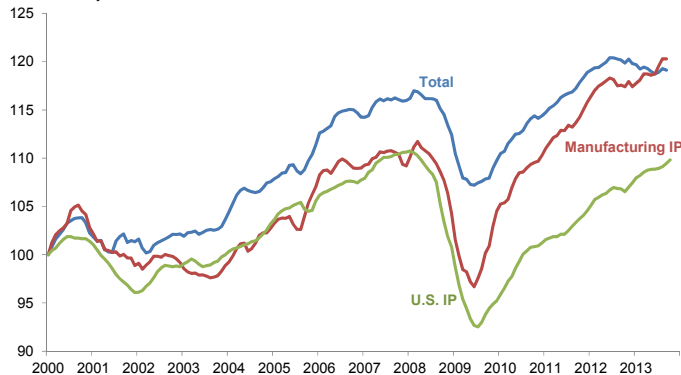
Retail sales fell 0.4 percent in September after falling 1.5 percent in August. The three-month moving average shows retail sales slowing significantly since June (*Chart 4*). Year over year, retail sales are down 3.8 percent. In 2012, retail sales fell 0.4 percent (December over December). Consumer confidence has worsened in the last three months.

**Job Growth Continues**

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.4 percent in October, better than September's growth of 2.5 percent and

**Chart 3**  
**Manufacturing Speeds Up**

Index, January 2000 = 100\*

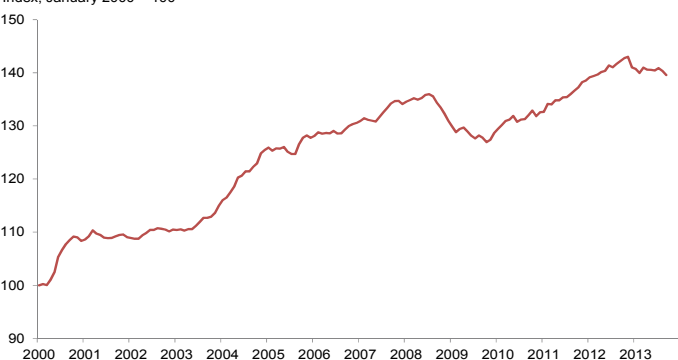


\*Seasonally adjusted, three-month moving average.

SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

**Chart 4**  
**Retail Sales Falling**

Index, January 2000 = 100\*

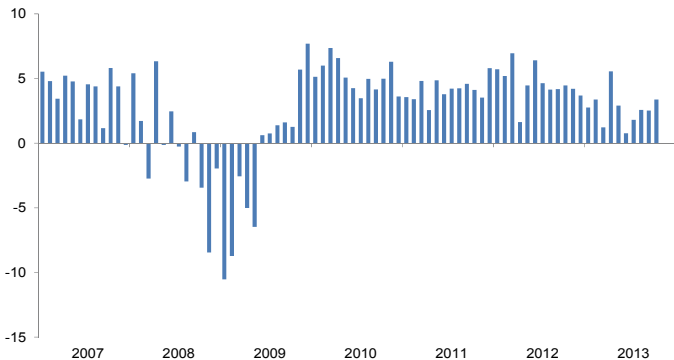


\*Seasonally adjusted, three-month moving average; real pesos.

SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 5**  
**Job Growth Stronger in Second Half of Year**

Percent\*



\*Month/month; seasonally adjusted, annualized rate.

SOURCE: Instituto Mexicano del Seguro Social.

**Chart 6**  
**Peso Depreciates Further in November**

Peso/dollar average



SOURCE: Banco de México.

above the average monthly growth rate of 2.7 percent for the year (*Chart 5*). Formal-sector employment grew 4.6 percent in 2012.

### Peso Depreciates Slightly

The peso depreciated 0.6 percent in November when the exchange rate averaged 13.1 pesos per dollar, up from 13 pesos per dollar in October (*Chart 6*). Higher U.S. interest rates may be helping push up the dollar relative to the peso.

### Inflation Falling

Inflation fell to 3.4 percent year over year in October, its lowest level since January (*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 3.5 percent in October over concerns that the economy continues to slow. This was the third monetary policy easing this year.

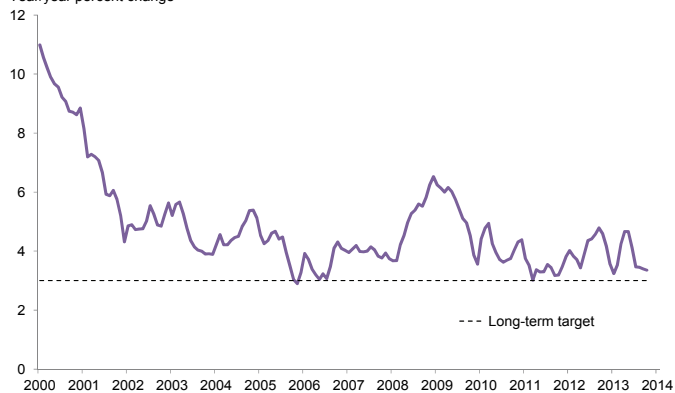
—Jesus Cañas

### About the Author

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**Chart 7**  
**Inflation Getting Close to Long-Run Target**

Year/year percent change



SOURCE: Instituto Nacional de Estadística y Geografía.

