

Mexico

Mexico Economy Slows in Fourth Quarter 2013

March 21, 2014

Mexico's economy decelerated in fourth quarter 2013, growing at an annualized rate of 0.7 percent. In 2013, the economy grew only 0.6 percent. Recent data are mixed. Industrial production and employment grew in January; however, exports and retail sales fell. Inflation turned down, and the peso lost some ground against the dollar in February.

Weak Output Growth

Mexico's economy expanded in the second half of 2013 after stalling during the first six months of the year. While quarter-over-quarter growth was 3.9 percent in the third quarter, growth was a dismal 0.7 percent in the fourth quarter (*Chart 1*). Service-related activities (including trade, transportation and business services) grew only 0.7 percent in the fourth quarter, while goods-producing industries (including manufacturing, construction, utilities and mining) fell 0.1 percent. Agricultural output grew 0.9 percent. The latest central bank survey of economic analysts puts the 2014 GDP growth forecast at 3.2 percent.

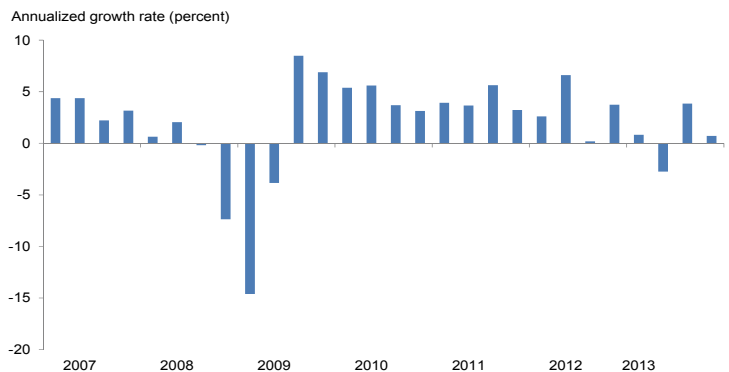
Exports Inching Down

Exports fell 3.4 percent in January after declining 0.2 percent in December. Three-month moving averages show a systematic decline in exports since October of last year (*Chart 2*). Bad weather in the United States, the destination for 80 percent of Mexican exports, may be playing a role. In 2013, total exports grew 0.9 percent, held down by oil exports, which declined 7.6 percent. Manufacturing exports increased 2.6 percent. 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.

Industrial Production Improving

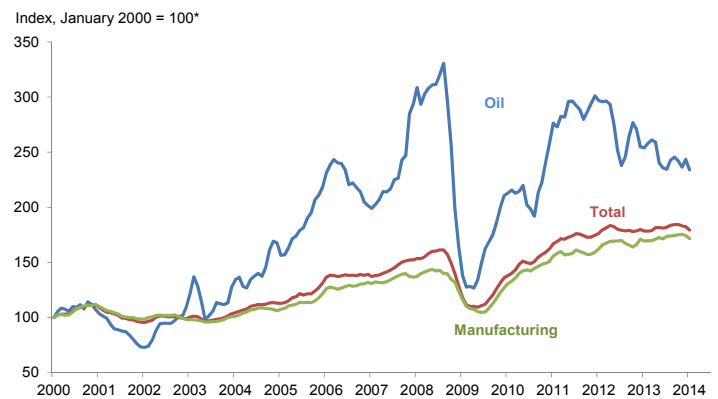
Mexico's industrial production (IP) grew 0.5 percent month over month in January after falling in December. Three-month moving averages show a deceleration in manufacturing output since October, but total

Chart 1
Mexico's Gross Domestic Product Decelerates in Fourth Quarter 2013



SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Exports Fall Toward End of 2013



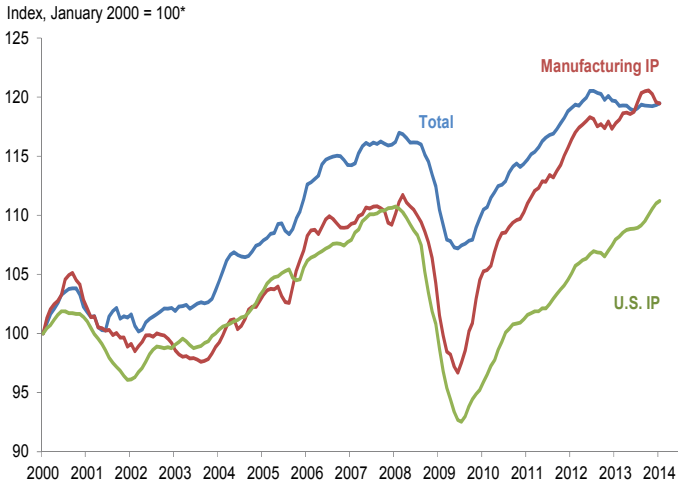
*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Banco de México.

IP—which also includes construction, oil and gas extraction, and utilities—appears to be trending up (*Chart 3*). Meanwhile, U.S. IP grew 0.6 percent in February after falling 0.2 percent in January. Mexico's industrial production typically tracks U.S. industrial production, due in part to the U.S. automotive industry's large presence in Mexico.

Retail Sales Take a Dip

Retail sales fell 2.2 percent in December after growing 3 percent in November. The three-month moving average shows retail sales improving during fourth quarter 2013

Chart 3
Industrial Production Improving While Manufacturing Output Slows



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

(Chart 4). Year over year, retail sales grew 2.4 percent in 2013. Consumer confidence finally improved in February after worsening for five consecutive months.

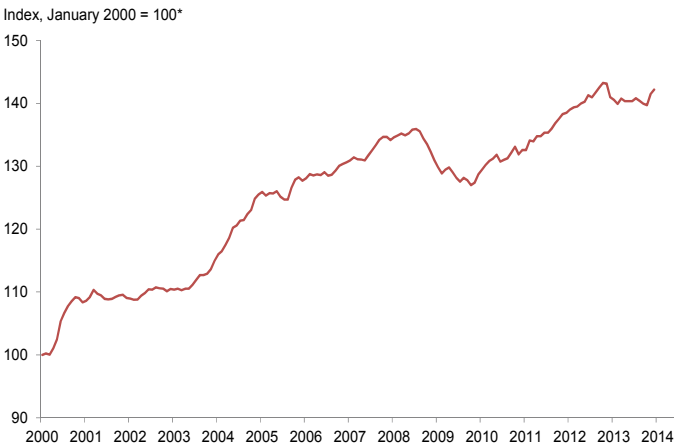
Job Growth Continues Albeit at a Slower Pace

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 1.7 percent in January, considerably slower than 2013 annual job growth of 2.9 percent (Chart 5). Formal-sector employment grew 4.6 percent in 2012.

Peso Depreciates Slightly

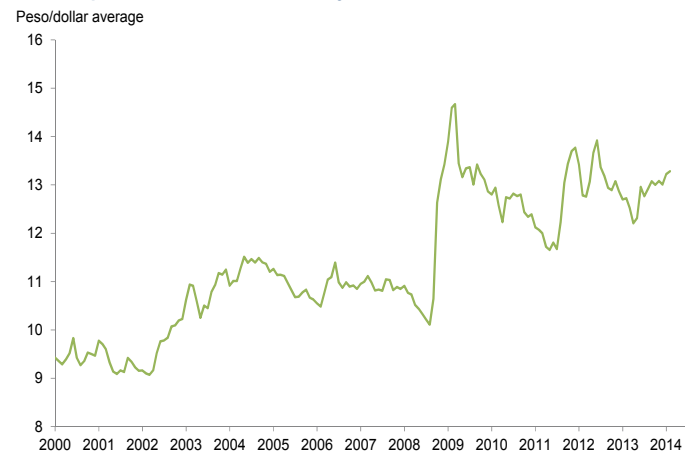
The peso depreciated 0.4 percent in February when the exchange rate averaged 13.3 pesos per dollar, up from 13.2 pesos per dollar in January (Chart 6). Since December, the peso has lost 2 percent against the U.S. dollar. Higher U.S. interest rates may be helping push up the dollar relative to the peso.

Chart 4
Retail Sales Pick Up in Fourth Quarter



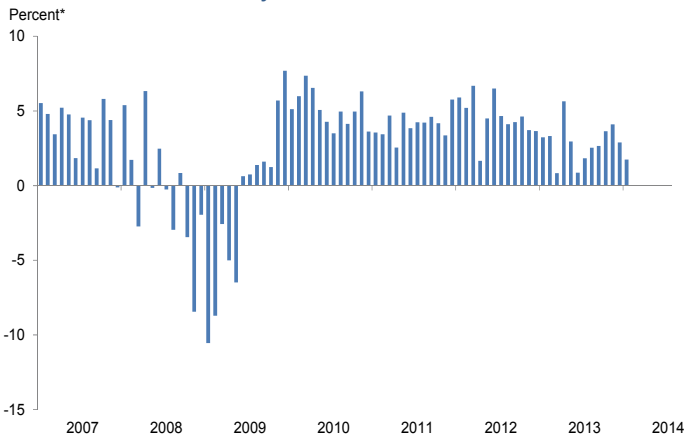
*Seasonally adjusted, three-month moving average; real pesos.
 SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 6
Peso Depreciates Further in February



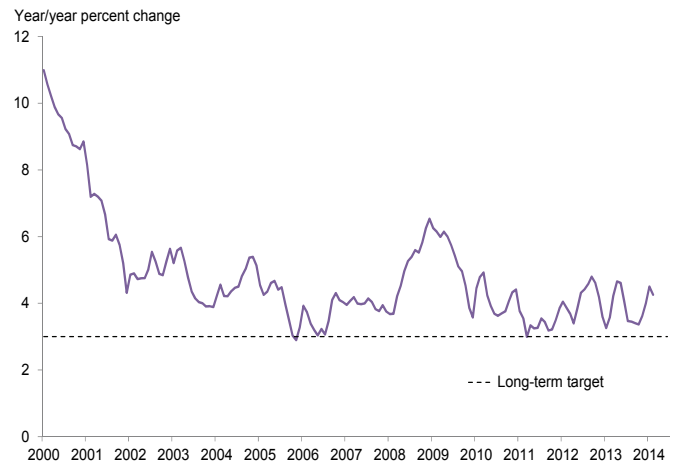
SOURCE: Banco de México.

Chart 5
Job Growth Slows in January



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

Chart 7
Inflation Ticks Down in February



SOURCE: Instituto Nacional de Estadística y Geografía.

Inflation Falls

Inflation fell to 4.3 percent year over year in February after rising for three consecutive months (*Chart 7*). Prices excluding food and energy rose 3 percent, in line with the central bank's long-term inflation target. The central bank lowered its policy rate three times in 2013 over concerns that the economy continued slowing. The policy rate has been on hold at 3.5 percent since October.

—Jesus Cañas

About the Author

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

