

Mexico

Mexico Economy Improves in 2014

May 2, 2014

Mexico's economy expanded in the first quarter as the monthly proxy for gross domestic product (GDP) increased in January and February after stalling in the fourth quarter of last year. Other data are mixed, however. Industrial production and employment grew in February and March, but retail sales and exports fell. Inflation turned down, and the peso gained ground against the dollar in April for the second consecutive month.

Output Grows

Mexico's global economic activity index (IGAE), the proxy for GDP, grew 0.5 percent in February after rising 0.2 percent in January (*Chart 1*). Service-related activities (including trade and transportation) expanded 0.5 percent in March, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 0.3 percent. Agricultural output rose 6.4 percent. Nevertheless, the consensus forecast for growth in 2014 was revised down from 3.2 percent in March to 3.1 percent in April.

Exports Edge Down

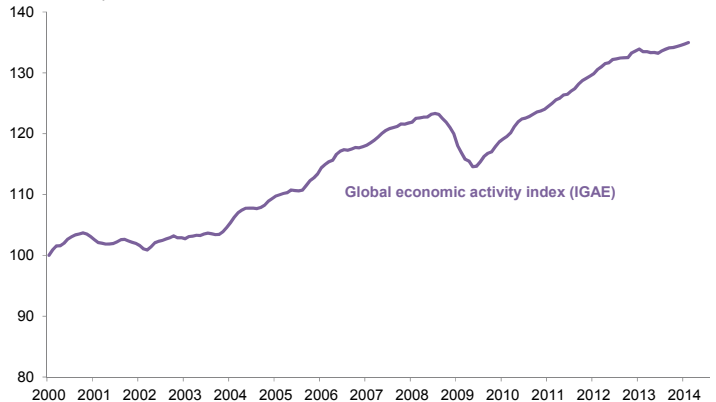
Exports fell 1.2 percent in March after growing 5 percent in February. Three-month moving averages reveal a systematic decline in oil exports, while total exports show improvement since the beginning of the year (*Chart 2*). In 2013, total exports grew 0.9 percent, held down by oil exports, which declined 7.8 percent. Manufacturing exports increased 2.5 percent in 2013.

Industrial Production Improves

Mexico's industrial production (IP) grew 0.3 percent month over month in February after increasing 0.6 percent in January. Three-month moving averages show a pickup in activity in both manufacturing and total IP, which also includes construction, oil and gas extraction, and utilities (*Chart 3*). Meanwhile, U.S. IP grew 0.7 percent in March after rising 1.2 percent in

Chart 1
Economy Back on Growth Track in 2014

Index, January 2000 = 100*

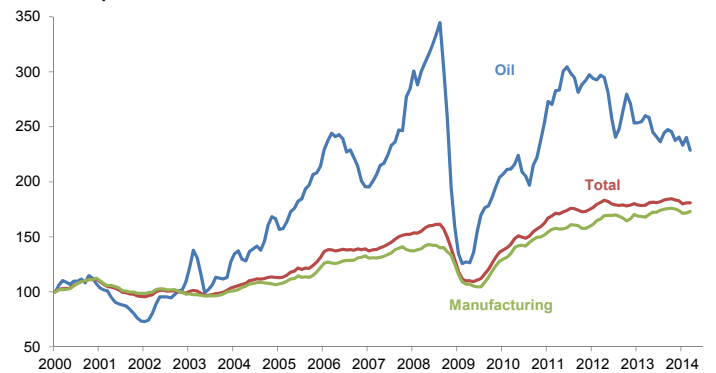


*Seasonally adjusted, three-month moving average.

SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Total Exports Rise While Oil Exports Continue to Fall

Index, January 2000 = 100*



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

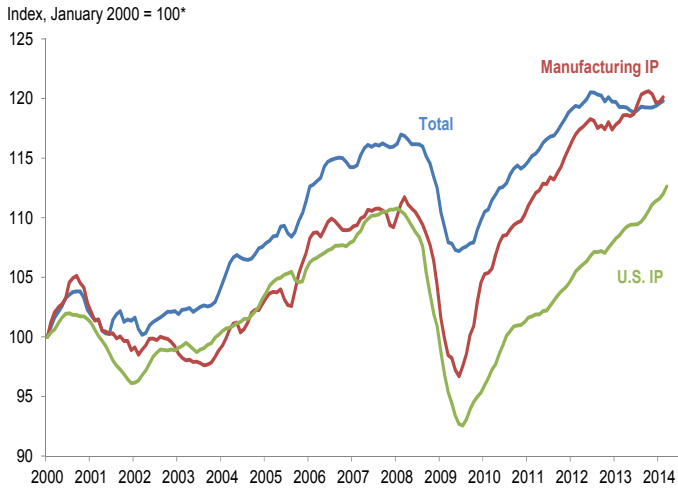
SOURCE: Banco de México.

February. 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 Continue to Slide

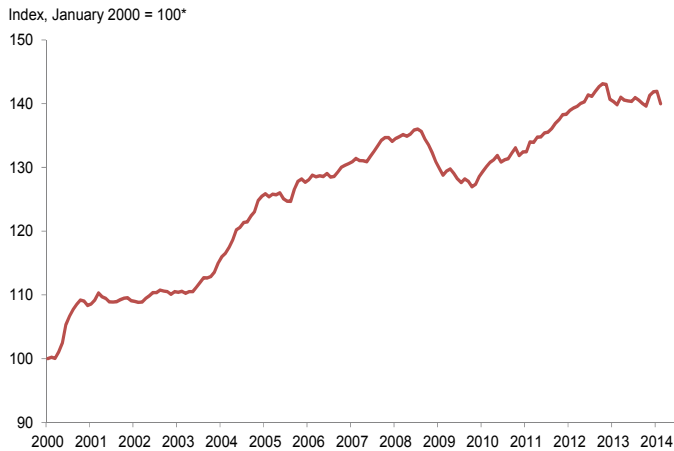
Retail sales fell for the third consecutive month in February, declining by 1.3 percent after falling 0.4 percent in January and 2.4 percent in December. The three-month moving average shows retail sales falling in 2014 following some improvement during fourth quarter 2013 (*Chart 4*). This pattern is consistent with the introduction of the fiscal reform in January that included the stand-

Chart 3
Industrial Production Improving in 2014



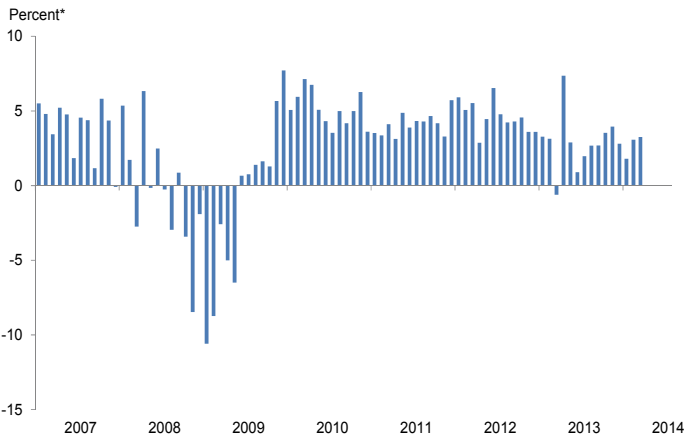
*Seasonally adjusted, three-month moving average.
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Take a Dip



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

Chart 5
Job Growth Improves in February and March



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

ardization of the value-added tax, the taxation of popular food items and the elimination of several tax deductions. Year over year, retail sales are down 1.7 percent. Consumer confidence improved for the second consecutive month in March after worsening over the prior five months.

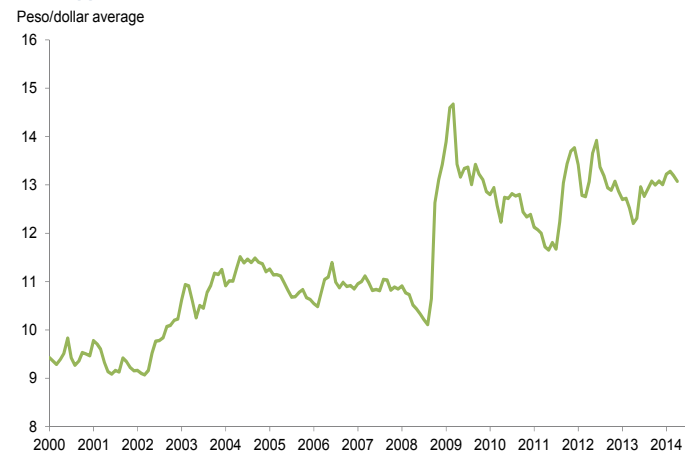
Job Growth Picks Up Pace

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.3 percent in March (*Chart 5*). Year to date, employment is up an annualized 2.7 percent from December. Job growth was 2.9 percent in 2013, down from 4.6 percent in 2012.

Peso Appreciates

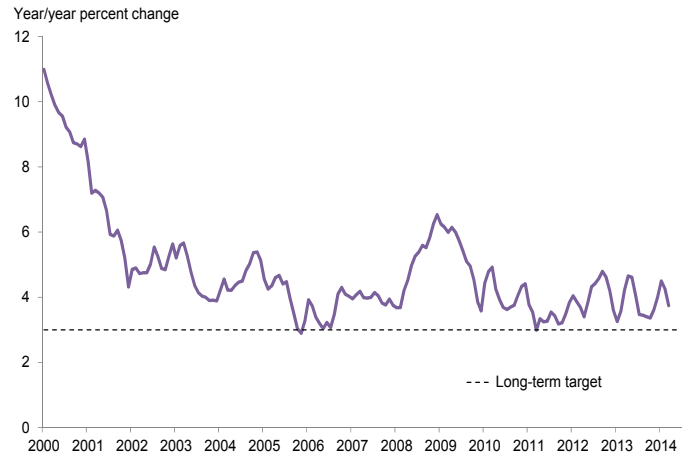
The peso appreciated 0.9 percent in April when the exchange rate averaged 13.1 pesos per dollar, up from

Chart 6
Peso Appreciates Into 2014



SOURCE: Banco de México.

Chart 7
Inflation Falls in March



SOURCE: Instituto Nacional de Estadística y Geografía.

13.2 pesos per dollar in March (*Chart 6*). Since December, the peso has lost only 0.5 percent against the U.S. dollar despite the global effects of Federal Reserve tapering and higher U.S. interest rates, which have adversely affected currencies of other emerging economies.

Inflation Falls

Inflation dropped to 3.7 percent year over year in March from 4.3 percent in February (*Chart 7*). Prices excluding food and energy rose 2.9 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.

