

Mexico

Mexico Economic Growth Disappoints but Recent Data Point to Improvement

June 23, 2014

Mexico's economy expanded at an annualized rate of 1.1 percent in first quarter 2014, an improvement from 0.5 percent growth in 2013. Recent data are consistent with a pickup in activity. Industrial production, employment, exports, and retail sales all grew. Inflation held steady, and the peso gained ground against the dollar in May for the third consecutive month.

Output Grows

Mexico's economy grew 1.1 percent in the first quarter on a quarter-over-quarter basis (*Chart 1*). Service-related activities (including trade, transportation and business services) grew 0.8 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 0.3 percent. Agricultural output contracted 0.1 percent in the first quarter. First-quarter growth was below analysts' expectations, and the consensus forecast for 2014 was revised down from 3.1 percent in April to 2.8 percent in May.

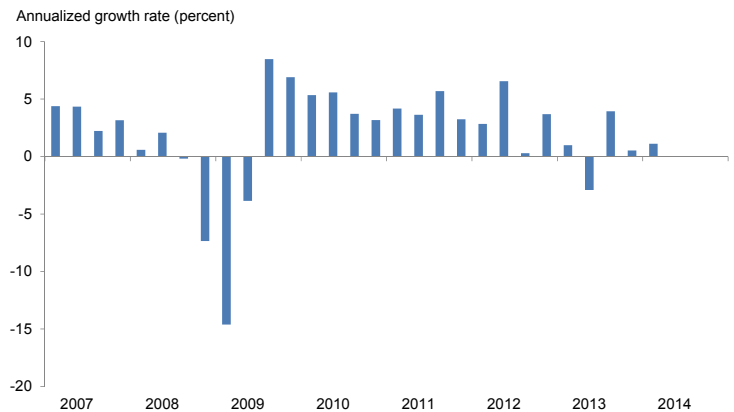
Exports Improve

Exports grew 1.8 percent in April after declining 1.1 percent in March. Three-month moving averages reveal a systematic decline in oil exports, while total exports show improvement since the beginning of the year (*Chart 2*). Year to date, total exports have grown 2 percent with manufacturing exports growing 4.3 percent. Oil exports have declined 13 percent during the first four months of 2014.

Industrial Production Improving

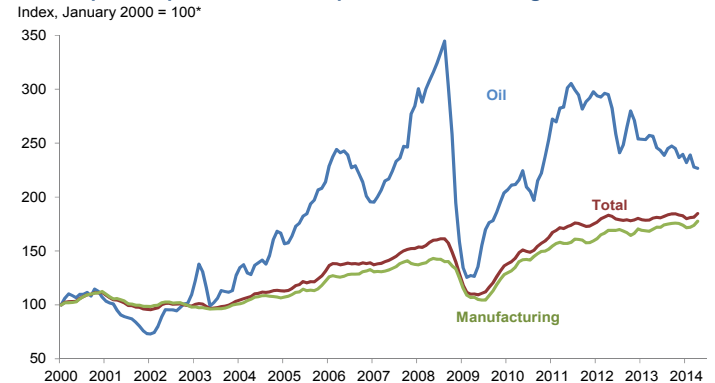
Mexico's industrial production (IP) grew 0.6 percent month over month in April after growing 0.2 percent in March. Three-month moving averages show a pickup in total IP—which also includes construction, oil and gas extraction and utilities—and manufacturing IP saw a sharp increase (*Chart 3*). Meanwhile, U.S. IP grew 0.7 percent in May after falling 0.3 percent in April. Mexico's industrial production typically tracks U.S. industrial production, due in part to the

Chart 1
Mexico's Gross Domestic Product Growth Improves Slightly in First Quarter 2014



SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Total Exports Improve While Oil Exports Continue Falling

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

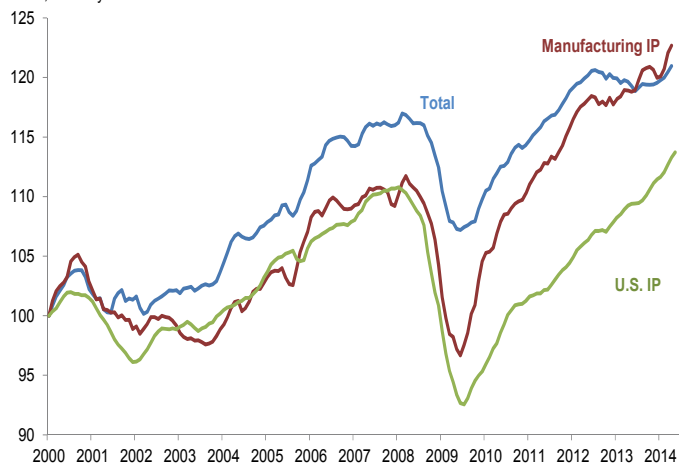
U.S. automotive industry's large presence in Mexico.

Retail Sales Tick Up

Retail sales grew 0.8 percent in March after three months of consecutive declines. 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 January fiscal reform that included a hike in the value-added tax, the taxation of popular food items and the elimination of several tax deductions. Year over year, retail sales are down 0.6 percent. Consumer confidence improved for

Chart 3
Industrial Production Increases as Manufacturing Takes Off

Index, January 2000 = 100*



*Seasonally adjusted, three-month moving average.

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

the fourth consecutive month in May.

Job Growth Picks Up Speed

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 5.5 percent in May, faster than the 2013 annual job growth of 2.9 percent (Chart 5). Formal-sector employment grew 4.6 percent in 2012.

Peso Appreciates

The peso appreciated 1.1 percent in May when the exchange rate averaged 12.9 pesos per dollar, down from 13.1 pesos per dollar in April (Chart 6). Since December, the peso has gained 0.6 percent against the U.S. dollar despite the global effects of Federal Reserve tapering, which have adversely affected currencies of other emerging economies.

Chart 4
Retail Sales Decline After Tax Hike

Index, January 2000 = 100*



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

SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 6
Peso Appreciates into 2014

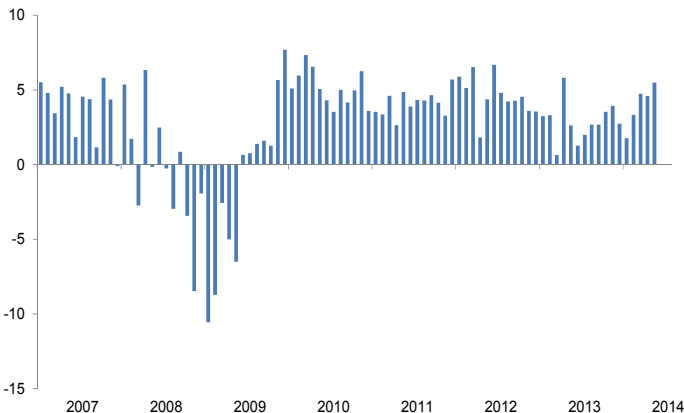
Peso/dollar average



SOURCE: Banco de México.

Chart 5
Strong Job Growth in May

Percent*

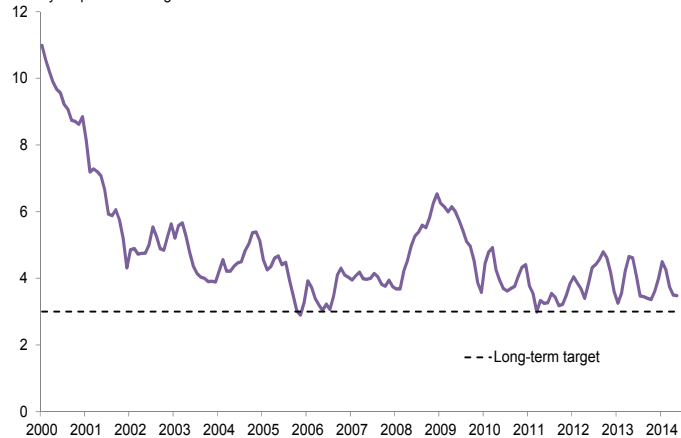


*Month/month; seasonally adjusted, annualized rate.

SOURCE: Instituto Mexicano del Seguro Social.

Chart 7
Inflation Holds Steady in May

Year/year percent change



SOURCE: Instituto Nacional de Estadística y Geografía.

Inflation Holds Steady

Inflation held steady at 3.5 percent year over year in May (Chart 7). Prices excluding food and energy rose 3 percent, in line with the central bank's long-term inflation target. Banco de México lowered the reference rate 50 basis points to 3 percent on June 6 to help stimulate economic growth. The rate cut suggests inflation expectations are well anchored.

—Jesus Cañas

About the Author

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