

Mexico

Mexico Economy Improves in Second Quarter

September 22, 2014

Mexico's economy expanded at a much faster rate in the second quarter than in the first. Recent data point to continued growth, with industrial production, employment, exports and retail sales all growing in July and August. Inflation ticked up, and the peso lost ground against the dollar in August.

Output Posts Solid Growth

Mexico's economy grew 4.2 percent in the second quarter, compared with a revised 1.8 percent rate in the first (*Chart 1*). Service-related activities (including trade, transportation and business services) grew 4.3 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 4.1 percent. Agricultural output expanded 3.7 percent in the quarter. Despite the pickup in overall activity, the consensus forecast for gross domestic product growth in 2014 was revised down from 2.6 percent in July to 2.5 percent in August.

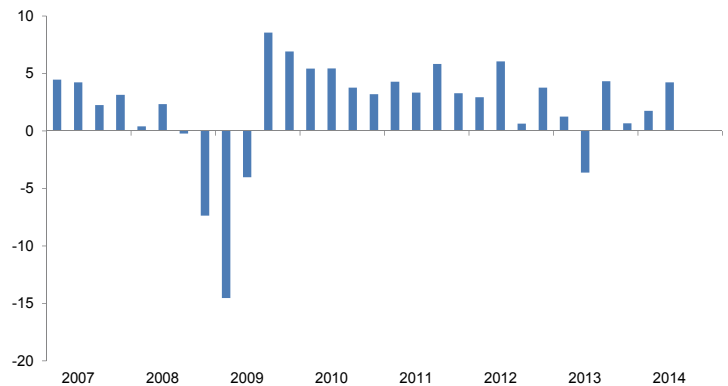
Exports Rise Despite Decline in Oil Trade

Exports grew 1.5 percent in July after coming in flat in June. Three-month moving averages reveal a continued steep decline in oil exports, while total exports have been expanding since the beginning of the year (*Chart 2*). Year to date, total exports have grown 2.9 percent, with manufacturing exports up 4.6 percent. Oil exports declined 10.1 percent during the first seven months of 2014.

Industrial Production Showing Improvement

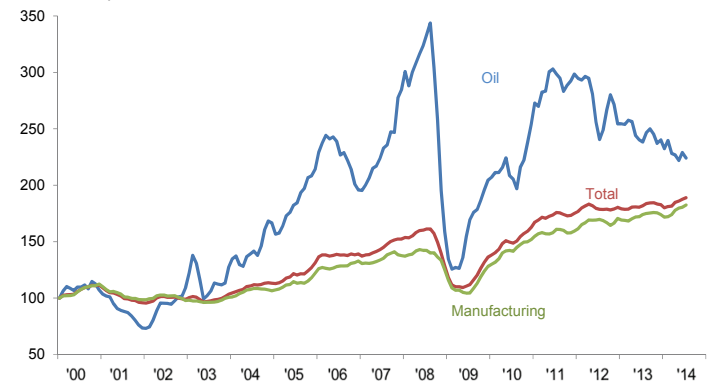
Mexico's industrial production (IP) grew 0.3 percent month over month in July after slipping 0.2 percent in June. Three-month moving averages show a broad pickup in total IP, which also includes construction, oil and gas extraction, and utilities. Manufacturing IP continued to increase faster than total production (*Chart 3*), and construction IP (not shown) is growing again. Meanwhile, U.S. IP fell 0.1 percent in August

Chart 1
Gross Domestic Product Growth Improves in Second Quarter
Annualized growth rate (percent)



SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Total Exports Growing as Oil Exports Continue Falling
Index, January 2000 = 100*

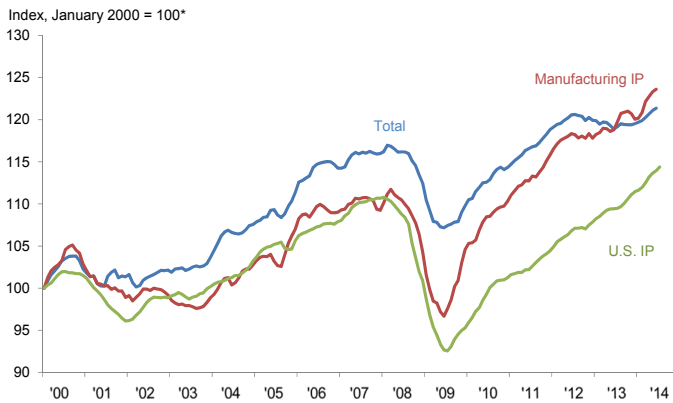
*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Instituto Nacional de Estadística y Geografía.

after rising 0.2 percent in July. 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 Tick Up

Retail sales rose 0.2 percent in June after posting flat growth in May. The three-month moving average, which was essentially flat for all of 2013, has shown some im-

Chart 3
Industrial Production Rises as Manufacturing Takes Off



provement since March (*Chart 4*). Year over year, retail sales are up 1.4 percent. Consumer confidence worsened in August for the second consecutive month.

Job Growth Slows in August

Formal sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.1 percent in August, faster than the annual rate of 2.9 percent in 2013 but slower than the 4 percent average so far in 2014 (*Chart 5*). Formal sector employment grew 4.6 percent in 2012.

Peso Depreciates Slightly

The peso fell 1.1 percent against the dollar in August as the exchange rate declined from 13 pesos per dollar in July to 13.1 in August (*Chart 6*). Since December, the peso has been stable—losing only about 1

Chart 4
Retail Sales Showing Some Improvement

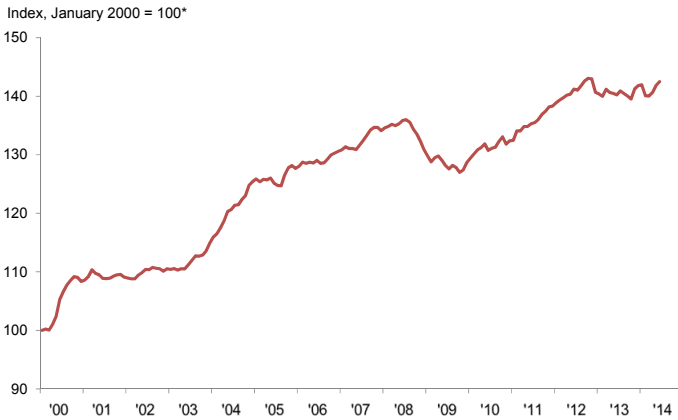


Chart 6
Dollar Is Up Versus Peso in August



Chart 5
Job Growth Slows After the First Half of 2014

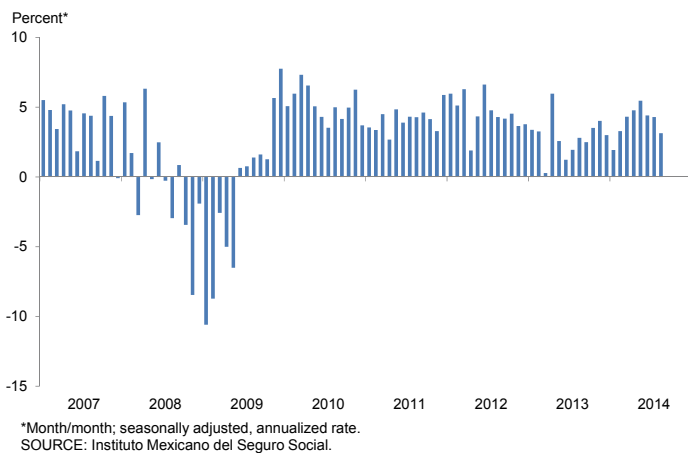
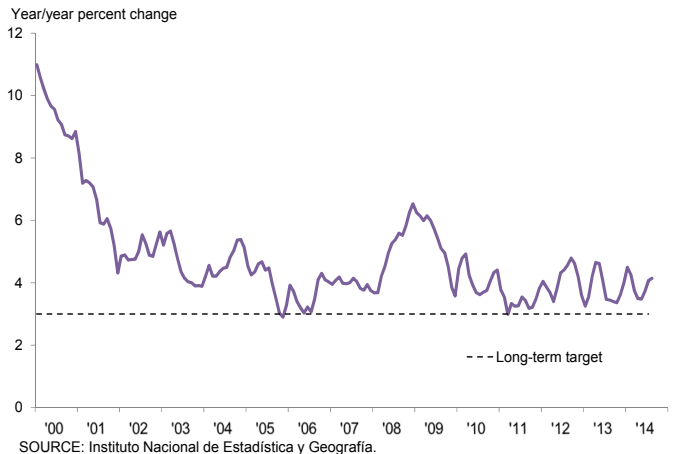


Chart 7
Inflation Picks Up in August for Third Consecutive Month



percent against the U.S. dollar—even as Federal Reserve tapering has adversely affected the currencies of other emerging economies.

Inflation Picks Up Again in August

Inflation increased to 4.1 percent year over year in August (*Chart 7*). Prices excluding food and energy rose 3.4 percent, which is slightly above the central bank’s long-term inflation target of 3 percent. Monetary policy has been on hold since Banco de México lowered the reference rate in June by 50 basis points to 3 percent to help stimulate economic growth. Policymakers continue to believe that inflation expectations are well-anchored.

—Jesus Cañas

About the Author

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

