

Mexico

Data on Mexico's First-Quarter Growth Offer Mixed Outlook

May 4, 2015

Mexico's economy likely slowed in the first quarter as the monthly proxy for gross domestic product (GDP) came in flat in February. Other recent data were generally consistent with modest expansion. Employment, retail sales and manufacturing industrial production (IP) grew at a slower rate; exports edged down. Inflation ticked up, and the peso held steady against the dollar in April.

Output Growth Flat in February

Mexico's global economic activity index, the proxy for GDP, was flat in February after rising 0.3 percent in January. The three-month moving average shows some deceleration in 2015 (*Chart 1*). Service-related activities (including trade and transportation) were flat, while goods-producing industries (including manufacturing, construction and utilities) grew 0.2 percent. Agricultural output contracted 5 percent. As of March, the 2015 consensus growth forecast was revised down to 3 percent from 3.1 percent in February.

Exports Dip in March

Exports slipped 0.1 percent in March after growing 0.1 percent in February. Three-month moving averages reveal a continued steep oil exports decline—off 46 percent between January and March 2015 compared with the year-ago period (*Chart 2*). Sliding oil prices, down 52 percent since June 2014, account for much of the fall-off. Total exports also declined 0.5 percent during the first three months of the year, while manufacturing exports increased 5.8 percent.

Industrial Production Picks Up

Mexico's IP grew 0.2 percent month over month in February after falling 0.1 percent in January. However, three-month moving averages indicate a slowdown in total IP, which includes construction, oil and gas extraction, and utilities. Manufacturing IP also showed signs of cooling off, mimicking U.S. IP, although it continued increasing at a faster pace than total production (*Chart 3*). U.S. IP fell 0.7 percent in March after growing 0.1 percent in February. Mexico's industrial production typically tracks U.S. IP, in part because of the U.S. automotive industry's large

Chart 1
Mexico's Output Growth Flattens

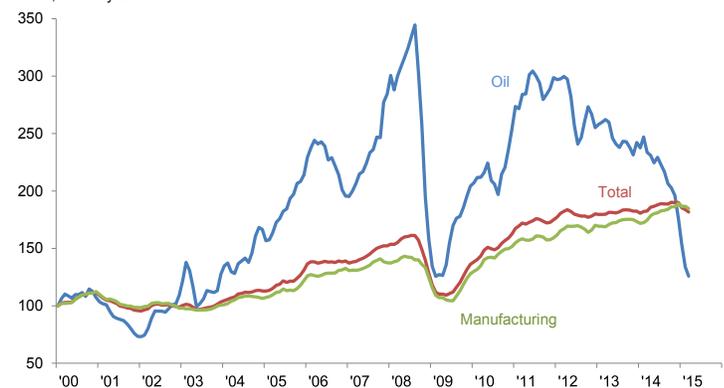
Index, January 2000 = 100*



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

Chart 2
Oil Exports Fall with Oil Prices, Dragging Down Total Exports

Index, January 2000 = 100*



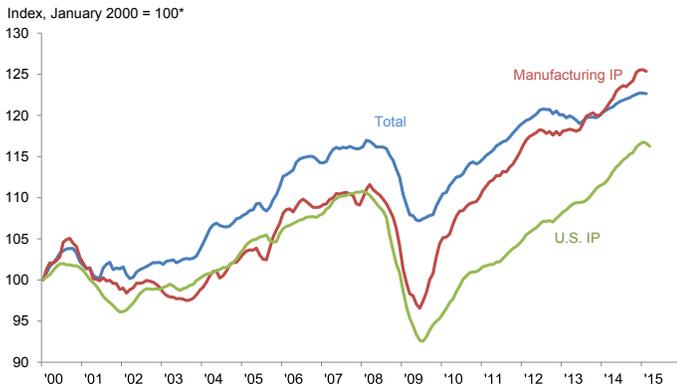
*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Instituto Nacional de Estadística y Geografía.

presence in Mexico.

Retail Sales Keep Improving

Retail sales rose 0.5 percent in February after surging 2.1 percent in January. The three-month moving average has shown continued improvement since November (*Chart 4*). Year over year, retail sales are up 5.5 percent. Consumer confidence improved for a second consecutive month in March.

Chart 3
Manufacturing Production Shows Signs of Cooling



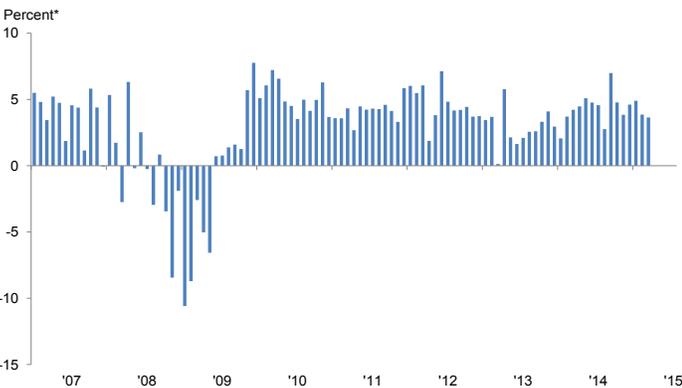
*Seasonally adjusted, three-month moving average.
 SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Increase Since Beginning of 2015



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

Chart 5
Job Growth Slows in First Quarter but Is Still Robust



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

Chart 6
Peso Levels Off in April



SOURCE: Banco de México.

Job Growth Healthy in March

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.6 percent in March, slightly slower than 2014 annual job growth of 4.3 percent (*Chart 5*). Year to date, employment is up an annualized 4.1 percent from December.

Peso Holds Steady in April

The peso held steady at 15.2 pesos per dollar in April (*Chart 6*). However, the currency has lost 14 percent of its value against the dollar over the past year. The peso has been unstable partly as a result of the expectation of higher U.S. rates and the likely impact of falling oil prices on Mexico’s government finances. Oil revenue accounts for about one-third of the federal government budget.

Inflation Still on Target

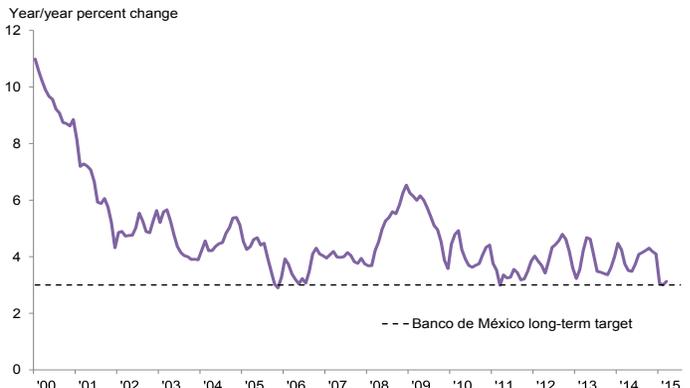
Inflation was little changed in March at 3.1 percent, up from 3 percent year over year in February (*Chart 7*). Prices excluding food and energy rose 2.4 percent, below the central bank’s long-term inflation target of 3 percent. Banco de México has kept policy rates on hold since June, when it lowered the reference rate by 50 basis points to 3 percent to help stimulate economic growth. Central bank policymakers believe that inflation expectations are well-anchored. However, policymakers have noted that they may raise interest rates if the peso’s weakness pushes up inflation.

—Jesus Cañas

About the Author

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

Chart 7
Inflation Ticks Up in March



SOURCE: Instituto Nacional de Estadística y Geografía.