

Mexico

Mexico Economic Activity Improves in Second Quarter

August 5, 2015

After a weak start to the year, Mexico's economy likely picked up slightly in the second quarter as the monthly proxy for gross domestic product (GDP) grew in April and May. However, more recent data suggest that growth is disproportionately driven by the service sector and domestic demand. Exports and industrial production fell in the most recent readings, while employment growth continued at a strong pace and retail sales picked up. Inflation remains under control, and the peso depreciated again in June and July after three months of relative stability.

Output Growth Improves in April, May

Mexico's global economic activity index, the proxy for GDP, grew 0.6 percent in April and 0.1 in May after falling 0.5 percent in March. The three-month moving average shows continued growth in the second quarter (*Chart 1*). Service-related activities (including trade and transportation) grew 0.4 percent in May, while goods-producing industries (including manufacturing, construction and utilities) fell 0.4 percent. Agricultural output expanded 2.5 percent. The 2015 consensus GDP growth forecast was revised down to 2.6 percent in July from 2.7 percent in June.

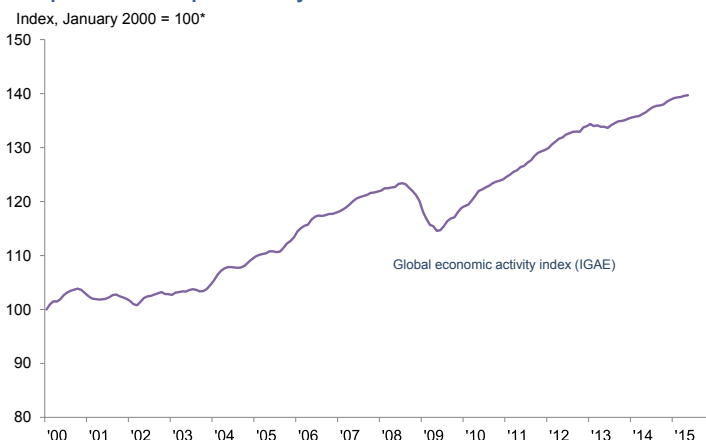
Exports Dip in May

Exports contracted 5.2 percent in May after growing 1.5 percent in April. Three-month moving average reveals a decline in total exports since January. Oil exports ticked up in the most recent months, likely due to the improvement in the oil price in late spring (*Chart 2*). Nevertheless, oil exports are down 45 percent in the first five months of 2015 compared with the same period a year ago. Manufacturing exports are slowing down and only grew 3.8 percent year over year.

Industrial Production Falls in May

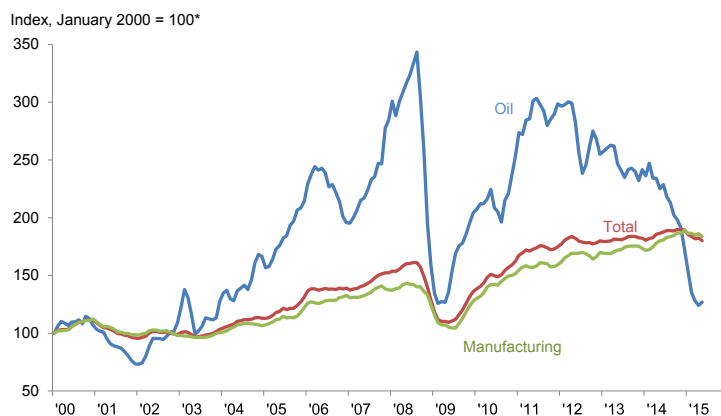
Mexico's industrial production (IP) fell 0.4 percent in May after falling 0.1 percent in April. Three-month moving averages show a systematic slowing in total IP, which includes manufacturing, construction, oil and gas extraction, and utilities. In contrast, manufacturing IP continues on an upward

Chart 1
Output Grows in April and May



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

Chart 2
Total Exports Down While Oil Exports Tick Up



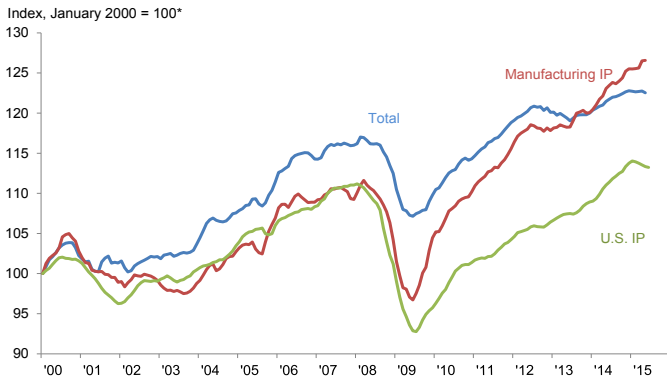
*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Instituto Nacional de Estadística y Geografía.

trend (*Chart 3*). Meanwhile, U.S. IP grew 0.2 percent in June after falling for five consecutive months.

Retail Sales Grow in May

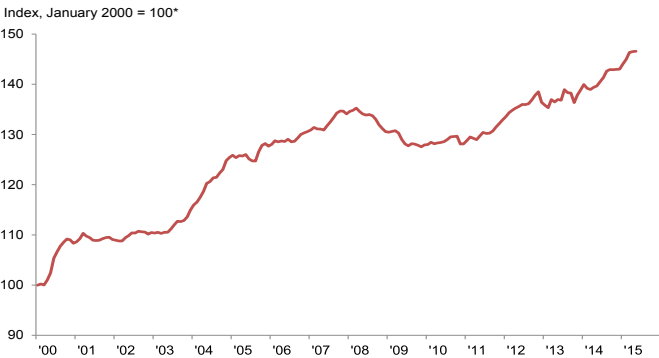
Retail sales grew 0.2 percent in May after falling 0.3 percent in April. The three-month moving average shows some slowing in retail sales after a very strong showing over the prior five months (*Chart 4*). Year over year, retail sales are up 5.5 percent. Consumer confidence improved in June.

Chart 3
Manufacturing Production Outgrows Total Industrial Production (IP)



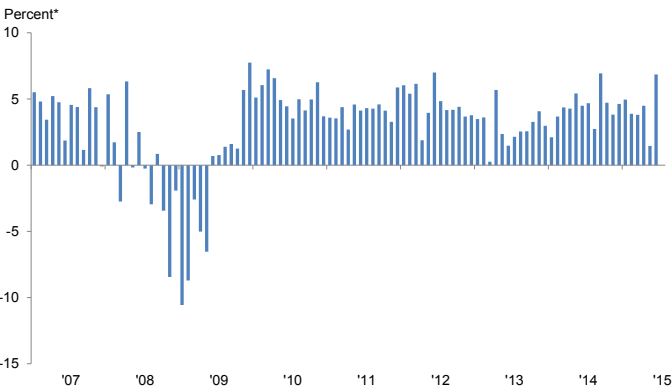
*Seasonally adjusted, three-month moving average.
 SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Slow After Growth Spurt



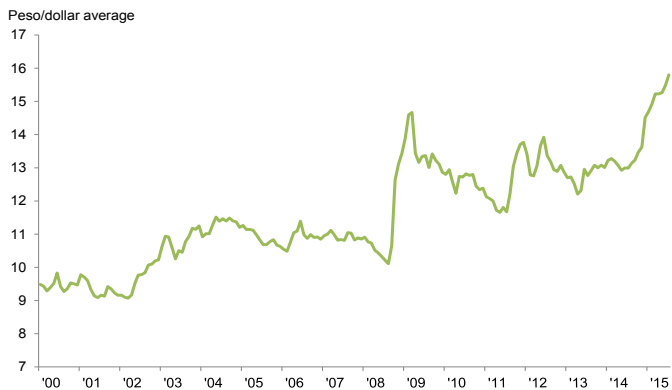
*Seasonally adjusted, three-month moving average; real pesos.
 SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 5
Job Growth Rebounds in June



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

Chart 6
Peso Depreciates to Levels Not Seen in Recent History



SOURCE: Banco de México.

Job Growth Remains Robust

Formal-sector employment—jobs with government benefits and pensions—rose at an impressive annualized rate of 6.9 percent in June (*Chart 5*). Year to date, employment is up an annualized 4.2 percent from December, slightly slower than the 2014 annual job growth rate of 4.3 percent.

Peso Depreciates in July

The peso fell against the dollar during the first 23 days of July, when the exchange rate averaged 15.8 pesos per dollar, up from 15.4 pesos in June (*Chart 6*). The peso has lost 18 percent of its value against the dollar year over year, depreciating 3.3 percent over the last two months. The Mexican currency has been unstable partly as a result of the expectation of an increase in U.S. interest rates and the impact of falling oil prices on Mexico’s government finances. Oil revenues account for about one-third of the federal government budget.

Inflation Holds Steady in June

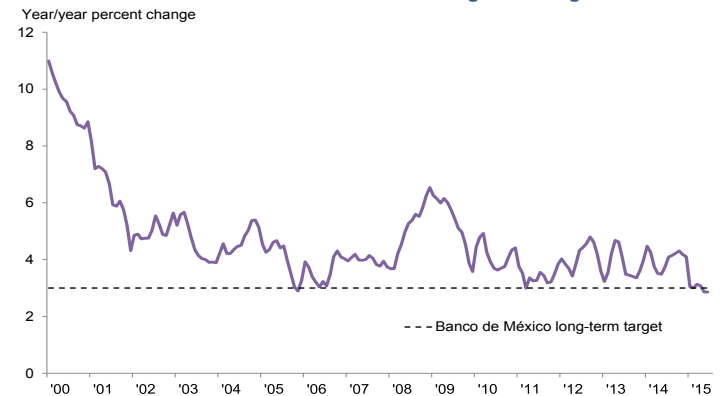
Inflation remained at 2.9 percent in June, below the central bank’s long-term inflation target of 3 percent (*Chart 7*). Prices, excluding food and energy, rose 2.3 percent. Banco de México has kept policy rates on hold since June 2014 as central bank policymakers believe that inflation expectations are well-anchored. However, they have noted their intent to raise interest rates when the Federal Reserve does to prevent any adverse effects on the peso, which could push 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 Remains Below Banco de México’s Long-Term Target



SOURCE: Instituto Nacional de Estadística y Geografía.