

Mexico

Mexico's Economic Growth Continues at a Moderate Pace

November 2, 2015

Mexico's economy continued growing in the third quarter. The government's monthly gross domestic product (GDP) measure increased in July and August. In addition, recent data on exports, employment, retail sales and industrial production are all up. Inflation appears firmly under control despite the peso's depreciation against the dollar. The consensus 2015 GDP growth forecast held steady in September at 2.3 percent.

Output Growth Picks Up in August

Mexico's Global Economic Activity Index, the monthly proxy for GDP, grew 0.4 percent in August after increasing 0.1 percent in July. The three-month moving average shows steady growth since the end of 2013 (*Chart 1*). Service-related activities (including trade and transportation) increased 0.5 percent in August, while goods-producing industries (including manufacturing, construction and utilities) grew 0.2 percent. Agricultural output expanded 6.6 percent. Official estimates of third-quarter GDP will be released Nov. 21. Mexico GDP grew 1.9 percent (annualized) in the first half of the year.

Exports Grow in September

Exports grew 1 percent in September after dropping 6.4 percent in August. The three-month moving average of exports stabilized after declining for several months (*Chart 2*). Oil exports improved in late spring due to a slight recovery in oil prices; however, the trend was quickly reversed. Total exports were down 3 percent and oil exports were off 45 percent in the first nine months of 2015 compared with the same period a year ago. Manufacturing exports were up 2.3 percent year over year in September.

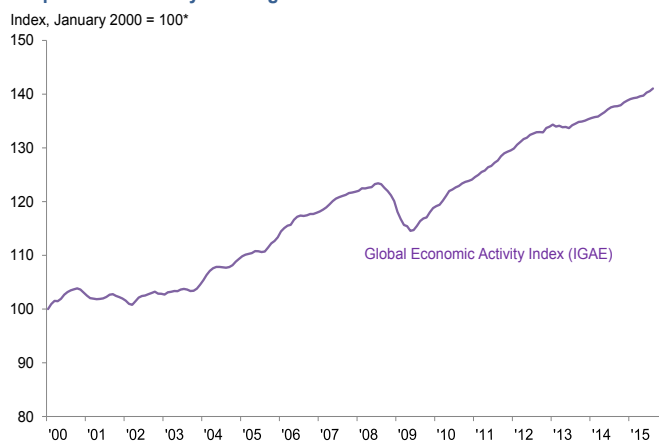
Industrial Production Expands in August

Mexico industrial production (IP) growth is recovering after pausing earlier in the year. Total IP—which includes manufacturing, construction, oil and gas extraction, and utilities—increased up 0.2 percent in August. Three-month moving averages show a turnaround in total IP (*Chart 3*). In addition, manufacturing IP continues on an upward trend. Meanwhile, U.S. IP fell 0.2 percent in September.

Retail Sales Increase in July

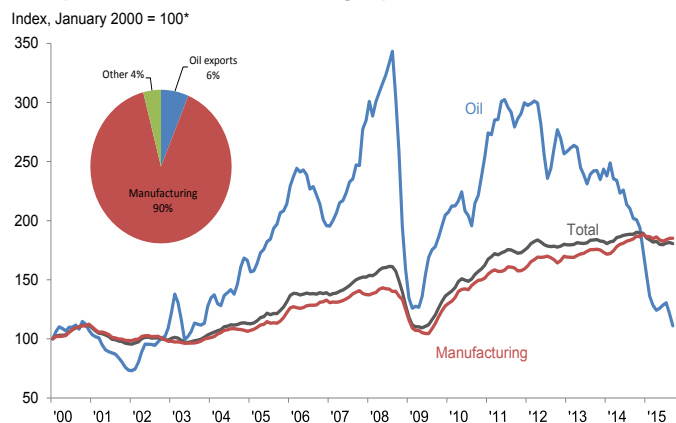
Retail sales rose 0.5 percent in July after growing 1.2 percent in June. The three-month moving average shows strong growth over the first seven months of the year (*Chart 4*). Year over year, retail sales are up 5 percent. However, consumer confidence worsened in August and September.

Chart 1
Output Grows in July and August



*Three-month moving average, seasonally adjusted.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 2
Oil Exports Plummet as Manufacturing Exports Stabilize



*Three-month moving average, seasonally adjusted; real dollars.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

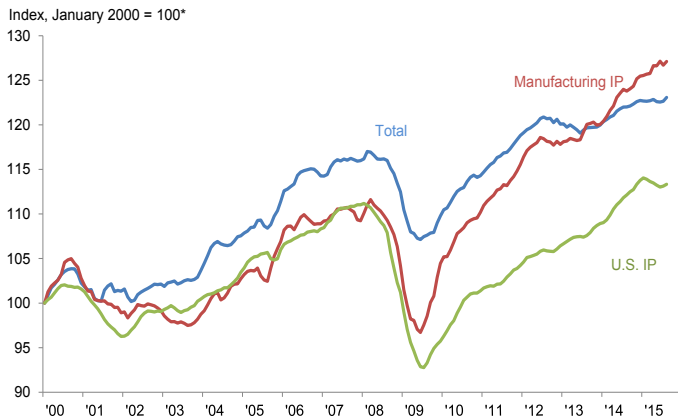
Job Growth Continues in 2015

Formal-sector employment—jobs with government benefits and pensions—rose at an annualized rate of 3.7 percent in September (*Chart 5*). Year to date, employment is up an annualized 4.2 percent, which is about the same as the 2014 annual job growth rate.

Peso Holds Relatively Steady in October

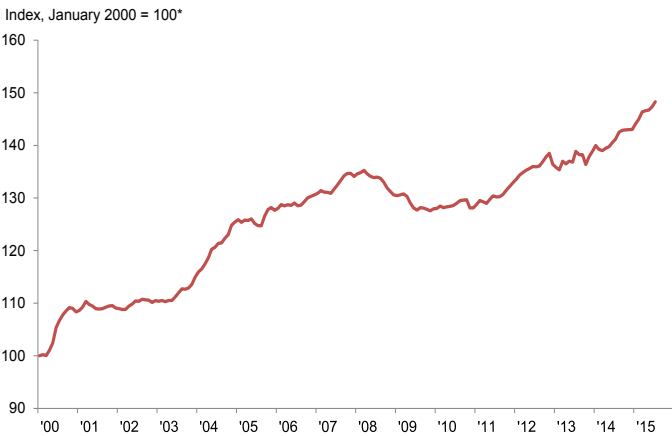
The peso held steady against the dollar in October, when the exchange rate averaged 16.6 pesos per dollar versus 16.9 in September (*Chart 6*). The peso has lost 19 percent

Chart 3
Industrial Production Ticks Up



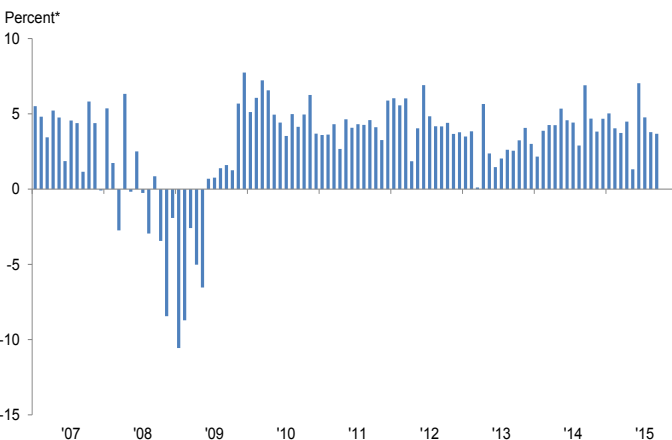
*Three-month moving average, seasonally adjusted.
SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

Chart 4
Retail Sales Increase Since the Beginning of the Year



*Three-month moving average, seasonally adjusted; real pesos.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 5
Job Growth Remains Robust



*Month/month; seasonally adjusted, annualized rate.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

of its value against the dollar over the past 12 months. The Mexican currency has been unstable, in part due to 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 a third of the federal government budget.

Inflation Hits Another Historic Low

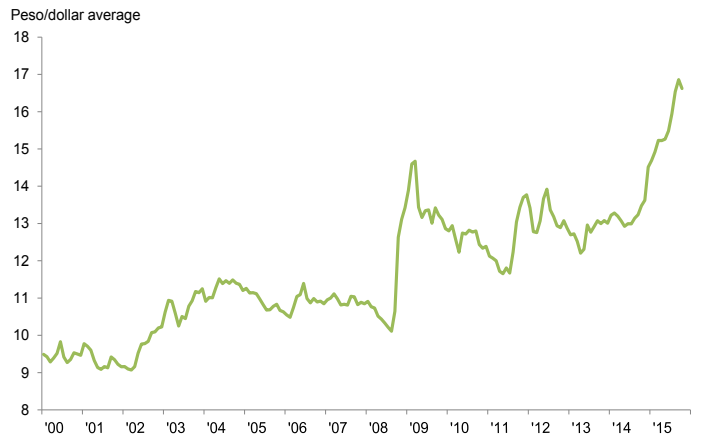
Inflation in September fell to 2.5 percent year over year (*Chart 7*), logging its fifth straight month at a rate below the central bank's long-term inflation target of 3 percent. Consumer prices excluding food and energy rose 2.4 percent. Banco de México has kept the policy rate at 3 percent since June 2014 based on the belief that inflation expectations are well-anchored. However, policymakers have noted their intent to raise interest rates as soon as the Federal Reserve tightens U.S. monetary policy. Their objective is to prevent further deterioration of the peso, which could push up inflation.

—Jesus Cañas

About the Author

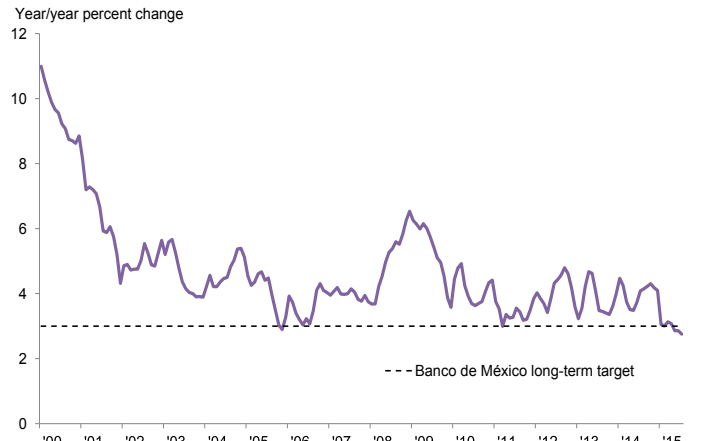
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Chart 6
Peso Regains Some Lost Ground



SOURCE: Banco de México.

Chart 7
Inflation Continues Below Banco de México's Long-Term Target



SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).