

Mexico

Mexico Economy Expands in Third Quarter, Second Quarter Revised Up

December 22, 2016

Mexico's economy grew at an annualized 4.0 percent pace in the third quarter, according to the second estimate released by Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography). In addition, second-quarter growth was revised up to 0.2 percent annualized from the previous estimate of -0.7 percent. More recent data on employment and industrial production also improved, but exports and retail sales fell. Inflation ticked up in November to its highest level in two years, while the peso depreciated. The consensus 2017 gross domestic product (GDP) growth forecast was revised down considerably to 1.6 percent.

Third-Quarter Output Growth Strong

Mexico's GDP grew 4 percent annualized in the third quarter, in line with the advance estimate (*Chart 1*). Service-related activities (including trade, transportation and business services) rose 5.8 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 0.6 percent. Agricultural output expanded 8.2 percent in the third quarter.

Exports Fall in October

Exports dropped 5.7 percent in October following a 7.5 percent increase in September. The three-month moving averages of total and manufacturing exports ticked down in late 2016 after growing for most of the year (*Chart 2*). Oil exports turned around earlier this year, although the reversal was driven by rising oil prices, not higher volume. Oil exports remain at low levels and were down 27 percent in the first 10 months of 2016 compared with the same period a year ago. Through October, manufacturing exports are 4.1 percent below the same period a year ago.

Industrial Production Grows

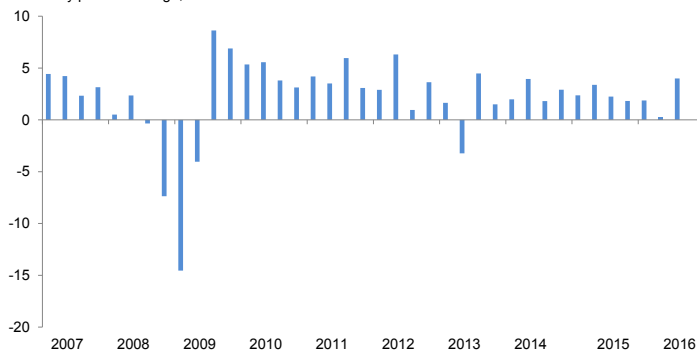
Mexico's industrial production (IP) expanded 0.1 percent in October, similar to last month's increase. However, the smoothed data (three-month moving average) showed signs of slowing (*Chart 3*). Total IP, which includes manufacturing, construction, oil and gas extraction, and utilities, has been growing slower than manufacturing IP since early 2014. U.S. IP also grew in October after falling in September.

Retail Sales Dip in September but Up Over Last Year

Retail sales fell 0.2 percent in September after expanding 0.4 percent in August. Nevertheless, September sales were up an impressive 7.9 percent year over year. The smoothed data (three-month moving average) clearly show the acceleration in sales revenue throughout 2016 (*Chart 4*). The consumer confidence measure worsened in November after improving in October.

Chart 1
Third-Quarter Growth Solid and Second Quarter Revised Up

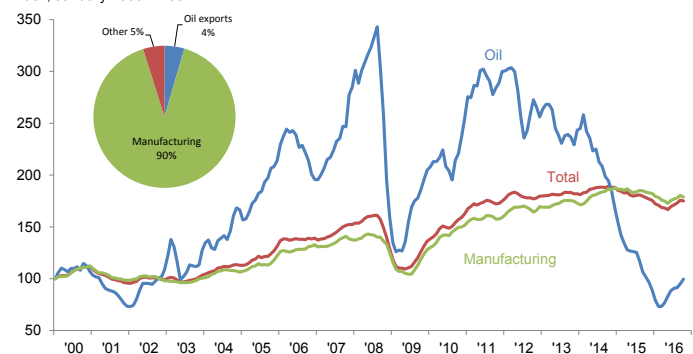
Quarterly percent change, annualized



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

Chart 2
Exports Weaken in Late 2016

Index, January 2000 = 100*



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

Job Growth Remains Robust

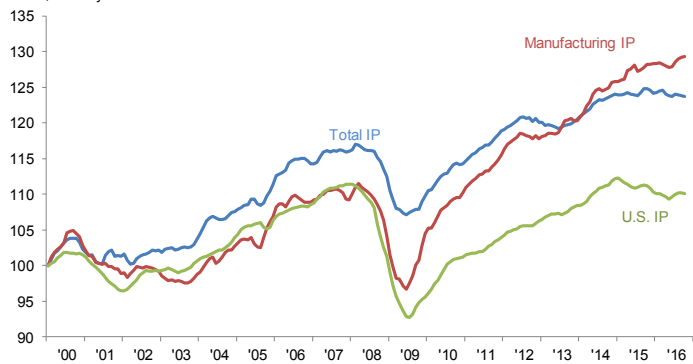
Formal-sector employment—jobs with government benefits and pensions—grew an annualized 4.5 percent in October and was up 4.1 percent year over year (*Chart 5*). Year-to-date job growth has been nearly the same as in 2015 when employment expanded 3.8 percent (December/December). This is above the recent historical average pace of job gains.

Peso Loses Ground Against the Dollar in November

The Mexican currency averaged 20.1 pesos per dollar in November, a 6.1 percent drop from October (*Chart 6*). The peso has lost 17.3 percent of its value against the dollar on a year-over-year basis. The Mexican currency has been weak as a result of the anticipation of further

Chart 3
Manufacturing Production Expands While Total Industrial Production Weakens

Index, January 2000 = 100*



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

increases in U.S. interest rates, as well as market turmoil resulting from low oil prices, weaker-than-expected global demand, Brexit and the U.S. election.

Inflation Ticks Up in November

Inflation was 3.3 percent in November, the highest level in two years and above Banco de México's long-term inflation target of 3 percent (*Chart 7*). Prices excluding food and energy also rose 3.3 percent over the last 12 months. Mexico's central bank raised its benchmark interest rate by 50 basis points to 5.75 in December following the Federal Reserve's interest rate hike. This tightening followed on the heels of multiple interest rate hikes—in December 2015 and in February, June, September and November 2016. Banco de México Governor Agustín Carstens has made it clear that the central bank will not hesitate to use interest rate increases and currency interventions as needed to strengthen the peso and stabilize prices.

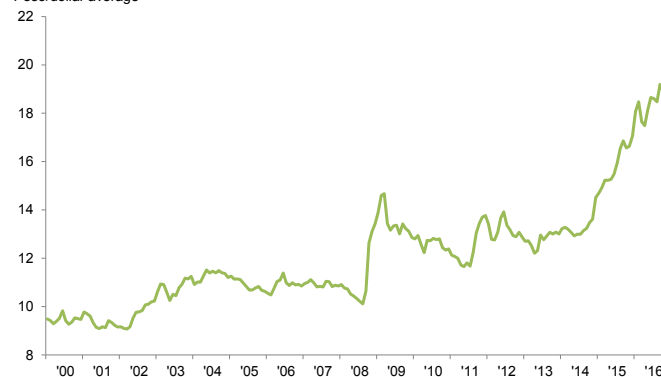
—Jesus Cañas

About the Author

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Chart 6
Peso Depreciates to Record Low

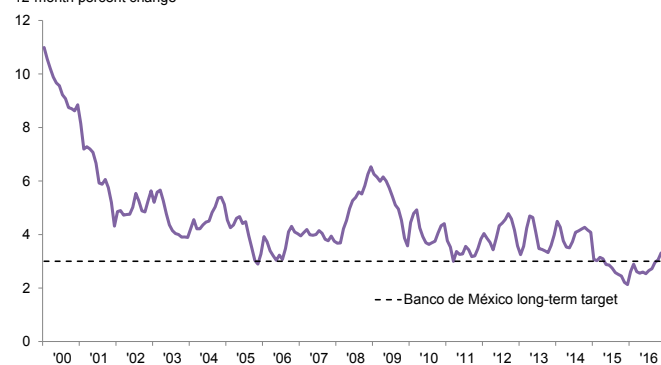
Peso/dollar average



SOURCE: Banco de México.

Chart 7
November Inflation Exceeds Central Bank's Target

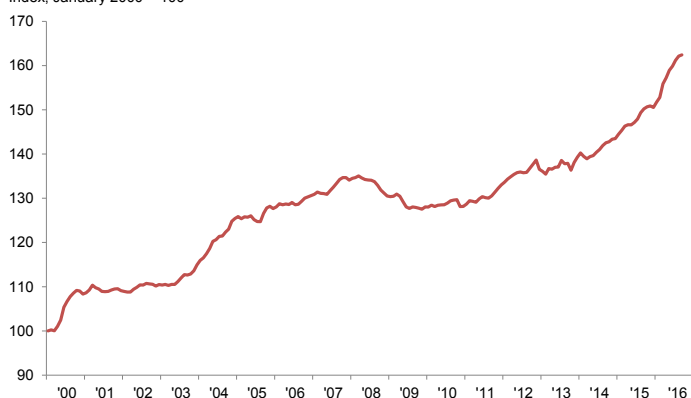
12-month percent change



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

Chart 4
Retail Sales Continue Growing Strongly in 2016

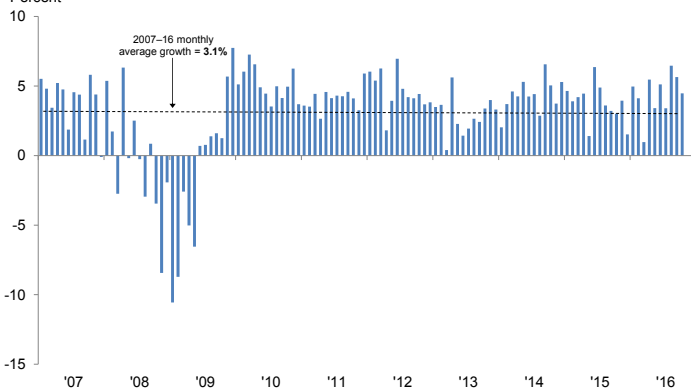
Index, January 2000 = 100*



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

Chart 5
Job Growth Robust in 2016

Percent*



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