

Mexico

Mexico's First-Quarter Growth Revised Higher

June 27, 2017

Mexico's economy grew faster in first quarter 2017 than previously estimated. Gross domestic product (GDP) increased 2.7 percent, according to the government's second estimate. Consequently, the consensus 2017 GDP growth forecast was revised to 2 percent from 1.7 percent in April.

Other, more recent data were mixed; employment growth improved, but exports, industrial production and retail sales fell. Inflation rose further while the peso held steady against the dollar.

Revisions Boost Output Growth

Revisions to Mexico's first-quarter GDP estimate boosted annualized growth from 2.4 percent to 2.7 percent (*Chart 1*). Service-related activities (wholesale and retail trade, transportation and business services) expanded at more than 4 percent. Goods-producing industries grew about 0.5 percent overall, though subsectors' performances varied. Output in mining, as well as in electricity, water and gas fell more than 7 percent, while manufacturing activity rose nearly 8.5 percent. Agricultural output growth was revised 4.5 percent higher.

Exports Ease in March and April, but Rise Year to Date

Total exports dropped 2.7 percent in April after remaining little changed in March. However, a more than 4 percent surge in both total and manufacturing exports during February continues to push the three-month moving average higher (*Chart 2*). Despite recent weakness, total and manufacturing exports are up year to date. Total exports increased 7.5 percent year to date through April relative to the same period in 2016, while manufacturing exports rose 5.6 percent. Oil exports were up 47 percent in the first four months of 2017 compared with the year-ago period.

Overall Industrial Production Stumbles Despite Manufacturing Growth

Industrial production (IP), which includes manufacturing, construction, oil and gas extraction, and utilities, fell for a third consecutive month in April. Data revisions also turned February's initial uptick into a negative move. All told, IP fell 0.3 percent in April and 0.2 percent in March after falling 0.1 percent in February. In contrast, manufacturing IP expanded at a solid 0.6 percent in April.

The three-month moving average of total Mexican IP is flat, while manufacturing IP remains positive, though growing slowly (*Chart 3*). In the U.S., IP has trended higher since February; the index rose nearly 1 percent in April.

Chart 1
First-Quarter GDP Growth Revised Higher

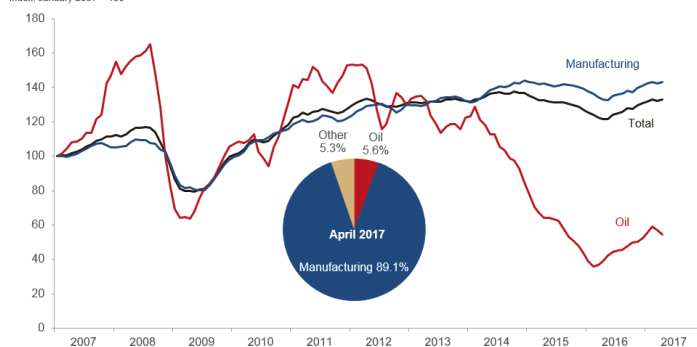
Quarterly percent change, annualized



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

Chart 2
Moving Average of Exports Ticks Up

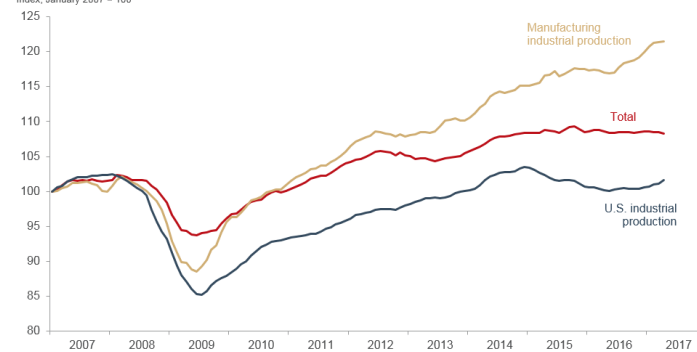
Index, January 2007 = 100*



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

Chart 3
Total Industrial Production Weakens Despite Manufacturing Growth

Index, January 2007 = 100*



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

Retail Sales Fall

March retail sales slipped 1.3 percent after expanding 2.2 percent in February. While the latest sales figure represents a 3.3 percent increase year over year, the three-month moving

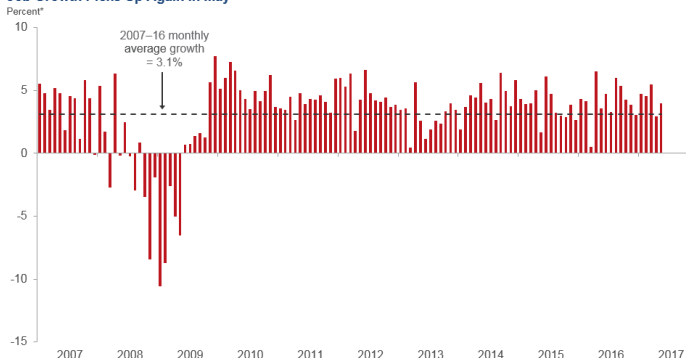
Chart 4
Retail Sales Stall Following Prolonged Strength

Index, January 2007 = 100*



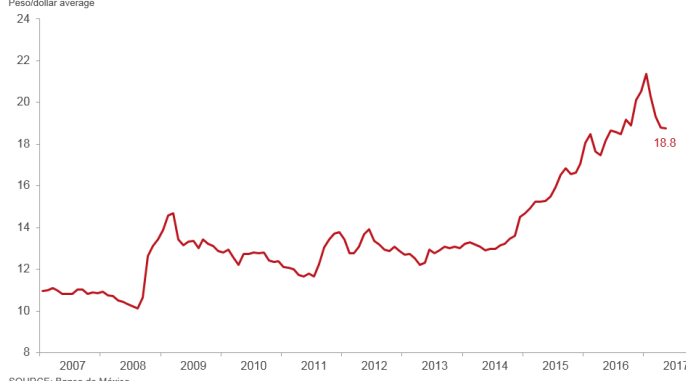
*Seasonally adjusted, three-month moving average; real pesos.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 5
Job Growth Picks Up Again in May



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

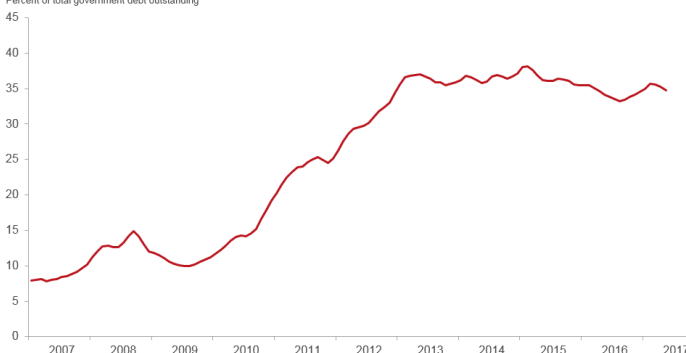
Chart 6
Peso Stabilizes Against the Dollar



SOURCE: Banco de México.

Chart 7
Nonresident Holdings of Government Debt Decline Modestly

Percent of total government debt outstanding*



*Three-month moving average.
SOURCE: Banco de México.

average indicates heightened volatility but essentially no growth in 2017 after a prolonged upward trend (*Chart 4*). Consumer confidence in May improved for a fourth month despite softening retail sales.

Job Growth Maintains Strong Pace

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 4 percent in May after expanding 2.9 percent in April (*Chart 5*). Employment growth in 2016 was 4.1 percent (December over December), compared with 3.8 percent growth in 2015.

Peso Holds Steady

The Mexican currency averaged 18.8 pesos per dollar in May and April, a 12 percent gain from January's average (*Chart 6*). The peso's year-over-year decline shrunk to 3.3 percent in May from 7.4 percent in April. The Mexican currency initially weakened last year in anticipation of increases in U.S. interest rates, as well as policy and economic uncertainty following the U.S. presidential election.

Foreign-Owned Government Debt Trending Slightly Downward

With peso/dollar exchange rate stabilization, the share of peso-denominated government debt held abroad has declined (*Chart 7*). This debt share has hovered near 35 percent year to date. The extent of nonresident holdings of government debt reflects Mexico's exposure to international investors, whose holdings could quickly reverse if they perceive a change in market sentiment toward Mexico.

Inflation Moves Further Away from Target

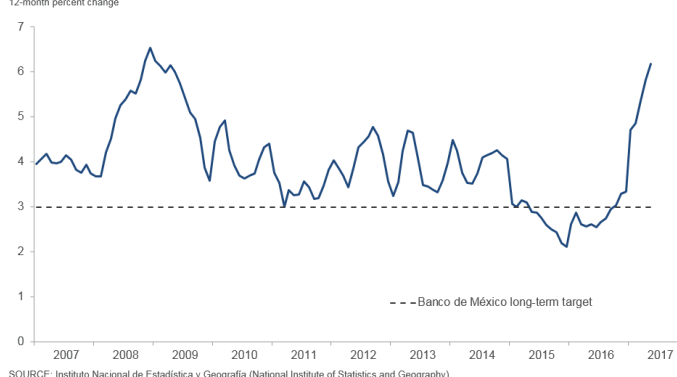
Annual inflation ticked higher, reaching 6.2 percent in May compared with 5.8 percent in April. Cumulative price increases in each month of 2017 have moved inflation further from Banco de México's long-term target of 3 percent (*Chart 8*). Core inflation (excluding food and energy) rose 4.8 percent over the 12 months ended in May. Mexico's central bank raised its benchmark interest rate by 25 basis points (0.25 percentage points) to 7 percent, the 10th increase since December 2015. Banco de México Governor Agustín Carstens has stated that the central bank will use interest-rate increases and currency intervention as needed to strengthen the peso and stabilize prices.

—Jesus Cañas

About the Author

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

Chart 8
Inflation Continues Rising Above Target in May



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