

# Economic Update MEXICO

Federal Reserve  
Bank of Dallas

## Mexico's Economy Posts Strong Third-Quarter Growth

**November 19, 2018**

Mexico's economic output recovered sharply in the third quarter, rising an annualized 3.6 percent after contracting in the second quarter. The consensus growth forecast for 2018 held steady in October at 2.1 percent.<sup>1</sup>

More recent data are mostly positive. Exports, employment and industrial production posted positive growth, but retail sales declined. Inflation ticked up, and the peso depreciated slightly against the dollar in October.

### GDP Bounces Back in the Third Quarter

Mexico's third-quarter real gross domestic product (GDP) grew an annualized 3.6 percent after the second quarter's weak showing of -0.6 percent (*Chart 1*). Growth was broad based. Service-related activities (wholesale and retail trade, transportation and business services) grew 3.2 percent. Goods-producing industries (including manufacturing, construction and utilities) expanded 2 percent, and agricultural output increased 3.2 percent.

### Export Growth Solid in August and September

Total exports rose 0.8 percent in September after rising 3.6 percent in August. Manufactured-goods exports rose 1 percent, and oil exports ticked up 0.5 percent in September. As a result, the three-month moving averages of oil, manufacturing and total exports rose in September (*Chart 2*). Year to date, total exports are up 8.7 percent, with manufacturing exports up 6.9 percent and oil exports up nearly 40 percent, compared with the same period last year. The rise in oil exports in 2017 and 2018 stems largely from higher oil prices, not an increase in the volume of exports.

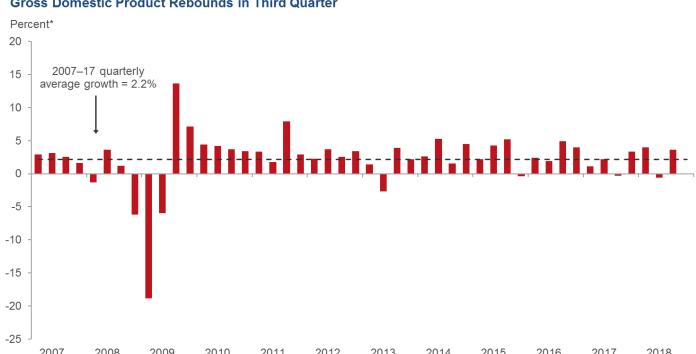
### Industrial Production Up in September

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, grew 1 percent in September after falling 0.2 percent in August. The manufacturing index rose 1.1 percent in September after increasing 0.4 percent in August. Three-month moving averages ticked up for both manufacturing and total production (*Chart 3*). Meanwhile, north of the border, U.S. IP rose 0.3 percent in September after growing 0.4 percent in August. The correlation between Mexico's IP and U.S.' IP has increased considerably due to growth in increased intra-industry trade since the implementation of the 1994 North American Free Trade Agreement.

### Retail Sales Fall in August

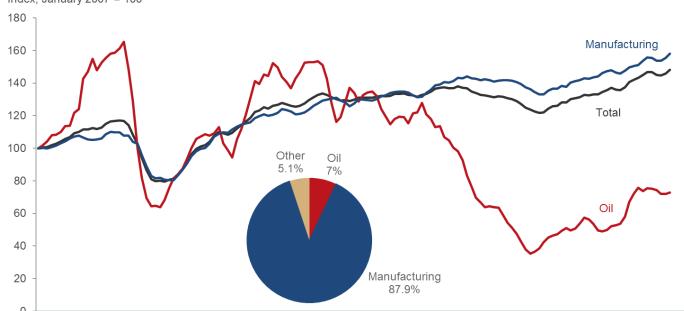
Retail sales dipped 0.3 percent in August after growing 0.6 percent in July. The three-month moving average shows a sharp turnaround from the depressed levels observed during the second half of 2017, but retail sales growth has slowed

**Chart 1**  
Gross Domestic Product Rebounds in Third Quarter



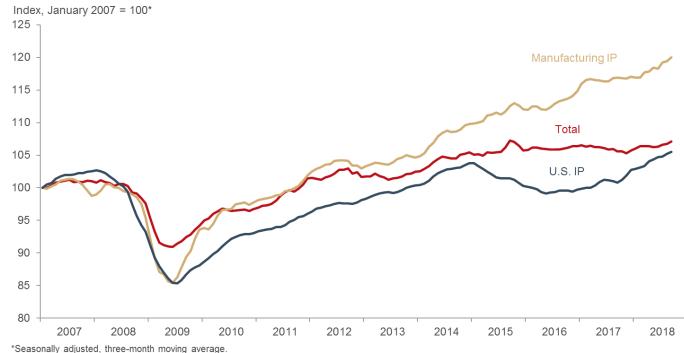
\*Quarterly, real pesos, seasonally adjusted, annualized rate.  
NOTE: Data are through third quarter 2018.  
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

**Chart 2**  
Exports Pick Up in September After Second-Quarter Slowdown



\*Seasonally adjusted, three-month moving average; real dollars.  
NOTES: All data are through September 2018. The pie chart reflects the share of total exports year to date in 2018.  
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

**Chart 3**  
Mexico's Industrial Production Improves in September



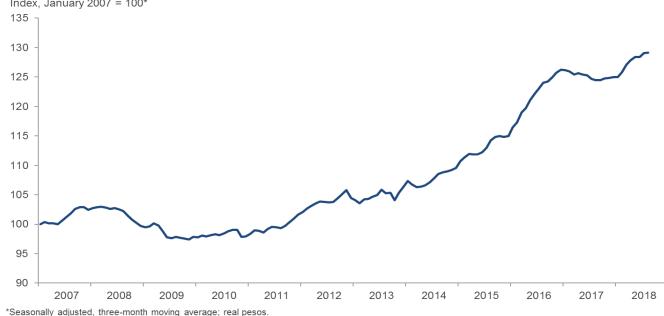
\*Seasonally adjusted, three-month moving average.  
NOTES: Data for Mexico's manufacturing and total industrial production (IP) are through September 2018. Data for U.S. IP are through September 2018.  
SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

a bit in recent months (*Chart 4*). Nevertheless, retail sales are up 3.5 percent year over year in August.

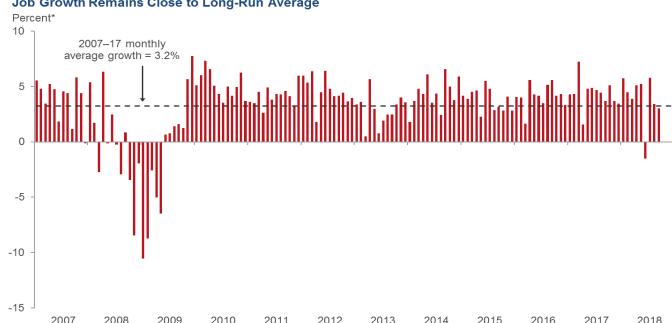
### Job Growth Continues in September

Formal sector employment—jobs with government benefits and pensions—grew an annualized 3 percent in September, falling slightly below the postrecession average of 3.2 percent (*Chart 5*). Year-over-year job growth remained strong

**Chart 4**  
Retail Sales Slow After Strong First Half of 2018  
Index, January 2007 = 100<sup>a</sup>



**Chart 5**  
Job Growth Remains Close to Long-Run Average  
Percent\*



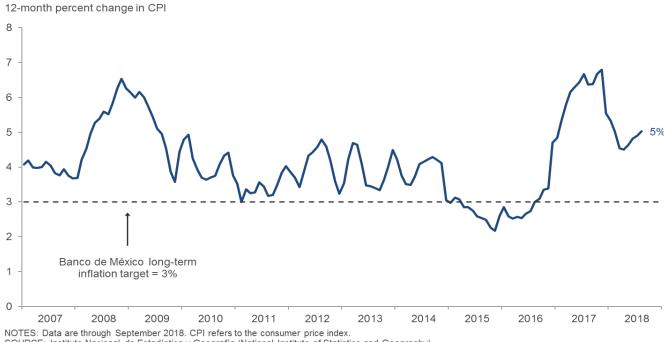
**Chart 6**  
Peso Weakens Slightly in October  
Peso/dollar average



**Chart 7**  
Foreign-Owned Government Debt Share Holds Steady  
Percent of total government debt outstanding<sup>b</sup>



**Chart 8**  
Inflation Continues to Trend Up  
12-month percent change in CPI



at 3.9 percent. Total employment, representing 54 million workers and including informal sector jobs, grew 3 percent year over year in the third quarter. The unemployment rate in September was 3.3 percent, about the same as a year ago.

### Peso Inches Down Relative to Dollar in October

The Mexican currency averaged 19.2 pesos per dollar in October, a 0.9 percent depreciation from September (Chart 6). The peso is now at the same level it was in December 2017, and it is 1.9 percent below year-ago levels. The Mexican currency has been under pressure as a result of increased uncertainty regarding U.S. trade policy and Mexico's domestic policy. In addition, the U.S. dollar has strengthened because of faster growth, higher interest rates and emerging-market turmoil.

### Share of Mexico Government Debt Held Abroad Remains Largely Flat

The share of peso-denominated Mexican government debt held abroad was steady in September at 31.7 percent (Chart 7). The share has fallen from its recent peak of 36 percent in February 2017, although the pace of decline has slowed in 2018. The extent of nonresident holdings of government debt is an indicator of Mexico's exposure to international investors, whose holdings could quickly reverse if they perceive a change in market sentiment.

### Inflation Edges Up

The consumer price index (CPI) increased 5 percent over the prior 12 months in September, up slightly from 4.9 percent in August (Chart 8). Inflation was moving closer to Banco de México's target of 3 percent earlier this year but changed course in June. CPI core inflation (excluding food and energy) rose 3.7 percent over the 12 months ending in September. Mexico's central bank raised its benchmark interest rate by 25 basis points to 7.75 percent on June 21 but held policy rates steady at its August and October meetings. Higher U.S. interest rates and global trade tensions have increased the peso's volatility, posing a risk to inflation and leading to tighter monetary policy.

—Jesus Cañas and Benjamin Meier

### Note

<sup>a</sup> Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Octubre de 2018, [www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialistas/7B50B17716-0CD1-935E-D8DC-17B8DBE3CFCA67D.pdf](http://www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialistas/7B50B17716-0CD1-935E-D8DC-17B8DBE3CFCA67D.pdf).

### About the Author

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