

Mexico's 2019 Growth Outlook Revised Down

December 24, 2018

Mexico's economy has grown 2.4 percent this year through the third quarter. Gross domestic product (GDP) was revised down from 3.6 percent to 3.4 percent for the quarter, and October's monthly GDP measure declined. Nevertheless, the consensus growth forecast for 2018 held steady in December at 2.1 percent. The GDP growth forecast for 2019, however, was revised down from 2.0 percent in November to 1.9 percent in December.¹

Other data are mixed. Exports and industrial production fell, while retail sales and employment continued growing. Inflation declined, but the peso still weakened against the dollar in November. Banco de México increased its policy rate for the second month in a row, raising it 25 basis points to 8.25 percent at its December meeting.

Monthly Economic Activity Index Falls in October

Mexico's global economic activity index, the monthly proxy for GDP, fell 0.3 percent in October after growing 0.3 percent in September. However, the measure's three-month moving average continues on an upward trend (*Chart 1*). Service-related activities (including trade and transportation) grew 0.2 percent in October. Goods-producing industries (including manufacturing, construction and utilities) declined 1.6 percent, and agricultural output dropped 2.9 percent.

Exports Fall in October

Total exports fell 2.3 percent in October after rising 0.8 percent in September. Manufactured-goods exports decreased 1.8 percent, and oil exports dropped 5.4 percent in October. As a result, the three-month moving average of oil exports fell, while total and manufacturing exports continued showing third-quarter momentum (*Chart 2*). Through October, total exports were up 8.6 percent, with manufacturing exports up 7 percent and oil exports surging 37 percent compared with the same period in 2017. It bears noting that the rise in oil exports in 2018 stems largely from higher oil prices, not an increase in the volume of exports.

Industrial Production Drops in October

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, fell 1.6 percent in October after growing 1.3 percent in September. The manufacturing index decreased 2.2 percent in October after increasing 1.5 percent in September. As a result, three-month moving averages ticked down for both manufacturing and total production (*Chart 3*). Meanwhile, north of the border, U.S. IP grew 0.6 percent in November following a 0.2 percent dip in October. The correlation between Mexico's IP and U.S. IP increased considerably due to growth in intra-industry trade following the implementation of the 1994 North American Free Trade Agreement.

Chart 1
Economic Activity Index Trends Upward Despite October Decline

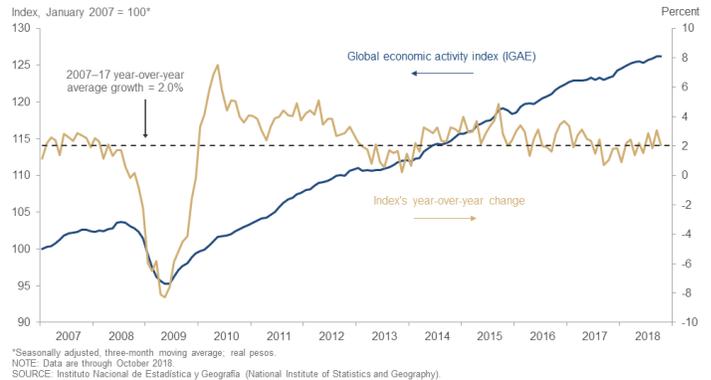


Chart 2
Total and Manufacturing Exports Continue Showing Momentum in Third Quarter



Chart 3
Both Industrial and Manufacturing Production Tick Down in October



Retail Sales Increase in September

Retail sales bounced back 1 percent in September after falling 0.3 percent in August. The three-month moving average shows a sharp turnaround in 2018 from the depressed levels observed during the second half of 2017 (*Chart 4*). Retail sales are up 4.8 percent since December.

Chart 4
Retail Sales on the Rise in 2018



Chart 5
Job Growth Slips Below Long-Run Average

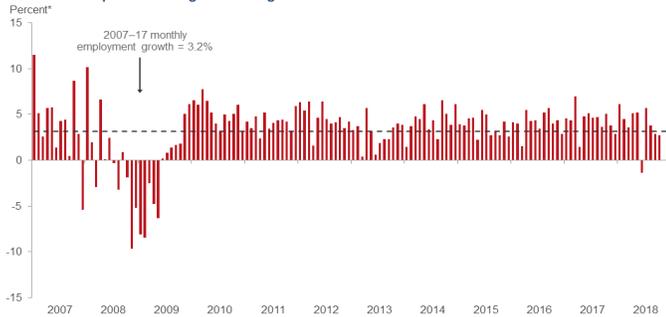


Chart 6
Peso Weakens in November



Chart 7
Share of Foreign-Owned Government Debt Continues Steady Decline

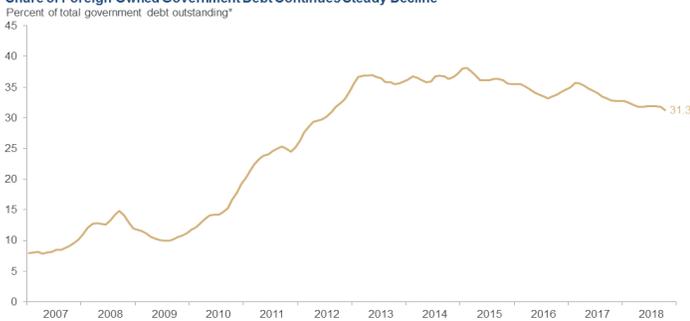


Chart 8
Inflation Begins to Trend Down



Job Growth Continues in October

Formal sector employment—jobs with government benefits and pensions—grew an annualized 2.7 percent in October, slower than postrecession average growth of 3.2 percent for the second month in a row (*Chart 5*). Formal sector employment is up at a 3.7 percent year-to-date annualized rate. Total employment, representing 54 million workers and including informal sector jobs, grew 2.2 percent this year through the third quarter. The unemployment rate in October was 3.2 percent, slightly lower than last year’s average of 3.4 percent.

Peso Falls Relative to Dollar in November

The Mexican currency averaged 20.3 pesos per dollar in November, a 5.3 percent depreciation from October (*Chart 6*). The peso is 6.6 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.

Mexican Government Debt Held Abroad Continues to Decrease

The share of peso-denominated Mexican government debt held abroad continued to slowly decrease, falling to 31.3 percent in November. The share has been on downward trend since February 2017, when it reached 36 percent (*Chart 7*). 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. The share of nonresident debt has not been this low since June 2012.

Inflation Edges Down in November

The consumer price index (CPI) increased 4.7 percent over the prior 12 months in November, down slightly from 4.9 percent in October (*Chart 8*). Inflation is again moving closer to Banco de México’s target of 3 percent. CPI core inflation (excluding food and energy) rose 3.6 percent over the 12 months ending in November. Nevertheless, Mexico’s central bank raised its benchmark interest rate by 25 basis points in both November and December, pushing the rate to 8.25 percent. In the official communique, the central bank said inflation risks have intensified. A sharp depreciation in the peso was observed because of both external and domestic factors, with the latter mainly explained by a high degree of uncertainty regarding the new federal administration’s policies.

—Jesus Cañas and Benjamin Meier

Note

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Diciembre de 2018, banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7B17D9B6D1-2FDA-D129-63E1-8D6AA77DE223%7D.pdf

About the Authors

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