

Mexico's Output Growth Slows in the Fourth Quarter

February 8, 2019

Mexico's economy grew an annualized 1.2 percent in fourth quarter 2018 after expanding 3.4 percent in the third quarter. Gross domestic product (GDP) grew 2.1 percent in 2018 (fourth quarter/fourth quarter). The consensus growth forecast for 2019, compiled by Banco de México, was revised down from 1.9 percent in December to 1.8 percent in January.¹

Other data are mixed. Exports, employment and retail sales grew, while industrial production fell. The peso strengthened against the dollar, but inflation increased slightly.

GDP Growth Falls Below 10-Year Average

Mexico's fourth-quarter GDP growth of 1.2 percent was below its long-run average (*Chart 1*). Output from goods-producing industries (manufacturing, construction, utilities and mining) fell 4.3 percent, while service-related activities (wholesale and retail trade, transportation and business services) grew 3.2 percent. Agricultural output rose 7.8 percent.

Exports Tick Up in December

Total exports increased 1.7 percent in December after falling 1.5 percent in November. Manufactured-goods and oil exports grew 1.1 percent and 1.8 percent, respectively, in December. However, the three-month moving averages continue showing declines (*Chart 2*). In 2018, total exports were up 7.3 percent, with manufacturing exports growing 6.3 percent and oil exports surging 26 percent. It bears noting that the rise in oil exports in 2018 stems largely from higher oil prices earlier in the year, not an increase in the volume of exports.

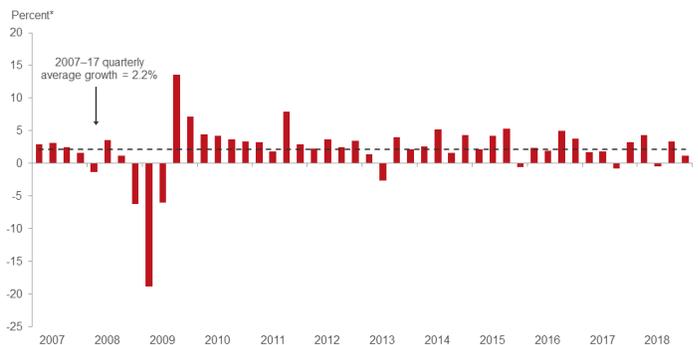
Industrial Production Drops in November

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, decreased 0.6 percent in November after falling 1.7 percent in October. The manufacturing index grew 1.0 percent in November after falling 2.5 percent in October. As a result, the three-month moving averages ticked down for both total production and manufacturing (*Chart 3*). Meanwhile, north of the border, U.S. IP ticked up 0.3 percent in December following a 0.5 percent increase in November. 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.

Retail Sales Pick Up in November

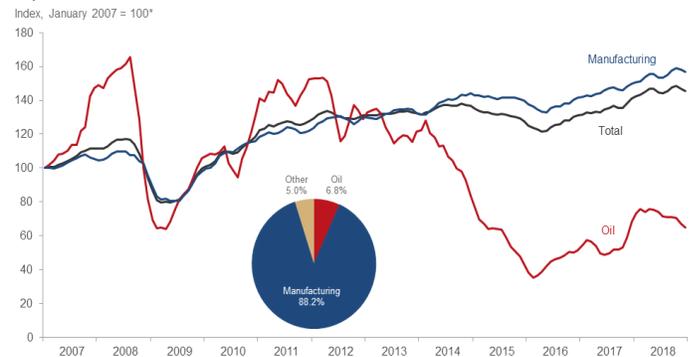
Retail sales grew 0.4 percent in November after contracting 1.0 percent in October. The three-month moving average

Chart 1
Gross Domestic Product Growth Moderates in Fourth Quarter



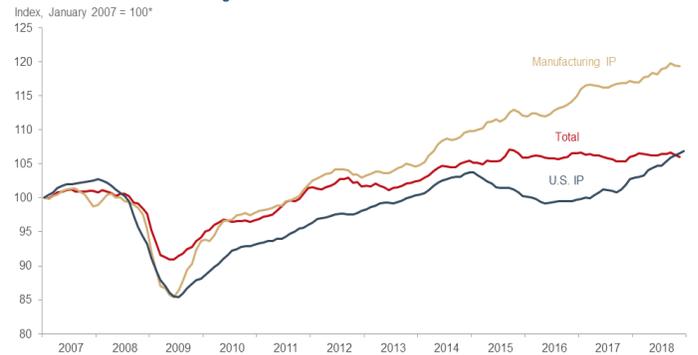
*Quarter/quarter, real pesos, seasonally adjusted, annualized rate.
NOTE: Data are through fourth quarter 2018.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 2
Exports Show Downward Momentum at Year-End



*Seasonally adjusted, three-month moving average, real dollars.
NOTES: All data are through December 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
Both Industrial and Manufacturing Production Tick Down



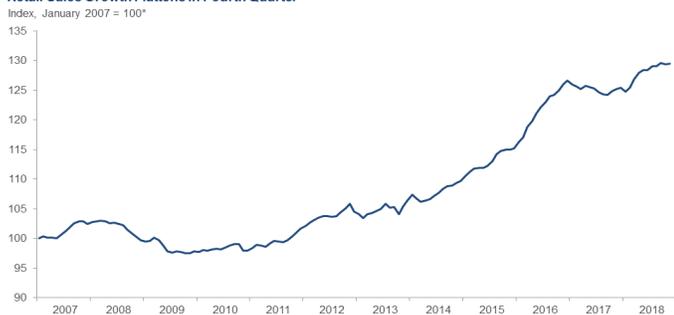
*Seasonally adjusted, three-month moving average.
NOTES: Data for Mexico's manufacturing and total industrial production (IP) are through November 2018. Data for U.S. IP are through December 2018.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

moved sideways (*Chart 4*). Since December 2017, retail sales have risen 3.8 percent.

Employment Growth Improves in December

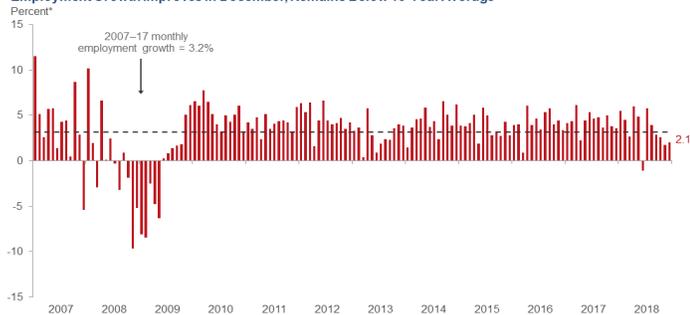
Formal sector employment—jobs with government benefits and pensions—grew an annualized 2.1 percent in December, still below the 10-year average of 3.2 percent growth

Chart 4
Retail Sales Growth Flattens in Fourth Quarter



*Seasonally adjusted, three-month moving average; real pesos.
NOTE: Data are through November 2018.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 5
Employment Growth Improves in December, Remains Below 10-Year Average



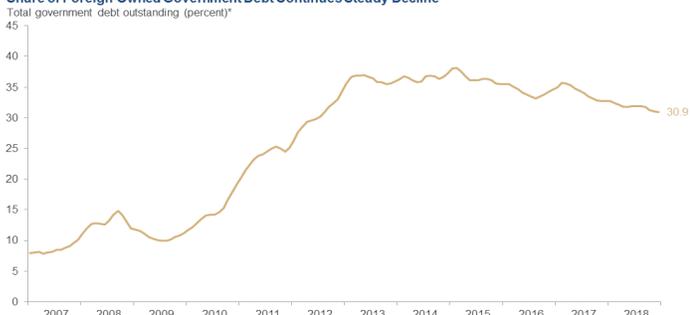
*Month/month, seasonally adjusted, annualized rate.
NOTE: Data are through December 2018.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

Chart 6
Peso Ticks Up in December



NOTES: Axis is inverted. Data are through December 2018.
SOURCE: Banco de México.

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



*Three-month moving average.
NOTE: Data are through December 2018.
SOURCE: Banco de México.

Chart 8
Inflation Above Long-Term Target



NOTES: Data are through December 2018. CPI refers to the consumer price index.
SOURCES: Banco de México; Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

(Chart 5). Year over year, formal sector employment is up 3.4 percent. Total employment, representing 54 million workers and including informal sector jobs, grew 2.2 percent through the third quarter. The unemployment rate in December was 3.6 percent, slightly higher than last year's average of 3.4 percent.

Peso Gains Little Ground in December

The Mexican currency averaged 20.1 pesos per dollar in December, up 0.7 percent from November (Chart 6). The peso-dollar exchange rate is 4.6 percent below year-ago levels. The Mexican currency has been under pressure due to 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.

Foreign-Owned Government Debt Share Ticks Up

The share of peso-denominated Mexican government debt held abroad ticked up to 31.1 percent in December. However, the three-month moving average has been on a 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.

Inflation Inches Up in December

The consumer price index (CPI) increased 4.8 percent over the prior 12 months in December, up slightly from 4.7 percent in November (Chart 8). CPI core inflation (excluding food and energy) rose 3.7 percent in December. 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, mainly due to 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 (survey on economic expectations compiled by Banco de México, December 2018), banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7B17D9B6D1-2FDA-D129-63E1-8D6AA77DE223%7D.pdf

About the Authors

Cañas is a senior business economist, and Meier is a research assistant in the Research Department at the Federal Reserve Bank of Dallas.