

Mexico's Economy Shows Signs of Improvement

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Mexico Sees Historic Drop in Economic Growth in Second Quarter; Outlook Worsens

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Mexico's economic recovery from the COVID-19-induced recession began in June when the monthly economic activity index expanded at a rapid pace. Meanwhile, Mexico's real gross domestic product (GDP) growth was revised up slightly to an annualized -52.7 percent in second quarter 2020. The GDP growth forecast for 2020, compiled by Banco de México, remained steady at -9.9 percent. [1]

The latest monthly data show that exports, industrial production, retail sales and employment grew. The peso was stable against the dollar in August, but inflation increased.

Economic Momentum Improves in June

Mexico's global economic activity index, the monthly proxy for GDP, declined 4.7 percent based on a three-month moving average (*Chart 1*). However, the index rose 8.9 percent in June after falling 2.4 percent in May and 17.5 percent in April. Service-related activities (including trade and transportation) were up 6.2 percent in June. Goods-producing industries (including manufacturing, construction and utilities) increased 17.9 percent. Agricultural output fell 4.5 percent in June.

Chart 1
Economic Activity Index Ticks Up in June; Down Year over Year



*Seasonally adjusted, three-month moving average; real pesos.

NOTE: Data are through June 2020.

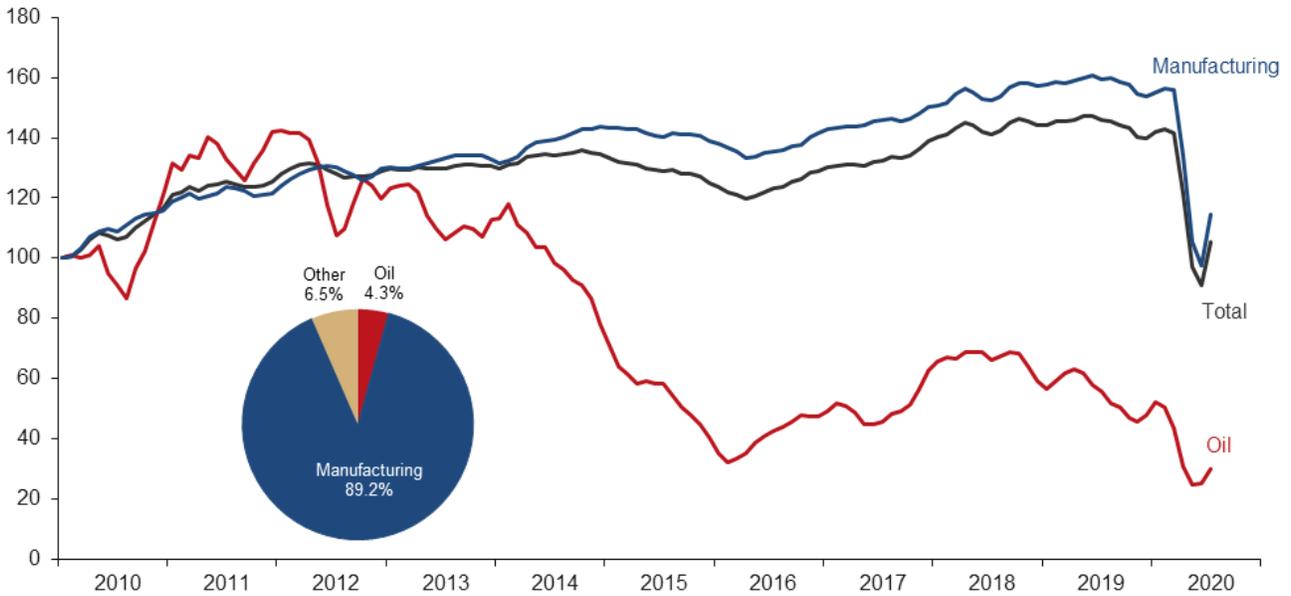
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Exports Increase in July

The three-month moving average of total exports grew 15.7 percent in July as oil exports increased 19.0 percent and manufacturing exports were up 17.2 percent (*Chart 2*). On a month-over-month basis, total exports grew 9.2 percent in July, and manufacturing exports increased 11.2 percent. This year through July, exports are down 19.1 percent compared with the same period in 2019.

Chart 2
Exports Start to Recover

Index, January 2010 = 100*



*Seasonally adjusted, three-month moving average; real dollars.

NOTES: All data are through July 2020. The pie chart reflects the share of total exports year to date in 2020.

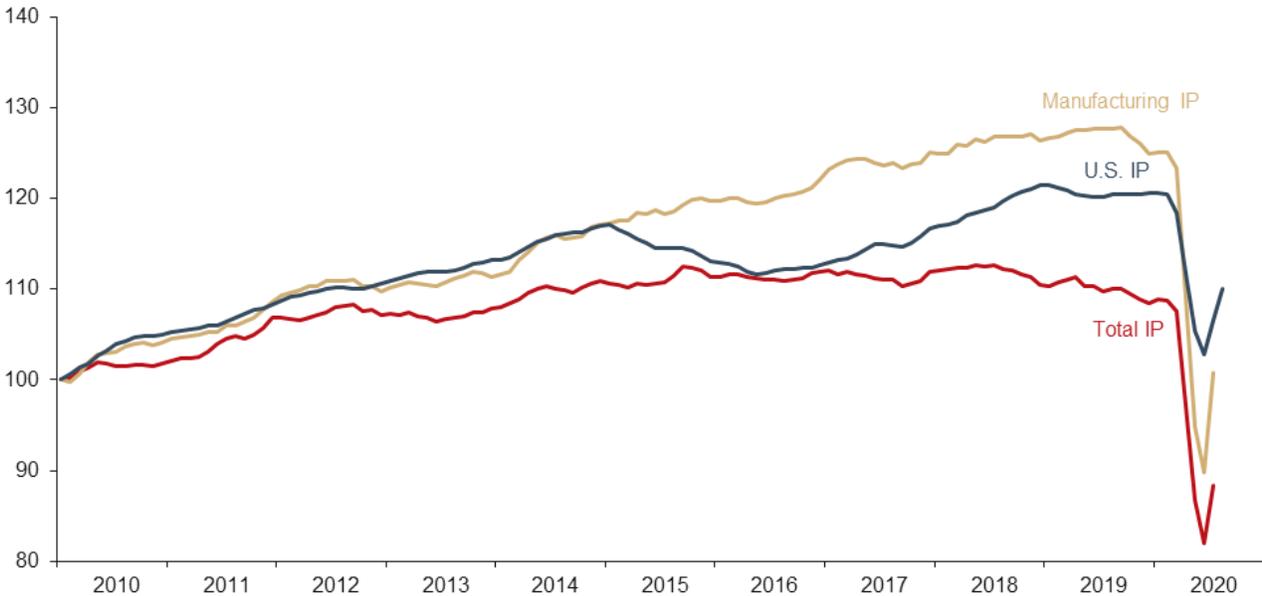
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Industrial Production Grows in July

The three-month moving average of Mexico's industrial production (IP) index—which includes manufacturing, construction, oil and gas extraction, and utilities—increased 7.8 percent in July, and manufacturing IP was up 12.4 percent (*Chart 3*). IP grew 6.9 percent in July, while the manufacturing index increased 11.0 percent. North of the border, U.S. IP increased 0.4 percent in August after rising 3.6 percent in July. The correlation between IP in Mexico and the U.S. increased considerably with the rise of intra-industry trade as a result of the 1994 North American Free Trade Agreement, recently replaced by the United States–Mexico–Canada Agreement. Thus, the recent slowing of U.S. IP growth likely suggests slowing in Mexico's IP in August.

Chart 3
Industrial Production Ticks Up

Index, January 2010 = 100*



*Seasonally adjusted, three-month moving average.

NOTE: Data for Mexico's manufacturing and total industrial production (IP) are through July 2020. Data for U.S. IP are through August 2020.

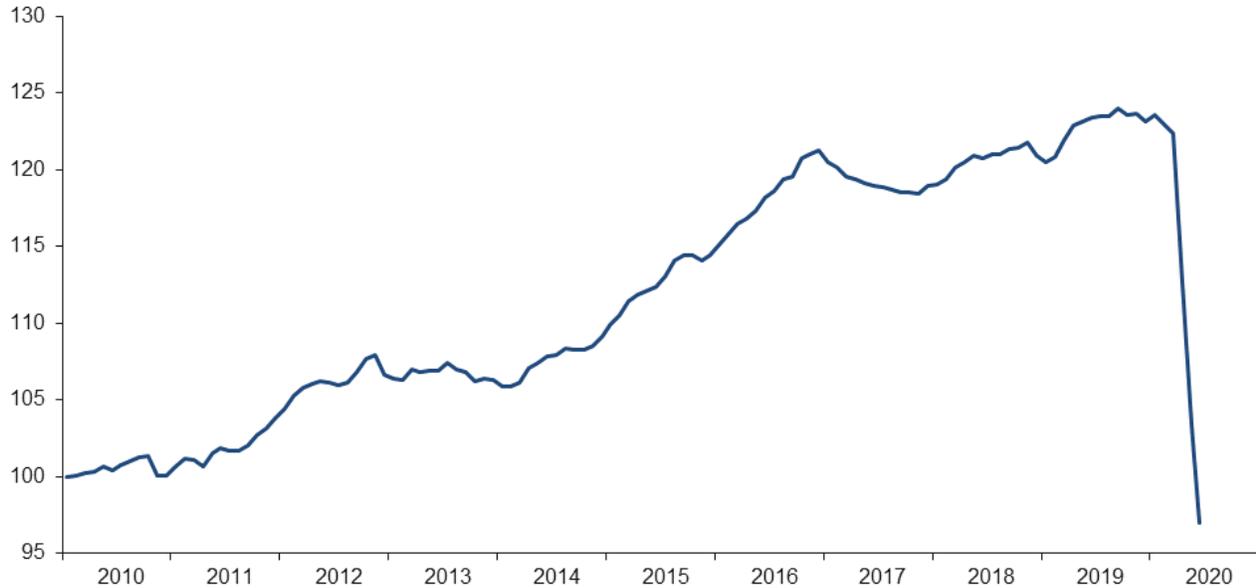
SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

Retail Sales Improve in June but Remain Weak

The index of real retail sales in Mexico decreased 6.2 percent based on a three-month moving average through June (*Chart 4*). On a month-over-month basis, retail sales rose 7.8 percent in June after growing 0.8 percent in May. Since December 2019, the retail sales index has declined 17.1 percent.

Chart 4 Retail Sales Remain Weak

Index, January 2010 = 100*



*Seasonally adjusted, three-month moving average; real pesos.

NOTE: Data are through June 2020.

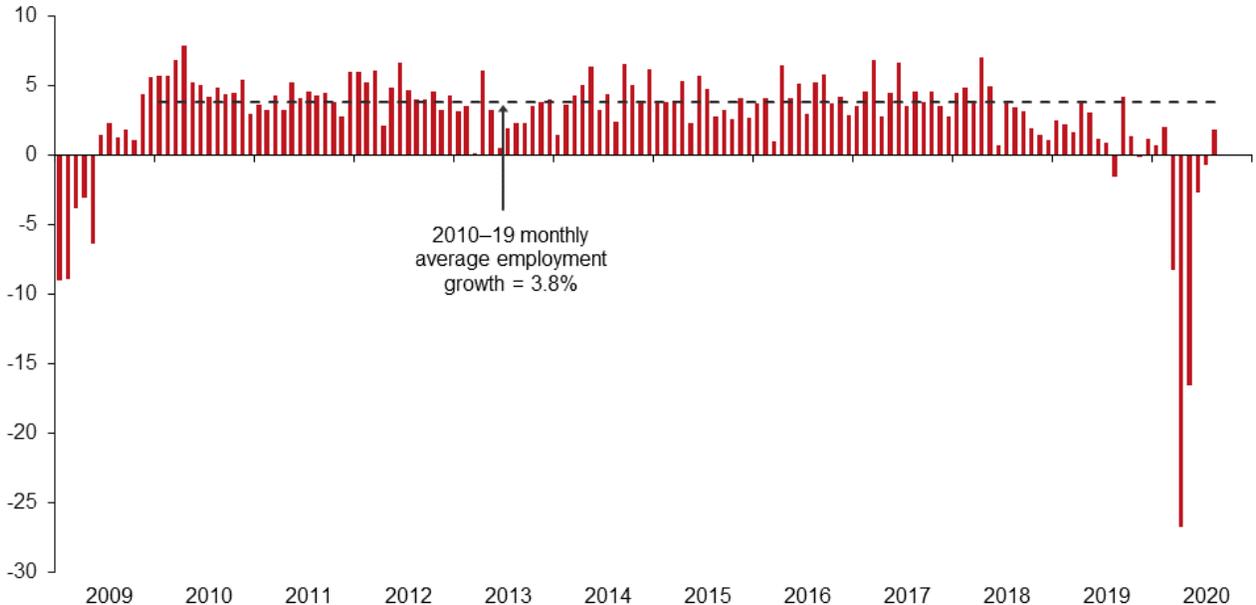
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Employment Grows for First Time Since February

Formal sector employment—jobs with government benefits and pensions—rose an annualized 1.8 percent (29,500 jobs) in August after five consecutive months of decline (*Chart 5*). Nevertheless, employment was 4.1 percent below August 2019 levels. Total employment, representing 55 million workers and including informal sector jobs, grew 2.2 percent year over year in first quarter 2020—above its 10-year average of 1.9 percent. The unemployment rate in July was 5.3 percent, up from 3.6 percent a year earlier.

Chart 5 Employment Growth Positive in August

Percent*



*Month/month; seasonally adjusted, annualized rate.

NOTE: Data are through August 2020.

SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

Peso Remains Stable

The Mexican currency averaged 22.2 pesos per dollar in August, up 0.9 percent from July and 9.3 percent since April (*Chart 6*). The peso has depreciated 14.0 percent against the dollar since December 2019. The peso has been under pressure due to increased uncertainty regarding how COVID-19 will affect domestic and global growth.

Chart 6
Peso Inches Up in August

Peso/dollar average



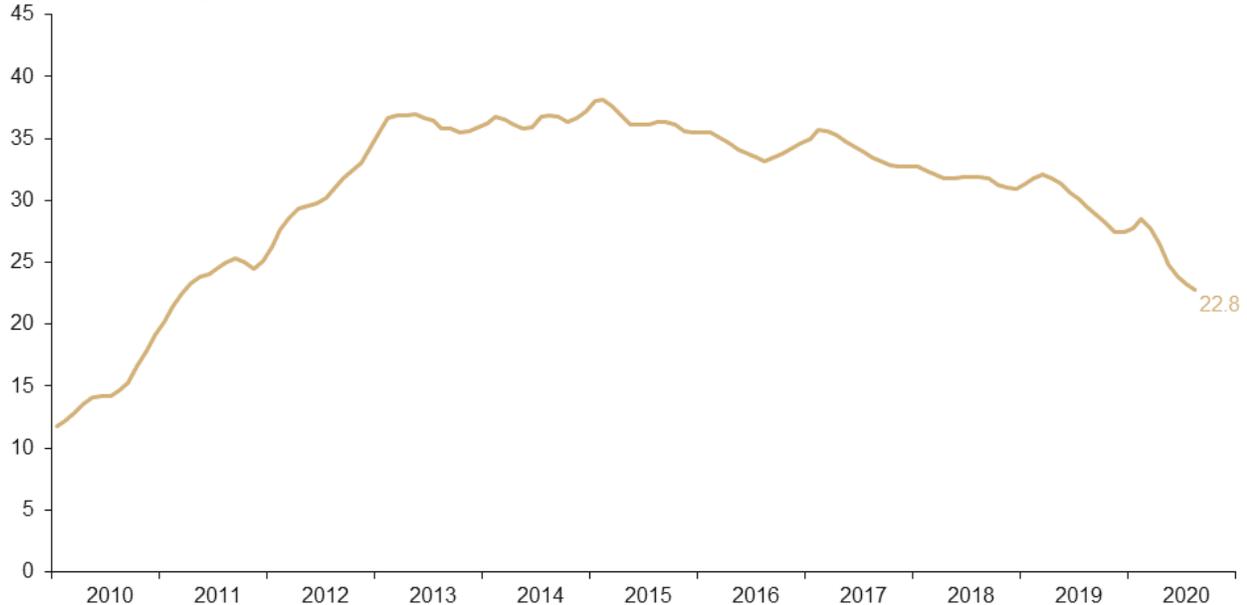
NOTES: Axis is inverted. Data are through August 2020.
SOURCE: Banco de México.

Foreign-Owned Government Debt Declines Further

The share of peso-denominated Mexican government debt held abroad fell to 22.5 percent in August. The three-month moving average declined to 22.8 percent, its lowest level since March 2011 (*Chart 7*). The extent of nonresident holdings of government debt is an indicator of Mexico's exposure to international investors and is also a sign of confidence in the Mexican economy.

Chart 7
Share of Foreign-Owned Government Debt Continues to Fall

Total debt outstanding (percent)*



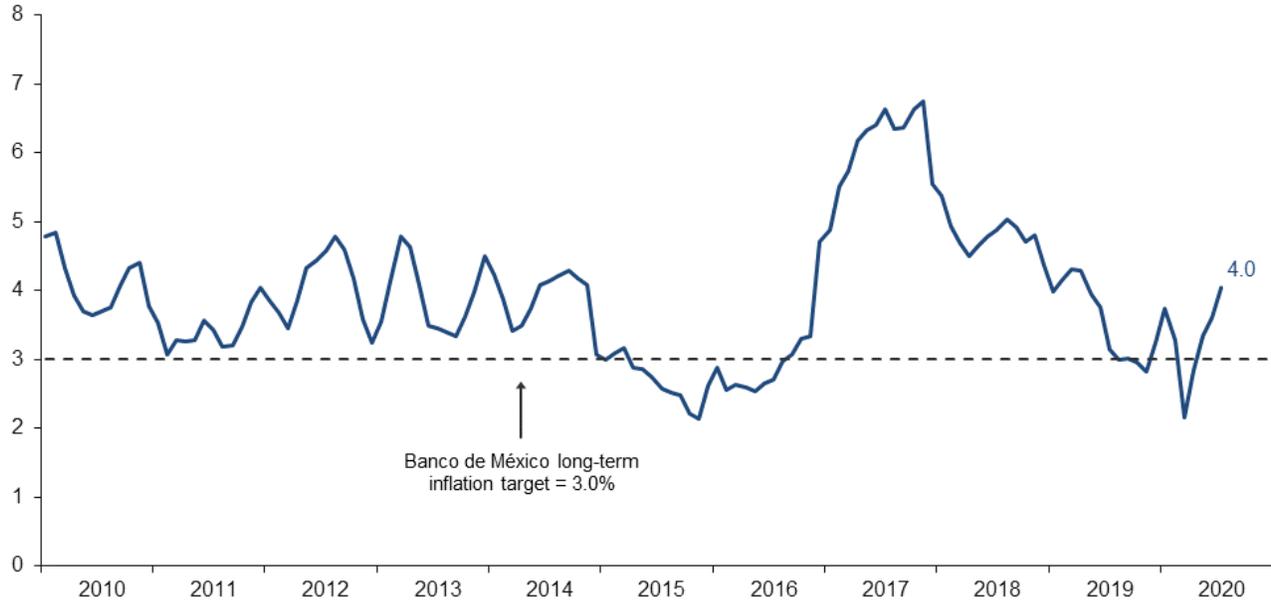
*Three-month moving average.
NOTE: Data are through August 2020.
SOURCE: Banco de México.

Inflation Continues to Rise

Mexico's consumer price index (CPI) increased 4.0 percent in August on a year-over-year basis, up from 3.6 percent in July (*Chart 8*). CPI core inflation (excluding food and energy) also rose 4.0 percent. Banco de México reduced the benchmark interest rate by 50 basis points to a four-year low of 4.5 percent on Aug. 13. In making its rate cut, Mexico's central bank cited the weak growth outlook and financial market volatility stemming from uncertainty regarding the impact of COVID-19 on world economic activity.

Chart 8
Inflation Increases Further

12-month change in CPI (percent)



NOTE: Data are through August 2020. CPI refers to the Consumer Price Index.

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

Notes

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Agosto de 2020, (communiqué on economic expectations, Banco de México, August 2020). The survey period was Aug. 24–28.

About the Authors

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