Summary

Mexico's economy decelerated in the third quarter, growing just 1.8 percent quarter over quarter. Weaker growth is likely driven primarily by external factors, reflected in declining exports and sluggish industrial production. In contrast, employment and retail sales continue to grow at a moderate pace. Inflation remains above target but has fallen over the last two months. The peso, after appreciating steadily against the dollar for four months, depreciated slightly in November.

- Export growth is likely driven primarily by external factors, including declining exports and sluggish industrial production.
- Employment and retail sales continue to grow at a moderate pace.
- Inflation remains above target but has fallen over the last two months.
- The peso depreciated slightly against the dollar in November.

Mexico GDP

The pace of economic growth moderated in the third quarter as gross domestic product only grew 1.8 percent quarter over quarter (annualized rate), down from 3.3 percent in the second quarter and 5.4 percent in the first quarter. In the third quarter, goods-producing industries, including manufacturing, construction, utilities and mining, expanded at a 2.9 percent rate. Service-related activities (including trade, transportation, services and government) grew 3 percent from the previous quarter. Agricultural output fell -2.2 percent.

Mexico Exports

Exports fell again in October, down 0.2 percent after falling 1 percent in September. Exports have been trending down steadily this year, suppressed by falling oil exports. Oil exports are down 5 percent in the first 10 months of the year over the same period in 2011, while manufacturing exports have grown 5.6 percent. Total exports increased by just 4.1 percent during the January-October period, a substantially slower pace than the 15.3 percent growth seen a year ago.

Mexico Industrial Production

Industrial production (IP) bounced back in September, increasing 0.8 percent month over month after falling 0.7 percent in August. Weaker growth in Mexico IP follows on the heels of sharply lower U.S. IP since July. Mexico's IP typically tracks U.S. IP, due in part to the U.S. automotive industry's large presence in Mexico. However, since the end of the recession, Mexican IP has grown much faster than U.S. IP, which has yet to reach its prerecession peak.
Retail sales advanced 1 percent in September after growing another 1 percent in August. Year over year, retail sales grew 4.5 percent. Consumer confidence grew 2.9 percent in October after falling 1.9 percent in September.

Formal employment—jobs with government protections and pensions—expanded at an annualized rate of 4.9 percent in October (month over month) after growing 4.1 percent in September. On a quarterly basis, employment grew 4.8 percent in the third quarter, similar to its pace in the first half of the year. Year to date, Mexico has added over 610,000 formal-sector jobs.

After steadily strengthening against the dollar since June, the peso began to fall again in November. The exchange rate averaged 13.1 pesos per dollar during November, up from 12.9 in October, but still down from 13.9 in June. The peso-dollar exchange rate continues to be driven by external events such as the European debt crisis and the possibility of another global economic slowdown.

Inflation is still running above the central bank’s target, but fell to 4.6 percent in October after five consecutive months of increases. Without food and energy, prices increased 3.6 percent. Despite the resurgent price pressures, Banco de México continues to hold the benchmark interest rate at 4.5 percent where it has been since July 2009.

NOTES: All data are seasonally adjusted except exchange rate. GDP, exports and retail sales are in real terms.

SOURCES: Gross domestic product, industrial production, consumer price index and retail sales: Instituto Nacional de Estadística y Geografía; exports, exchange rate: Banco de México; formal employment: Instituto Mexicano del Seguro Social; U.S. industrial production: Federal Reserve Board.

Questions can be addressed to Jesus Cañas at jesus.canas@dal.frb.org. *Mexico Economic Indicators* is released the two weeks preceding regularly scheduled Federal Open Market Committee meetings.