Mexico’s economy grew at a modest pace during the first months of 2013, but signs of slowing abound. Exports and industrial production remain at or below year-end levels, employment fell for the first time since mid-2009 and retail sales fell in the most recent month's data. Inflation has edged back up, and the peso has appreciated against the dollar despite the central bank’s March rate drop.

**Summary**

The Global Economic Activity Index (IGAE), a monthly proxy for Mexico gross domestic product, slowed from 0.3 percent growth in January to 0.2 percent in February. While this is a slight improvement since December, IGAE’s three-month moving average shows signs of slowing. In February, service-related activities (including trade, transportation and government) expanded 0.2 percent. Goods-producing industries (including manufacturing, construction, utilities and mining) grew 0.5 percent. Agricultural output fell 2.1 percent. The 2013 gross domestic product growth forecast has been revised down to 3.5 percent from 3.6 percent back in February.

Exports grew 1.8 percent in March; however, exports are down 1 percent in first quarter 2013 compared with fourth quarter of last year. Three-month moving averages show that total exports have been flat since mid-2012, while manufacturing exports have been falling. Exports rose a meager 3.9 percent in 2012, a substantially slower pace than the 13.9 percent growth of the prior year. Manufacturing exports increased 6.4 percent, while oil exports fell 7.5 percent last year.

Industrial production (IP) increased 0.5 percent month over month in February after growing 1.3 percent in January. Nevertheless, year-to-date growth has simply made up for year-end declines. Three-month averages show slowing as Mexico IP remains below the levels reached in mid-2012. U.S. IP grew 0.4 percent in March after growing 1.1 percent in February. Mexico’s industrial production typically tracks U.S. industrial production, due in part to the U.S. automotive industry’s large presence in Mexico, but the two trends have diverged recently.
Retail sales fell 0.1 percent in February after growing 2 percent in January. Retail sales remain at mid-2012 levels and the three-month moving average shows retail sales slowing significantly since December. In 2012, retail sales fell 0.4 percent (December over December). Consumer confidence fell in March for the third consecutive month.

Formal-sector employment—jobs with government benefits and pensions—fell at an annualized rate of 0.1 percent in March, declining for the first time since mid-2009. Through March, employment grew 2.8 percent annualized, significantly below the 4.6 percent pace realized in 2012.

The exchange rate averaged 12.2 pesos per dollar in April. The peso has appreciated 5.2 percent since December 2012, when the peso/dollar exchange rate averaged 12.9 pesos per dollar.

Inflation increased in March for the second consecutive month as prices rose 4.2 percent year over year. Prices excluding food and energy increased 3 percent, a rate that coincides with the central bank's long-term inflation target. The central bank lowered the policy rate to 4 percent in March, its first easing since July 2009, over concerns that growth was slowing.

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