

Mexico

Mexico Outlook Deteriorates Despite Faster Growth in Fourth Quarter

March 19, 2015

Mexico's economy expanded 2.1 percent in 2014, according to official tallies, which measure annual average growth. Based on the four-quarter change, gross domestic product (GDP) growth came in at 2.6 percent last year, up from 1 percent in 2013. The data also suggest GDP grew at a faster rate in the fourth quarter than in the third. Despite this improvement, more recent indicators suggest slowing growth. While employment rose, industrial production, retail sales and exports fell. Inflation declined, while the peso continued depreciating against the dollar and reached levels not seen since the 2009 recession.

Year-End Output Picks Up

Mexico's economy grew 2.7 percent in the fourth quarter, compared with a revised 2.1 percent rate in the third (*Chart 1*). Service-related activities (including trade, transportation and business services) advanced 3.5 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) expanded 2.5 percent. Agricultural output fell 8.4 percent in the quarter. Despite the pickup in overall activity, the consensus forecast for 2015 GDP growth was revised down from 3.3 percent in January to 3.1 percent in February.

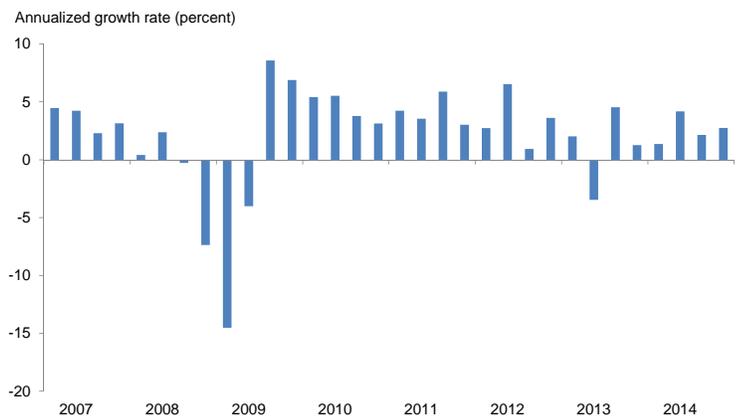
Exports Drop in January

Exports fell 3 percent in January after inching up 0.4 percent in December. Three-month moving averages reveal a steep, persistent decline in oil exports, while total exports show weakening since December (*Chart 2*). In 2014, total exports grew 3.1 percent, with manufacturing exports rising 5.6 percent. Oil exports fell 14.4 percent due to declines in oil production and, more recently, to lower oil prices. Mexico oil production is down about 33 percent since peaking at 3.5 million barrels per day in October 2004. Mexico crude oil prices have declined 59 percent since late summer.

Industrial Production Stalls in January

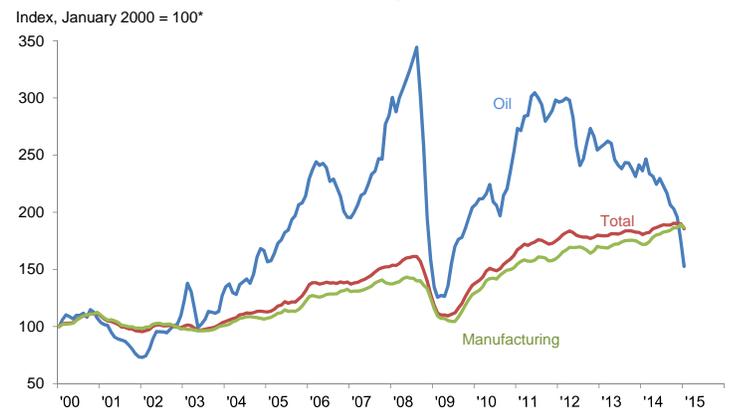
Mexico's industrial production (IP) fell 0.4 percent month over month in January following a 0.3 percent decline in December. Three-month moving averages show stagnation in IP after it posted steady growth in 2014. The fall in total IP, which also includes construction, oil and gas extraction, and utilities, was broad based (*Chart 3*). Meanwhile, U.S. IP grew 0.1 percent in February after falling 0.4 percent in

Chart 1
Mexico's GDP Growth Improves in Fourth Quarter 2014



SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Decline in Total Exports Driven by Falling Oil Shipments



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

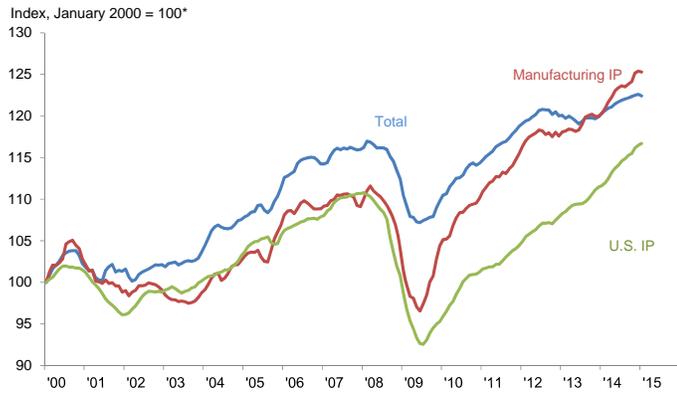
SOURCE: Instituto Nacional de Estadística y Geografía.

January. Mexico's industrial production typically tracks U.S. IP, due in part to the U.S. automotive industry's large presence in Mexico.

Year-End Retail Sales Disappoint

Retail sales fell 0.8 percent in December after growing 0.7 percent in November. The three-month moving average shows retail sales losing momentum toward the end of 2014 (*Chart 4*). The December-over-December measure was more positive, with retail sales up 2 percent, compared with 0.8 percent annual aver-

Chart 3
Industrial Production Shows Signs of Cooling



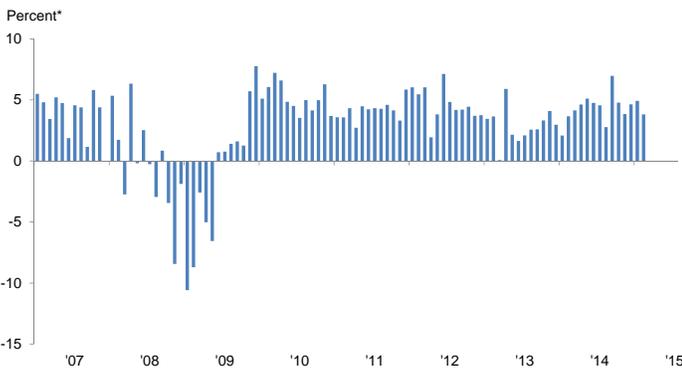
*Seasonally adjusted, three-month moving average.
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Edge Down



*Seasonally adjusted, three-month moving average; real pesos.
SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 5
Job Growth Continues into 2015



*Month/month; seasonally adjusted, annualized rate.
SOURCE: Instituto Mexicano del Seguro Social.

Chart 6
Peso Depreciates to Levels Not Seen Since 2009 Recession



SOURCE: Banco de México.

age growth in the prior three years. Consumer confidence improved in February.

Job Growth Remains Strong in 2015

Formal sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.8 percent in February, compared with a robust 4.9 percent in January. Annual employment growth (December over December) was 4.3 percent in 2014, faster than 2013’s 2.9 percent (*Chart 5*).

Peso Continues Losing Ground

The peso fell 1.5 percent against the dollar in February, when the exchange rate averaged 14.9 pesos per dollar, up from 14.6 pesos in January (*Chart 6*). The peso has lost 11 percent against the dollar over the past year. The peso has been unstable as a result of the tapering of Federal Reserve asset purchases in the U.S. and the expected impact of falling oil prices on Mexico’s government finances. Oil revenues account for about one-third of the federal government budget.

Inflation Reaches Central Bank Target

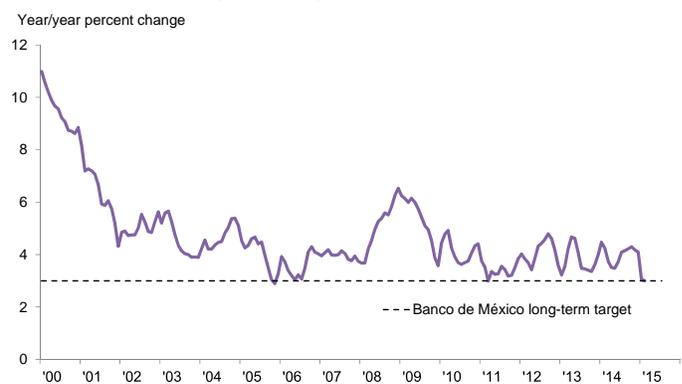
Inflation ticked down to 3 percent in February after plummeting to 3.1 percent year over year in January (*Chart 7*). Prices excluding food and energy rose 2.4 percent, below the central bank’s long-term inflation target of 3 percent. Banco de México has kept policy rates on hold since June, when it lowered the reference rate by 50 basis points to 3 percent to help stimulate economic growth. Central bank policymakers believe that inflation expectations are well-anchored. However, policymakers have noted that they may raise interest rates if the peso’s weakness pushes up inflation.

—Jesus Cañas

About the Author

Cañas is a business economist in the Research Department at the Federal Reserve Bank of Dallas.

Chart 7
Inflation Drops to Long-Term Target in February



SOURCE: Instituto Nacional de Estadística y Geografía.