

Mexico Economy Slows in First Quarter

June 22, 2015

Mexico's economy grew at an annualized rate of 1.6 percent in the first quarter, down from 2.7 percent in fourth quarter 2014. More recent data suggest that growth has picked up. Exports, employment and retail sales are all up, while industrial production fell. Inflation has declined further, and the peso's depreciation has paused.

Modest Output Growth

Mexico's economy grew at an annualized 1.6 percent rate in the first quarter, compared with a revised fourth-quarter growth rate of 2.7 percent (*Chart 1*). Service-related activities (including trade, transportation and business services) grew 1.9 percent in the first quarter, while goods-producing industries (including manufacturing, construction, utilities and mining) fell 0.7 percent. Agricultural output expanded 12.6 percent. The consensus 2015 growth forecast was revised down to 2.7 percent in June from 2.9 percent in April.

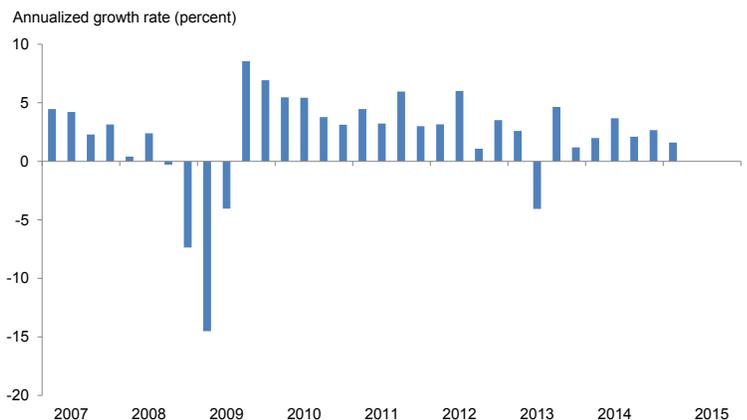
Exports Edge Up in April

Exports rose 1.3 percent in April after stagnating in March. Three-month moving averages reveal a continued steep decline in oil exports, while total exports finally ticked up after falling during the first three months of the year (*Chart 2*). Oil exports are down 47 percent in the first four months of 2015 compared with the same period a year ago. Much of this decline is accounted for by lower oil prices; the price of the Mexican mix is down 50 percent since June 2014. Manufacturing exports increased 5.9 percent from January through April.

Industrial Production Falls in April

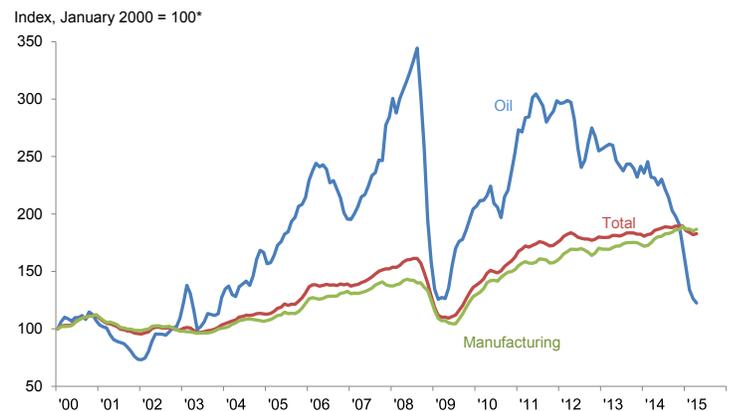
Mexico's industrial production (IP) fell 0.1 percent in April after growing 0.1 percent in March. Three-month moving averages show flattening in total IP, which includes construction, oil and gas extraction, and utilities. In contrast, manufacturing IP rebounded and continues growing faster than total production (*Chart 3*). Meanwhile, U.S. IP fell 0.3 percent in April—its fifth

Chart 1
Mexico's Gross Domestic Product Growth Decelerates in First Quarter



SOURCE: Instituto Nacional de Estadística y Geografía.

Chart 2
Total Exports Tick Up



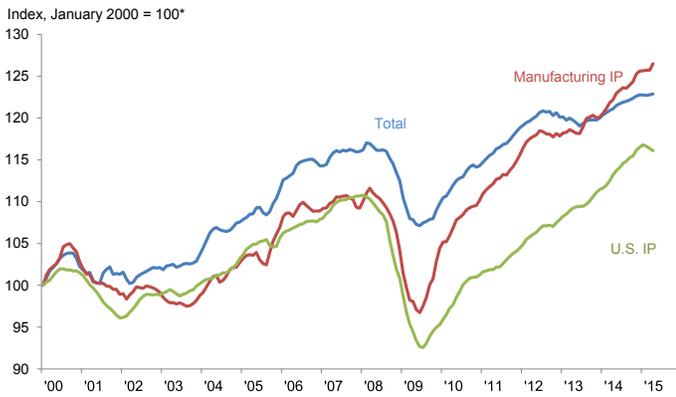
*Seasonally adjusted, three-month moving average; real dollars.
SOURCE: Instituto Nacional de Estadística y Geografía.

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

Retail Sales Keep Improving

Retail sales rose for the third consecutive month in March, increasing 0.2 percent after growing 0.5 percent in February. The three-month moving average shows continued improvement since November (*Chart 4*). Year over year, retail sales are up 5.5 percent. Despite the pickup in retail spend-

Chart 3
Manufacturing Production Picks Up



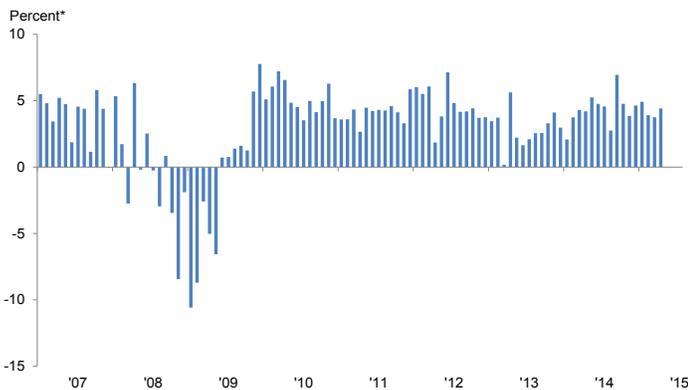
*Seasonally adjusted, three-month moving average.
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

Chart 4
Retail Sales Expand Further



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

Chart 5
Job Growth Remains Robust



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

Chart 6
Peso Holds Steady in May



SOURCE: Banco de México.

ing, consumer confidence worsened in April.

Jobs Grow Faster in April

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 4.4 percent in April, slightly faster than the 2014 annual job growth rate of 4.3 percent (*Chart 5*). Year to date, employment is up an annualized 4.3 percent from December.

Peso Holds Steady

The peso averaged 15.3 pesos per dollar in May, about the same as in April (*Chart 6*). However, the peso has lost 15 percent of its value against the dollar over the past year. The Mexican currency has been unstable partly as a result of the expectation of an increase in U.S. interest rates and the impact of falling oil prices on Mexico’s government finances. Oil revenues account for about one-third of the federal government budget.

Inflation Falls Below Official Target

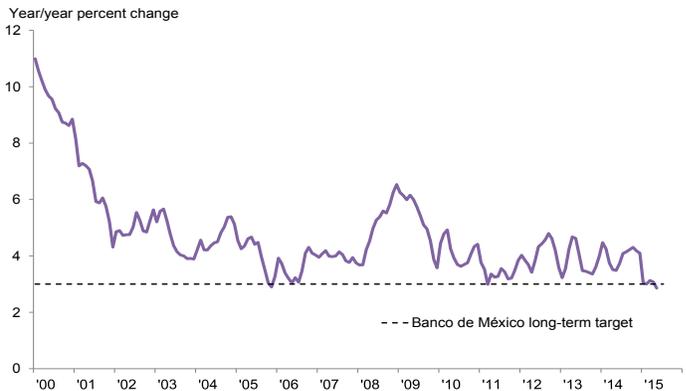
Inflation fell to 2.9 percent in May, its lowest level in recent history and below the central bank’s long-term inflation target of 3 percent (*Chart 7*). Prices excluding food and energy rose 2.3 percent. Banco de México has kept policy rates on hold since June 2014, when it lowered the reference rate by 50 basis points to 3 percent to help stimulate economic growth. Central bank policymakers believe that inflation expectations are well-anchored, but have noted that they may raise interest rates when the Federal Reserve does to prevent any adverse effects on the peso, which could push 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 Falls Below Banco de México's Long-Term Target



SOURCE: Instituto Nacional de Estadística y Geografía.