

## Mexico

## Mexico Economic Growth Surprises on the Upside in Third Quarter

December 22, 2015

Mexico's economy grew at a faster pace in the third quarter than in the second. As a result, the consensus 2015 gross domestic product (GDP) growth forecast was revised to 2.4 percent in November from 2.3 percent in October. The GDP forecast for 2016 stands at 2.7 percent. More recent data suggest that growth continued into the fourth quarter. Exports, employment and industrial production increased, but retail sales fell in September after five months of growth. Inflation is at historic lows, and the peso held steady in November.

## Third-Quarter Output Picks Up

Mexico's GDP grew at a 3 percent annualized rate in the third quarter, compared with a 2.5 percent rate in the second (*Chart 1*). Service-related activities (including trade, transportation and business services) and goods-producing industries (including manufacturing, construction, utilities and mining) each rose 3.1 percent in the third quarter. Agricultural output expanded 9.7 percent.

## Exports Edge Up in October

Exports rose 1.8 percent in October after growing 1 percent in September. However, three-month moving averages reveal a continued steep decline in oil exports and a slowing in total exports toward the end of the year (*Chart 2*). Oil exports were down 44 percent in the first 10 months of 2015 compared with the same period a year ago, but much of this decline is attributable to lower oil prices. The price of Mexican crude oil mix is down 60 percent since June 2014. Manufacturing exports were up 2 percent this year through October over the same period last year.

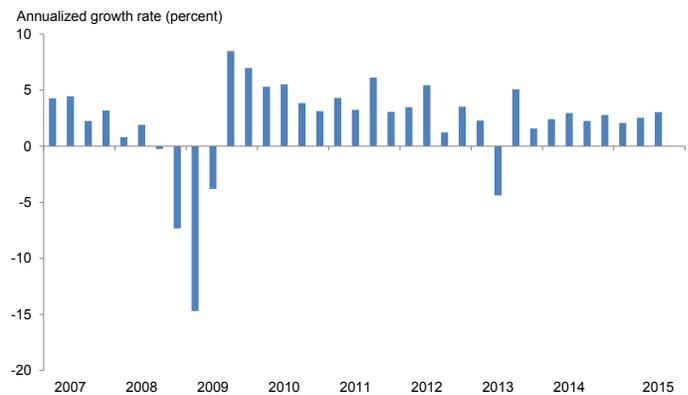
## Industrial Production Keeps Expanding

Mexico's industrial production (IP) grew 0.4 percent in September after expanding 0.2 percent in August. Three-month moving averages show sharply higher total IP, which includes construction, oil and gas extraction, and utilities. Manufacturing IP continues to grow faster than total production (*Chart 3*). Meanwhile, U.S. IP lost some momentum and fell 0.2 percent in October—its second consecutive decline.

## Retail Sales Fall in September

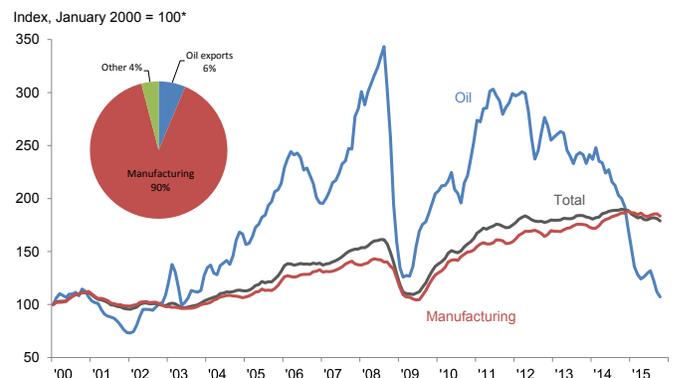
Retail sales edged down 1.1 percent in September after growing for five consecutive months. However, the three-month moving average still shows continued improvement in domestic demand (*Chart 4*). Year over year, retail sales are up 5.2

**Chart 1**  
Mexico's Gross Domestic Product Growth Improves in Third Quarter



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

**Chart 2**  
Manufacturing Decline and Lower Oil Prices Pull Down Exports



\*Seasonally adjusted, three-month moving average; real dollars.  
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

percent. Consumer confidence improved in October and November.

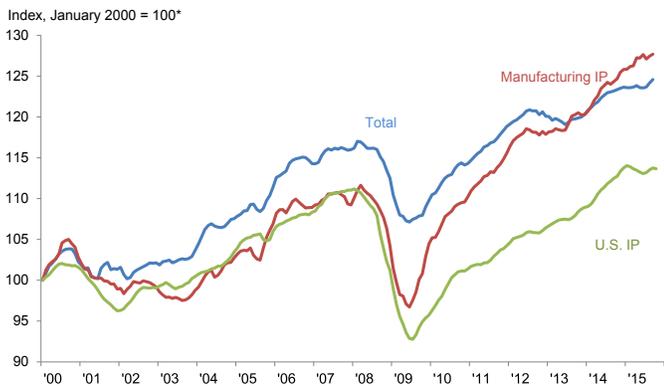
## Job Growth Slower in October

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 2.6 percent in October after rising 3.6 percent in September (*Chart 5*). Year to date, employment is up an annualized 4 percent.

## Peso Holds Steady

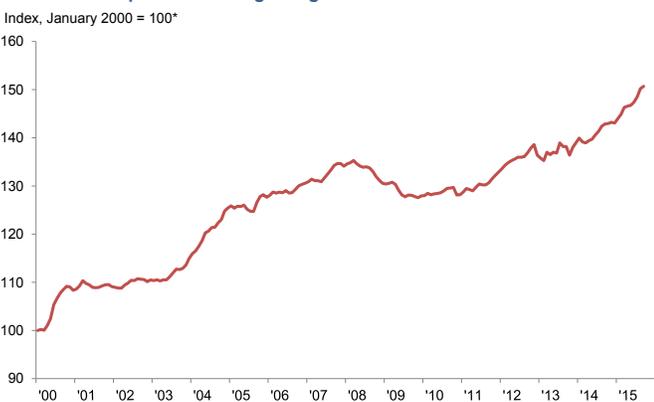
Mexico's currency averaged 16.6 pesos per dollar in November, about the same as in October (*Chart 6*). However, the

**Chart 3**  
Industrial Production Continues Expanding



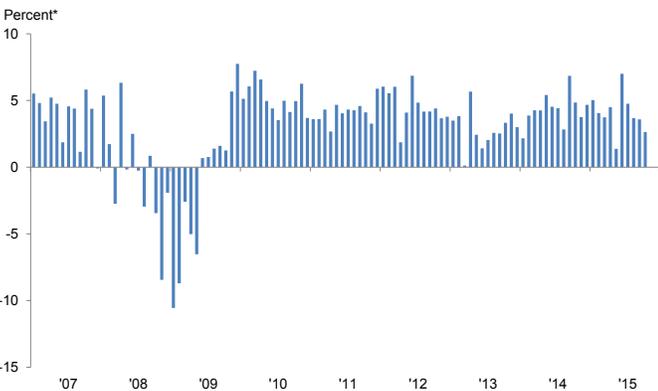
\*Seasonally adjusted, three-month moving average.  
SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

**Chart 4**  
Retail Sales Up Since the Beginning of the Year



\*Seasonally adjusted, three-month moving average; real pesos.  
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

**Chart 5**  
Pace of Job Growth Slows in October



\*Month/month; seasonally adjusted, annualized rate.  
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

peso has lost 18 percent of its value against the dollar over the past year. The currency has been weak, partly in anticipation of the increase in U.S. interest rates and partly due to the impact of falling oil prices on Mexico’s government finances. Oil revenues account for about one-third of the federal budget.

**Inflation Continues Below Official Target**

Inflation fell to 2.2 percent in November, its lowest level in recent history and below the central bank’s long-term target of 3 percent (Chart 7). Prices excluding food and energy rose 2.3 percent. Mexico’s central bank tightened its policy rate for the first time since August 2008, honoring its promise of policy coordination with the Federal Reserve in an effort to prevent adverse effects on the peso that could push up inflation. The rate rose 25 basis points to 3.25 percent.

—Jesus Cañas

**About the Author**

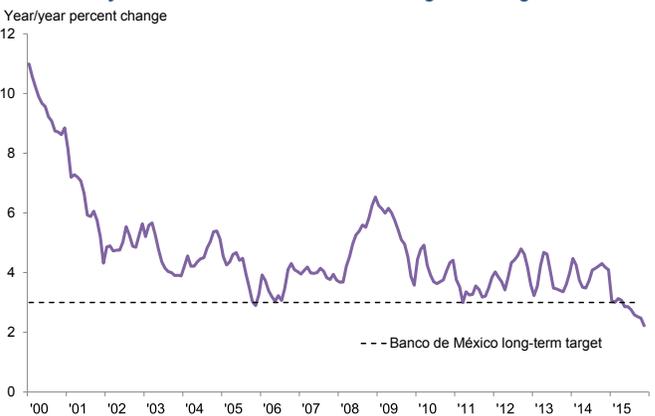
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**Chart 6**  
Peso Holds Steady in November



SOURCE: Banco de México.

**Chart 7**  
Inflation Stays Below Mexico Central Bank’s Long-Term Target



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