

## Mexico

## Mexico Economy Slows in Fourth Quarter

February 5, 2016

Mexico's economy grew in the fourth quarter, although at a slower pace than in the third. The government's monthly gross domestic product (GDP) measure increased in October and November. In addition, recent data on exports and industrial production show a decline. Inflation appears firmly under control despite the peso's depreciation against the dollar. The consensus forecast of 2016 GDP growth is 2.7 percent.

## Output Growth Lags in October and November

Mexico's Global Economic Activity Index, the monthly proxy for GDP, grew 0.1 percent in November after increasing 0.2 percent in October; this was slower than the July-to-September average of 0.3 percent. Nevertheless, the three-month moving average shows steady gains since the end of 2013 (*Chart 1*). Service-related activities (including trade and transportation) ticked up 0.3 percent in November, while goods-producing industries (including manufacturing, construction and utilities) fell 0.5 percent. Agricultural output contracted 0.7 percent. The official estimate of fourth-quarter GDP will be released Feb. 23. Mexico GDP grew 2.5 percent (annualized) in the first nine months of 2015.

## Exports Fall in November

Exports dropped 3.8 percent in November after growing 2.2 percent in October. The three-month moving average reveals a continued steep decline in oil exports and slowing total exports toward the end of the year (*Chart 2*). Oil exports were down 45 percent, while manufacturing exports were up 1.5 percent in the first 11 months of 2015 compared with the same period the prior year.

## Industrial Production Posts Two Consecutive Months of Decline

Mexico's industrial production (IP) fell 0.5 percent in November after dropping 0.1 percent in October. Three-month moving averages show some slowing in total IP, which includes construction, oil and gas extraction, and utilities. Manufacturing IP continues to increase faster than total production (*Chart 3*). Meanwhile, U.S. IP has lost momentum and dipped 0.4 percent in December—its third consecutive drop.

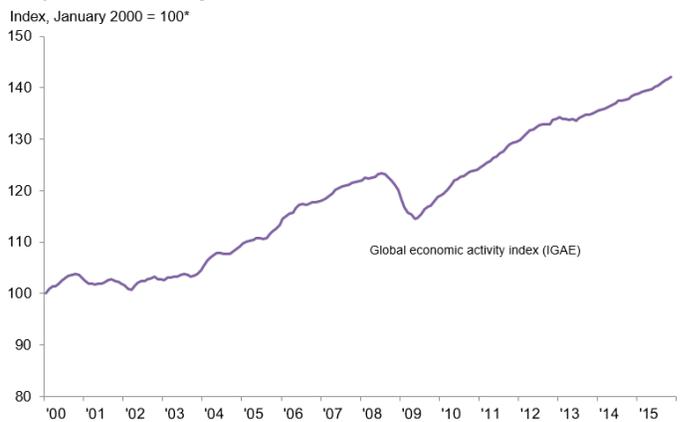
## Retail Sales Grow in November

Retail sales increased 0.5 percent in November after growing 0.3 percent in October. However, the three-month moving average shows some deceleration toward the end of the year (*Chart 4*). Year over year, retail sales were up 5.3 percent in November. Consumer confidence worsened in December.

## Job Growth Slows in Fourth Quarter

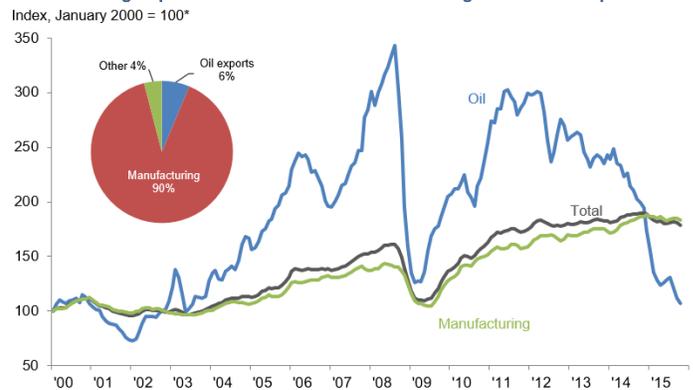
Formal-sector employment—jobs with government benefits and pensions—rose at an annualized rate of 1.2 percent in December, considerably below trend growth (*Chart 5*). Em-

**Chart 1**  
Output Growth Steady Since 2013



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

**Chart 2**  
Manufacturing Exports Slow and Lower Oil Prices Drag Down Total Exports



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

ployment grew 3.7 percent in 2015 (December over December).

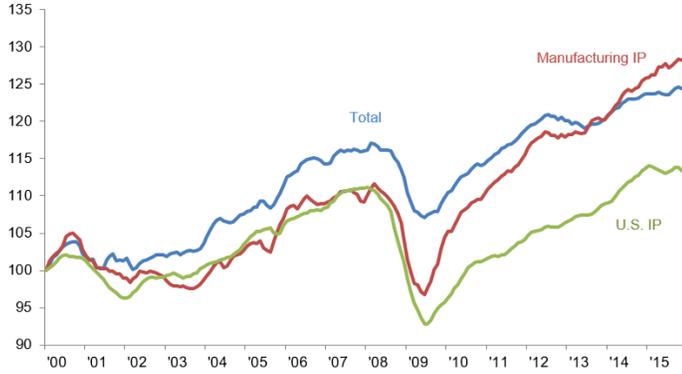
## Peso Loses Ground Against Dollar in January

The peso averaged 18.1 pesos per dollar in January which is 5.6 percent lower than in December (*Chart 6*). The peso has lost 19 percent of its value against the dollar over the past year. The Mexican currency has been weak initially as a result of the anticipation of the increase in U.S. interest rates and recently due to market turmoil resulting from weaker than expected global demand and the possibility of pushing oil prices even lower, thus, the negative impact on Mexico's government finances. Oil revenues account for about one-third of the federal government budget.

## Inflation Continues Below Official Target

**Chart 3**  
**Industrial Production Slows Toward End of 2015**

Index, January 2000 = 100\*



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

Inflation dropped to 2.1 percent in December—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 2.4 percent. Mexico’s central bank increased the policy rate 25 basis points to 3.25 percent for the first time since August 2008, complying with its long-stated intent to match U.S. rate hikes in an effort to prevent any adverse effects on the peso, which could push up inflation.

—Jesus Cañas

**About the Author**

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**Chart 4**  
**Retail Sales Decelerate Some**

Index, January 2000 = 100\*



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

**Chart 6**  
**Peso Depreciates to Record Levels**

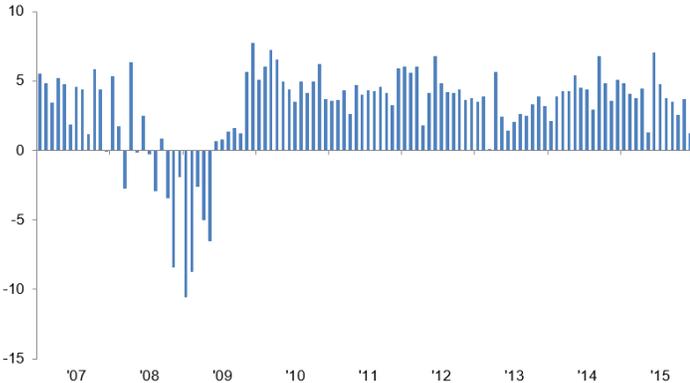
Peso/dollar average



SOURCE: Banco de México.

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

Percent\*



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

**Chart 7**  
**Inflation at a Historic Low, Far Below Central Bank’s Target**

Year/year percent change



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