

Mexico

Mexico Economic Growth Surprises on the Upside in First Quarter

June 23, 2016

Mexico gross domestic product (GDP) grew faster than expected in the first quarter. Nevertheless, the May consensus 2016 GDP growth forecast remained unchanged at 2.4 percent. More recent data suggest that growth continued into the second quarter. Retail sales, employment and exports grew, but industrial production fell. Inflation remained at record lows, and the peso lost ground against the dollar in May.

First-Quarter Output Picks Up

Mexico's GDP grew at a 3.3 percent annualized rate in the first quarter—faster than the 2.2 percent increase in the fourth quarter (*Chart 1*). Service-related activities (including trade, transportation and business services) rose 3.2 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 5 percent in the first quarter. Agricultural output expanded 14.7 percent. Annual growth for 2015, or the four-quarter change, came in at 2.4 percent.

Exports Edge Up in April

Exports rose 2.4 percent in April after falling for five consecutive months. However, three-month moving averages show continued declines in oil exports and a slowing in manufacturing exports (*Chart 2*). Oil exports were down 42 percent in the first four months of 2016 compared with the same period a year ago. Manufacturing exports fell 5.5 percent this year through April versus the same period last year.

Industrial Production Falls

Mexico's industrial production (IP) edged down 0.2 percent in March after dipping 0.5 percent in February. Three-month moving averages show growth continued in 2016, although at a slower pace than the same period last year (*Chart 3*). Total IP, which includes construction, oil and gas extraction, and utilities, has been growing slower than manufacturing IP since mid-2014. U.S. IP grew 0.6 percent in April after falling for two consecutive months.

Retail Sales Continue Growing

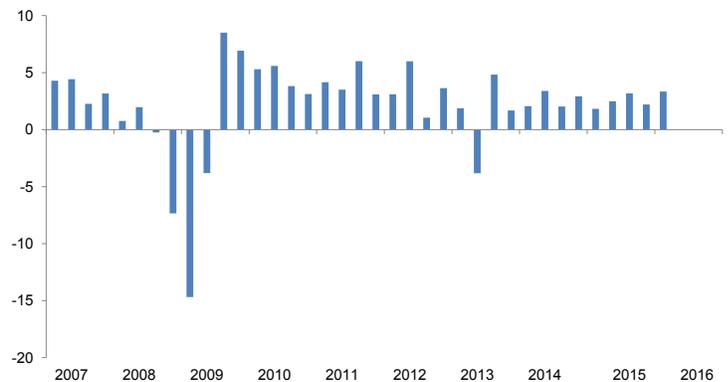
Retail sales expanded 3 percent in March after edging up 0.3 percent in February. The three-month moving average shows deceleration during fourth quarter 2015, with a sharp rebound in first quarter 2016 (*Chart 4*). Sales were up 8.4 percent year over year in March. Consumer confidence also improved in April and May.

Job Growth Rebounds in April

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 5.4 percent in April and was up 3.6 percent year over year (*Chart 5*). Year-to-date job growth has been about the same as in 2015 when employment expanded 3.8 percent (December over December).

Chart 1
Mexico's Gross Domestic Product Growth Improves in First Quarter 2016

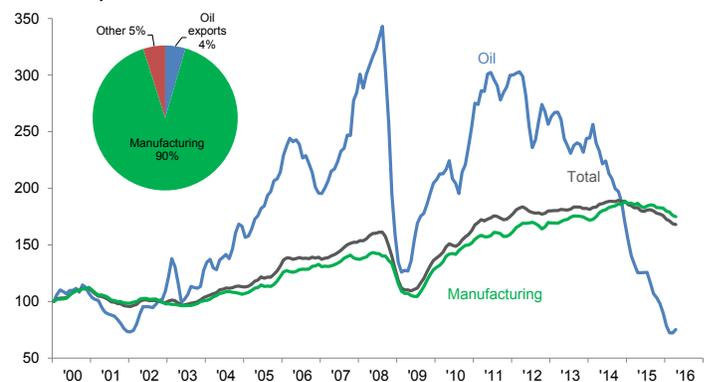
Annualized growth rate (percent)



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

Chart 2
Exports Dragged Down by Weak Manufacturing Exports and Low Oil Production, Prices

Index, January 2000 = 100*



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

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

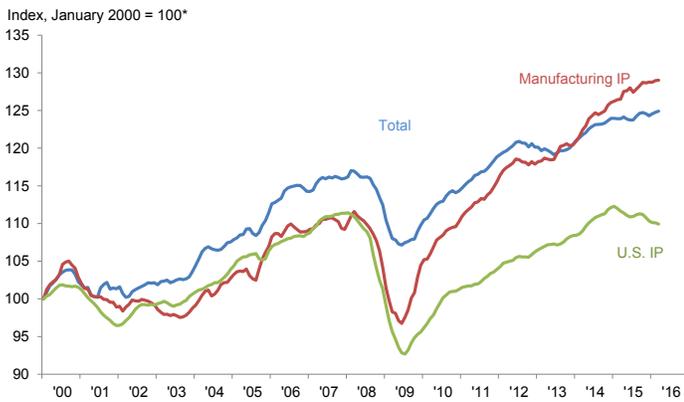
Peso Loses Ground Against Dollar in May

The peso averaged 18.2 pesos per dollar in May, which is 3.7 percent lower than in April (*Chart 6*). The peso has lost 16 percent of its value against the dollar over the past year. The Mexican currency has been weak as a result of the anticipation of another increase in U.S. interest rates, and market turmoil resulting from weaker-than-expected global demand and the possibility of lower oil prices.

Inflation Holds Steady in April

Inflation remained at 2.6 percent in April, below the central bank's long-term inflation target of 3 percent (*Chart 7*). Prices excluding food and energy rose 2.8 percent over the

Chart 3
Industrial Production Slows in 2016



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

last 12 months. Mexico’s central bank increased the policy interest rate for the first time since August 2008, boosting it by 25 basis points to 3.25 percent in December and again by 50 basis points in February to 3.75 percent. Agustín Carstens, Mexico’s central bank governor, has made it clear that the central bank will not hesitate to use interest rate increases and currency interventions if it feels peso weakness will lead to higher inflation.

—Jesus Cañas

About the Author

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

Chart 4
Retail Sales Shoot Up in First Quarter



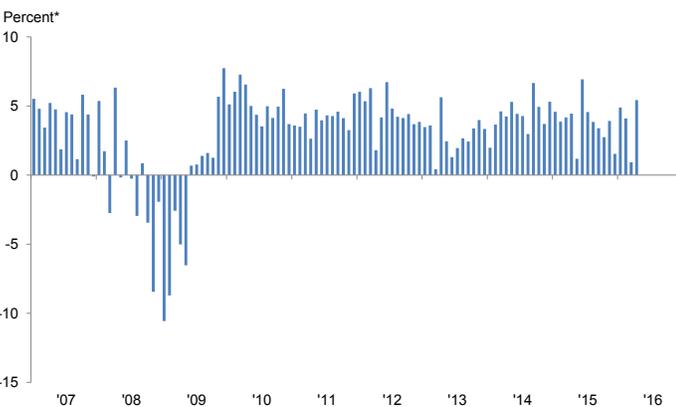
*Seasonally adjusted, three-month moving average; real pesos.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 6
Peso Depreciates Against the Dollar in May



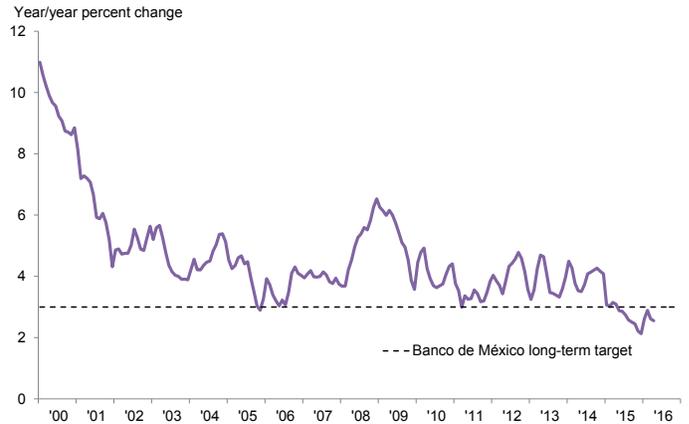
SOURCE: Banco de México.

Chart 5
Job Growth Robust in 2016



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

Chart 7
Inflation Holds Steady in April



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