

Mexico

Mexico Growth Stalls in July

October 2, 2017

Mexico's economic output contracted in July as the monthly gross domestic product (GDP) measure declined. Before release of the most recent data, the consensus 2017 GDP growth forecast had been revised higher, to 2.2 percent in August from 2 percent in July.

Other data were mixed as employment growth remained strong and retail sales and exports ticked up, but industrial production fell. Inflation continued rising even as the peso maintained its recovery against the dollar.

Earthquakes in southern and central Mexico in September will likely depress economic activity in the affected regions, which include metropolitan Mexico City, through the rest of the year. However, the effect will be temporary and growth should rebound as reconstruction accelerates.

Economic Activity Index Falls

Mexico's global economic activity index, the proxy for GDP, fell 0.7 percent in July after growing 0.6 percent in June. The three-month moving average was flat at the start of the third quarter (*Chart 1*). Service-related activities (including trade and transportation) slipped 0.1 percent in July. Goods-producing industries (including manufacturing, construction and utilities) declined 1 percent. Agricultural output dropped 1.6 percent.

Exports Trending Higher

Total goods exports rose 1.6 percent, while manufactured goods exports advanced 1.9 percent in August. Both categories dipped in July. With this data, the latest three-month moving averages show a steady climb (*Chart 2*). Total exports were up 8.1 percent year to date through August relative to the same period in 2016. Manufacturing exports grew 7.1 percent and oil exports advanced 24.1 percent in the first eight months of 2017 compared with the same year-ago period.

Industrial Production Drops Again, but Manufacturing Ticks Up

Mexico's industrial production (IP), which includes manufacturing, construction, oil and gas extraction and utilities, fell 1 percent in July. In contrast, manufacturing IP gained 0.3 percent. Both total and manufacturing IP were flat in June.

As a result of continued lackluster readings, both series' three-month moving averages fell—manufacturing IP less so than total IP (*Chart 3*). In the U.S., IP dropped 1 percent in August after six consecutive months of growth.

Struggling Retail Sales Rise Slightly in July

Retail sales improved 0.3 percent in July; however, the three-month moving average of retail sales dipped below the 2017 starting point (*Chart 4*). Retail sales momentum has diminished since early this year, mainly due to de-

Chart 1
Mexico Output Growth Stalls

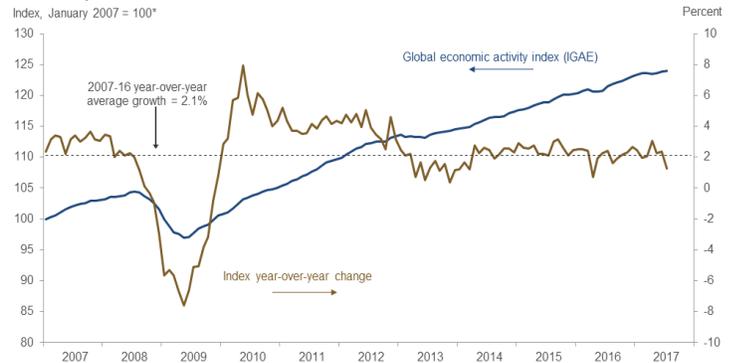


Chart 2
Moving Averages Tick Up in Major Export Categories

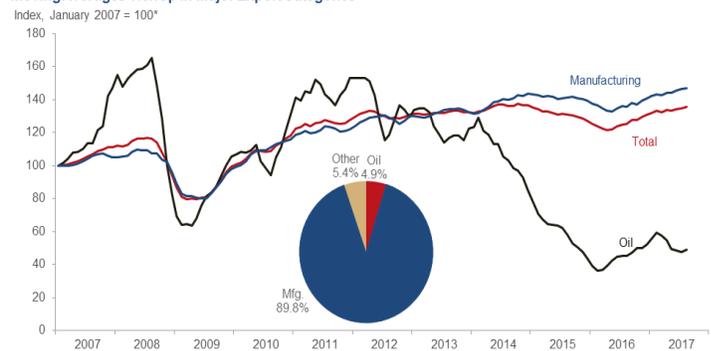
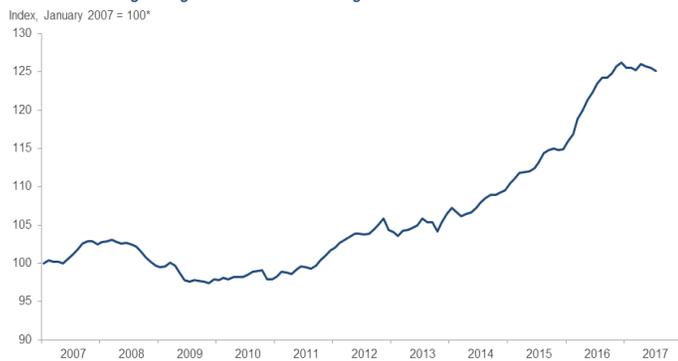


Chart 3
Production Measures' Moving Averages Edge Down



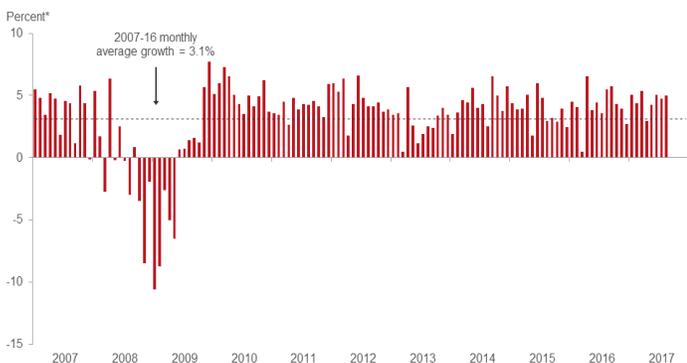
pressed consumer confidence, high inflation (which has pushed real wages lower) and increasing interest rates that raised the cost of credit. Although consumer confidence worsened in June, it improved in July and August.

Chart 4
Retail Sales' Moving Average Falls Below 2017 Starting Point



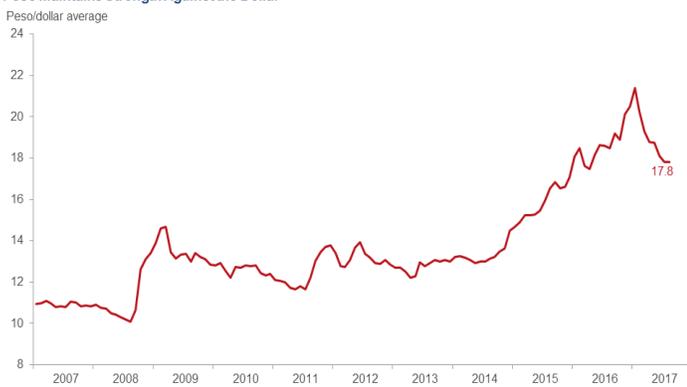
*Seasonally adjusted, three-month moving average, real pesos.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 5
Above-Trend Job Growth Continues



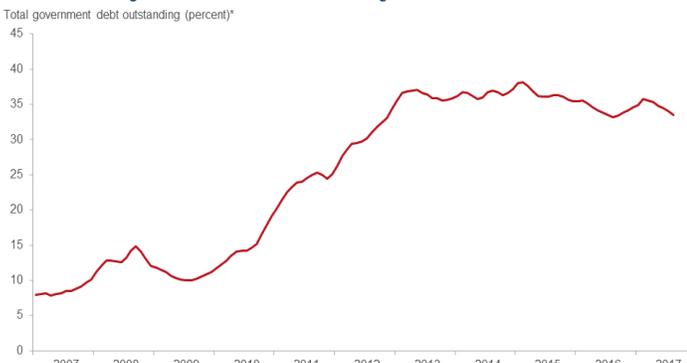
*Month/month, seasonally adjusted, annualized rate.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

Chart 6
Peso Maintains Strength Against the Dollar



SOURCE: Banco de México.

Chart 7
Nonresident Holdings of Government Debt Continue Falling



*Three-month moving average.
SOURCE: Banco de México.

Job Growth Maintains Strong Pace

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 5 percent in August, exceeding the 10-year growth trend for a fourth consecutive month (*Chart 5*). Employment growth in 2016 was 4.1 percent (December over December), compared with 3.8 percent in 2015.

Peso Holds Firm Against Dollar

The Mexican currency held steady at 17.8 pesos per dollar in August after gaining 1.7 percent in July (*Chart 6*). The peso is up more than 20 percent against the dollar since January. The Mexican currency initially weakened last year in anticipation of U.S. interest rate increases as well as policy and economic uncertainty following the U.S. presidential election.

Foreign-Owned Government Debt Trending Downward

With stabilization of the peso/dollar exchange rate this year, the share of peso-denominated government debt held abroad has declined for six straight months (*Chart 7*). The foreign-owned government debt share began 2017 near 36 percent and has fallen more than 2 percentage points through August. The extent of nonresident holdings of government debt reflects Mexico's exposure to international investors, whose holdings could quickly reverse if they perceive an abrupt change in market sentiment toward Mexico.

August Inflation Reading Highest Since 2001

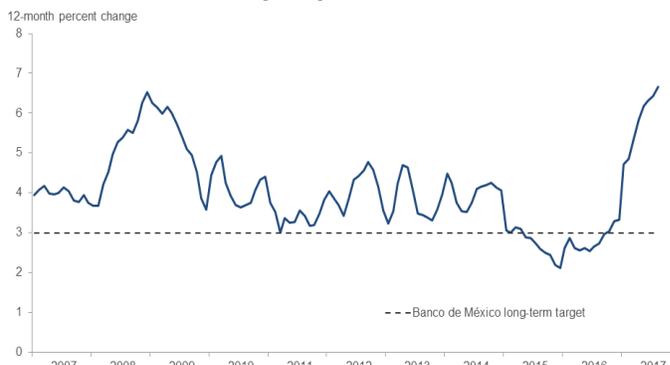
Annual inflation accelerated to 6.7 percent in August, up from 6.4 percent in July. Inflation continues moving further from Banco de México's long-term target of 3 percent (*Chart 8*). Core inflation (excluding food and energy) was 5 percent over the 12 months ended in August. Mexico's central bank held its benchmark interest rate steady at 7 percent during its September meeting. Banco de México Governor Agustín Carstens has stated that the central bank will use interest rate increases and currency interventions as needed to strengthen the peso and stabilize prices.

—Jesus Cañas and Alexander T. Abraham

About the Authors

Cañas is a senior business economist and Abraham is a research assistant in the Research Department at the Federal Reserve Bank of Dallas.

Chart 8
Inflation Accelerates Further Above Target in August



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