

## Mexico Economic Growth Rebounds in Fourth Quarter

February 9, 2018

Mexico's economic output recovered sharply in the fourth quarter, rising 4.1 percent after falling in the third quarter as a result of the September earthquakes. Mexico's gross domestic product (GDP) grew 1.6 percent in 2017 (four-quarter change), below last year's forecast and the slowest annual growth in four years. The consensus GDP growth forecast for 2018 calls for a slight acceleration in activity to 2.2 percent (annual average growth).

Despite robust GDP growth in the fourth quarter, other recent data are mixed. Exports and employment posted positive growth, but industrial production and retail sales fell. Inflation ticked up, but the peso recovered some ground against the dollar in January.

### Fourth-Quarter Output Surges

Mexico GDP expanded at a 4.1 percent annualized rate in the fourth quarter (*Chart 1*). Goods-producing industries (manufacturing, construction, utilities and mining) ticked up 0.4 percent. Service-related activities (wholesale and retail trade, transportation and business services) gained 4.9 percent. Agricultural output spiked 13 percent.

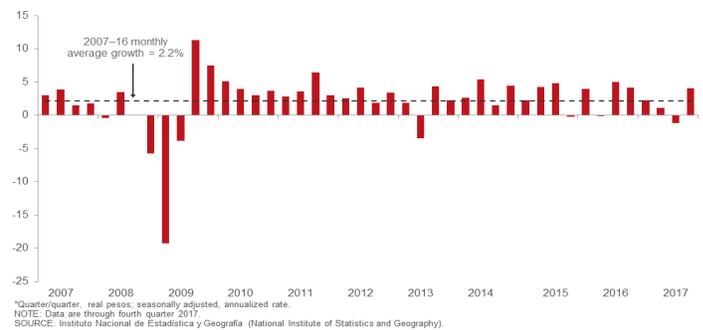
### Export Growth Continues in December After Strong November

Total exports increased 0.5 percent in December after jumping 5.6 percent in November. December manufactured goods exports fell 1.2 percent, while oil exports surged 22.4 percent. All three-month moving averages increased (*Chart 2*). In 2017, total exports grew 7.5 percent, manufacturing exports rose 6.4 percent and oil exports climbed 23.8 percent. The rise in oil exports last year stemmed largely from higher oil prices, not increased volume of exports.

### In November, Industrial Production Ticks Down, Manufacturing Rebounds

Mexico's industrial production (IP), which includes manufacturing, construction, oil and gas extraction, and utilities, ticked down 0.1 percent in November. Manufacturing IP, however, rose 0.6 percent after falling the previous two months. The three-month moving average dropped for both IP measures (*Chart 3*). In the U.S., IP rose 0.9 percent in December after slipping 0.1 percent in November.

**Chart 1**  
Fourth-Quarter Gross Domestic Product Rebounds



**Chart 2**  
Recent Export Growth Broad Based



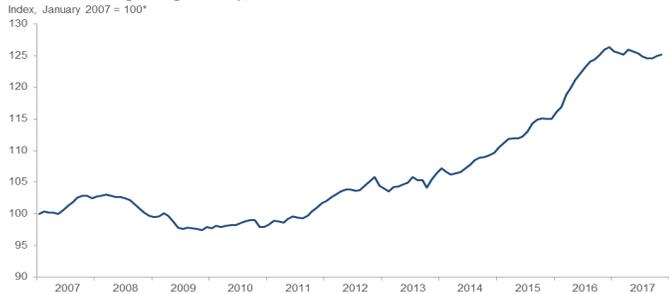
**Chart 3**  
Industrial Production Slips, Moving Average Obscures Manufacturing Uptick



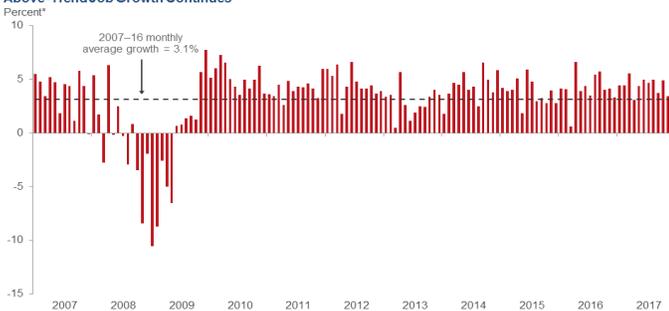
### Retail Sales on Recent Upward Trend, Slip in November

Retail sales fell 0.3 percent in November after jumping 1 percent in October. The moving average increased for a third consecutive month (*Chart 4*). Momentum in retail sales has been weak this year, mainly due to high inflation (which has pushed prices higher and real wages lower), higher interest rates that have raised the cost of credit and depressed consumer confidence. Consumer

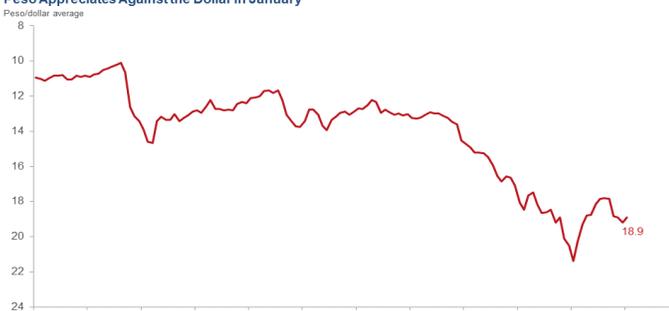
**Chart 4**  
Retail Sales Moving Average Ticks Up, Absorbs November Weakness



**Chart 5**  
Above-Trend Job Growth Continues



**Chart 6**  
Peso Appreciates Against the Dollar in January



**Chart 7**  
Foreign-Owned Government Debt Share Trending Downward



**Chart 8**  
Inflation Edges Up



confidence inched down in December after improving in November.

**Rapid Job Growth Continues in December**

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.5 percent in December (*Chart 5*). Monthly growth has exceeded its 10-year average for eight consecutive months. Job growth in 2017 was 4.3 percent (December over December). Employment growth was 4.1 percent in 2016 and 3.8 percent in 2015.

**Peso Gains Some Ground in January**

The Mexican currency averaged 18.9 pesos per dollar in January, a 1.4 percent appreciation from December (*Chart 6*). The peso is up 13.1 percent since January 2017 when the exchange rate averaged 21.4 pesos per dollar. The Mexican currency initially weakened last year in anticipation of increases in U.S. interest rates, as well as policy and economic uncertainty following the U.S. presidential election.

**Foreign-Owned Government Debt Inches Up in December**

In December, the share of peso-denominated government debt held abroad rose. However, after falling throughout most of 2017, the debt share ended the year at 32.7 percent, down from 36 percent at the beginning of the year. The moving average reflects this year’s downward trend (*Chart 7*). The extent of nonresident holdings of government debt reflects Mexico’s exposure to international investors, whose holdings could quickly reverse if they perceive a change in market sentiment toward Mexico.

**Inflation Ticks Up in December**

The 12-month change in the Mexico consumer price index (CPI) reached 6.8 percent in December, up from 6.6 percent in November. Inflation remains far above Banco de México’s long-term target of 3 percent (*Chart 8*). CPI core inflation, which excludes food and energy, rose 4.9 percent over the 12 months ending in December. Mexico’s central bank increased its benchmark interest rate from 7 to 7.25 percent at its November meeting. New Banco de México Governor Alejandro Diaz de León was appointed to a four-year term that began on Dec. 1.

—Jesus Cañas and Alexander T. Abraham

**About the Author**

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