

Mexico's First-Quarter Output Revised Up, but Growth Stalls in April

June 29, 2018

Mexico's economy grew slightly faster in first quarter 2018 than previously estimated. First-quarter gross domestic product (GDP) was revised to 4.6 percent, up from the prior estimate of 4.5 percent. April's monthly GDP measure declined. Nevertheless, the consensus 2018 GDP growth forecast has been revised higher to 2.3 percent in May from 2.2 percent in April.

More recent data are mixed. Exports and industrial production fell, while retail sales and employment continued growing. Inflation declined, but the peso weakened slightly against the dollar in May.

Monthly Economic Activity Index Falls in April

Mexico's global economic activity index, the monthly proxy for GDP, fell 0.6 percent in April after growing 0.2 percent in March. However, the measure's three-month moving average continues on an upward trend (*Chart 1*). Service-related activities (including trade and transportation) slipped 0.5 percent in April. Goods-producing industries (including manufacturing, construction and utilities) declined 0.4 percent, and agricultural output dropped 1.7 percent.

Exports Fall in April but Are Up Year to Date

Total exports fell 2.5 percent in April after rising 2.6 percent in March. Manufactured-goods exports declined 3.1 percent, while oil exports increased 4.4 percent. Three-month moving averages of total and manufacturing exports still show consistent growth since late 2017, although oil exports flattened in early 2018 (*Chart 2*). Year to date through April, total exports have increased 9.6 percent, with manufacturing exports up 7.6 percent and oil exports up 35.8 percent.

Industrial Production Ticks Down in April

Mexico's industrial production (IP), which includes manufacturing, construction, oil and gas extraction, and utilities, fell 0.4 percent in April over the prior month after slipping 0.2 percent in March. Manufacturing IP dropped 2.2 percent in April after growing 2.3 percent in March. The moving average rose for manufacturing IP despite April's slowdown (*Chart 3*). U.S. IP fell 0.1 percent in May after growing 0.9 percent in April.

Chart 1
Economic Activity Index Trends Upward Despite April Decline

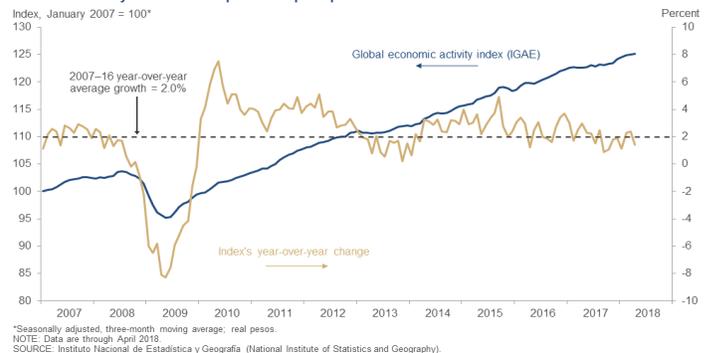


Chart 2
Exports Continue to Climb in 2018 Even as April Readings Fall

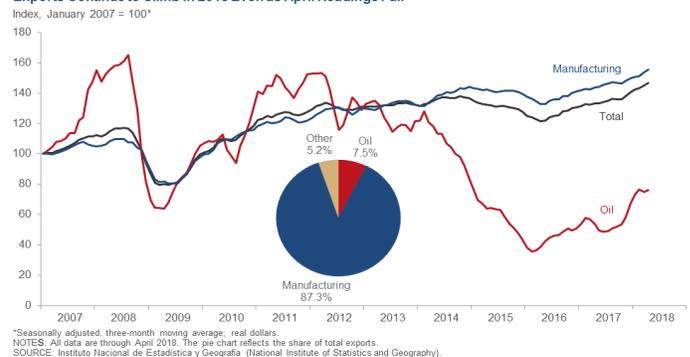


Chart 3
Total Industrial Production Slows in April, but Manufacturing Moves Up



Retail Sales Surge

Retail sales grew 0.9 percent in March over the prior month after rising 1.7 percent in February. The moving average shows a sharp turnaround from the depressed levels observed during the second half of 2017 (*Chart 4*). Year over year in March, retail sales were up 3.4 percent. Sales were suppressed in 2017 by high inflation (which pushed prices higher relative to wages),

Chart 4
Retail Sales Show Strength



Chart 5
Above-Trend Job Growth Continues

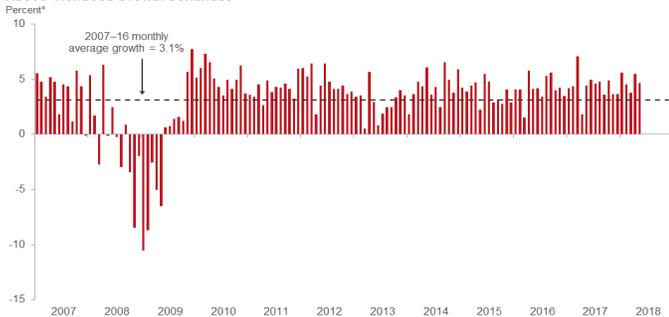


Chart 6
Peso Declines in May



Chart 7
Foreign-Owned Government Debt Share Moves Downward



Chart 8
Inflation Declines After Spiking in 2017



elevated interest rates that raised the cost of credit, and depressed consumer confidence.

Rapid Job Growth Continues

Formal sector employment—jobs with government benefits and pensions—grew at an annualized rate of 4.6 percent in May over April and is up 4.5 percent year to date (annualized) (Chart 5). Employment growth was 4.3 percent in 2017 (December/December); it has averaged 3.1 percent per year since 2007. The unemployment rate in May was 3.2 percent, about the same as a year earlier. Strong job growth and low unemployment point to tightening labor markets.

Peso Loses Ground in May

The Mexican currency averaged 19.6 pesos per dollar in May, a 6.1 percent depreciation from April (Chart 6). Nevertheless, the peso is still up 9.2 percent since January 2017, when the exchange rate reached a low of 21.4 pesos per dollar. The Mexican currency has been under pressure recently as a result of increased uncertainty regarding U.S. trade policy and Mexico’s July 1 presidential election.

Foreign-Owned Government Debt Share Ticks Down

The share of peso-denominated government debt held abroad fell slightly in April to 32 percent. The share declined in 2017 after moving higher early in the year. The moving average reflects the continuing downward trend (Chart 7). The extent of nonresident holdings of government debt is an indicator of Mexico’s exposure to international investors, whose holdings could quickly reverse if they perceive a change in market sentiment.

Inflation Continues Cooling

The 12-month change in the consumer price index (CPI) was 4.5 percent in May, about the same as in April (Chart 8). Inflation is moving closer to Banco de México’s target of 3 percent. CPI core inflation (excluding food and energy) rose 3.7 percent over the 12 months ending in May. Nevertheless, Mexico’s central bank raised its benchmark interest rate by 25 basis points to 7.75 percent on June 18. U.S. interest rates, global trade tensions and July’s presidential election have increased the peso’s volatility, posing a risk to inflation.

—Jesus Cañas and Alexander T. Abraham

About the Author

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