

Mexico's Output Growth Slows, Outlook Worsens

April 5, 2019

Mexico's economy grew an annualized 1.0 percent in fourth quarter 2018 after expanding a revised 2.4 percent in the third quarter. Growth in both quarters was revised down from earlier estimates. For the year as a whole, gross domestic product (GDP) grew 1.7 percent (fourth quarter/fourth quarter). The consensus growth forecast for 2019, compiled by Banco de México, declined to 1.6 percent in February from 1.8 percent in January.¹

More recent data are mixed. The monthly economic activity index and retail sales grew, but exports fell and employment growth slowed. The peso held steady against the dollar while inflation fell.

Economic Activity Inches Up in January, Year-Over-Year Growth Weak

Mexico's global economic activity index, the monthly proxy for GDP, rose 0.2 percent in January month over month after falling 0.4 percent in December. However, the measure's three-month moving average remains flat (*Chart 1*). Service-related activities (including trade and transportation) grew 0.3 percent in January. Goods-producing industries (including manufacturing, construction and utilities) increased 0.6 percent, and agricultural output rose 0.3 percent.

Exports Tick Down in February but Expand Year to Date

Total exports fell 0.2 percent in February after growing 1.1 percent in January. Manufactured-goods exports ticked down 1.2 percent in February after increasing 1.7 percent in January. Three-month moving averages show improvement so far in 2019 (*Chart 2*). Through February, total exports this year were up 3.7 percent compared with the same period in 2018, with manufacturing exports growing 5.3 percent and oil exports falling 8.9 percent.

Industrial Production Grows in January

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, increased 0.6 percent in January after falling 0.5 percent in December. The manufacturing index grew 0.2 percent in January after declining 0.7 percent in December. The three-month moving average for manufacturing production shows some stabilization after decreasing since late 2018, while total production continues trending downward (*Chart 3*). Meanwhile, north of the border, U.S. IP ticked up 0.1 percent in February after a 0.1 percent decline in January. The correlation between Mexico's IP and U.S. IP increased considerably due to growth in intra-

Chart 1
Despite Advancing in January, Economic Activity Index Annual Growth Below Average



Chart 2
Exports Improve

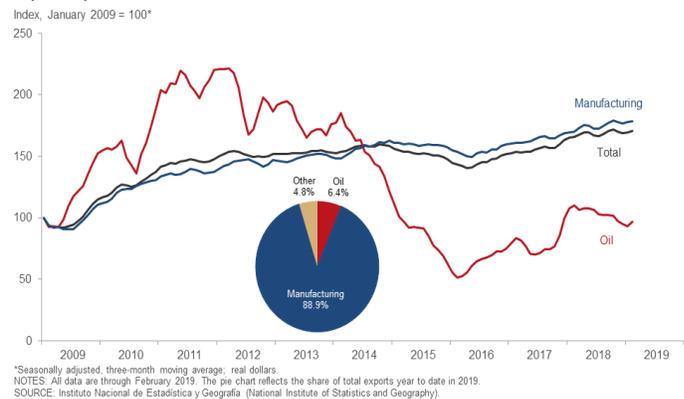
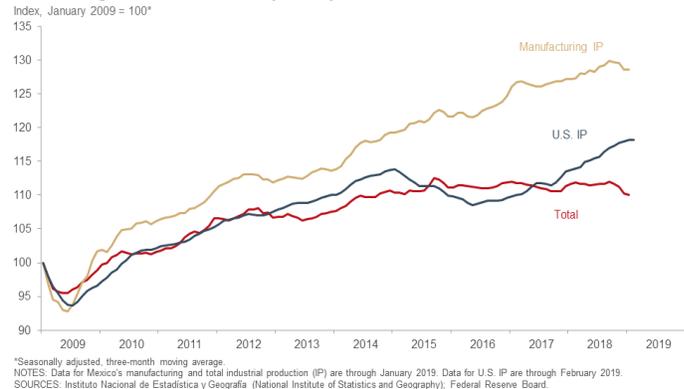


Chart 3
Manufacturing Production Moves Sideways in Early 2019



industry trade following the implementation of the 1994 North American Free Trade Agreement.

Retail Sales Rebound in January

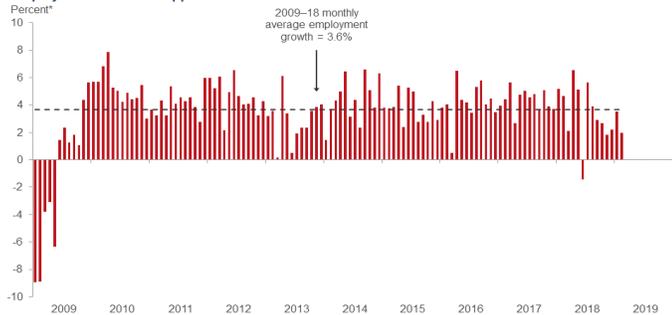
Retail sales grew 1.9 percent in January after dropping 3.2 percent in December. The three-month moving average still shows a steep decline after plateauing in mid-2018

Chart 4
Retail Sales Show Slowing Momentum



*Seasonally adjusted, three-month moving average; real pesos.
NOTE: Data are through January 2019.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 5
Employment Growth Disappoints



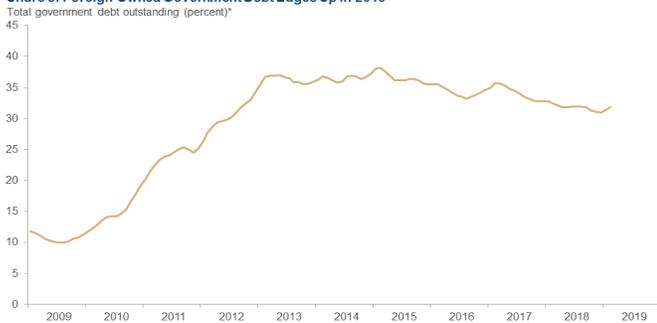
*Monthly, month, seasonally adjusted, annualized rate.
NOTE: Data are through February 2019.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

Chart 6
Peso Holds Steady in February



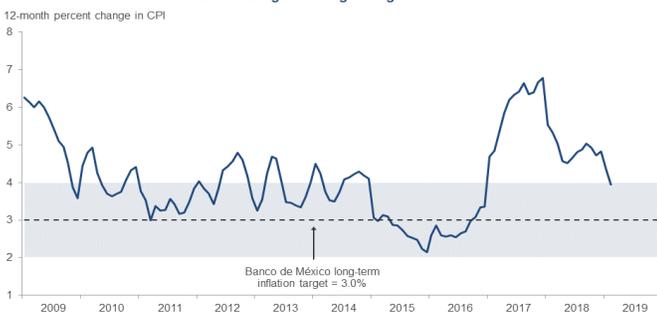
NOTES: Axis is inverted. Data are through February 2019.
SOURCE: Banco de México.

Chart 7
Share of Foreign-Owned Government Debt Edges Up in 2019



*Three-month moving average.
NOTE: Data are through February 2019.
SOURCE: Banco de México.

Chart 8
Inflation Within Mexico Central Bank's Long-Term Target Range



NOTES: The shaded region indicates the range of variability established by the Banco de México (+/- 1 percentage points). Data are through February 2019. CPI refers to the consumer price index.
SOURCES: Banco de México; Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

(Chart 4). Retail sales rose 2.4 percent in 2018 (year over year) after increasing 1.7 in 2017.

February Employment Growth Below Average

Formal sector employment—jobs with government benefits and pensions—grew an annualized 2.0 percent in February, still below the 10-year average of 3.6 percent monthly annualized growth (Chart 5). Total employment, representing 54 million workers and including informal sector jobs, grew 2.5 percent in fourth quarter 2018. The unemployment rate in January was 3.5 percent, slightly higher than the 2018 average of 3.3 percent.

Peso Holds Steady Against the Dollar in February

The Mexican currency averaged 19.2 pesos per dollar in January and February, a 4.9 percent gain from December's average of 20.1 pesos per dollar (Chart 6). However, the peso-dollar exchange rate is 2.9 percent below year-ago levels. The Mexican currency has been under pressure due to increased uncertainty regarding U.S. trade policy and Mexico's domestic policy.

Foreign-Owned Government Debt Stable

The share of peso-denominated Mexican government debt held abroad was steady at 32.0 percent in February. The three-month moving average inched up in February to 31.8 percent but remains below the most recent peak of 36.0 percent registered in early 2017 (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 to Fall

The consumer price index (CPI) increased 3.9 percent over the prior 12 months in February, down from 4.4 percent in January (Chart 8). Inflation is moving closer to Banco de México's long-term target of 3.0 percent. CPI core inflation (excluding food and energy) rose 3.5 percent in February. Mexico's central bank maintained its benchmark interest rate at 8.25 percent in March after raising it in both November and December.

—Jesus Cañas and Benjamin Meier

Note

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Febrero de 2019, <http://www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7B2B2B5970-D994-E6D3-EB63-5CEF9C02992A%7D.pdf> (communique on economic expectations, Banco de México, February 2019).

About the Authors

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