

Mexico's Economy Contracts, but Outlook Holds Steady

May 9, 2019

Mexico's gross domestic product (GDP) fell an annualized 0.8 percent in first quarter 2019, after growing 1.0 percent in fourth quarter 2018. Nevertheless, March's consensus growth forecast for 2019, compiled by Banco de México, held steady at 1.6 percent.¹

More recent data are mixed. Industrial production and retail sales grew. Employment growth slowed, and exports fell. The peso gained some ground against the dollar, while inflation ticked up.

GDP Declines in First Quarter 2019

Mexico's first-quarter GDP dropped by 0.8 percent, pushing growth farther from its long-run average of 2.4 percent (*Chart 1*). Output from goods-producing industries (manufacturing, construction, utilities and mining) fell 2.4 percent, while service-related activities (wholesale and retail trade, transportation and business services) ticked down 0.8 percent. Agricultural output rose 10.8 percent.

Exports Continue to Fall in March

Total exports fell 2.3 percent in March after a 0.9 percent decline in February. Manufactured-goods exports decreased 2.8 percent in March after falling 2.0 percent in February. Three-month moving averages show improvement in oil exports in 2019, while total and manufacturing exports ticked down (*Chart 2*). Despite the recent declines, total exports this year were up 1.3 percent through March when compared with the same period in 2018, with manufacturing exports growing 2.3 percent and oil exports falling 6.8 percent.

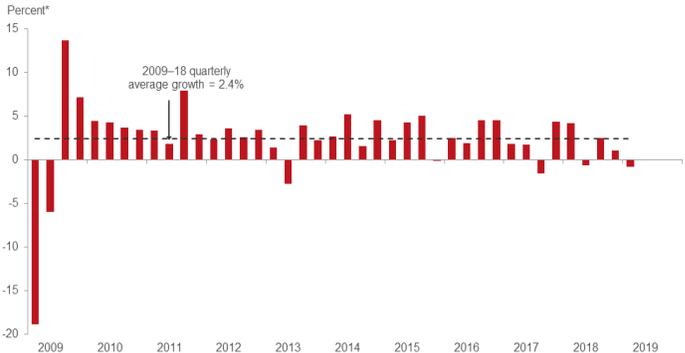
Industrial Production Ticks Up

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, increased 0.3 percent in February after an increase of 0.7 percent in January. The manufacturing index grew 0.2 percent in February after a 0.2 percent increase in January. Nevertheless, due to the decline in December, the three-month moving averages remain nearly unchanged in 2019 for both total production and manufacturing (*Chart 3*). Meanwhile, north of the border, U.S. IP fell 0.1 percent in March after a 0.1 percent increase in February. The correlation between Mexico's IP and the U.S.' IP increased considerably due to growth in intra-industry trade following the implementation of the 1994 North American Free Trade Agreement.

Retail Sales Grow in February

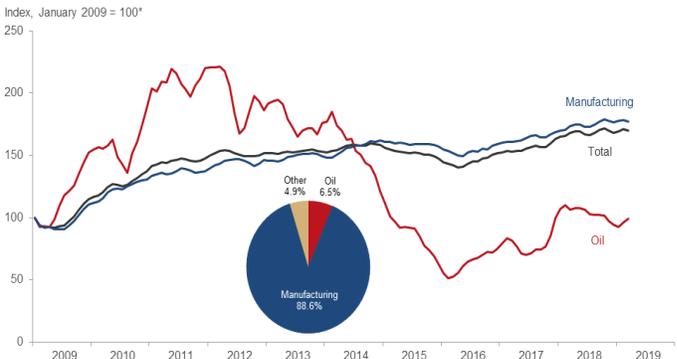
Retail sales grew 1.2 percent in February after a 2.7 percent increase in January. The three-month moving average

Chart 1
Gross Domestic Product Declines in First Quarter



*Quarter/quarter, real pesos; seasonally adjusted, annualized rate.
NOTE: Data are through first quarter 2019.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 2
Oil Exports Increase While Total Exports Fall in March



*Seasonally adjusted, three-month moving average, real dollars.
NOTES: All data are through March 2019. The pie chart reflects the share of total exports year to date in 2019.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 3
Industrial Production Ticks Up in 2019



*Seasonally adjusted, three-month moving average.
NOTES: Data for Mexico's manufacturing and total industrial production (IP) are through February 2019. Data for U.S. IP are through March 2019.
SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

has stabilized after its steep decline in December (*Chart 4*). Since December 2018, retail sales have risen 3.9 percent.

Employment Growth Continues to Disappoint

Formal sector employment—jobs with government benefits and pensions—grew an annualized 1.0 percent in March,

Chart 4
Retail Sales Stabilize

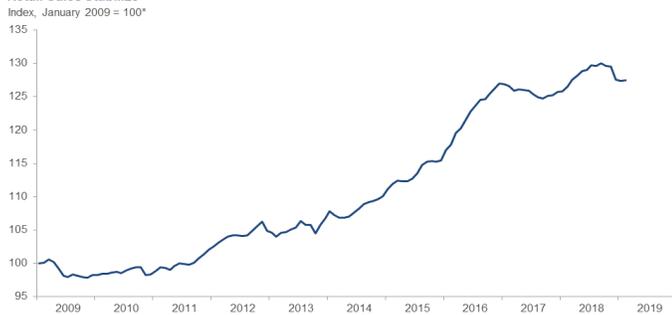


Chart 5
Employment Growth Below 10-Year Trend

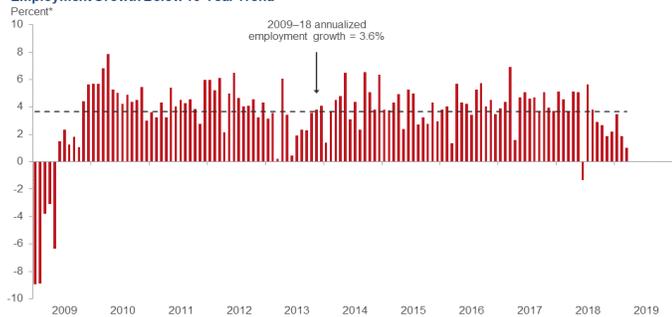


Chart 6
Peso Gains Ground on Dollar in April



Chart 7
Share of Foreign-Owned Government Debt Rises in 2019

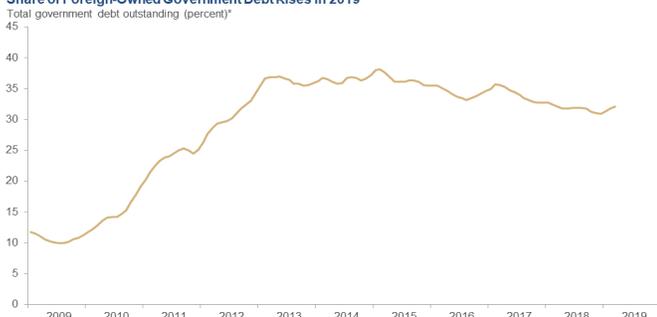


Chart 8
Inflation Edges Up



well below the 10-year average of 3.6 percent annual growth (*Chart 5*). Formal-sector employment growth has been below average for the last seven months. Total employment, representing 54 million workers and including informal sector jobs, grew 2.5 percent in fourth quarter 2018. The unemployment rate ticked up in March to 3.6 percent, slightly higher than the 2018 average of 3.3 percent.

Peso Gains Ground in April

The Mexican currency averaged 19.0 pesos per dollar in April, up 1.4 percent from March (*Chart 6*). Since December, the peso has inched up 5.9 percent against the dollar; however, it is still 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 Ticks Upward

The share of peso-denominated Mexican government debt held abroad ticked up to 32.1 percent in March. The three-month moving average has been increasing since December (*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 Inches Up in March

The consumer price index (CPI) increased 4.0 percent over the prior 12 months in March, up from 3.9 percent in February (*Chart 8*). CPI core inflation (excluding food and energy) rose 3.5 percent over the previous 12 months in March. 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 Emma Marshall

Note

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Abril de 2019, www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7BA3B3CF9E-3F61-D101-A189-888D14B93CF4%7D.pdf (communique on economic expectations, Banco de México, April 2019).

About the Authors

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