

Mexico's Economic Outlook Weakens

July 10, 2019

Preliminary revision to Mexico's first-quarter gross domestic product (GDP) growth suggested a decline of 0.7 percent annualized, up from the initial estimate of -0.8 percent. Meanwhile, the monthly economic activity index grew in April. Nevertheless, the consensus GDP growth forecast for 2019, compiled by Banco de México, was revised down to 1.3 percent in May from 1.5 percent in April.¹

More recent data are mixed. Exports, industrial production and retail sales grew. Employment growth remained below trend. The peso lost some ground against the dollar, while inflation held steady.

Economic Activity Up in April After Falling in First Quarter

Mexico's global economic activity index, the monthly proxy for GDP, rose 0.1 percent in April month over month after falling 0.5 percent in March. The index's three-month moving average remained flat (*Chart 1*). Service-related activities (including trade and transportation) declined 0.3 percent in April. Goods-producing industries (including manufacturing, construction and utilities) increased 1.5 percent. Agricultural output fell 2.6 percent.

Exports Improve in April

Total exports grew 1.9 percent in April after a 2.4 percent decline in March. Manufactured-goods exports increased 2.6 percent in April after falling 2.6 percent in March. Three-month moving averages show improvement in oil exports in 2019, while total and manufacturing exports ticked down (*Chart 2*). Despite the recent weakness, total exports were up 1.4 percent through April compared with the same period in 2018, with manufacturing exports growing 2.5 percent and oil exports falling 9.8 percent.

Industrial Production Grows in April

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, increased 1.5 percent in April after a decrease of 1.2 percent in March. The manufacturing index grew 0.6 percent in April after a 0.5 percent increase in March. The three-month moving average remains flat for total production in 2019, although it has improved slightly for the manufacturing sector since December (*Chart 3*). Meanwhile, north of the border, U.S. IP grew 0.4 percent in May after a 0.4 percent drop in April. The correlation between IP in Mexico and the U.S. increased considerably with the rise of intra-industry trade following the implementation of the 1994 North American Free Trade Agreement.

Chart 1
Mexico's Economic Activity Index Down Year to Date Despite April Bump

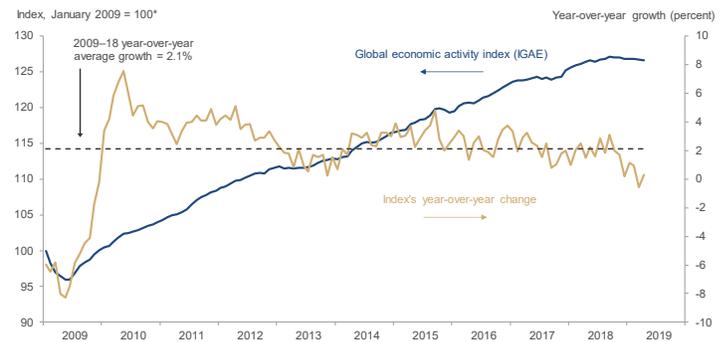


Chart 2
Exports Expand Year to Date

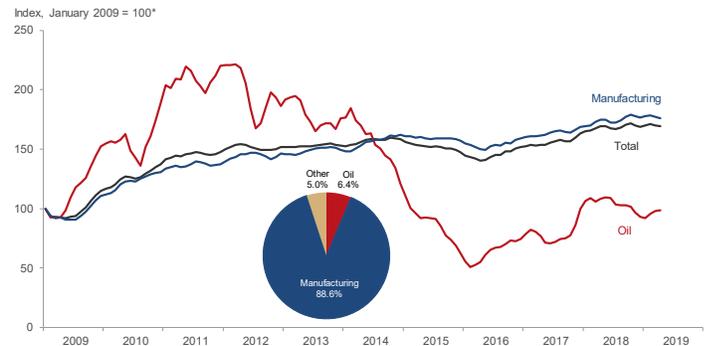
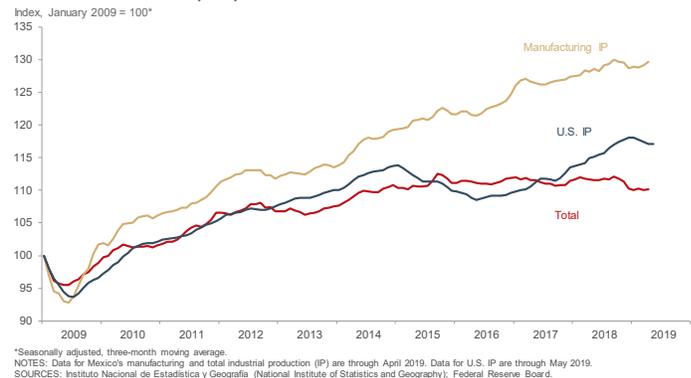


Chart 3
Industrial Production Ticks Up in April but Is Flat Year to Date



Retail Sales Rise in April

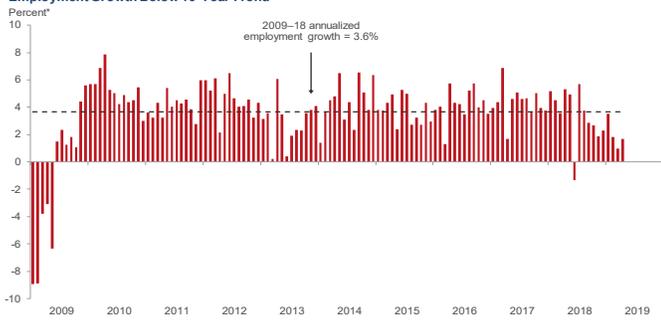
Retail sales expanded 0.7 percent in April after dipping 0.2 percent in March. The three-month moving average shows improvement over the last two months (*Chart 4*). Since

Chart 4
Retail Sales Rise Year to Date
Index, January 2009 = 100*



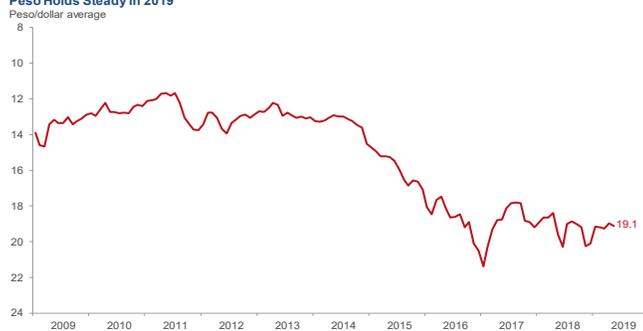
*Seasonally adjusted, three-month moving average, real pesos.
NOTE: Data are through April 2019.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 5
Employment Growth Below 10-Year Trend



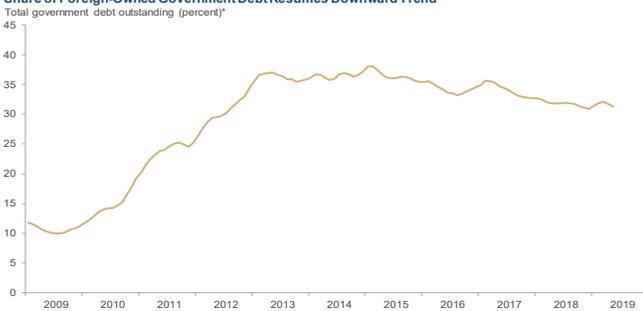
*Month/month, seasonally adjusted, annualized rate.
NOTE: Data are through April 2019.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

Chart 6
Peso Holds Steady in 2019



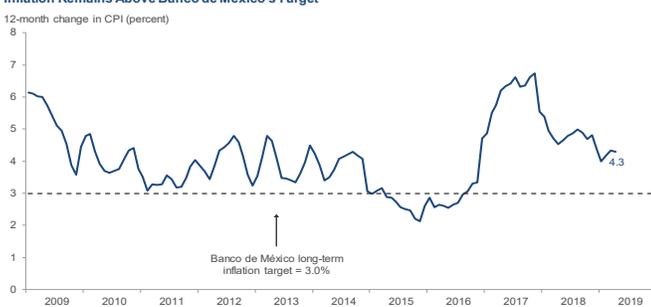
NOTES: Axis is inverted. Data are through May 2019.
SOURCE: Banco de México.

Chart 7
Share of Foreign-Owned Government Debt Resumes Downward Trend



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

Chart 8
Inflation Remains Above Banco de Mexico's Target



NOTES: Data are through May 2019. CPI refers to the consumer price index.
SOURCES: Banco de México; Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

December 2018, the retail sales index has risen 2.1 percent.

Employment Growth Continues to Disappoint

Formal sector employment—jobs with government benefits and pensions—grew an annualized 1.7 percent in April, 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 eight months. Total employment, representing 54 million workers and including informal sector jobs, grew 2.4 percent in first quarter 2019, slightly above its 10-year average of 2.0 percent. Labor market tightness could be playing a role in restraining formal sector employment gains. The unemployment rate ticked down in April to 3.5 percent, slightly higher than the 2018 average of 3.3 percent but still very low.

Peso Ticks Down Relative to Dollar in May

The Mexican currency averaged 19.1 pesos per dollar in May, down 0.7 percent from April (Chart 6). Nevertheless, the peso has gained 5.2 percent against the dollar since December and is 2.5 percent above 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 Down

The share of peso-denominated Mexican government debt held abroad fell to 30.8 percent in May. The three-month moving average decreased to 31.3 percent and has been trending down since 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 Holds Steady in May

The consumer price index (CPI) increased 4.3 percent over the prior 12 months in May, the same rate as April (Chart 8). CPI core inflation (excluding food and energy) rose 3.8 percent over the previous 12 months in May. Mexico's central bank maintained its benchmark interest rate at 8.25 percent in May after raising it in both November and December 2018.

—Jesus Cañas and Chloe Smith

Note

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Mayo 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, May 2019).

About the Authors

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