

Mexico's Growth Picks Up Slightly in Second Quarter

August 12, 2019

Mexico's gross domestic product (GDP) expanded 0.4 percent in the second quarter after contracting 0.7 percent in the first quarter. GDP grew 1.7 percent in 2018. Prior to the release of the latest GDP estimates, Mexico's consensus growth forecast for 2019 had worsened from 1.3 percent in May to 1.1 percent in June.¹

Other recent data are mixed. Retail sales grew, but exports and industrial production fell month over month, and employment growth remained below trend. The peso gained some ground against the dollar, while inflation declined.

Economic Activity Up in Second Quarter

Mexico GDP expanded at a 0.4 percent annualized rate in the second quarter, the third consecutive quarter of near-zero growth (*Chart 1*). Activity was flat in the goods-producing industries (manufacturing, construction, utilities and mining). Service-related activities (wholesale and retail trade, transportation and business services) grew 0.8 percent. Agricultural output contracted 13.6 percent.

Exports Growth Weak

Total exports fell 3.8 percent in June after increasing 3.9 percent in May. Manufactured-goods exports decreased 3.0 percent in June after growing 3.7 percent in May. Three-month moving averages show continued increases in total and manufacturing exports but a decrease in oil exports (*Chart 2*). Despite the recent declines, total exports this year were up 2.4 percent through June compared with the same period in 2018, with manufacturing exports growing 3.7 percent and oil exports falling 11.3 percent.

Industrial Production Falls in May

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, decreased 2.1 percent in May after rising 1.4 percent in April. The drop in IP was mainly driven by construction, which contracted 6.3 percent—the largest monthly fall since February 2010. Oil and gas extraction fell 1.2 percent, and utilities dipped 0.6 percent. The manufacturing

Chart 1
2019 Marks Weakest First-Half GDP Growth in Six Years

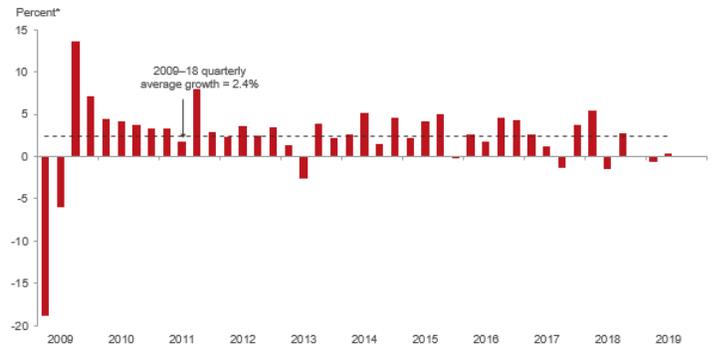


Chart 2
Exports Growing Despite Declines in Oil

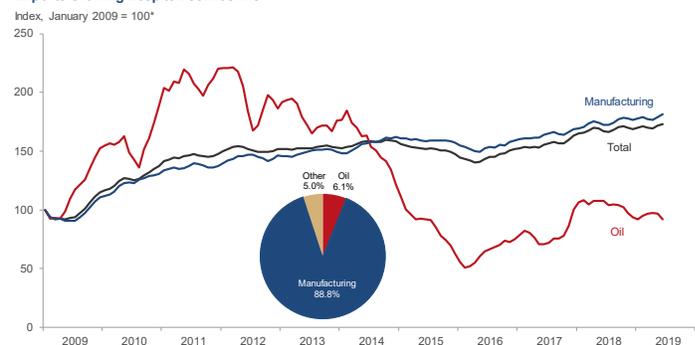


Chart 3
Industrial Production Down in May

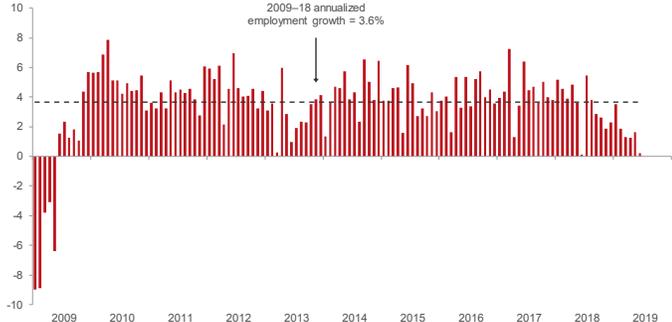


Chart 4
Retail Sales Continue to Grow
Index, January 2009 = 100*



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

Chart 5
Employment Growth Slows in June
Percent*



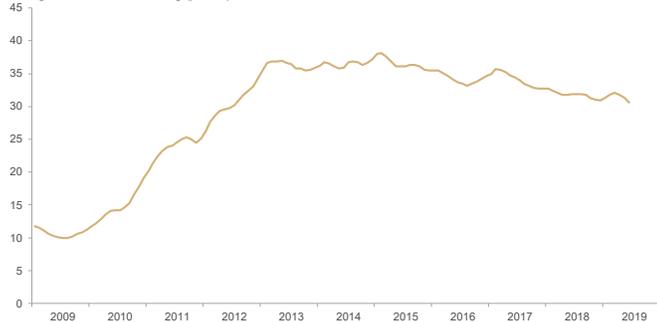
*Month/month, seasonally adjusted, annualized rate.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).

Chart 6
Peso Ticks Up in July
Peso/dollar average



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

Chart 7
Share of Foreign-Owned Government Debt Continues Downward Trend
Total government debt outstanding (percent)*



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

IP index fell 0.2 percent in May after increasing 0.5 percent in April.

The three-month moving average for total production ticked down in May, although manufacturing IP has been improving since December 2018 (*Chart 3*). North of the border, U.S. IP remained flat in June after rising 0.4 percent in May. IP in Mexico and the U.S. are strongly correlated because of intra-industry trade that grew out of the 1994 North American Free Trade Agreement.

Retail Sales Increase in May

Retail sales expanded 0.7 percent in May after increasing 0.9 percent in April. The three-month moving average shows marked improvement (*Chart 4*). Since December 2018, the retail sales index has risen 3.9 percent.

June Job Growth Near Zero

Formal sector employment—jobs with government benefits and pensions—grew an annualized 0.2 percent in June, well below the 10-year average of 3.6 percent (*Chart 5*). Formal sector employment growth has been below average for the past 10 months. In contrast, 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 in May was 3.5 percent, the same as in April. Unemployment is slightly higher than the 2018 average of 3.3 percent but still very low.

Peso Moves Up Relative to Dollar in July

The Mexican currency averaged 19.1 pesos per dollar in July, up 1.2 percent from June (*Chart 6*). The peso has gained 5.6 percent against the dollar since December and is close to 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 Dips Further

The share of peso-denominated Mexican government debt held abroad fell to 30.2 percent in June. The three-month moving average decreased to 30.7 percent and has been trending down since February 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.

Chart 8
Inflation Closer to Mexico's Central Bank's Long-Term Target



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

Inflation Continues to Decline

The consumer price index (CPI) increased 4.0 percent over the prior 12 months in June, down slightly from 4.3 percent in May (*Chart 8*). CPI core inflation (excluding food and energy) rose 3.9 percent over the previous 12 months in June. Mexico's central bank maintained its benchmark interest rate at 8.25 percent in June.

—Jesus Cañas and Chloe Smith

Note

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Junio de 2019 (communique on economic expectations, Banco de México, June 2019), <http://www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7B747A0D4E-DCEF-1665-0694-C69F86713C4B%7D.pdf>.

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.