

# Mexico's Economic Outlook Revised Down Further as Growth Disappoints

October 11, 2019

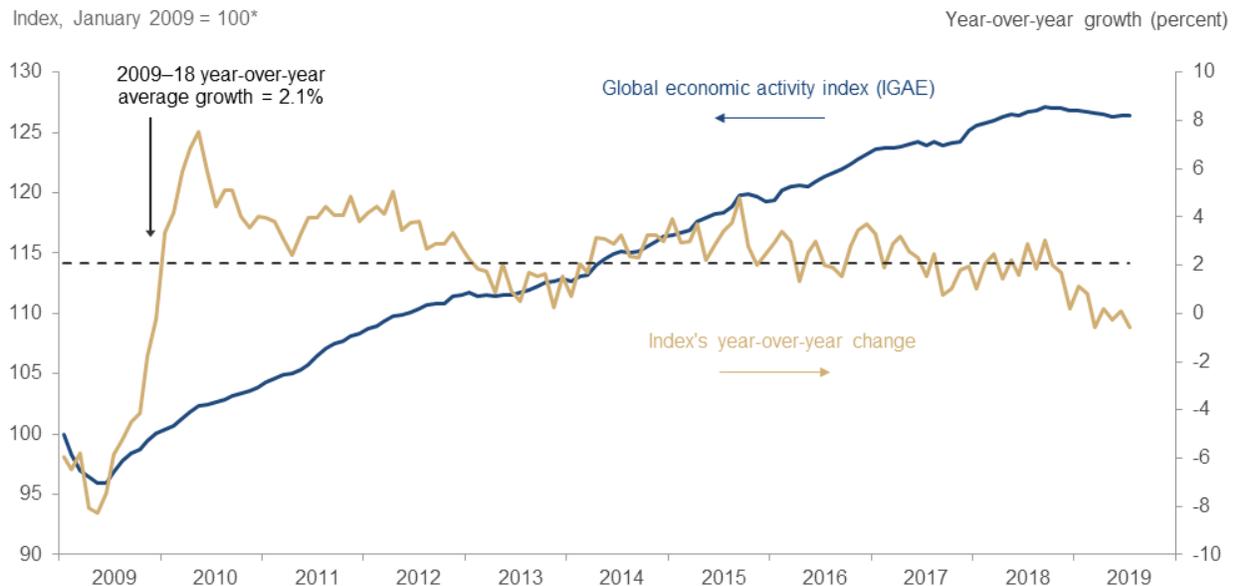
Mexico's gross domestic product (GDP) declined 0.5 percent in the first half of the year, its weakest growth in six years. GDP grew 0.1 percent in the second quarter after declining 1 percent in the first quarter. Meanwhile, the monthly economic activity index dipped slightly in July. The consensus GDP growth forecast for 2019, compiled by Banco de México, was revised down to 0.5 percent in August from 0.8 percent in July.<sup>[1]</sup>

Other data are mixed. Exports grew, but industrial production and employment fell. Retail sales were flat. The peso gained ground against the dollar in September, but inflation fell.

## Economic Activity Dips in July

Mexico's global economic activity index, the monthly proxy for GDP, fell 0.1 percent in July after rising 0.2 percent in June. Service-related activities (including trade and transportation) fell 0.1 percent in July. Goods-producing industries (including manufacturing, construction and utilities) decreased 0.4 percent. Agricultural output grew 3.5 percent. The index's three-month moving average was flat, and annual growth was also close to zero (*Chart 1*).

**Chart 1**  
**Economic Activity Stagnates**



\*Seasonally adjusted, three-month moving average; real pesos.

NOTE: Data are through July 2019.

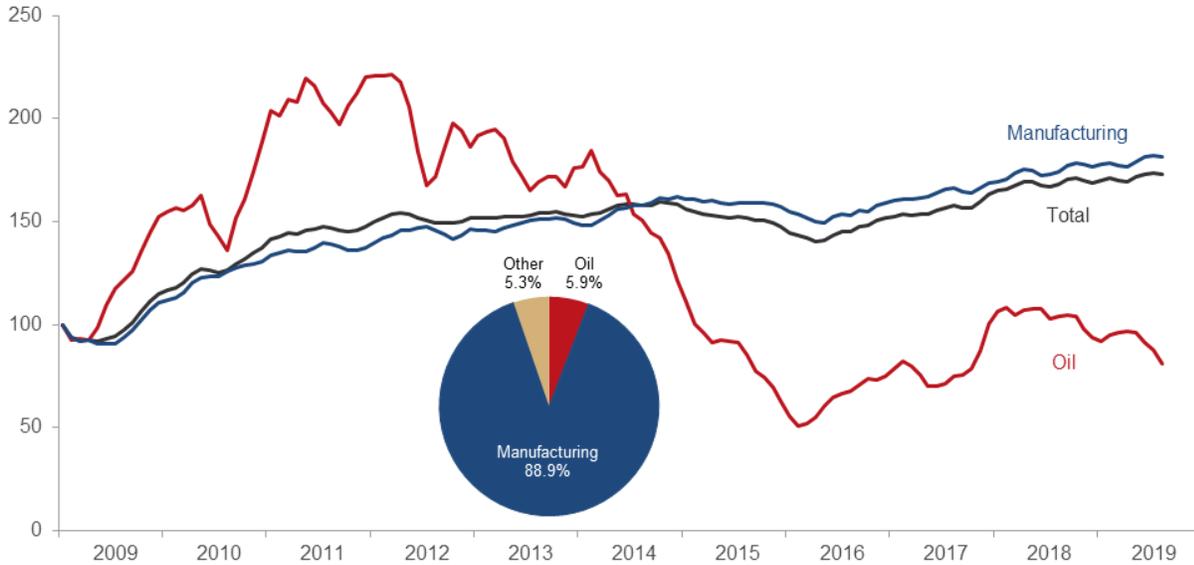
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

## Exports Tick Up in August

Total exports grew 2.8 percent in August after a 0.7 percent increase in July. Manufactured-goods exports increased 3.0 percent in August after rising 0.2 percent in July. Three-month moving averages show a decline in oil exports since May, while manufacturing and total exports have been improving (*Chart 2*). Despite the recent weakness, total exports were up 2.7 percent through August compared with the same period in 2018, with manufacturing exports growing 3.9 percent and oil exports falling 14.2 percent.

**Chart 2**  
**Exports Increase in August**

Index, January 2009 = 100\*



\*Seasonally adjusted, three-month moving average; real dollars.

NOTES: All data are through August 2019. The pie chart reflects the share of total exports year to date in 2019.

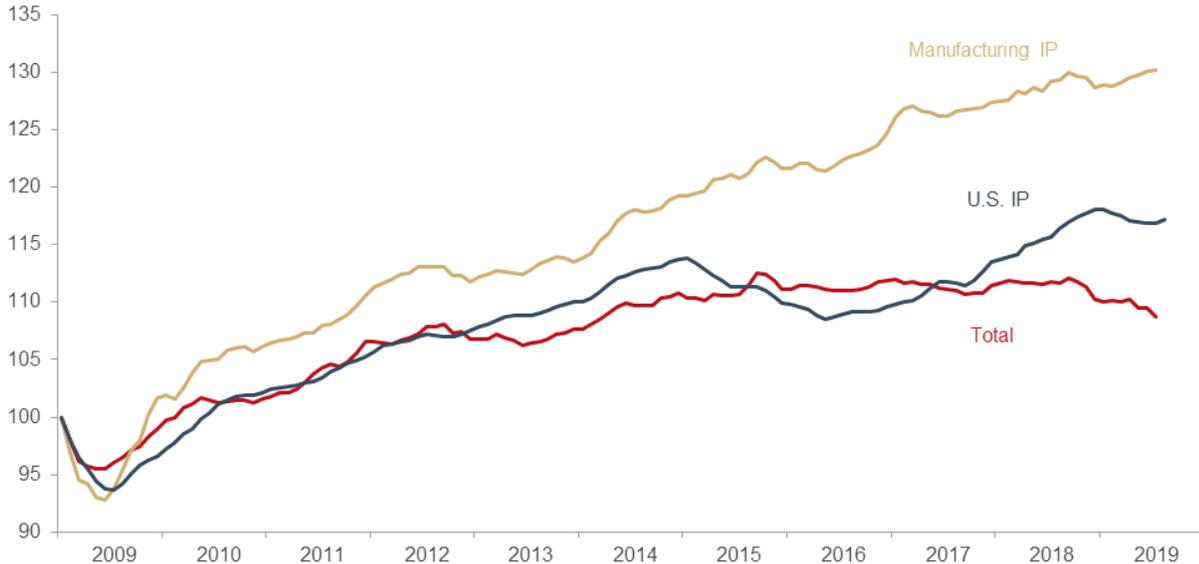
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

## Industrial Production Declines in July, but Manufacturing Improves

Mexico's industrial production (IP) index, which includes manufacturing, construction, oil and gas extraction, and utilities, fell 0.4 percent in July after an increase of 1.1 percent in June. The manufacturing index grew 0.2 percent in July after a 0.4 percent increase in June. The three-month moving average of total IP has been trending down since the end of 2018, although it has improved slightly for the manufacturing component (*Chart 3*). Meanwhile, north of the border, U.S. IP grew 0.6 percent in August after a 0.2 percent decline in July. 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 3**  
**Industrial Production Continues to Trend Down While Manufacturing Production Improves**

Index, January 2009 = 100\*



\*Seasonally adjusted, three-month moving average.

NOTES: Data for Mexico's manufacturing and total industrial production (IP) are through July 2019. Data for U.S. IP are through August 2019.

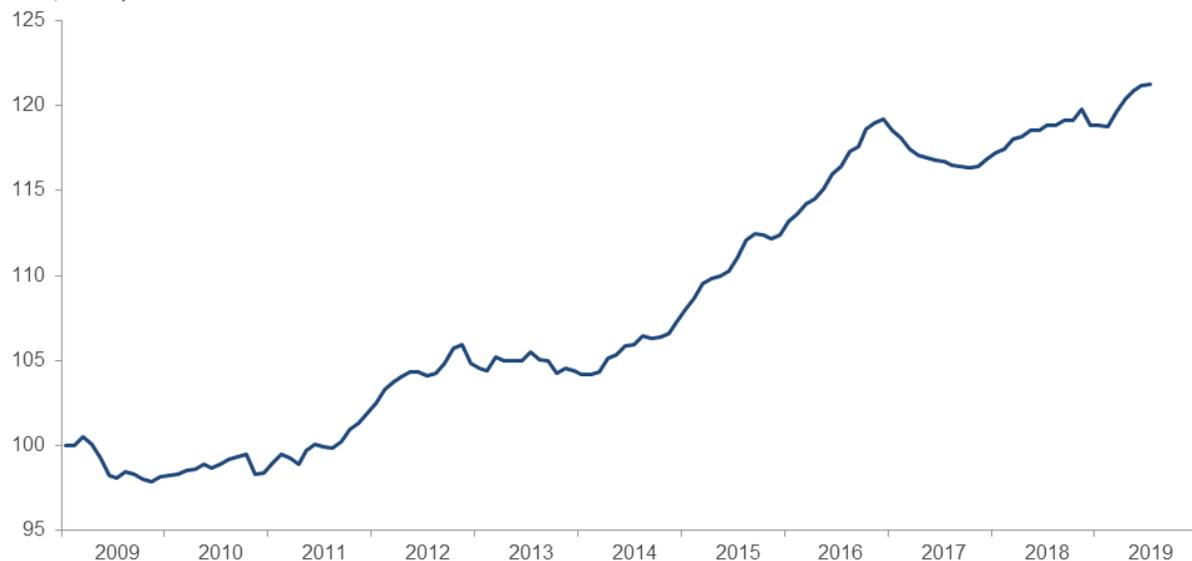
SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

## Retail Sales Flat in July

Retail sales were flat in July after dipping 0.6 percent in June. The three-month moving average has also flattened out (*Chart 4*). Nevertheless, since December 2018, the retail sales index has risen 3.2 percent.

**Chart 4**  
**Retail Sales Growth Stalls**

Index, January 2009 = 100\*



\*Seasonally adjusted, three-month moving average; real pesos.

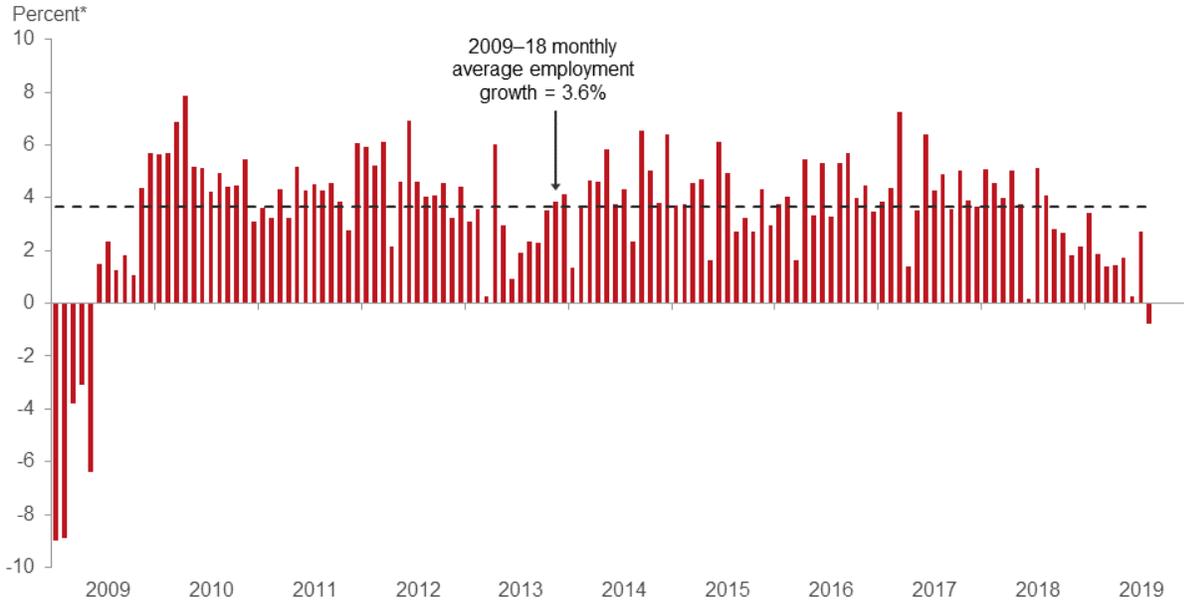
NOTE: Data are through July 2019.

SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

## Employment Falls in August; Unemployment Rate Rises

Formal sector employment—jobs with government benefits and pensions—declined an annualized 0.8 percent in August, the first contraction in 10 years (*Chart 5*). Formal sector employment growth has been below average for the past year. Total employment, representing 54 million workers and including informal sector jobs, grew 2.1 percent in second quarter 2019, slightly above its 10-year average of 2.0 percent. The unemployment rate in August was 3.6 percent, up from 3.3 percent a year earlier.

**Chart 5**  
Job Growth Negative in August



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

## Peso Rises Relative to Dollar in September

The Mexican currency averaged 19.6 pesos per dollar in September, up 0.5 percent from August (*Chart 6*). The peso has gained 2.7 percent against the dollar since December and is still close to its 2018 average of 19.2 pesos per dollar. The Mexican currency has been under pressure due to increased uncertainty regarding U.S. trade policy and Mexico's domestic policy.

**Chart 6**  
Peso Ticks Up in September



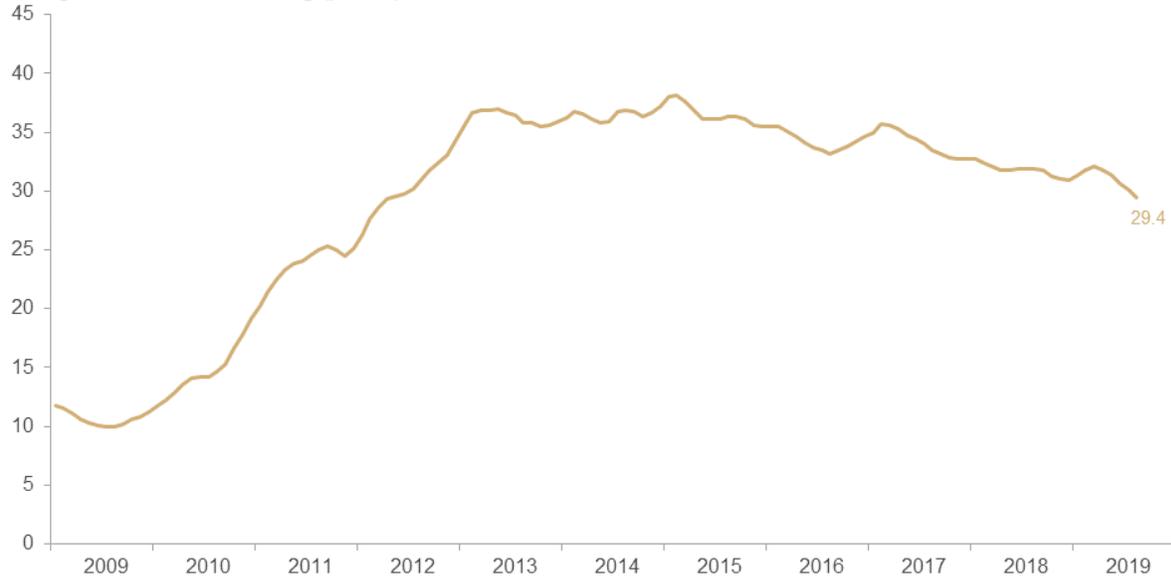
NOTES: Axis is inverted. Data are through September 2019.  
SOURCE: Banco de México.

## Foreign-Owned Government Debt Decreases Further

The share of peso-denominated Mexican government debt held abroad fell to 28.6 percent in August. The three-month moving average decreased to 29.4 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.

**Chart 7**  
**Share of Foreign-Owned Government Debt Trending Downward**

Total government debt outstanding (percent)\*

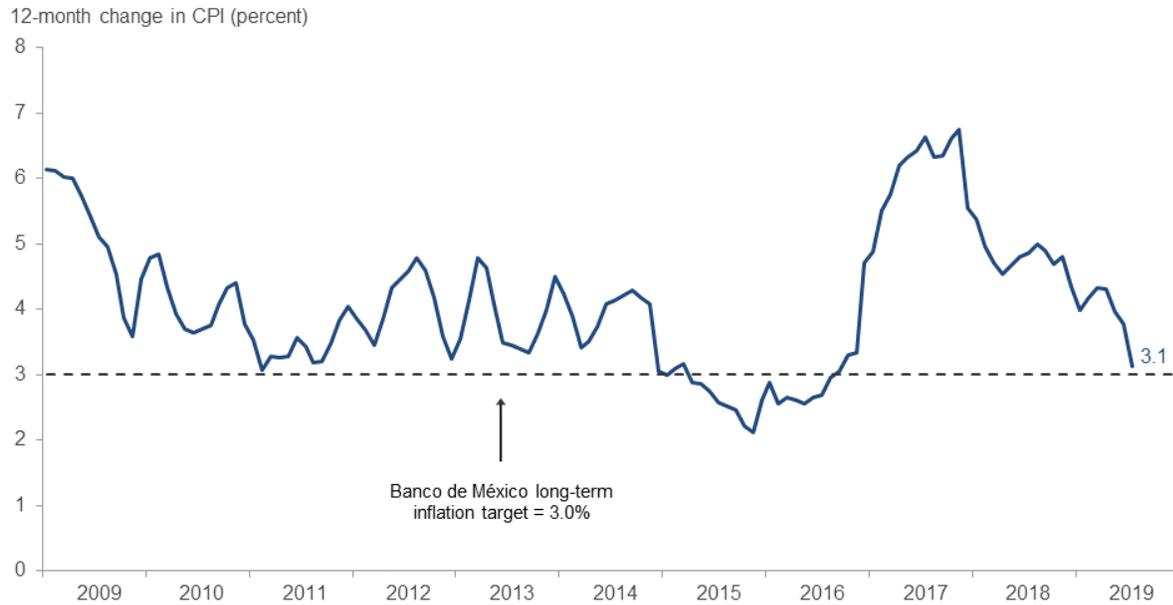


\*Three-month moving average.  
NOTE: Data are through August 2019.  
SOURCE: Banco de México.

## Inflation Falls in August

The consumer price index (CPI) increased 3.1 percent over the prior 12 months in August, down from 3.8 percent in July (*Chart 8*). CPI core inflation (excluding food and energy) rose 3.8 percent over the previous 12 months in August. In September, Mexico's central bank lowered its benchmark interest rate by 25 basis points for the second month in a row to 7.75 percent. Mexico's central bank cited slowing inflation, increasing slack in the economy and recent behavior of external interest rates as the main reasons for the rate cut.

**Chart 8**  
**Inflation Continues to Cool**



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

## Note

1. Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Agosto de 2019, [www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7BB1710A25-D945-B135-7AC3-C6E1862EB09E%7D.pdf](http://www.banxico.org.mx/publicaciones-y-prensa/encuestas-sobre-las-expectativas-de-los-especialis/%7BB1710A25-D945-B135-7AC3-C6E1862EB09E%7D.pdf) (communique on economic expectations, Banco de México, August 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.