

## Mexico

## Mexico's Economic Growth Continues

August 6, 2014

Mexico's economy expanded in the second quarter as the monthly proxy for gross domestic product (GDP) increased 1 percent during the March–May period. Since the beginning of the year (December through May), the economy has grown 2.9 percent at an annualized rate. Other recent data—industrial production, employment and retail sales—also point to continued improvement. While exports fell in June, export growth over the first six months of 2014 was ahead of last year's pace. Inflation picked up in June, but the peso held steady against the dollar in July.

## Output Grows in Second Quarter

Mexico's global economic activity index (IGAE), the proxy for GDP, grew 1 percent from March to May (*Chart 1*). Service-related activities (including trade and transportation) advanced 0.9 percent over this period. Goods-producing industries (including manufacturing, construction, utilities and mining) grew 0.6 percent, and agricultural output grew 0.9 percent. The consensus forecast for 2014 GDP growth was revised down in July from 2.7 percent to 2.6 percent.

## Exports Improve in 2014

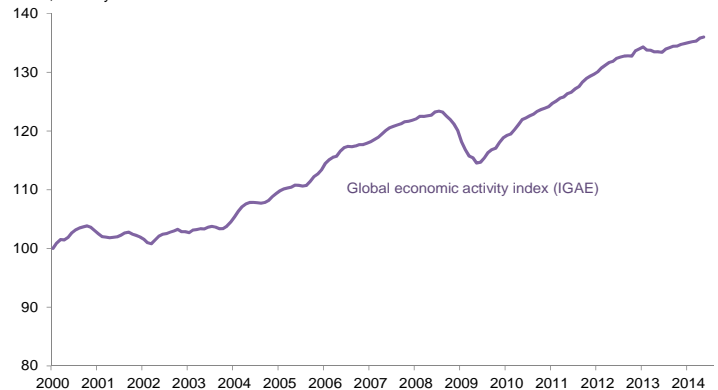
While exports fell 0.3 percent in June, they grew 0.9 percent in May. Three-month moving averages reveal both total and manufacturing exports are on an upward trend, while oil exports continue to decline despite a recent uptick (*Chart 2*). Year to date, exports are stronger than a year ago, up 2.7 percent. Manufacturing exports grew 4.1 percent in the first half of 2014, while oil exports declined 8.1 percent.

## Industrial Production Trending Up

Mexico's industrial production (IP) grew 0.1 percent month over month in May after climbing 0.5 percent in April. Three-month moving averages show a pickup in total IP, which includes construction, oil and gas extraction, and utilities. Manufacturing IP continued to grow faster than total production (*Chart 3*). Meanwhile, U.S. IP grew 0.7 percent in May after falling 0.3 percent in April. Mexico's industrial production typically

**Chart 1**  
Growth Continues in 2014

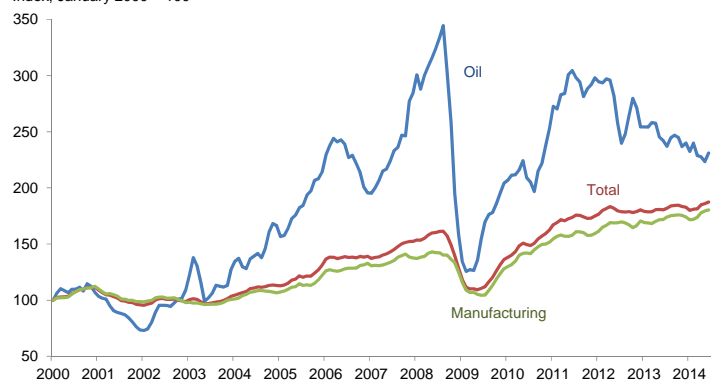
Index, January 2000 = 100\*



\*Seasonally adjusted, three-month moving average.  
SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 2**  
Oil Exports Tick Up in June

Index, January 2000 = 100\*



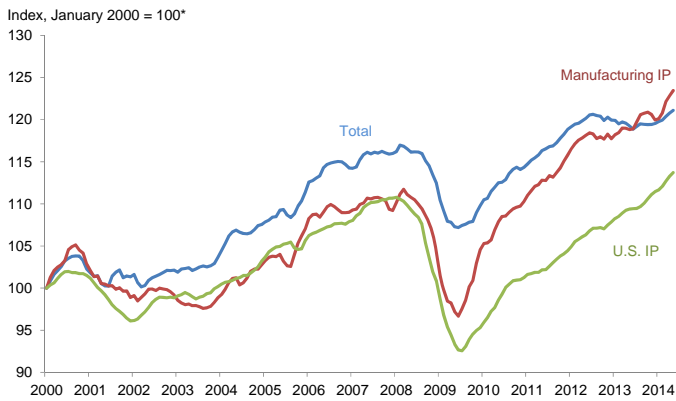
\*Seasonally adjusted, three-month moving average; real dollars.  
SOURCE: Instituto Nacional de Estadística y Geografía.

tracks U.S. IP, due in part to the U.S. automotive industry's large presence in Mexico.

## Retail Sales Grow Again in April

Retail sales increased 1.1 percent in April after rising 1.2 percent in March. Despite the improvement in monthly data, the three-month moving average shows retail sales moving sideways (*Chart 4*). Year over year, retail sales are up a modest 1.9 percent. Consumer confidence improved for the fifth consecutive month in June.

**Chart 3**  
**Industrial Production Improves as Manufacturing Takes Off**



\*Seasonally adjusted, three-month moving average.  
 SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

**Strong Job Growth Continues**

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 4.5 percent in June, faster than the annual rate of 2.9 percent in 2013 and on par with the 4.6 percent rate in 2012 (Chart 5).

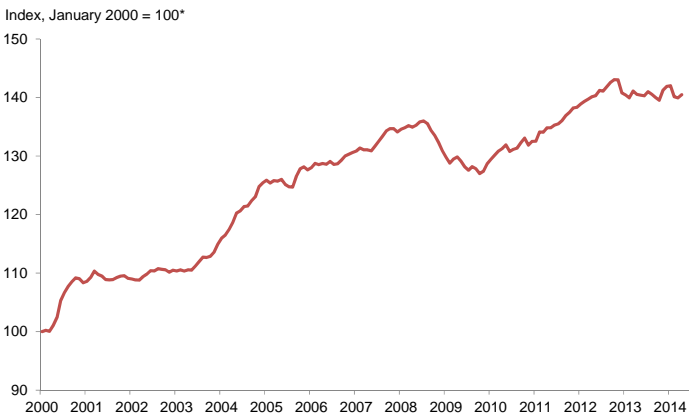
**Peso Little Changed in July**

The peso held steady at 13 pesos per dollar in July after depreciating 0.5 percent in June (Chart 6). Since December, the peso has been stable—gaining 0.1 percent against the U.S. dollar—even as Federal Reserve tapering has adversely affected the currencies of other emerging economies.

**Inflation Picks Up**

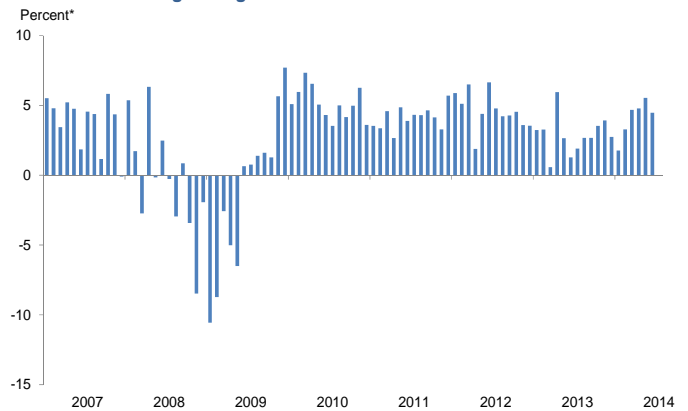
Inflation ticked up to 3.7 percent year over year in June (Chart 7). Prices excluding food and energy rose 3.1

**Chart 4**  
**Retail Sales Moving Sideways**



\*Seasonally adjusted, three-month moving average; real pesos.  
 SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 5**  
**Job Growth Strong During First Half of 2014**



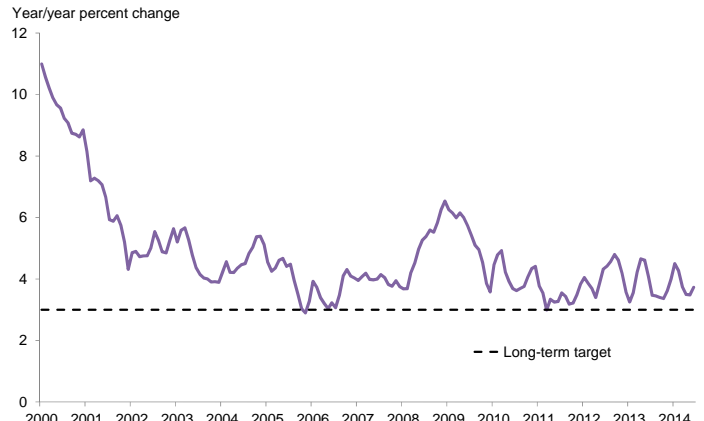
\*Month/month; seasonally adjusted, annualized rate.  
 SOURCE: Instituto Mexicano del Seguro Social.

**Chart 6**  
**Peso Holds Steady in July**



SOURCE: Banco de México.

**Chart 7**  
**Inflation Picks Up in June but Still Close to Target**



SOURCE: Instituto Nacional de Estadística y Geografía.

percent, in line with the central bank’s long-term inflation target. Banco de México eased monetary policy in June, lowering the reference rate by 50 basis points to 3 percent to help stimulate economic growth. The rate cut suggests policymakers believe that inflation expectations are well-anchored.

—Jesus Cañas

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**About the Author**

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