

## Mexico

## Data on Mexico's Third-Quarter Growth Mixed So Far

November 4, 2014

Mexico's economy likely slowed in the third quarter as the monthly proxy for gross domestic product (GDP) fell in August following strong second-quarter output growth. Other recent data are generally consistent with continued expansion. Industrial production, employment and retail sales grew, although exports edged down. Inflation turned up, and the peso lost ground against the dollar in September and October.

**Output Edges Down in August**

Mexico's global economic activity index, the proxy for GDP, fell 0.2 percent in August after rising 0.3 percent in July. However, the three-month moving average is still trending upward (*Chart 1*). Service-related activities (including trade and transportation) fell 0.2 percent, while goods-producing industries (including manufacturing, construction and utilities) grew 0.4 percent. Agricultural output contracted 0.4 percent. As of September, the consensus forecast for growth in 2014 held steady at 2.5 percent. Annualized growth in the first half of the year was 3 percent.

**Exports Dip Again**

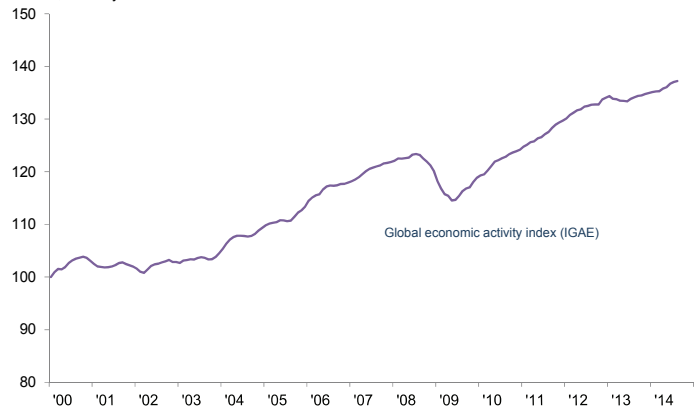
Exports slipped 0.2 percent in September after falling 0.8 percent in August. Three-month moving averages reveal a continued steep decline in oil exports since the beginning of the year, while total exports have expanded (*Chart 2*). Year to date, total exports have grown 2.7 percent, with manufacturing exports increasing 4.4 percent. Oil exports declined 10.3 percent the first eight months of 2014 compared with the same period a year ago.

**Industrial Production Shows Broad-Based Growth**

Mexico's industrial production (IP) grew 0.4 percent month over month in August after rising 0.2 percent in July. Three-month moving averages show a broad pickup in total IP, which also includes construction, oil and gas extraction, and utilities. Manufacturing IP continued to increase faster than total production (*Chart 3*), and construction IP (not shown) is growing again.

**Chart 1**  
Growth Slows in August

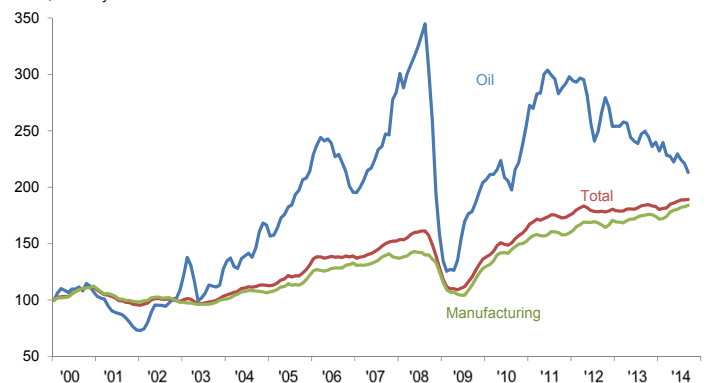
Index, January 2000 = 100\*



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

**Chart 2**  
Total Export Growth Flat; Oil Exports Fall Further

Index, January 2000 = 100\*



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

Meanwhile, U.S. IP surged 1.1 percent in September after falling 0.2 percent in August. Mexico's industrial production typically tracks U.S. IP, due in part to the U.S. automotive industry's large presence in Mexico.

**Retail Sales Keep Improving**

Retail sales rose 0.5 percent in July after growing 0.2 percent in June. The three-month moving average, which was essentially flat for all of 2013, has shown improvement since March (*Chart 4*). Year over year, retail sales are up

1.7 percent. Consumer confidence improved in September after worsening the previous two months.

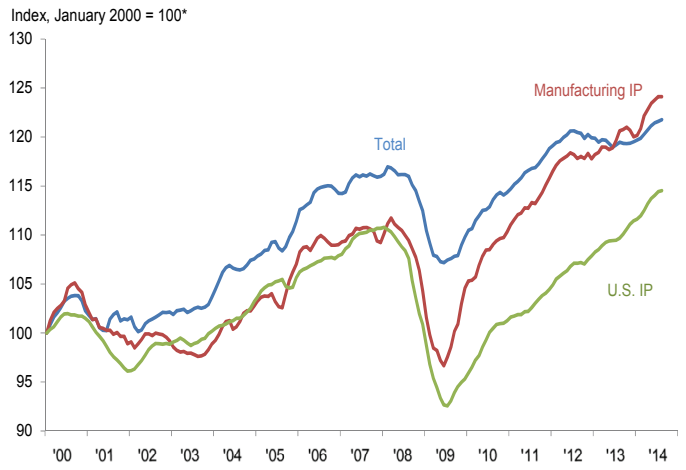
### Job Growth Strengthens in September

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 5.9 percent in September, faster than 2013 annual job growth of 2.9 percent and 2014 annual average growth of 4.2 percent (Chart 5).

### Peso Depreciates Further

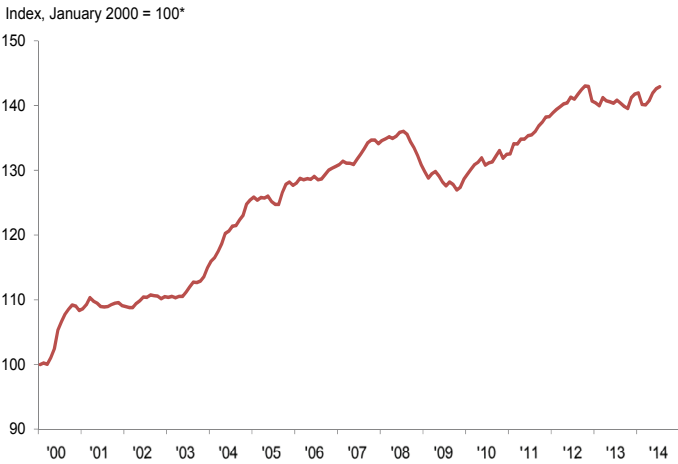
The peso fell 1.7 percent against the dollar in October, when the exchange rate averaged 13.5 pesos per dollar (Chart 6). Since December, the peso has lost 3.4 percent of its value, mainly due to rising uncertainty stemming from fears of a global slowdown in economic growth.

**Chart 3**  
Industrial Production Keeps Growing



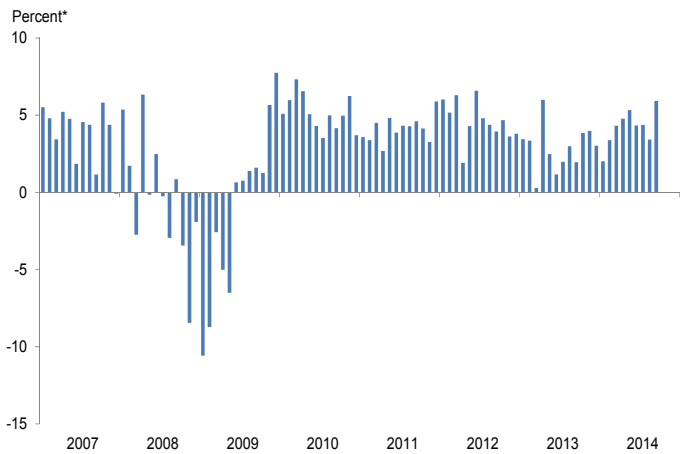
\*Seasonally adjusted, three-month moving average.  
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

**Chart 4**  
Retail Sales Showing Improvement



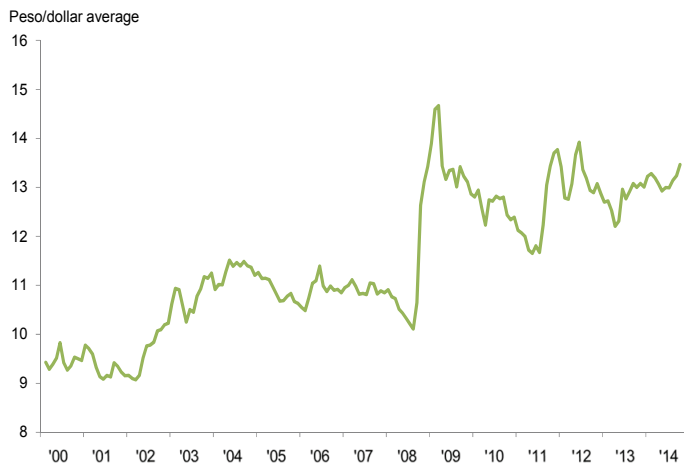
\*Seasonally adjusted, three-month moving average; real pesos.  
SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 5**  
Job Growth Strong in September



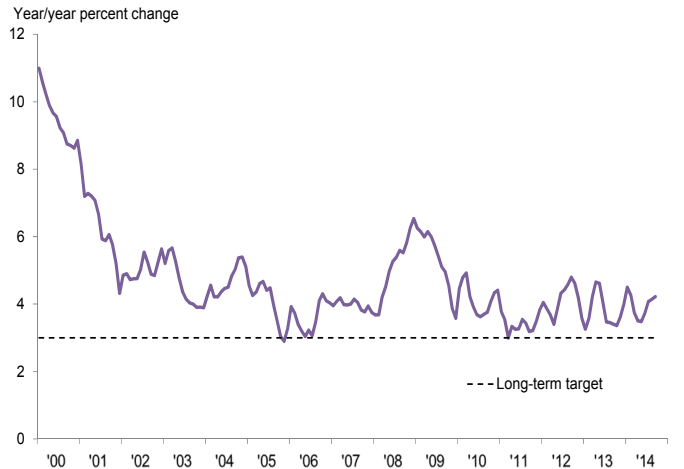
\*Month/month; seasonally adjusted, annualized rate.  
SOURCE: Instituto Mexicano del Seguro Social.

**Chart 6**  
Peso Continues to Depreciate



SOURCE: Banco de México.

**Chart 7**  
Inflation Picks Up in September for Fourth Consecutive Month



SOURCE: Instituto Nacional de Estadística y Geografía.

## Inflation Climbs in September

Inflation increased for the fourth consecutive month, reaching 4.2 percent year over year in September (*Chart 7*). Prices excluding food and energy rose 3.3 percent, slightly above the central bank's long-term inflation target of 3 percent. Monetary policy has been on hold since Banco de México lowered the reference rate in June by 50 basis points to 3 percent to help stimulate economic growth. Policymakers continue to believe that inflation expectations remain well-anchored.

—Jesus Cañas

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### About the Author

Cañas is a business economist in the Research Department at the Federal Reserve Bank of Dallas.

