

## Mexico

**Mexico Outlook Revised Down Despite Faster Growth in Second Quarter****September 18, 2015**

Mexico's economy grew at an annualized rate of 2 percent in the second quarter, up from 1.7 percent in the first quarter. More recent data suggest that growth continued into the third quarter. Exports, employment, retail sales and industrial production are all up. Inflation is under control even as the peso has depreciated further against the dollar to levels not seen in recent history. Despite higher growth in the second quarter, the consensus 2015 gross domestic product growth forecast was revised down to 2.3 percent in August from 2.7 percent in July. The downward revision was based largely on falling government revenue—a result of lower oil prices and the potential negative effect of higher import prices on economic activity.

**Second Quarter Output Picks Up**

Mexico's economy grew 2 percent in the second quarter mostly due to strength in the service sector as both manufacturing and agricultural output contracted (*Chart 1*). Service-related activities (including trade, transportation and business services) advanced 3.5 percent, while goods-producing industry output (including manufacturing, construction, utilities and mining) ticked down 0.1 percent. Agricultural output fell 6.1 percent in the second quarter.

**Exports Expand Again**

Exports grew 4.2 percent in July after rising 3.6 percent in June. The three-month moving average has stabilized after declining for about five months (*Chart 2*). Oil exports rose in the most recent months likely due to the temporary improvement in oil prices seen in late spring; however, there may be a reversal in trend when August and September data become available. Overall, oil exports are down 43 percent in the first seven months of 2015 compared with the same period a year ago. Manufacturing exports grew 3.6 percent year to date through July relative to the same period last year.

**Industrial Production Grows in June**

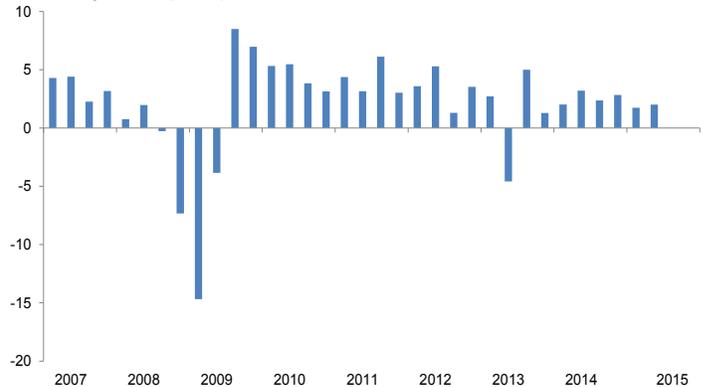
Mexico's industrial production (IP) grew 0.2 percent in June after falling 0.4 percent in May. Three-month moving averages show a slowing in total IP, which includes manufacturing, construction, oil and gas extraction and utilities (*Chart 3*). In contrast, manufacturing IP continues on an upward trend. Meanwhile, U.S. IP grew 0.6 percent in July—the second consecutive month of increases—after declining for five months in a row.

**Retail Sales Increase in June**

Retail sales rose 1.1 percent in June after growing 0.2 percent in May. The three-month moving average shows strong growth

**Chart 1**  
Mexico's Gross Domestic Product Growth Improves Second Quarter

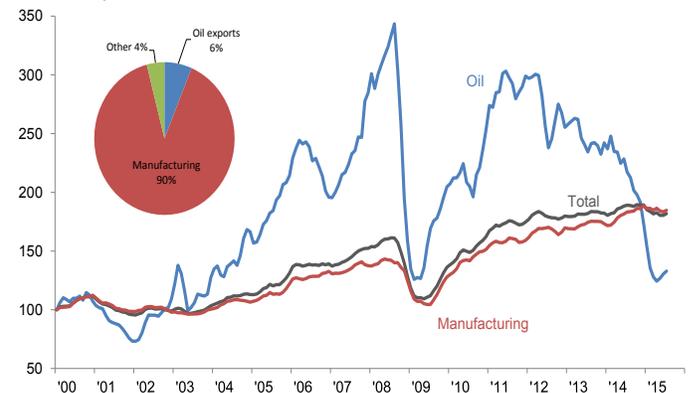
Annualized growth rate (percent)



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

**Chart 2**  
Total Exports Stabilize

Index, January 2000 = 100\*



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

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

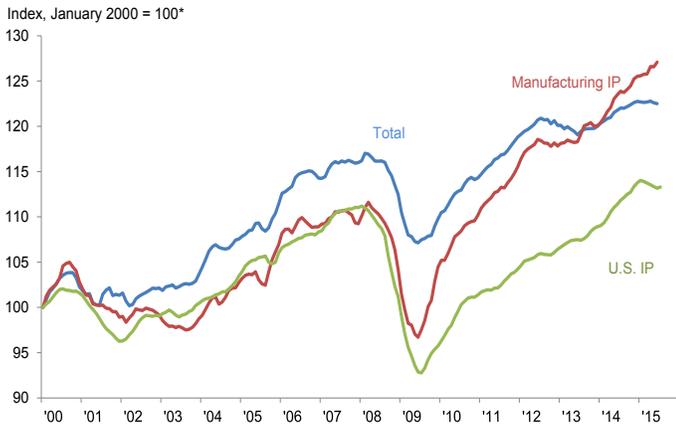
over the first six months of the year (*Chart 4*). Year over year, retail sales are up 5 percent. However, consumer confidence worsened in July.

**Job Growth Continues Strong in 2015**

Formal-sector employment—jobs with government benefits and pensions—rose at an annualized rate of 4.7 percent in July (*Chart 5*). Year to date, employment is up an annualized 4.3 percent from December, which is the same as the 2014 annual job growth rate.

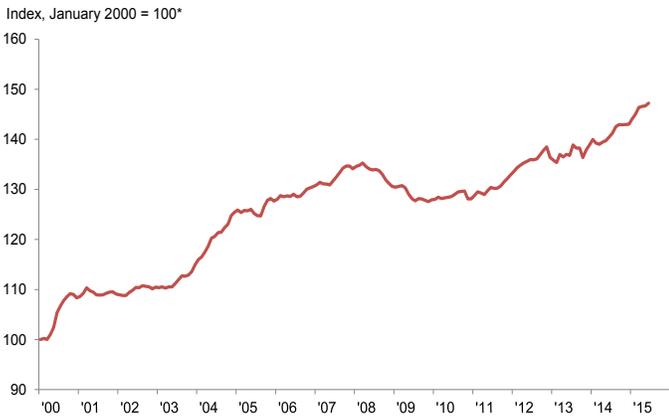
**Peso Depreciates in August**

**Chart 3**  
**Manufacturing Production Picks Up**



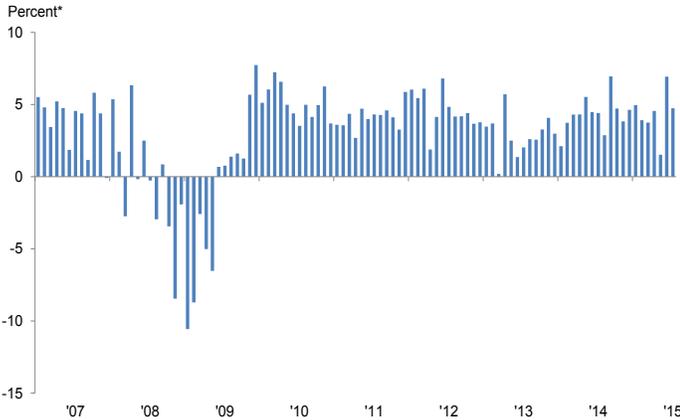
\*Seasonally adjusted, three-month moving average.  
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

**Chart 4**  
**Retail Sales Rise Further**



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

**Chart 5**  
**Job Growth Remains Robust**



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

The peso fell against the dollar in August, when the exchange rate averaged 16.5 pesos per dollar, up from 15.9 pesos in July (*Chart 6*). The peso has lost 20 percent of its value against the dollar year over year. The Mexican currency has been unstable, partly as a result of the expectation of an increase in U.S. interest rates and the impact of falling oil prices on Mexico’s government finances. Oil revenues account for about a third of the federal government budget.

**Inflation Hits Another Historical Low**

Inflation fell to 2.6 percent in August, below the central bank’s long-term inflation target of 3 percent (*Chart 7*). Prices, excluding food and energy, rose 2.3 percent. Banco de México has kept policy rates on hold since June 2014 as central bank policy-makers believe that inflation expectations are well-anchored. However, they have noted their intent to raise interest rates as soon as the Federal Reserve tightens to prevent any further deterioration of the peso, which could push up inflation.

—Jesus Cañas

**About the Author**

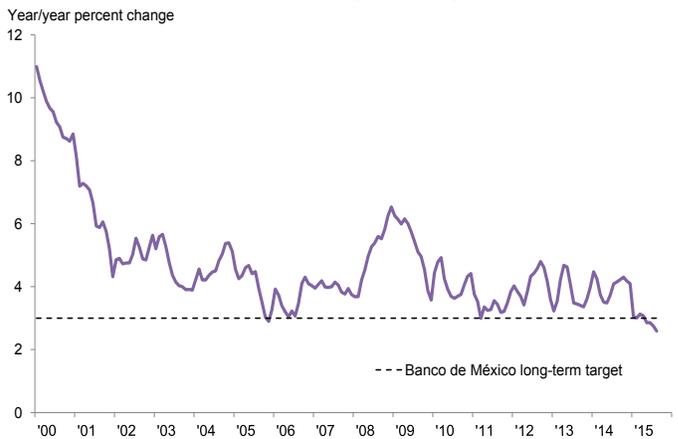
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**Chart 6**  
**Peso Depreciates Further in August**



SOURCE: Banco de México.

**Chart 7**  
**Inflation Below Banco de México's Long-Term Target**



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