

## Mexico

## Mexico Economy Plods Along Despite Headwinds

January 30, 2015

Mexico's economy continued growing into the fourth quarter as the monthly proxy for gross domestic product (GDP) picked up in October and November following lackluster third-quarter output growth of 2 percent. Recent data are mixed and consistent with continued, albeit slower, growth. While industrial production and employment grew, retail sales and exports fell. Inflation ticked down for the second consecutive month in December, while the peso continued to depreciate against the dollar.

## Output Grows in October and November

Mexico's global economic activity index, the proxy for GDP, increased 0.5 percent in November after growing 0.7 percent in October. The three-month moving average continues trending upward (*Chart 1*). Service-related activities (including trade and transportation) rose 0.3 percent, while goods-producing industries (including manufacturing, construction and utilities) increased 0.2 percent. Agricultural output contracted 2 percent. As of December, the consensus forecast for growth in 2014 held steady at 2.2 percent, suggesting fourth-quarter year-over-year GDP growth will be around 3 percent. Growth expectations for 2015 have remained optimistic at 3.5 percent.

## Exports Fall in November

Exports fell 4.6 percent in November after growing 4.2 percent in October. Three-month moving averages reveal a steep, persistent decline in oil exports, while total exports continue to show improvement (*Chart 2*). Through November, total exports have grown 3.1 percent, with manufacturing exports rising 5.1 percent. Oil exports fell 11.6 percent during the first 11 months of 2014 due to declines in oil production and, more recently, to lower oil prices. Mexico oil production is down about 33 percent since peaking at 3.5 million barrels per day in October 2004. Mexico crude oil prices are down 41 percent since late summer.

## Industrial Production Continues Expanding

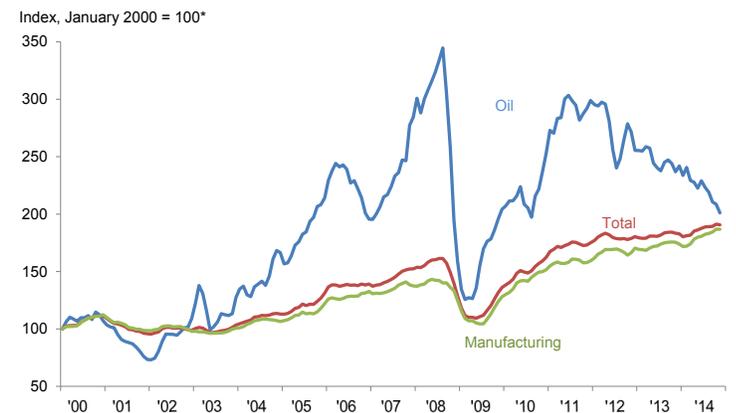
Mexico's industrial production (IP) rose 0.7 percent month over month in November after growing 0.9 percent in October. Three-month moving averages show a broad pickup in total IP, which also includes construction, oil and gas extraction, and utilities.

**Chart 1**  
Economic Growth Momentum Continues



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

**Chart 2**  
Total Export Growth Slows as Oil Exports Fall Further



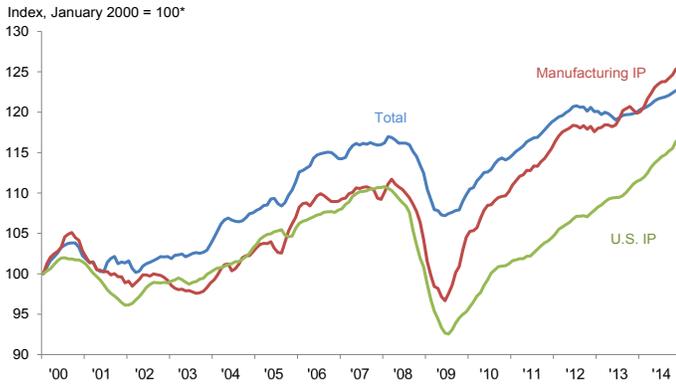
\*Seasonally adjusted, three-month moving average; real dollars.  
SOURCE: Instituto Nacional de Estadística y Geografía.

Both construction IP and manufacturing IP continued to grow, with manufacturing outpacing total production (*Chart 3*). Meanwhile, U.S. IP grew 1.3 percent in November after coming in flat in October. 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 Down for Second Straight Month

Retail sales fell 0.1 percent in October after declining 0.7 percent in September. The three-month moving average shows retail sales losing momentum toward the end of the

**Chart 3**  
Industrial Production Keeps Growing



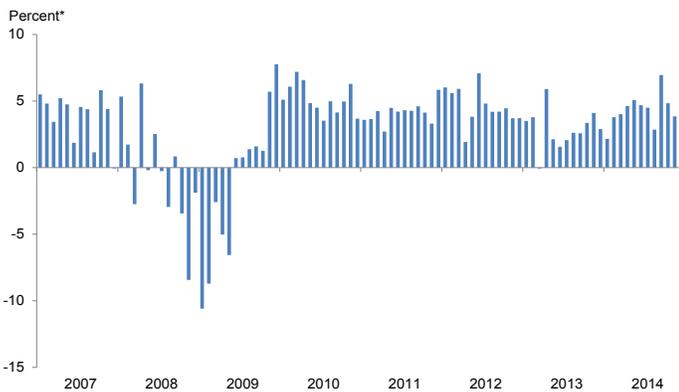
\*Seasonally adjusted, three-month moving average.  
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

**Chart 4**  
Retail Sales Growth Decelerates



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

**Chart 5**  
Job Growth Faster in 2014



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

**Chart 6**  
Peso Depreciates as Dollar Continues Strengthening



SOURCE: Banco de México.

year (*Chart 4*). Year over year, retail sales are up 5 percent, which compares with annual average growth of 0.8 percent the past three years. Consumer confidence worsened in December.

**Job Growth Improves in December**

Formal sector employment—jobs with government benefits and pensions—grew at a robust annualized rate of 4.5 percent in December. Annual employment growth (December to December) in 2014 was 4.3 percent, faster than 2013 annual job growth of 2.9 percent (*Chart 5*).

**Peso Continues Depreciating**

The peso fell 6.1 percent against the dollar in December, when the exchange rate averaged 14.5 pesos per dollar, up from 13.6 pesos in November (*Chart 6*). The peso has lost 10.4 percent against the dollar year over year. The peso has been unstable as a result of the tapering of Federal Reserve asset purchases in the U.S. and the impact of falling oil prices on Mexico’s government finances. Oil revenues account for about one-third of the federal government budget.

**Inflation Falls**

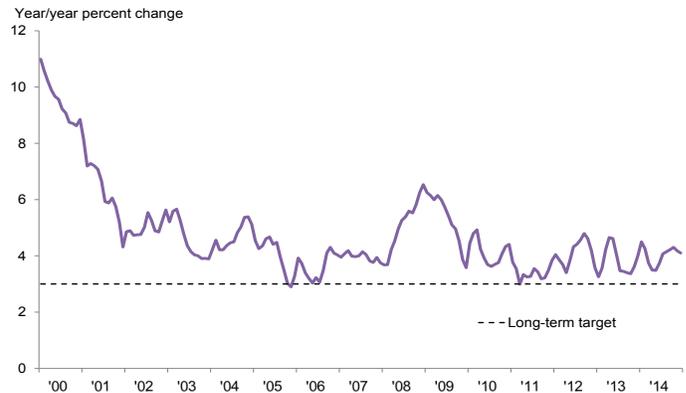
Inflation ticked down to 4.1 percent year over year in December (*Chart 7*). Prices excluding food and energy rose 3.3 percent, which is slightly above the central bank’s long-term inflation target of 3 percent. Banco de México has kept policy rates on hold since June, when it lowered the reference rate by 50 basis points to 3 percent to help stimulate economic growth. Central bank policymakers continue to believe that inflation expectations are well-anchored. However, policymakers have noted that they may raise interest rates if the peso’s weakness pushes up inflation.

—Jesus Cañas

**About the Author**

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**Chart 7**  
Inflation Ticks Down for Second Consecutive Month in December



SOURCE: Instituto Nacional de Estadística y Geografía.