

## Mexico

## Mexico Economic Activity Growing Modestly

May 2, 2016

Mexico's economy continued growing into the first quarter. The government's monthly gross domestic product (GDP) measure increased in January and February. However, recent data on exports, employment and industrial production show weakening. Inflation appears firmly under control as the peso gained ground against the dollar for the second consecutive month in April. The consensus 2016 GDP growth forecast was revised down from 2.5 to 2.4 percent in April.

## Output Growth Slows

Mexico's economic activity index, the monthly proxy for GDP, grew 0.2 percent in February after increasing 0.6 percent in January. The three-month moving average shows steady gains since the end of 2013 (*Chart 1*). Service-related activities (including trade and transportation) increased 0.5 percent in February, while goods-producing industries (including manufacturing, construction and utilities) fell 0.1 percent. Agricultural output dipped 1.7 percent.

## Exports Fall Further in March

Exports dropped 2.2 percent in March after falling 0.9 percent in February. Three-month moving averages reveal a long-running decline in oil exports, while total exports have trended down since July 2015 (*Chart 2*). First-quarter total exports were down 7.7 percent, and manufacturing exports fell 5.1 percent compared with the same period a year ago. Oil exports dropped 45 percent year over year. Mexico's oil production is down more than 30 percent since peaking at 3.5 million barrels per day in October 2004.

## Industrial Production Flat in February

Mexico's industrial production (IP) edged down 0.1 percent in February after growing 0.7 percent in January. Three-month moving averages are flat (*Chart 3*). Total IP, which includes construction, oil and gas extraction, and utilities, has been largely stagnant the past six months. Meanwhile, manufacturing IP continues to expand. U.S. IP fell 0.6 percent for the second straight month in March.

## Retail Sales Expand in January and February

Retail sales grew 0.2 percent in February after jumping 2.7 percent in January. The three-month moving average shows deceleration during fourth quarter 2015, with a rebound into the first quarter (*Chart 4*). Sales were up 5.2 percent year over year in February. However, consumer confidence deteriorated in February and March.

**Chart 1**  
Output on Steady Growth Path

Index, January 2000 = 100\*

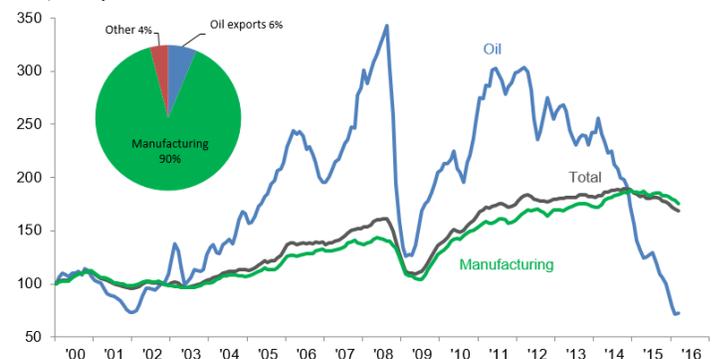


\*Seasonally adjusted, three-month moving average; real dollars.

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

**Chart 2**  
Manufacturing, Oil Weakness Drags Down Total Exports

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).

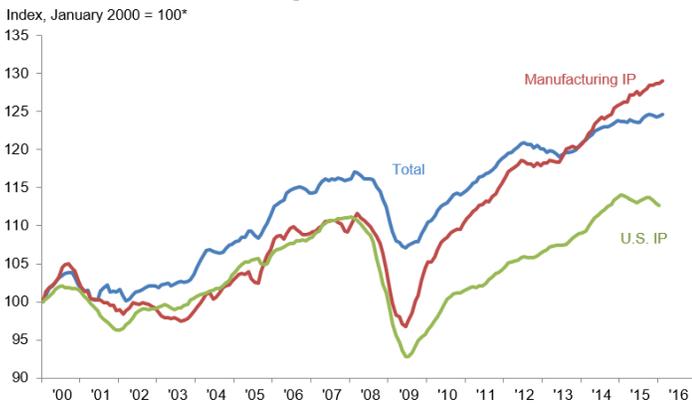
## Job Growth Slows in March but Still Up Strongly Year to Date

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 0.8 percent in March, the lowest growth rate in three years (*Chart 5*). Employment rose an annualized 1.7 percent in the first quarter—down from 3.8 percent in 2015 (December over December) and 4.3 percent in 2014.

## Peso Gains Ground Against the Dollar in April

The peso continued its comeback in April, averaging 17.5 pesos per dollar, which is a 5.4 percent gain over the February average of 18.5 pesos per dollar (*Chart 6*). The peso

**Chart 3**  
**Industrial Production Stable Going into 2016**



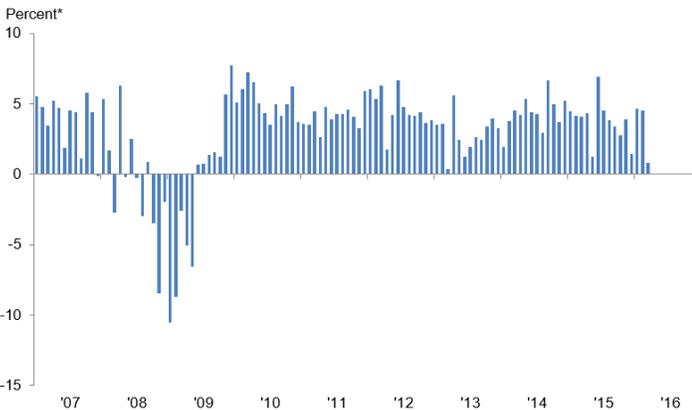
\*Seasonally adjusted, three-month moving average.  
 SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

**Chart 4**  
**Retail Sales Dip at Year End but Pick Up in January and February**



\*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 Decelerates in March**



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

is still down 13 percent against the dollar over the past year. The Mexican currency has been weak, partly due to financial market turmoil resulting from weaker-than-expected global demand and the adverse impact of low oil prices on Mexico's government finances. Oil revenues typically account for about one-third of the federal government budget, but that share has been falling.

**Inflation Dips Slightly in March**

Prices increased 2.6 percent in March after rising 2.9 percent in January. Inflation is still below the central bank's long-term target of 3 percent (Chart 7). Prices excluding food and energy rose 2.8 percent. Mexico's central bank increased the policy interest rate for the first time since August 2008, boosting it by 25 basis points to 3.25 percent in December and again by 50 basis points in February to 3.75 percent. Agustin Carstens, Mexico's central bank governor, has made it clear that the central bank will not hesitate to use interest rate increases and currency interventions if it feels peso weakness will lead to higher inflation. The recent improvement in the peso-dollar exchange rate is likely a result of the central bank's surprise February rate hike.

—Jesus Cañas

**About the Author**

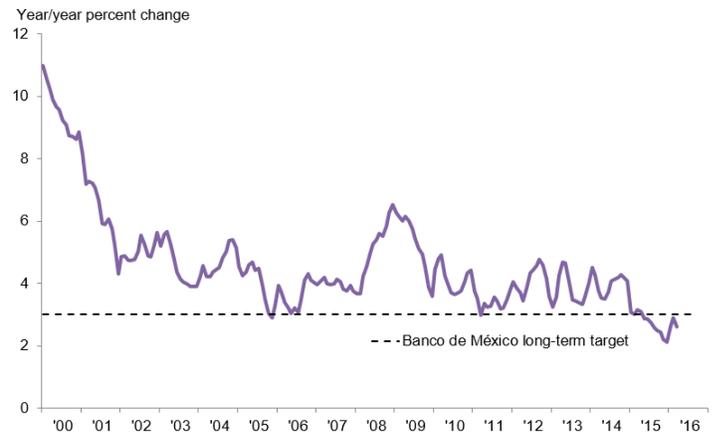
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**Chart 6**  
**Peso Further Appreciates Against the Dollar**



SOURCE: Banco de México.

**Chart 7**  
**Inflation Ticks Down in March**



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