Mexico Economy Expands Modestly in Fourth Quarter

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Mexico gross domestic product (GDP) growth slowed in the fourth quarter, and the 2016 growth forecast was revised down to 2.5 percent in February from 2.7 percent in January. First-quarter data have been mixed so far. Employment and industrial production increased, but exports and retail sales fell. Inflation ticked up in January and February, and the peso gained ground against the dollar in March.

Year-End Activity Slows

Mexico’s economy grew at an annualized rate of 2.2 percent in the fourth quarter, down from 3.3 percent in the third (Chart 1). Service-related sectors (including trade, transportation and business services) advanced 3.8 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) fell 1.5 percent. Agricultural output contracted 7.5 percent in the fourth quarter. GDP growth came in at 2.5 percent in 2015, up slightly from 2.2 percent in 2014.

Exports Fall in January

Exports fell 0.7 percent in January after dropping 0.8 percent in December. Three-month moving averages reveal a persistent decline in oil exports, and total exports show weakening as well since July 2015 (Chart 2). In 2015 overall, total exports fell 4 percent, while manufacturing exports rose just 1 percent. Oil exports have collapsed by 45 percent due to declines in both oil production and prices. Mexico’s oil production is down by about 30 percent since peaking at 3.5 million barrels per day in October 2004.

Industrial Production Grows

Mexico’s industrial production (IP) increased 1.2 percent in January after falling the previous three months. Three-month moving averages show some stabilization in total IP, which includes construction, oil and gas extraction, and utilities. Manufacturing IP continues to grow faster than total production (Chart 3). U.S. IP also grew in January (0.8 percent) after three consecutive months of decline.

Retail Sales Fall in December

Retail sales fell 1.6 percent in December after growing 0.3 percent in November. The three-month moving average shows deceleration during fourth quarter 2015 (Chart 4). Year over year, retail sales were up 3.9 percent in December. Consumer confidence, which improved in January, deteriorated in February.

Job Growth Rebounds

Formal-sector employment—jobs with government benefits and pensions—rose at an annualized rate of 4.6 percent in January and February (Chart 5). Employment increased 3.8 percent in 2015 (December over December), close to 2014’s employment growth of 4.3 percent.

Peso Gains Ground Against the Dollar in March

The peso staged a comeback in March, averaging 17.9 pesos per dollar, which is a 3.2 percent gain over the February average of 18.5 pesos per dollar (Chart 6). The peso is still down 17 percent against the dollar compared with March 2015. 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 account for about one-third of the federal government budget.
Inflation Ticks Up, But Stays Below Official Target

Prices increased 2.9 percent in February after rising 2.6 percent in January. Nevertheless, inflation is still below the central bank’s long-term inflation target of 3 percent (Chart 7). Prices, excluding food and energy, rose 2.7 percent. Mexico’s central bank increased the policy interest rate 25 basis points to 3.25 percent in December for the first time since August 2008 and again in February to 3.75 percent. Mexico’s central bank Governor Agustin Carstens 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 surprise February rate hike by Mexico’s central bank.

—Jesus Cañas

About the Author

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