Fourth-Quarter Growth Revised Down; 2018 Outlook Still Healthy

March 28, 2018

Although fourth-quarter Mexico gross domestic product (GDP) growth was revised lower, performance was still strong, and this bodes well for 2018. The recent period contrasts with overall lackluster activity in 2017. GDP grew at its slowest pace in four years, just 1.5 percent (four-quarter change), according to the second estimate. The consensus growth forecast for 2018 is 2.3 percent.

More recent data are mixed. Retail sales fell to end 2017, and exports and industrial production dipped to begin 2018, but employment continued growing. Inflation declined in February, and the peso strengthened against the dollar.

Fourth-Quarter Output Growth Still Solid Following Downward Revision

Annualized fourth-quarter Mexico GDP growth was revised down from 4.1 percent to 3.2 percent (Chart 1). Output in goods-producing industries (manufacturing, construction, utilities and mining) fell 0.6 percent. Service-related activities (wholesale and retail trade, transportation and business services) gained 4.2 percent. Agricultural output spiked 8.8 percent.

Export Growth Weakens in January Following Recent Positive Momentum

Total exports fell 2.5 percent in January after growing for two months. Manufactured goods exports fell 2.2 percent, and oil exports slid 9.6 percent. Strong readings in previous months, however, boosted all three-month moving averages (Chart 2). Compared with January 2017, total exports increased 7.3 percent, manufacturing exports rose 5.3 percent, and oil exports climbed 22.4 percent. The rise in oil exports over 2017 and into early 2018 stems largely from higher oil prices, not an increased volume of exports.

Industrial Production Flat; Manufacturing Down in January

Mexico’s industrial production (IP), which includes manufacturing, construction, oil and gas extraction, and utilities, was flat in January after rising 1 percent in December. Manufacturing IP fell 0.5 percent in January after little change in December. The moving average ticked up for IP but was flat for manufacturing (Chart 3). In the U.S., IP dipped 0.3 percent in January but grew 1 percent in February.

Retail Sales Slip in December

Retail sales dipped 0.5 percent in December after falling 0.2 percent in November. However, the moving average still ticked up for a third consecutive month (Chart 4). Over the year, retail sales fell 1.2 percent (December over December). Sales were pressured in 2017 by high inflation (which pushed prices higher and real wages lower), increased interest rates that raised the cost of...
credit and depressed consumer confidence. Consumer confidence inched down in January and February 2018.

**Rapid Job Growth Continues in February**

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized 4.4 percent in February (Chart 5). Monthly growth has exceeded the long-run average for 10 consecutive months. Year-over-year job growth was 4.5 percent in February. Employment growth was 4.3 percent in 2017 and 4.1 percent in 2016. The unemployment rate in January was 3.4 percent, down from 3.6 percent a year earlier. Strong job growth and falling unemployment point to tightening labor markets.

**Peso Strengthens Against the Dollar in February**

Mexican currency averaged 18.6 pesos per dollar in February, a 1.4 percent appreciation from January (Chart 6). The peso is up 14.7 percent since January 2017 when the exchange rate reached a historical low of 21.4 pesos per dollar. Mexican currency initially weakened in 2017 in anticipation of increased U.S. interest rates, as well as heightened policy and economic uncertainty.

**Foreign-Owned Government Debt Share Ticks Down in February**

The share of peso-denominated government debt held abroad fell in February. About 32 percent of peso-denominated debt is held abroad. The share fell in all but three months of 2017. The moving average reflects the continuing downward trend (Chart 7). The extent of nonresident holdings of government debt indicates Mexico’s exposure to international investors, whose holdings could quickly reverse if they perceive a change in market sentiment.

**Inflation Falls in First Two Months of 2018**

The consumer price index (CPI) 12-month change was 5.3 percent in February, down from 5.5 percent in January. Inflation is moving closer to Banco de México’s long-term target of 3 percent (Chart 8). CPI core inflation (excluding food and energy) rose 4.3 percent over the 12 months ending in February. Mexico’s central bank raised its benchmark interest rate by 25 basis points (0.25 percentage point) in February to 7.5 percent. New Banco de México Governor Alejandro Diaz de Leon was appointed to a four-year term that began in December 2017.

—Jesus Cañas and Alexander T. Abraham

**About the Author**

Cañas is a senior business economist, and Abraham is an economic programmer in the Research Department at the Federal Reserve Bank of Dallas.