

Mexico

Mexico Economy Rebounds in Third Quarter

November 11, 2016

Mexico's gross domestic product (GDP) grew an annualized 4.0 percent in the third quarter after contracting 0.7 percent in the second quarter, according to the government's advance estimate. More recent data on employment, retail sales and exports also improved, but industrial production fell. Inflation ticked up in September, and the peso held steady in October. The consensus 2016 GDP growth forecast was unchanged in October at 2.1 percent.

Output Picks Up

Mexico economic growth was back in positive territory in the third quarter (*Chart 1*). Service-related activities (including trade, transportation and business services) rose 6 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) fell 0.4 percent. Agricultural output expanded 4.8 percent in the quarter.

Exports Increase in September

Exports rose 7 percent in September after falling 2.8 percent in August. The three-month moving averages of total exports and manufacturing exports finally turned up after declining throughout 2015 and into the first quarter of 2016 (*Chart 2*). Oil exports turned around earlier this year after a long decline, but the reversal was driven by rising oil prices, not higher volume. Oil exports were down 30 percent in the first nine months of 2016 compared with the same period a year ago, and they remain at low levels. Manufacturing exports have fallen 3.8 percent this year through September relative to the same period in 2015.

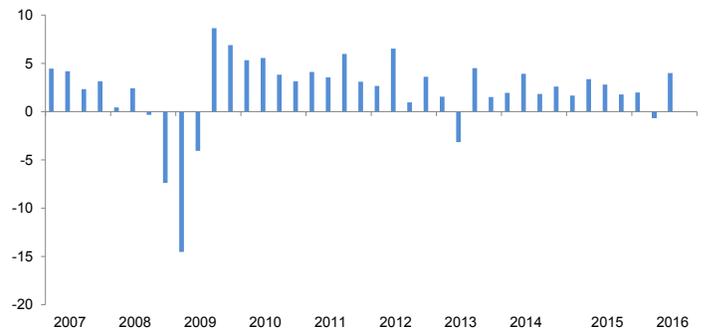
Industrial Production Falls

Mexico's industrial production (IP) ticked down 0.4 percent in August after growing 0.1 percent in July. Manufacturing production, meanwhile has been rising in recent months. U.S. IP was flat in September after falling 0.5 percent in August. Based on the three-month moving average, Mexico's IP shows signs of deceleration (*Chart 3*). Total IP, which includes manufacturing, construction, oil and gas extraction, and utilities, has been growing more slowly than manufacturing IP since early 2014.

Retail Sales Continue Growing

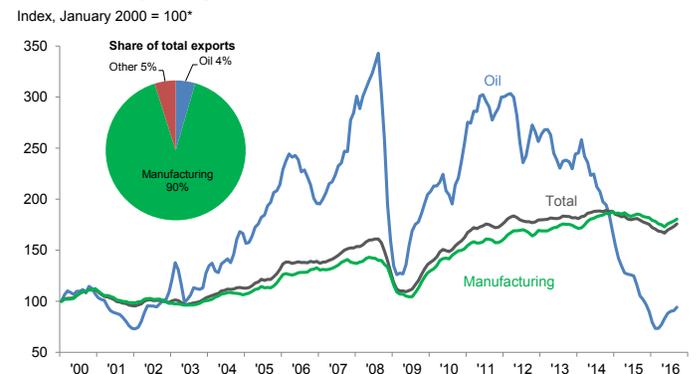
Retail sales expanded 0.6 percent in August after growing 0.4 percent in July. August sales were up an impressive 7.9 percent year over year. The smoothed data (three-month moving average) clearly show a sharp acceleration in sales revenue throughout 2016 (*Chart 4*). Despite this, the consumer confidence measure worsened in August and September.

Chart 1
Mexico Economic Growth Turns Up in Third Quarter
Quarterly percent change, annualized



NOTE: Gross domestic product (GDP) for third quarter 2016 is an advance estimate and is subject to revision. Final GDP figures for the third quarter will be available Nov. 23.
SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Chart 2
Exports Finally Rising After Persistent Declines



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

Job Growth Remains Strong

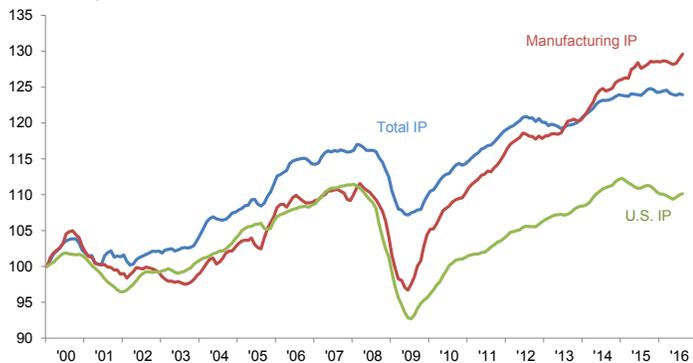
Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 5.5 percent in September and was up 4 percent year over year (*Chart 5*). Job growth is nearly the same year to date in 2016 as it was in 2015, when employment expanded 3.8 percent (December over December). These gains are higher than the recent historical average.

Peso Holds Steady in October

The Mexican currency averaged 19 pesos per dollar in October, roughly the same as in September (*Chart 6*). The peso has lost 11 percent of its value against the dollar on a year-

Chart 3
Industrial Production Slows; Manufacturing Output Continues to Expand

Index, January 2000 = 100*



*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 Continue to Grow Strongly in 2016

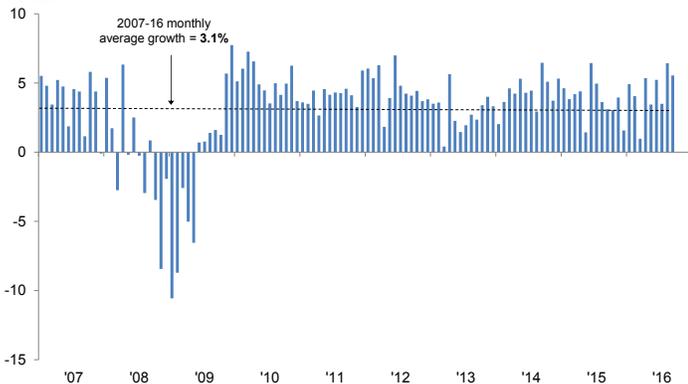
Index, January 2000 = 100*



*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 Robust in 2016

Percent*



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

over-year basis. The currency has been weak in anticipation of further increases in U.S. interest rates as well as market turmoil resulting from low oil prices, weaker-than-expected global demand, the Brexit vote and the U.S. election.

Inflation Ticks Up in September

Inflation was 3 percent in September, coming in at Banco de México's long-term inflation target (*Chart 7*). Prices excluding food and energy have risen 3.1 percent over the past 12 months. The central bank raised its benchmark interest rate by 50 basis points to 4.75 percent in September. This tightening followed three interest rate hikes—in December 2015, February 2016 and June 2016. Banco de México Governor Agustín Carstens has made it clear that the central bank will not hesitate to use interest rate increases and currency interventions as needed to strengthen the peso and stabilize prices.

—Jesus Cañas

About the Author

Cañas is a business economist in the Research Department at the Federal Reserve Bank of Dallas.

Chart 6
Peso Struggles Against Dollar but Holds Steady in October

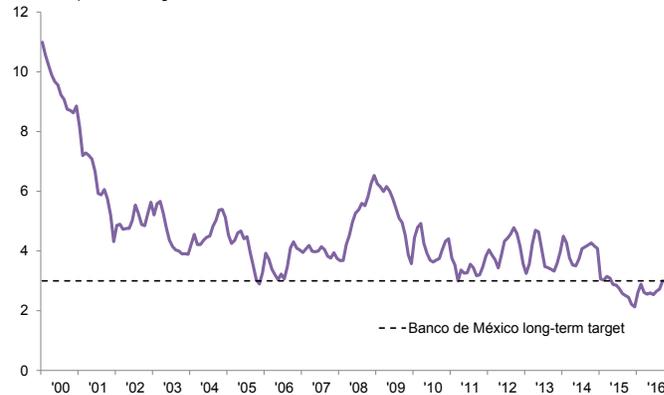
Peso/dollar average



SOURCE: Banco de México.

Chart 7
Inflation at Central Bank's Long-Term Target in September

12-month percent change



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