Economic Analysis

The Mexican economy is growing at a good pace

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Carlos Serrano
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Everything indicates that the country's economic growth in the first half of this year will be good and higher than expected. The increase in the year's first quarter with respect to the immediately preceding quarter was 1%, which implies a growth rate greater than 4% in annualized rates. Furthermore, in April, the IGAE - a proxy for monthly GDP - grew at a monthly rate of 0.8%. And the BBVA high-frequency indicator shows that it continued to grow at a high pace throughout the second quarter (4.6% yoy).

What explains this good performance of the economy so far this year? First, it is due to the strength of consumption, which is explained by the labor market's strength. Today the unemployment rate stands at 2.8%, a historically low level and less than the 3.6% observed before the pandemic. This lower unemployment rate results from increased manufacturing activity and a significant increase in the migration of Mexicans to the United States. This phenomenon responds to the fact that that country also has a very tight labor market. Not only are there more jobs in Mexico, but they are better paid: the average real wage has risen by about 6% since January of last year, partly due to increases in the minimum wage and partly due to wage pressures that result from the lower unemployment rate. The increases in the minimum wage have been successful since, in Mexico, this instrument, which can help resolve market failures in labor markets, had lagged significantly behind in recent decades. In fact, despite the increases in recent years, the real minimum wage in Mexico is 43% below the level it had in 1976. The increases mentioned above in the average real salary and the lower unemployment rate have resulted in the real wage bill increasing by around 12% from January 2022 to date. These labor market dynamics have strengthened the domestic market and explain the sound dynamism of consumption.

Another factor behind the good economic performance this year is the solid pace of manufacturing due to the surprising resilience of the US economy despite being exposed to the most pronounced monetary tightening cycle in the last forty years. The case of the Mexican automotive industry stands out in particular, which depends crucially on demand from the United States and whose production is 13% above the level it had in January 2022.

What can we expect for the economy's growth during the rest of the year? The answer depends fundamentally on what happens to the US economy. It is very likely that after the monetary policy rate increase, the US economy will go into recession. The Fed has taken this rate from 0% to more than 5% in just over a year, and there's one more hike to go, probably two. In recent US history, the economy ended up in a recession whenever the Fed increased interest rates to combat inflation above 4%. If this happens in the second half of this year, the Mexican economy will suffer the effects through lower exports. In this scenario, at BBVA, we estimate that economic growth this year would be 2.4%. But if the US economy manages to avoid recession, the Mexican economy could grow at 3% or more.

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ENQUIRIES TO:
BBVA Research: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.
Tel.: +52 55 5621 3434
www.bbvaresearch.com