



September 14th, 2022

Mexican Economic Overview

After growing 1.1% in 1Q 2022 relative to 4Q 2021, Mexico's economy grew 0.9% in 2Q 2022 relative to 1Q 2022¹; primary activities expanded 0.9% while secondary and tertiary activities both grew 0.9% during the quarter, respectively². Meanwhile, after the U.S. economy contracted 0.4% during 1Q 2022, it once again decreased 0.1% in 2Q 2022 relative to 1Q 2022³, its second consecutive quarter of negative growth.

The Ukraine conflict and sustained global supply chain disruptions – reinforced by China's zero-Covid policy and related lockdowns – continue to negatively affect both Mexican and U.S. economies. Labor shortages in key logistics positions and Covid-related closures at important ports and distribution centers continue to create relevant disruptions in global supply chains. Moreover, the conflict in Ukraine is reducing the availability of raw materials including primary metals, fertilizers, natural gas, seeds and key food items like wheat. This situation has created upward pressure on the global price of goods, resulting in inflation levels not seen in decades in many countries. In the U.S., annual inflation reached a 40-year high in June 2022 at 9.1%, which receded to 8.3% in August 2022, while core inflation (excluding food and energy) increased to 6.3%⁴. Although a decline in U.S. inflation is good news, rapidly increasing wages and housing costs (particularly rents), will likely keep inflation high for a while. Regarding Mexico's inflation, it reached 8.7% as of August 2022, the highest level since December 2000, while core inflation was 8.1%⁵. On the positive side, the price to ship a container for the average commercial route in the World as of early-September 2022 was USD \$4,862, a 56.2% decrease from its peak back in September 2021, but still well above the pre-

¹ Source: INEGI, seasonally adjusted figures.

² Source: INEGI, seasonally adjusted figures. Comparing 2Q 2022 with 2Q 2021, GDP is 1.9% higher, with primary activities 1.4% higher, while secondary and tertiary activities are 3.3% and 0.9% higher than a year ago, respectively.

³ Source: U.S. Bureau of Economic Analysis, Department of Commerce. Second estimate for 2Q 2022.

⁴ Source: U.S. Bureau of Labor Statistics.

⁵ Source: INEGI.



pandemic USD \$1,331 from February 2020⁶.

Meanwhile, private consumption in Mexico continues to recover, being 6.8% higher in June 2022 compared to June 2021⁷. Nevertheless, after recovering from pandemic lows and likely hit by higher inflation, consumer confidence has been steadily declining since April 2022 and, as of August 2022, it is 5.1% lower than one year ago⁸. Accordingly, producer confidence has also decreased in the last four months and as of August 2022 it is 7.7% lower than a year ago⁹.

On the labor front in Mexico, during the first eight months of 2022, 616,718 formal jobs were created, a lower figure than the 647,091 jobs created during the first eight months of 2021¹⁰. In annual terms, employment grew 4.0% as of August 2022. Furthermore, according to INEGI's most recent "National Occupation and Employment Survey", the number of individuals part of the "Economically Active Population" reached 59.5 million in July 2022, which compares to 59.0 million from July 2021, meaning that 0.5 million jobs (both formal and informal) were created in the last twelve months; moreover, although the unemployment rate was relatively low at 3.4%, it has slightly increased from the 3.0% observed in April 2022, while 8.3% of total workers still reported they have spare hours to offer to the job market, and they are willing to work more (defined as "under-occupation")¹¹.

Mexican Peso/U.S. Dollar FX volatility slightly decreased again during 2Q 2022 relative to the previous quarter, with the exchange rate fluctuating between MXN \$19.5 and MXN \$20.7 per USD, a variation of 6.0% from low to high (vs. 7.6% in 1Q 2022). Meanwhile, Banco de Mexico's reference interest rate increased 125 basis points during the quarter, ending 2Q 2022 at 7.75%, to then reach 8.5% in mid-August¹². Furthermore, although the relative decline in inflation from June to August 2022 will ease some pressure, the U.S. Fed is still expected to

⁶ Source: Freightos, September 2022. The latest figure as of September 9, 2022.

⁷ Source: INEGI, seasonally adjusted figures.

⁸ Source: INEGI, seasonally adjusted figures.

⁹ Source: INEGI, seasonally adjusted figures, preliminary figure for August 2022.

¹⁰ Source: IMSS.

¹¹ Source: INEGI, "National Occupation and Employment Survey", August 2022 (July 2022 results).

¹² Source: Banco de México (as a reference, this rate was 7.25% at the end of 2019).



continue with its contractionary monetary approach (i.e., increasing rates and draining liquidity from the market) in the short-term. Thus, a 50 to 75-basis point increase to the reference rate is still expected to be the outcome of the Fed's September 2022 FOCM meetings. Consequently, the Fed's short-term decisions will very likely bring about a further increase in Mexico's interest rates during the remainder of 2022 and 1H 2023. As a final note, on July 6, 2022, S&P changed its outlook for Mexico's sovereign debt rating from negative to stable (maintaining its BBB rating, two notches into investment grade), while two days later Moody's downgraded Mexico's sovereign rating from Baa1 (with a negative outlook) to Baa2 (two notches into investment grade, with a stable outlook)¹³.

¹³Source: S&P and Moody's.