



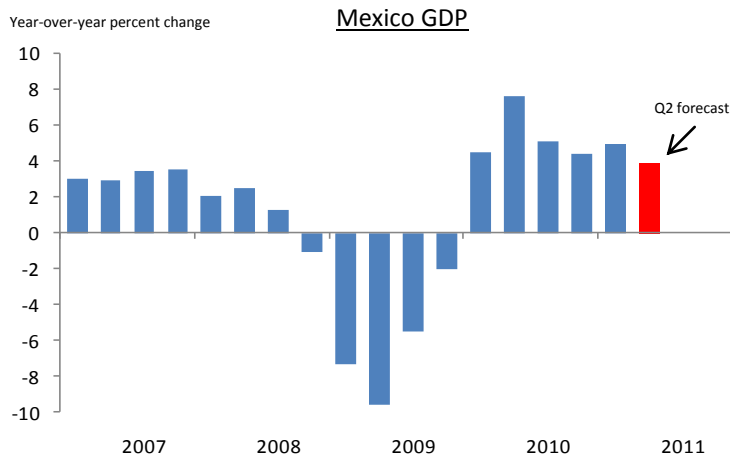
August 2011

Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

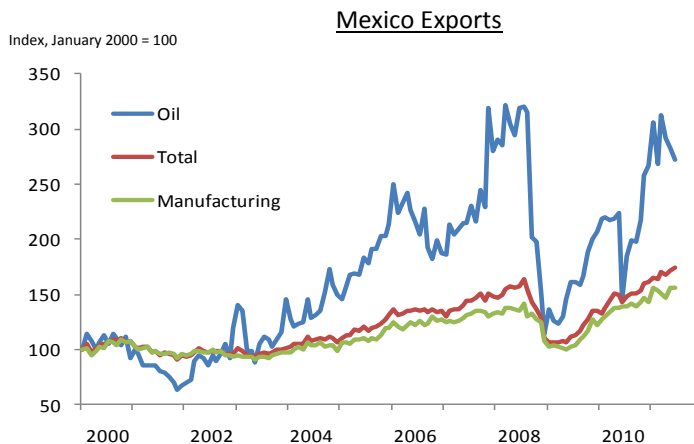
Summary

The latest data suggest Mexico's economy slowed in the second quarter, leading to a slight downward revision of the 2011 GDP forecast. The monthly data are mixed; industrial production ticked up in May and June exports grew. However, retail sales dipped in May, and June employment growth continued to slow from its rapid first quarter pace. The peso slipped relative to the dollar in June, and inflation rose slightly.



Second quarter 2011 forecasts call for 3.9 percent growth over the same period last year, a deceleration from first quarter GDP growth which came in at 4.6 percent year-over-year. Growth is expected to pick up pace in the second half of the year. The GDP growth forecast for 2011 has been revised down slightly to 4.3 percent.

Exports grew 1.2 percent month-over-month in June although oil exports dropped for the third month in a row, falling 3.5 percent. Manufacturing exports were flat in June. Year-to-date, exports have grown 18.2 percent, a substantially slower pace than the 33 percent growth during the same period last year. Oil and manufacturing exports have grown 39.4 percent and 14.3 percent, respectively.

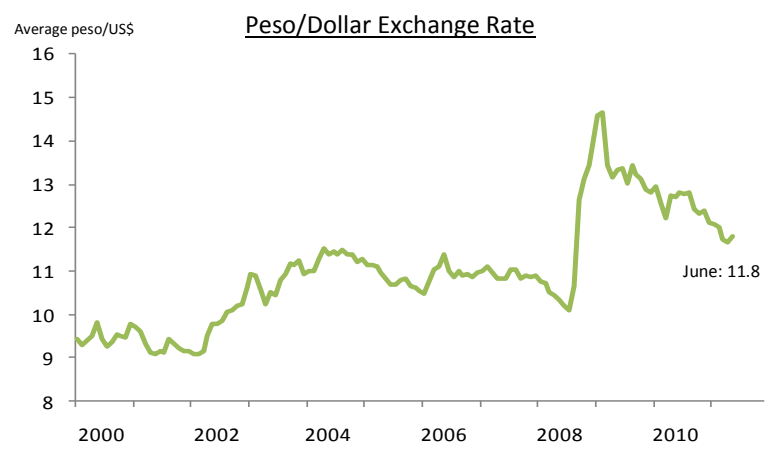
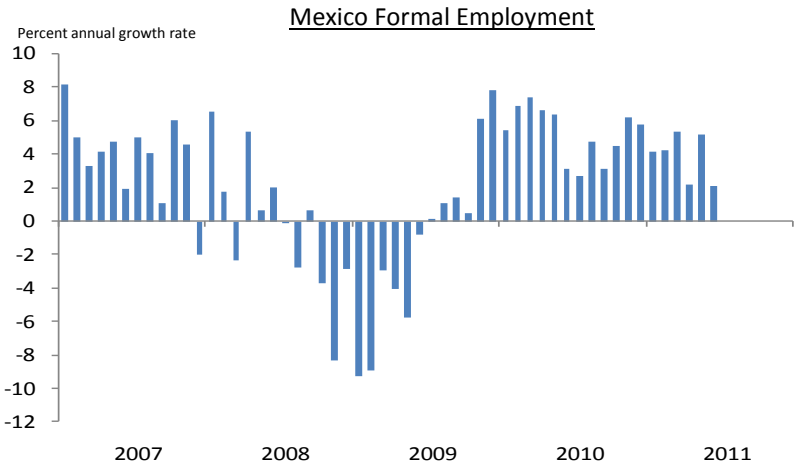


Industrial production (IP) grew 1.1 percent month-over-month in May after growing 0.3 percent in April. Mexico IP expanded despite little change in US IP since March. Mexico's industrial production typically tracks U.S. industrial production due to the large presence of the U.S. automotive industry in Mexico.



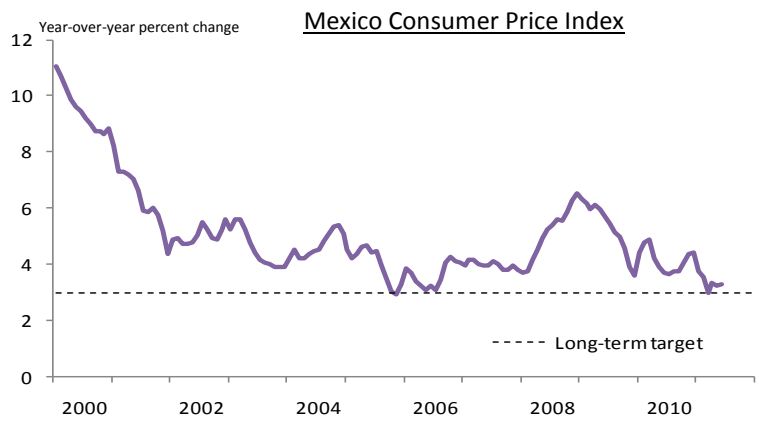
Retail sales fell 2.1 percent in May but have grown 1.1 percent year-to-date. Domestic consumption recovered in 2010, led by gains in employment, and retail sales have been trending upward since fall 2009, although they are volatile month-to-month.

Formal sector employment grew at an annualized month-over-month rate of 2.1 percent in June. Employment grew 3.8 percent in the second quarter (annualized rate), down from 4.9 percent growth during the first three months of the year. Since December, Mexico has added over 280,000 jobs, and wages paid by the formal sector have surpassed pre-crisis levels.



The peso has strengthened against the dollar this year although it fell in June. The peso/dollar exchange rate averaged 11.8 pesos per dollar during June, down from an average of 11.7 in May. The peso has appreciated 4.9 percent against the dollar since December; however, it is still down from 2008 levels.

Prices rose 3.3 percent year-over-year in June, up from 3.2 percent in May. The reading was the result of higher prices for food and non-alcoholic beverages which were mostly offset by lower prices in other categories. Following their latest policy meeting on July 8, Banco de México continued to note the lack of broad-based price pressures and kept the benchmark interest rate at 4.5 percent.



NOTE: All data are seasonally adjusted except GDP, and exchange rate. GDP, exports, and retail sales are in real terms.
SOURCES: Gross domestic product, industrial production and retail sales: Instituto Nacional de Estadística y Geografía (INEGI); exports, exchange rate, and consumer price index: Banco de México; Formal employment: Instituto Mexicano del Seguro Social. US industrial production: Federal Reserve Board.