



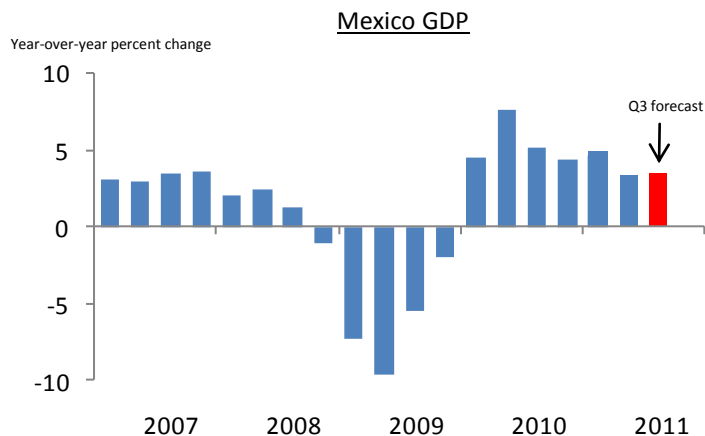
October 2011

# Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

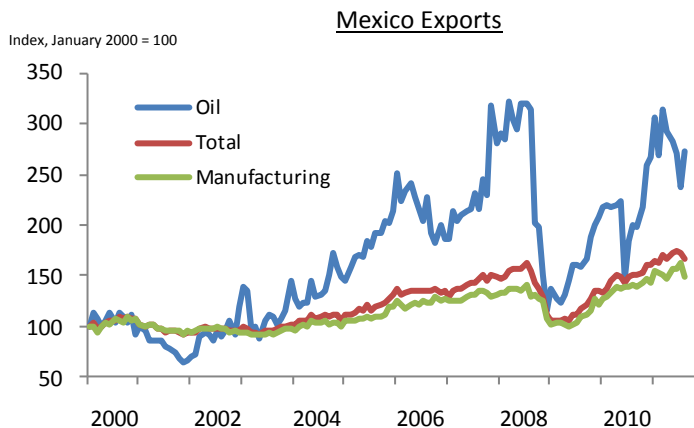
## Summary

The latest data suggest a slowing is under way in the manufacturing and international trade sectors; both industrial production and exports dipped in August. Retail sales also ticked down in August and although employment growth picked up in September, third quarter job growth was down from earlier in the year. The peso fell considerably relative to the dollar in September, and inflation eased.



The third-quarter 2011 GDP forecast calls for 3.5 percent growth over the same period last year, a slight increase from second-quarter GDP growth, which came in at 3.3 percent year over year. However, growth for the second half of the year is expected to average 3.6 percent, less than the 4 percent average annual growth for the first six months of the year.

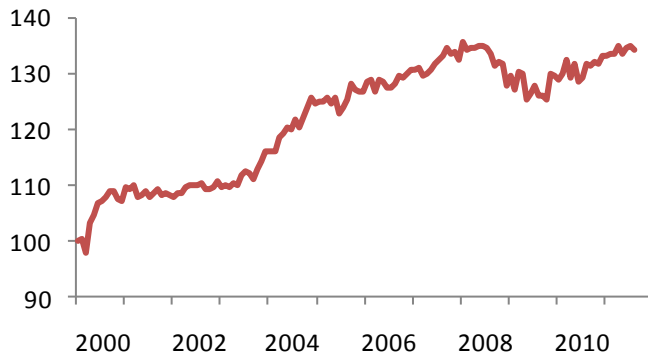
Exports fell 3.6 percent in August, the biggest monthly decline since early 2009. Manufacturing exports dropped 8.2 percent, while oil exports grew 15 percent to end a four-month string of declines. Year to date, exports have grown 17.1 percent, a substantially slower pace than the 32 percent growth seen during the same period last year. Oil and manufacturing exports have risen 38 percent and 14.6 percent year to date, respectively.



Industrial production (IP) fell 1 percent month over month in August after growing 0.2 percent in July. U.S. IP grew 0.2 percent in September after posting no growth in August. Mexico's industrial production typically tracks U.S. industrial production, due in part to the U.S. automotive industry's large presence in Mexico.

Index, January 2000 = 100

### Mexico Retail Sales

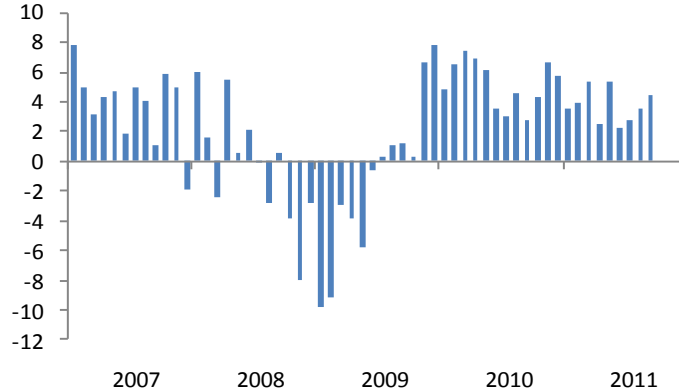


Retail sales fell 0.3 percent in August after rising 0.2 percent in July. Consumer confidence fell 1.5 percent in September. Domestic consumption has been an important part of Mexico's recovery since the 2009 financial crisis, but it has weakened in recent months.

Formal-sector employment picked up in September, growing at an annualized rate of 4.4 percent. Overall, third-quarter employment grew at a 3.3 percent quarter-over-quarter, annualized rate, down from 3.9 percent growth in the second quarter and 4.8 percent growth in the first. Mexico has added over 410,000 jobs since December 2010, and its average monthly wage is nearing prerecession levels.

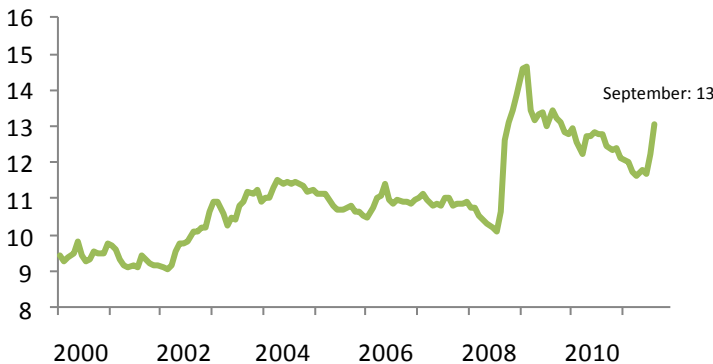
Percent annual growth rate

### Mexico Formal Employment



Average peso/US\$

### Peso/Dollar Exchange Rate



The peso has weakened considerably against the dollar since July, likely as a result of concerns about the European debt crisis and a global economic slowdown. The exchange rate averaged 13 pesos per dollar during September, down from an average of 12.2 in August and 11.8 in July. The peso has depreciated 5 percent against the dollar since December 2010.

Prices rose 3.1 percent year over year in September, down from 3.4 percent in August. Price increases in electricity and gasoline were offset by falling prices for fruit and vegetables. Following its latest policy meeting on Oct. 14, Banco de México continued to note the lack of broad-based price pressures in spite of the recent peso weakness. Officials expect the peso depreciation to have a small and temporary effect on domestic prices, and while they kept the benchmark interest rate at 4.5 percent, they noted that the pace of domestic expansion had worsened and suggested the possibility of a rate cut in the near future.

Year-over-year percent change

### Mexico Consumer Price Index



**NOTE:** All data are seasonally adjusted except 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; U.S. industrial production: Federal Reserve Board.

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