



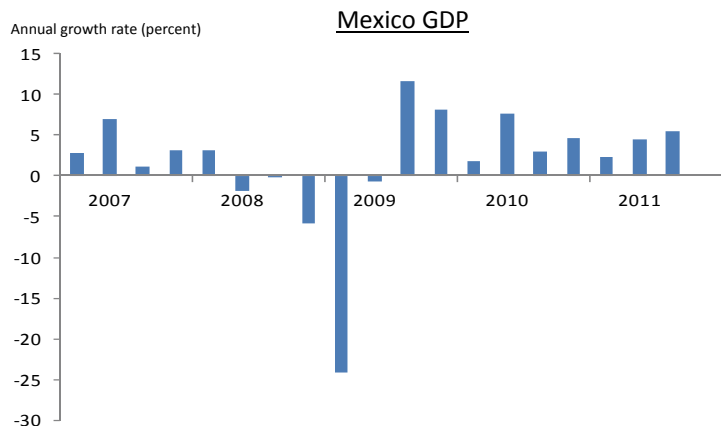
December 2011

Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

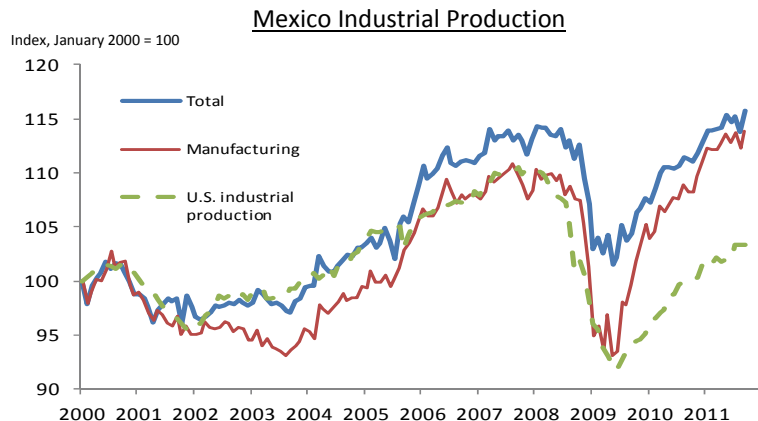
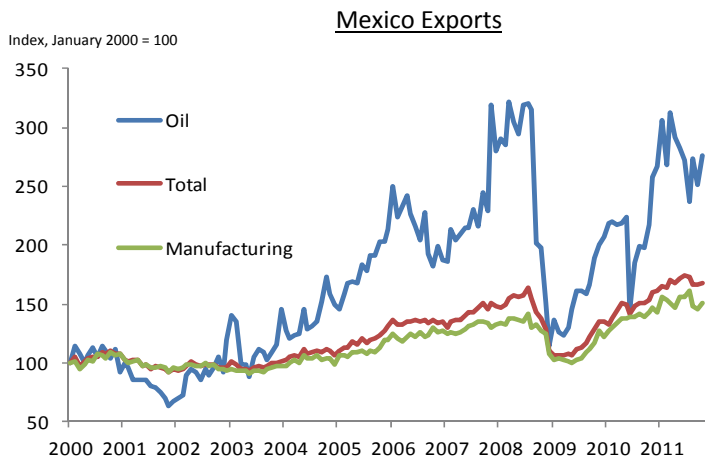
Summary

The Mexican economy accelerated slightly in the third quarter, according to recently released data. Mexico gross domestic product (GDP) grew 1.3 percent quarter over quarter, up from 1.1 percent in the second quarter. Slower growth in manufacturing, construction, mining and services was partly offset by robust growth in the agricultural sector. Industrial production rebounded in September, October exports were flat, and employment grew in October. Retail sales rose in September. The peso fell sharply relative to the dollar in October, and inflation ticked up.



Third quarter 2011 GDP growth came in at 1.3 percent quarter over quarter (5.5 percent growth at an annualized rate). Agriculture-related activities gained 11.6 percent. Taken together, trade, transportation, services and government grew 1.6 percent, and the production industries—manufacturing, construction, utilities and mining—advanced 0.5 percent from the previous quarter. The GDP growth forecast for 2011 has been revised up to 3.9 percent.

Exports were essentially flat in October, up only 0.4 percent. Oil exports gained 7.6 percent, while manufacturing exports fell 0.1 percent. Year to date, exports have risen 15 percent, compared with 30 percent growth during the same period last year. Oil and manufacturing exports have grown 36 percent and 12 percent year to date, respectively.

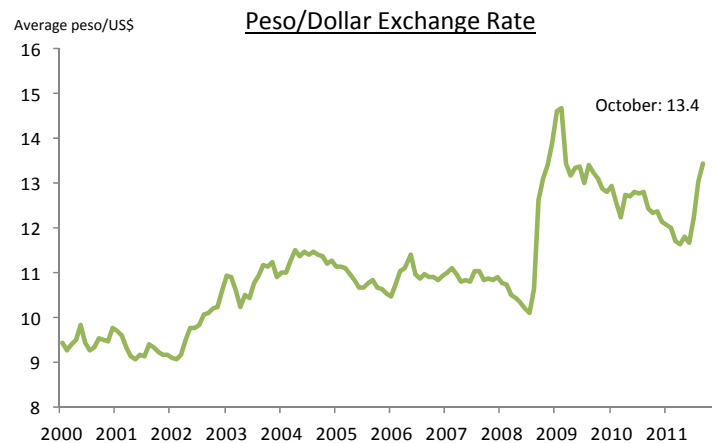


Industrial production (IP) grew 1.7 percent month over month in September after falling 1.3 percent in August. U.S. IP grew just 0.6 percent in October after posting no growth in September. Mexico's industrial production typically tracks U.S. industrial production, due in part to the large presence of the U.S. automotive industry in Mexico.



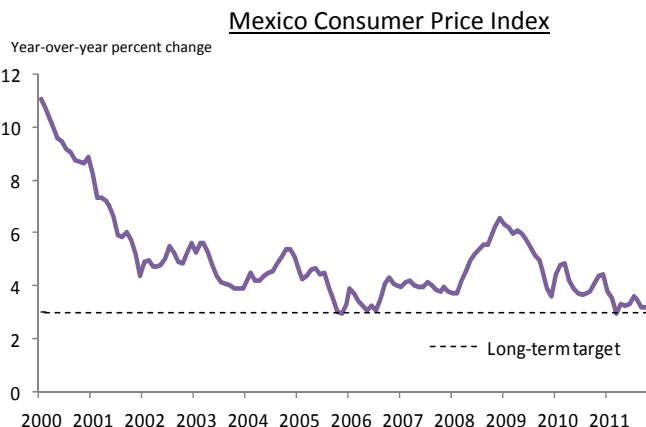
Retail sales increased 0.9 percent in September after growing 0.1 percent in August. Consumer confidence jumped 1.8 percent in October after falling 1.5 percent in September and 1.2 percent in August. Domestic consumption has been an important part of Mexico's recovery since the 2009 financial crisis.

Formal-sector employment grew in October at an annualized rate of 4.3 percent. Overall, third-quarter employment rose 3.4 percent (quarter-over-quarter, annualized rate), down from 3.9 percent growth in the second quarter and 4.8 percent growth during the first three months of the year. Mexico has added more than 467,000 formal-sector jobs since December 2010.



The peso has weakened considerably against the dollar since July, likely a result of a "flight to safety" amid the European debt crisis and a global economic slowdown. The exchange rate averaged 13.4 pesos per dollar during October, up from an average of 11.7 in July. The peso has depreciated over 13 percent against the dollar since July and 7.8 percent compared with December 2010.

Prices rose 3.2 percent year over year in October. Price increases in energy-related products were offset by falling prices for fruits and vegetables. Following its latest policy meeting on Dec. 2, Banco de México continued to note the lack of broad-based price pressures and kept the benchmark interest rate at 4.5 percent. However, the central bank stated that it will closely watch the behavior of the exchange rate and adjust monetary policy if inflationary pressures emerge as a result of recent peso weakness.



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