



June 2012

Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

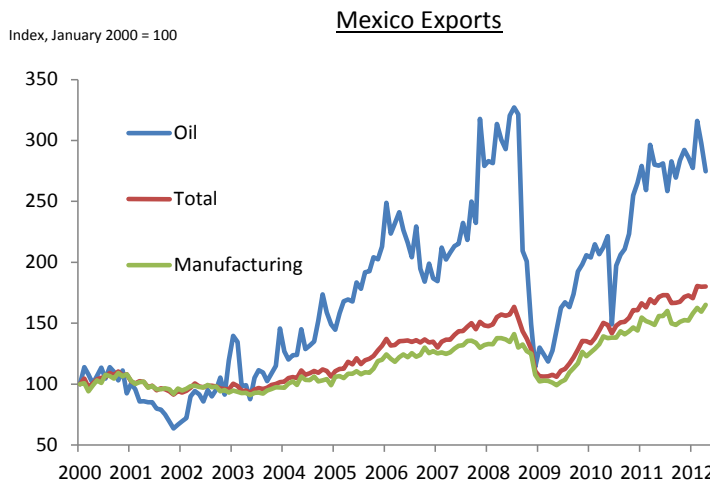
Summary

Mexico's economy accelerated in the first quarter, growing 5.3 percent quarter over quarter. Industrial production advanced in March, and employment continued growing in April. Exports were flat in April, and retail sales fell in March. The peso has depreciated considerably against the dollar since March, while inflation fell for the third consecutive month in April.



First quarter 2012 GDP grew 1.3 percent quarter over quarter (5.3 percent growth at an annualized rate), up from 0.7 percent in the fourth quarter of last year (2.9 percent at an annualized rate). In first quarter 2012, agricultural output grew 2.4 percent, and the remaining goods-producing industries, including manufacturing, construction, utilities and mining, expanded at a 1.5 percent rate. Service-related activities (including trade, transportation, services and government) grew 0.8 percent from the previous quarter. The 2012 GDP growth forecast has been revised up to 3.6 percent.

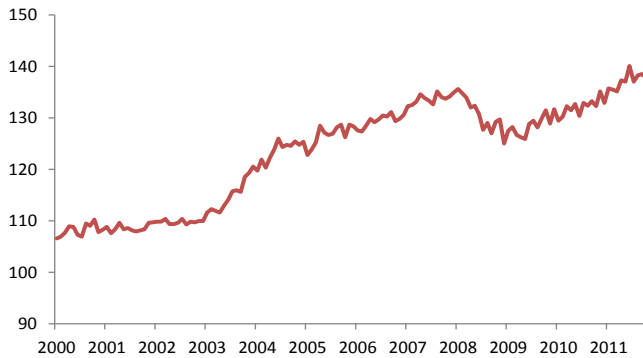
Exports were flat in April, up only 0.2 percent over March. Manufacturing exports increased 3.6 percent, while oil exports fell 7.7 percent. Total exports increased by just 6.8 percent during the first four months of the year, a substantially slower pace than the 17.8 percent growth seen over the same period in 2011. Since December, oil and manufacturing exports have grown 4.5 percent and 6.6 percent, respectively.



Industrial production (IP) grew 1.5 percent month over month in March after falling 1.4 percent in February. U.S. IP fell 0.5 percent in March and grew 1 percent in April. Mexico's IP typically tracks U.S. IP, due in part to the U.S. automotive industry's large presence in Mexico. However, since the end of the recession, Mexican IP has grown much faster than U.S. IP, which has yet to reach its prerecession peak.

Mexico Retail Sales

Index, January 2000 = 100

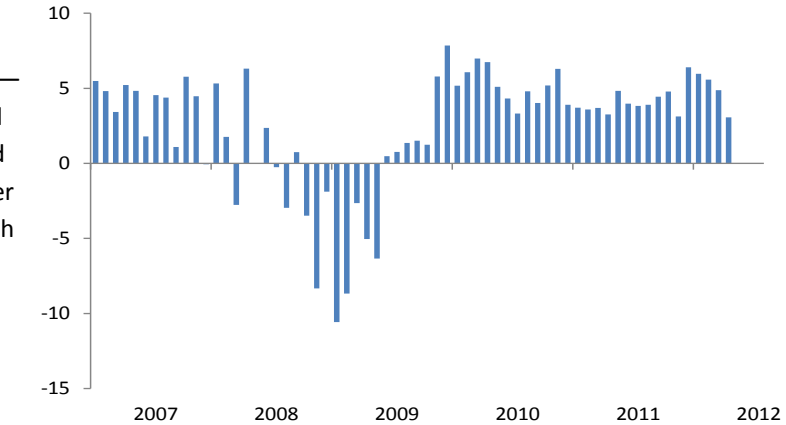


Retail sales fell 0.6 percent month over month in March after growing 0.2 percent in February. Year over year, retail sales grew 4.1 percent. Consumer confidence was essentially flat in May after rising 2.1 percent in April.

Mexico Formal Employment

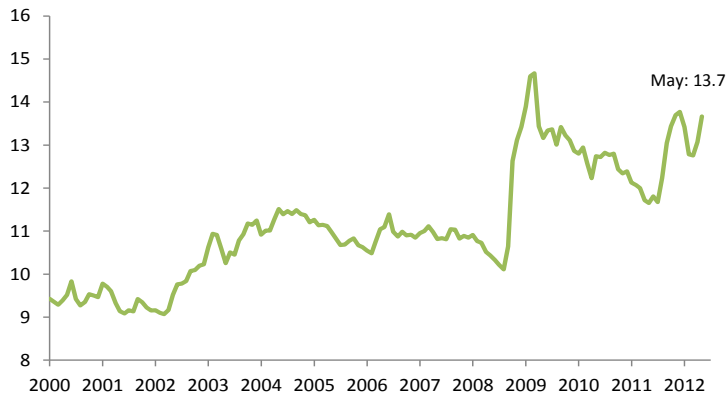
Employment growth continues, albeit at a slower pace. Formal employment— jobs with government protections and pensions— expanded at an annualized rate of 3.1 percent in April (month over month), down from 5.5 percent growth in the first quarter (annualized rate). Since December, Mexico has added over 246,000 jobs.

Annual growth rate (percent)



Peso/Dollar Exchange Rate

Peso/dollar average

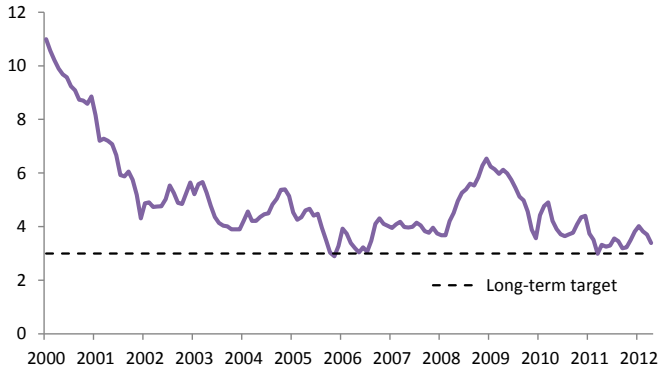


The peso has weakened 6.6 percent against the dollar since March. The exchange rate averaged 13.7 pesos per dollar during May, up from an average of 12.8 in March. In late May, Mexico's central bank bought pesos in the exchange rate markets in an effort to reduce exchange rate volatility resulting from global uncertainty. The central bank last intervened in December 2009.

Mexico Consumer Price Index

Inflation fell in April relative to March. Prices rose 3.4 percent year over year in April, which compares with a 3.7 percent increase in March. Falling fruit and vegetable prices contributed to lower inflation in April. In addition, energy-related prices also dropped. Without food and energy, prices increased 3.4 percent year over year in April and 3.3 percent in March. Banco de México has kept the benchmark interest rate at 4.5 percent since August 2009.

Year-over-year percent change



NOTES: 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.

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