



July 2012

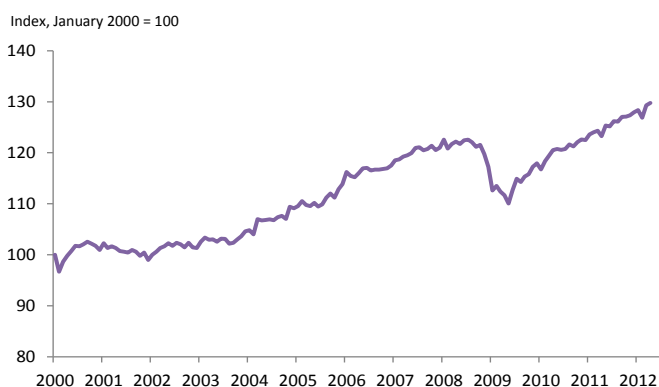
Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

Summary

Mexico's economy likely slowed in April and May. The Global Economic Activity Index (IGAE) rose much more slowly in April than in March. Industrial production, exports and retail sales fell in May. Employment grew strongly in June and inflation spiked. The peso appreciated considerably during the first half of July after falling sharply in May and June.

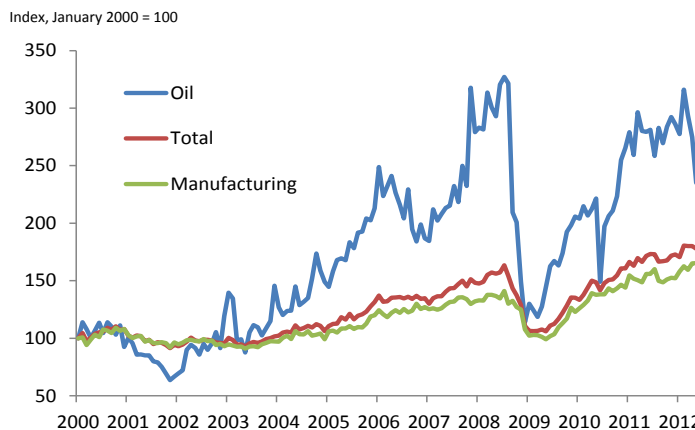
Global Economic Activity Index
(A monthly proxy for Mexico gross domestic product)



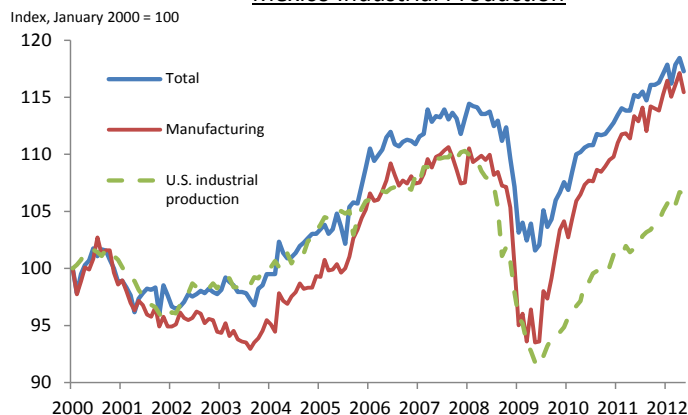
The pace of economic growth moderated in April as IGAE, a monthly proxy for Mexico gross domestic product, only grew 0.3 percent in April after growing 1.9 percent in March. Service-related activities (including trade, transportation, services and government) expanded 0.7 percent. Goods-producing industries, including manufacturing, construction, utilities and mining also grew 0.7 percent. Agricultural output contracted 3.4 percent.

Exports were flat in April but fell 1.3 percent in May. Manufacturing exports grew 0.1 percent, while oil exports plunged 14.5 percent. Total exports increased by just 6.2 percent during the first five months of the year, a substantially slower pace than the 17.3 percent growth seen over the same period in 2011. Since December, oil and manufacturing exports have grown 0.2 percent and 6.5 percent, respectively.

Mexico Exports



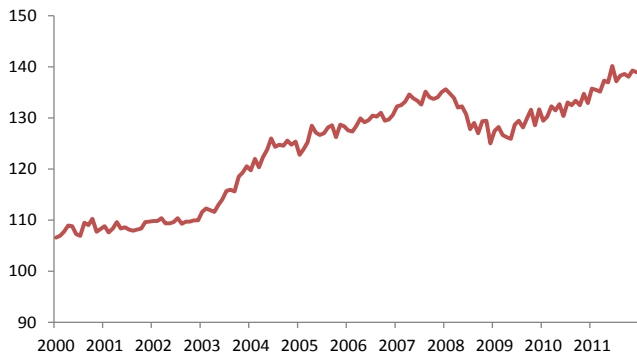
Mexico Industrial Production



Industrial production (IP) fell 1 percent month over month in May after growing 0.5 percent in April. U.S. IP also fell in May (0.2 percent) after having grown in April (0.7 percent). 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

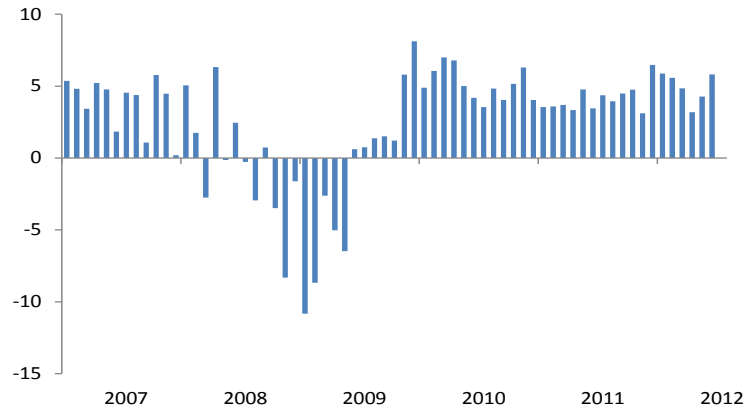


Retail sales fell 0.2 percent month over month in May after growing 0.9 percent in April. Year over year, retail sales grew 4.4 percent. Consumer confidence fell 1.3 percent in June after staying flat in May.

Mexico Formal Employment

Formal employment—jobs with government protections and pensions— expanded at an annualized rate of 5.8 percent in June (month over month). However, employment grew at a 4.4 percent quarter-over-quarter annualized rate in the second quarter, down from 5.5 percent growth during the first three months of the year. Since December, Mexico has added over 375,000 formal-sector jobs.

Annual growth rate (percent)



Peso/Dollar Exchange Rate

Peso/dollar average

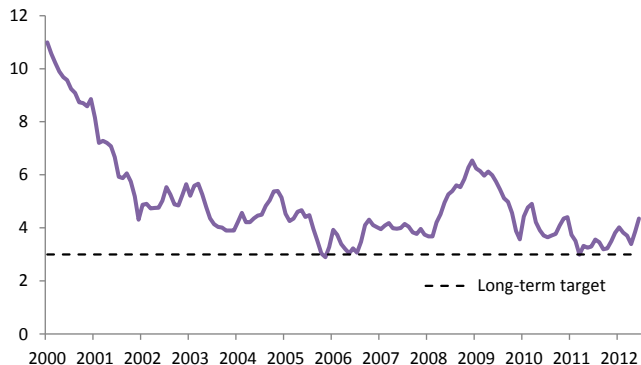


The peso has strengthened 4 percent against the dollar since the end of June. The exchange rate averaged 13.4 pesos per dollar during the first half of July, down from an average of 13.9 in June. The peso-dollar exchange rate continues to be driven by external events such as the European debt crisis and the possibility of another global economic slowdown.

Mexico Consumer Price Index

Inflation increased in June for the second consecutive month. Prices rose 4.4 percent year over year in June after growing 3.9 percent in May. Agricultural product prices, which rose 11.4 percent in June due to a bird flu outbreak and a severe drought, have been behind the recent spike in inflation. Without food and energy, prices increased 3.5 percent year over year in both May and June. 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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