



August 2012

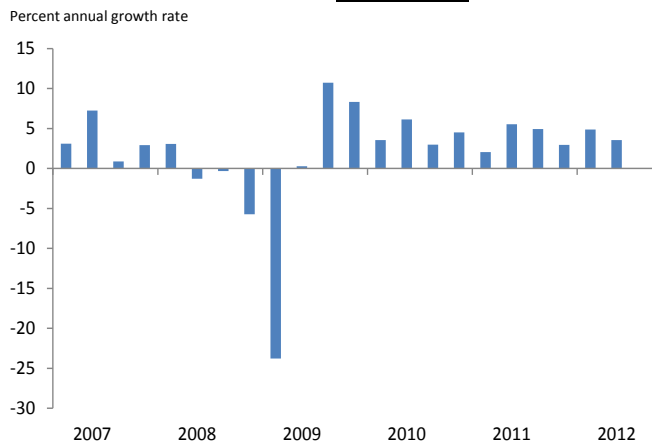
# Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

## Summary

Mexico's economy decelerated in the second quarter, growing 3.5 percent quarter over quarter. Monthly data, however, suggest activity has picked up in June and July relative to the readings in late spring. Exports and employment grew in July, and industrial production and retail sales both advanced in June. The peso continued appreciating during August, while inflation remained above target.

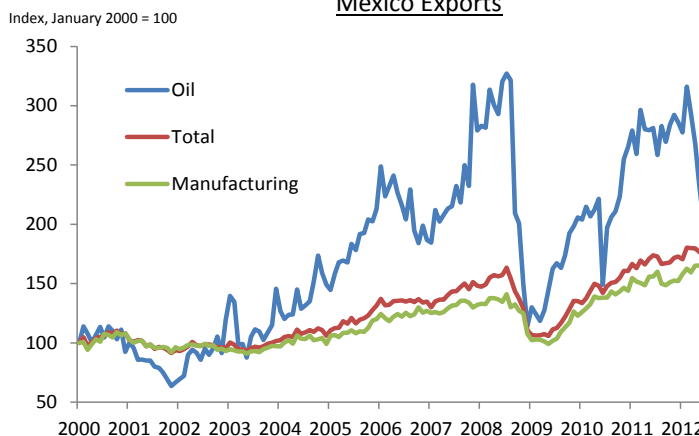
## Mexico GDP



Second quarter 2012 GDP grew 0.9 percent quarter over quarter (3.5 percent annualized rate), down from 1.2 percent in the second quarter (4.9 percent annualized rate). In second quarter 2012, agricultural output grew 4.1 percent, and the remaining goods-producing industries, including manufacturing, construction, utilities and mining, expanded at a 1.3 percent rate. Service-related activities (including trade, transportation, services and government) grew 0.3 percent from the previous quarter. The 2012 GDP growth forecast has been revised up to 3.7 percent.

Exports grew 1 percent in July after falling 1.8 percent in June. Oil exports grew 4.9 percent, while manufacturing exports advanced 3.4 percent. Total exports increased by just 4.5 percent during the first seven months of the year, a substantially slower pace than the 17.9 percent growth seen over the same period in 2011. Oil exports have fallen 6.8 percent, and manufacturing exports have grown 6.2 percent during the first seven months of the year.

## Mexico Exports



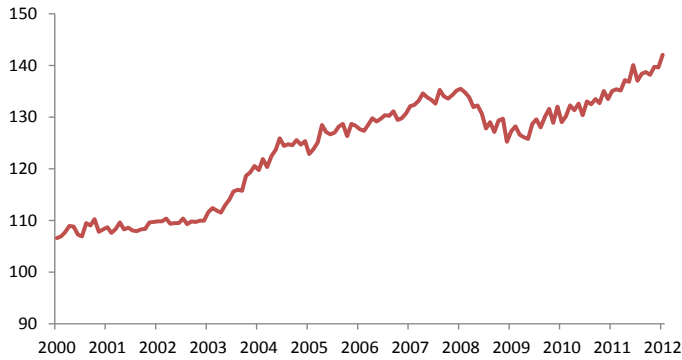
## Mexico Industrial Production



Industrial production (IP) grew 1.3 percent month over month in June after falling 0.7 percent in May. U.S. IP was essentially flat in June and May, growing just 0.1 percent in each month, but grew 0.7 percent in July. 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

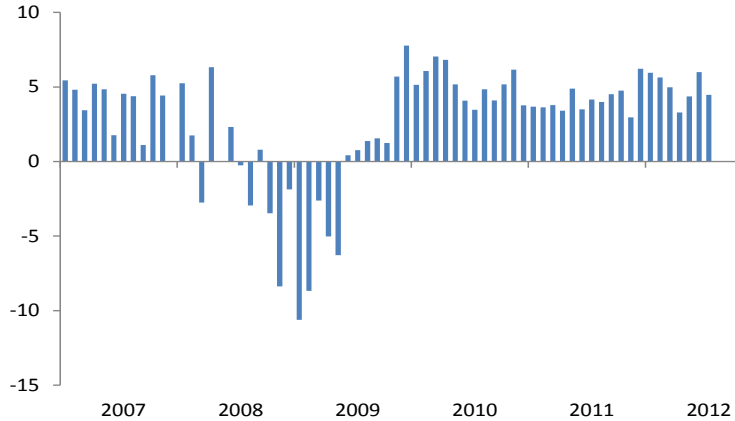


Retail sales increased sharply in June, up 1.8 percent month over month after falling 0.1 percent in May. Year over year, retail sales grew 5.2 percent. Consumer confidence grew 1.2 percent in July after falling in June.

## Mexico Formal Employment

Formal employment—jobs with government protections and pensions—expanded at an annualized rate of 4.5 percent in July (month over month) after growing 6 percent in June. Employment also grew at a 4.5 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 440,000 formal-sector jobs.

Annual growth rate (percent)



## Peso/Dollar Exchange Rate

Peso/dollar average

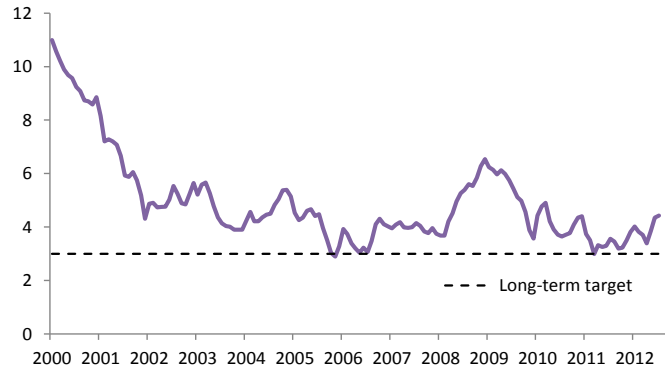


The peso has strengthened 5.6 percent against the dollar since the end of June. The exchange rate averaged 13.2 pesos per dollar during August, down from an average of 13.9 in June. The peso-dollar exchange rate continues to be driven by external events such as the European debt crisis and the possibility of another global economic slowdown.

## Mexico Consumer Price Index

Inflation increased in July for the third consecutive month. Prices rose 4.4 percent year over year in July, the same pace as in June. Agricultural product prices, which rose 11.3 percent in July due to a bird flu outbreak and a severe drought, underlie the recent spike in inflation. Without food and energy, prices increased 3.6 percent year over year in July and 3.5 percent in 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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