



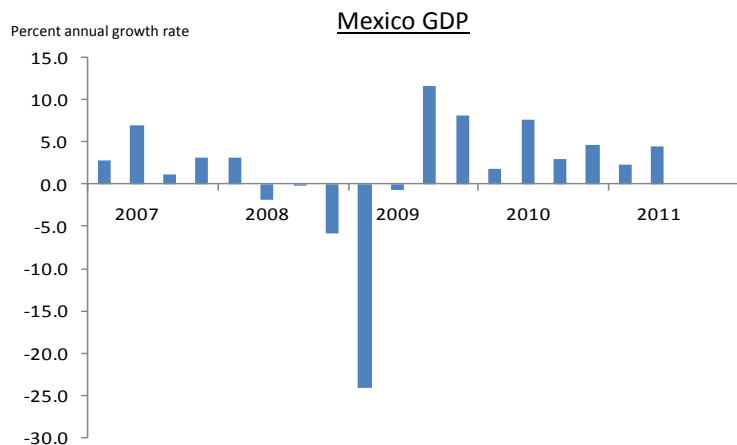
September 2011

Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

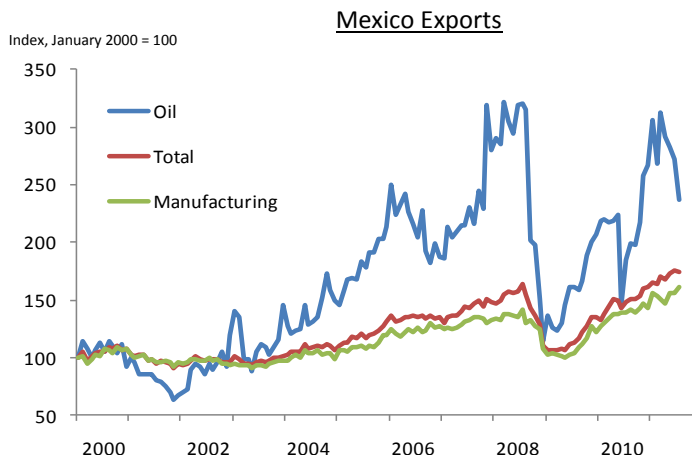
Summary

Mexico GDP grew 1.1 percent quarter over quarter in the second quarter, up from 0.6 percent in the first quarter. However, recent monthly data suggest there is slowing under way; industrial production dipped in June, July exports fell, and employment growth continued to slow from its rapid first-quarter pace. Retail sales ticked up in June. The peso slightly appreciated relative to the dollar in July, and inflation fell slightly. The 2011 GDP forecast for year-over-year growth was revised down.



Second quarter 2011 GDP growth came in at 1.1 percent quarter over quarter (4.5 percent growth at an annualized rate). Manufacturing, construction, utilities and mining grew 1.3 percent, followed by trade, transportation, services and government, which grew 1 percent from the previous quarter. Agriculture-related activities fell 2.6 percent. The GDP growth forecast for 2011 has been revised down to 3.8 percent.

Exports fell 0.6 percent month over month in July and oil exports dropped for the fourth month in a row, falling 12.8 percent. Manufacturing exports grew 3.5 percent in July. Year-to-date, exports have grown 18.1 percent, a substantially slower pace than the 33 percent growth during the same period last year. Oil and manufacturing exports have grown 38 percent and 14.6 percent, respectively.

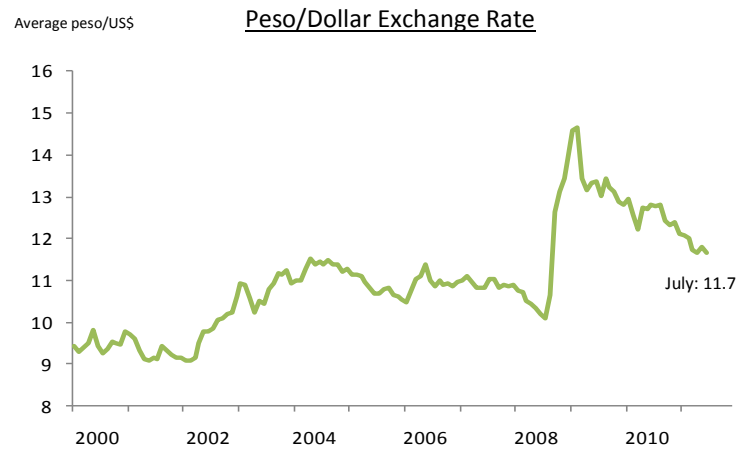


Industrial production (IP) fell 0.6 percent month over month in June after growing 0.9 percent in May. Mexico IP contracted despite growth in U.S. IP in July. Mexico's industrial production typically tracks U.S. industrial production due in part to the large presence of the U.S. automotive industry in Mexico.



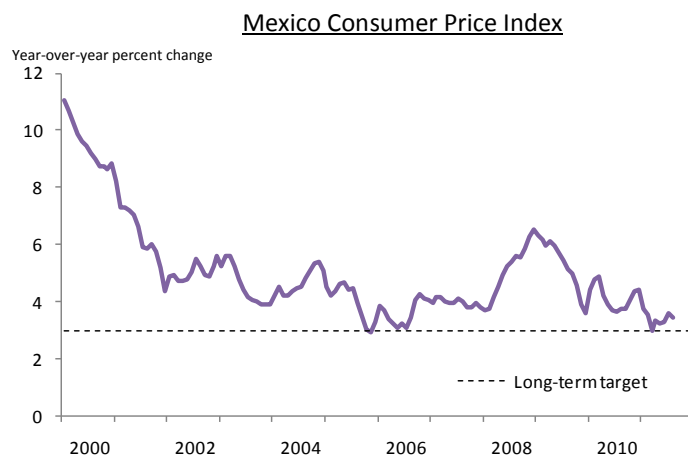
Retail sales grew at 0.7 percent in June over May after being largely flat year-to-date. However, domestic consumption may not be in for a sustained recovery. Consumer confidence fell 1.3 percent month-over-month in August. Domestic consumption has been an important part of Mexico's recovery since the crisis.

Formal sector employment grew at an annualized month-over-month rate of 3.4 percent in August. Employment grew 3.8 percent in the second quarter (annualized rate), down from 4.8 percent growth during the first three months of the year. Since December, Mexico has added over 310,000 jobs and formal-sector average wages neared pre-recession levels.



The peso has strengthened against the dollar this year. The peso/dollar exchange rate averaged 11.7 pesos per dollar during July, up from an average of 11.8 in June. The peso has appreciated 6.1 percent against the dollar since December; however, it is still down from 2008 levels.

Prices rose 3.4 percent year over year in August, down from 3.6 percent in July. The reading was mainly the result of higher prices for eggs, oranges, sugar and beans. Following its latest policy meeting on August 26, 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 pointed out that the pace of expansion of domestic activity had lost dynamism and implicitly stated the possibility of a rate cut in the future.



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.