



October 2012

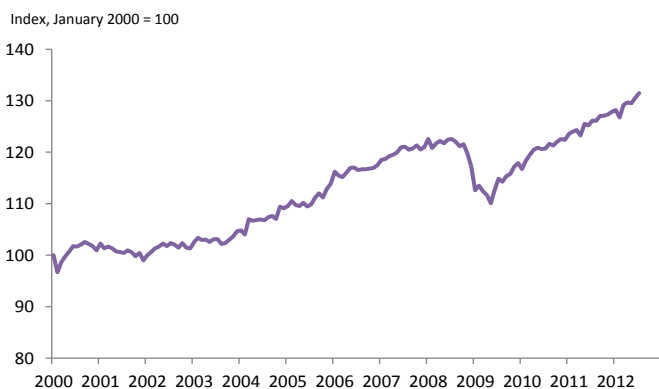
Mexico Economic Update

FEDERAL RESERVE BANK OF DALLAS

Summary

Mexico's economy appears to have slowed slightly in recent months. The Global Economic Activity Index (IGAE) suggests growth slowed in July, and retail sales fell. Exports and industrial production declined in August. Employment grew in September, and the peso continued appreciating. Inflation remains well above target.

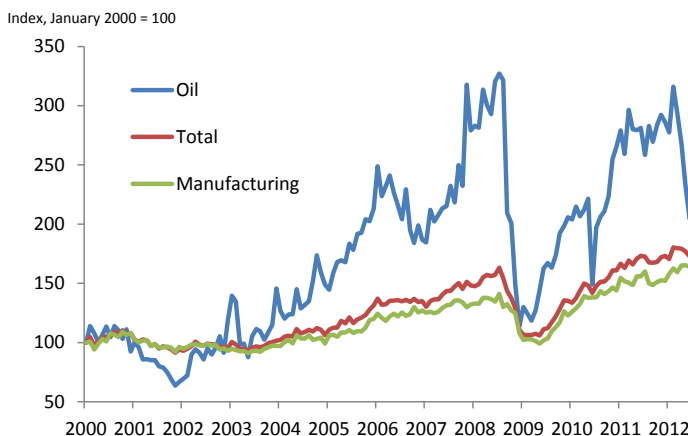
Global Economic Activity Index
(A monthly proxy for Mexico gross domestic product)



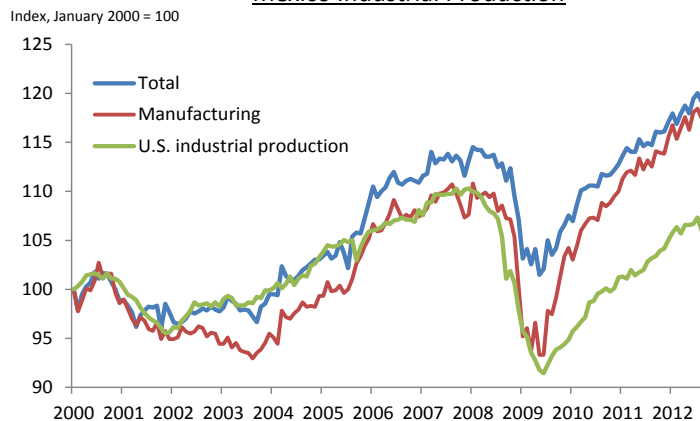
The pace of economic growth moderated in July as IGAE, a monthly proxy for Mexico gross domestic product, grew 0.7 percent, down from 0.9 percent in June. Service-related activities (including trade, transportation, services and government) expanded 0.4 percent. Goods-producing industries, including manufacturing, construction, utilities and mining, grew 0.5 percent.

Exports fell 0.9 percent in August after growing 1.4 percent in July. Oil exports grew 29.8 percent, while manufacturing exports dropped 8.3 percent in August. Total exports increased by just 4.4 percent during the first eight months of the year, a substantially slower pace than the 16.9 percent growth seen over the same period in 2011. Oil exports have fallen 6.2 percent, and manufacturing exports have grown 5.8 percent during the first eight months of the year.

Mexico Exports

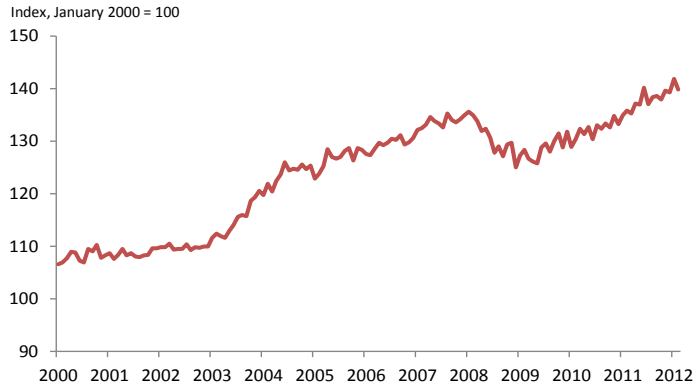


Mexico Industrial Production



Industrial production (IP) fell 0.7 percent month over month in August after growing 0.5 percent in July. U.S. IP fell 1.4 percent in August and grew 0.6 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.

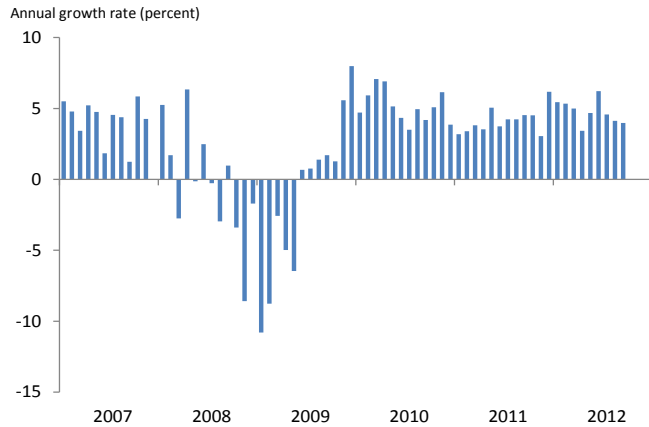
Mexico Retail Sales



Retail sales contracted 1.4 percent in July after growing 1.8 percent in June. Year over year, retail sales grew 3 percent. Consumer confidence fell 1.5 percent in September after falling 0.9 percent in August.

Mexico Formal Employment

Formal employment—jobs with government protections and pensions— expanded at an annualized rate of 4 percent in September (month over month) after growing 4.1 percent in August. Employment grew at a 4.8 percent quarter-over-quarter annualized rate in the third quarter, up from 4.6 percent growth during the second quarter, but still down from 5.3 percent growth during the first three months of the year. Since December, Mexico has added over 547,000 formal-sector jobs.



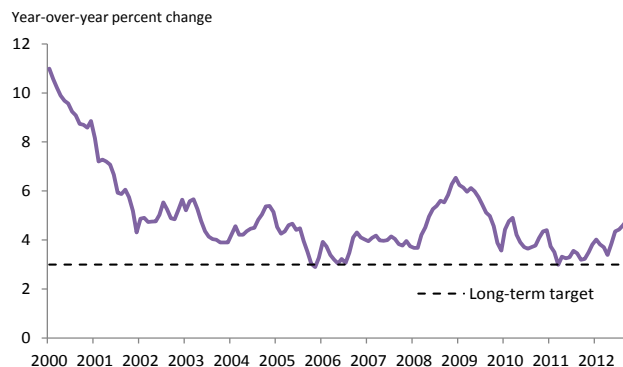
Peso/Dollar Exchange Rate



The peso has strengthened 7.7 percent against the dollar since the end of June. The exchange rate averaged 13 pesos per dollar during September, 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 September for the fifth consecutive month. Prices rose 4.8 percent year over year, the fastest pace in 30 months. Agricultural product prices, which rose 16.1 percent in September due to a severe drought and bird flu outbreak that impacted egg prices, underlie the recent spike in inflation. Without food and energy, prices increased 3.6 percent. Despite the resurgent price pressures, Banco de México continues to hold the benchmark interest rate at 4.5 percent where it has been since July 2009.



NOTES: All data are seasonally adjusted except exchange rate. Exports and retail sales are in real terms.

SOURCES: IGAE, 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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