

## Mexico

### 1. General trends

The Mexican economy experienced real growth of 5.4% in 2010, partially offsetting the previous year's sharp contraction of 6.1%; and per capita GDP rose by 4.4% (compared with a drop of 7.1% in 2009). This improvement was driven by the upturn in external demand (25.6% in real terms) and, in part, by consumption (4.7%), while gross capital formation expanded slightly (2.4%). Imports jumped by 23.5% but were still outpaced by exports. This contributed to an even smaller trade deficit as a percentage of GDP—at 1.3%—than the 1.5% recorded in 2009.

The public sector fiscal deficit, including investment by Petróleos Mexicanos (PEMEX), expanded to 2.8% in 2010 (compared with 2.3% in 2009), mainly because, unlike the previous year, there were no non-recurring revenues from the Oil Revenue Stabilization Fund, no yields on oil hedging contracts and no central bank operating surplus.

In December 2010, year-on-year inflation stood at 4.4% (it was 3.6% in 2009), which was 0.4 percentage points higher than the central bank's target. Urban unemployment dropped slightly, from 6.7% in 2009 to 6.4% in 2010. Large-scale inflows of investment capital coupled with the government's monetary policy stance led to appreciation of the exchange rate.

According to ECLAC estimates, real GDP will grow by 4% in 2011 as exports are expected to be less buoyant and domestic demand should increase only slightly. For 2011 the central bank has maintained its annual inflation

target of 3%, with a range of 1 percentage point on either side. Achieving this target seems feasible as long as the international price increases for fuel and commodities continue to decelerate, sufficient idle capacity remains available, wages sustain their moderate rise and the real exchange rate appreciates further. A fiscal deficit of just over 2% of GDP (including investment by PEMEX) is forecast, although higher international oil prices will provide the government with additional resources.

Job creation is expected to continue in 2011; however, the creation of fewer than 1 million formal jobs will not be enough to keep pace with the annual growth of the economically active population. Progress must urgently be made on reform, particularly fiscal reform, in order to remove obstacles to growth, increase investment and boost productivity. At the end of the year the central bank may raise the benchmark interest rate, which has remained unchanged at 4.5% since July 2009.

### 2. Economic policy

The government is continuing to implement fiscal policy through the Budget and Fiscal Responsibility Act. Current revenues and total spending picked up on the back of the economic recovery; the central

bank maintained its monetary policy stance throughout the year; and international reserves were strengthened by the exchange-rate appreciation triggered by capital inflows.

### (a) Fiscal policy

In 2010 the public sector deficit (2.8%) represented a negative central government balance equivalent to 2.7% of GDP and a deficit of 0.1% of GDP corresponding to government agencies and businesses, such as PEMEX, the Federal Electricity Commission, the Mexican Social Security Institute and the Social Security and Social Service Institute for Government Employees. Total public sector revenue came to 22.5% of GDP, while total spending stood at the equivalent of 25.4% of GDP.

In 2010, total government revenue shrank by 0.2% in real terms as a result of a 9.6% drop in non-tax revenues, which was only partially offset by the 7.1% increase in the tax take. The year did not see a repeat of the non-recurring revenue received in 2009 in the form of a central bank operating surplus, replenishment of the Oil Revenue Stabilization Fund or yields on oil hedging contracts. The tax burden (excluding the petroleum sector) was equivalent to 10% of GDP—one of the lowest in the Organization for Economic Cooperation and Development (OECD) and in Latin America. The hike in the value added tax from 15% to 16% (applicable from 2010) coupled with the economic recovery yielded an 18.8% real increase in revenue from that source. The top income tax bracket rate was also raised—from 28% to 30%—and produced a 12.6% increase in revenues under this heading. Duties collected on imports fell by 22.1% in real terms, mainly because of the appreciation of the peso. Total oil receipts rose by 6.9% in real terms as higher prices offset lower volumes and exchange-rate appreciation.

Total government expenditure rose by 3.6% in real terms in 2010, following on a drop of 4.3% the previous year. As part of programmed spending, current expenditure rose by 3.3% and capital expenditure by 2.8%. The largest increases in programmed spending were seen in the following areas: a 50.7% increase in real terms for the Ministry of the Interior to establish the executive office for the national public security system; an additional 12.3% for the Ministry of Defence to strengthen surveillance and defence programmes within the country's borders; and an extra 21.2% for wages and other financial provisions of various funds, including the Natural Disasters Fund and the Investment Fund for States. Budgeted physical investment expanded by 6.4% in real terms.

Domestic borrowing was the main source of financing for the public sector deficit and accounted for three quarters of all new debt. The public sector deficit includes the net debt of the government, State agencies and enterprises, and development banks. At year-end 2010, net public sector debt was equivalent to 30.9% of GDP (one percentage point higher than at the end of 2009); that was lower than

the average for the OECD countries but higher than the average for Latin America.

Of this total, domestic debt represented 21.4% of GDP and net external debt 9.5% of GDP (0.9 percentage points and 0.1 percentage points higher than at the end of 2009, respectively).

The government carried out two major bond sales on international markets, which should enable it to meet its financing needs for the next two years. In early October it placed US\$ 1 billion in 100-year bonds with a redemption yield of 6.1%, making Mexico the first country in Latin America to issue debt of this kind with such a long maturity. A few days later it sold about US\$ 1.8 billion of yen-denominated paper, known as samurai bonds, maturing in 2020 with a redemption yield of 1.51%.

Also in the domestic debt area, the government launched the Cetesdirecto programme in November 2010. This programme allows individuals (who save small or medium-size amounts) to acquire directly government debt instruments that were previously out of their reach. In October the Mexican government's fixed-rate bonds were formally included in the World Government Bond Index, which is expected to attract a broader range of potential customers and enhance the debt.

The 2011 revenue act provides for minor changes, most notably an increase in special taxes, leaving for later a comprehensive fiscal reform to make fiscal revenues less heavily dependent on oil. During the first quarter, public sector budgetary revenue grew by 1.6% in real terms and total expenditure was up by 2.7%.

### (b) Monetary and exchange-rate policy

The central bank maintained its benchmark interest rate—the one-day interbank rate—at 4.5% throughout 2010. This contrasts with the rate reduction policy followed in 2009, which brought rates down by 375 basis points between January and July. This monetary stance led to sluggish domestic prices because of its effect on the exchange rate. Long-term interest rates crept down in 2010, with the yield curve being flattened by lower inflationary expectations, an improved perception of country risk and demand for government paper focused on long-term issues. The real deposit rate, taking the 28-day CETES treasury bill as a reference, was negative at the end of 2010 (-1.62% annualized). As for lending rates, the weighted average effective rate on credit cards in annualized real terms rose from 24.2% in December 2009 to 25.3% in December 2010.

The exchange rate was highly volatile throughout 2010, but appreciated in the last four months of the year on the strength of massive capital inflows attracted by stronger performance of the Mexican economy, the aforementioned

inclusion of some public securities in the Citibank World Government Bond Index and the positive interest-rate spread relative to levels in developed countries.

Foreign portfolio investment (liabilities) totalled US\$ 37.102 billion in 2010, much higher than the US\$ 15.238 billion received the previous year. The interbank exchange rate stood at 12.91 pesos to the dollar at the start of 2010 but fell to 12.37 pesos to the dollar by year-end, representing an appreciation of 4.2%. The bilateral real exchange rate with the United States dollar appreciated by 8.1%.

International reserves grew significantly during 2010, in line with the explicit policy of reserve accumulation announced by the Foreign Exchange Commission (which is made up of the Bank of Mexico and the Ministry of Finance). At the end of December, reserves totalled US\$ 113.6 billion (equivalent to four and a half months of imports), compared with US\$ 91 billion at the beginning of the year. With a view to strengthening the economy against possible external shocks, a flexible line of credit for US\$ 48 billion was renewed with the International Monetary Fund in March 2010 and subsequently increased to US\$ 72 billion in January 2011.

The monetary base expanded by 9.7% in nominal terms, driven by the growth in economic activity. The monetary aggregate M3 grew by 12.9% owing to the larger volume of government bonds held abroad. In 2010 bank lending rose by 8.7% in nominal terms (4.3% in 2009), and was focused especially on financing for agriculture and industry.

The Mexican Stock Exchange Index of Prices and Quotations (IPYC) saw substantial gains, particularly towards the end of the year, thanks to enhanced performance

by the national economy, the prospect of low interest rates in the medium term and short-term inflows. At the end of December, the index stood at 38,551 points (compared with 32,758 points at the start of the year), which represented a rise of 17.7%.

In the early months of 2011, the exchange rate continued to appreciate, reaching 11.57 pesos to the dollar at the end of May. The build-up of reserves has continued, with a total of US\$ 127.98 billion accumulated at end May; and the central bank has expressed its confidence in and support for the free-floating exchange-rate system. There could be a reversal in capital flows in the second half of the year if major interest rate hikes are implemented in the United States or other developed countries or if investor appetite for risk assets wanes.

### (c) Trade policy

Continuing to position itself in the global economy, in November 2010 Mexico launched formal negotiations with Brazil on a strategic economic integration agreement. This agreement between the two largest economies of Latin America is expected to cover not just tariff reductions but also services, investment, government procurement and intellectual property, among other areas.

As well in 2010, Mexico moved to review and deepen its trade relations with several partners, including Chile, Colombia and Guatemala; and in early 2011, it signed a comprehensive trade agreement with Peru. In April 2011, Chile, Colombia, Mexico and Peru signed the Lima Declaration creating the Pacific Alliance; this pact is intended to pursue deep integration and should lead to the free movement of capital, goods and people.

## 3. The main variables

### (a) Economic activity

External demand grew by 25.6% in real terms in 2010, thus regaining its pre-crisis position as the main driver of the economy. Domestic demand rose by 5.1%, spurred by higher consumption (4.7%) and restocking, while gross fixed capital formation grew by only 2.4%. Consumption was boosted by a higher wage bill, following the expansion of wage employment and the slight improvement in credit; however, it has not recovered its pre-crisis levels.

In the first two quarters of 2010, economic activity expanded robustly, with average annualized growth of 6% continuing the recovery that had begun in late 2009. Growth slowed over the rest of the year, however, as a result of slacker external demand, falling to 4.8% for the second half of the year.

The productive sectors improved across the board in 2010, reversing the slump experienced by most of those sectors in 2009. Primary activities grew by 3.3% (after contracting by 2.2% in 2009), led by agriculture, which

Table 1  
MEXICO: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	0.8	1.4	4.1	3.3	5.1	3.4	1.5	-6.1	5.4
<b>Per capita gross domestic product</b>	-0.5	0.2	2.9	2.1	3.9	2.2	0.5	-7.1	4.4
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-0.9	3.8	2.9	-0.7	3.8	5.2	2.0	-3.4	3.3
Mining and quarrying	0.4	3.7	1.3	-0.3	1.4	-0.2	-1.7	-2.9	2.2
Manufacturing	-0.7	-1.3	3.9	3.5	5.8	1.9	-0.6	-9.8	9.9
Electricity, gas and water	1.0	1.5	4.0	2.0	12.2	3.7	-2.3	2.0	2.4
Construction	2.1	3.3	5.3	3.9	7.8	4.4	3.1	-7.3	0.0
Wholesale and retail commerce, restaurants and hotels	0.0	1.5	6.4	4.0	5.7	4.7	0.9	-13.1	11.9
Transport, storage and communications	1.8	5.0	7.5	5.4	7.6	6.0	2.5	-3.8	6.1
Financial institutions, insurance, real estate and business services	4.2	3.9	4.9	5.6	6.1	4.9	4.9	-3.3	1.2
Community, social and personal services	0.9	-0.6	0.4	2.0	2.2	2.4	0.5	1.2	2.0
<b>Gross domestic product, by type of expenditure</b>									
Consumption	1.4	2.1	4.4	4.5	5.1	3.9	1.7	-5.7	4.7
General government	-0.3	0.8	-2.8	2.5	1.9	3.1	1.1	3.5	2.8
Private	1.6	2.2	5.6	4.8	5.7	4.0	1.8	-7.1	5.0
Gross fixed capital formation	-0.6	0.4	8.0	7.5	9.9	6.9	5.9	-11.3	2.4
Exports (goods and services)	1.4	2.7	11.5	6.8	10.9	5.7	0.5	-13.7	25.6
Imports (goods and services)	1.5	0.7	10.7	8.5	12.6	7.1	2.8	-18.6	23.5
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross fixed capital formation	23.0	22.9	24.7	24.1	25.9	26.3	27.0	23.6	25.1
National saving	21.0	21.9	24.1	23.5	25.5	25.5	25.5	22.9	24.6
External saving	2.0	1.0	0.7	0.6	0.5	0.9	1.5	0.7	0.5
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-14 155	-7 161	-5 237	-5 080	-4 487	-8 851	-16 339	-6 352	-5 626
Goods balance	-7 635	-5 792	-8 843	-7 710	-6 312	-10 311	-17 615	-4 926	-2 960
Exports, f.o.b.	161 278	164 986	188 294	214 633	250 319	272 293	291 886	229 975	298 860
Imports, f.o.b.	168 913	170 778	197 137	222 343	256 631	282 604	309 501	234 901	301 820
Services trade balance	-4 966	-5 596	-5 792	-5 250	-6 433	-6 337	-7 141	-8 580	-10 208
Income balance	-11 823	-11 374	-9 365	-14 257	-17 691	-18 598	-17 046	-14 377	-13 963
Net current transfers	10 268	15 601	18 763	22 137	25 949	26 396	25 462	21 531	21 504
Capital and financial balance <sup>d</sup>	20 001	15 502	10 404	14 984	6 694	19 707	24 420	10 878	26 242
Net foreign direct investment	22 892	14 989	20 368	17 648	14 294	21 478	25 138	8 315	4 335
Other capital movements	-2 891	513	-9 965	-2 664	-7 600	-1 771	-719	2 563	21 907
Overall balance	5 846	8 341	5 166	9 904	2 206	10 856	8 080	4 527	20 615
Variation in reserve assets <sup>e</sup>	-5 846	-8 341	-5 166	-9 904	-2 206	-10 856	-8 080	-4 527	-20 615
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>f</sup>	94.1	104.5	108.3	104.5	104.6	105.8	108.8	123.9	114.2
Terms of trade for goods (index: 2005=100)	94.5	95.4	98.1	100.0	100.5	101.4	102.2	99.0	101.8
Net resource transfer (millions of dollars)	8 179	4 128	1 039	727	-10 998	1 109	7 374	-3 499	12 279
Total gross external debt (millions of dollars)	134 980	132 524	130 925	128 248	116 668	124 433	125 233	163 345	189 175
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>g</sup>	56.9	57.1	57.7	57.9	58.8	58.8	58.7	58.6	58.5
Open unemployment rate <sup>h</sup>	3.9	4.6	5.3	4.7	4.6	4.8	4.9	6.7	6.4
Visible underemployment rate <sup>i</sup>	...	...	...	7.5	6.9	7.2	6.9	9.3	8.5
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December)	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6	4.4
Variation in the national producer price index (December-December)	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.1	4.7
Variation in nominal exchange rate (annual average)	3.5	11.7	4.6	-3.5	0.1	0.2	2.1	21.1	-6.5
Variation in average real wage	2.3	1.9	1.3	1.7	1.4	1.4	0.2	-1.0	-1.1
Nominal deposit rate <sup>j</sup>	6.2	5.1	5.4	7.6	6.1	6.0	6.7	5.1	4.2
Nominal lending rate <sup>k</sup>	8.2	6.9	7.2	9.9	7.5	7.6	8.7	7.1	5.3

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
	<b>Percentages of GDP</b>								
<b>Non-financial public sector</b>									
Total revenue	20.2	21.2	20.7	21.1	21.9	22.0	23.5	23.7	22.6
Tax revenue	10.6	10.1	9.0	8.8	8.6	8.9	8.2	9.5	9.6
Total expenditure	21.3	21.8	20.9	21.2	21.8	22.0	23.6	26.0	25.5
Current expenditure	18.4	19.2	17.9	18.3	18.7	18.4	19.2	20.9	20.6
Interest	2.0	2.1	1.9	2.0	2.0	1.9	1.6	1.9	1.9
Capital expenditure	2.9	2.6	3.0	3.0	3.1	3.6	4.4	5.1	4.9
Primary balance <sup>l</sup>	0.9	1.6	1.7	1.9	2.1	1.9	1.6	-0.4	-1.0
Overall balance <sup>l</sup>	-1.1	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-2.3	-2.8
<b>Public-sector debt</b>	25.7	26.1	24.2	22.9	22.6	22.7	26.9	34.9	34.0
Domestic <sup>m</sup>	13.8	14.4	13.8	14.5	16.8	17.3	20.5	24.3	23.6
External	11.8	11.8	10.4	8.4	5.8	5.3	6.3	10.6	10.4
<b>Money and credit<sup>n</sup></b>									
Domestic credit	39.1	36.9	33.3	32.1	33.0	33.6	31.9	36.0	35.4
To the public sector	11.4	10.9	10.4	8.7	8.5	8.2	8.1	11.1	10.6
To the private sector	14.3	14.0	13.2	14.4	16.8	18.2	17.2	18.5	18.7
Others	13.3	12.0	9.7	9.0	7.7	7.3	6.6	6.5	6.0
Liquidity (M3)	19.2	19.4	18.9	21.0	20.2	20.8	22.5	24.1	23.7
Currency outside banks and local-currency deposits (M2)	17.7	18.3	17.6	19.6	18.9	19.6	21.2	22.7	22.4
Foreign-currency deposits	1.4	1.1	1.3	1.4	1.3	1.2	1.3	1.5	1.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on figures in local currency at constant 2003 prices; up to 2003, based on figures in local currency at constant 1993 prices.

<sup>c</sup> Based on figures in local currency expressed in dollars at current prices.

<sup>d</sup> Includes errors and omissions.

<sup>e</sup> A minus sign (-) denotes an increase in reserves.

<sup>f</sup> Annual average, weighted by the value of goods exports and imports.

<sup>g</sup> Economically active population as a percentage of the working-age population, urban areas.

<sup>h</sup> Percentage of the economically active population, urban areas.

<sup>i</sup> Percentage of the working population, nationwide total.

<sup>j</sup> Cost of term deposits in local currency in the multibanking system.

<sup>k</sup> Lending rate published by the International Monetary Fund.

<sup>l</sup> Does not include non-budgeted expenditure.

<sup>m</sup> Federal-government domestic debt.

<sup>n</sup> The monetary figures are end-of-year stocks.

was up by 4% thanks to good weather and bumper harvests of maize in grain form, sugar cane, grain sorghum, fodder maize, onions, mangos, avocados, oranges and papayas.

Secondary activities enjoyed an annual increase of 6.0%, compared with a decrease of 7.6% in 2009. Manufacturing improved markedly, growing by 9.9% in 2010 (compared with a drop of 9.8% in 2009) and pushed by higher external and domestic demand. The expansion in motor vehicle (40.5%) and basic metals manufacturing was especially strong. Mexico's automobile industry benefited greatly from the restructuring of United States automotive companies, which relocated their operations to the southern United States and Mexico in a bid to reduce costs. Construction halted the downward path it had been following since the fourth quarter of 2008 and, in 2010, sector output hovered steady at the previous year's level, as lending and demand for housing gradually picked up towards the end of the year.

Tertiary activities saw growth of 5% (after contracting by 5.2% in 2009) on the back of vigorous expansion in

the external sector: trade was up 13.3% and transport 6.4%. Mass media information services experienced an increase of 5.6% thanks to the strong performance put in by the telecommunications sector. Financial services (2.7%), housing (1.7%) and education (3%) performed more modestly.

The economy grew at an annual rate of 4.6% in the first quarter of 2011, driven mainly by trade and manufactures. That rate bespeaks a slowdown in growth and, in fact, the overall indicator of economic activity (IGAE) was up by only 3.6% in March, its lowest increase in 14 months.

## (b) Prices, wages and employment

High levels of idle capacity and appreciation of the exchange rate helped to keep inflation low in 2010. Core inflation rose at an average annual rate of 3.89%, while non-core inflation increased by 5.04%. The 4.49% increase in food, beverage and tobacco prices

Table 2  
MEXICO: MAIN QUARTERLY INDICATORS

	2009				2010 <sup>a</sup>				2011 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II <sup>b</sup>
Gross domestic product (variation from same quarter of preceding year) <sup>c</sup>	-7.4	-9.6	-5.5	-2.0	4.5	7.6	5.1	4.4	4.6	...
Goods exports, f.o.b. (millions of dollars)	49 665	54 012	58 521	67 506	66 597	74 641	75 590	81 645	81 803	59 065
Goods imports, f.o.b. (millions of dollars)	51 957	53 562	61 307	67 559	66 225	74 725	77 841	82 691	79 893	57 743
Gross international reserves (millions of dollars)	85 636	81 476	87 806	99 893	101 606	105 560	113 688	120 587	128 261	131 174
Real effective exchange rate (index: 2000=100) <sup>d</sup>	130.1	121.9	122.7	120.8	115.4	113.6	115.9	112.0	109.1	108.4
Unemployment rate	6.1	6.5	7.6	6.3	6.4	6.5	6.5	6.3	5.9	...
Consumer prices (12-month percentage variation)	6.0	5.7	4.9	3.6	5.0	3.7	3.7	4.4	3.0	3.2
National producer price index (12-month percentage variation)	7.1	3.8	5.3	4.1	3.8	3.2	2.9	4.7	5.4	5.4
Average nominal exchange rate (pesos per dollar)	14.38	13.32	13.27	13.06	12.78	12.58	12.80	12.39	12.06	11.68
Average real wage (variation from same quarter of preceding year)	-0.6	-1.2	-1.1	-1.1	-2.0	-1.3	-0.5	-0.6	0.5	...
Nominal interest rates (annualized percentages)										
Deposit rate <sup>e</sup>	6.7	5.2	4.2	4.1	4.2	4.1	4.2	4.2	4.2	4.2
Lending rate <sup>f</sup>	9.9	7.3	5.7	5.5	5.4	5.4	5.3	5.1	5.1	5.1 <sup>g</sup>
Interbank rate	8.0	5.9	4.9	4.9	4.9	4.9	4.9	4.9	4.8	4.9
Sovereign bond spread (basis points) <sup>h</sup>	379	247	201	164	130	179	151	149	135	144
Stock price index (national index to end of period, 31 December 2000=100)	347	431	517	568	589	551	590	682	662	634
Domestic credit (variation from same quarter of preceding year)	18.1	10.0	13.4	10.2	-0.5	3.6	5.7	8.0	9.4	...
Non-performing loans as a percentage of total credit	3.4	3.8	3.4	3.1	2.8	2.7	2.5	2.3	2.3	2.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Data to May.

<sup>c</sup> Based on figures in local currency at constant 2003 prices.

<sup>d</sup> Quarterly average, weighted by the value of goods exports and imports.

<sup>e</sup> Cost of term deposits in local currency in the multibanking system.

<sup>f</sup> Lending rate published by International Monetary Fund.

<sup>g</sup> Data to April.

<sup>h</sup> Measured by JP Morgan's EMBI+ index to end of period.

was a major component in core inflation; non-core inflation was pushed up by the reintroduction of the energy price adjustment policy and increases in local government taxes in such areas as public transport and water supply.

The drop in unemployment was associated with a lower participation rate which fell from 58.7% in 2009 to 57.1% in 2010. Formal employment, measured by the number of workers registered with the Mexican Social Security Institute, grew in 2010 and by the end of the year it had exceeded its pre-crisis level, with a total of 14.7 million workers registered.

Nonetheless, the 746,000 new jobs created were not enough to meet the demand of the 1.2 million individuals

who had joined the labour force. The proportion of people who were underemployed or working in the informal economy thus remained high, at 7.6% and 27.2% of the economically active population, respectively. Manufacturing and trade were the sectors that created the most new formal jobs in 2010.

The real minimum wage (the annual average of the country's set of minimum wages) increased slightly at an annual rate of 0.9%, while the average real wage per person working in manufacturing dropped by 0.8%.

Despite higher international prices for commodities and food, the price index had risen only 3.25% year-on-year in May 2011 thanks to the peso's appreciation and the considerable idle capacity available.

### (c) The external sector

The external sector was the main driver of growth in the Mexican economy in 2010. Goods exports rebounded with the upturn in the global economy, in particular the United States economy, and totalled US\$ 298 billion, which was 29.8% more than in 2009 and higher even than in 2008, before the crisis. Oil exports were up by 34.8%, with higher international prices more than offsetting the drop in production volumes; as a result, the share of oil in total exports increased from 13.5% in 2009 to 14% in 2010. Manufactures grew by 29.5% to account for 82.4% of total exports in 2010. Exports in the automotive sector shot up by 55.4%, after contracting by 24.3% in 2009. Considerable increases were also seen in exports from the mining and metallurgy sector (44.1%) and the steel industry (32.4%). Extractive industry exports swelled by 67.4%, boosted by higher international prices.

Exports to the United States enjoyed substantial growth in 2010 and represented 12.6% of all Mexican exports; Mexico thus edged out Canada as the United States' second largest trading partner. The higher price of oil, which makes it more expensive to transport goods from Asian countries, and the relocation of productive activities to take advantage of lower costs are two of the reasons why Mexican exports are increasingly competitive.

Goods imports rose by 28.6% in 2010, driven by the rally in domestic economic activity and exports. Imports of consumer goods were up by 26.2% and intermediate goods by 34.5%, while capital goods imports were down by 1.3%.

The terms of trade improved by 2.8% in 2010, thanks to higher international prices for oil and minerals; this contrasted with the decline posted in 2009.

Exports of services saw modest expansion (3.8%), owing to renewed growth in tourism and in exports of

other services; services thus comprised 4.8% of total exports. Imports of services rose by 9.4%, with a notable increase in the transport sector (12%).

The goods and services trade balance posted a deficit of US\$ 13.168 billion, which was 2.5% lower than in 2009 and equivalent to 1.3% of GDP. Unlike in previous periods of economic recovery, this time the upturn was not accompanied by serious deterioration in the trade balance thanks to the strong growth in goods exports.

Family remittances totalled US\$ 21.271 billion, a mere 0.1% higher than the previous year and far from the peak of US\$ 26.050 billion reached in 2007. The delayed recovery of the United States labour market and tougher immigration policies are two factors that limited remittance flows.

Foreign direct investment (FDI) came to US\$ 17.726 billion, which was higher than the US\$ 15.206 billion received in 2009 but lower than the US\$ 25.864 billion received in 2008. These capital flows were directed principally at manufacturing (60%), trade (14.2%) and financial services (13.8%). Worthy of special mention is the acquisition of the Cuauhtémoc-Moctezuma brewery by the Dutch company Heineken for over US\$ 7 billion.

The strong performance by exports coupled with the upswing in FDI led to a narrowing of the current account deficit, which shrank from the equivalent of 0.7% of GDP in 2009 to 0.5% of GDP in 2010.

Goods exports continued to gain momentum during the first four months of 2011 (20%), outpacing imports (17.7%) despite the appreciation of the exchange rate. As a result, the current account deficit held steady at a moderate level. FDI is expected to grow at an annual rate of between 10% and 15% in 2011, while remittances should rally by about 5%.