Mexico

1. General trends

In 2009, the Mexican economy shrank by 6.5% and per capita GDP by 7.5%, owing to the weakening of aggregate demand caused by the global recession, which had an immediate impact on exports, foreign direct investment (FDI) and remittance flows from migrant workers. The recession also led to a drop in employment and the real wage bill, triggering a fall in consumption, which was simultaneously undermined by decreased bank lending. Measures to tackle the epidemic of influenza A (H1N1) also played a part in the economic contraction.

Public revenues fell as the economy slowed. Public spending was boosted slightly in an effort to cushion the social impact of the recession, but the monetary authorities believed that their low revenues precluded the application of more drastic countercyclical measures in response to the impact of external shocks on economic activity and employment. They adopted a strategy aimed at keeping a rein on the fiscal deficit and public borrowing, and this reduced the scope for countercyclical policies that might have had a greater impact on aggregate demand.

Annual inflation ran at 3.6% in 2009, as a result of falling prices for raw materials and energy and sluggish domestic demand.

Economic activity picked up in the first five months of 2010, owing mainly to the upturn in the United States economy. Growth of just over 4% of GDP is projected for the year, in connection with expected increases in exports, as well as consumption and investment. An incipient upswing in gross capital formation is attributable to the transfer to Mexico of certain segments of production chains, especially in the automobile sector.

The international financial crisis took a serious toll on the Mexican economy and highlighted its structural shortcomings, close ties with the United States economy (especially the heavy concentration of exports in that market), a low tax burden as a proportion of GDP and dependence on oil revenue, as well as the limited ability of the development banking system to boost economic activity and employment. Thus, the sheer magnitude of the external shocks, combined with the constraints on the implementation of higher-impact countercyclical measures, led to the sharpest economic slowdown seen in Mexico in the post-war period.

2. Economic policy

(a) Fiscal policy

Total public-sector budgetary revenue [1] fell by 6.5% in real terms in 2009 because of declines in both oil revenue and non-oil tax receipts (down 21.4% and 11.5%, respectively) which were too large to be offset by the rises in non-petroleum revenue and non-oil non-tax revenue (2.2% and 142.3%, respectively). The large increase in this last item was due mainly to the central bank's operating profits, the transfer of resources from the oil revenue stabilization fund, resources generated by the oil price hedging programme, and the redemption

[1] The total public sector comprises the federal government as well as State agencies and corporations.

of the transition bond issued to cover part of the cost of reforming the pension scheme of the Social Security and Social Services Institute for State Workers (ISSSTE).

The drop in oil revenues was a result of decreased production (owing to structural problems arising from diminished reserves and insufficient exploratory activities) and lower prices and exports. Tax receipts fell because of weaker aggregate demand: VAT receipts dropped by 15.3% compared with 2008, the income-tax take by 9.8% and flat-rate business tax (IETU) receipts by 9.0%.

In response to the revenue shortfall, the authorities cut projected spending by the equivalent of 0.9% of GDP for the year. Approximately 80% of the cut fell on current expenditure. Social programmes were left untouched by the budget cuts thanks to non-recurring revenue totalling 247.9 billion pesos, equivalent to 2.1% of GDP. The cuts affected real budgetary spending, which rose by only 2.2% in 2009, reflecting rises of 8.7% in capital spending and 3.5% in current spending, combined with falls of 6.2% in non-budgeted expenditure and 15.7% in equity holdings. As a result, the deficit grew from 0.1% of GDP in 2008 to 2.3% of GDP in 2009.[2]

The net external debt of the federal public sector[3] rose from 2.7% of GDP in 2008 to 9.8% of GDP in 2009, mainly owing to the borrowings of State agencies and enterprises. Total net external public-sector debt increased by US$ 31.233 billion between 2008 and 2009. Net domestic public-sector debt rose to 20.5% of GDP. Starting in 2009, both figures include debt on Projects with a Deferred Impact on Public Expenditure Recording (PIDIREGAS), which raised the debt-to-GDP ratio from 21.4% in 2008 to 30.3% in 2009.

The federal government's net domestic debt represented 20.0% of GDP in 2009 (0.8% more than in 2008). Despite this, net domestic debt (138.595 billion pesos) was lower than the amount authorized under the Federal Revenue Act (380 billion pesos).

The net external debt of the federal government increased from 4.2% of GDP in 2008 to 4.9% in 2009. Net external debt totalled US$ 6.908 billion, well above the US$ 5 billion allowed under the Federal Revenue Act. While net external debt exceeded the approved amount, domestic debt was well below the original ceiling. Indeed, the US$ 1.908 excess in external debt far from outweighed the US$ 7.696 billion of unused domestic borrowing. Taking into account the international financial crisis, the authorities opted to avoid taking on further debt and widening the fiscal deficit, even though these measures could have increased the magnitude and scope of countercyclical policies and their potential to boost economic activity.

In April 2009, in order to counter the effects of the international crisis, the government announced a one-year, US$ 47 billion contingent line of financing from the International Monetary Fund (IMF). Although this credit was not used, it was renewed for another year in March 2010. Similarly, in late November 2009, the government secured a one-year credit line of US$ 1.504 billion with the World Bank to mitigate the impact of the financial crisis and improve the conditions for growth in the medium term.

As a result of the sharp drop in public revenue in 2009 and a larger-than-projected fiscal deficit, in 2010 new taxes were introduced and others were raised. As of 1 January 2010, a new 3% levy was imposed on telecommunications. In addition, the maximum individual and corporate income tax rate was raised temporarily from 28% to 30%; VAT was increased from 15% to 16%; and the tax on gaming and lotteries jumped from 20% to 30%. Levies on tobacco, beer and other alcoholic beverages were also raised temporarily. Receipts are projected to increase by a little over 1% of GDP in 2010 owing to these measures. In the first quarter, an 8.0% increase in revenue in real terms was recorded compared with the first quarter of 2009. Expenditure was up by 0.3% compared with the same period in 2009.

(b) Monetary policy

Monetary policy in 2009 was somewhat expansionary. As a consequence of the global recession, falling international prices for raw materials and the freeze on certain energy prices (and some services such as the supply of electric power and water), inflationary pressures eased, which led to a lowering of the benchmark interest rate. In the first seven months of 2009, the central bank lowered that rate by 375 basis points to 4.5%, resulting in a slightly negative real rate.

The average market deposit rate was also negative in real terms, while lending rates remained relatively high in both nominal and real terms. For example, the total annual cost of credit card borrowing ranged between 18% and 91.9% for different banks, while mortgage interest varied between 14.1% and 16.1% in nominal terms. The average cost of credit was 10.4%, remaining positive in real terms. The spread between lending and deposit rates remained high, in part because of the concentration of the commercial banking sector and its efforts to increase profitability and manage risk. The benchmark rate remained unchanged from August 2009 to April 2010.

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2 If investment in Petróleos Mexicanos (PEMEX) is discounted, a public deficit of 0.2% of GDP was posted, compared with a 0.5% surplus in 2008.

3 Net external federal public-sector debt includes the net debt of the federal government, State agencies and enterprises, and development banking.

Bank lending to the private sector did not help to end the recession in the Mexican economy. In December 2009, total lending to the private sector by commercial banks contracted by 4.7% in real terms. Consumer loans fell by 22.6%. Lending to non-financial companies and self-employed workers declined slightly, to 1.1%. By contrast, there was a 17.9% increase in lending by the development banking sector during the same period. While loans to companies increased by 18.5%, their impact on demand was relatively limited since the amount loaned represented only 2.9% of the total credit portfolio of the national banking system.

The delinquency index in commercial banking reached about 3% at the end of 2009, identical to its 2008 level, and half a percentage point higher than the index for December 2007.

(c) Exchange-rate policy

After appreciating in real terms from 2005 to August 2008, the peso depreciated abruptly (17% in real terms) against the dollar in October 2008 and continued falling until March 2009, before stabilizing in subsequent months. On average, the peso devalued by 15% in real terms in 2009 compared with 2008.

In February 2009 the central bank responded to speculative pressure by injecting dollars into the currency market; in March it began holding daily auctions for US$ 100 million. The central bank also left open the possibility of conducting special sales of hard currency if market conditions made it necessary. The US$ 47 billion contingent line of financing from the International Monetary Fund (IMF) secured in April also helped to relieve pressure on the peso. As a result, the authorities reduced the amount of the daily auction from US$ 100 million to US$ 50 million in May 2009, and suspended the auctions entirely in October. In addition, the amount of the daily auction offered in the event of a peso slide of more than 2% from one business day to the next, was reduced from US$ 300 million to US$ 250 million in May 2009. This mechanism was scrapped in April 2010.

There were two stages to the situation in relation to international reserves. The first seven months of 2009 were marked by a downward trend. From August they began to recover and stood at nearly US$ 91 billion at the end of the year. In early 2010, the Foreign Exchange Commission announced that the central bank would hold monthly auctions to buy dollars, and international reserves consequently reached US$ 100.096 billion by mid-year.

In the first three months of 2010, the peso appreciated by 13.0% in real terms against the dollar, owing mainly to the inflow of short-term foreign capital as a result of the interest-rate spreads in Mexico compared to those in developed countries. In the first four months of 2010 there was a 64% increase in public securities held by non-residents compared with the same period in 2009. There was also a noteworthy increase in treasury certificates held by non-residents, which went from 11.526 billion pesos in January 2010 to approximately 62 billion pesos in April 2010. This trend may be affected by the uncertainty in European stock markets in connection with the crisis in Greece.

3. The main variables

(a) Economic activity

The Mexican economy entered into a period of recession in the last quarter of 2008, which continued in 2009. The scale of the contraction reflects the economy's vulnerability to external shocks, its close ties to the United States economy, and the limited capacity of fiscal and monetary policy to counter the adverse effects of external shocks on productive activity and employment.

Economic activity contracted by about 9% in the first half of 2009, by an annualized rate of 6.1% in the third quarter, and by 2.3% in the last quarter, which translated into an average downturn of 6.5% for the year overall. This trend began to change in the fourth quarter, however, leading to the economic upturn seen in early 2010.

There were sharp contractions of 14.5% and 7.5% in the commerce and construction sectors, respectively. Industrial output fell for 16 consecutive months to November 2009, resulting in a 10.2% contraction in the manufacturing sector at the end of the year. The motor vehicle industry was the hardest hit within the manufacturing sector because of its strong ties to the United States economy, and in 2009, output of motor vehicles fell by 28.3% and exports by 26.4%, in real terms.

In 2009, there was expansion only in the sectors of agriculture, livestock, forestry, fisheries and hunting

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-0.0	0.8	1.4	4.1	3.3	4.8	3.4	1.5	-6.5
Per capita gross domestic product	-1.3	-0.5	0.2	2.9	2.1	3.7	2.3	0.5	-7.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.9	-0.9	3.8	2.9	-0.7	3.8	5.3	2.1	1.8
Mining and quarrying	1.5	0.4	3.7	1.3	-0.3	1.4	-0.6	-1.4	1.0
Manufacturing	-3.8	-0.7	-1.3	3.9	3.5	5.8	1.9	-0.5	-10.2
Electricity, gas and water	2.3	1.0	1.5	4.0	2.0	12.2	3.7	-2.3	1.2
Construction	-5.7	2.1	3.3	5.3	3.9	7.8	4.4	0.6	-7.5
Wholesale and retail commerce, restaurants and hotels	-1.2	0.0	1.5	6.4	4.0	5.7	4.7	2.0	-13.8
Transport, storage and communications	3.8	1.8	5.0	7.5	5.4	7.6	6.0	2.6	-8.1
Financial institutions, insurance, real estate and business services	4.5	4.2	3.9	4.9	5.6	5.1	5.3	5.8	-4.1
Community, social and personal services	-0.3	0.9	-0.6	0.4	2.0	2.2	2.5	0.8	-1.1
Gross domestic product, by type of expenditure									
Consumption	1.9	1.4	2.1	4.4	4.5	5.1	3.9	1.7	-5.0
General government	-2.0	-0.3	0.8	-2.8	2.5	1.9	3.1	0.9	2.3
Private	2.5	1.6	2.2	5.6	4.8	5.6	4.0	1.9	-6.1
Gross fixed capital formation	-5.6	-0.6	0.4	8.0	7.5	9.9	6.9	4.4	-10.1
Exports (goods and services)	-3.6	1.4	2.7	11.5	6.8	10.9	5.7	0.5	-14.8
Imports (goods and services)	-1.6	1.5	0.7	10.7	8.5	12.6	7.1	2.8	-18.2
					Percentages of GDP				
Investment and saving [c]									
Gross fixed capital formation	23.3	23.0	22.9	24.7	24.1	25.9	25.6	26.9	22.4
National saving	20.7	21.0	21.9	24.1	23.6	25.5	24.8	25.4	21.8
External saving	2.6	2.0	1.0	0.7	0.5	0.5	0.8	1.5	0.6
					Millions of dollars				
Balance of payments									
Current account balance	-17 683	-14 137	-7 190	-5 177	-4 369	-4 375	-8 399	-15 889	-5 238
Goods balance	-9 617	-7 633	-5 779	-8 811	-7 587	-6 133	-10 074	-17 261	-4 677
Exports, f.o.b.	158 780	161 046	164 766	187 999	214 233	249 925	271 875	291 343	229 707
Imports, f.o.b.	168 396	168 679	170 546	196 810	221 820	256 058	281 949	308 603	234 385
Services trade balance	-3 558	-4 048	-4 601	-4 607	-4 713	-5 736	-6 305	-7 079	-8 025
Income balance	-13 847	-12 725	-12 313	-10 521	-14 207	-18 455	-18 435	-17 010	-14 053
Net current transfers	9 338	10 269	15 503	18 762	22 138	25 949	26 415	25 461	21 517
Capital and financial balance [d]	25 008	21 227	16 628	9 235	11 533	3 372	18 685	23 327	10 572
Net foreign direct investment	23 045	22 158	15 183	19 249	15 448	13 558	19 054	22 013	3 819
Other capital movements	1 963	-931	1 445	-10 014	-3 915	-10 186	-369	1 314	6 753
Overall balance	7 325	7 090	9 438	4 058	7 164	-1 003	10 286	7 438	5 334
Variation in reserve assets [e]	-7 325	-7 090	-9 438	-4 058	-7 164	1 003	-10 286	-7 438	-5 334
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	94.3	94.1	104.5	108.3	104.5	104.6	105.8	108.8	124.1
Terms of trade for goods (index: 2000=100)	97.4	97.9	98.8	101.6	103.6	104.1	105.1	105.9	102.5
Net resource transfer (millions of dollars)	11 161	8 502	4 315	-1 286	-2 674	-15 083	250	6 317	-3 481
Total gross external debt (millions of dollars)	144 526	134 980	132 524	130 925	128 248	116 792	124 433	125 233	162 753
					Average annual rates				
Employment									
Labour force participation rate [g]	58.1	57.8	58.3	58.9	59.5	60.7	60.7	60.4	60.2
Open unemployment rate h	3.6	3.9	4.6	5.3	4.7	4.6	4.8	4.9	6.7
Visible underemployment rate [i]	…	…	…	…	7.5	6.9	7.2	6.9	9.3
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6
Variation in the national producer price index (December-December)	1.3	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.1
Variation in nominal exchange rate (annual average)	-1.3	3.5	11.7	4.6	-3.5	0.1	0.2	2.1	21.1
Variation in average real wage	6.7	1.9	1.3	0.3	0.3	1.4	1.0	2.2	0.6
Nominal deposit rate [j]	11.0	6.2	5.1	5.4	7.6	6.1	6.0	6.7	5.1
Nominal lending rate [k]	12.8	8.2	6.9	7.2	9.9	7.5	7.6	8.7	7.1

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Non-financial public sector									
Total revenue	20.0	20.2	21.2	20.7	21.1	21.9	22.2	23.7	23.9
Tax revenue	10.3	10.6	10.1	9.0	8.8	8.6	9.0	8.2	9.6
Total expenditure	20.6	21.3	21.8	20.9	21.2	21.8	22.2	23.8	26.2
Current expenditure	18.2	18.4	19.2	17.9	18.3	18.7	18.6	19.4	21.1
Interest	2.3	2.0	2.1	1.9	2.0	2.0	1.9	1.6	2.0
Capital expenditure	2.4	2.9	2.6	3.0	3.0	3.1	3.6	4.4	5.1
Primary balance [l]	1.7	0.9	1.6	1.7	1.9	2.1	1.9	1.6	-0.4
Overall balance [l]	-0.7	-1.1	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-2.3
Public-sector debt	24.1	25.7	26.1	24.2	22.9	22.6	22.9	27.0	35.2
Domestic [m]	12.6	13.8	14.4	13.8	14.5	16.8	17.5	20.7	24.5
External	11.5	11.8	11.8	10.4	8.4	5.8	5.4	6.4	10.7
Money and credit [n]									
Domestic credit	38.2	39.0	36.8	33.3	32.1	33.0	34.0	32.1	36.3
To the public sector	11.1	11.4	10.9	10.4	8.7	8.5	8.3	8.2	11.2
To the private sector	12.9	14.3	14.0	13.2	14.4	16.8	18.4	17.3	18.6
Others	14.2	13.3	12.0	9.7	9.0	7.7	7.3	6.7	6.5
Liquidity (M3)	43.3	44.4	45.6	45.0	48.5	49.3	50.2	54.5	59.4
Currency outside banks and local-currency deposits (M2)	41.6	42.9	44.4	43.6	47.0	47.9	48.9	53.1	57.7
Foreign-currency deposits	1.7	1.5	1.2	1.4	1.5	1.4	1.3	1.4	1.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices; up to 2003, based on figures in local currency at constant 1993 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, urban areas.
[h] Percentage of the economically active population, urban areas.
[i] Percentage of the working population, nationwide total.
[j] Cost of term deposits in local currency in the multibanking system.
[k] Lending rate published by IMF.
[l] Does not Include non-budgeted expenditure.
[m] Federal-government domestic debt.
[n] The monetary figures are end-of-year stocks.

(1.8%), mining (1.0%) and electric power, water and mains gas distribution (1.2%). By contrast, the temporary accommodation and food and beverage preparation sectors contracted by a significant 9.6%, owing in part to measures adopted in relation to the A (H1N1) influenza epidemic that hit the country in April 2009.

In terms of spending, private consumption and investment decreased by 6.1% and 10.1%, respectively, in 2009. There was a sharp drop in inventories, equivalent to 2% of GDP. Goods and services exports declined by 14.8% in real terms, while imports were down 18.2% in the same period.

In addition to the impact of the recession in the United States, the Mexican economy was also hit by the epidemic of influenza A (H1N1). ECLAC estimates that the impact was equivalent to a loss of about 0.7% of GDP. Sectors associated with tourism (commerce, restaurants and hotels) were the hardest hit.

In late 2009 and early 2010, there was an upturn in various sectors, especially basic metal manufactures, led by the motor vehicle sector, as a result of increased demand in the United States. Some 522,441 vehicles were produced in Mexico in the first quarter of 2010, 79% more than in the same period in 2009.

As to the petroleum industry, whose revenues currently represent 31% of public revenue, crude oil output dropped by 6.8% in 2009 compared with 2008, and by 2.2% in annual terms in the first four months of 2010. The situation of Petróleos Mexicanos (PEMEX) remains precarious because of the drop in production at the Cantarell oil field, low proven oil reserves and weak investment in the industry. The latter is attributable to greater legal restrictions, which makes it difficult to attract investment in the sector, for example, for deep-sea exploration activities to replenish reserves.

The first quarter of 2010 saw a marked upturn in economic activity, with real growth of 4.3% compared with the same period in 2009. Private consumption rose by 2.5%, while government consumption increased by only 0.5%. Gross fixed capital formation decreased by 1.2%, with a 2.1% decline in the public component and 1% in the private component. Lastly, exports of goods and

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	2.6	3.0	1.6	-1.1	-7.9	-10.0	-6.1	-2.3	4.3	...
Goods exports, f.o.b. (millions of dollars)	70 084	79 403	78 467	63 389	49 996	54 338	58 162	67 211	66 596	49 669[c]
Goods imports, f.o.b. (millions of dollars)	71 732	80 268	84 894	71 709	51 957	53 562	61 307	67 559	66 225	49 388[c]
Gross international reserves (millions of dollars)	91 134	94 045	98 863	95 302	85 636	81 476	87 806	99 893	101 606	103 861[c]
Real effective exchange rate (index: 2000=100) [d]	106.7	104.8	102.7	121.0	130.2	122.1	122.9	121.1	115.4	112.9[c]
Unemployment rate	4.9	4.4	5.2	5.1	6.1	6.5	7.6	6.3	6.5	...
Consumer prices (12-month percentage variation)	4.2	5.3	5.5	6.5	6.0	5.7	4.9	3.6	5.0	3.9[c]
National producer price index (12-month percentage variation)	7.5	10.4	7.6	7.8	7.1	3.8	5.3	4.1	3.9	3.9[c]
Average nominal exchange rate (pesos per dollar)	10.8	10.4	10.3	13.1	14.4	13.3	13.3	13.1	12.8	12.6
Average real wage (variation from same quarter of preceding year)	1.4	1.8	3.1	2.6	1.8	-0.5	0.7	0.6	-0.5	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	6.4	6.5	6.9	7.2	6.7	5.2	4.2	4.1	4.2	4.1[c]
Lending rate [f]	7.9	7.9	8.5	10.5	9.9	7.3	5.7	5.5	5.3	…
Interbank rate	7.9	8.0	8.5	8.7	8.0	5.9	4.9	4.9	4.9	4.9[c]
Sovereign bond spread (basis points) [g]	168	172	252	376	379	247	201	164	130	179
Stock price index (national index to end of period, 31 December 2000 = 100)	547	520	440	396	347	431	517	568	589	576
Domestic credit (variation from same quarter of preceding year)	4.2	8.2	2.5	2.4	13.4	5.6	9.0	10.1	2.8	...
Non-performing loans as a percentage of total credit	2.5	2.8	3.0	3.2	3.4	3.8	3.4	3.1	2.8	2.9[h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Cost of term deposits in local currency in the multibanking system.
[f] Lending rate published by IMF.
[g] Measured by JP Morgan's EMBI+ index to end of period.
[h] Data to April.

services surged by 23.6%, owing mainly to the increase in sales of manufactured and agricultural goods. Goods and services imports rose by 19.3%.

Growth of slightly over 4% of GDP is projected for 2010, spurred on by an expected upturn in oil exports (on the back of a hike in crude oil prices) and non-oil exports, consumption and investment. The transfer to Mexico of certain production-chain segments, especially in the motor vehicle sector, has given impetus to capital formation.

(b) Prices, wages and employment

The annual inflation rate as measured by the consumer price index was 3.6% in 2009, but rose to 3.9% in May 2010. This was due to rising taxes, the reinstatement of the policy allowing gradual increases in energy prices, the increased cost of some services such as the metro system and water, and the atypical rise in the prices of some agricultural produce as a result of adverse weather conditions. The central bank's monetary programme for 2010 expects that the annual inflation target of 3% will be met towards the end of 2011.

The fall in output took a toll on the labour market. The open unemployment rate continued to trend upward, rising from 3.9% in September 2007 to 4.3% a year later and 6.4% in September 2009. The unemployment rate subsequently decreased and stood at 5.1% in May 2010.

(c) The external sector

Exports were the main channel of transmission of the international financial crisis. Since they account for a high proportion of GDP (35%), the repercussions of the fall in exports spread quickly and forcefully. Their total value fell by 21.2%, while that of imports was down 24.0%. Consumer goods imports contracted the most (31.5%), followed by intermediate goods (22.9%) and capital goods (21.6%), owing to falling private consumption and investment. In addition, the dwindling volume of petroleum exports and falling international prices led to a 39% fall in petroleum-related exports and a 40.8% drop in crude oil exports. Non-oil exports contracted by 17.4%, while agricultural exports slipped by 1.2%, mining and quarrying exports fell by 25% and manufacturing exports by 17.9%. As a result, the trade deficit decreased by just over US$ 12.5 billion compared with 2008, to US$ 4.677 billion (0.5% of GDP).

The share of Mexican exports in the United States market increased by one percentage point in 2009 (11.4%) compared with 2008 (10.3%). The proportion of Mexican exports going to the United States market went from 88.7% in 2000 to 80.5% in 2009, while the proportion going to China increased from 0.1% to 1% during the same period. There has been an even greater change in the breakdown of Mexican imports by country of origin. Imports from the United States represented 73.1% of all imports in 2000 but only 48% in 2009. China's share of imports has increased significantly: in 2000, imports from China represented 1.7% of the total, but they now make up about 13.9%.

The upturn in the United States economy in late 2009 had a beneficial knock-on effect on Mexican exports. The value of total exports increased by 38% in the first five months of 2010 compared with the same period in 2009. Oil exports rose by 68.8% (thanks to higher oil prices) and non-oil exports by 33.8%. There was an expansion in exports from the motor vehicle (77.8%), mining and quarrying (60.4%) and agricultural (16.8%) sectors. Total imports increased by 34.5% during the same period. Imports of intermediate goods grew the most (40.9%), followed by consumer goods (38.9%). Imports of capital goods dropped by 3.5% because of lower investment.

The financial crisis in the United States also had an impact on remittances to Mexico from that country. These totalled US$ 21.181 billion in 2009, 15.7% less than in 2008. In the first four months of 2010, remittances dropped by 9% in annualized terms, reflecting labour-market problems in the United States. The unemployment rate among Mexicans in the United States is higher than the national average.

Foreign direct investment (FDI) totalled US$ 11.418 billion, which was 50.7% less than in 2008. FDI is expected to recover in 2010 and rise to an estimated US$ 15 billion to US$ 17 billion.