



Regional Economic Report
April– June 2012



BANCO DE MÉXICO

September 13, 2012

Outline

I. Introduction

II. Results April - June 2012

A. Economic Activity

B. Inflation

C. Economic Outlook

III. Final Considerations

Introduction

- The Regional Economic Report is a quarterly publication on the recent trends in economic activity, inflation, and business agents' expectations in the Mexican regions.^{1/}
- This information is taken into account by Banco de México's Board of Governors when evaluating the economic situation and the forecasts for the Mexican economy.
- The economic performance of the regions and the prospects for regional economic activity and inflation in 2H 2012 and 1H 2013 are analyzed herein.

1/ For the purposes of this Report, the federal entities of Mexico are grouped into the following regions: Northern: Baja California, Chihuahua, Coahuila, Nuevo León, Sonora and Tamaulipas. North-Central: Aguascalientes, Baja California Sur, Colima, Durango, Jalisco, Michoacán, Nayarit, San Luis Potosí, Sinaloa and Zacatecas. Central: Distrito Federal, Estado de México, Guanajuato, Hidalgo, Morelos, Puebla, Querétaro and Tlaxcala. Southern: Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.

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 - A. Economic Activity
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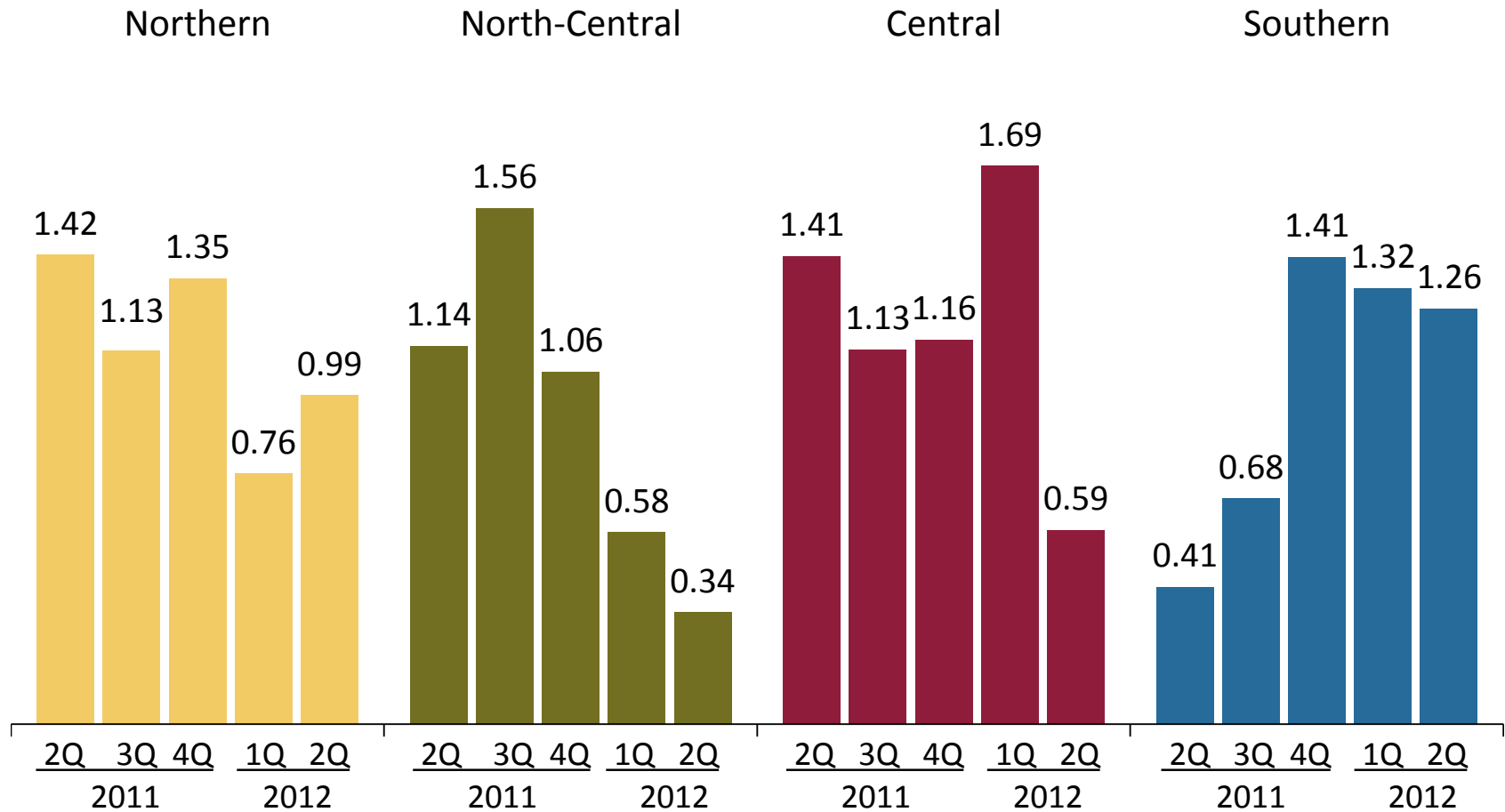
Economic Activity

- During 2Q 2012 the regional economies have remained on an expansionary phase, despite the weakening of the global economy.
- The dynamism shown by public construction and credit to firms contributed to economic growth in all regions of the country.
- The performance of other economic sectors was heterogeneous at the regional level.
 - ✓ The growth rates of manufacturing activity, retail sales and agricultural production were higher in the northern region.
 - ✓ Activity in the tourism sector strengthened in central regions and in the south.

Economic Activity

Regional Coincident Index^{1/}

Average quarterly change in percent, s. a.



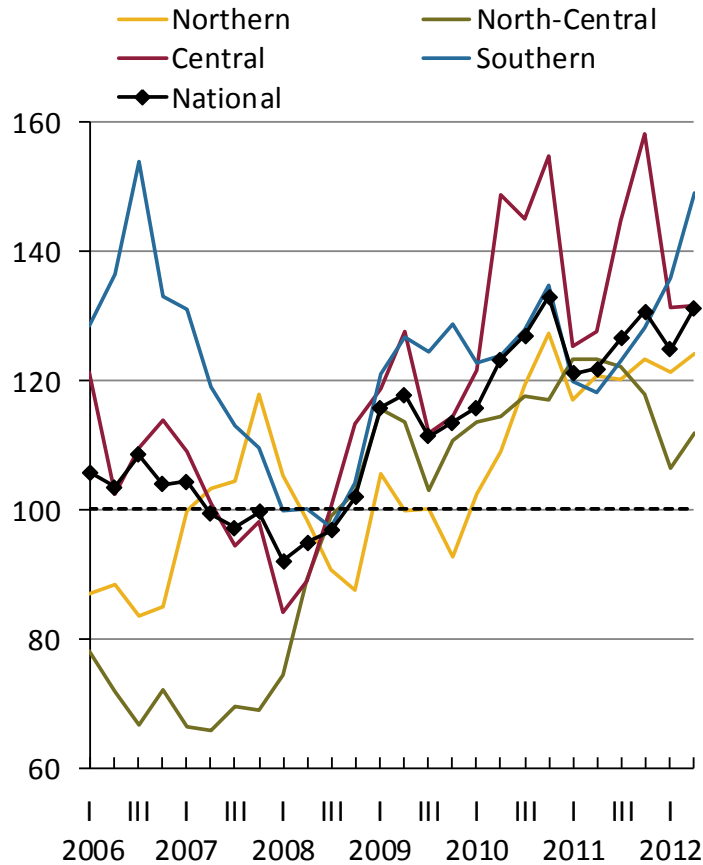
^{1/} The RCI values in 2Q 2012 are a forecast.

Source: Estimated by Banco de México with data from IMSS and INEGI.

Economic Activity

Public Construction

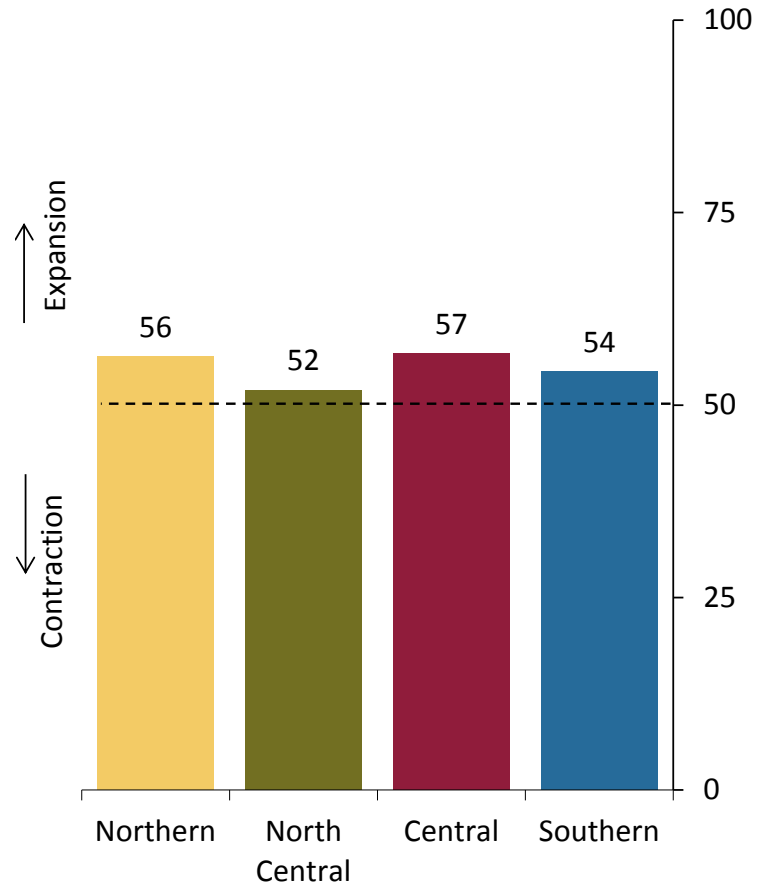
Index June 2008=100, quarterly average, s. a.



Source: Estimated by Banco de México with data from the National Construction Firms' Survey (*Encuesta Nacional a Empresas Constructoras*) of INEGI.

Commercial Banks' Credit to Non-financial Private Firms

Diffusion index



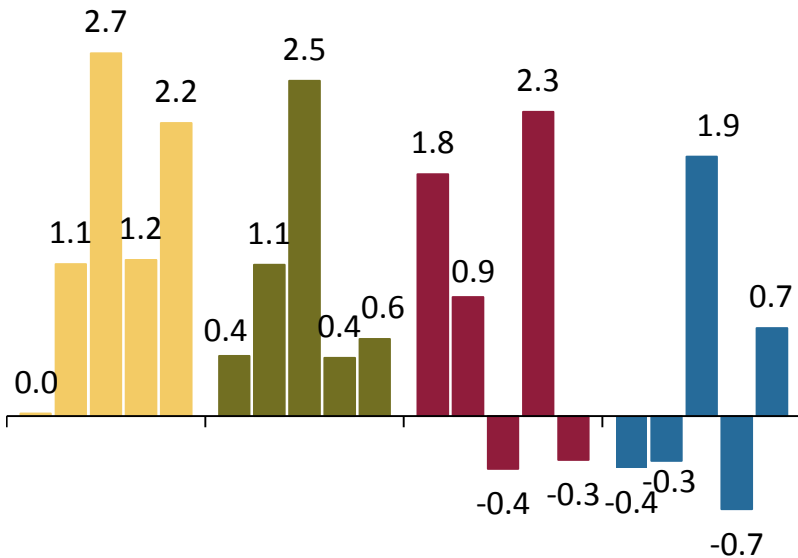
Source: Banco de México.

Economic Activity

Regional Manufacturing Indicator^{1/}

Average quarterly change in percent, s. a.

Northern North-Central Central Southern



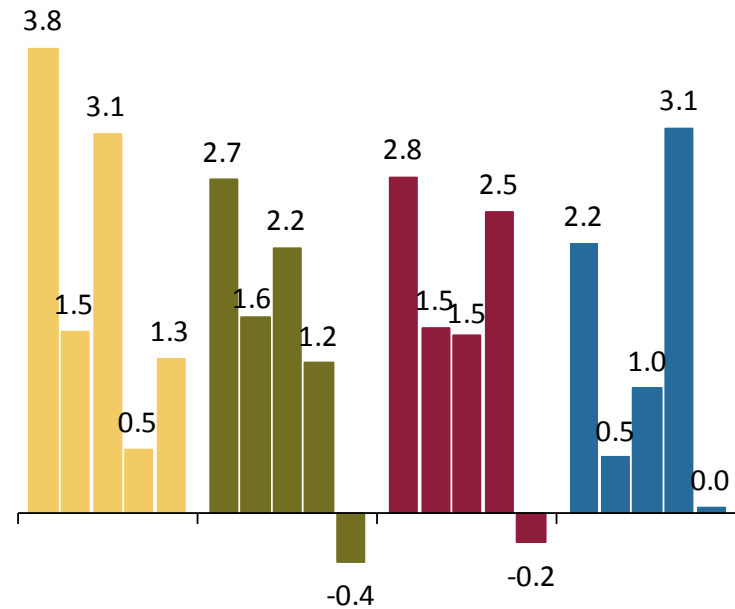
2Q - 4Q 1Q 2Q 2Q - 4Q 1Q 2Q 2Q - 4Q 1Q 2Q 2Q - 4Q 1Q 2Q
 2011 2012 2011 2012 2011 2012 2011 2012 2011 2012

^{1/} This indicator's values in 2Q 2012 are a forecast.
 Source: Estimated by Banco de México with data from INEGI.

Retail Sales

Average quarterly change in percent, s. a.

Northern North-Central Central Southern



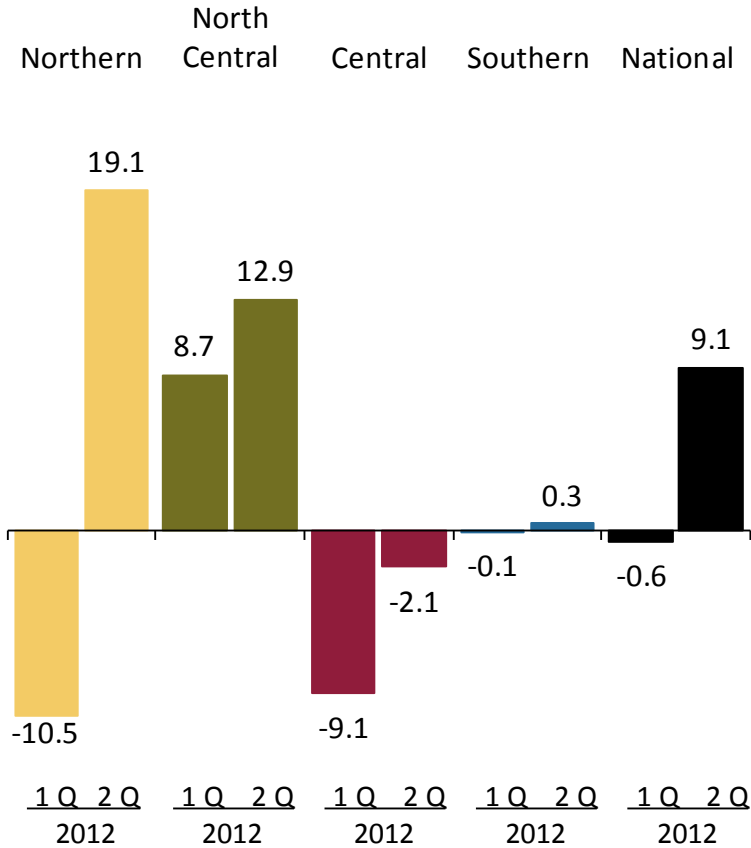
2Q - 4Q 1Q 2Q 2Q - 4Q 1Q 2Q 2Q - 4Q 1Q 2Q 2Q - 4Q 1Q 2Q
 2011 2012 2011 2012 2011 2012 2011 2012 2011 2012

Source: Estimated by Banco de México with data from INEGI.

Economic Activity

Regional Agricultural Production Index

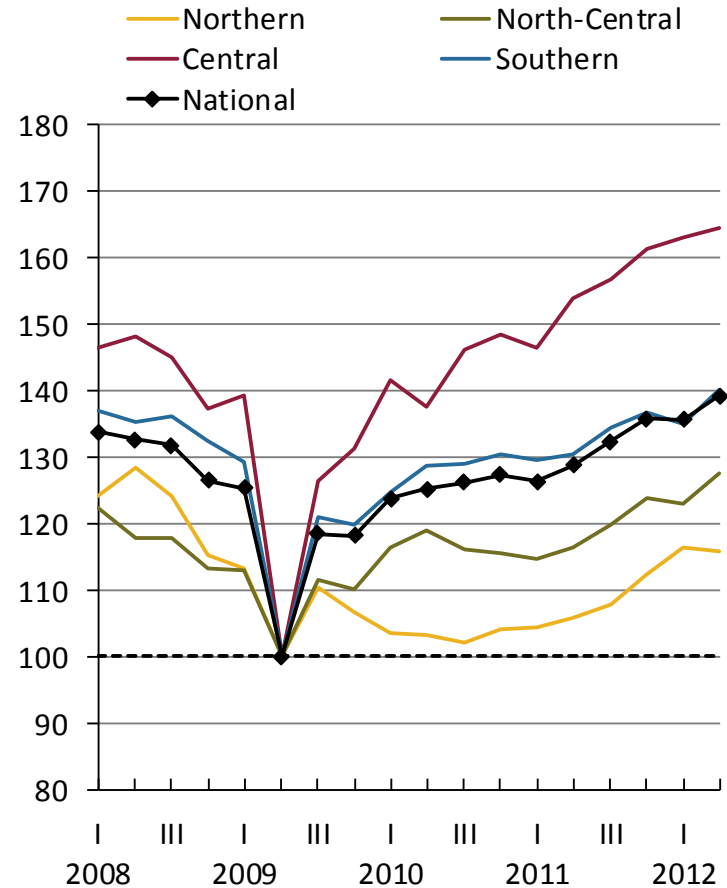
Annual change in percent



Source: Estimated by Banco de México with data from SAGARPA.

Hotel Occupancy

Index of hotel bookings, s. a.,
second quarter 2009=100



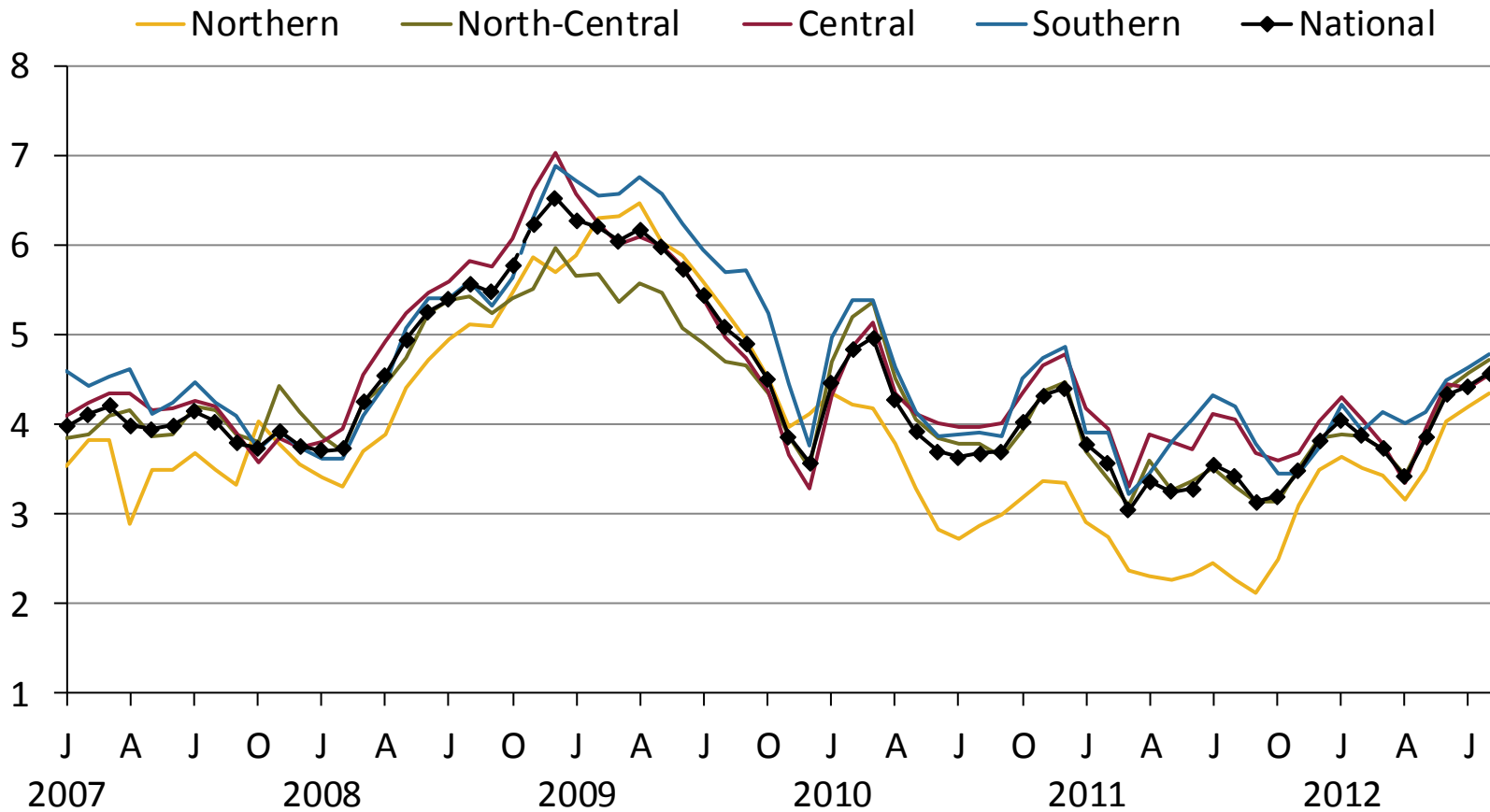
Source: Estimated by Banco de México with data from the Mexican Secretary of Tourism.

Inflation

- During the period analyzed in this Report, annual headline inflation rebounded in all regions. From June onwards it has been above the upper bound of the variability interval of plus/minus one percentage point around the 3 percent target.
 - ✓ In the four regions this resulted from price shocks to food items in the CPI non-core component.
- Annual core inflation remained below annual headline inflation in all regions.
- This rebound is considered to be transitory and does not represent a widespread price increase.

Annual Headline Inflation

Percent

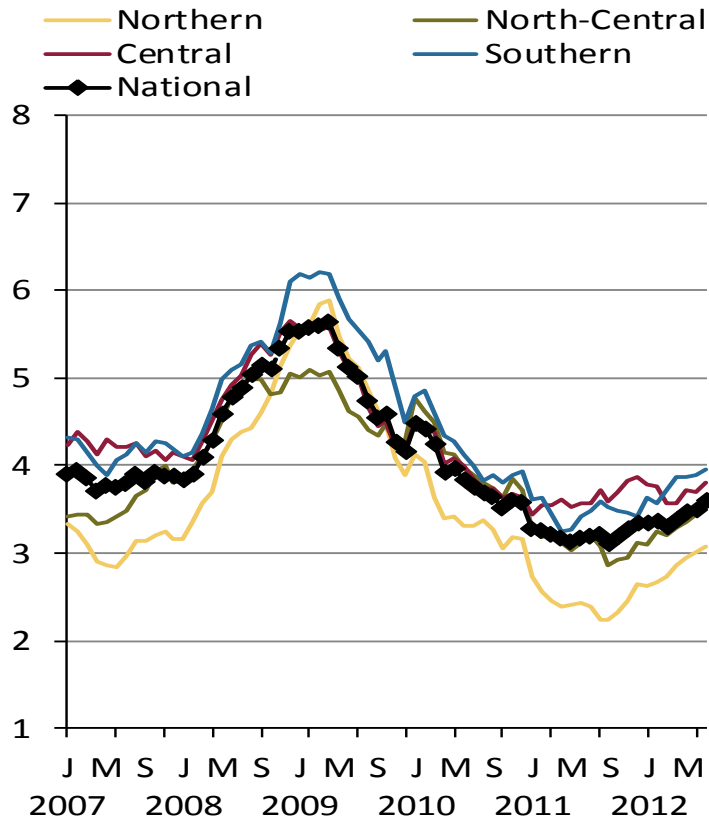


Source: Estimated by Banco de México with data from INEGI and Banco de México.

Annual Inflation

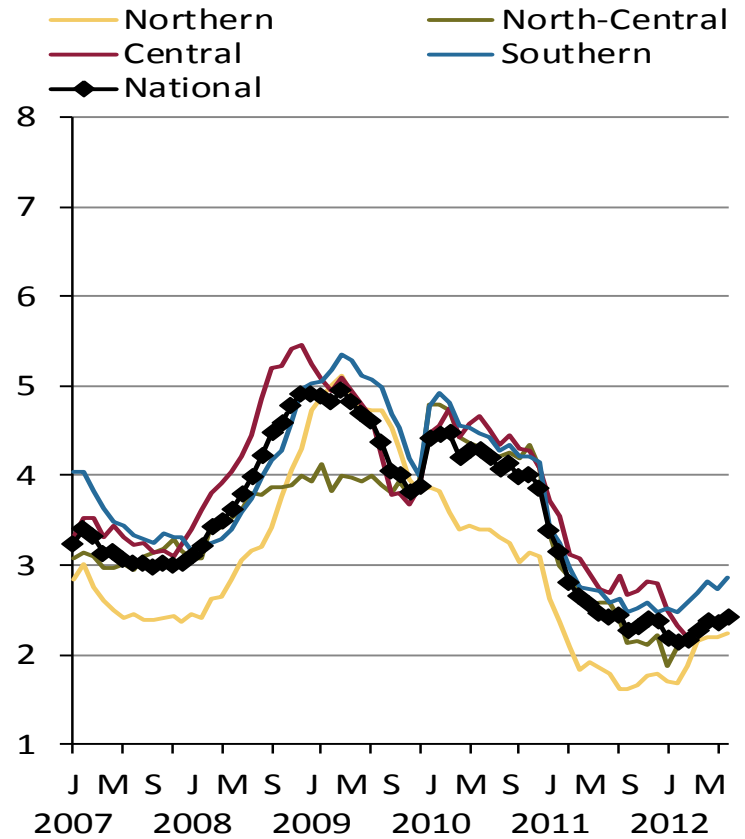
Core Inflation

Percent



Headline Inflation Excluding Food Items and Energy^{1/}

Percent



1/ This indicator excludes processed food and agricultural products consumed at home and away from home, non-alcoholic beverages and energy from the CPI basket.

Source: Estimated by Banco de México with data from INEGI and Banco de México.

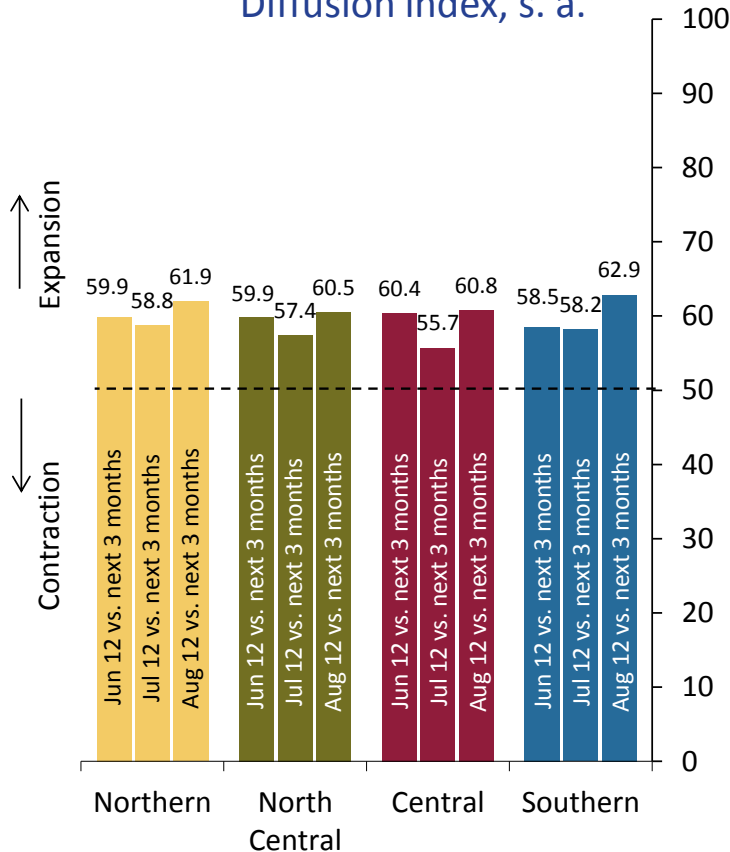
Economic Outlook

- Regional economies are expected to keep expanding in 2H 2012 and 1H 2013 according to business agents interviewed by Banco de México.
- In the opinion of these business contacts:
 - ✓ The domestic market will continue strengthening as a result of the expansion of credit to firms and consumers and employment growth.
 - ✓ Likewise, manufacturing exports, particularly automobile industry exports, are anticipated to remain strong.
- Regarding inflation prospects for 2H 2012 and 1H 2013, business agents interviewed by Banco de México expect own products and services' prices to grow at lower rates than in the previous year.

Economic Outlook

Manufacturing Orders for the Next 3 Months

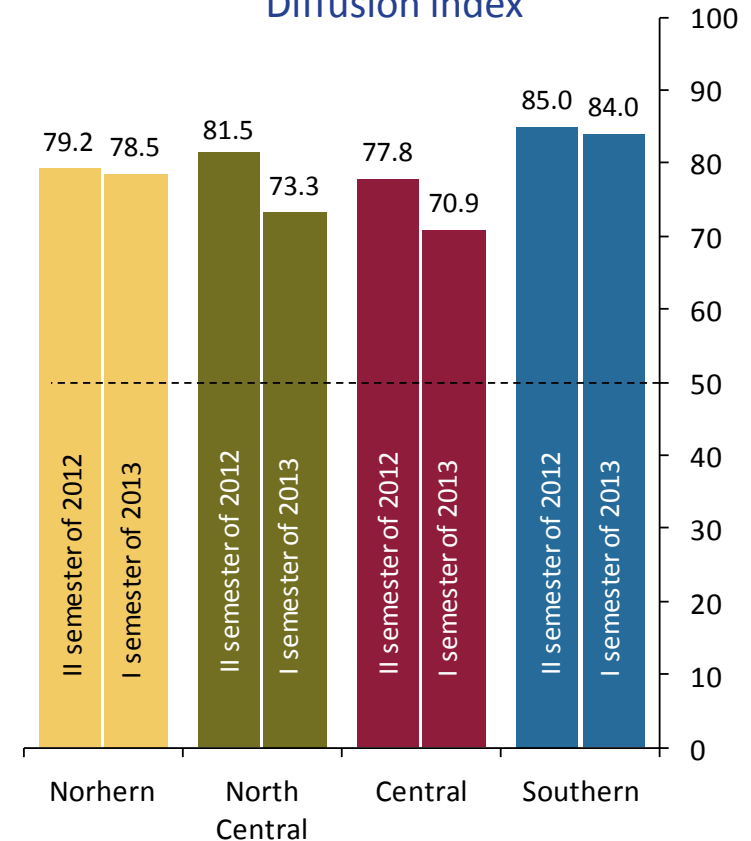
Diffusion index, s. a.



Source: Banco de México.

Demand Expected by Business Agents^{2/}

Diffusion index

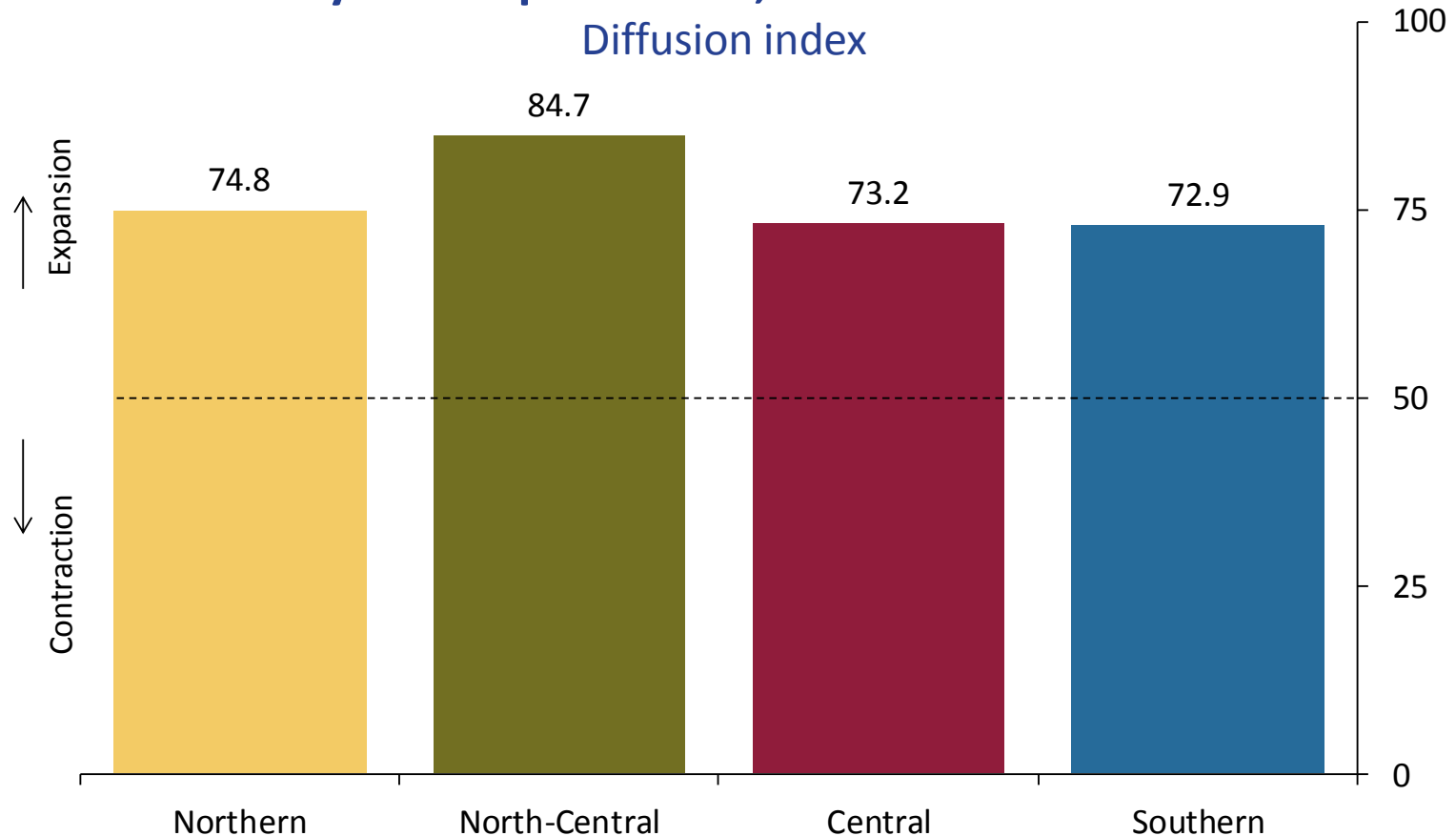


2/ Results obtained from responses to the question: "With respect to the situation in 2Q 2012, how do you expect the demand for your own products and services to change in 2H 2012 and 1H 2013?", from the interviews conducted by Banco de México between July 9 and August 10, 2012.

Source: Banco de México.

Economic Outlook

Opinion of Business Agents Interviewed by Banco de México: Physical Capital Stock, Next 12 Months^{1/}



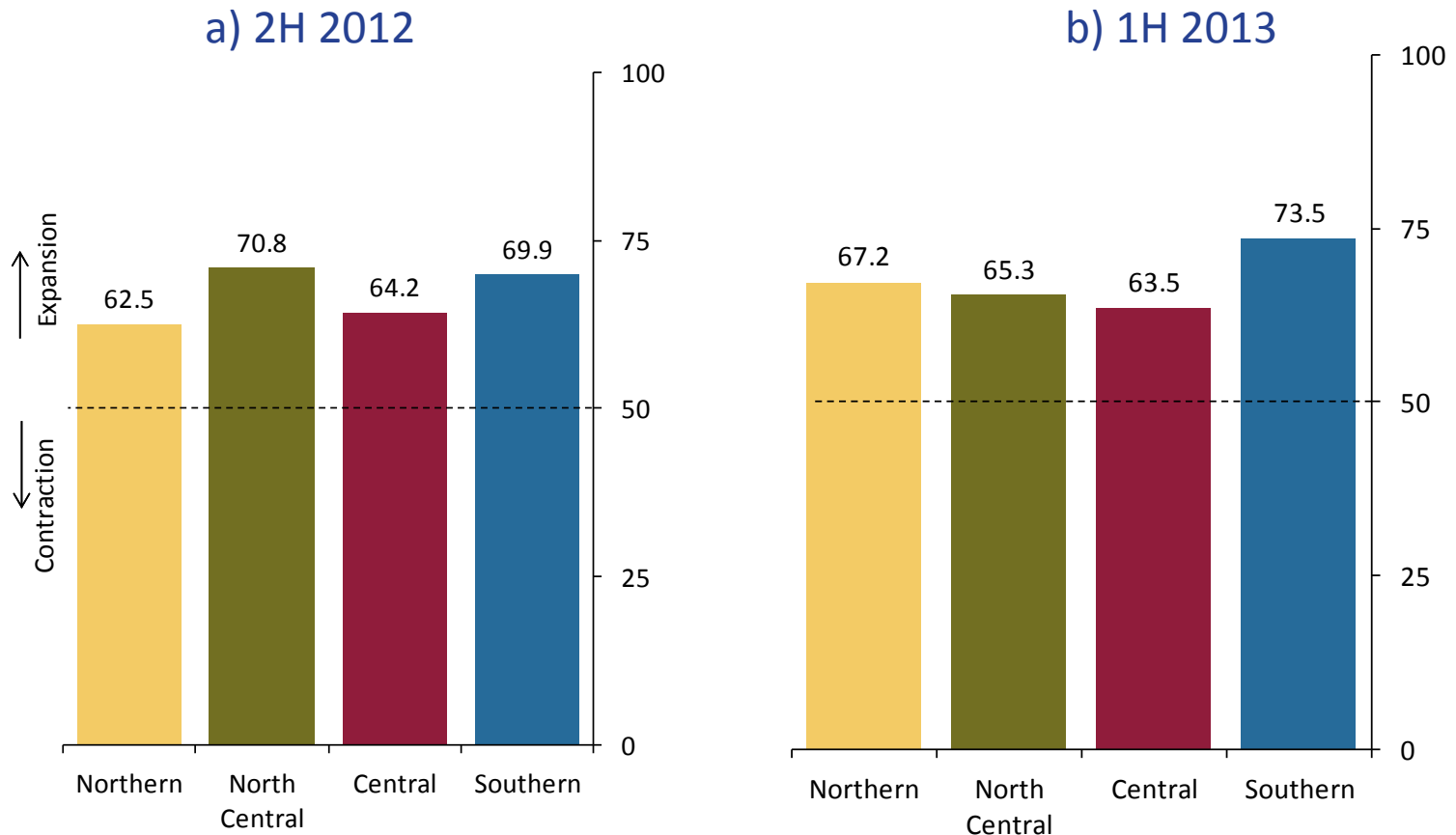
1/ Results obtained from responses to the question: “With respect to the situation in 2Q 2012, how do you expect your firm’s physical capital stock to change in the next 12 months?”, from the interviews conducted by Banco de México between July 9 and August 10, 2012.

Source: Banco de México.

Economic Outlook

Opinion of Business Agents Interviewed by Banco de México: Personnel Employed^{1/}

Diffusion indexes

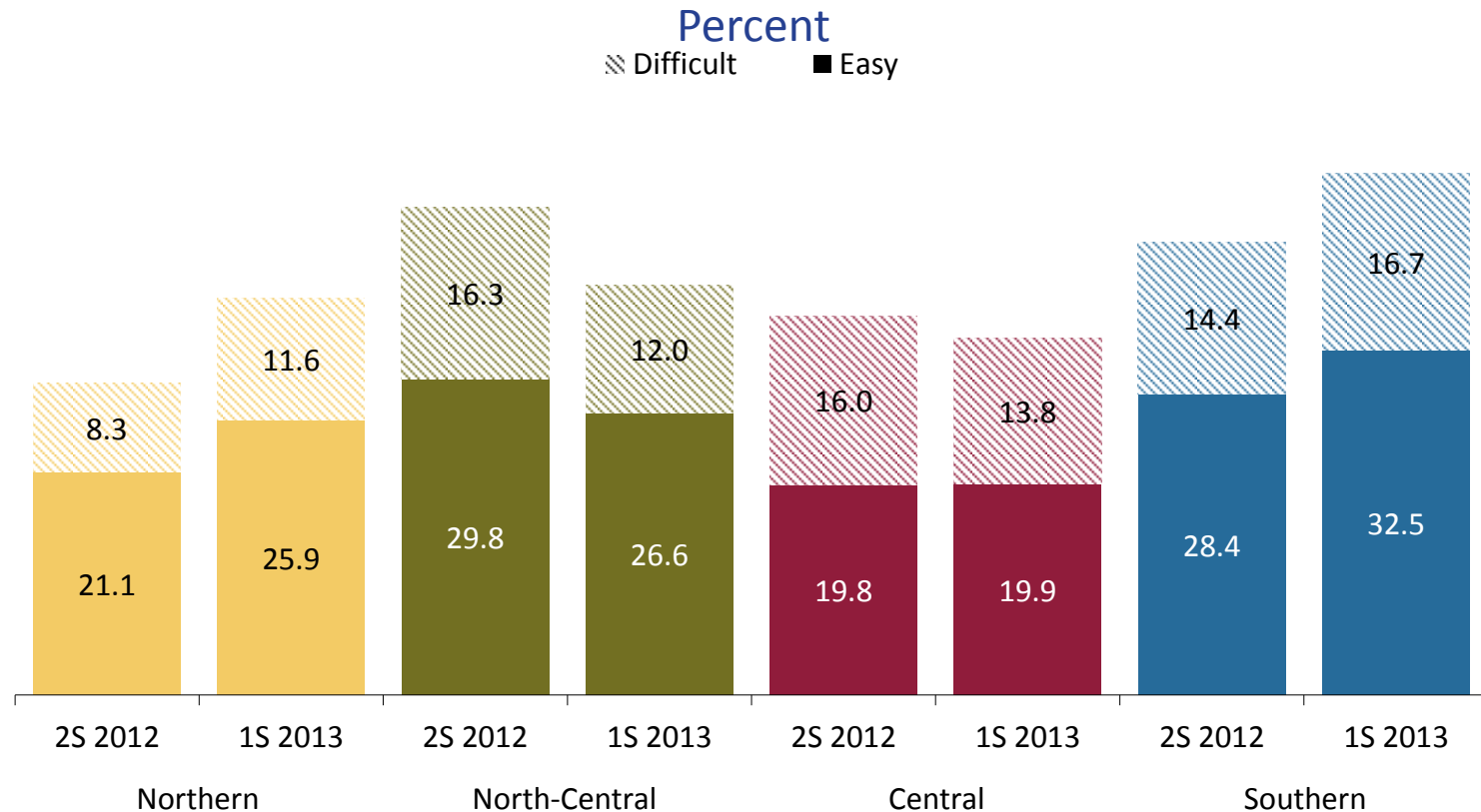


1/ Results obtained from responses to the question: “With respect to 2Q 2012, how do you expect the number of personnel employed in your firm to change in 2H 2012 and in 1H 2013?”, from the interviews conducted by Banco de México between July 9 and August 10, 2012.

Source: Banco de México.

Economic Outlook

Business Agents who Expect to Hire More Personnel according to the Difficulty of the Hiring Process: 2H 2012 and 1H 2013^{1/}



^{1/} Results obtained from responses to the question: “With respect to the situation in 2Q 2012, how do you expect new personnel hiring in your firm to be in 2H 2012 and 1H 2013? Difficult or easy?” from the interviews conducted by Banco de México between July 9 and August 10, 2012.

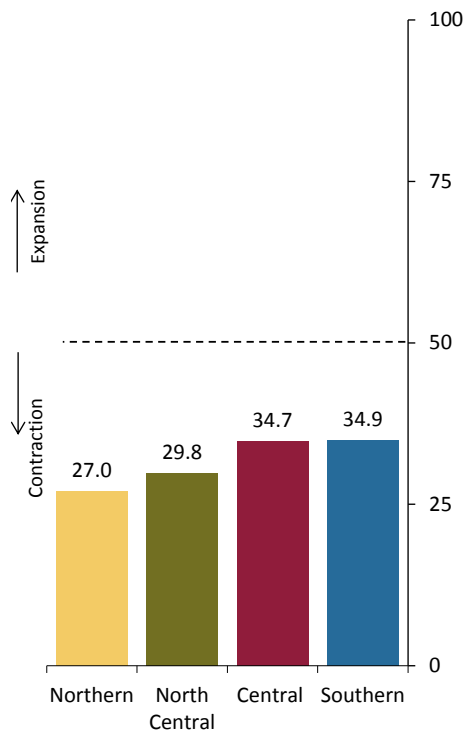
Source: Banco de México.

Economic Outlook

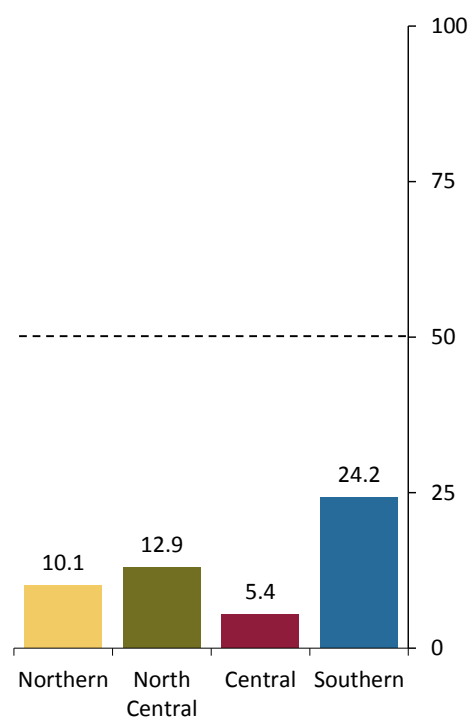
Business Agents' Inflation Expectations for 2H 2012^{1/}

Diffusion index

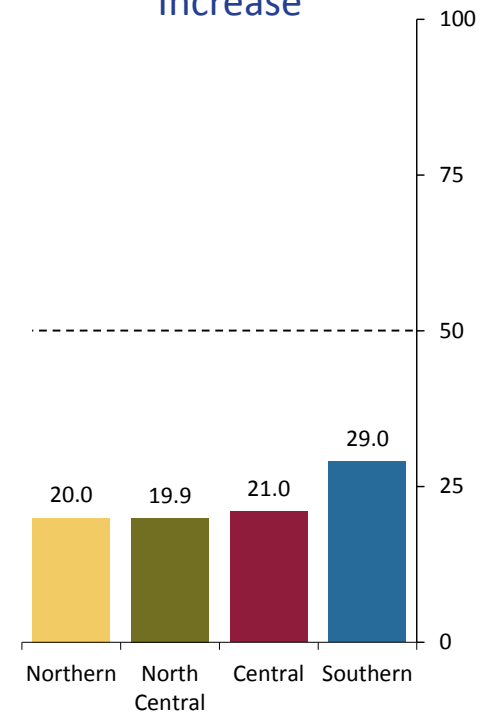
a) Commodity Price Increase



b) Labor Cost Increase



c) Own Products' Price Increase



1/ Results obtained from responses to the questions: "With respect to the situation in 2Q 2012, do you expect an adjustment in commodity prices, labor costs or own products' prices in your sector during 2H 2012?", and "In comparison with the same period of last year, what magnitude of adjustment do you expect?", from the interviews conducted by Banco de México from July 9 to August 10, 2012.

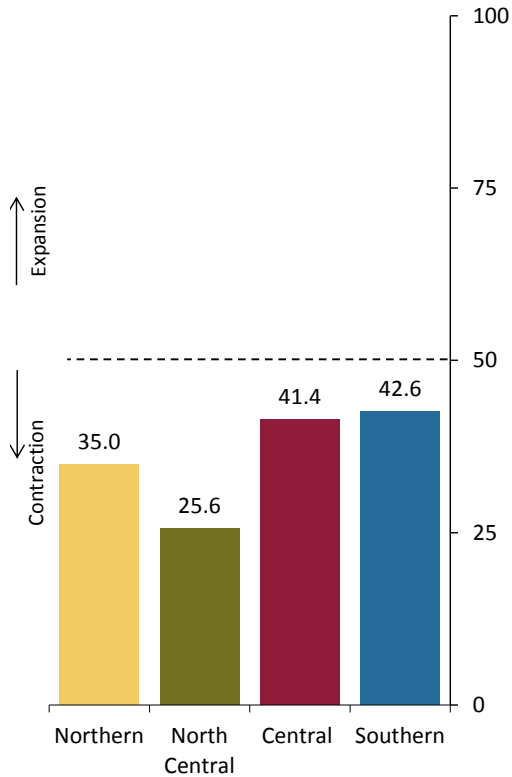
Source: Banco de México.

Economic Outlook

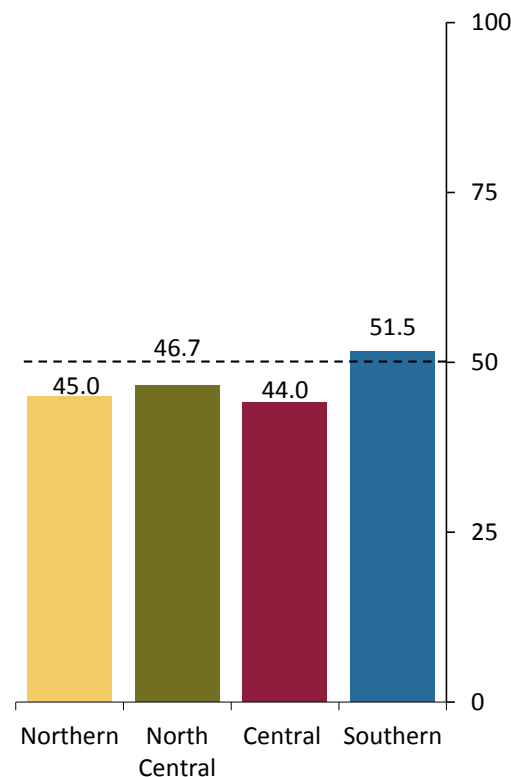
Business Agents' Inflation Expectations for 1H 2013^{1/}

Diffusion index

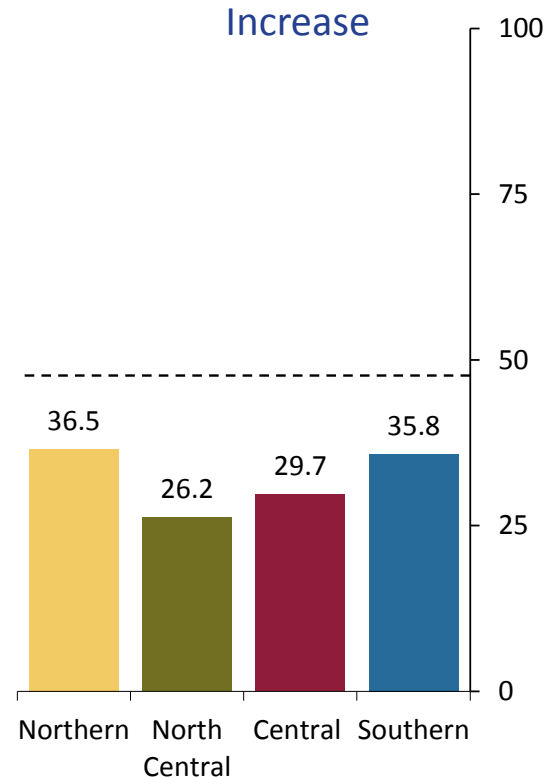
a) Commodity Price Increase



b) Labor Cost Increase



c) Own Products' Price Increase



1/ Results obtained from responses to the questions: "With respect to the situation in 2Q 2012, do you expect an adjustment in commodity prices, labor costs or own products' prices in your sector during 1H 2013?", and "In comparison with the same period of last year, what magnitude of adjustment do you expect?", from the interviews conducted by Banco de México from July 9 to August 10, 2012.

Source: Banco de México.

Economic Outlook

- Business agents interviewed by Banco de México for this Report expressed concern about domestic and external risks that could possibly affect the expected growth in production.
 - ✓ Domestic: uncertainty regarding the implementation of structural reforms.
 - ✓ External: global economic performance, especially that of Europe.

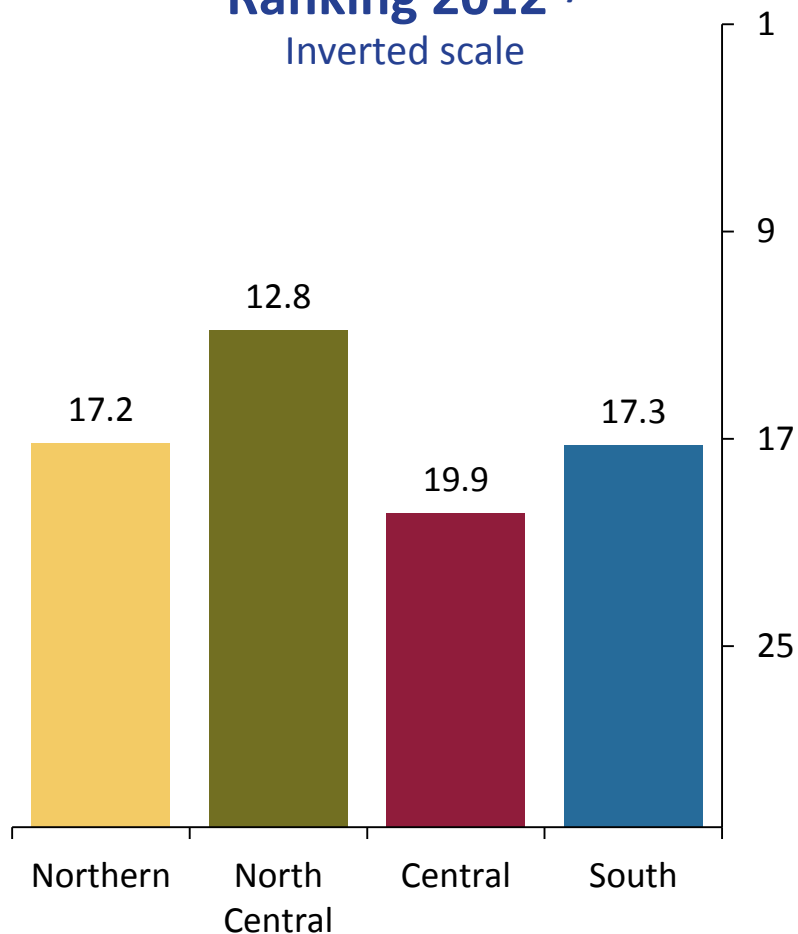
Economic Outlook

- Previous Regional Economic Reports analyzed factors that could contribute to improving regional economic growth.
 - ✓ Structural reforms.
 - ✓ Investment in infrastructure.
 - ✓ Role of the financial system in the economic recovery.
- This Report examines the norms regulating business set-ups at the local level. The analyzed information points to a high degree of heterogeneity in the regulation at the municipal level.
 - The results show that there is room to significantly reduce the costs of setting-up new businesses in all regions, and thereby, to facilitate employment creation, and to increase competition. Higher competition would in general lead to lower prices for consumers.

Ease of Doing Business by Region

Region's Position in the National Ranking 2012^{1/}

Inverted scale



Cost of Setting-Up a Convenience Store

In 316 municipalities, January 2011 – July 2012

Average [Minimum, Maximum]

Region	No. of procedures	No. of days	Costs (MXN thousand)
Northern	12 [6, 19]	251 [68, 564]	69 [13, 196]
North Central	11 [5, 22]	162 [9, 428]	65 [2, 196]
Central	11 [5, 20]	197 [40, 670]	99 [6, 248]
Southern	11 [6, 16]	228 [60, 503]	75 [14, 213]

1/ This indicator corresponds to the average of the rank obtained by the federal entities of each region.

Source: Estimates by Banco de México based on World Bank (2012).

Source: Elaborated by Banco de México with information obtained from convenience stores from January 2011 to July 2012.

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Final Considerations

Based on the analysis of regional economic information and the opinion of business agents, the following can be concluded:

- ① Regional economies remained on an expansionary phase during 2Q 2012. However, the growth rate differed across regions.
- ② Annual headline inflation rebounded in all regions during the period analyzed in this Report. The trajectory was mainly determined by the evolution of prices of some food items in the CPI non-core component. Thus, the rebound is considered to be transitory.
- ③ According to business agents interviewed by Banco de México, regional economies are expected to keep on expanding in 2H 2012 and in 1H 2013 in a context of low inflation.

Final Considerations

- ④ Among the risks that might affect the dynamism expected in their productive activities, business agents mentioned the following:
 - ✓ Uncertainty surrounding the implementation of structural reforms.
 - ✓ The possibility of a further economic and financial deterioration in the Euro zone.
- ⑤ Regarding the factors that could strengthen economic growth, this Report analyzes the norms regulating business set-ups at the local level in Mexico. There is a high degree of heterogeneity among the municipalities in the costs associated with these regulations. Thus, there is room to increase their effectiveness and, thereby, to contribute to employment creation and increased competition.



BANCO DE MÉXICO

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