



Regional Economic Report
January – March 2013



BANCO DE MÉXICO

June 13, 2013

Outline

- I. Introduction**
- II. Results January - March 2013**
 - 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 forecast for the Mexican economy.
- The economic performance of the regions in 1Q 2013 and the prospects for regional economic activity and inflation over the following 6 and 12 months 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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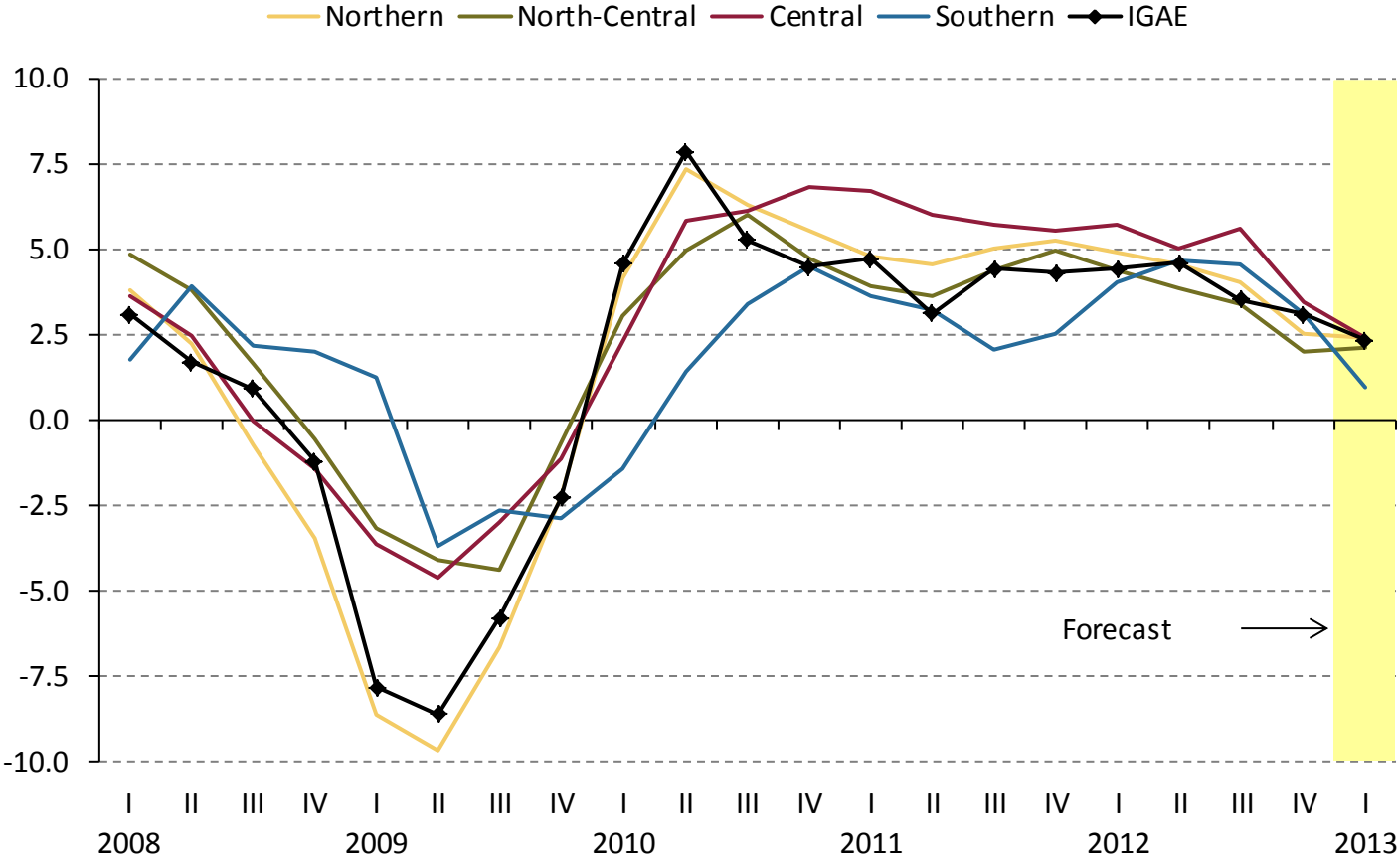
Economic Activity

- During 1Q 2013 economic growth continued to be moderate in all regional economies. Notably, the slowdown of the expansion rate was more accentuated in the Southern region.
 - ✓ According to business agents interviewed by Banco de México, in the Central, North-Central and Northern regions the slowdown of economic growth is primarily associated to a weak external demand, derived from the moderation of the rate of growth of the world economy. Reportedly, this affected production of the manufacturing sector in these regions.
 - ✓ Moreover, the referred business agents considered that the Southern region was also adversely affected by the impact of different factors on domestic demand.

Economic Activity

Regional Coincident Index ^{1/}

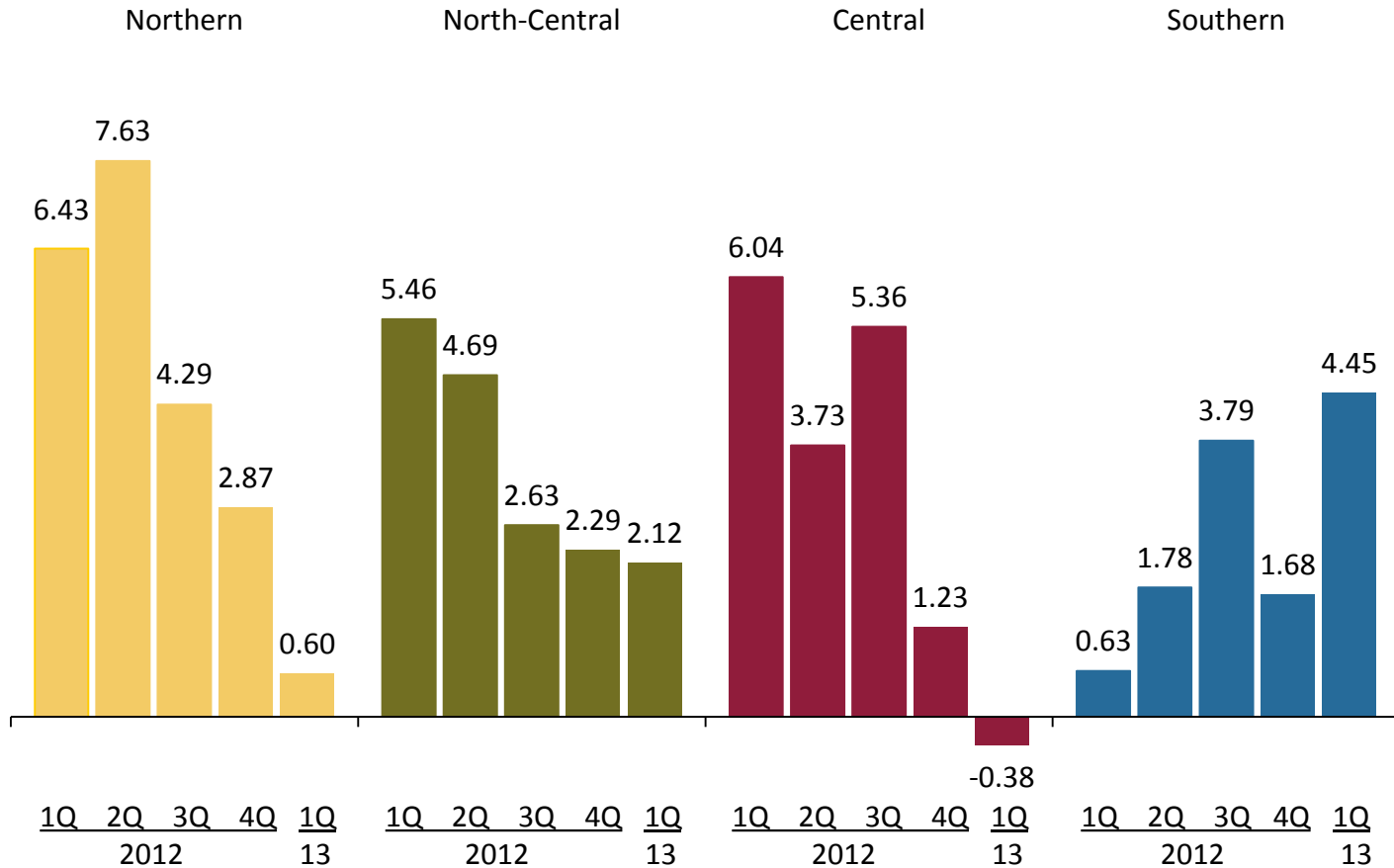
Annual change in percent



1/ This indicator's values in 1Q 2013 are a forecast.
 Source: Estimated by Banco de México with seasonally adjusted data from IMSS and INEGI.

Economic Activity

Regional Manufacturing Indicator ^{1/} Annual change in percent



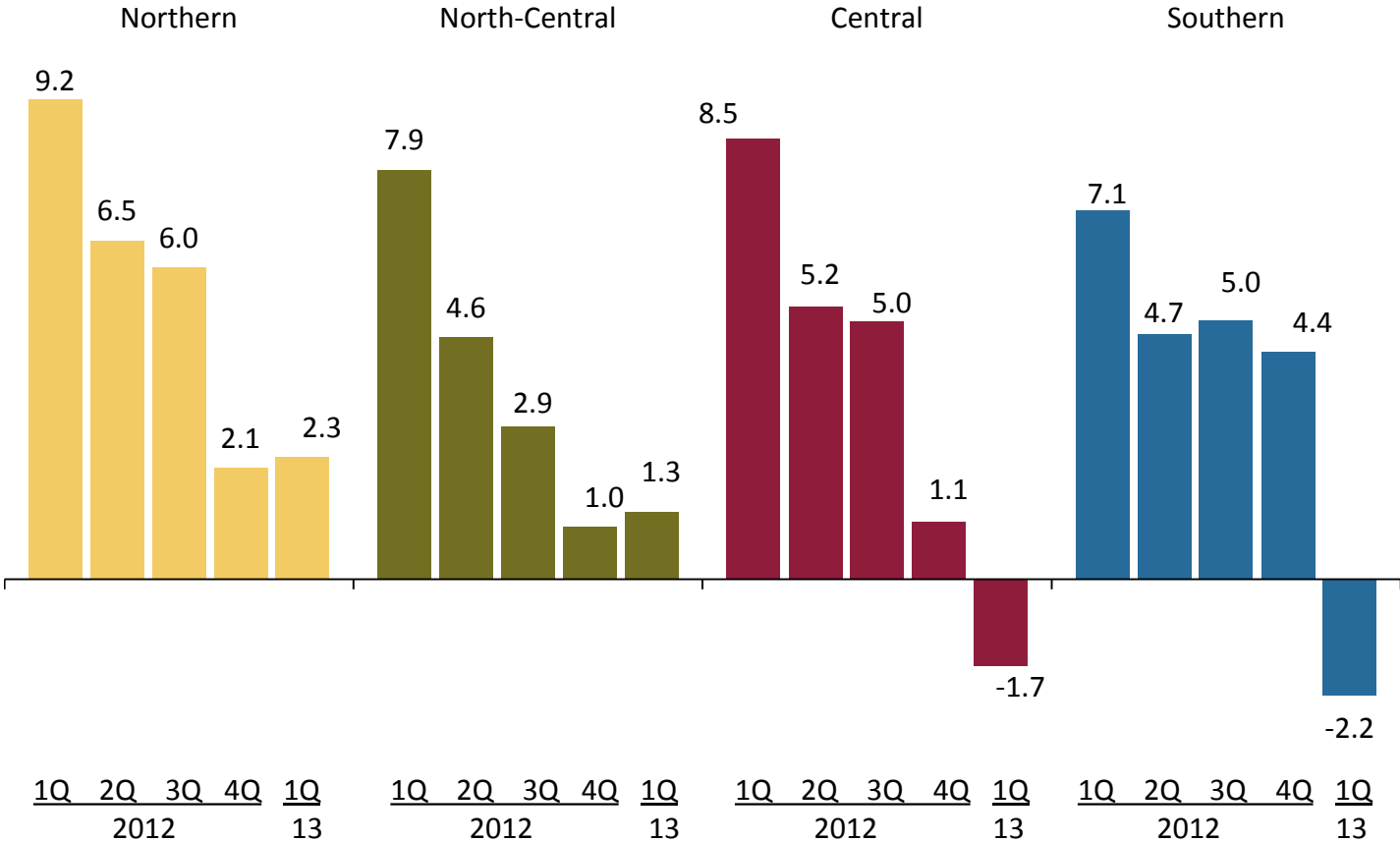
1/ This indicator's values in 1Q 2013 are a forecast.

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

Economic Activity

Regional Retail Sales Indicator

Annual change in percent

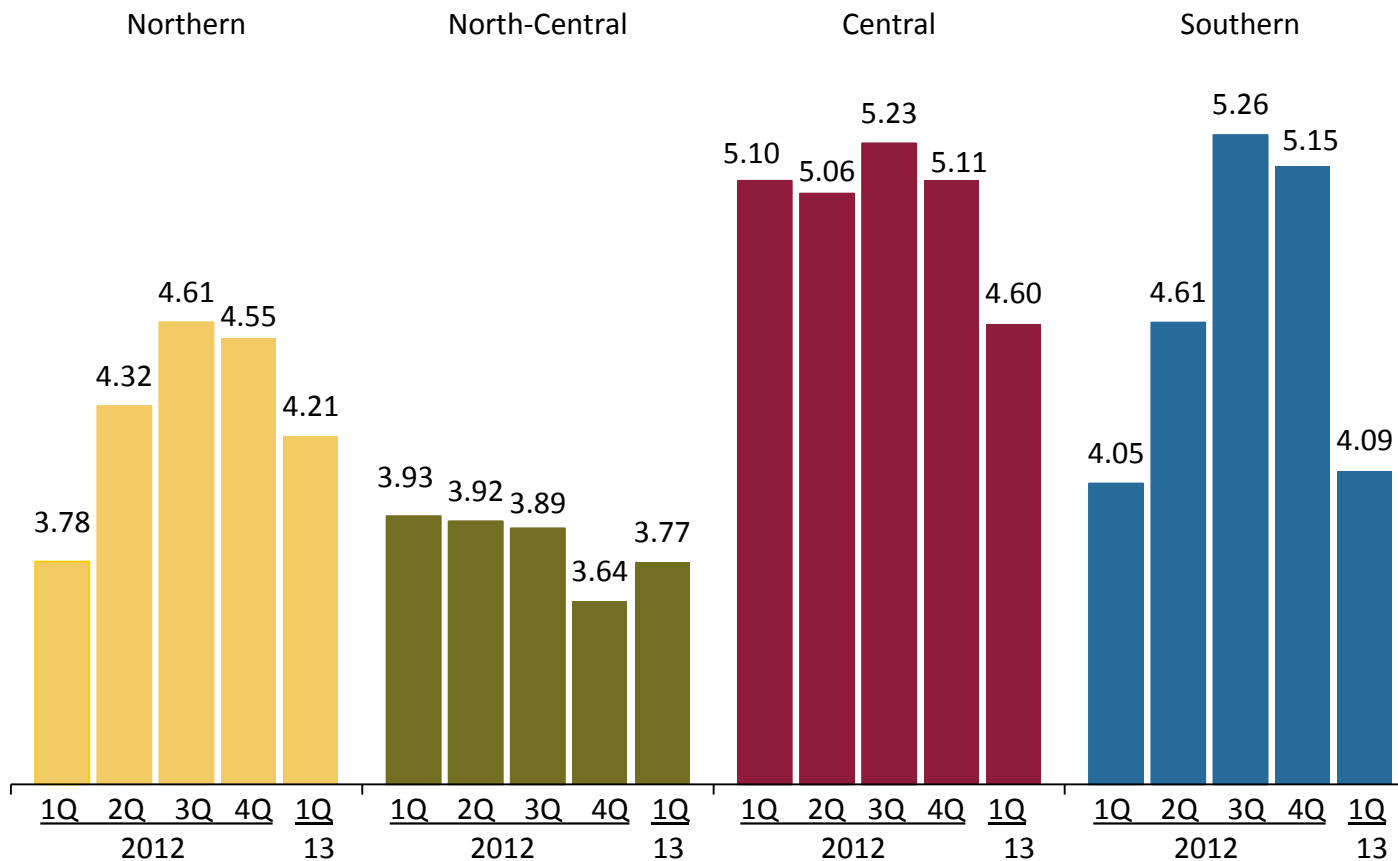


Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

Economic Activity

Regional Employment (IMSS Data)

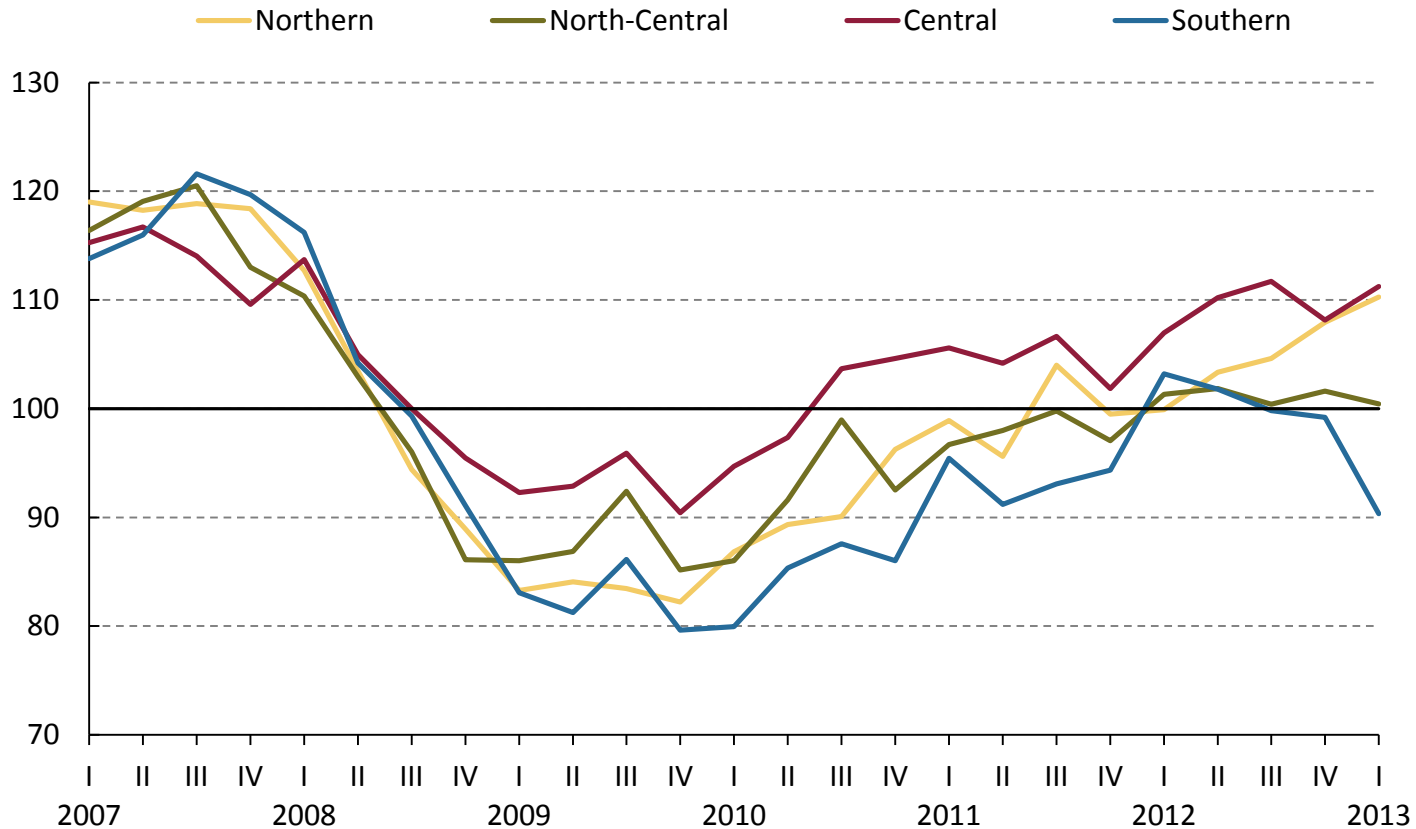
Annual change in percent



Source: Estimated by Banco de México with seasonally adjusted data from IMSS.

Economic Activity

Regional Consumer Confidence Index
Index June 2008 = 100, quarterly average

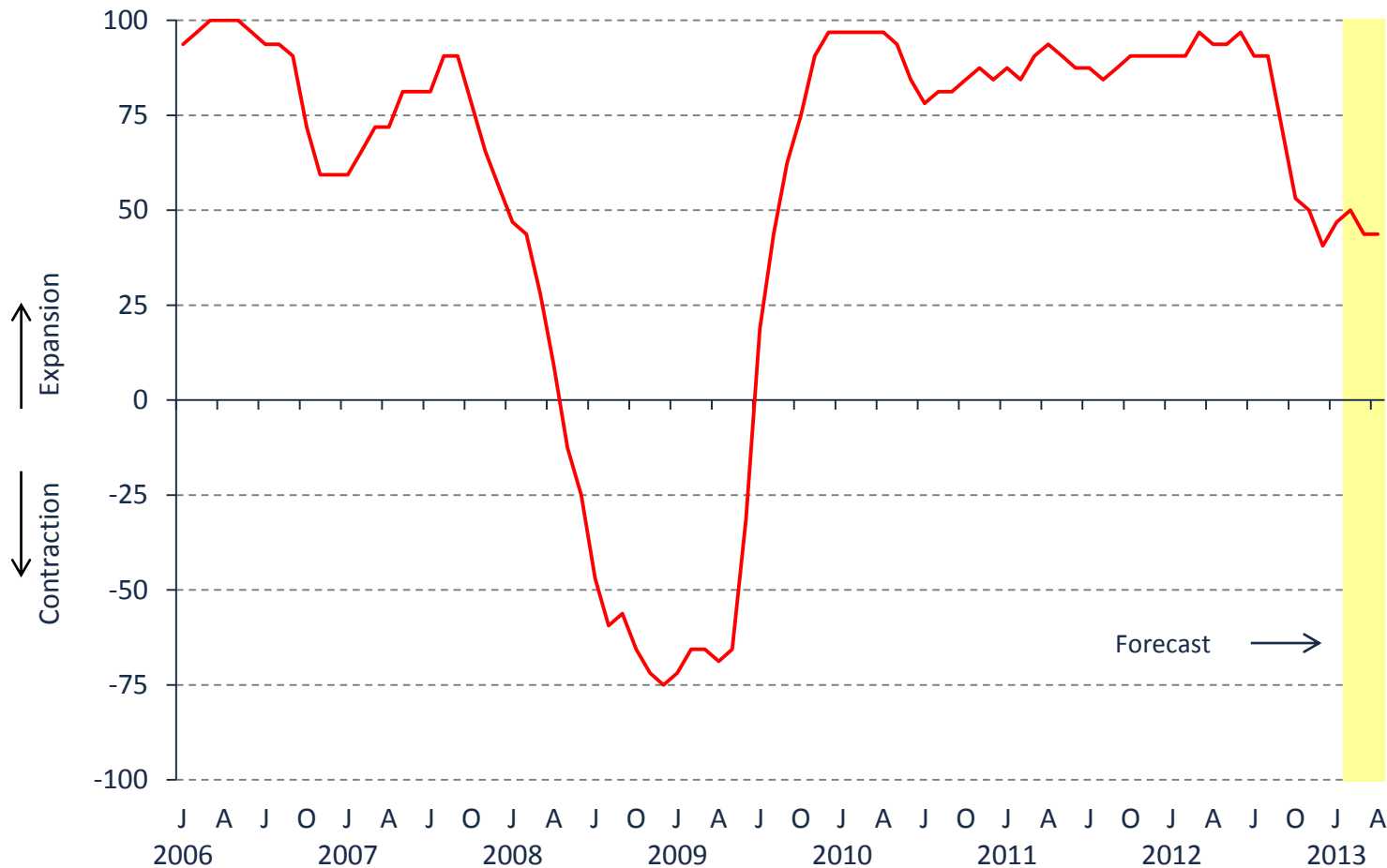


Source: Estimated by Banco de México with data from INEGI and own data.

Economic Activity

Economic Activity at the State Level ^{1/}

Diffusion index



1/ The diffusion index of economic activity at the state level measures the net share of states with a positive monthly change in the trend-cycle component of state coincident indices.

Source: Estimated by Banco de México based on state coincident indices prepared by Banco de México with data from IMSS and INEGI.

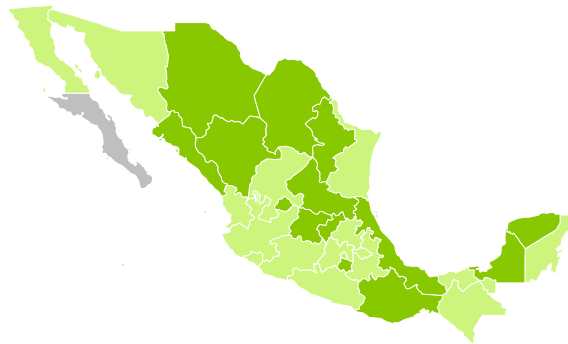
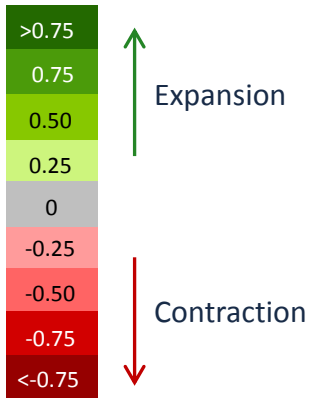
Economic Activity

State Coincident Indices ^{1/}

Monthly change of the trend-cycle component, in percent

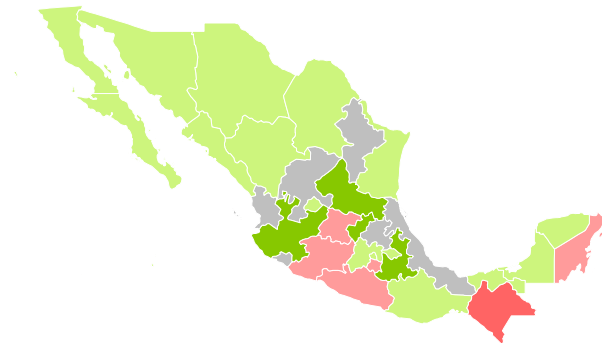
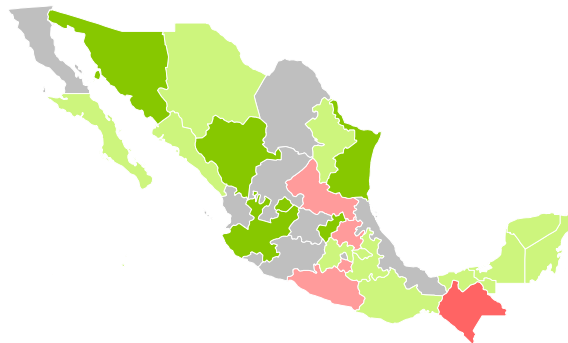
June 2012

September 2012



December 2012

March 2013



^{1/} This indicator's values in March 2013 are a forecast.

Source: Estimated by Banco de México based on state coincident indices prepared by Banco de México with data from IMSS and INEGI.

Inflation

- In 1Q 2013 average annual headline inflation dropped with respect to the previous quarter in the four regions of Mexico.
- However, between March and May, annual headline inflation rebounded due to transitory shocks which affected the performance of the non-core component.

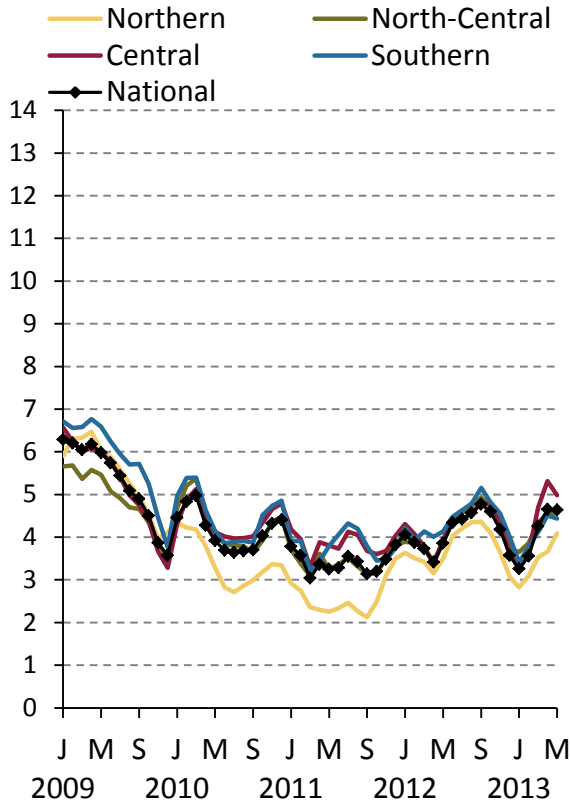
The following shocks stand out:

- ✓ Crop losses derived from frosts in the Northern, North-Central and Central regions in March.
 - ✓ A new outbreak of avian flu in some states of central Mexico.
 - ✓ An increase in public transport fares in some entities of the country, among which the Federal District is noteworthy due to its weight in the CPI.
- In turn, annual core inflation persisted at levels close to 3 percent in the North-Central, Central and Southern regions, and around 2 percent in the Northern one.

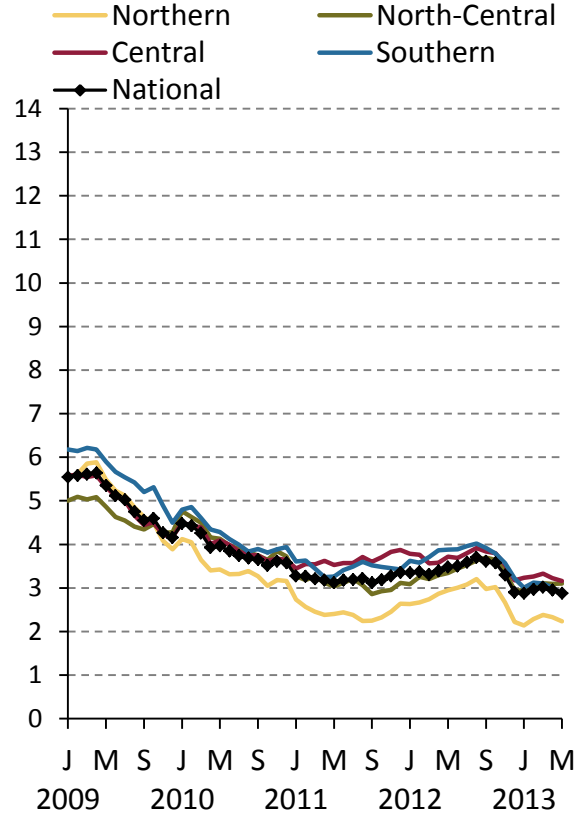
Annual Inflation

Percent

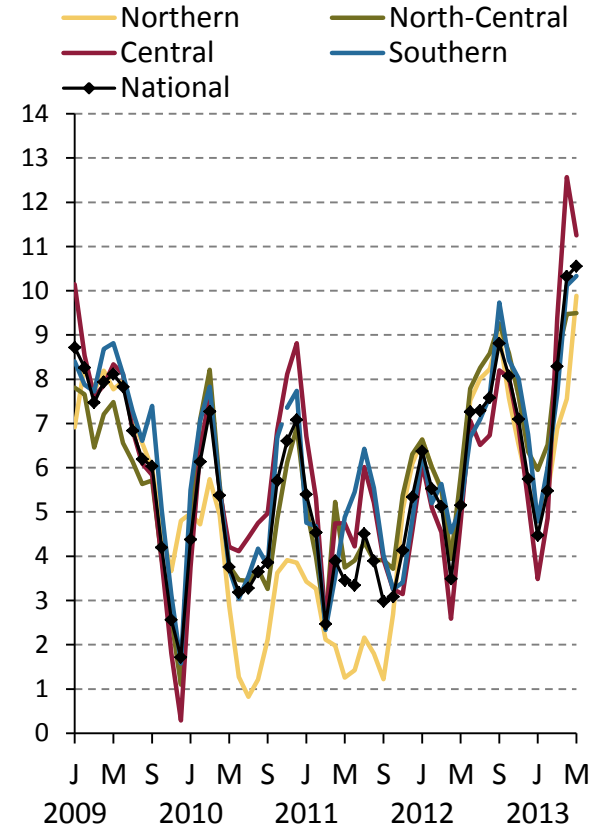
Headline



Core



Non-core

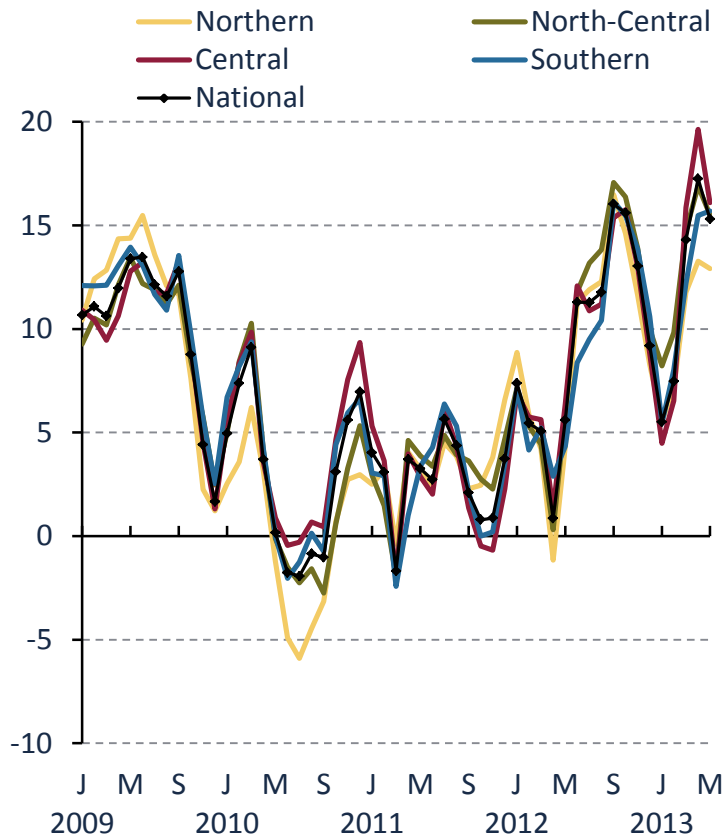


Source: Estimated by Banco de México with data from INEGI and own data.

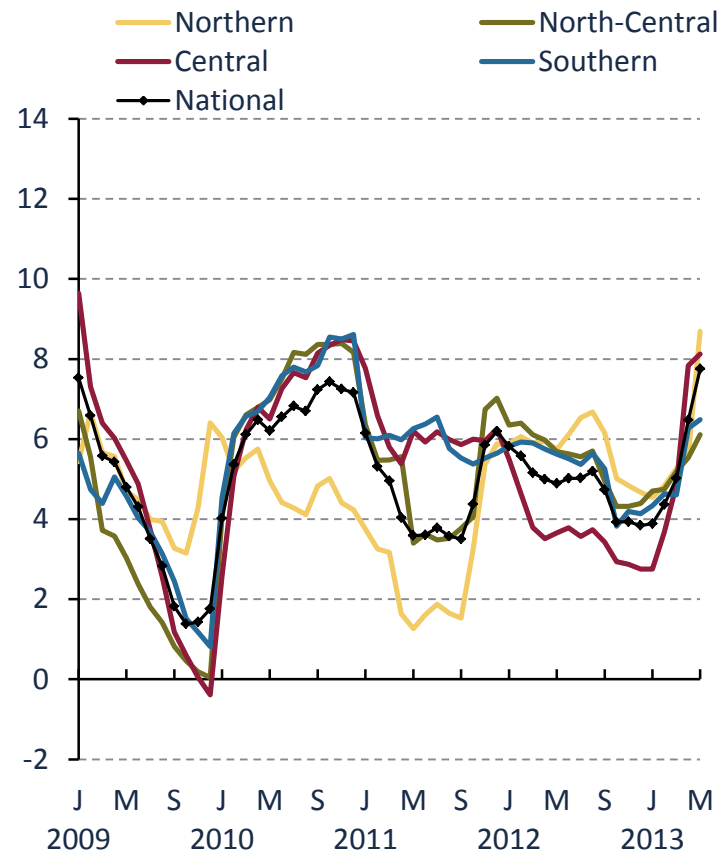
Annual Non-core Inflation by Type of Product

Percent

Agricultural



Energy and Government Approved Fares



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

Economic Outlook

- The business agents interviewed by Banco de México for this Report expect economic activity to continue growing in all regions over the next 6 and 12 months, the expansion signal being stronger in the 12-month horizon.
- The referred business contacts anticipate that hired personnel in their firms will keep growing, displaying greater optimism in the 12-month horizon.
- Likewise, most of them intend to increase the physical capital stock in their firms over the next year and some of them placed special emphasis on investments expected in the following sectors: automobile, mining, trade, tourism, energy and passenger transport.

Economic Outlook

- According to the interviewed business contacts, the major risks for regional economic growth are:

External risks

- ✓ World economic growth rate.

Domestic risks

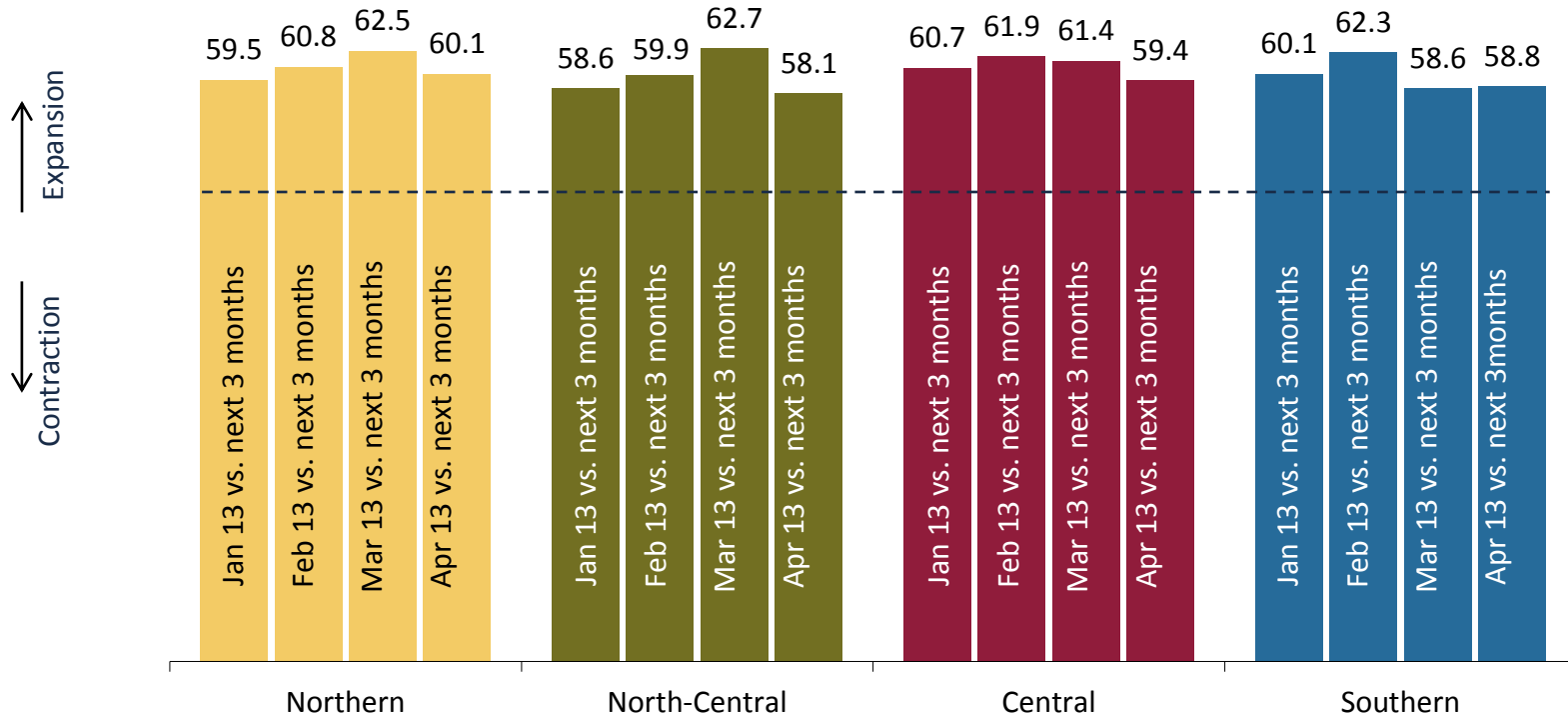
- ✓ Weak local public finances.
- ✓ Perception of public safety.

- Regarding the price formation process, most sources consulted by Banco de México anticipate lower inflationary pressures over the next 6 and 12 months as compared to 2012.

Economic Outlook

Regional Indices of Manufacturing Orders: Expectations over the Next 3 Months ^{1/}

Diffusion index



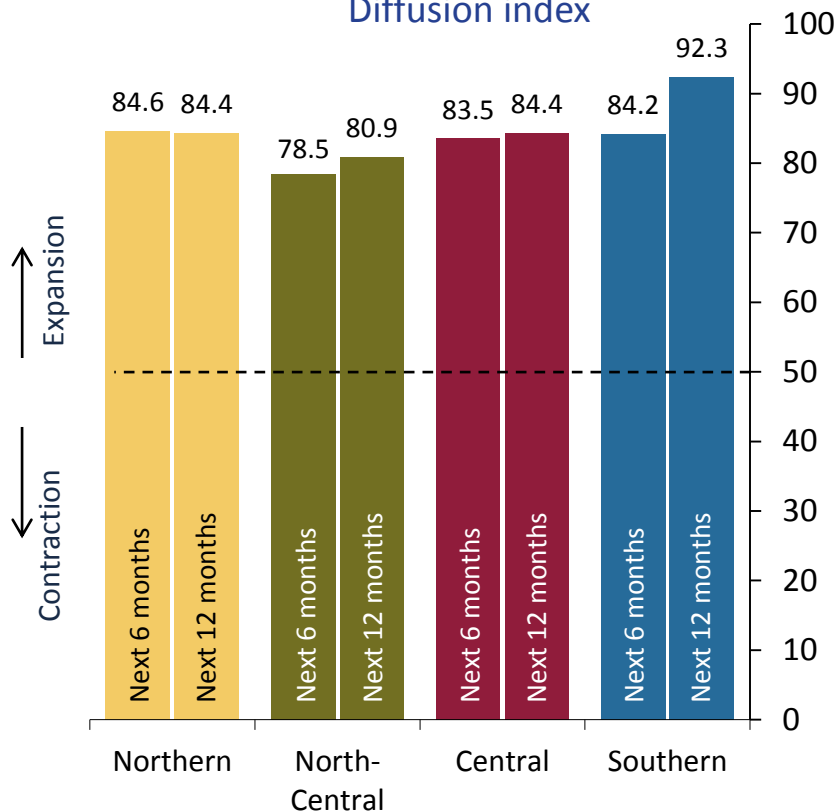
^{1/} Seasonally adjusted figures.

Source: Banco de México.

Economic Outlook

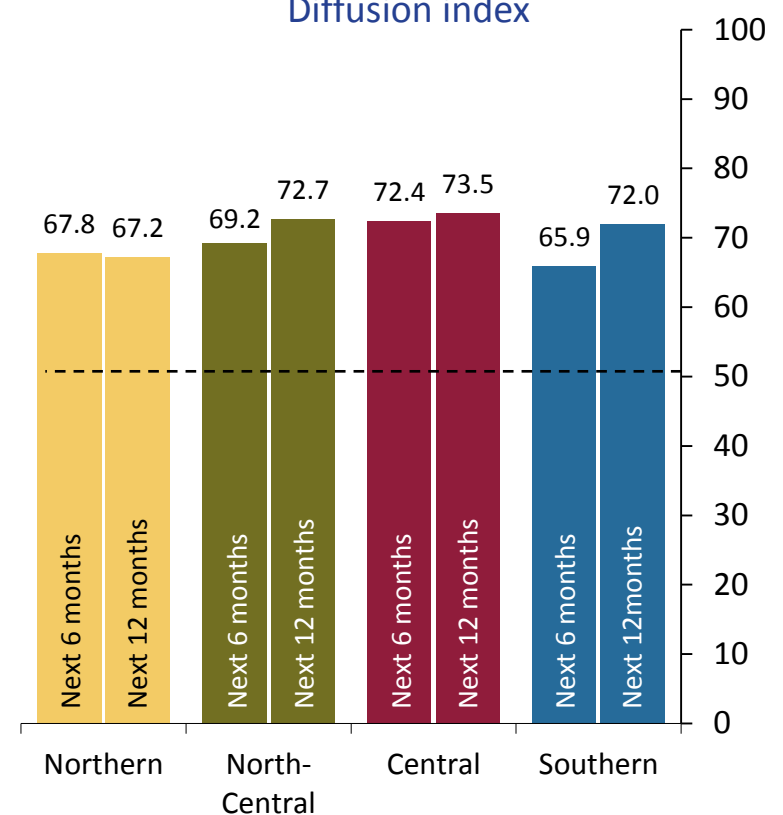
Demand as Expected by Business Agents ^{1/}

Diffusion index



Personnel Hired as Expected by Business Agents ^{1/}

Diffusion index



1/ Results obtained from responses to the question: "With respect to the situation in 1Q 2013, how do you expect the demand for your own products or services to change over the next 6 and 12 months?", from the interviews conducted by Banco de México between April 1 and May 3, 2013.

Source: Banco de México.

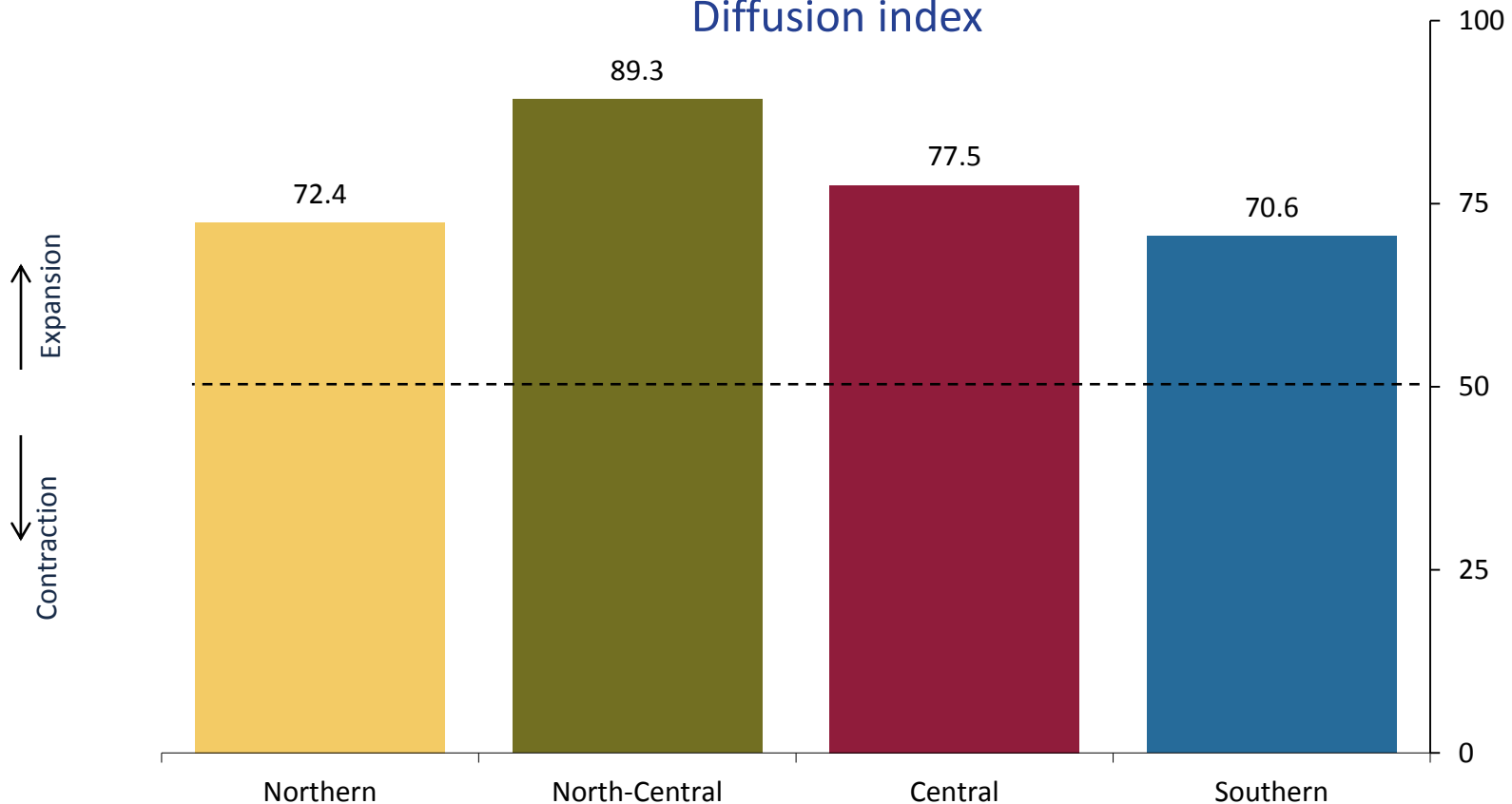
1/ Results obtained from responses to the question: "With respect to the situation in 1Q 2013, how do you expect the personnel hired by your firm to modify over the next 6 and 12 months", from the interviews conducted by Banco de México between April 1 and May 3, 2013.

Source: Banco de México.

Economic Outlook

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

Diffusion index

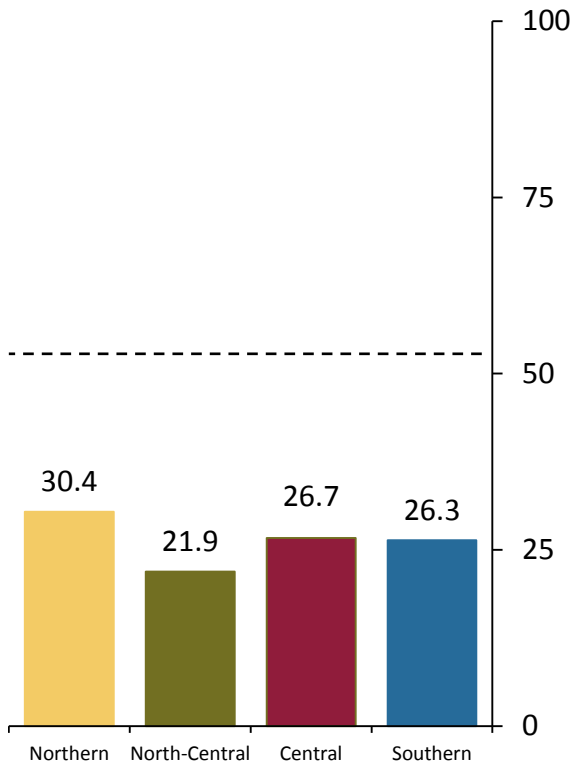


^{1/} Results obtained from responses to the question: “With respect to the situation in 1Q 2013, how do you expect your firm’s physical capital stock to change over the next 12 months?”, from the interviews conducted by Banco de México between April 1 and May 3, 2013.
Source: Banco de México.

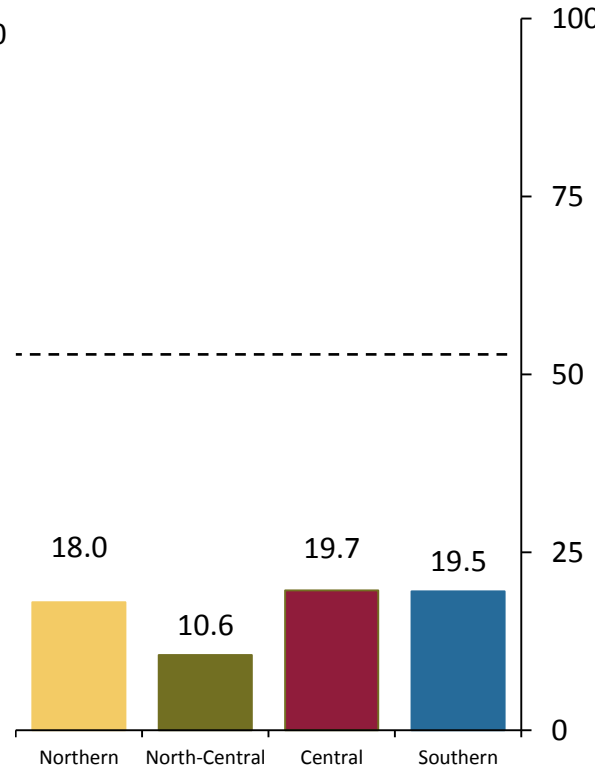
Economic Outlook

Business Agents' Inflation Expectations, Next 6 Months ^{1/} Diffusion index

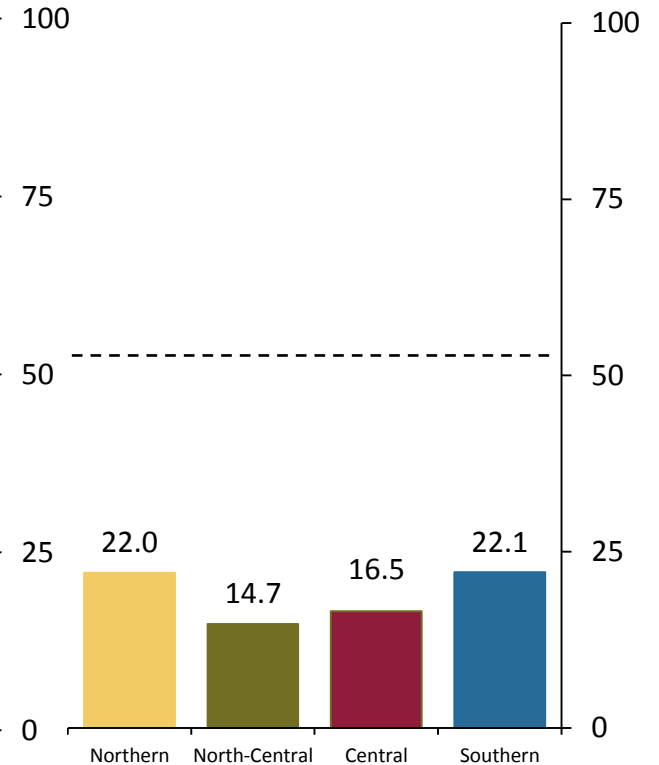
Commodity Price Increase



Labor Cost Increase



Own Products' Price Increase



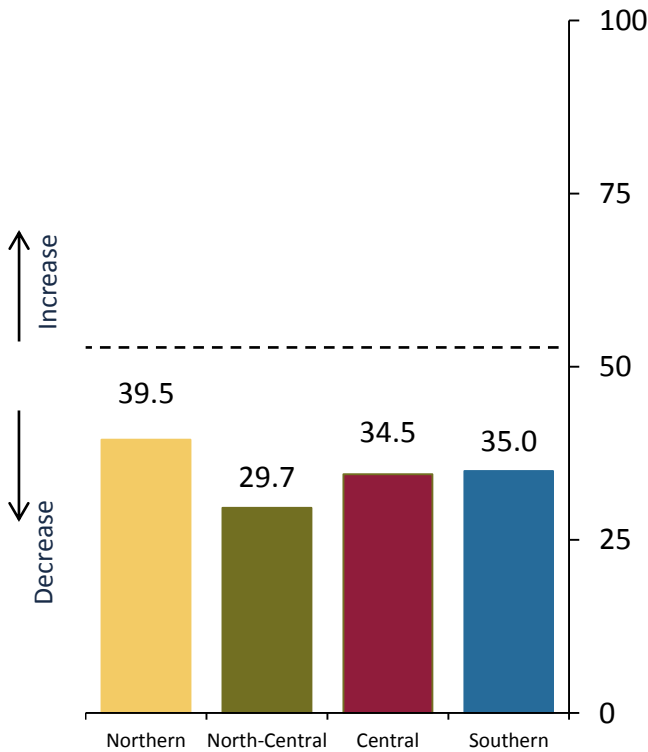
1/ Results obtained from responses to the question: "With respect to the situation in 1Q 2013, do you expect any adjustment in commodity prices, labor costs and own products' prices over the next 6 months?" and "In comparison with the same period of last year, what magnitude of adjustment do you expect? Greater, same or lower?", from the interviews conducted by Banco de México between April 1 and May 3, 2013.

Source: Banco de México.

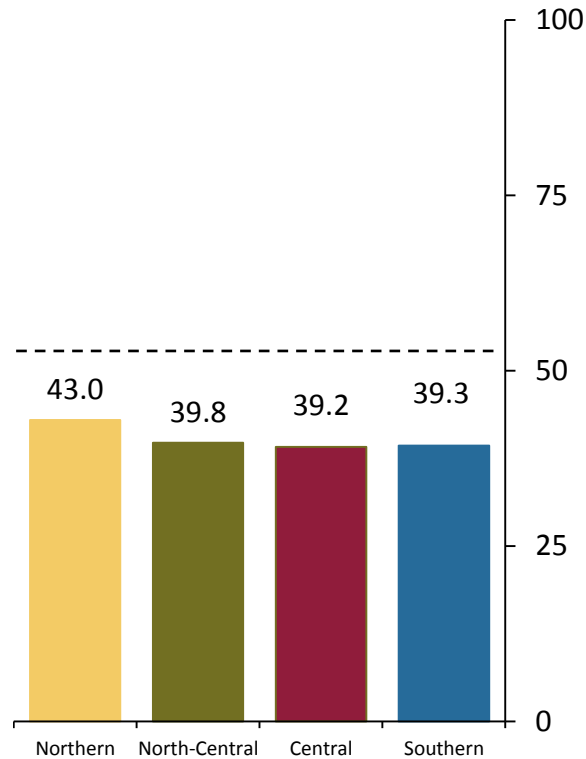
Economic Outlook

Business Agents' Inflation Expectations, Next 12 Months ^{1/} Diffusion Index

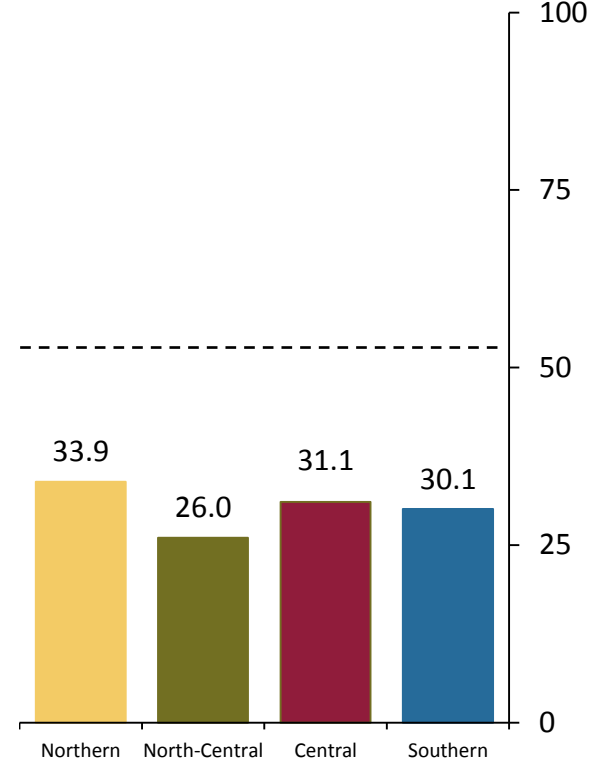
Commodity Price Increase



Labor Cost Increase



Own Products' Price Increase



1/ Results obtained from responses to the question: "With respect to the situation in 1Q 2013, do you expect any adjustment in commodity prices, labor costs and own products' prices over the next 12 months?" and "In comparison with the same period of last year, what magnitude of adjustment do you expect? Greater, same or lower?", from the interviews conducted by Banco de México between April 1 and May 3, 2013.

Source: Banco de México.

Impact of Frosts on Annual Food Inflation at the Regional Level

- In March 2013 frosts, observed in the Northern, North-Central and Central regions of the country, damaged different crops of the autumn-winter 2012-2013 agricultural cycle.
 - ✓ Among the affected products are zucchini, green tomato and tomato.
- This Report presents an analysis, at the national and regional levels, of the relation between the frosts episodes in Mexico's agricultural areas and annual inflation of different food baskets over the period between January 2001 and March 2013.
- An “Extreme Cold Weather Index” was developed, capturing the number of monthly registered frosts nationwide. Then, the relation between frost episodes and annual inflation of fruit and vegetables, agricultural products, processed foods and total food items (agricultural and processed food items) was analyzed.

Impact of Frosts on Annual Food Inflation at the Regional Level

Main results

- A positive and statistically significant relation was found between the number of frosts and annual inflation of fruit and vegetables, agricultural products and total food items.
- In all regional economies, the degree of association between these two variables did not differ statistically from that obtained at the national level.
 - ✓ This result seems to indicate that regional food markets are not segmented geographically.
- In turn, no statistically significant relation was found between the number of frost episodes and annual inflation of processed food items.
 - ✓ This suggests that despite the effect of frosts on agricultural products' prices, it did not pass through onto annual inflation of processed foods.

Impact of Frosts on Annual Food Inflation at the Regional Level

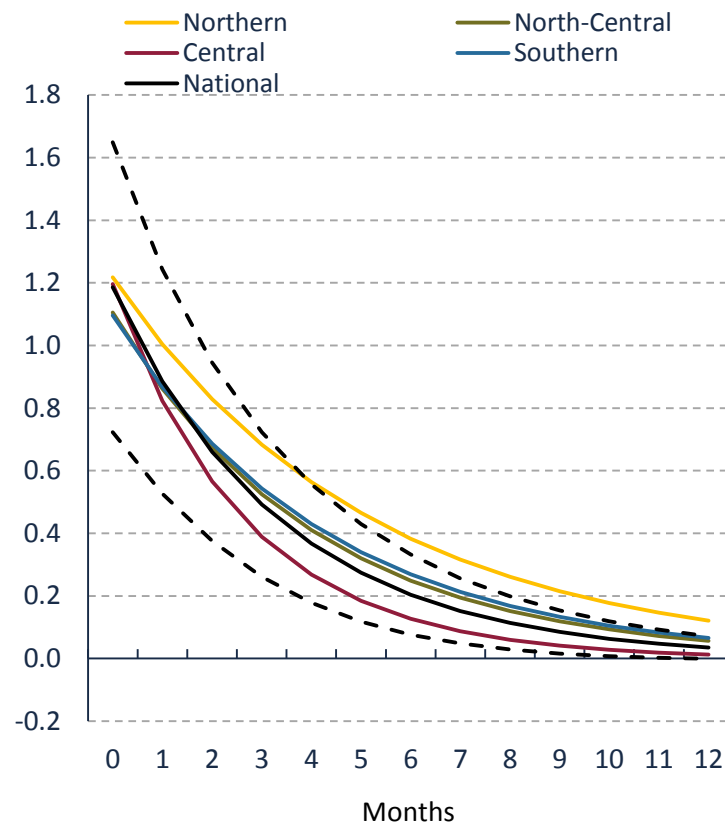
Estimated Impact of Frosts on Annual Inflation at the Regional and National Level ^{1/}
Percentage points

	Fruit and vegetables	Agricultural products	Processed food	Total
National	2.778*** (1.026)	1.186** (0.463)	0.067 (0.063)	0.585*** (0.204)
Northern	3.214*** (1.037)	1.218*** (0.439)	0.081 (0.067)	0.522*** (0.178)
North-Central	2.305** (1.001)	1.105** (0.466)	0.058 (0.068)	0.508*** (0.196)
Central	2.749** (1.103)	1.196** (0.544)	0.072 (0.081)	0.641** (0.256)
Southern	2.927** (1.137)	1.096*** (0.418)	0.051 (0.078)	0.531*** (0.191)

1/ The standard error is indicated in brackets. The coefficients with asterisks are statistically different from zero (statistical significance, ** 5 percent, *** 1 percent).

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

Impact of Frosts on Annual Inflation of Agricultural Products ^{2/}
Percentage points



2/ The dotted lines represent confidence intervals for the estimates at the national level.

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Final Considerations

The following points are noteworthy in the analysis of the regional economic data and opinions of the interviewed business agents:

- ① In 1Q 2013 the economic growth rate kept moderating in all regional economies, this deceleration being more accentuated in the Southern region.
- ② Average annual headline inflation was lower than that observed in 4Q 2012 in all regions of the country.
 - ✓ Nonetheless, by the end of 1Q and the beginning of 2Q 2013, annual headline inflation rebounded, derived from an increase in the non-core component.

In turn, over the analyzed period, annual core inflation persisted at levels close to 3 percent in the North-Central, Central and Southern regions, and around 2 percent in the Northern one.

Final Considerations

- ③ The business contacts interviewed by Banco de México for this Report expect the regional economies to continue growing over the next 6 and 12 months, the expansion signal being stronger in the longer term.
- ④ Regarding external risks that could affect the economic expansion, most business agents mentioned an environment of weaker world economic growth. With respect to domestic risks, they mainly emphasized weak public finances in some states.
- ⑤ With regard to inflation forecasts, the referred business contacts anticipate lower inflationary pressures over the next 6 and 12 months as compared to 2012.



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