



Regional Economic Report  
July- September 2014



BANCO DE MÉXICO

December 11, 2014

# Outline

- I. Introduction**
- II. Results July – September 2014**
  - A. Economic Activity**
  - B. Inflation**
  - C. Economic Outlook**
- III. Final Remarks**

# 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.<sup>1</sup>
- 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 3Q 2014 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 states 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.

# Outlook

- I. Introduction
- II. Results July - September 2014**
  - A. Economic Activity**
  - B. Inflation**
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- III. Final Remarks

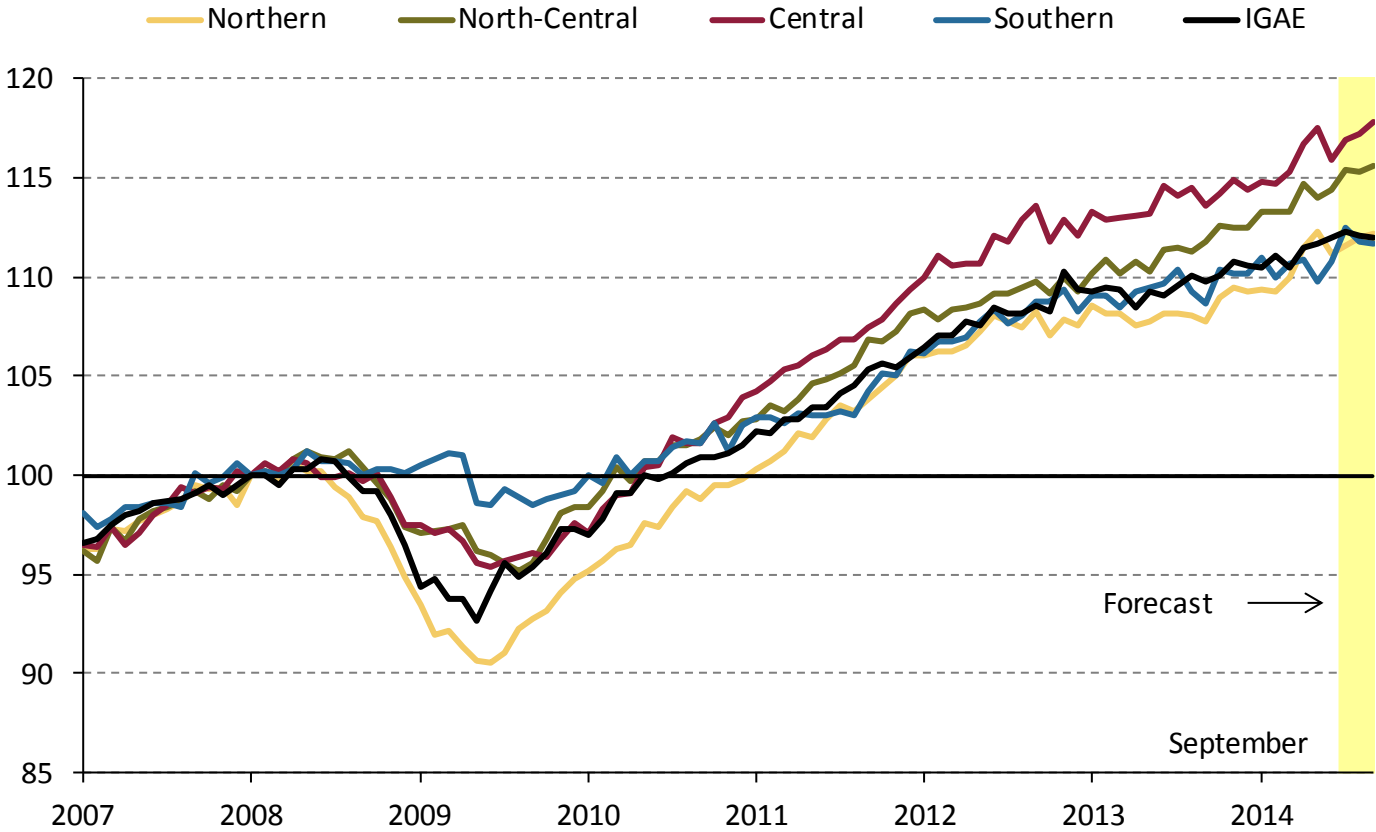
# Economic Activity

- Economic activity expanded in all regional economies of Mexico during 3Q 2014. However, the growth was slower as compared to 2Q 2014.
- Activity in the manufacturing and trade sectors expanded, although in some regions at a lower rate with respect to the previous quarter.
- In the tourism sector, this moderation was observed in all regions.
- Private construction continued recovering in all regional economies of Mexico.
- In this environment, the number of IMSS-insured workers kept going up in the four regions.

# Economic Activity

## Regional Coincident Index <sup>1/</sup>

Base Jan 2008=100

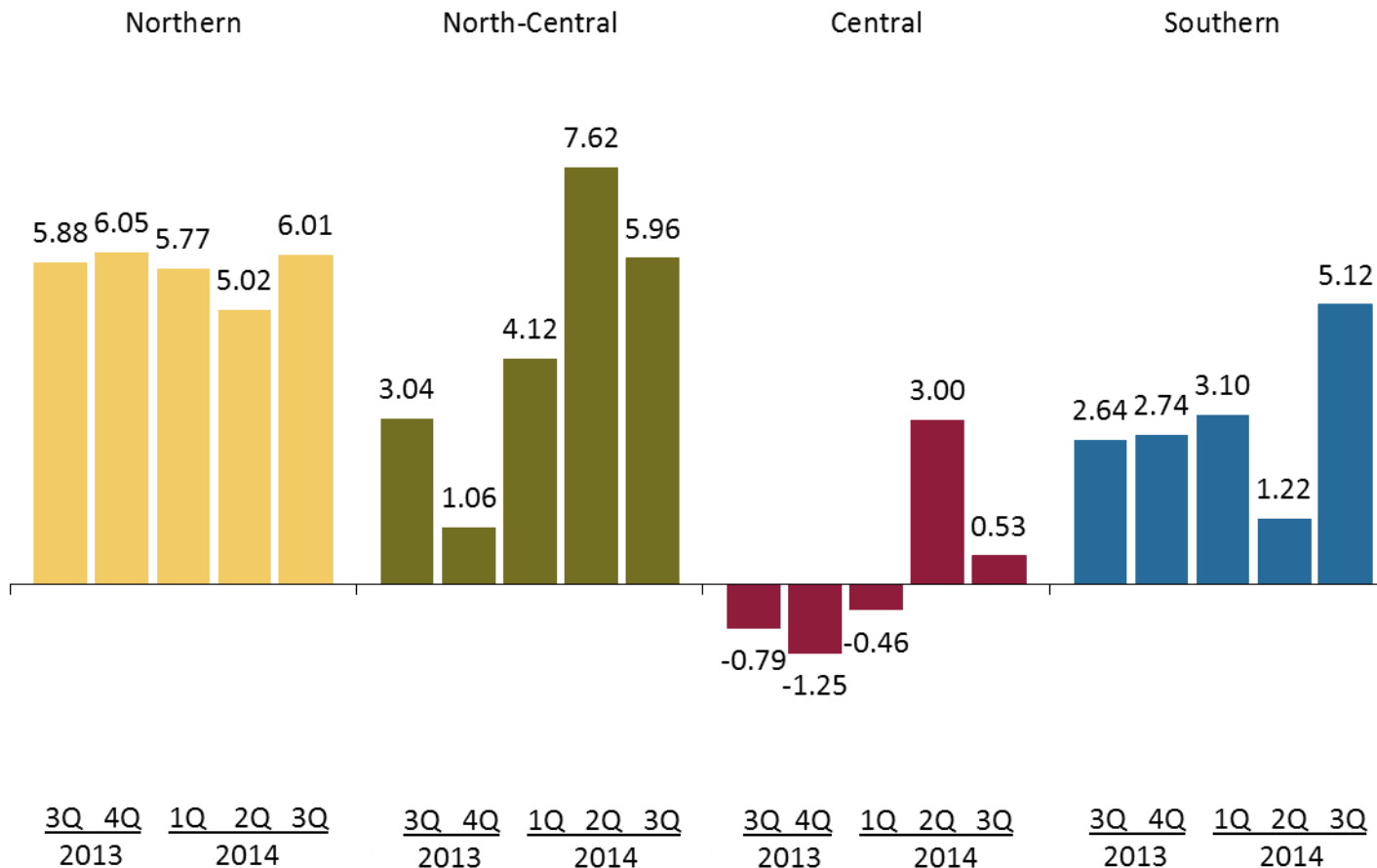


<sup>1/</sup> This indicator's values in August and September 2014 are preliminary.  
Source: Estimated by Banco de México with seasonally adjusted data from IMSS and INEGI.

# Economic Activity

## Regional Manufacturing Indicator <sup>1/</sup>

Annual change in percent

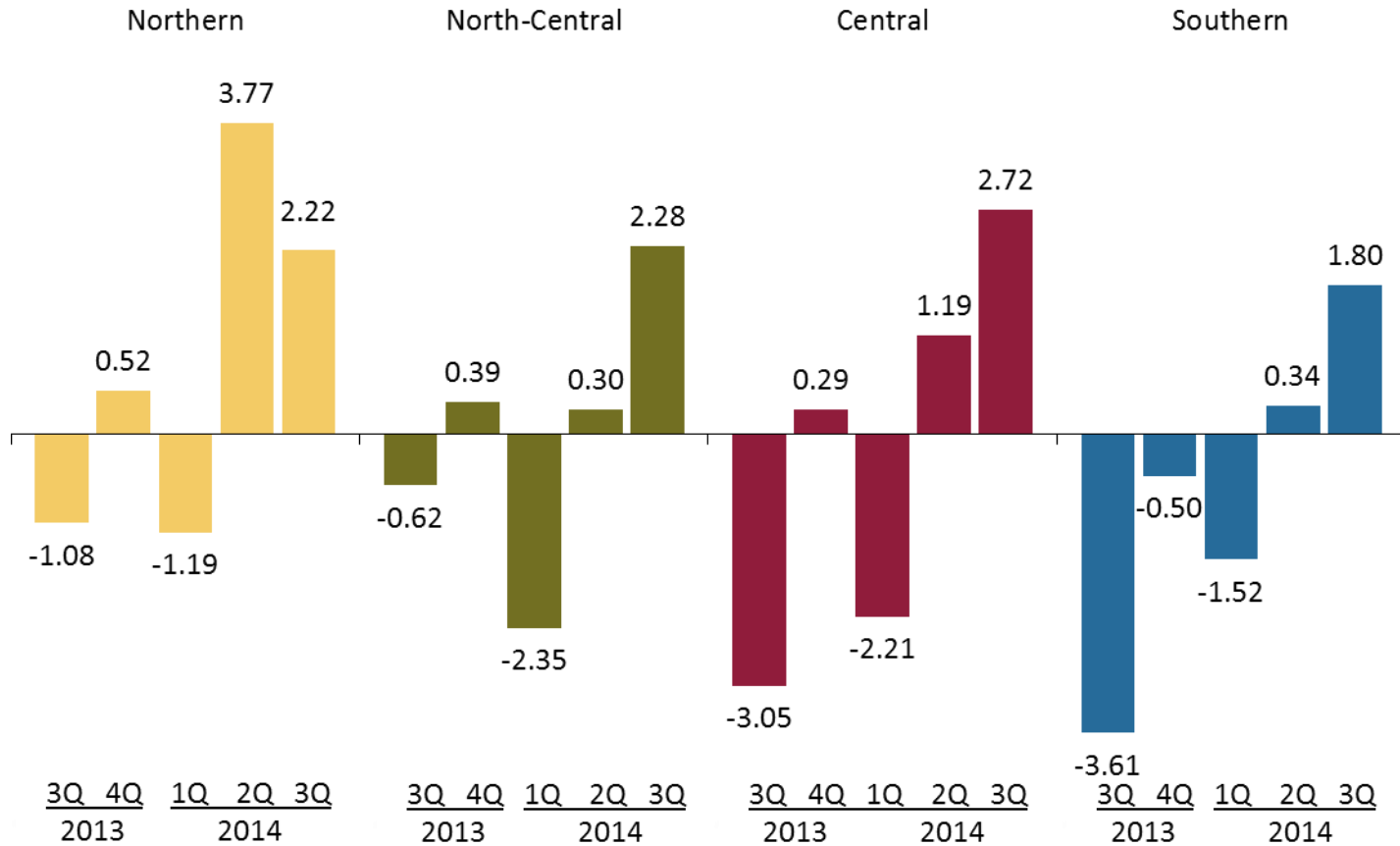


<sup>1/</sup> This indicator's values in the third quarter of 2014 are preliminary.  
Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

# Economic Activity

## Regional Retail Sales Indicator <sup>1/</sup>

Annual change in percent



<sup>1/</sup> This indicator's values in the third quarter of 2014 are estimates.

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

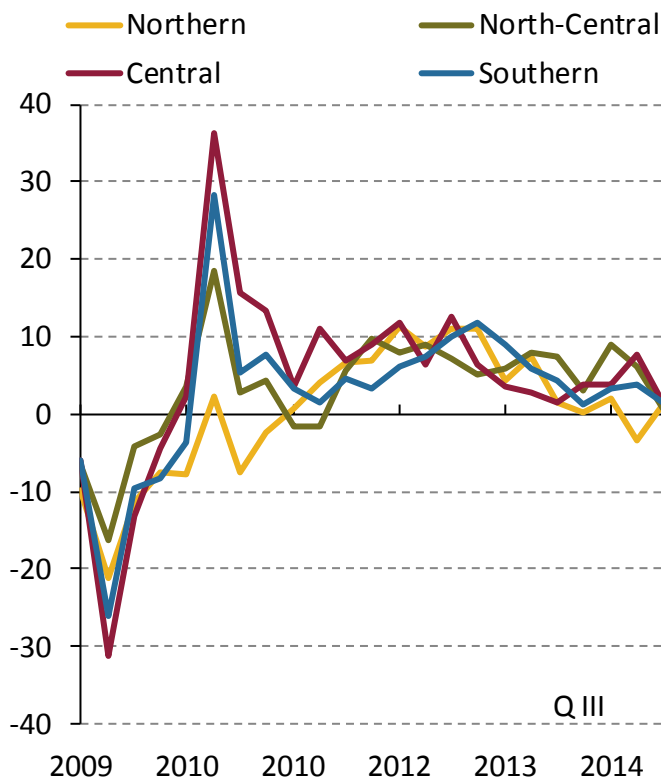


# Economic Activity

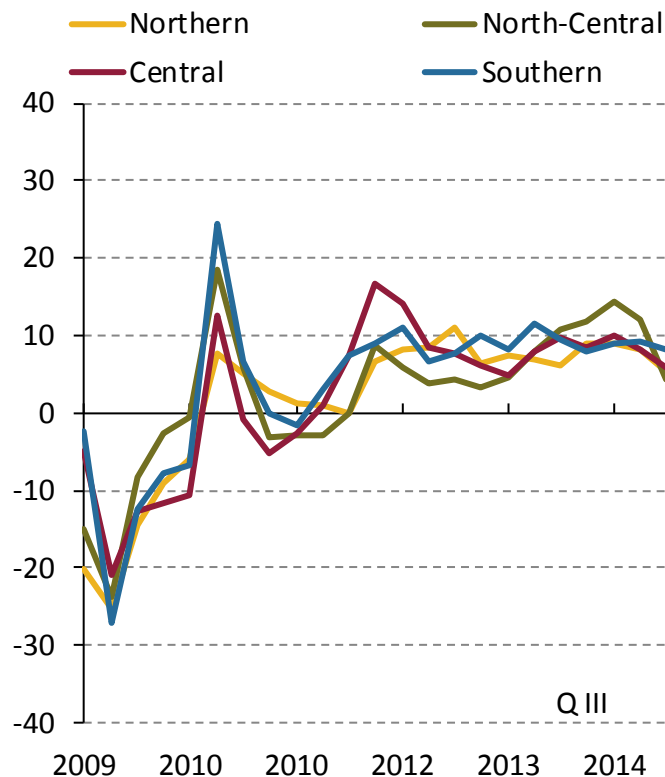
## Regional Indicators of Activity in Tourism

Annual change in percent

### Hotel Occupancy



### Inflow of Passengers to Airports

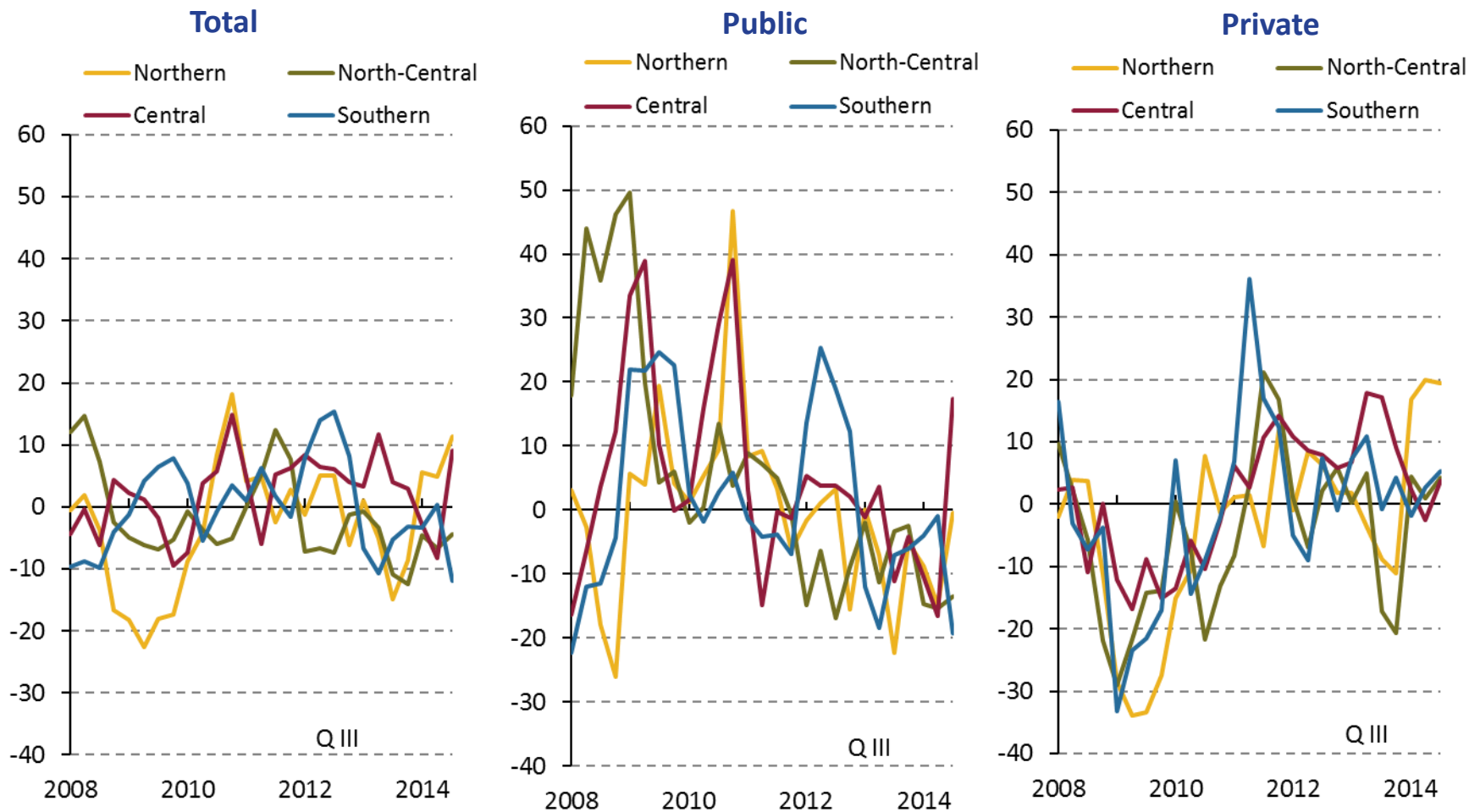


Source: Estimated by Banco de México with seasonally adjusted data from the Mexican Secretariat of Tourism and from Airports and Auxiliary Services (ASA, for its Spanish acronym).

# Economic Activity

## Real Value of Production in the Construction Industry by Region

Annual change in percent



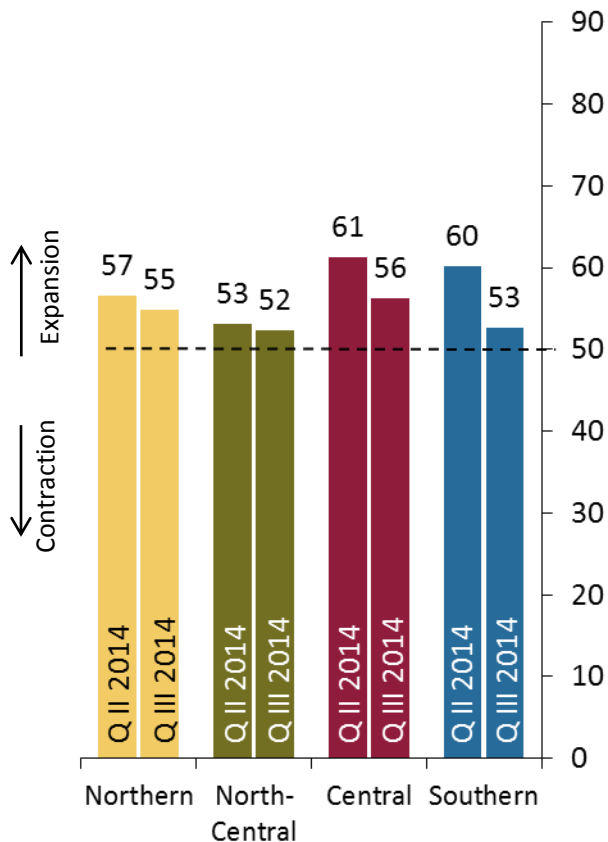
Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

# Economic Activity

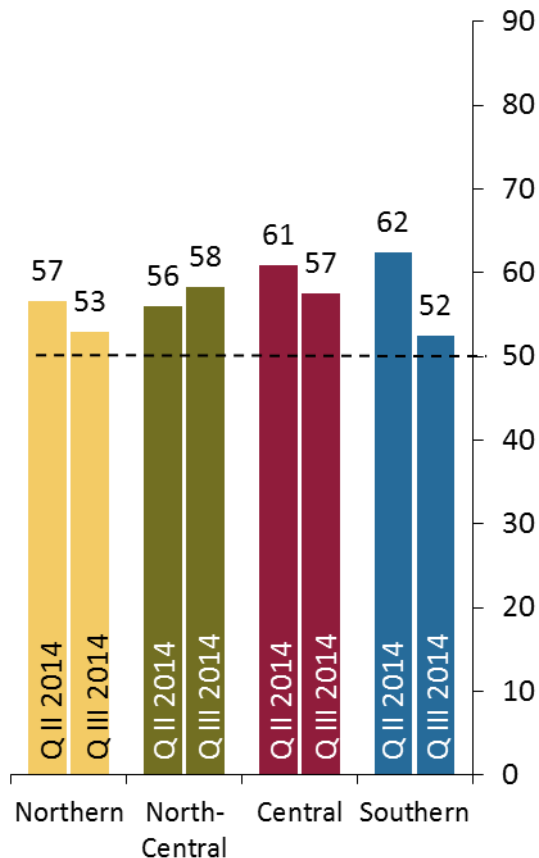
## Main Sources of Financing to Firms

Diffusion index

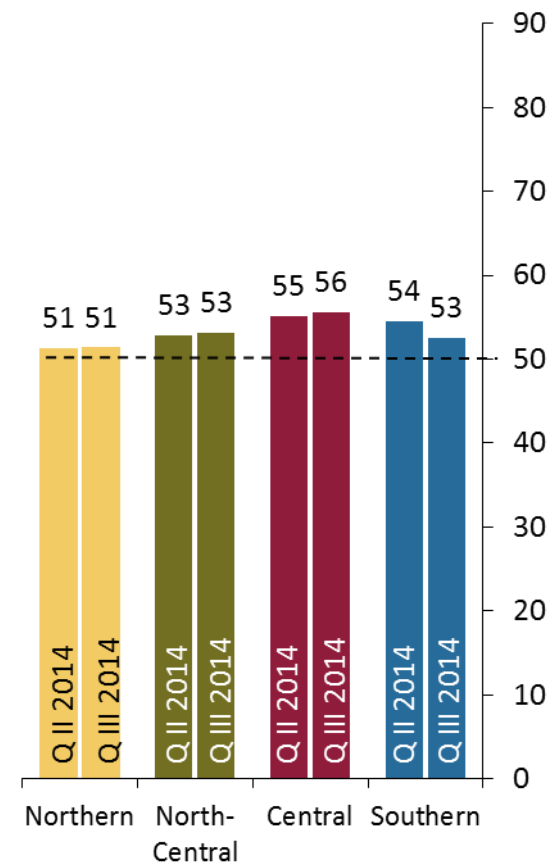
### Own Resources



### Suppliers



### Commercial Banks

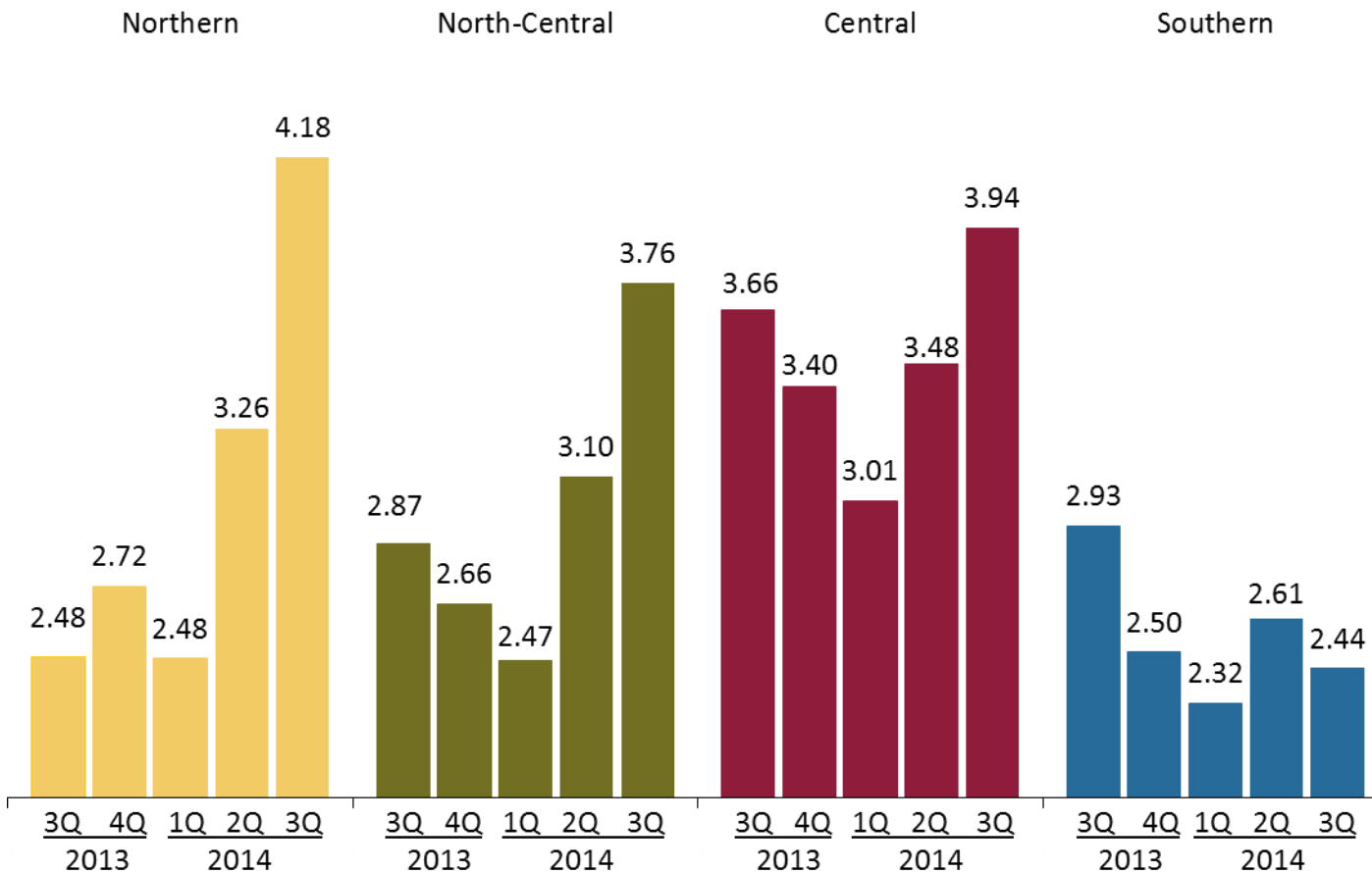


Source: Banco de México.

# Economic Activity

## Number of IMSS-insured Workers

### Annual change in percent



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

# Box: Effect of the Hurricane “Odile” on Regional Economies

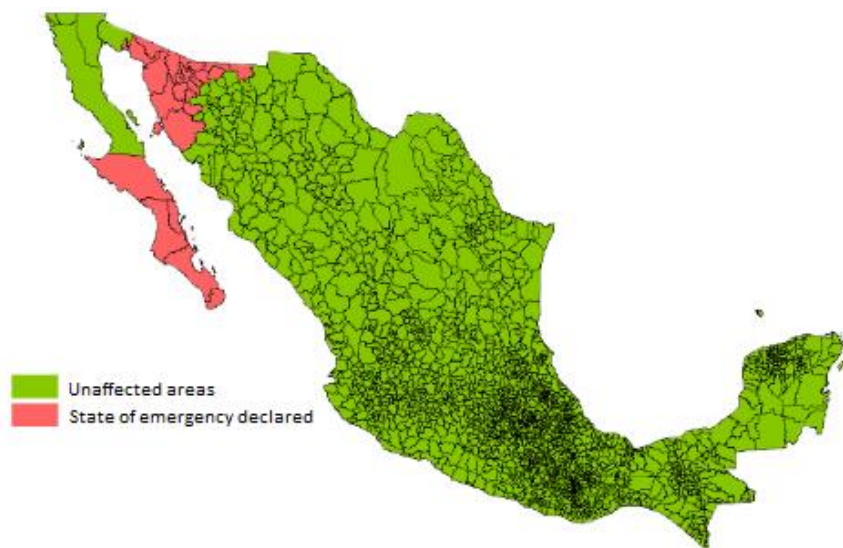
- By the end of 3Q 2014, the hurricane “Odile” affected economic activity in some states of the North-Central and Northern regions of the country.
- The analysis of available data suggests that severe economic damage was geographically bounded and mainly concentrated in the tourism sector. Besides, the damage was short-lived, reason for which the impact on the Mexican economy was limited.
  - ✓ The 5 municipalities in Baja California Sur and 21 municipalities (30%) of Sonora were affected, which represents 1 percent of total municipalities of Mexico.
  - ✓ The state of emergency lasted for approximately 10 days in Sonora and less than a month in Baja California Sur.
  - ✓ Most of the services of transport, communications, water and electricity were reestablished within 2 weeks following the hurricane.

# Box: Effect of the Hurricane “Odile” on Regional Economies

- ✓ The impact on some food prices was transitory, even though it lasted until the first fortnight of October.
- ✓ The affected agricultural area was limited and represents a small share of total cultivated area of the country.
- ✓ Still, both hotel occupancy and inflow of passengers came down significantly in Los Cabos during the second part of September and October.
  - The measures taken by federal and local governments and the sector’s businesses have allowed a gradual recovery of economic activity in the area.
  - The most timely data indicate that hotel occupancy started to show signs of recovery in November.

# Box: Effect of the Hurricane “Odile” on Regional Economies

## Affected Municipalities



## Progress in Reestablishing FEC Services in Baja California Sur <sup>1/</sup>

Percent

	Baja California Sur	Northern area	La Paz area	Los Cabos area
19-Sep-14	34	70	50	NA
20-Sep-14	45	80	70	NA
21-Sep-14	55	86	80	15
22-Sep-14	62	95	90	19
24-Sep-14	72	97	95	34
26-Sep-14	77	98	95	51
27-Sep-14	NA	99	97	60
28-Sep-14	90	99	99	75
29-Sep-14	94	100	99	86
30-Sep-14	97	100	100	93
1-Oct-14	99	100	100	97
2-Oct-14	100	100	100	100

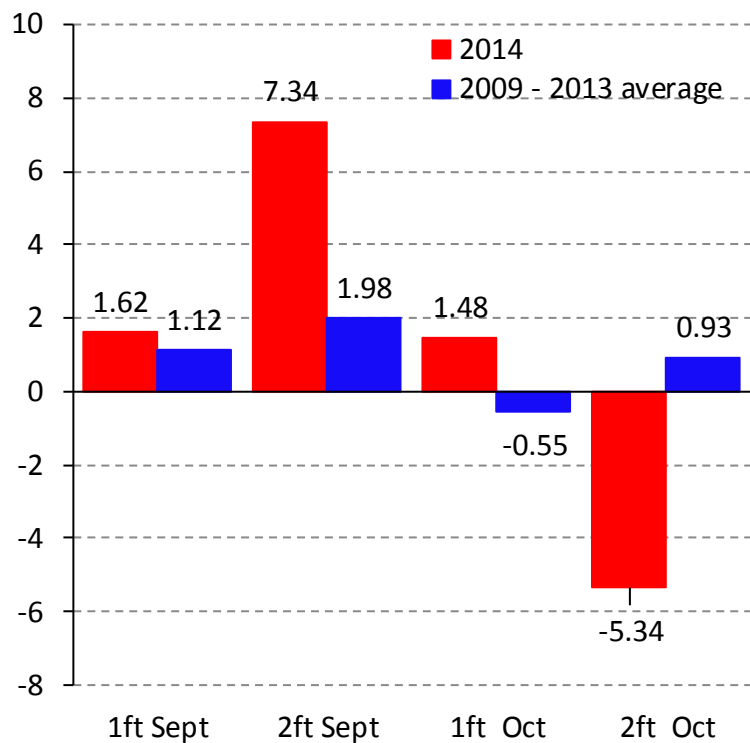
Source: Estimated by Banco de México with data from the Interior Ministry.

1/ Northern area: Constitución, Loreto, Santa Rosalía, Guerrero Negro, Comondú and Mulegé; La Paz area: La Paz and Todos Santos; and Los Cabos area: San José del Cabo and Cabo San Lucas.

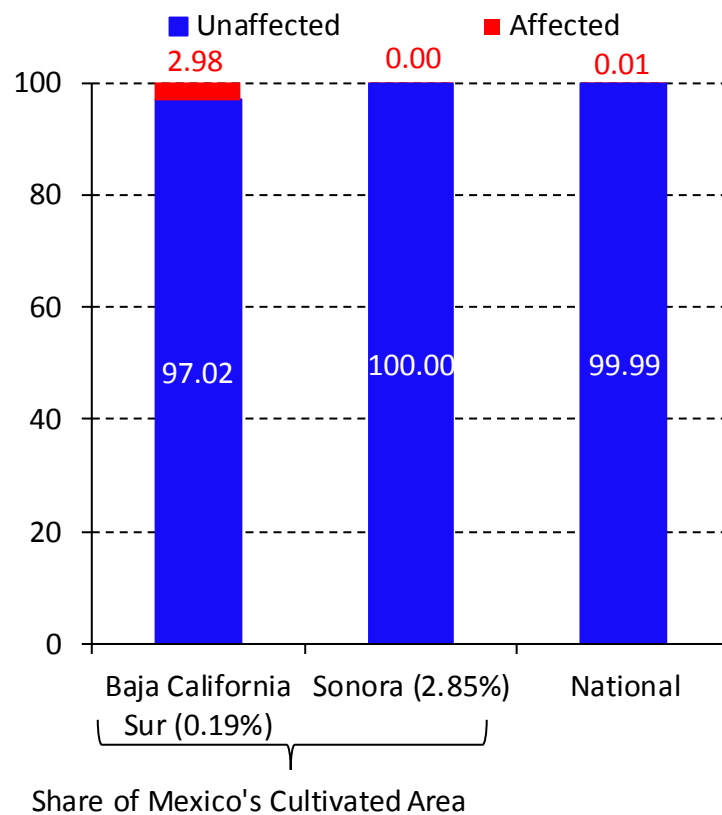
Source: Federal Electricity Commission (FEC).

# Box: Effect of the Hurricane "Odile" on Regional Economies

**Index of Fruit and Vegetable Prices: La Paz**  
Fortnightly change in percent



**Affected Agricultural Area**  
Percentage of cultivated area in 2013



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

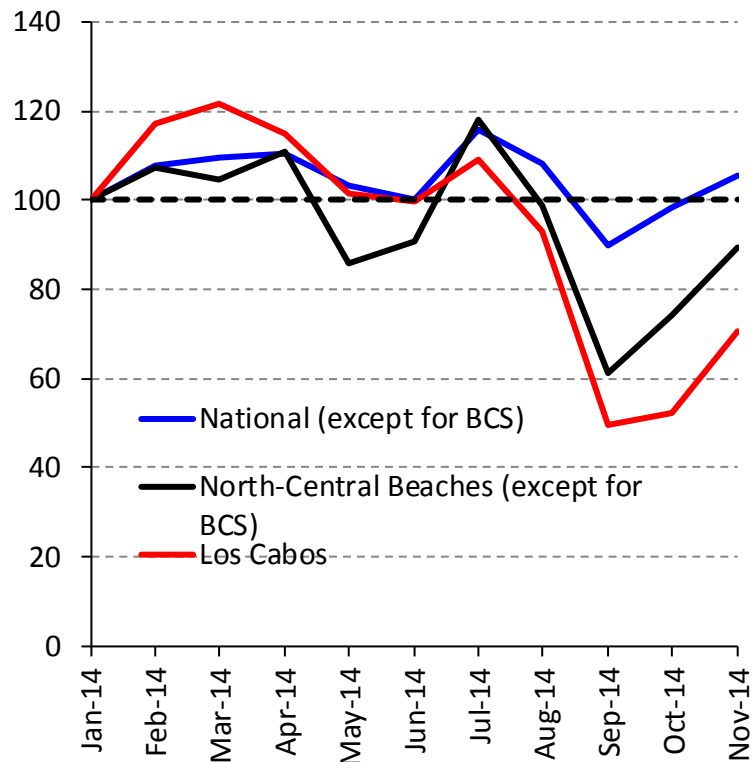
Source: Estimated by Banco de México with data from SAGARPA.



# Box: Effect of the Hurricane “Odile” on Regional Economies

## Hotel Occupancy

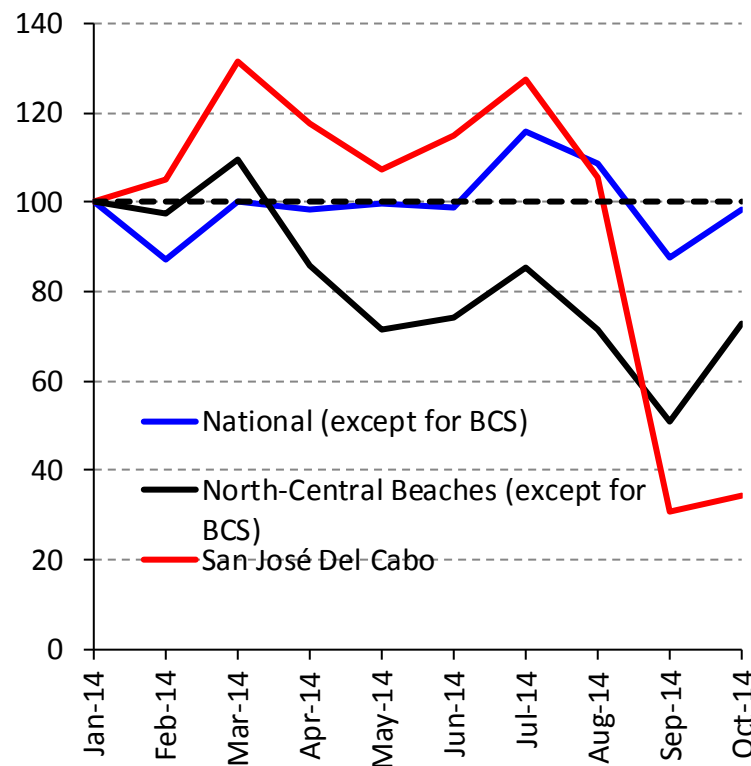
Index Jan 2004=100



Source: Estimated by Banco de México with data from the Mexican Secretariat of Tourism as of the first week of November 2014 (National and North-Central), and with data provided by business agents interviewed by Banco de México (Los Cabos).

## Inflow of Passengers to Airports

Index Jan 2004=100



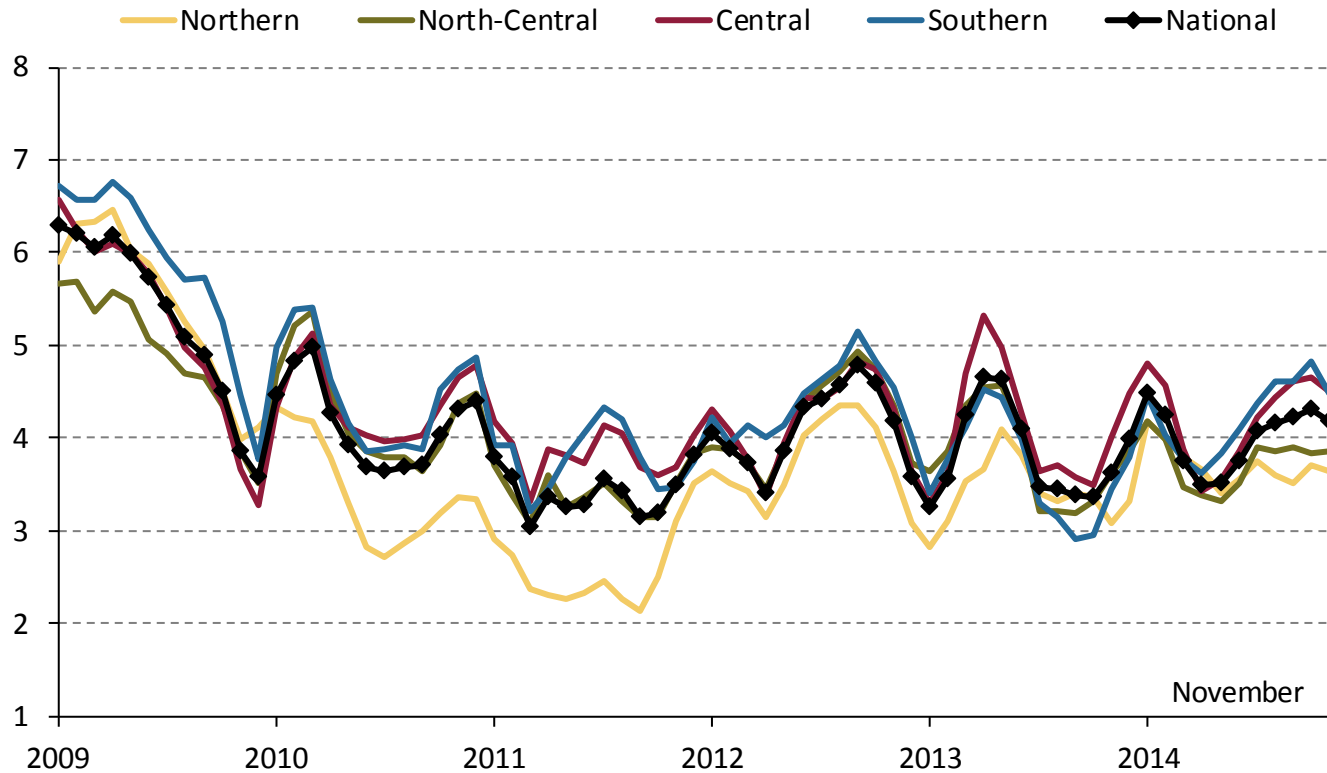
Source: Banco de México with data from Airports and Auxiliary Services, as of October 2014.

# Inflation

- In 3Q 2014, in all regional economies annual headline inflation was on average higher than in 2Q 2014. Subsequently, after persisting at high levels in October, inflation started to decrease in November in all regions.
  - ✓ During the analyzed period, annual headline inflation lied above 4 percent in the Central and Southern regions, and below this figure in the Northern and North-Central ones.
- Annual core inflation remained around 3.3 percent in all regions.
- Thus, the evolution of headline inflation was principally consequent on the performance of non-core inflation; in particular, on the subindex of agricultural products, which was adjusted upwards in 3Q due to an increment in the price of some livestock products.

# Inflation

## Annual Headline inflation Percent



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

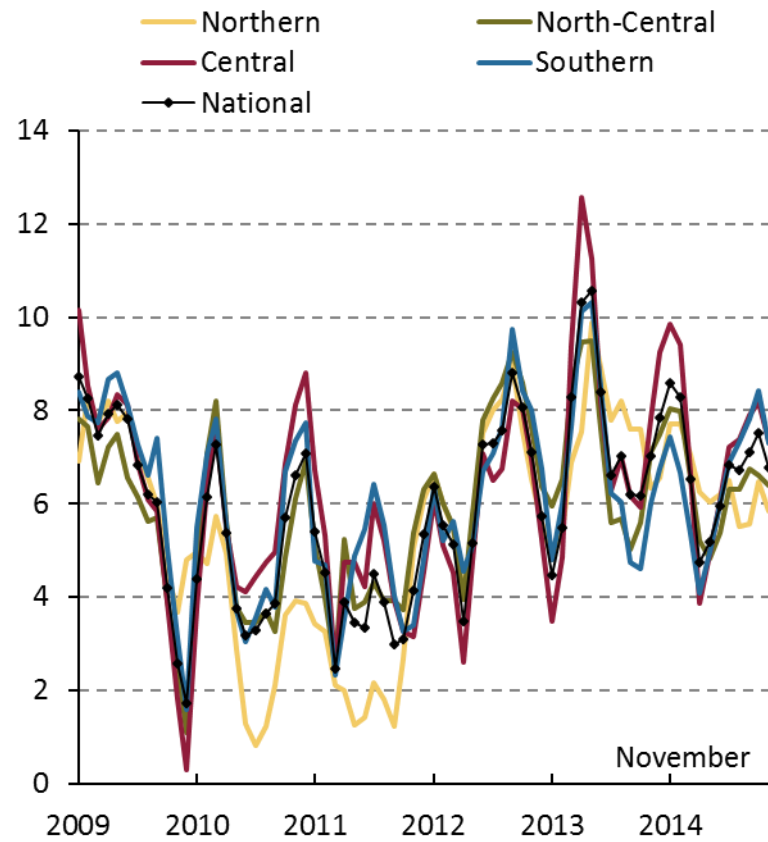
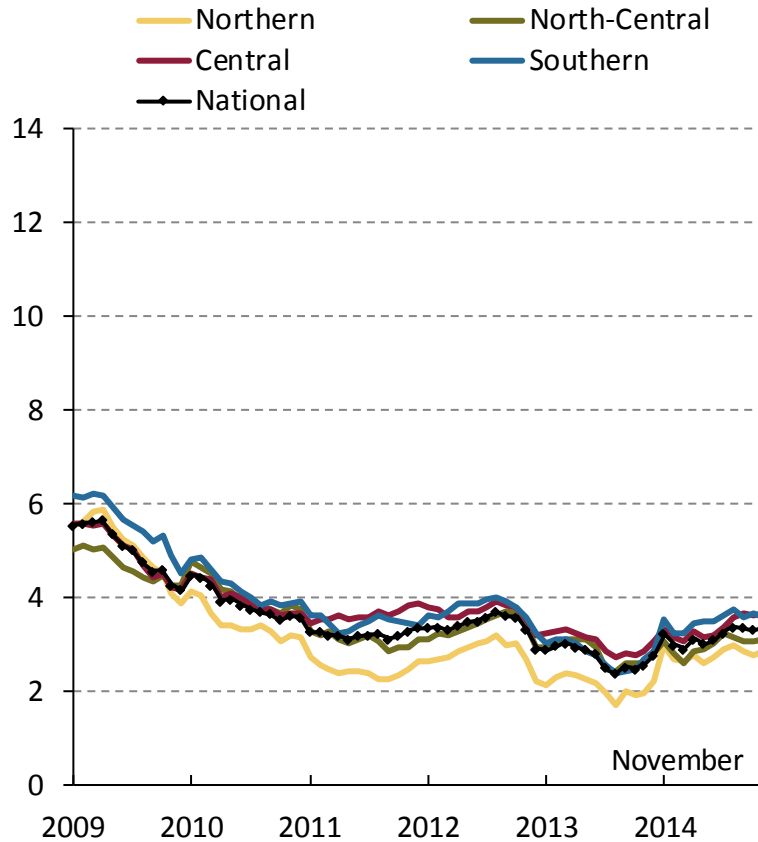
# Inflation

## Components of Annual Headline Inflation

Percent

Core

Non-core



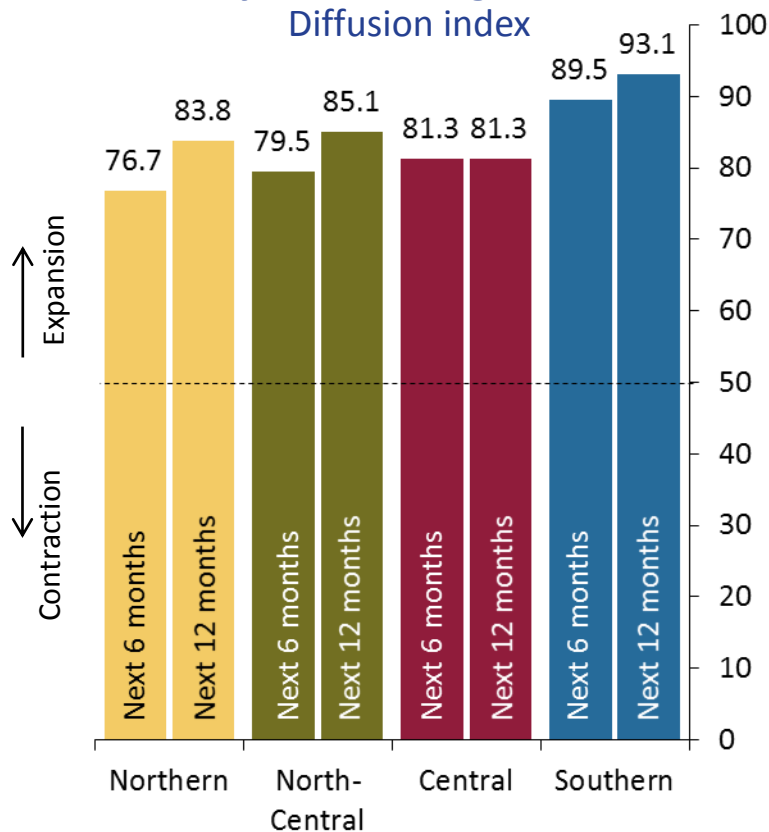
Source: Estimated by Banco de México with data from INEGI and Banco de México.

# Economic Outlook

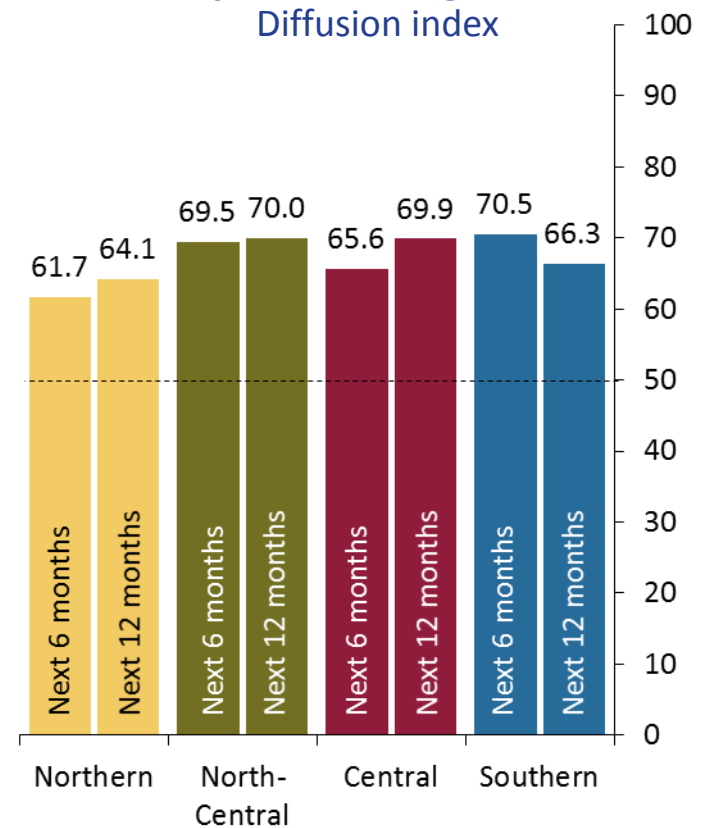
- Business agents interviewed by Banco de México for this Report expect a recovery of demand over the next six and twelve months.
  - ✓ The consulted business contacts anticipate investments to boost their firms' physical capital stock and expect the number of hired personnel to increase.
- According to the interviewed business contacts, regional economies will principally gain momentum from external demand, in particular that from the U.S.
- Furthermore, as compared to the previous quarter, they reported a better outlook for domestic demand, derived from public investment in infrastructure and from the recovery of the construction sector. Still, they expressed their expectation that an improvement in domestic demand will be, in general, moderate.

# Economic Outlook

## Demand as Expected by Business Agents <sup>1/</sup>



## Personnel Hired as Expected by Business Agents <sup>1/</sup>



1/ Results obtained from responses to the question: “With respect to the situation in 3Q 2014, how do you expect demand for own goods and services to changer over the next 6 and 12 months?”, from the interviews conducted by Banco de México in the period of September 22 – October 24, 2014.

Source: Banco de México.

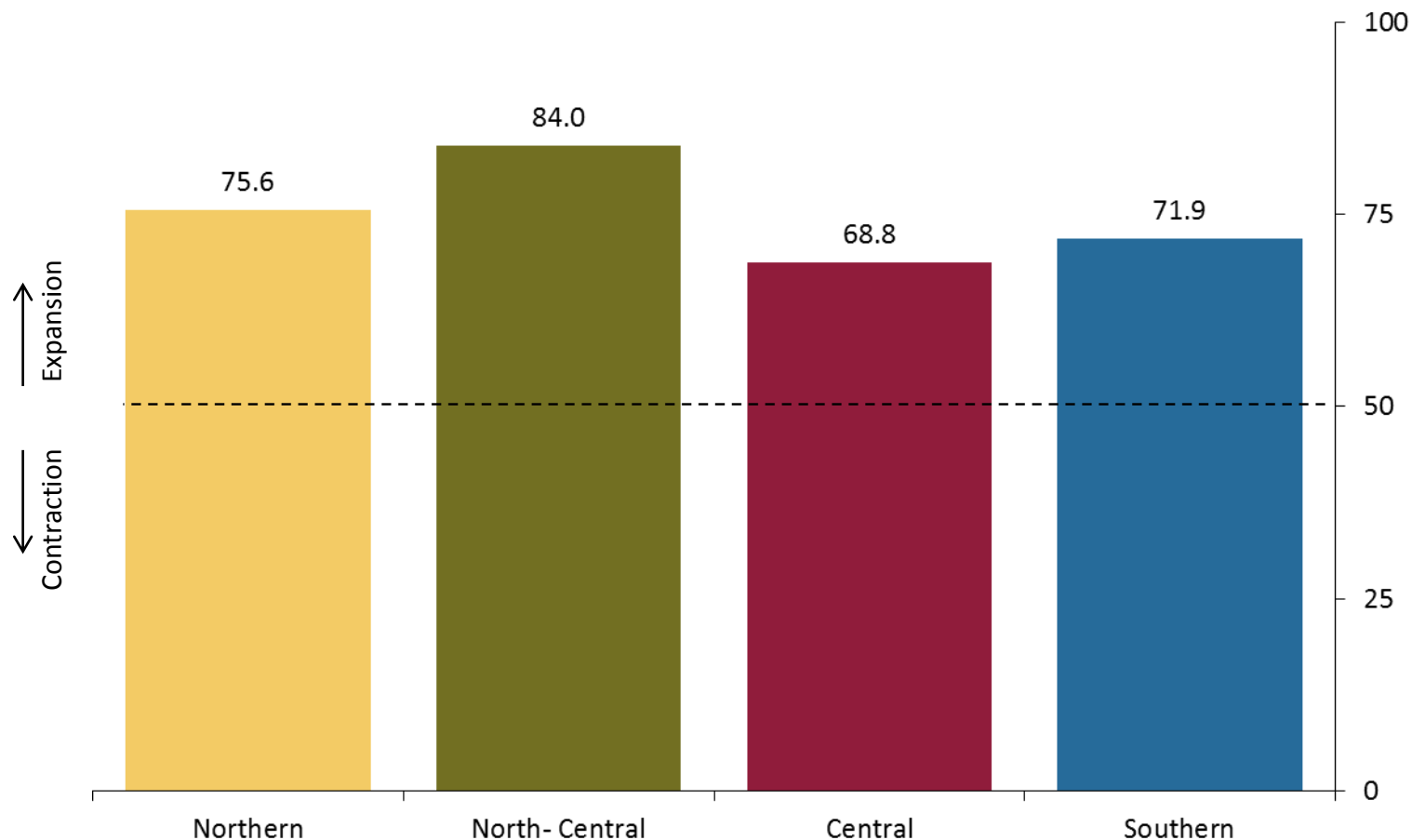
1/ Results obtained from responses to the question: “With respect to the situation in 3Q 2014, how do you expect personnel hired by your firm to modify over the next 6 and 12 months?”, from the interviews conducted by Banco de México in the period of September 22 – October 24, 2014.

Source: Banco de México.

# Economic Outlook

## Physical Capital Stock as Expected by Business Agents for the Next 12 Months <sup>1/</sup>

Diffusion index



<sup>1/</sup> Results obtained from responses to the question: “With respect to the situation in 3Q 2014, 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 in the period of September 22 – October 24, 2014.

Source: Banco de México.

# Economic Outlook

- As regards downward risks to regional economic activity, business contacts mentioned the following:
  - ✓ A further deterioration of the perception of public safety that could considerably affect business agents' expectations.
  - ✓ Weakness of the world economy.
  - ✓ Possible volatility episodes in international financial markets.
- Across the regions, business agents highlighted the following downward risks:
  - ✓ In the Northern, North-Central and Central regions, they expressed concern over the dynamism of investment and the creation of jobs in sectors related to domestic demand.
  - ✓ In the Southern region, the possibility of adverse weather phenomena was stressed.



# Economic Outlook

- Among upward risks to regional economic activity, the next were indicated:
  - ✓ The possibility of an increment in private investment greater than expected, as a consequence of the implementation of energy reform.
  - ✓ Greater than anticipated dynamism of public expenditure on infrastructure.
- Across the regions, business contacts mentioned:
  - ✓ In the Northern and Central regions, the possibility of a greater than forecast rebound in private investment in the automobile sector, as well as of employment in this sector.
  - ✓ In the North-Central and Southern regions, that high season in international tourism will turn out better than anticipated.

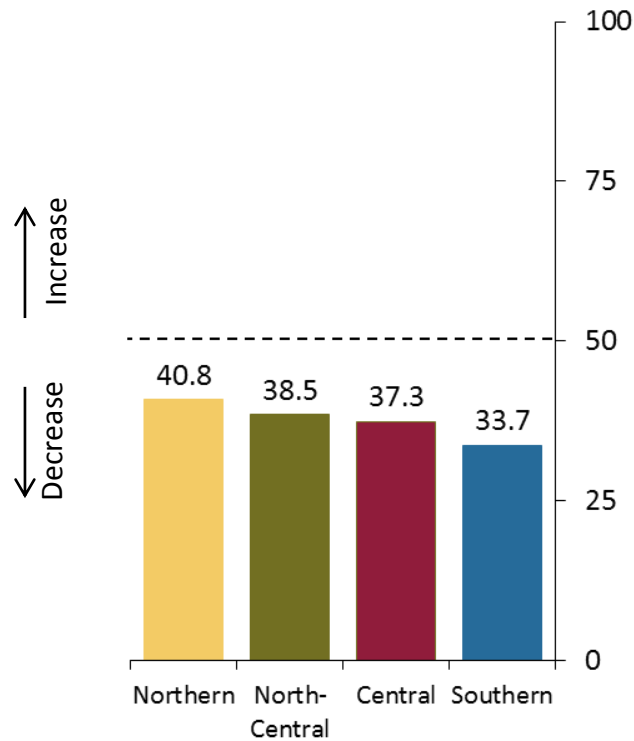
# Economic Outlook

- As regards inflation expectations, in all regions business agents expect for 2015 lower annual growth rates as compared to those observed this year.
- In particular, for the following six and twelve months they anticipate lower annual growth rates with respect to those of last year in:
  - ✓ Wage costs.
  - ✓ Input prices.
  - ✓ Own goods and services sales prices.

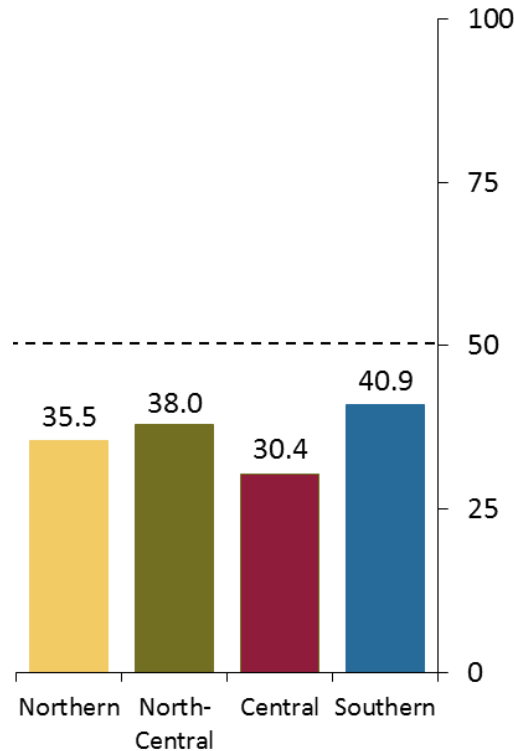
# Economic Outlook

## Business Agents' Inflation Expectations, Next 6 Months <sup>1/</sup> Diffusion index

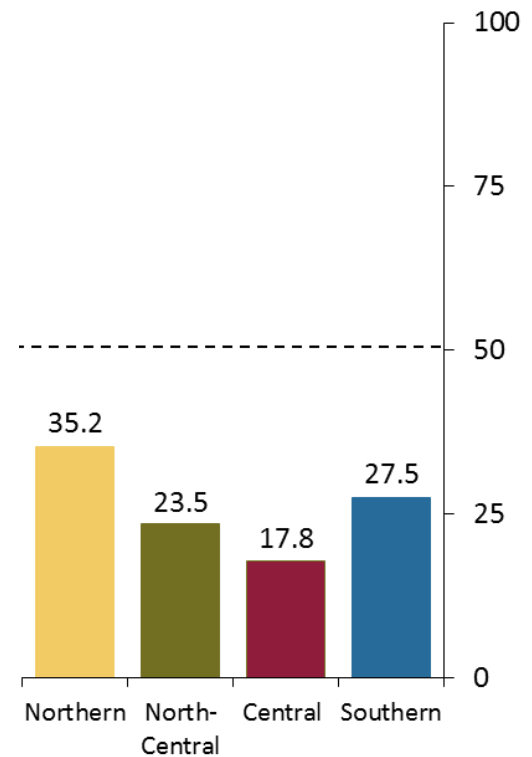
### Labor Cost Inflation



### Commodity Price Inflation



### Own Products' Price Inflation



1/ Results obtained from responses to the question: "With respect to the situation in 3Q 2014, do you expect any adjustments in labor costs, commodity prices and own products and services' 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 in the period of September 22 – October 24, 2014.

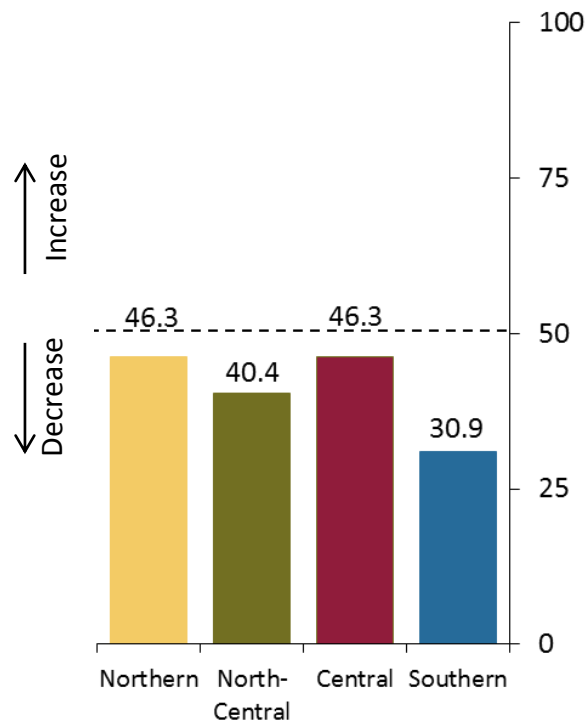
Source: Banco de México.

# Economic Outlook

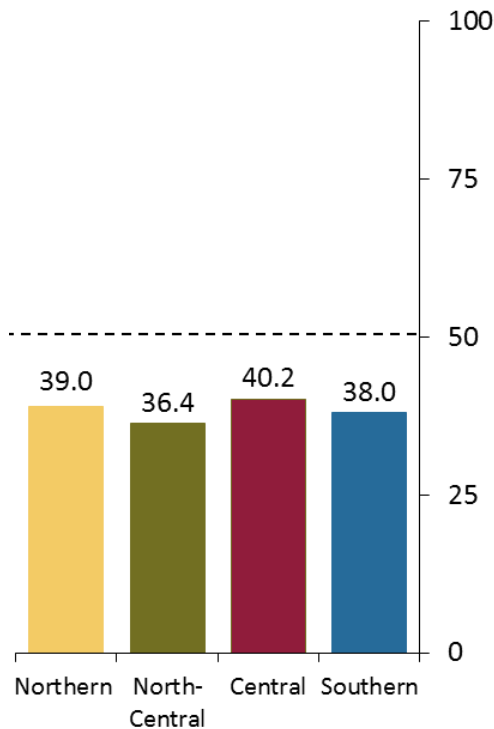
## Business Agents' Inflation Expectations, Next 12 Months <sup>1/</sup>

Diffusion index

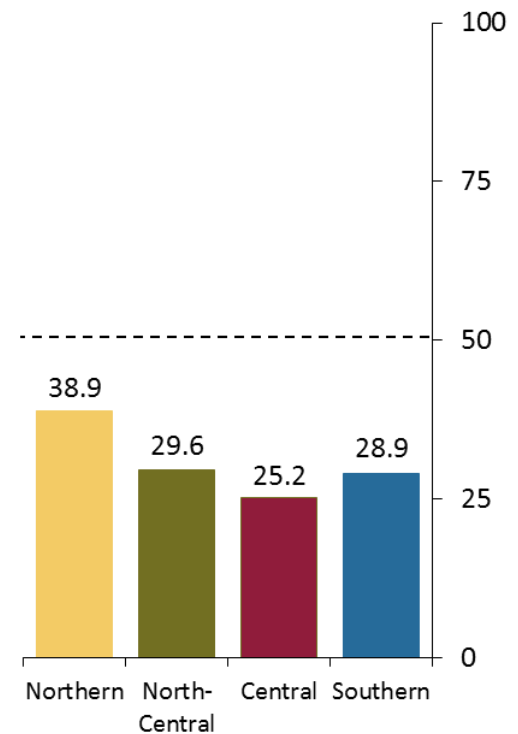
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Source: Banco de México.

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# Final Remarks

- 1 Regional economies expanded in 3Q 2014, driven by the dynamism of external demand and some items of domestic demand. Still, this growth was lower than in the previous quarter.
- 2 Business contacts interviewed for this Report expect a recovery in regional economies over the next six and twelve months. In this context, they stated that investments will be made to boost the physical capital stock and that the number of hired personnel will be increased.
- 3 Following the inflation increase in 3Q 2014, as a reflection of the evolution of the agricultural price index, inflation started to decrease in November across all regions.
- 4 For the following six and twelve months, business agents anticipate lower annual inflation rates of their sales prices as compared to the previous year.



BANCO DE MÉXICO

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