



Regional Economic Report
April – June 2013



BANCO DE MÉXICO

September 12, 2013

Outline

- I. Introduction**
- II. Results April - June 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 2Q 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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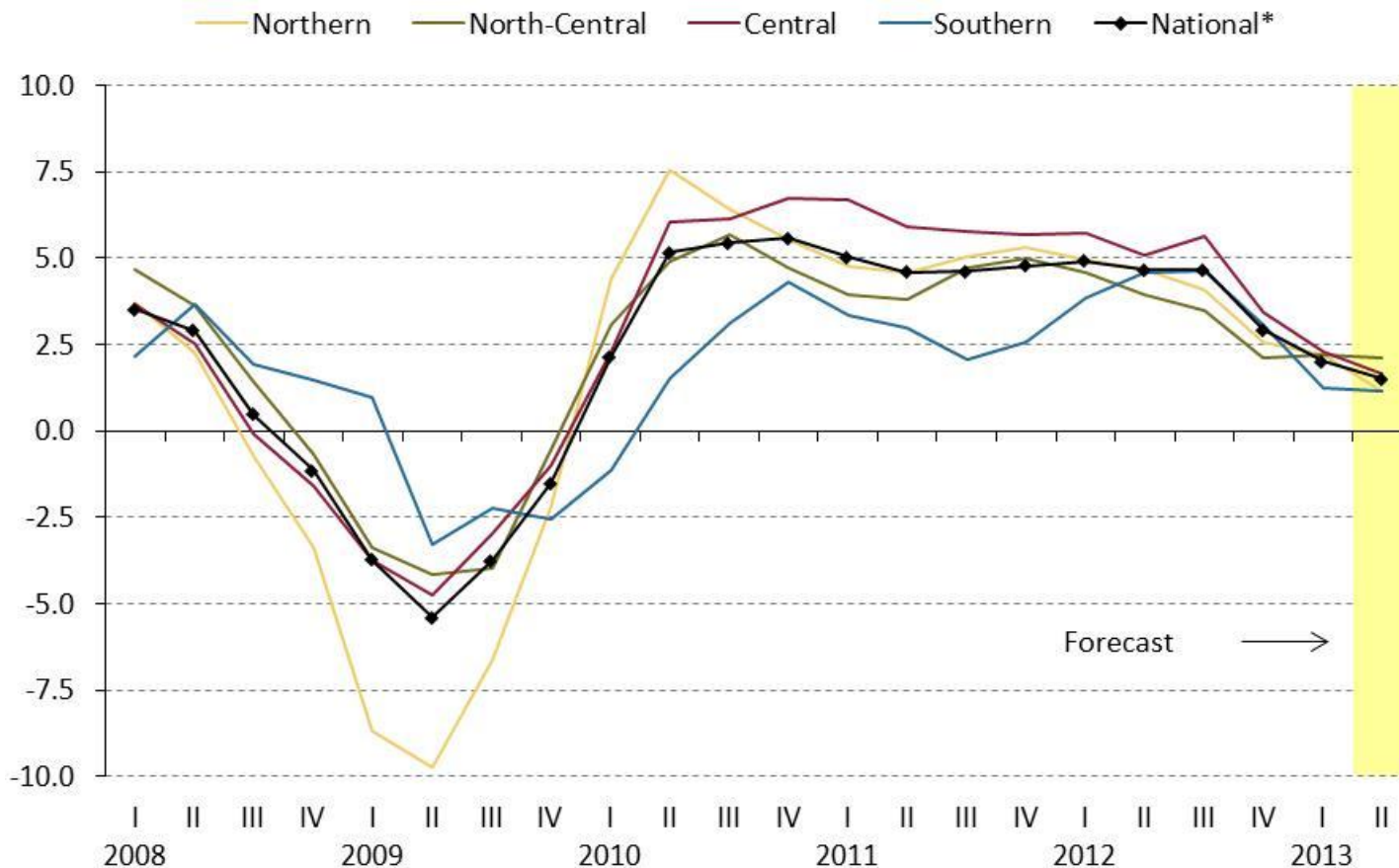
Economic Activity

- In 2Q 2013 the economic activity weakened in all regional economies of Mexico.
 - ✓ Commercial activity contracted, while construction, especially housing construction, remained stagnant in the four regions.
 - ✓ Manufacturing production weakened in the Central region.
 - ✓ Activity in the agricultural sector presented a mixed performance across regions.
 - ✓ The Consumer Confidence Index weakened in most regions.
 - ✓ However, activity in the tourism sector and funding to firms continued expanding.
- Lower dynamism in the growth of IMSS-insured workers was observed in all regions.

Economic Activity

Regional Coincident Index ^{1/}

Annual change in percent



1/ This indicator's values in 2Q 2013 are a forecast.

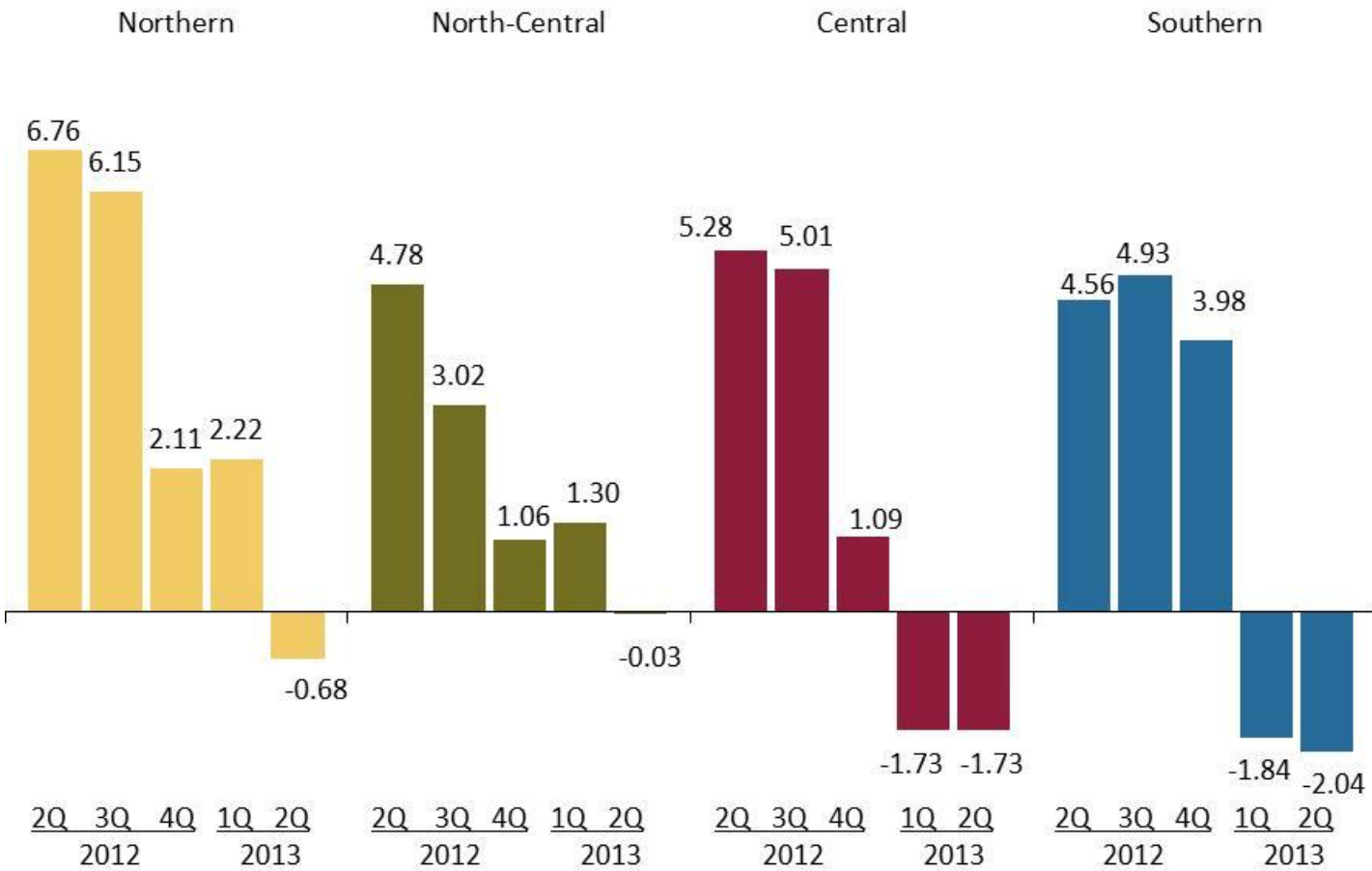
*/ The data at the national level correspond to the weighted average of the regional indices' annual changes.

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

Economic Activity

Regional Retail Sales Indicator

Annual change in percent

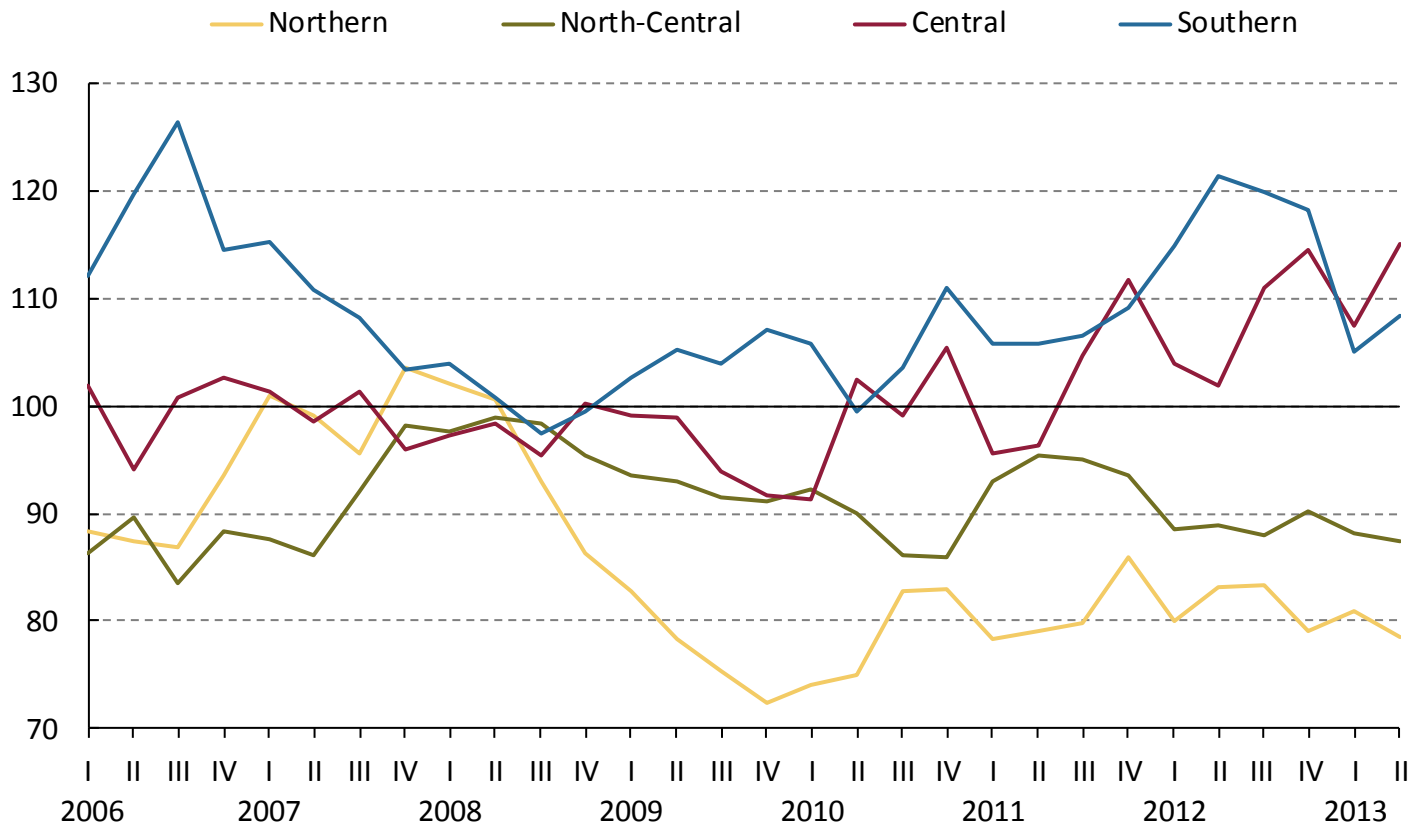


Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

Economic Activity

Real Value of Production in the Construction Industry

Index 2Q 2008 = 100

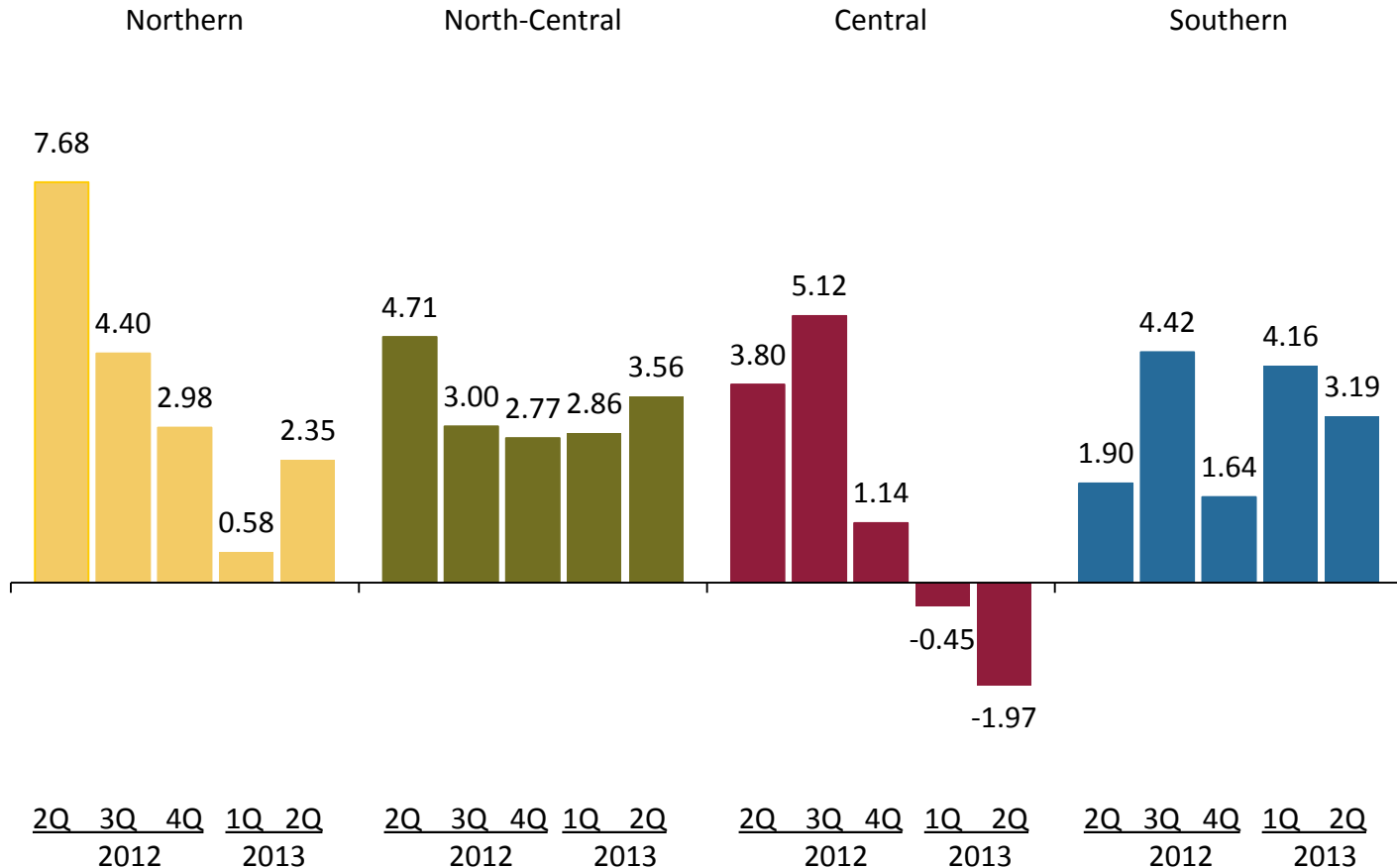


Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

Economic Activity

Regional Manufacturing Indicator ^{1/}

Annual change in percent

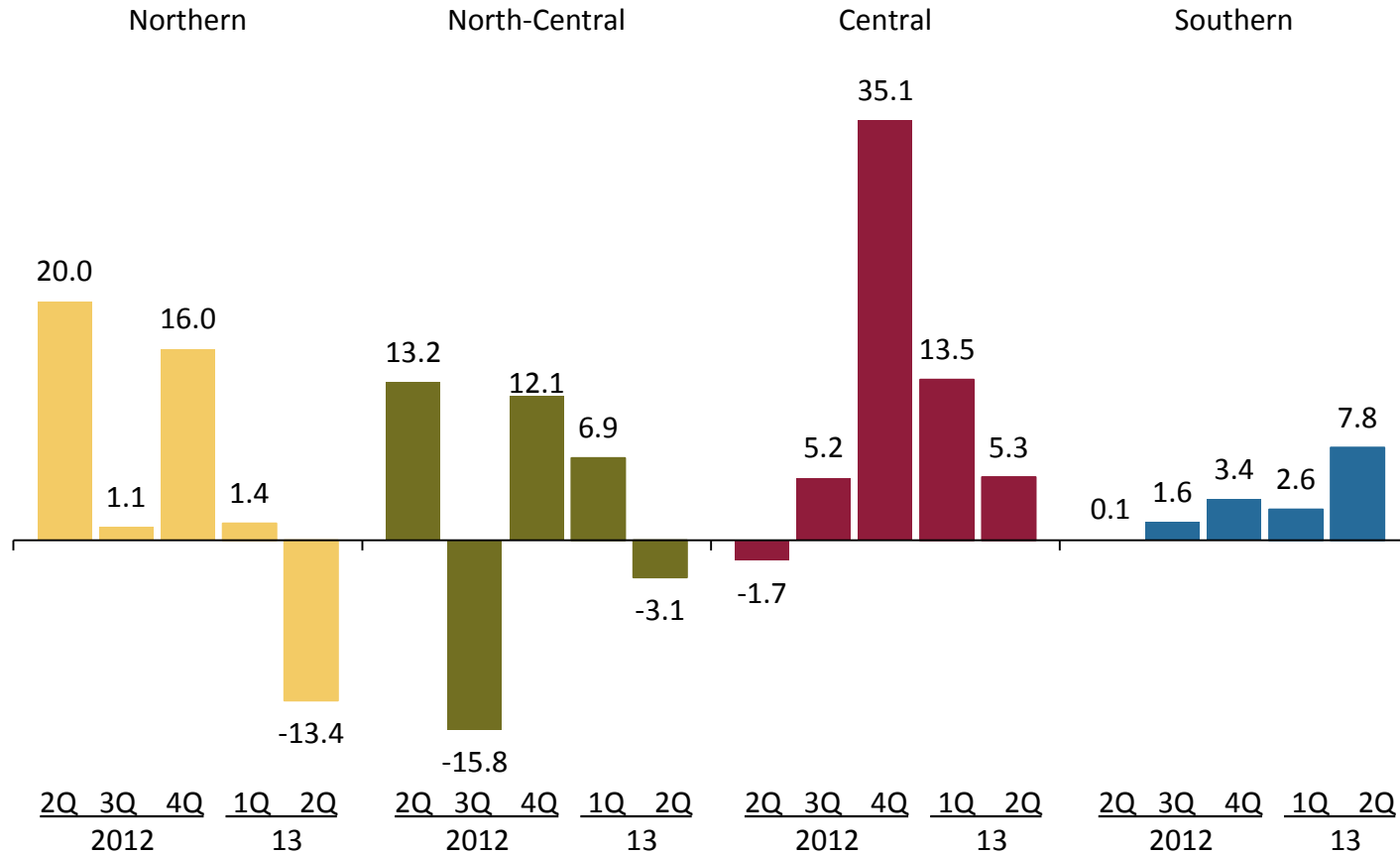


^{1/} This indicator's values in 2Q 2013 are a forecast.

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

Economic Activity

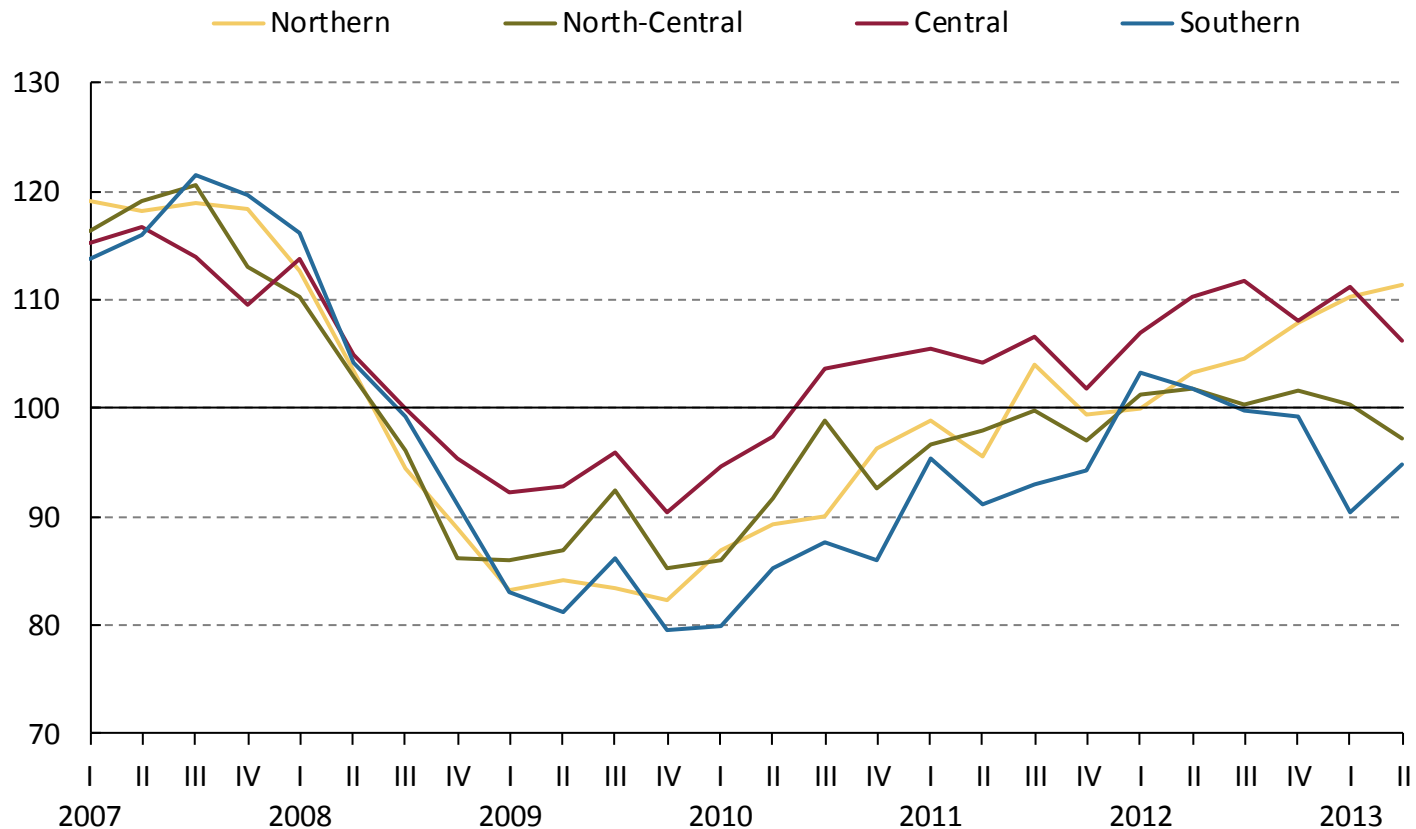
Regional Agricultural Production Index ^{1/} Annual change in percent



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

Economic Activity

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

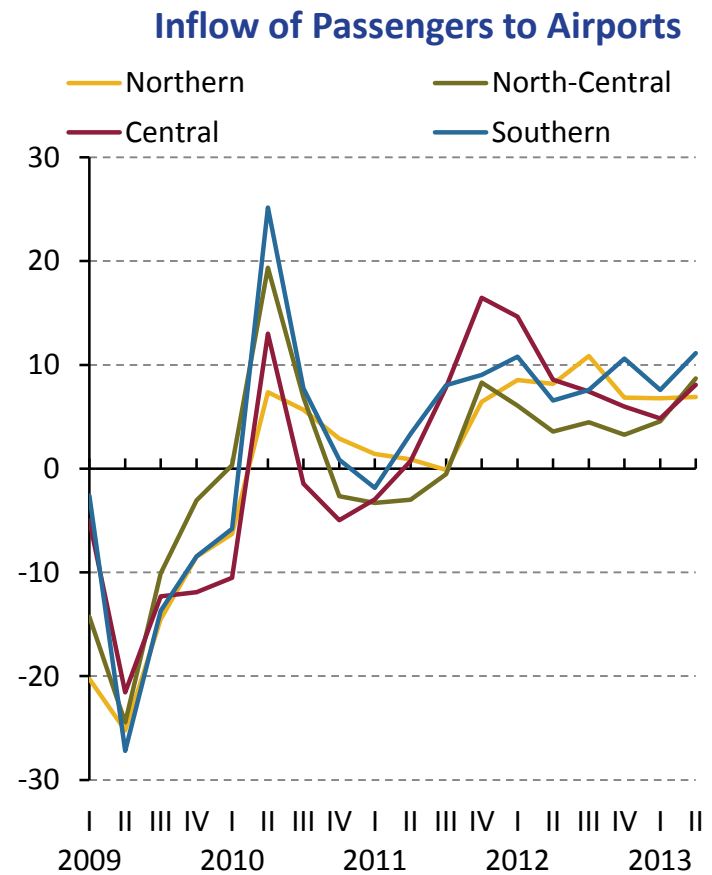
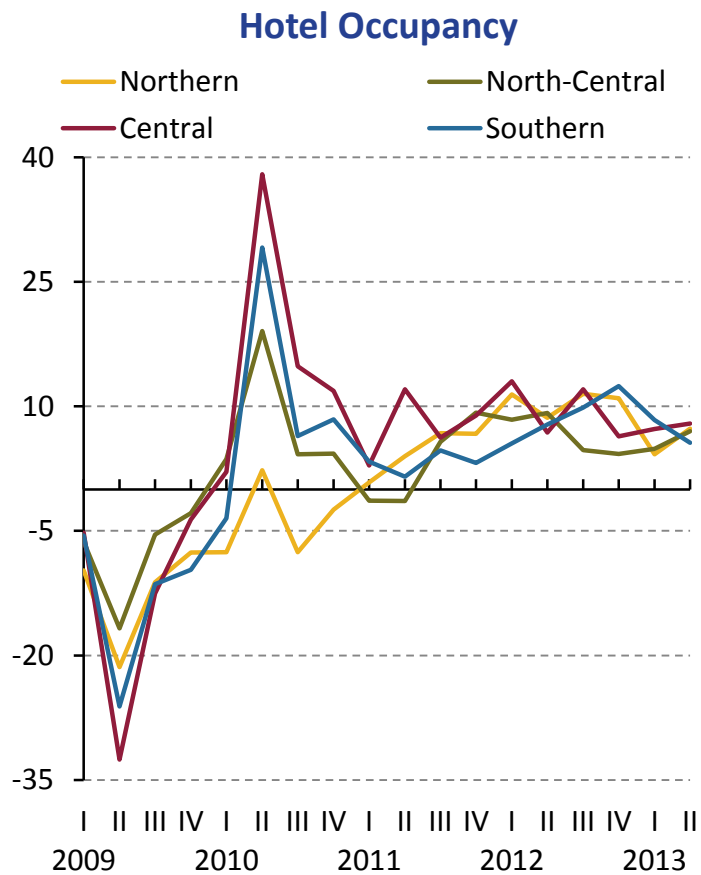


Source: Estimated by Banco de México with data from INEGI.

Economic Activity

Regional Indicators of Activity in the Tourism Sector

Annual change in percent



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 acronym in Spanish).

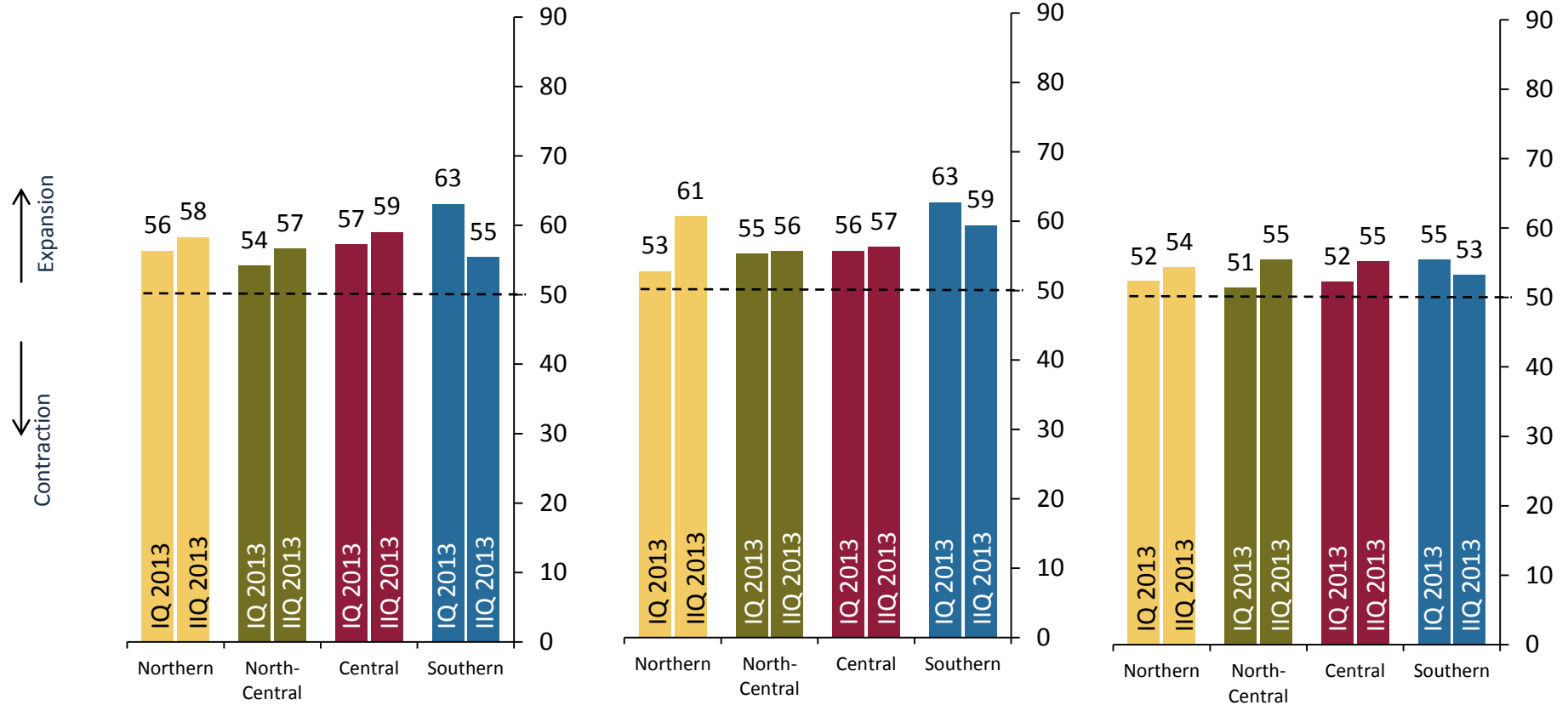
Economic Activity

Main Sources of Financing to Firms Diffusion index

Own Resources

Suppliers

Commercial Banks

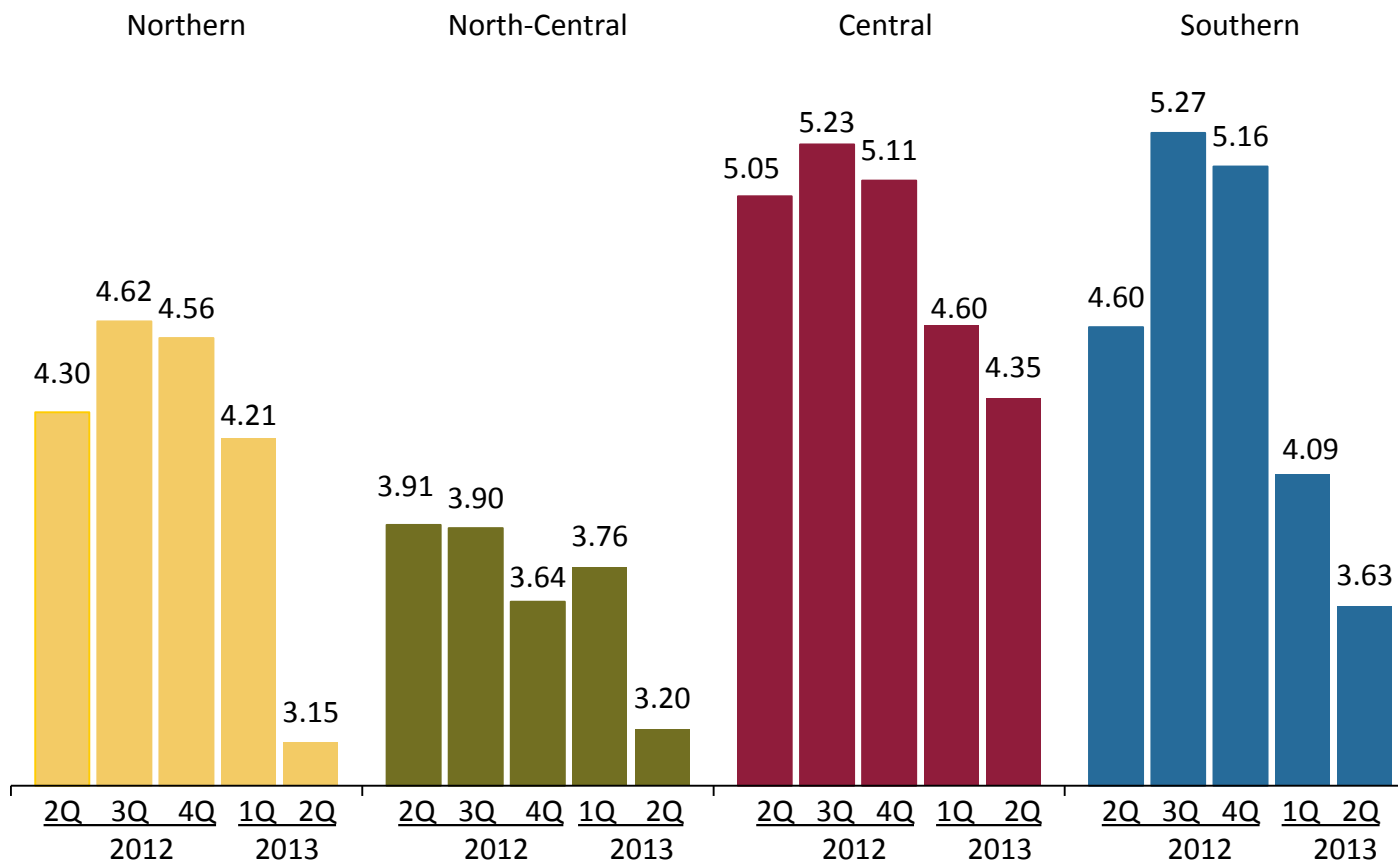


Source: Banco de México.

Economic Activity

Regional Employment (IMSS Data)

Annual change in percent



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

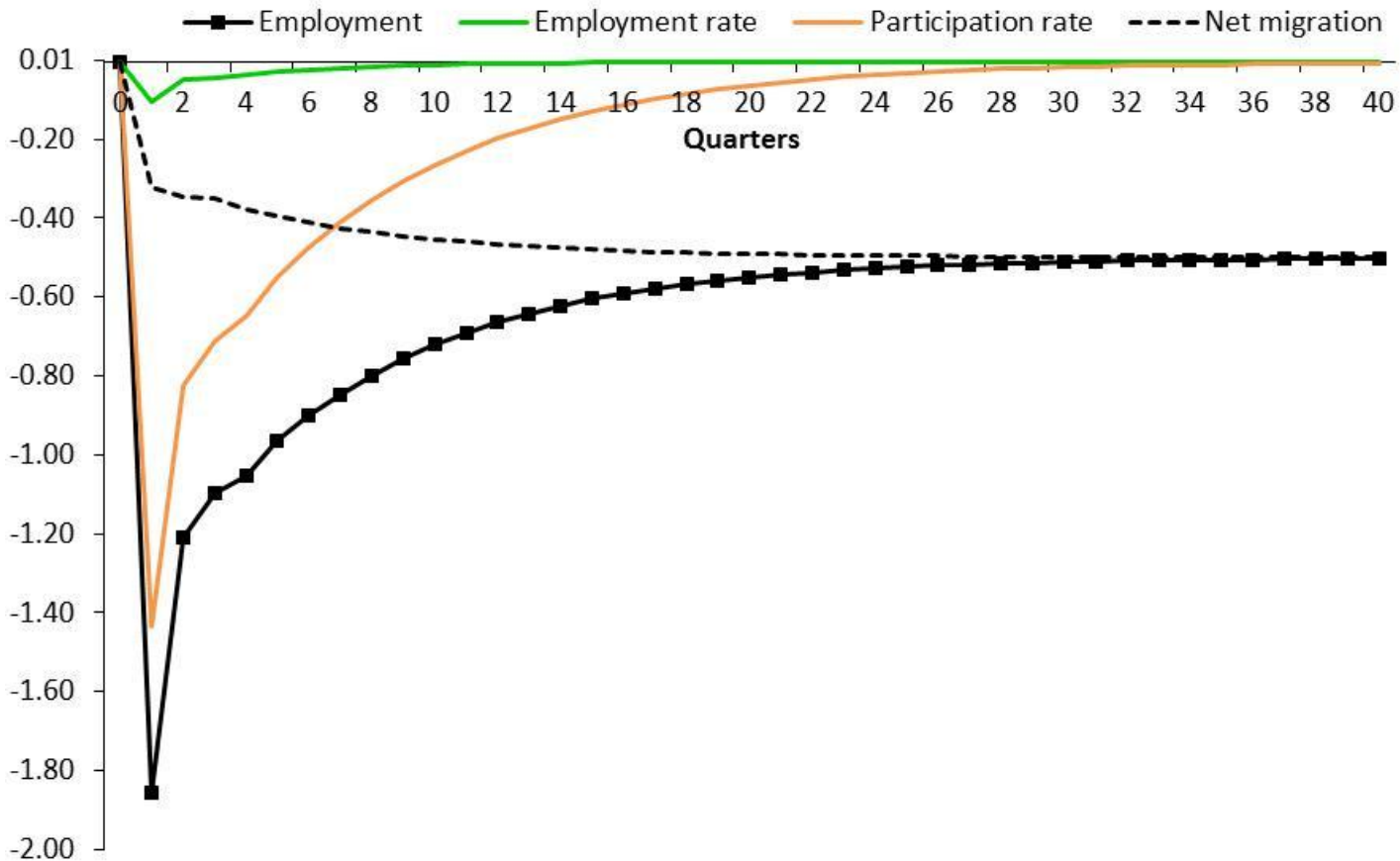
Box: Labor Mobility across Regions

- The slowdown in the growth rate of IMSS-insured workers, which had been observed since mid-2012, as a response to shocks affecting the economy, accentuated in the Northern and Southern regions.
- These regional differences can be partly attributed to the way in which labor markets adjust to a lower labor demand at the local level, which is analyzed in a Box of this Report.
- The main result of the analysis is that the adjustment to a negative shock is initially realized by means of a lower labor participation rate; subsequently, worker mobility to other states takes on greater relevance in explaining the adjustment in the labor market.

Box: Labor Mobility across Regions

Average Response of the Labor Market to a Negative Shock to the Local labor Demand ^{1/}

Percentage points of data at the state level with respect to data at the national level

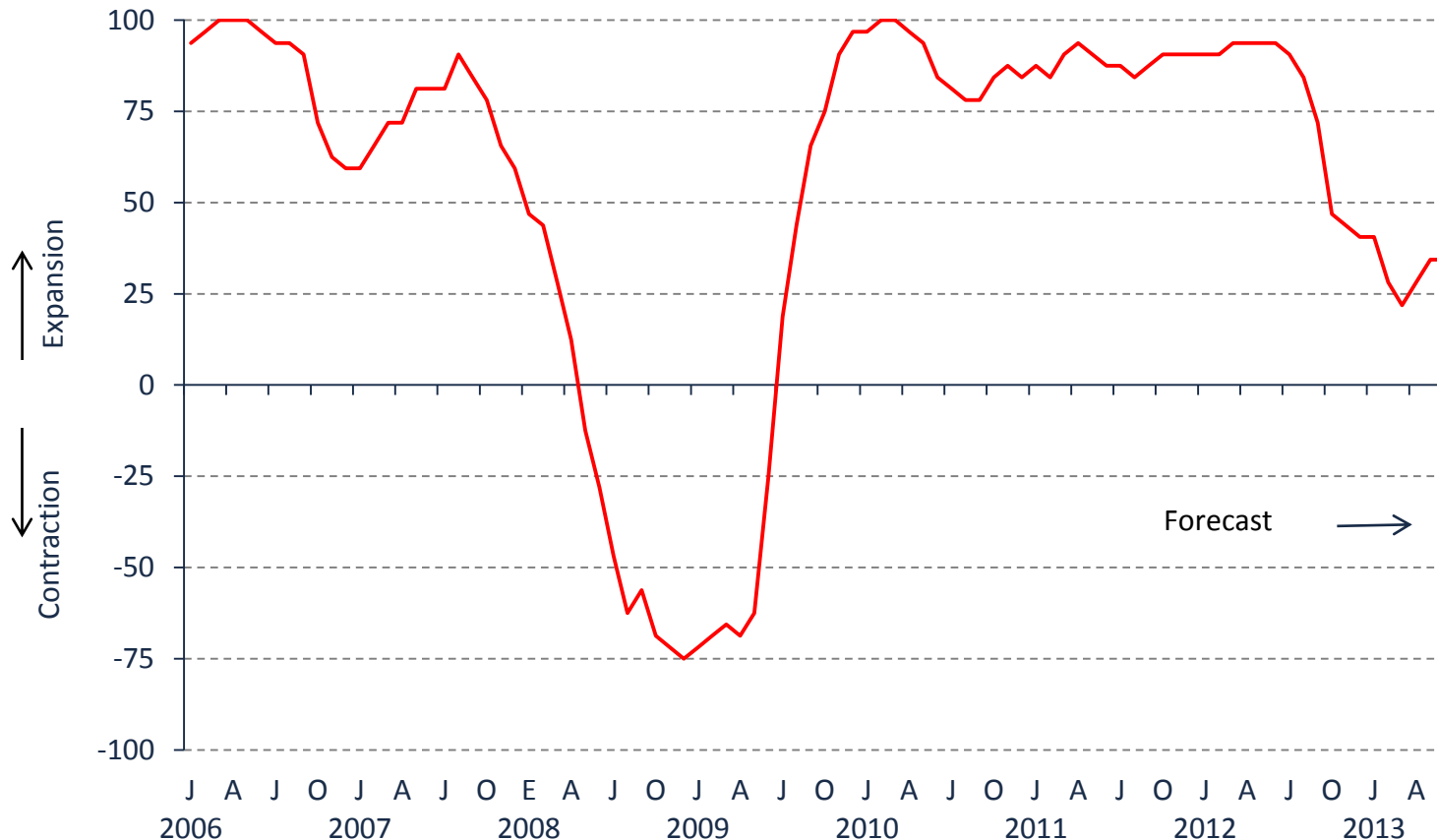


^{1/} The magnitude of the analyzed shock is equivalent to a standard deviation of state employment relative to the national employment.

Source: Banco de México with data from INEGI.

Economic Activity

Diffusion Index of the Economic Activity at the State Level ^{1/}



1/ This indicator's values, calculated with a monthly frequency, are a forecast in the case of June 2013.

Source: Estimated by Banco de México with state coincident indices, elaborated by Banco de México with data from IMSS and INEGI.

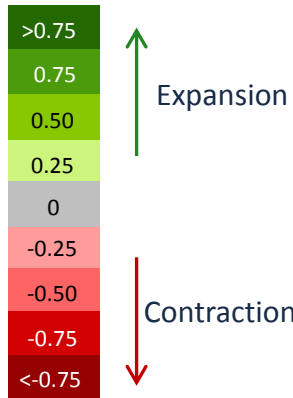
Economic Activity

Economic Activity at the State Level ^{1/}

Monthly change in percent ^{2/}

September 2012

December 2012



March 2013

June 2013



1/ The indicator corresponds to state coincident indices, elaborated by Banco de México with seasonally adjusted data from IMSS and INEGI. The values as of June 2013 are a forecast.

2/ It refers to the monthly percentage change of the trend-cycle component of the indicator.

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

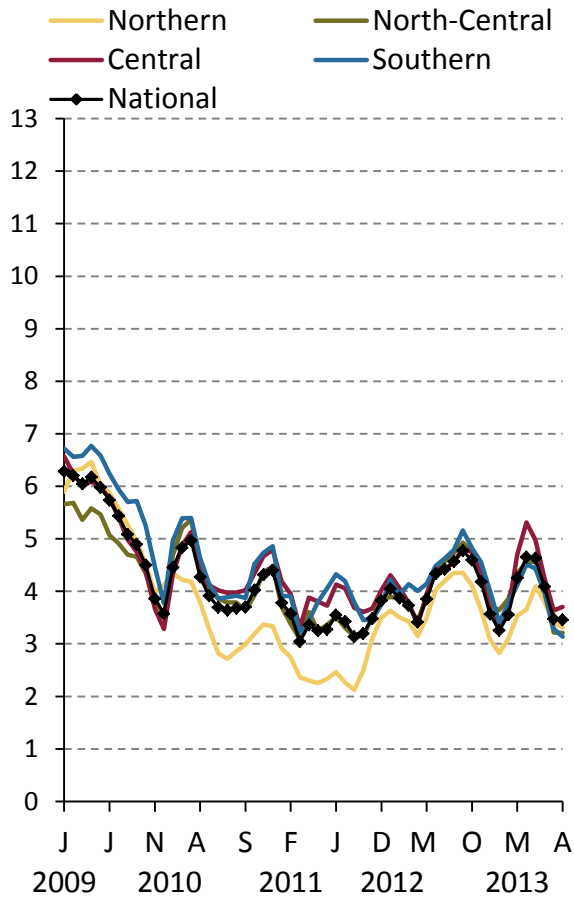
Inflation

- Following an uptick at the end of 1Q 2013 and the beginning of 2Q 2013, annual headline inflation began a downward trend from May onwards in the Central and Southern regions, and from June onwards, in the Northern and North-Central regions.
 - ✓ These annual headline inflation dynamics were mainly due to the evolution of inflation in some agricultural products' prices of the non-core component.
 - ✓ Annual core inflation, on the other hand, presented a downward trend over the period covered by this Report. In August, it located at historical minimum levels in four regions of Mexico (in the Northern, North-Central, Central and Southern regions it was 1.71, 2.43, 2.71 and 2.37 percent, respectively).

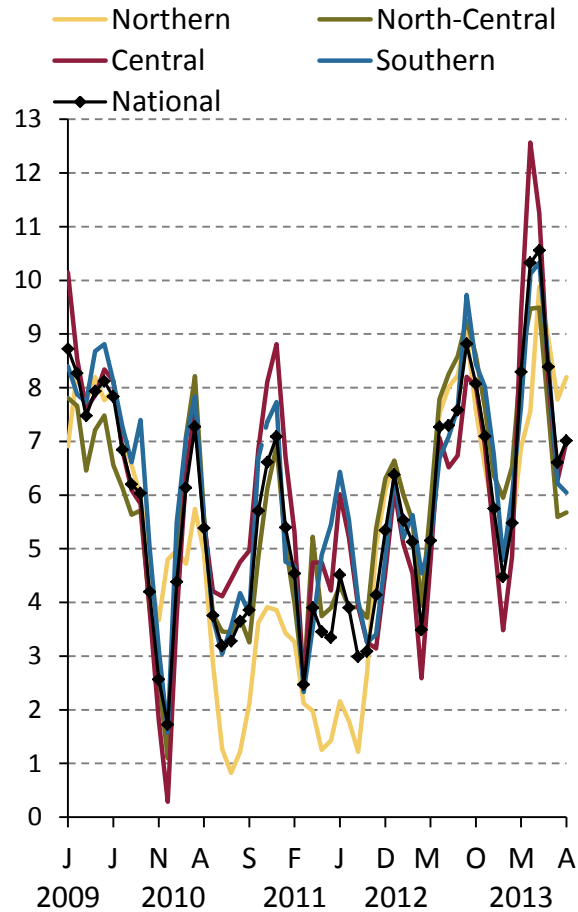
Inflation

Percent

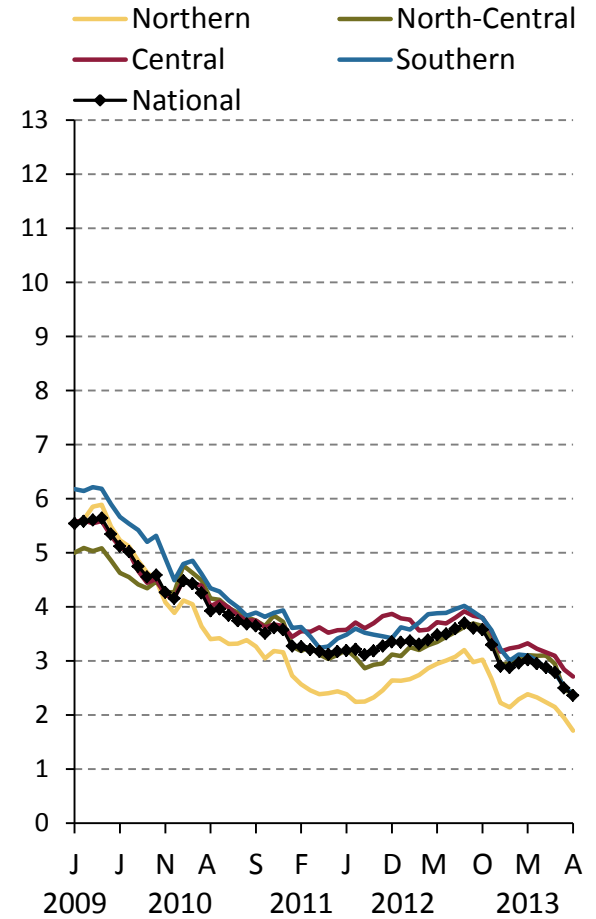
Headline



Non-core



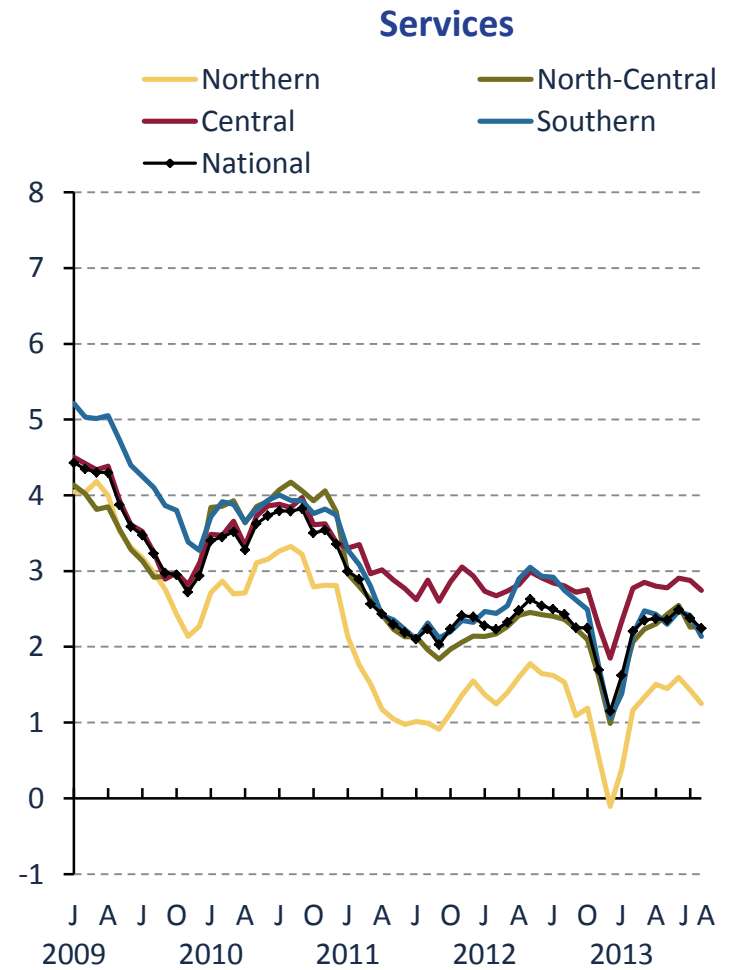
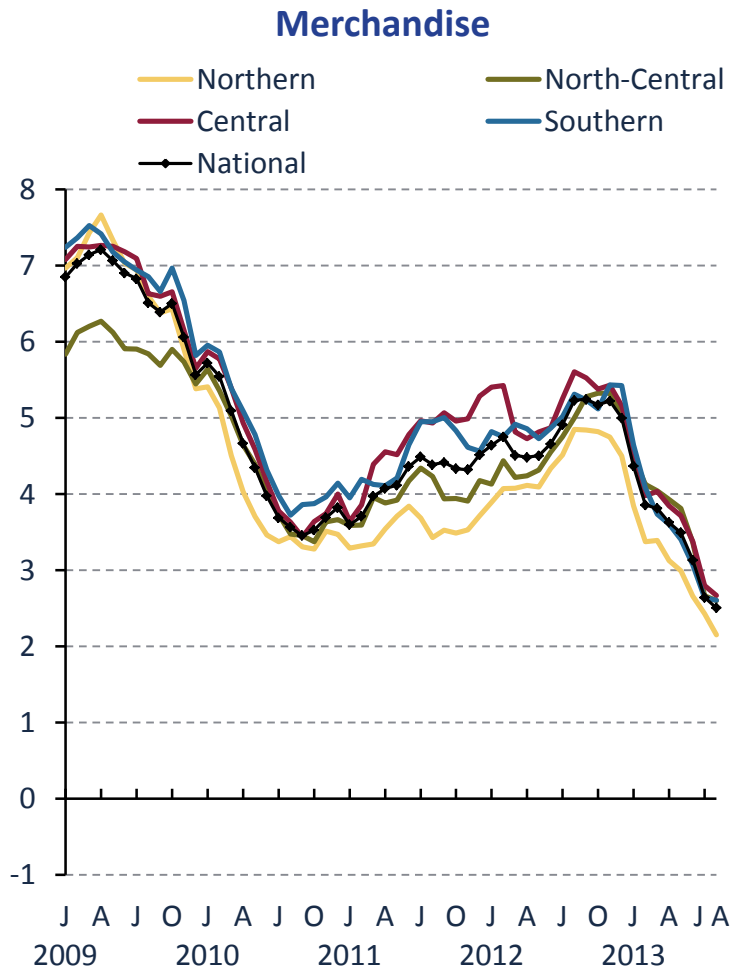
Core



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

Annual Core Inflation by Type of Product

Percent



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 anticipate over the next 6 and 12 months greater demand for own products and services. The expected expansion is principally supported by two forecasts:
 - ✓ On the one hand, as regards external demand, the business contacts noted that the evolution of the U.S. economy will positively impact the economic activity in the regions in 2H 2013.
 - ✓ On the other hand, the business agents in all regions pointed out that domestic demand will perform better in 2H 2013 than in 1H 2013, as a consequence of a greater dynamism of public expenditure and, in particular, of a rebound in public works' construction.
- Likewise, the interviewed business agents expect to increase demand for personnel and their physical capital stock.

Economic Outlook

- In the opinion of the interviewed business agents, the main risks to the regional economic activity are:

Upward risks

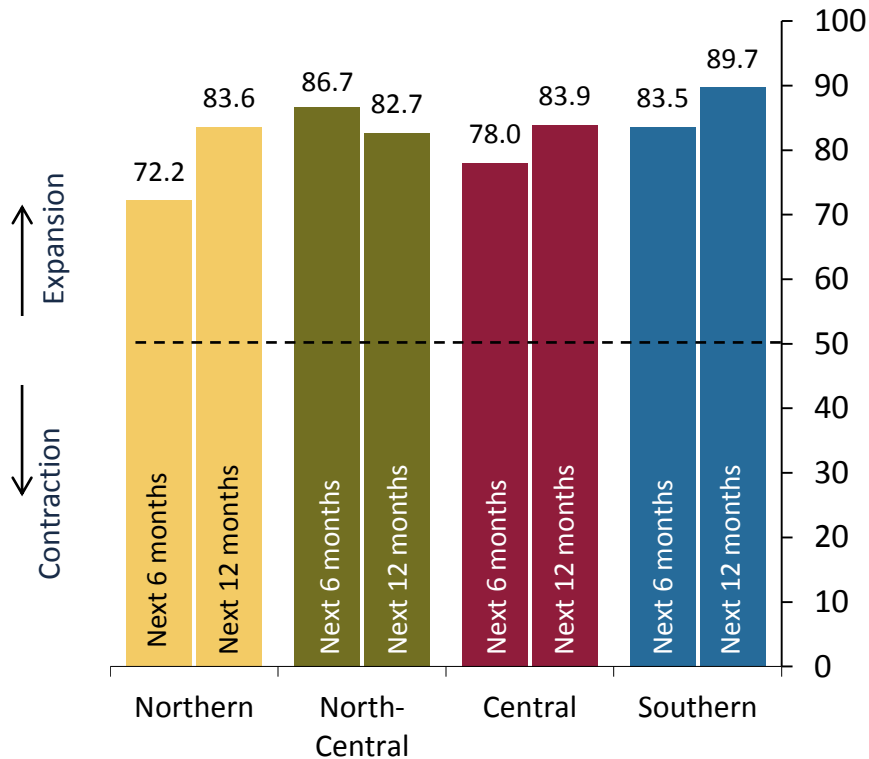
- ✓ The possibility of further progress in the process of structural reforms.

Downward risks

- ✓ Weaker than expected recovery of the U.S. economy.
 - ✓ Lower than anticipated reactivation of public expenditure in 2H 2013.
 - ✓ An environment of greater exchange rate volatility.
 - ✓ The possibility that the public safety conditions could deteriorate.
- As regards inflation expectations, most of business agents interviewed by Banco de México expect lower inflationary pressures for the next 6 and 12 months as compared to last year.

Economic Outlook

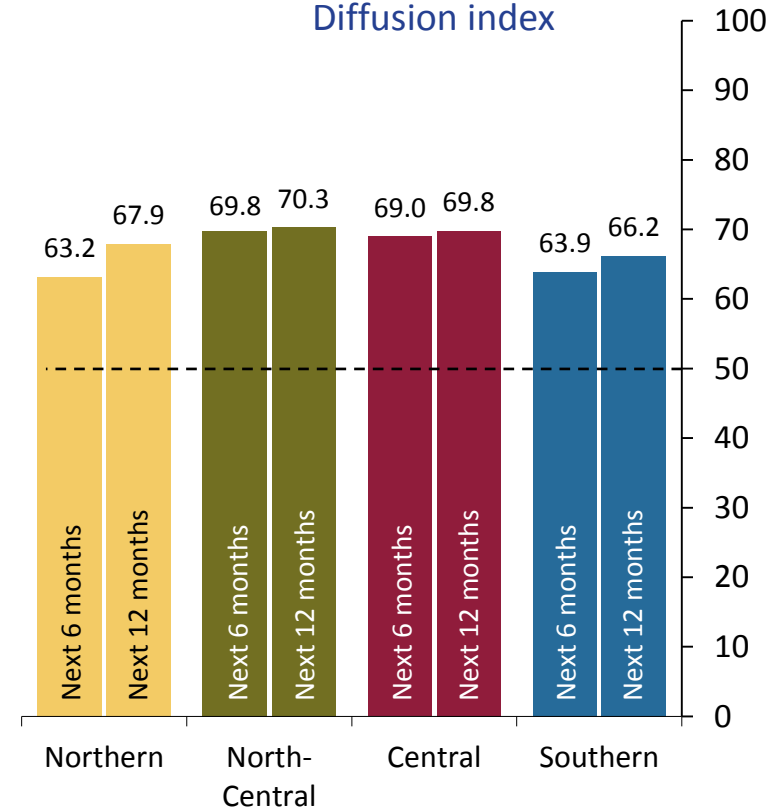
**Demand as Expected
by Business Agents ^{1/}**
Diffusion index



1/ Results obtained from responses to the question: “With respect to the situation in 2Q 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 June 24 and July 26, 2013.

Source: Banco de México.

**Personnel Hired as Expected
by Business Agents ^{2/}**
Diffusion index

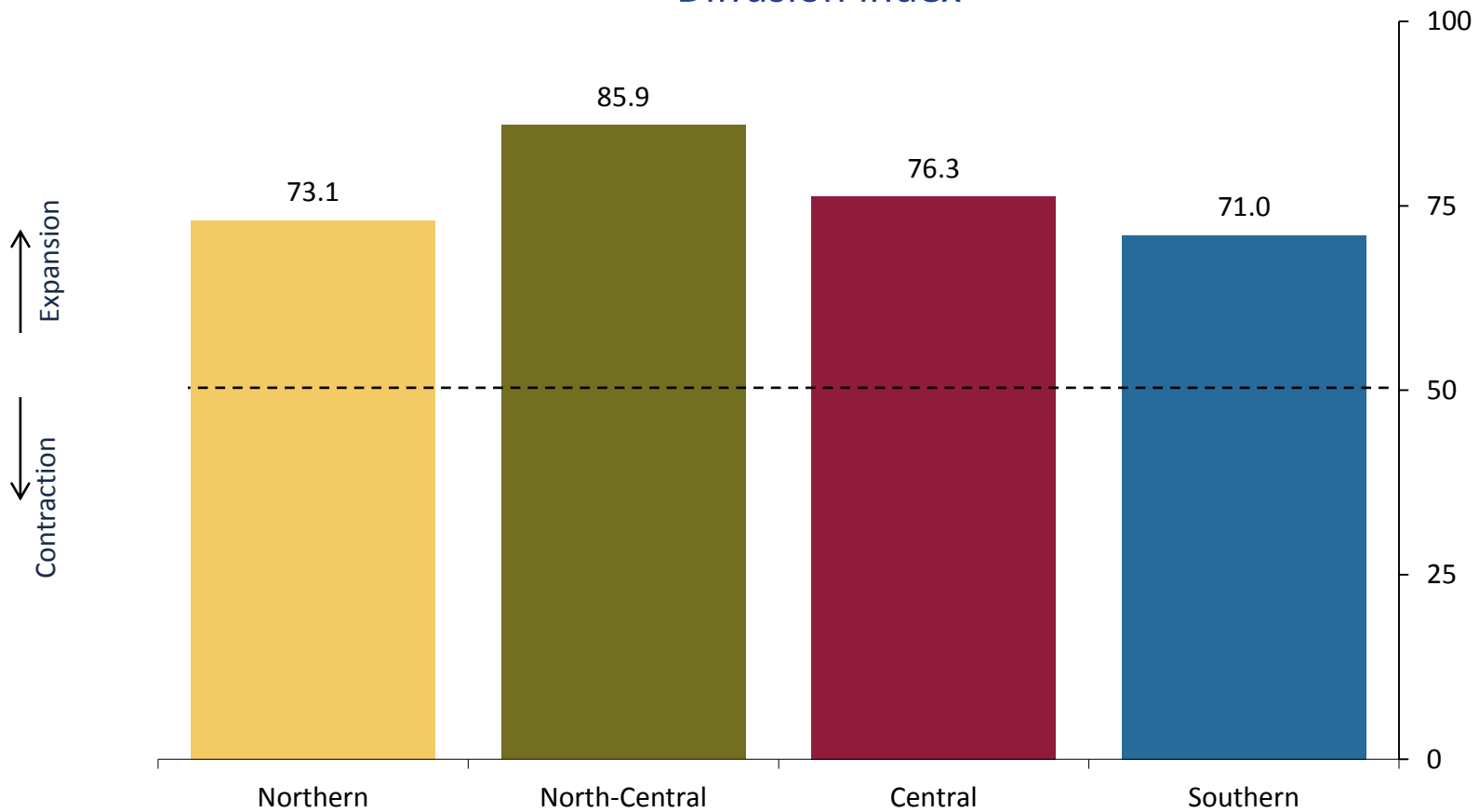


2/ Results obtained from responses to the question: “With respect to the situation in 2Q 2013, how do you expect the personnel hired by your firm to modify over the next 6 and 12 months?”, from the interviews conducted by Banco de México between June 24 and July 26, 2013.

Source: Banco de México.

Economic Outlook

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



^{1/} Results obtained from responses to the question: “With respect to the situation in 2Q 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 June 24 and July 26, 2013.

Source: Banco de México.

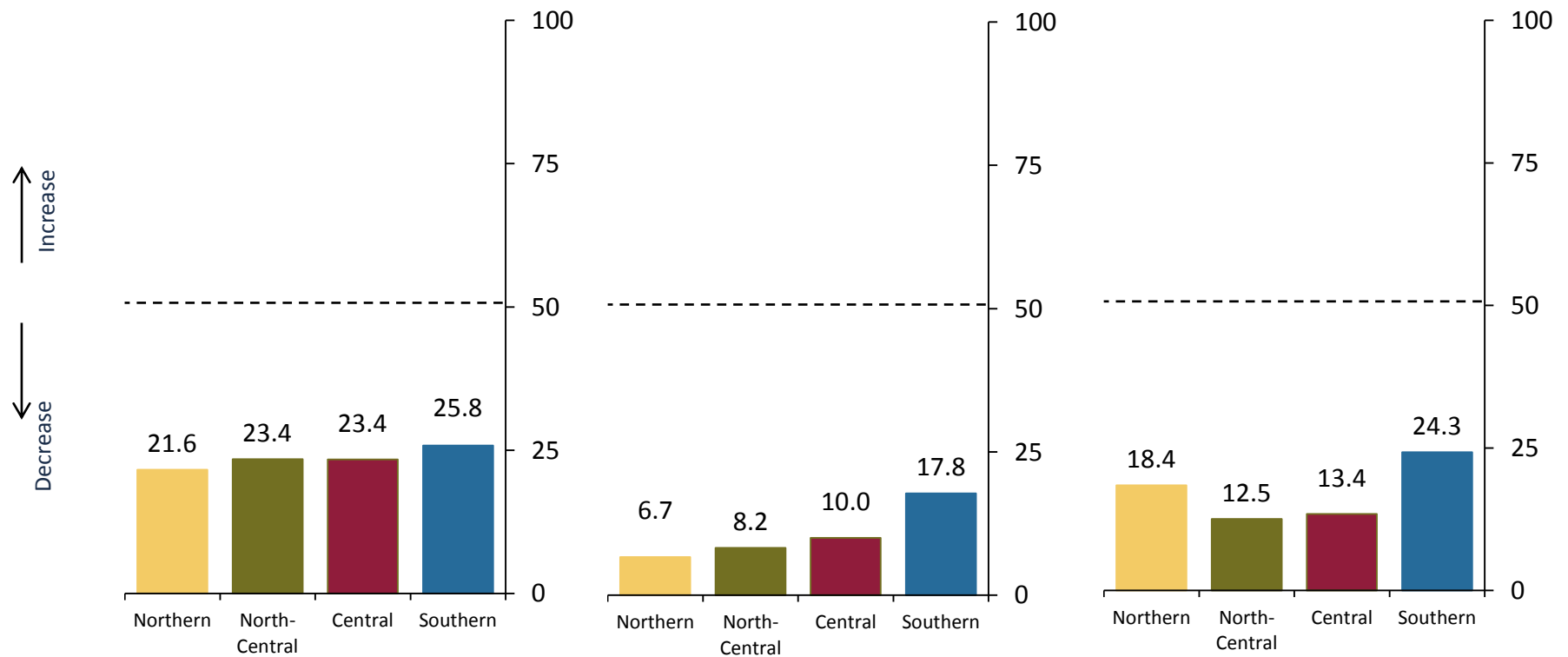
Economic Outlook

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

Commodity Price Increase

Labor Cost Increase

Own Products' Price Increase



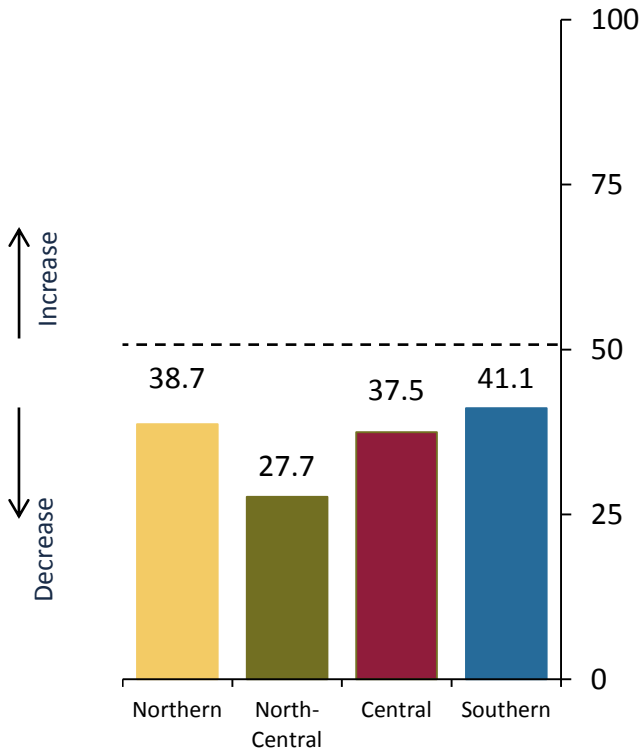
1/ Results obtained from responses to the questions: "With respect to the situation in 2Q 2013, do you expect any adjustment in commodity prices, labor costs and own products and services' prices over the next 6 months?", and "In comparison with the same period of last year, what magnitude of adjustment do you expect? Greater, same or lower?", from the interviews conducted by Banco de México between June 24 and July 26, 2013.

Source: Banco de México.

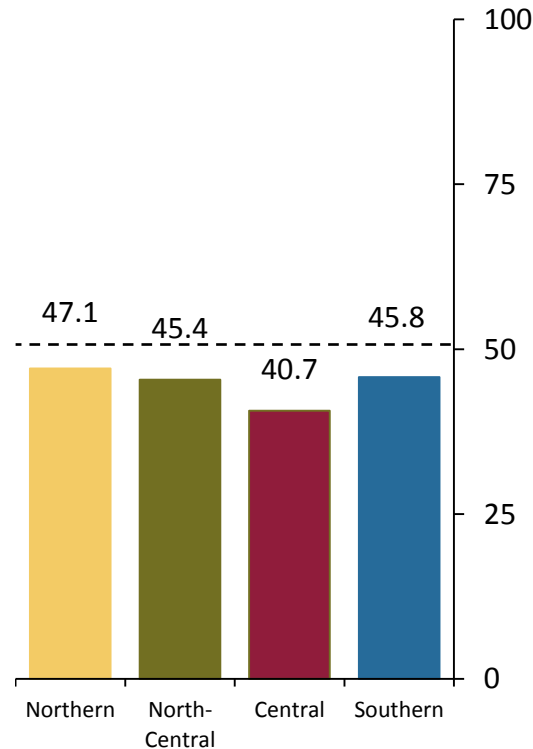
Economic Outlook

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

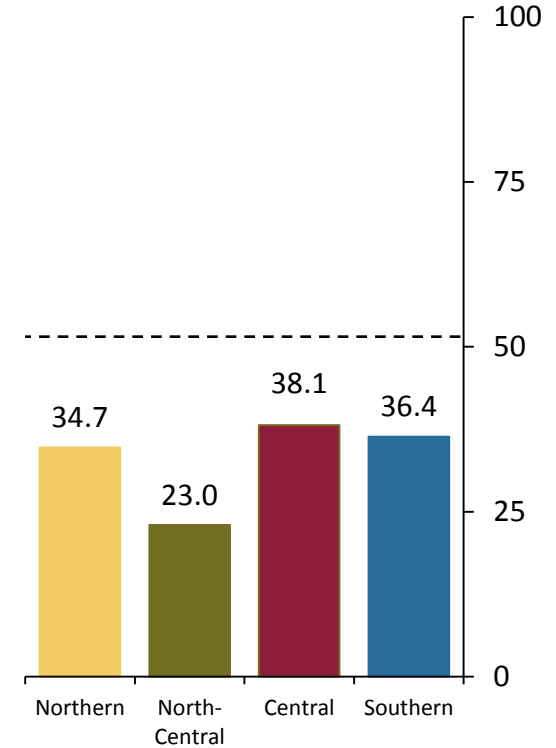
Commodity Price Increase



Labor Cost Increase



Own Products' Price Increase



1/ Results obtained from responses to the questions: "With respect to the situation in 2Q 2013, do you expect any adjustment in commodity prices, labor costs and own products and services' 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 June 24 and July 26, 2013.

Source: Banco de México.

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Final Considerations

Based on the analysis of the regional economic data and the business agents' opinions, the following stands out:

- ① The economic activity deteriorated in the regional economies of Mexico in 2Q 2013.
- ② As expected, the increase in headline inflation in 1Q 2013 was transitory and it started to revert from May onwards in the Central and Southern regions, and from June onwards in the Northern and North-Central ones.
- ③ Business agents interviewed by Banco de México for this Report anticipate the regional economies to exhibit greater dynamism over the next 6 and 12 months.
- ④ As regards inflation forecasts, the referred business contacts do not anticipate any significant inflationary pressures for the following 6 and 12 months.



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