



Regional Economic Report
July - September 2012



BANCO DE MÉXICO

December 6, 2012

Outline

- I. Introduction
- II. Results July – September 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 in 3Q 2012 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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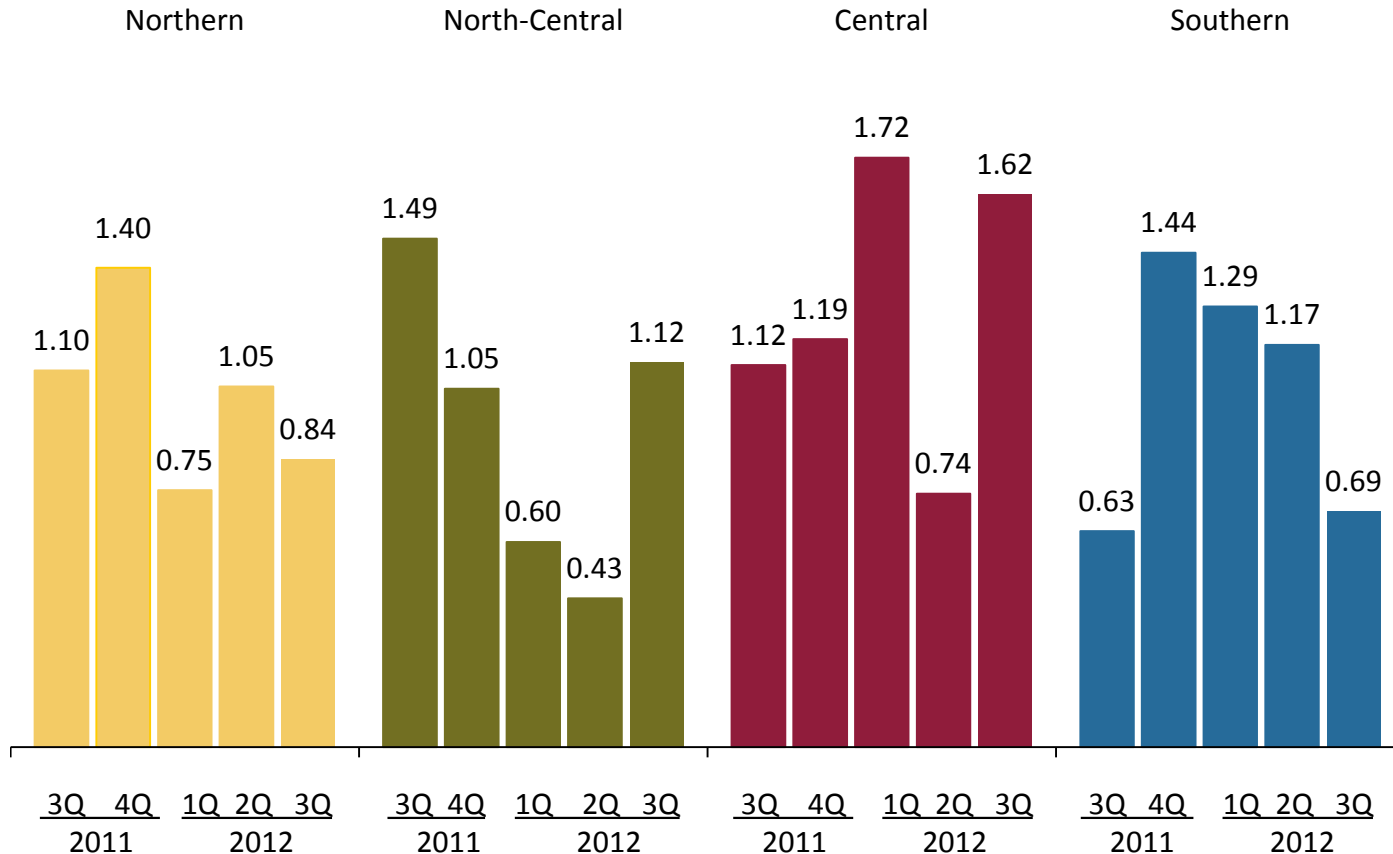
Economic Activity

- During 3Q 2012 regional economies have remained on an expansionary phase. However, in some regions and sectors growth of economic activity decelerated.
 - ✓ This was more evident in the north, which distinguishes itself from the rest of the regions for its close link to the U.S. economic cycle, reason for which it is more exposed to the deterioration in the world economic environment.
 - ✓ In the south, economic growth also decelerated, especially in the domestic demand-related sectors.
 - ✓ In turn, central regions still have not presented clear signs of a slowdown in the economic growth.

Economic Activity

Regional Coincident Index^{1/}

Average quarterly change in percent, s. a.

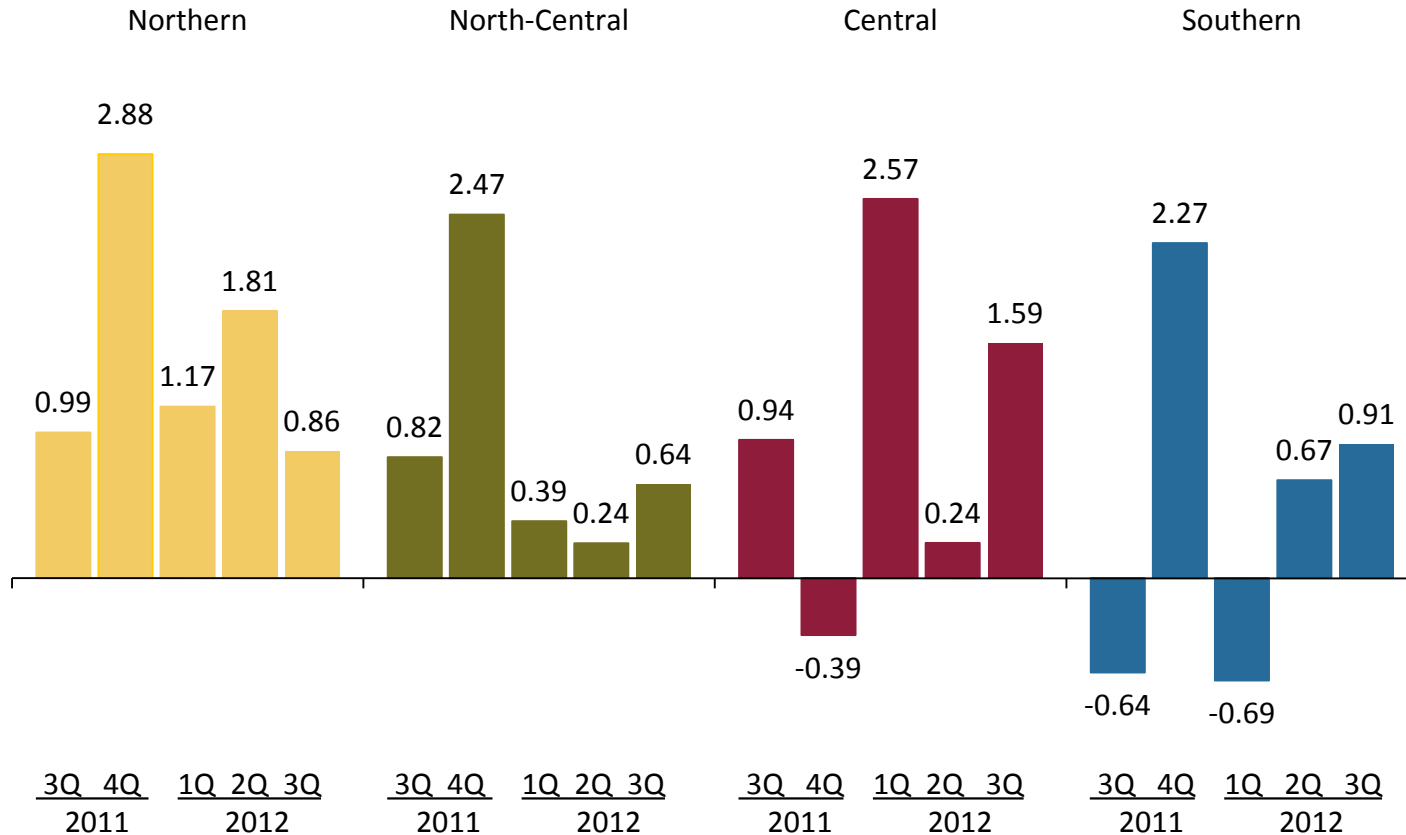


1/ This index is calculated based on five seasonally adjusted indicators of economic activity: formal sector employment, retail sales, wholesale sales, manufacturing and generation and consumption of electricity (the last variable reflects economic activity in different sectors). This indicator's values in 3Q 2012 are a forecast.

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

Economic Activity

Regional Manufacturing Indicator^{1/} Average quarterly change in percent, s. a.

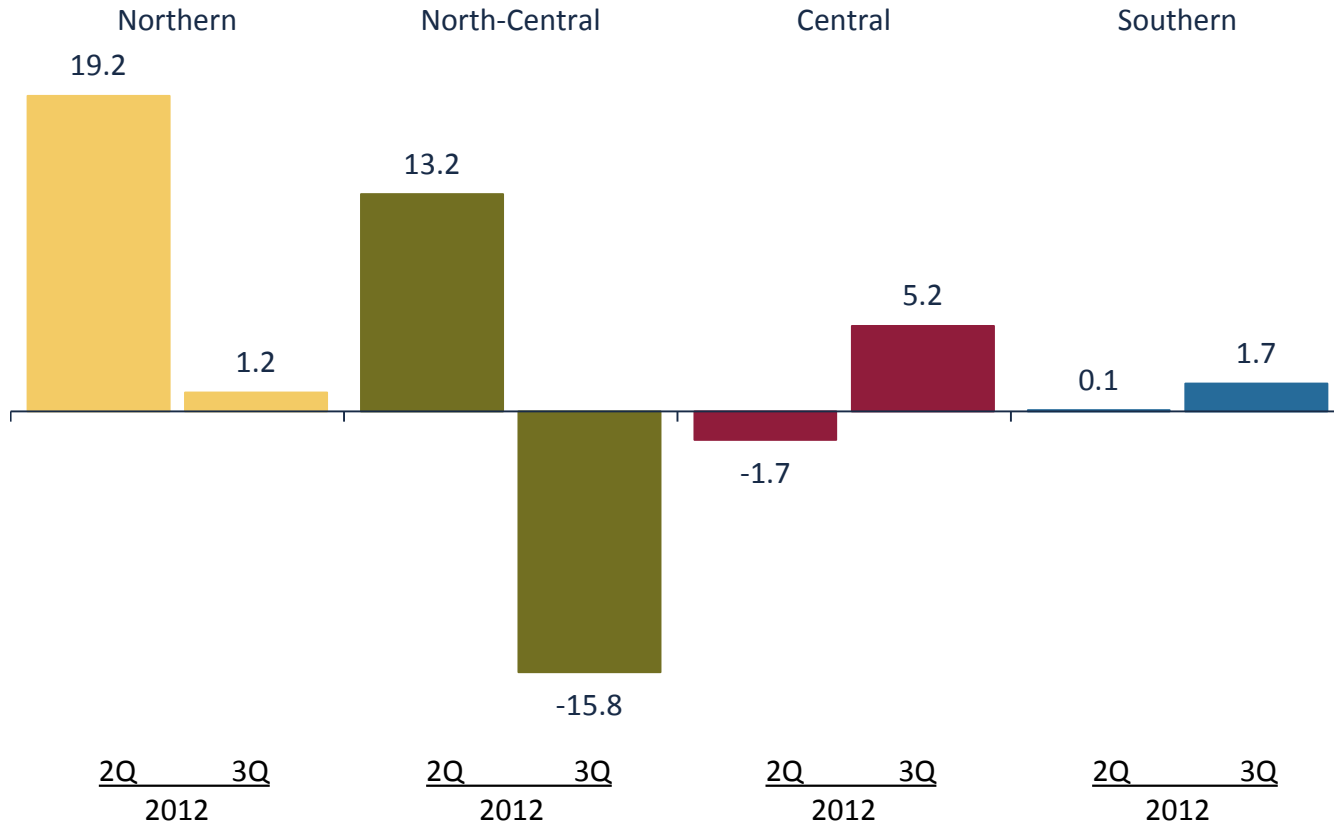


1/ This indicator's values in 3Q 2012 are a forecast.
Source: Estimated by Banco de México with data from INEGI.

Economic Activity

Regional Agricultural Production Index

Annual change in percent



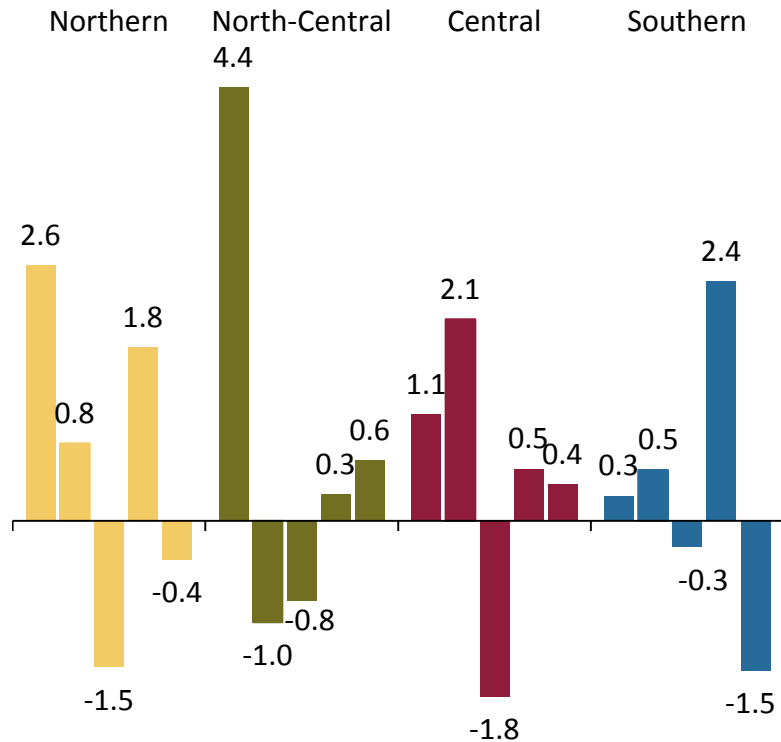
Source: Estimated by Banco de México with data from SAGARPA.

Economic Activity

Regional Sales Indicators

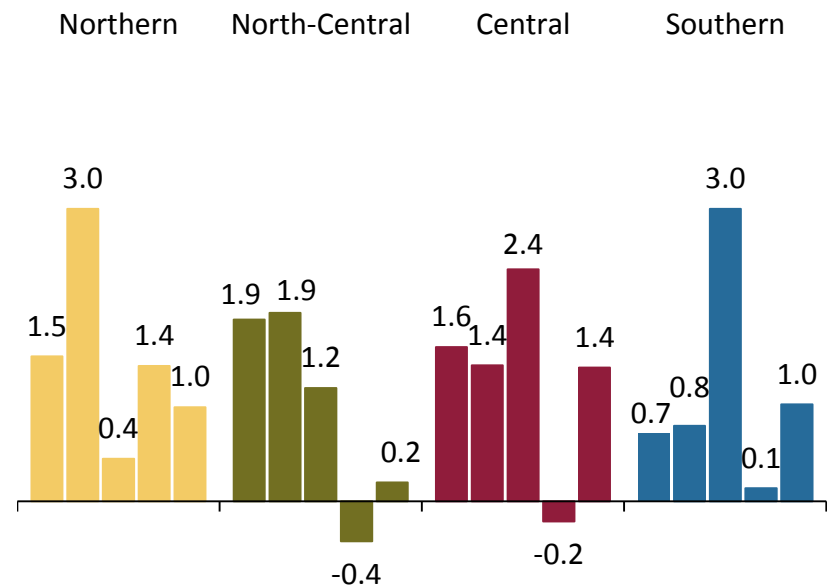
Average quarterly change in percent, s. a.

Wholesale



3Q 2011 4Q 2011 1Q-3Q 2012 3Q 2011 4Q 2011 1Q-3Q 2012 3Q 2011 4Q 2011 1Q-3Q 2012 3Q 2011 4Q 2011 1Q-3Q 2012

Retail



3Q 2011 4Q 2011 1Q-3Q 2012 3Q 2011 4Q 2011 1Q-3Q 2012 3Q 2011 4Q 2011 1Q-3Q 2012 3Q 2011 4Q 2011 1Q-3Q 2012

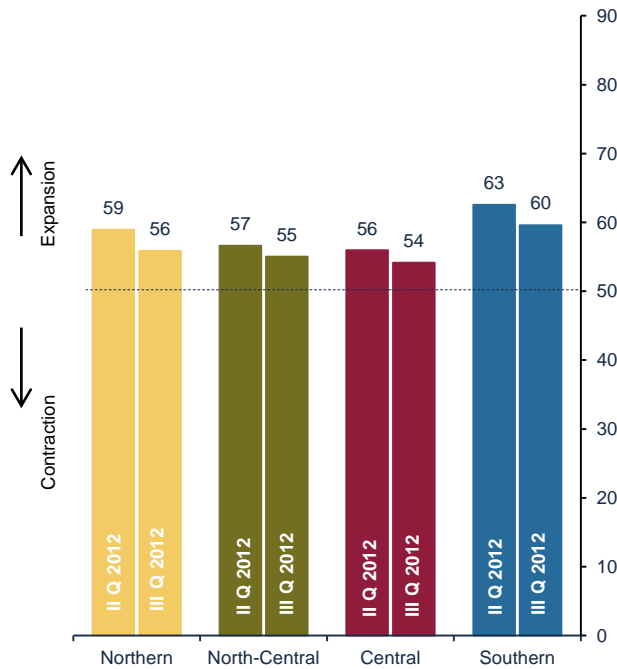
Source: Estimated by Banco de México with data from INEGI.

Economic Activity

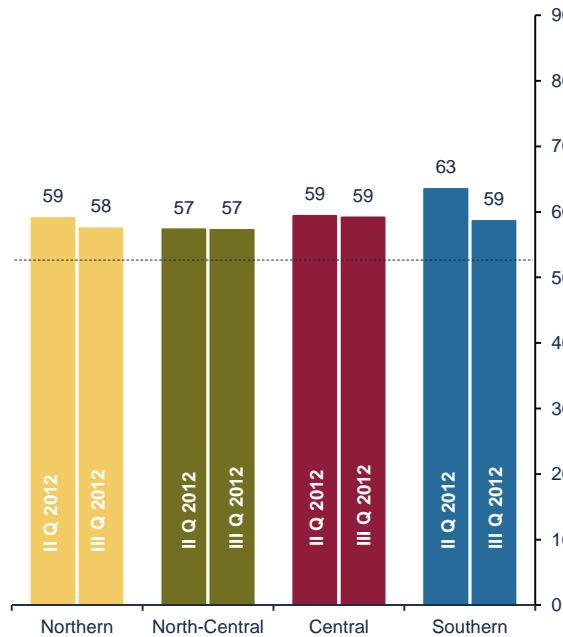
Main Sources of Financing to Firms

Diffusion index

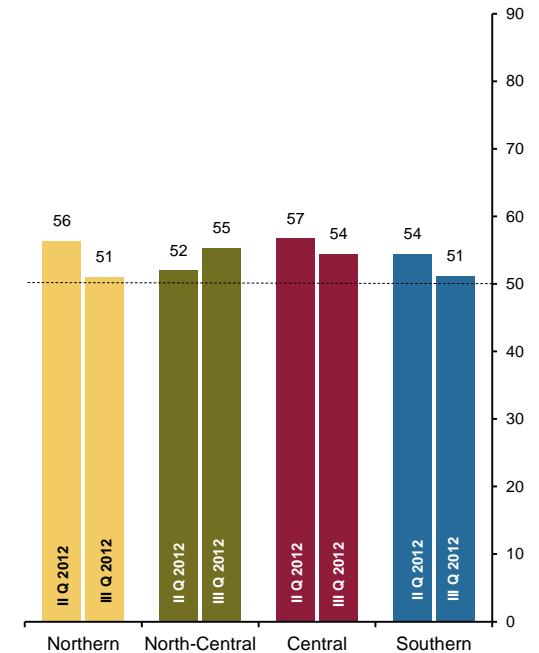
Own Resources



Suppliers



Commercial Banks



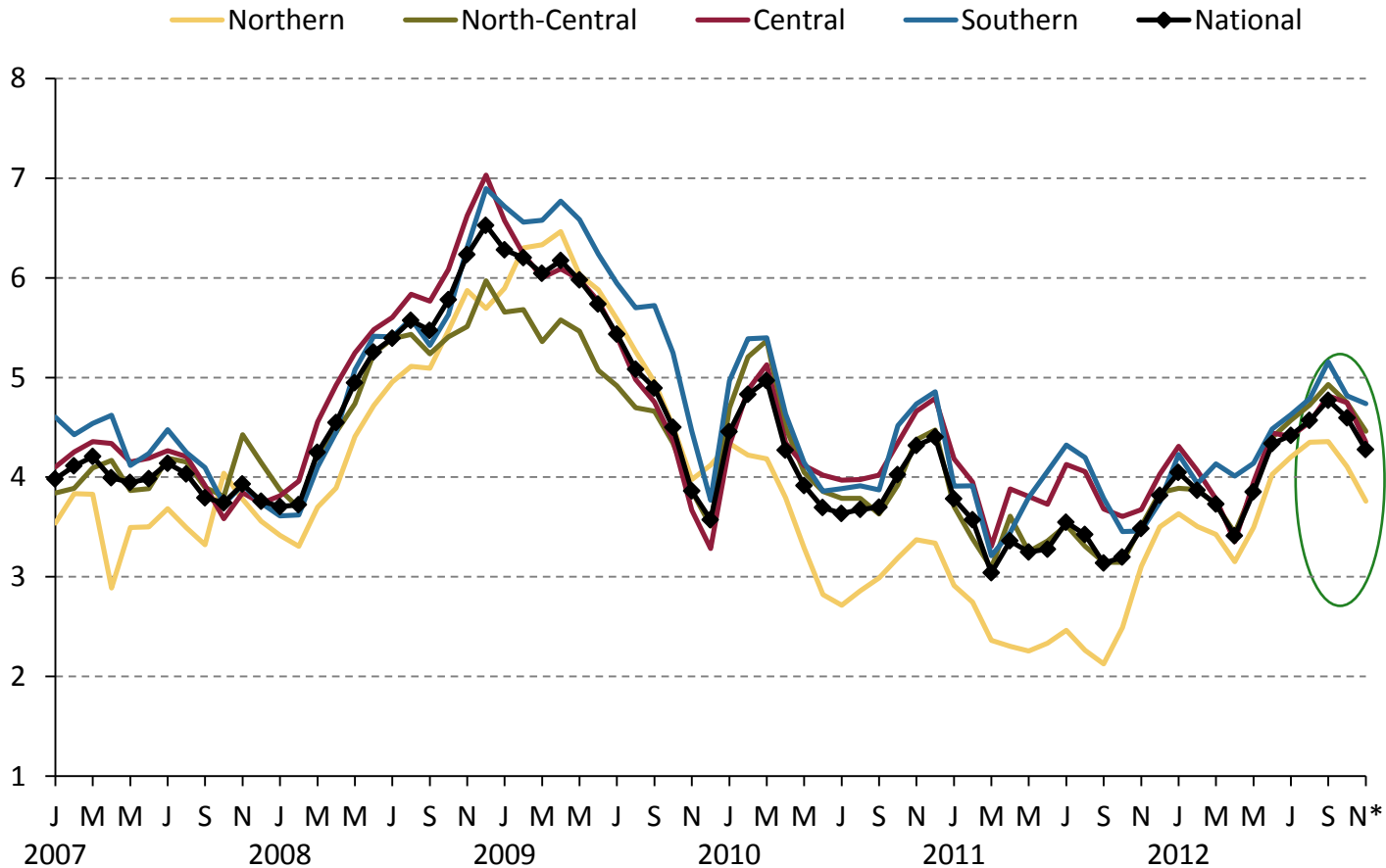
Source: Credit Market Evaluation Survey (*Encuesta de Evaluación Coyuntural del Mercado Crediticio*) by Banco de México.

Inflation

- During the period analyzed in this Report, annual headline inflation increased in the four regions and located above the upper bound of the variability interval around the inflation target in Mexico.
- In all regions this upward adjustment of headline inflation was primarily due to increases in agricultural products' prices, reason for which the referred growth in annual headline inflation in 3Q 2012 is regarded as transitory.
- This was confirmed by the change in the trend of inflation registered in all regions from September onwards.
 - ✓ In the north it returned to a level below 4 percent in the first fortnight of November 2012.

Annual Headline Inflation

Percent

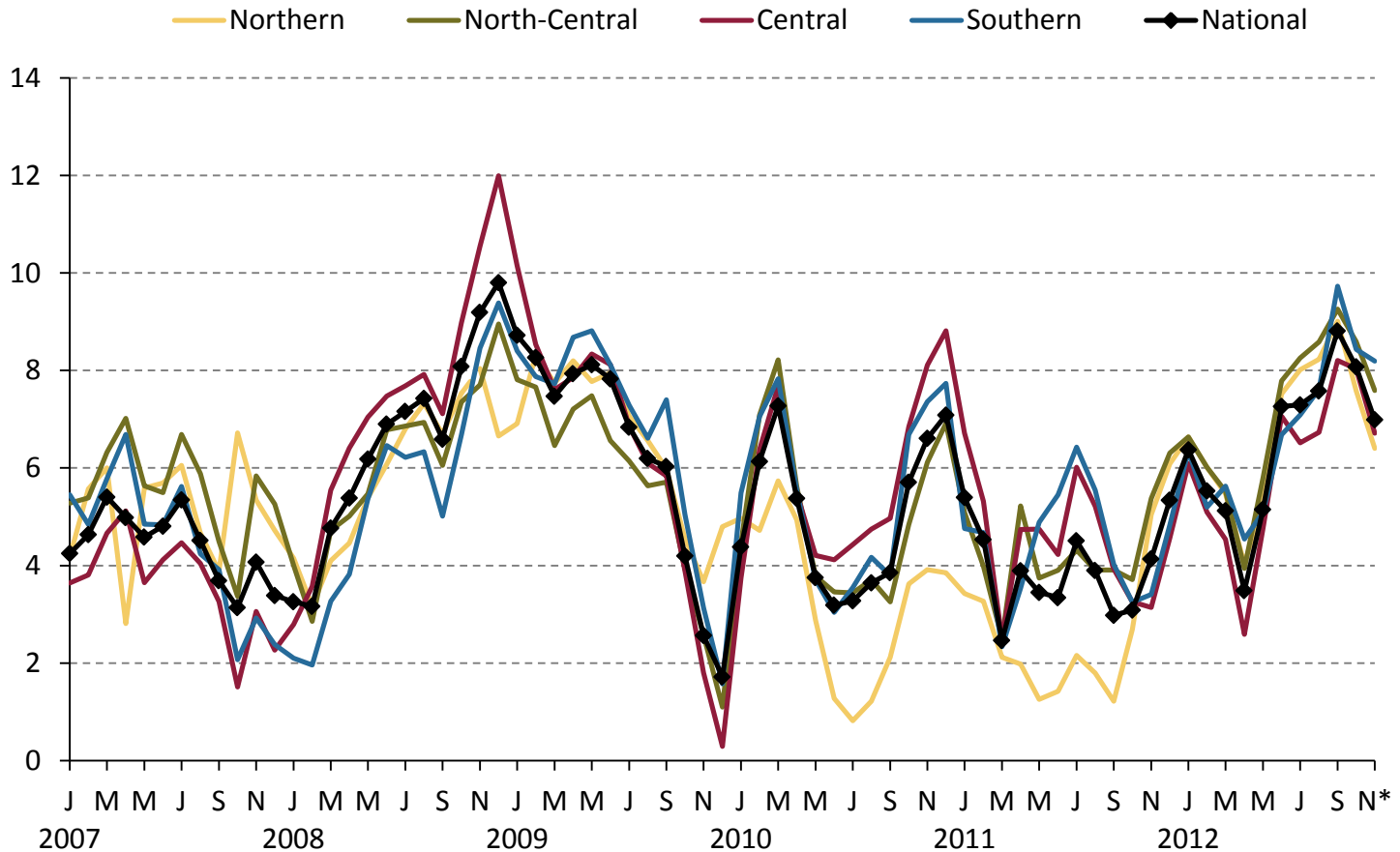


* Data of November 2012 correspond to the first fortnight.

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

Annual Non-core Inflation

Percent



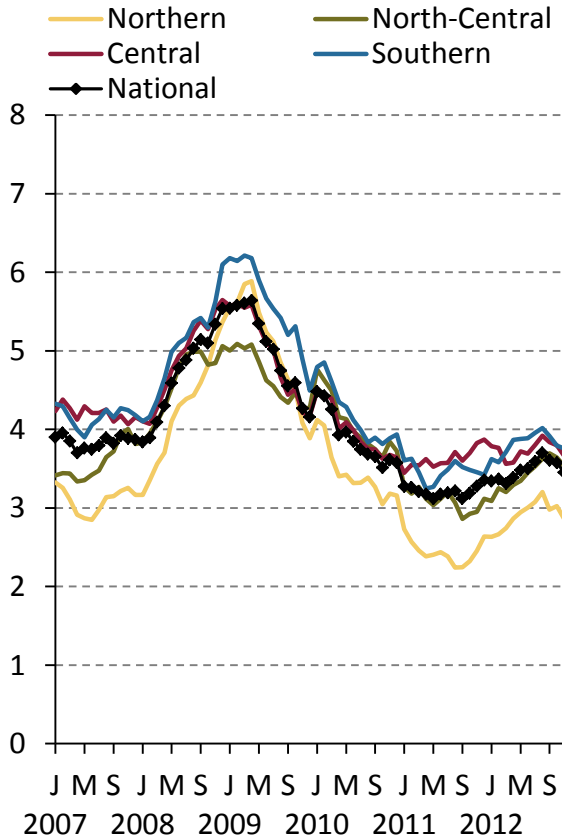
* Data of November 2012 correspond to the first fortnight.

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

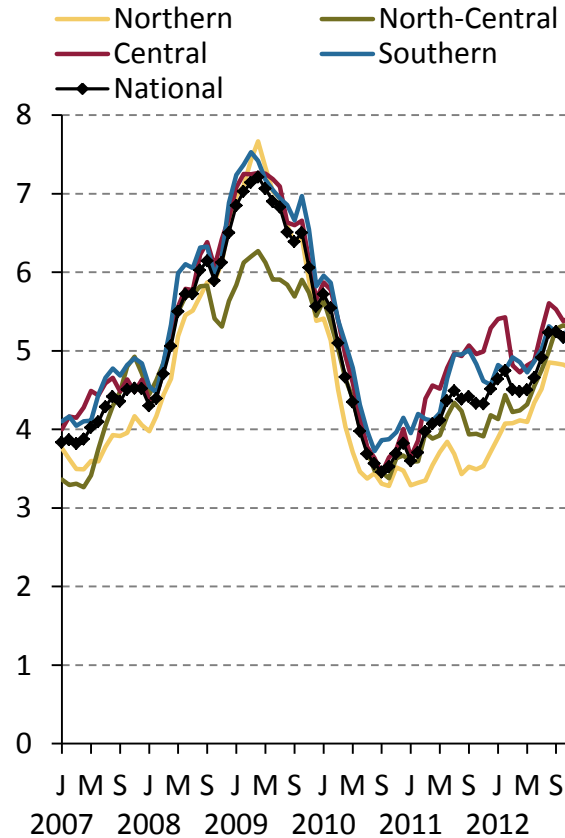
Annual Core Inflation

Percent*/

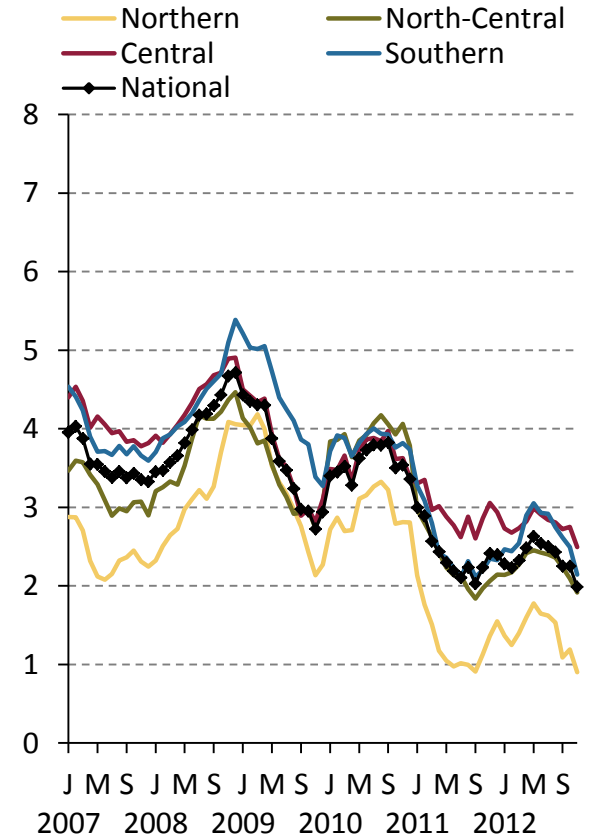
Core



Merchandise



Services



* Data of November 2012 correspond to the first fortnight.

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

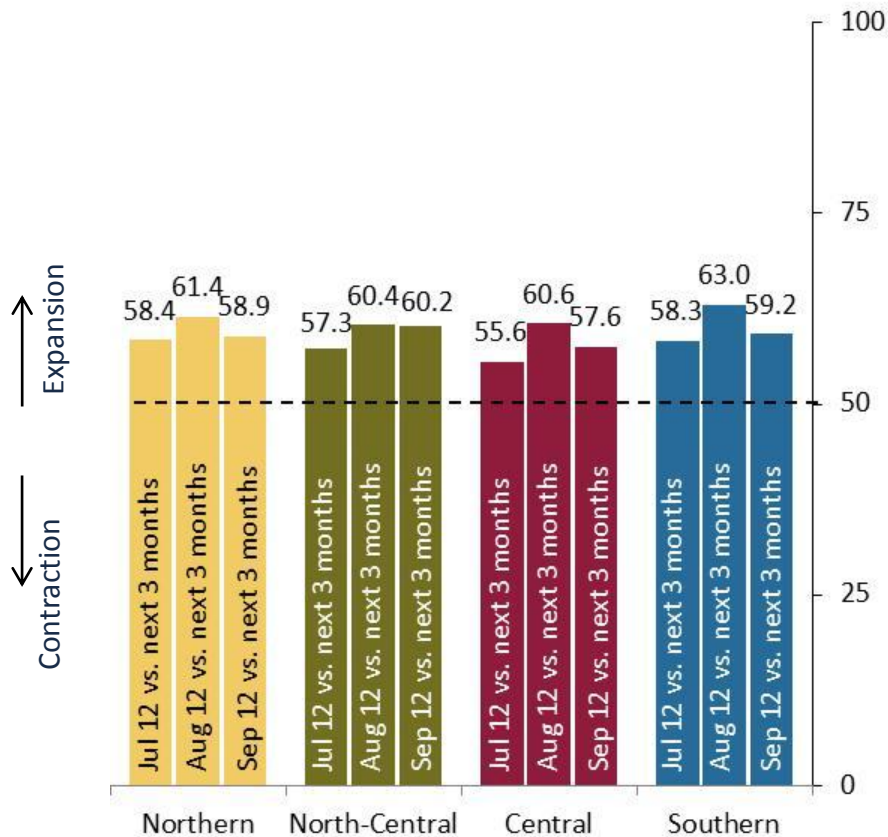
Economic Outlook

- Most business agents interviewed in all regions by Banco de México during September and October 2012 estimated that demand for their goods and services will continue growing during the following 6 and 12 months, although it is expected to occur in an environment of weaker economic growth.
- The growth prospects for regional economies, in the opinion of these business contacts, face both external and domestic risks. The following stand out among them:
 - ✓ External: the evolution of the world economy.
 - ✓ Domestic: the potential impact of the situation of public finances in some states and municipalities on infrastructure spending in the corresponding region.
- Most business agents interviewed by Banco de México in September and October 2012 pointed out that they expect a reduction in inflation levels over the next 6 and 12 months.

Economic Outlook

Manufacturing Orders for the Next 3 Months

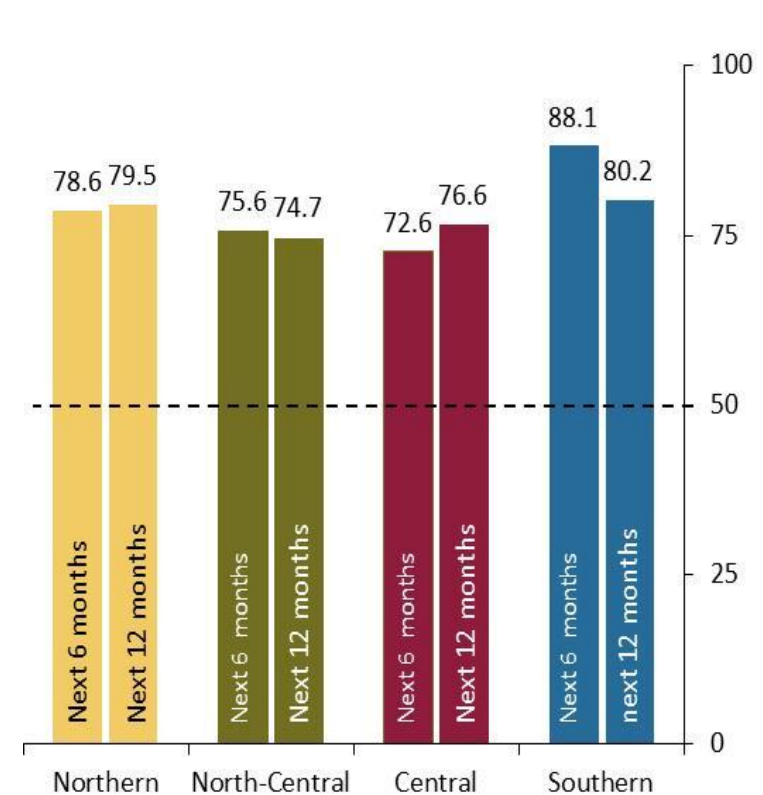
Diffusion index, s. a.



Source: Banco de México.

Demand Expected by Business Agents^{1/}

Diffusion index



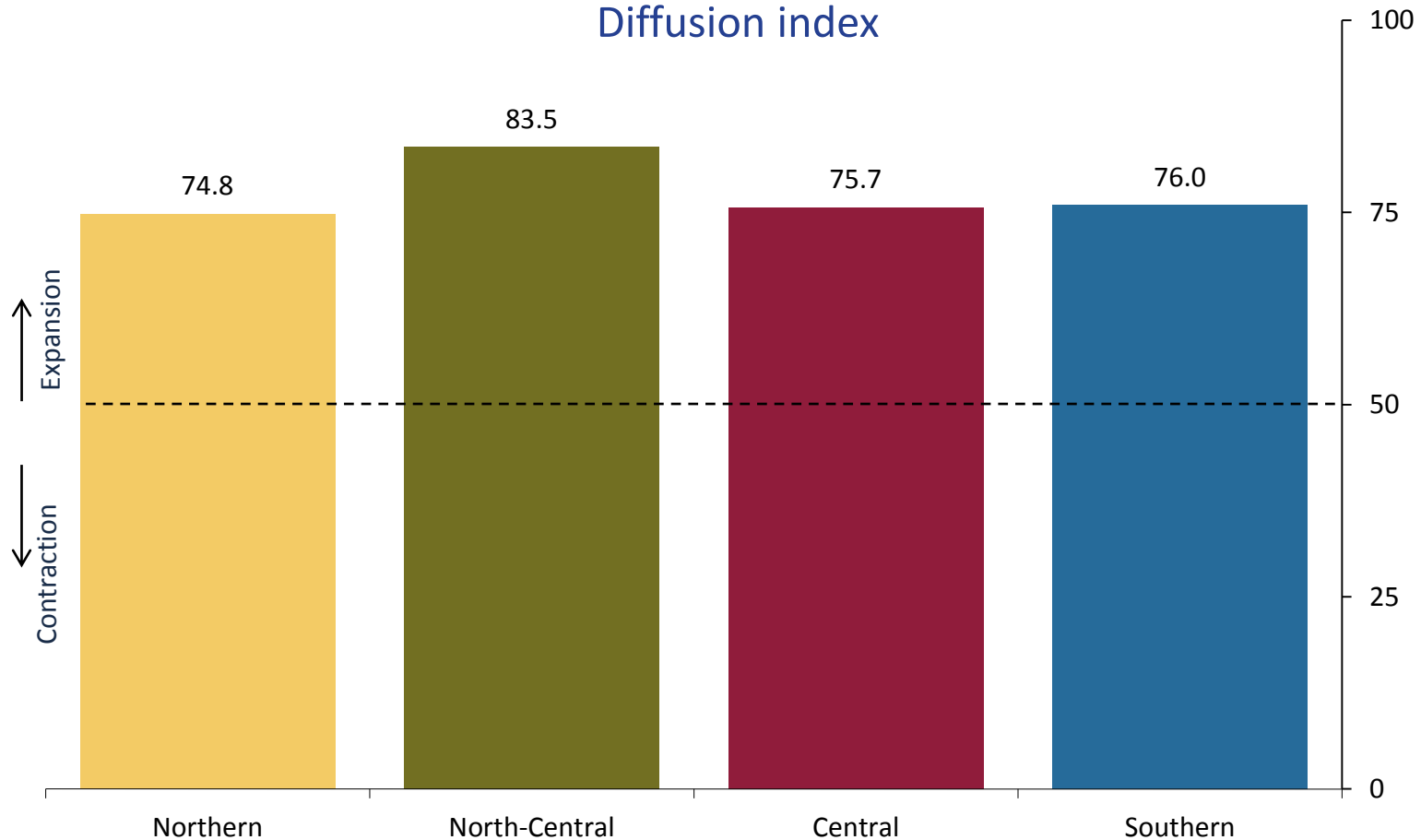
1/ Results obtained from responses to the question: "With respect to the situation in 3Q 2012, how do you expect the demand for your own products and services to change in the next 6 and 12 months?", from the interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

Economic Outlook

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

Diffusion index



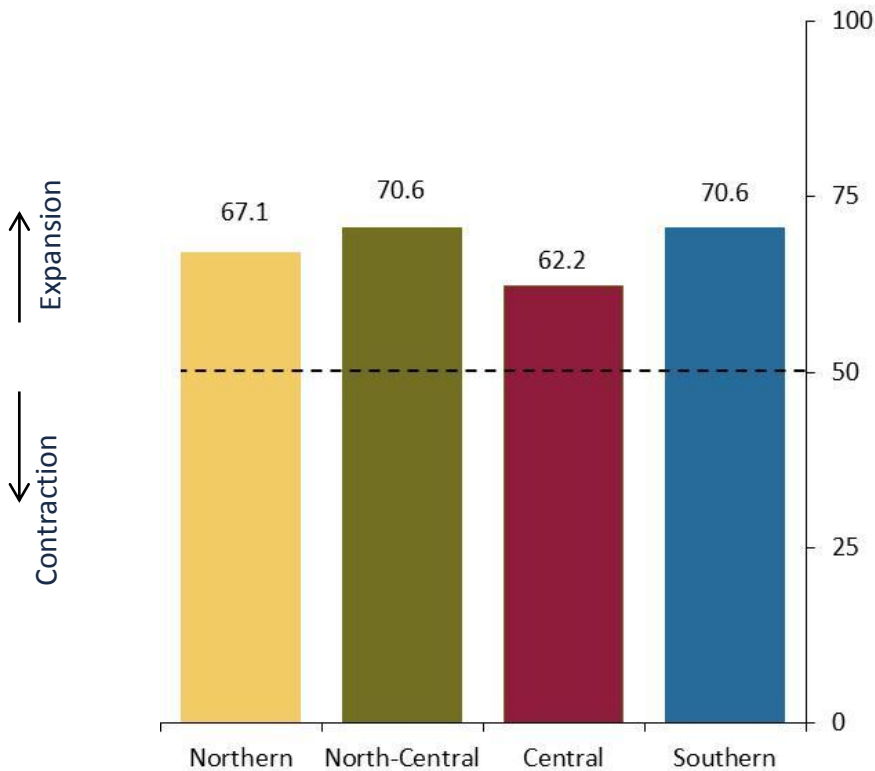
1/ Results obtained from responses to the question: "With respect to the situation in 3Q 2012, how do you expect your firm's physical capital stock to change in the next 12 months?", from the interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

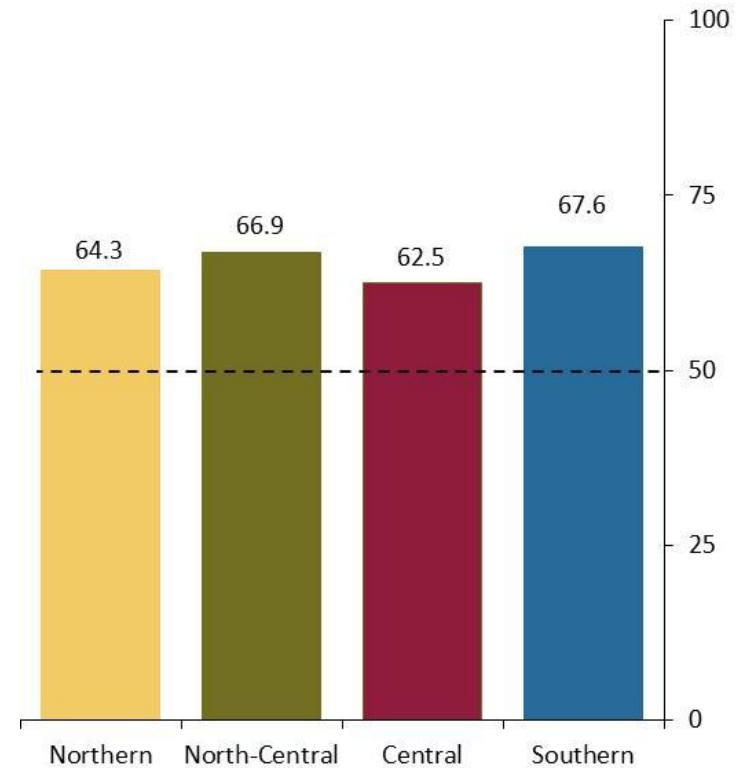
Economic Outlook

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

Next 6 Months



Next 12 Months



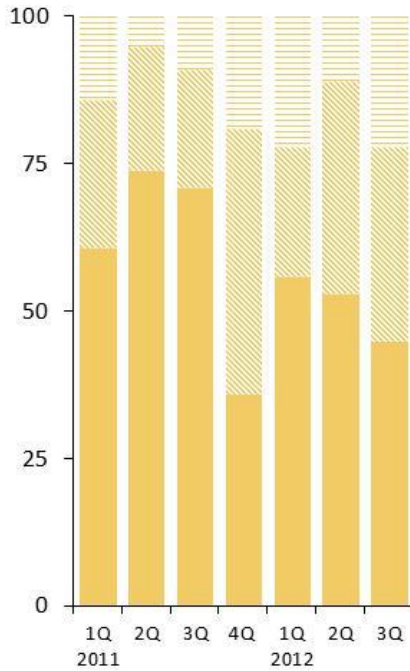
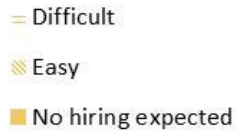
1/ Results obtained from responses to the question: "With respect to 3Q 2012, how do you expect the number of personnel employed in your firm to change over the next 6 and 12 months?", from the interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

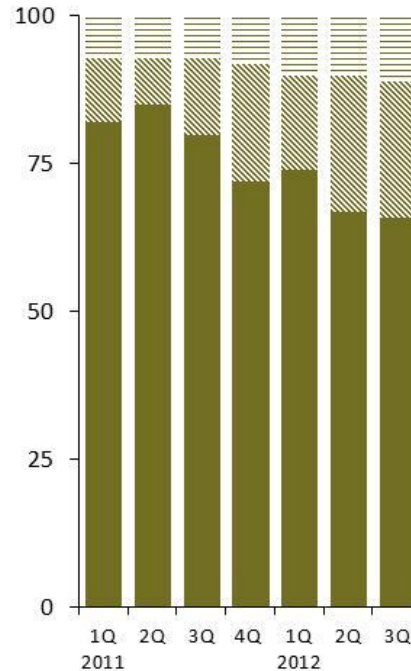
Economic Outlook

Expectation of the Difficulty of the Hiring Process, Next 6 Months^{1/} Percent

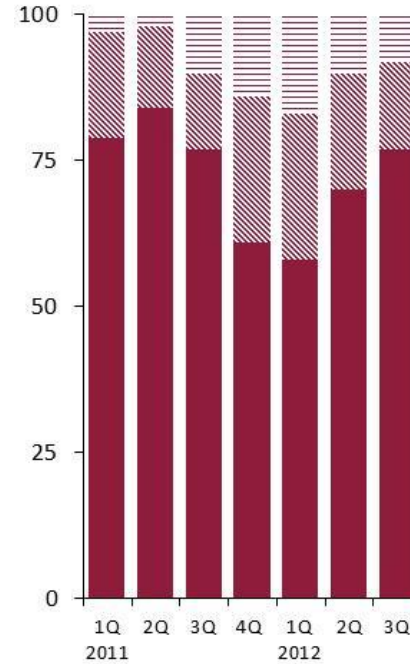
Northern



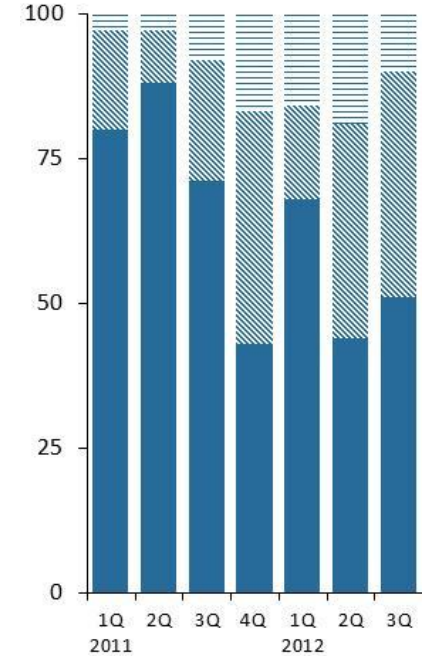
North-Central



Central



Southern



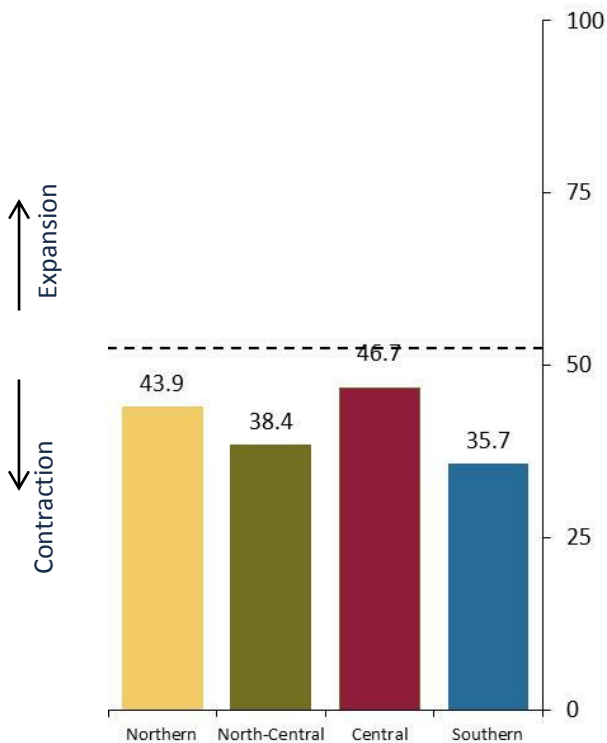
1/ Results obtained from responses to the question: "With respect to the situation in 3Q 2012, how do you expect new personnel hiring in your firm to be over the next 6 months? Difficult or easy?", from the interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

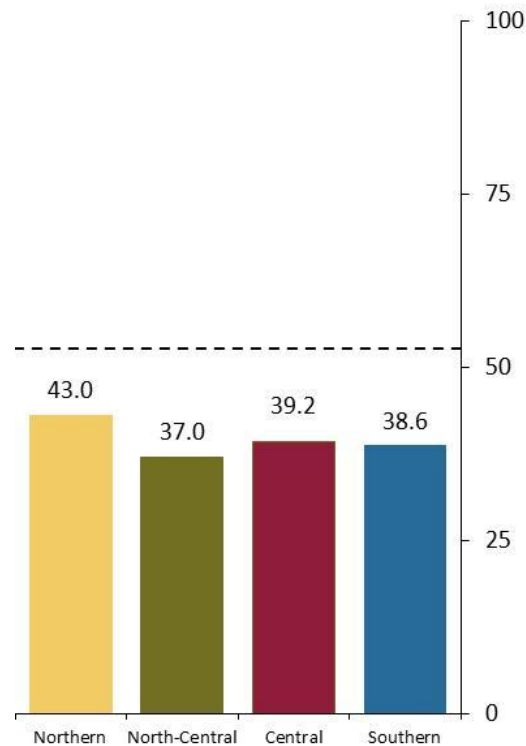
Economic Outlook

Business Agents' Inflation Expectations over Next 6 Months^{1/} Diffusion indexes

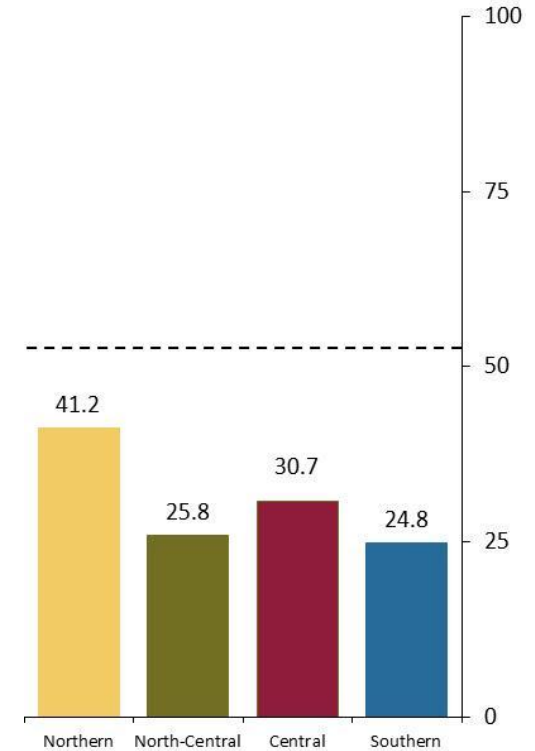
Commodity Price Increase



Labor Cost Increase



Own Products' Price Increase



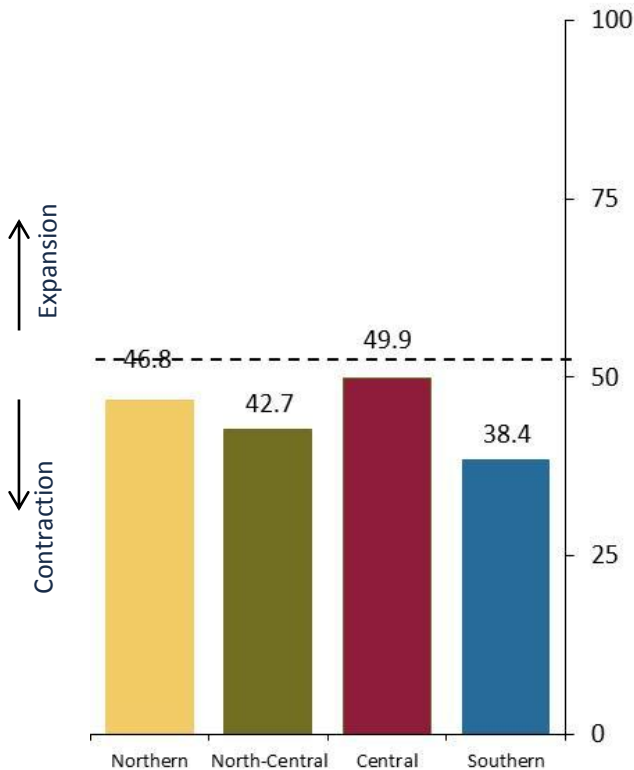
1/ Results obtained from responses to the questions: "With respect to the situation in 3Q 2012, do you expect an adjustment in commodity prices, labor costs and own products' prices over the next 6 months?" and "In comparison with the same period of last year, what magnitude of adjustment do you expect? Greater, same or lower?" from the interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

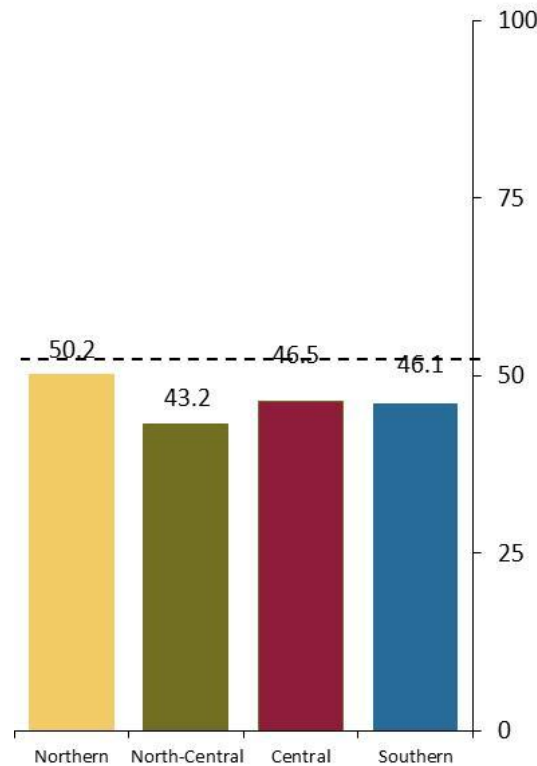
Economic Outlook

Business Agents' Inflation Expectations over Next 12 Months^{1/} Diffusion indexes

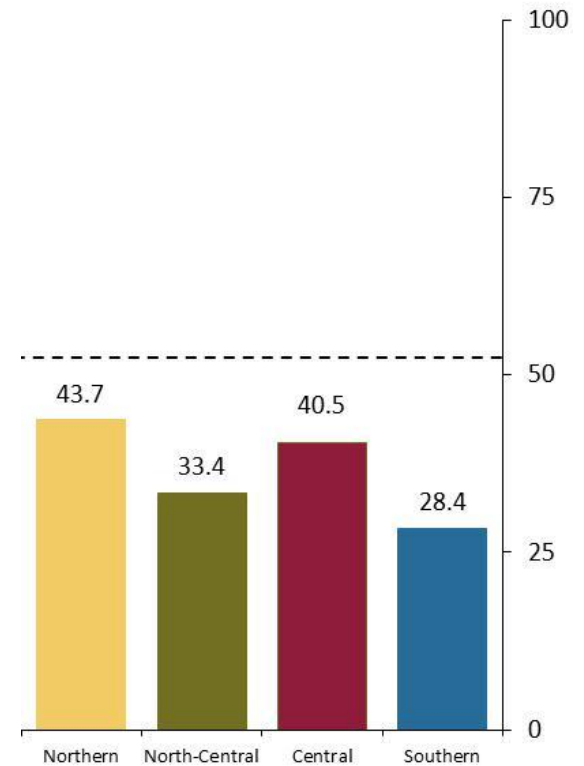
Commodity Price Increase



Labor Cost Increase



Own Products' Price Increase



1/ Results obtained from responses to the questions: "With respect to the situation in 3Q 2012, do you expect an 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 September 24 and October 19, 2012.

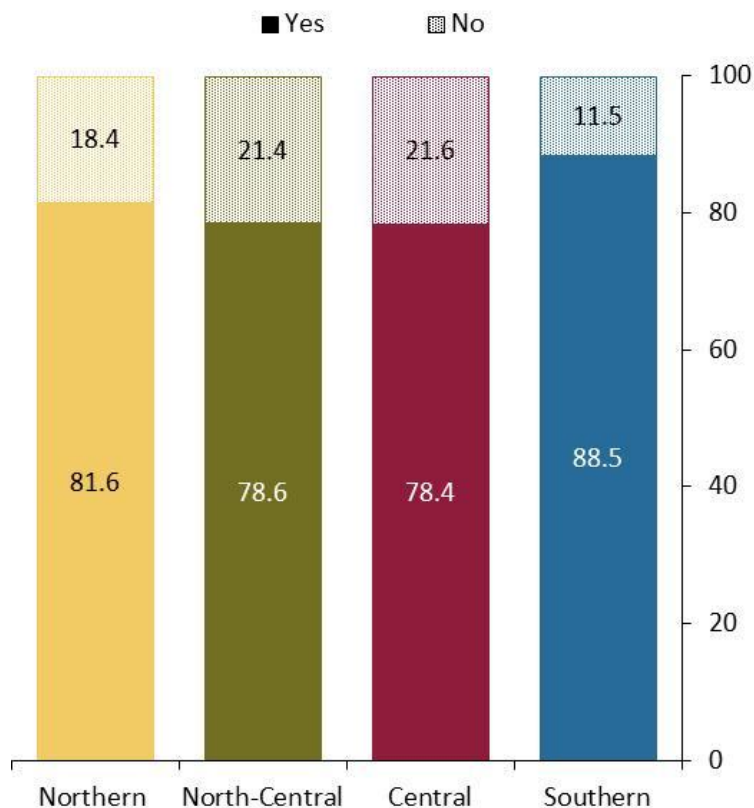
Source: Banco de México.

Economic Outlook

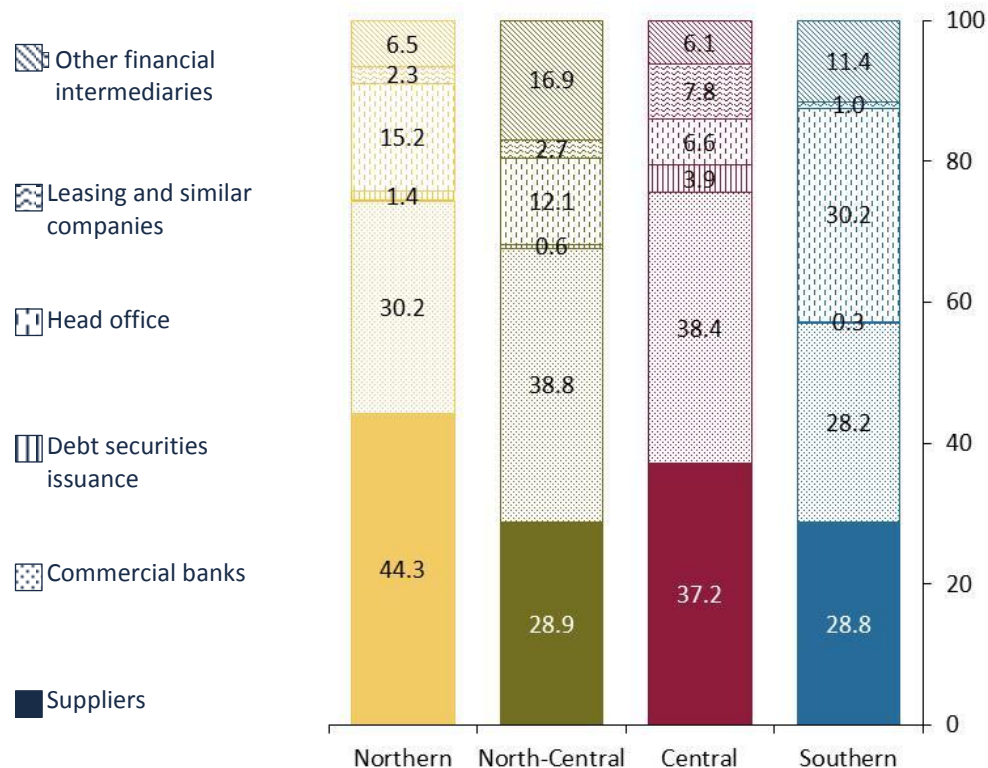
- The boxes in the previous issues of this Report have primarily focused on the analysis of factors triggering regional economic growth in Mexico.
- The present Report further analyzes the role of financing for economic growth, with a particular focus on credit granted by suppliers.
- The results suggest that this type of credit represents an important source of funding to firms, and thus by complementing credit granted by commercial banks, it also supports economic activity.
 - ✓ Credit granted by suppliers represents a share of total funding to firms similar to that provided by commercial banks.
 - ✓ According to most business contacts, the sources of financing to clients are primarily their own, followed by commercial banks.

Regional Analysis of Credit Granted by Suppliers

Access to Financing, Last 12 Months^{1/}
Percent



Sources of Financing, Last 12 Months^{1/}
Percent



1/ Results obtained from interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

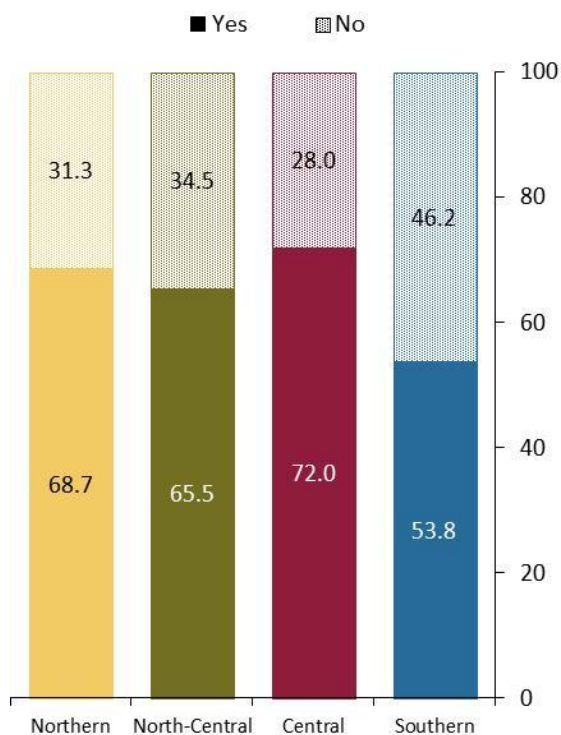
1/ Results obtained from interviews conducted by Banco de México between September 24 and October 19, 2012.

Source: Banco de México.

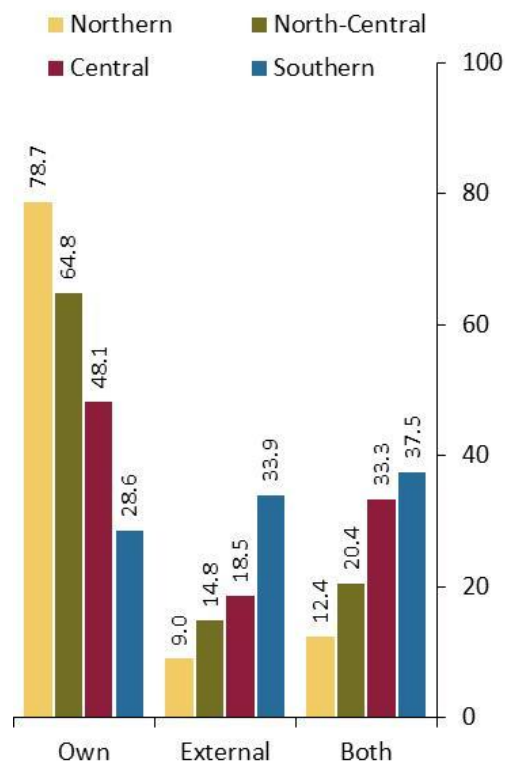
Regional Analysis of Credit Granted by Suppliers

Financing to clients^{1/}
Percent

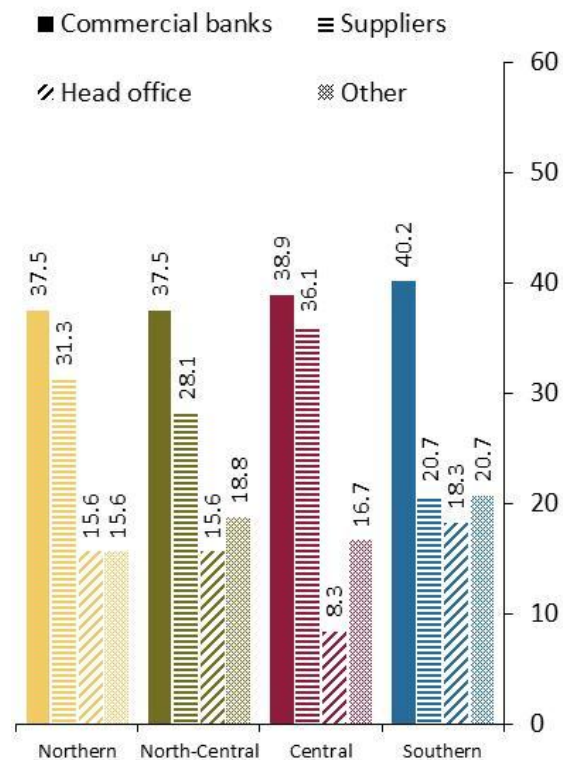
Granting Credits to Clients



Sources of Financing to Clients



External Sources of Credit to Clients



^{1/} Results obtained from interviews conducted by Banco de México between September 24 and October 19, 2012
Source: Banco de México.

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Final Considerations

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

- ① In 3Q 2012 economic activity in the four regions remained on an expansionary phase. However, in the north and in the south, growth of economic activity decelerated.
- ② In all regions, annual headline inflation registered a change in its trend from September onwards, which reverted part of its transitory increase observed in 3Q 2012.
- ③ Business contacts interviewed by Banco de México in September and October 2012 expect the economic activity to continue expanding over the next 6 and 12 months, although this expansion is expected to moderate.

Final Considerations

- ④ Regarding the risks that could affect the expected growth, most interviewed business contacts pointed out the following:
 - ✓ An environment of weaker world economic growth.
 - ✓ The potential impact of the situation of public finances in some states and municipalities on infrastructure spending in the corresponding region.
- ⑤ In accordance with the inflation expectations of most business agents interviewed by Banco de México, lower annual increases are anticipated over the next 6 and 12 months in commodity prices, labor costs and own product and services prices.



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