



Regional Economic Report  
January – March 2015



BANCO DE MÉXICO

June 11, 2015

# Outline

- I. Regional Economic Report
- II. Results January – March 2015
  - A. Economic Activity
  - B. Inflation
  - C. Economic Outlook
- III. Final Remarks

# Regional Economic Report

- The Regional Economic Report is a quarterly publication on recent trends in economic activity, inflation and business agents' expectations in the Mexican regions.<sup>1</sup>
- The 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 2015 and the prospects for regional economic activity and inflation over the following 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.

# Outline

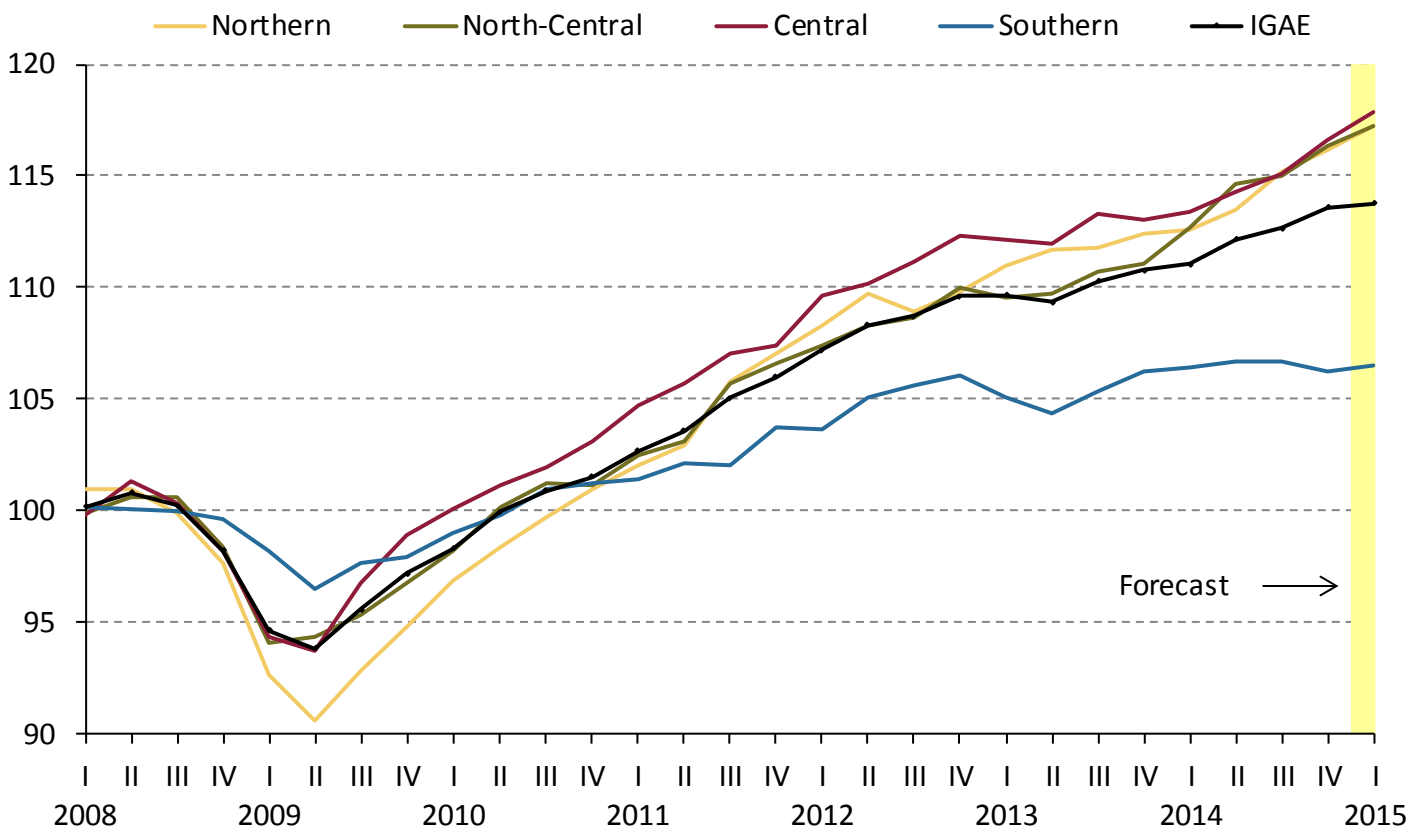
- I. Regional Economic Report
- II. Results January – March 2015**
  - A. Economic Activity**
  - B. Inflation
  - C. Economic Outlook
- III. Final Remarks

# Economic Activity

- In general, the growth rate in regional economies moderated during 1Q 2015.
  - ✓ This was mainly attributed to stagnation of industrial activity, which, in turn, was related to a lower dynamism of manufacturing production, the decrease in the expansion rate of construction and weakness that was still registered in oil mining.
  - ✓ Nonetheless, the indicators of trade activity and of the services' sector expanded during the reference quarter.
- Agricultural production presented positive annual adjustments in 1Q 2015 in most regions.
- In the analyzed quarter, the number of IMSS-affiliated job positions kept growing in all regional economies.

In 1Q 2015, economic activity at the regional level kept presenting an upward trend in all regional economies. In the Southern region, economic activity continued observing signs of weakness.

## Quarterly Indicator of Regional Economic Activity <sup>1/</sup> Index 2008=100

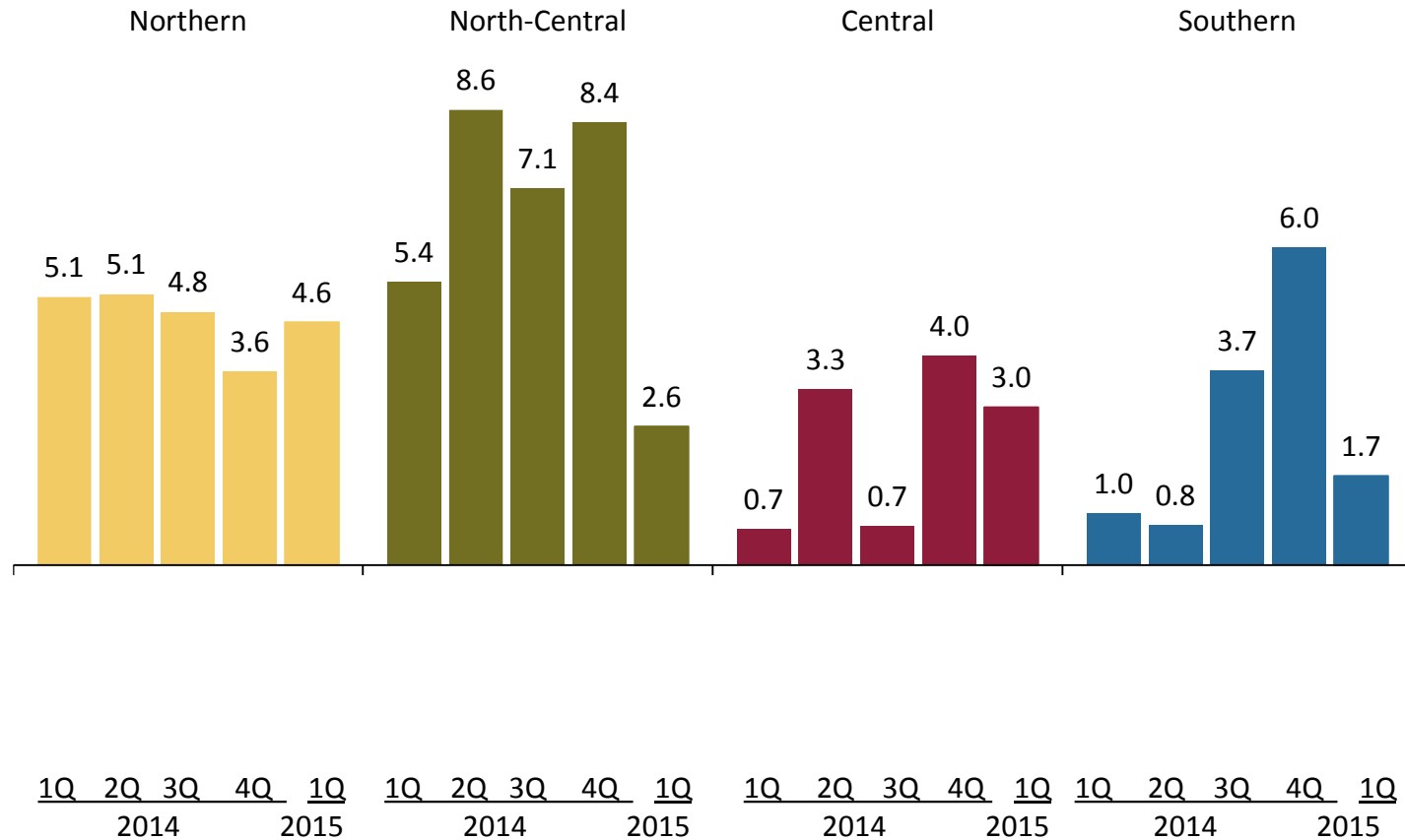


<sup>1/</sup> This indicator's values in 1Q 2015 are preliminary.

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

Manufacturing production kept observing positive growth rates in all regional economies of Mexico, although they were smaller as compared to 4Q 2014, with the exception of the Northern region where the expansion rate was higher.

### Regional Manufacturing Indicator <sup>1/</sup> Annual change in percent



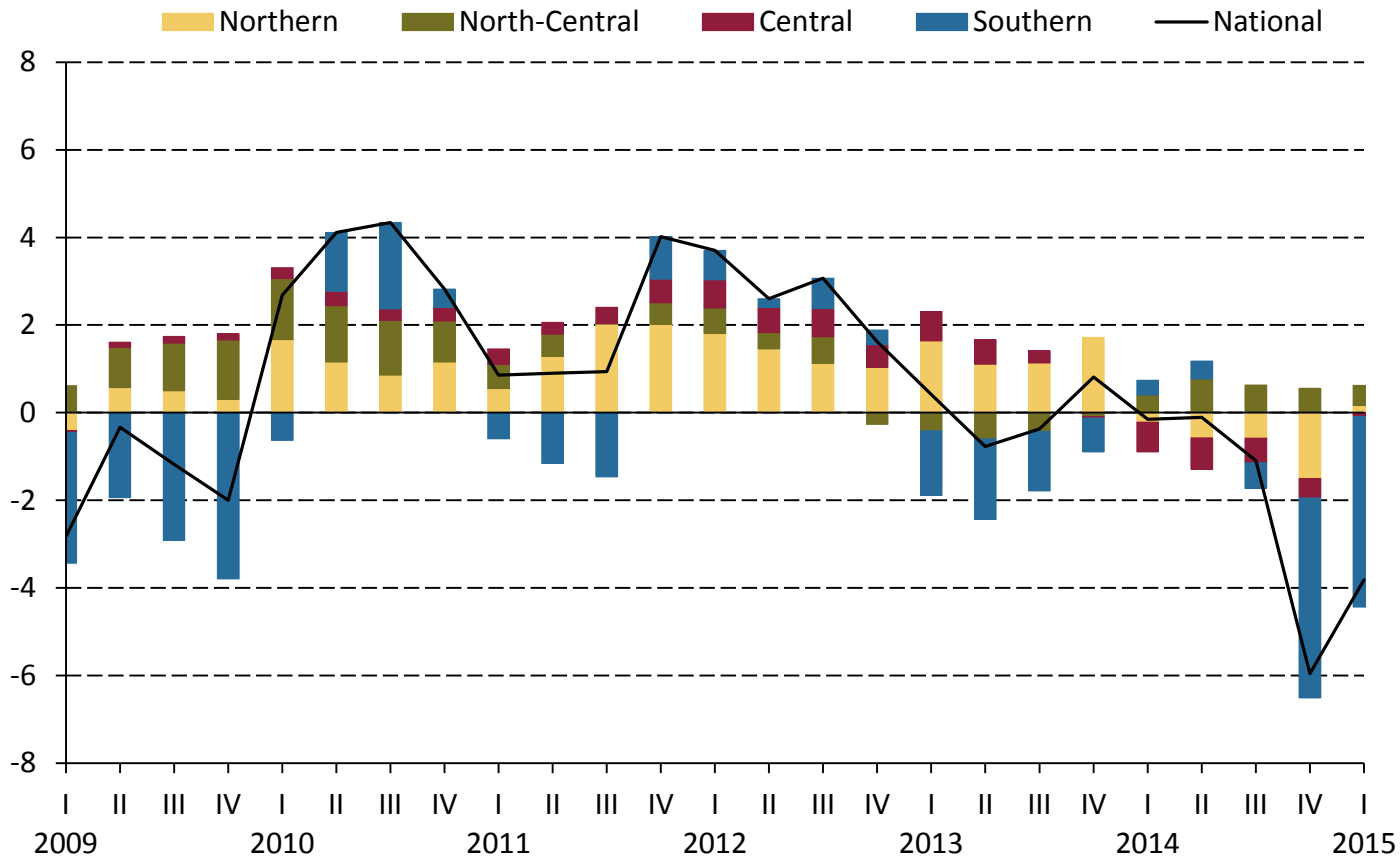
1/ This indicator's values in 1Q 2015 are preliminary.

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

In 1Q 2015, mining activity kept observing unfavorable performance mainly related to the evolution of oil mining in the Southern region.

## Regional Contribution to Mining Activity Expansion <sup>1/</sup>

Annual change in percent



1/ This indicator's values in 1Q 2015 are preliminary.

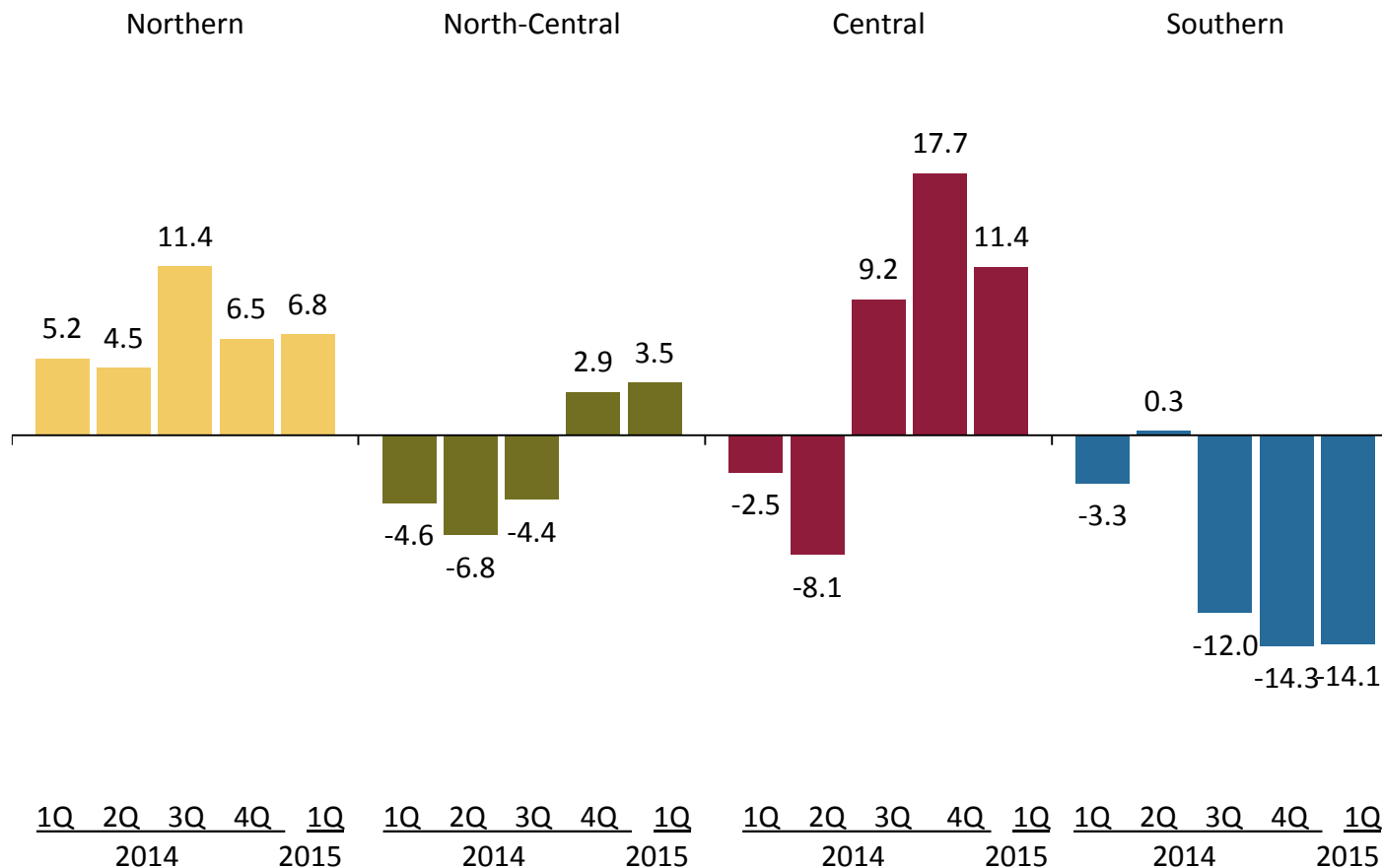
Source: Estimated by Banco de México with seasonally adjusted data from INEGI.



In general, the growth rate of construction moderated in 1Q 2015. In the Northern and North-Central regions, the growth rates were very similar to those in 4Q 2014, in the Central region a slowdown was observed, while the Southern region presented a contraction.

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

### Annual change in percent

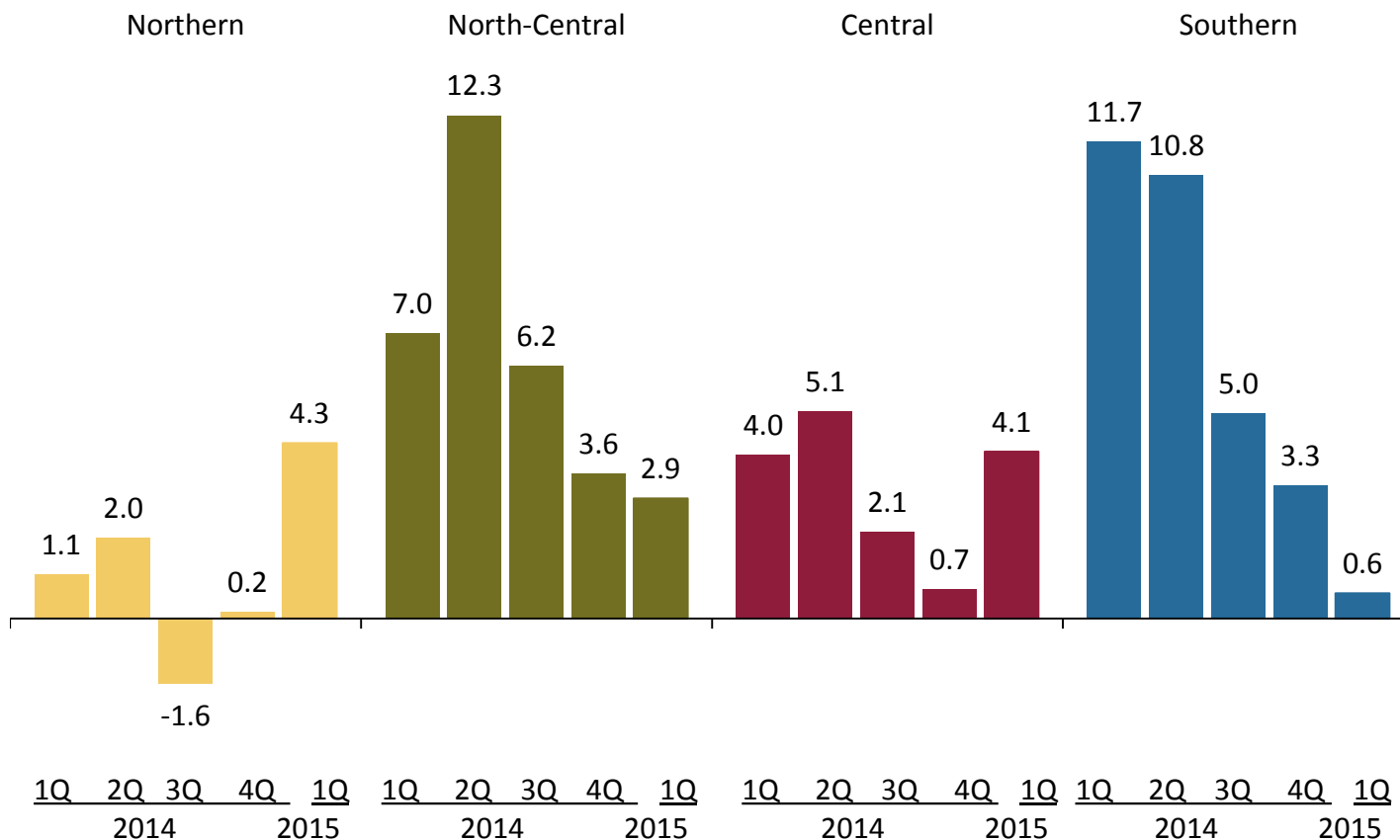


Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

Retail trade expanded in all regional economies. In the Northern and Central regions the observed growth rates were even higher than in 4Q 2014.

## Regional Indicator of Retail Trade

Annual change in percent



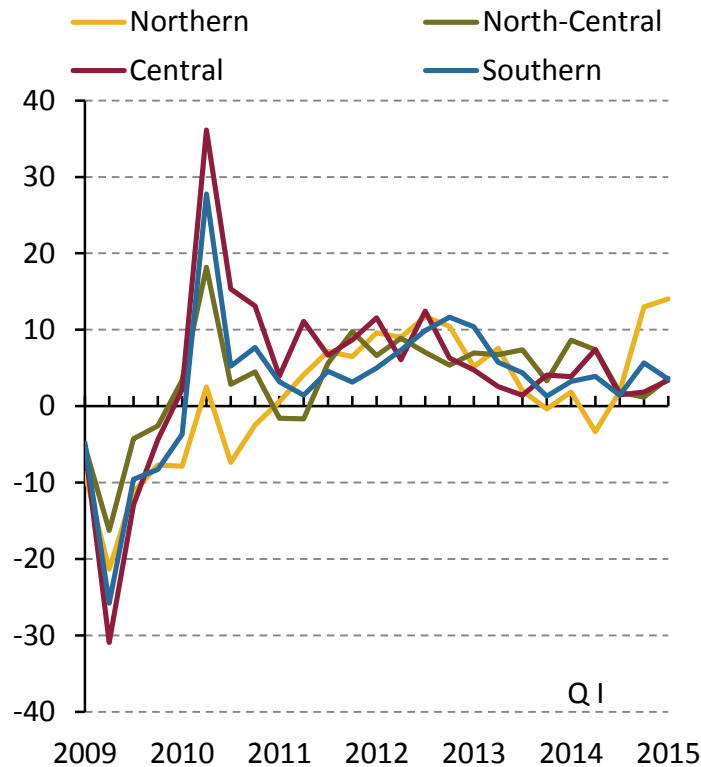
Source: Estimated by Banco de México with seasonally adjusted data from INEGI.

Tourism expansion continued in 1Q 2015, although at different rates across regions. The recovery of the North-Central region, affected by the hurricane “Odile” in 4Q 2014, was noteworthy.

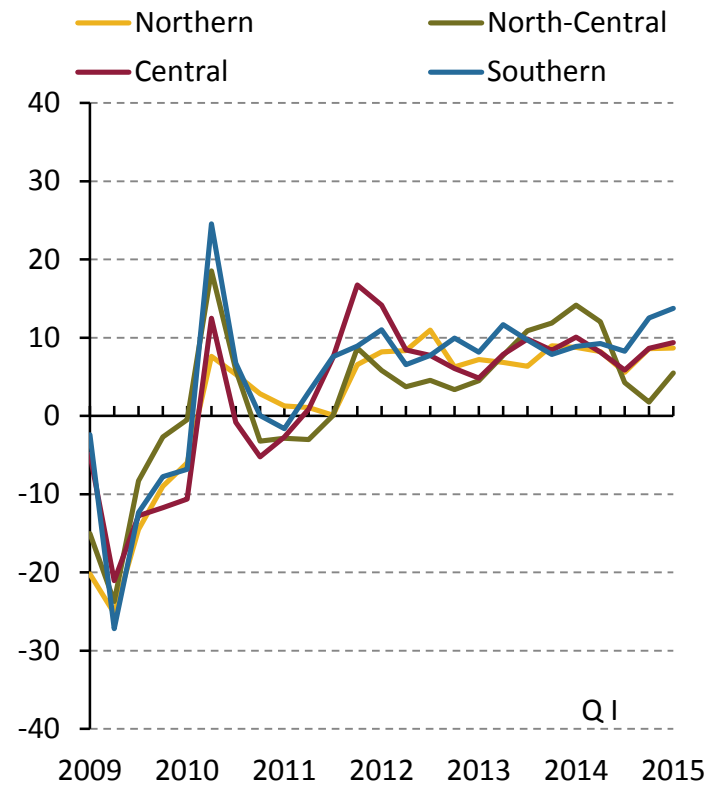
## Regional Indicators of Activity in Tourism

Annual change in percent

### Hotel Occupancy



### Inflow of Passengers to Airports

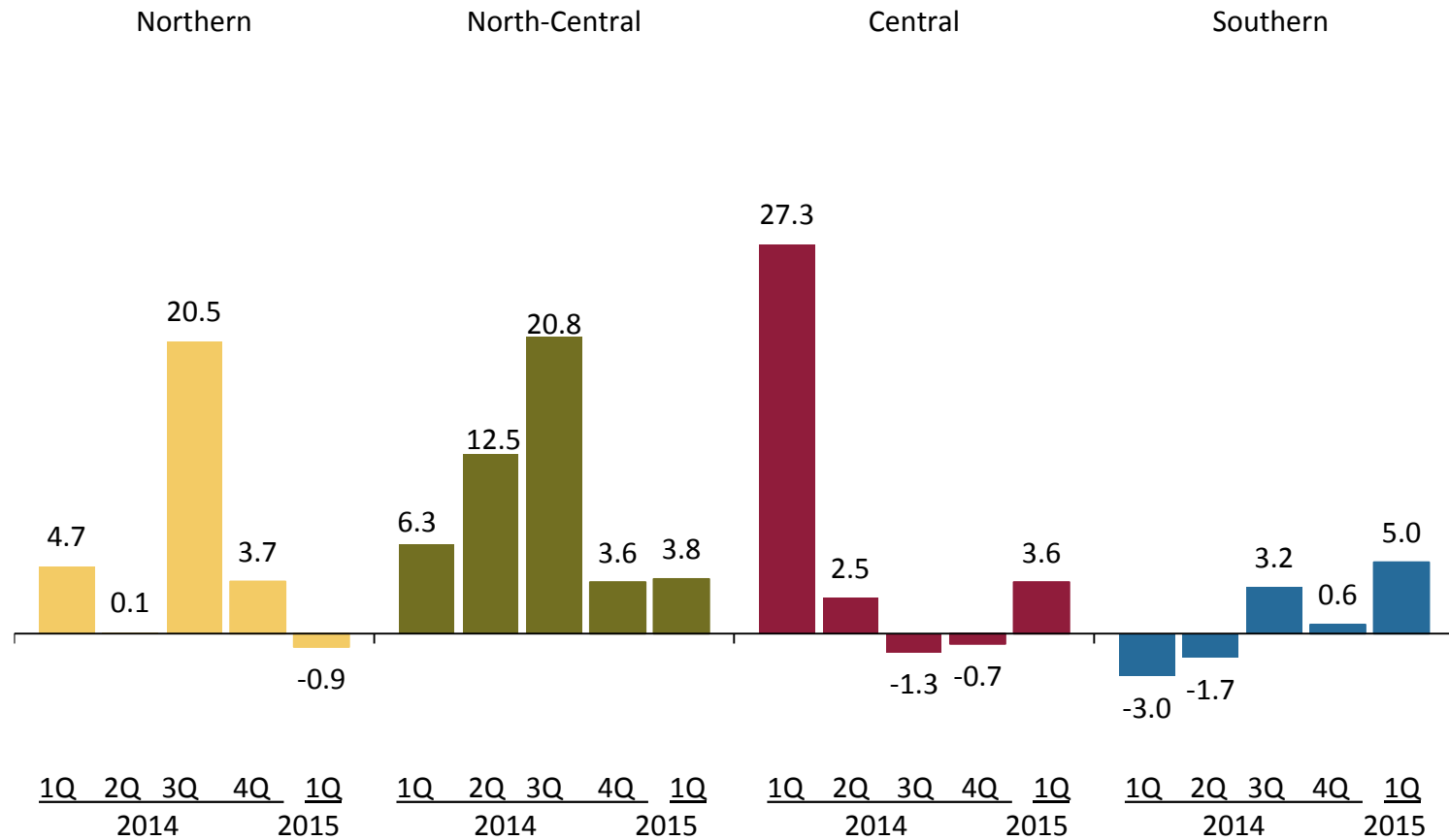


Source: Estimated by Banco de México with seasonally adjusted data from the Mexican Secretariat of Tourism and from Airports and Auxiliary Services (ASA, for its Spanish acronym).

Agricultural activity in central regions and in the south expanded as compared to the same period of last year. It was associated with the favorable performance of both agricultural and livestock production.

## Index of Regional Agricultural Production

### Annual change in percent



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

In four regions, businesses generally reported an increase in the use of financing, in particular that granted by commercial banks.

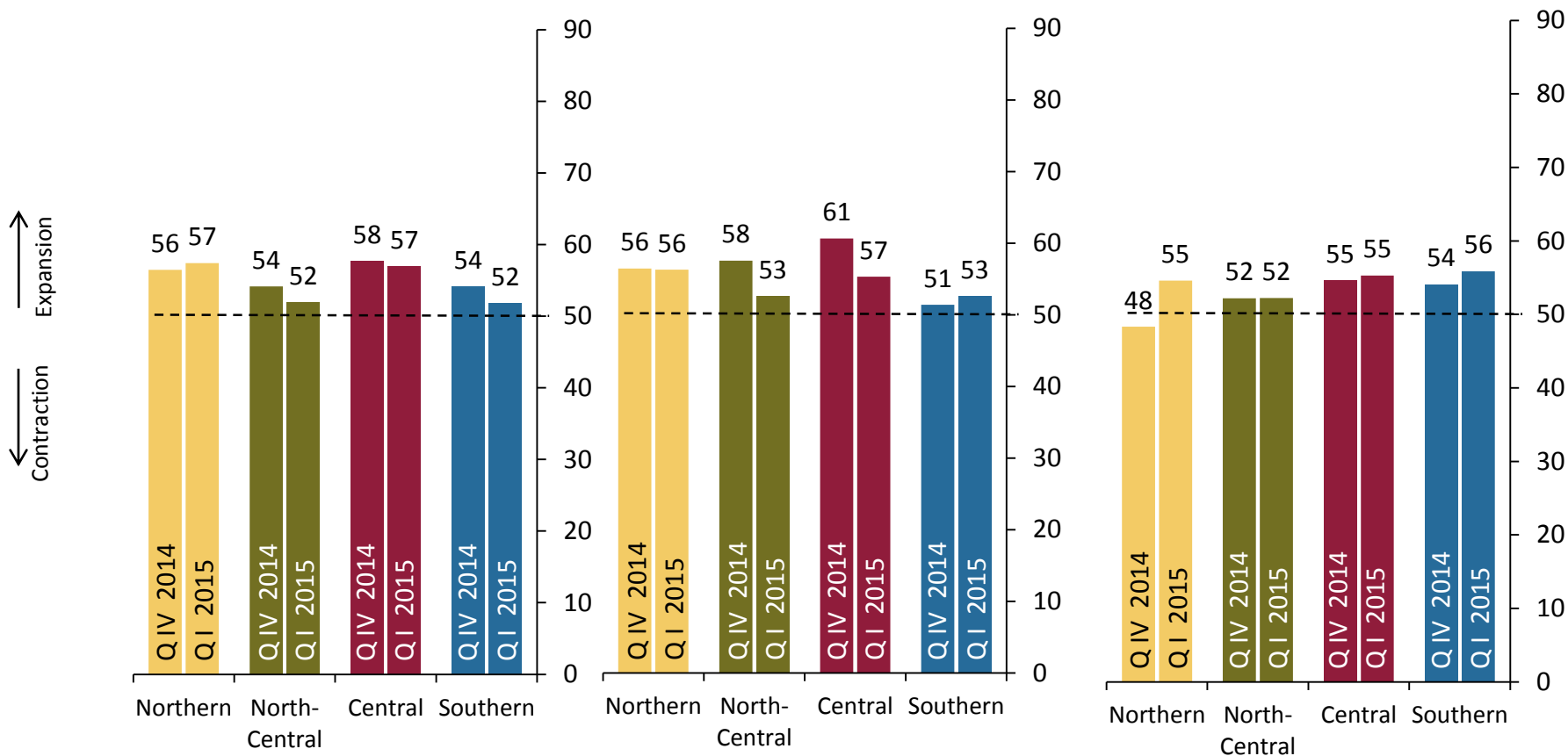
## Main Sources of Financing to Firms

Diffusion index

### Own Resources

### Suppliers

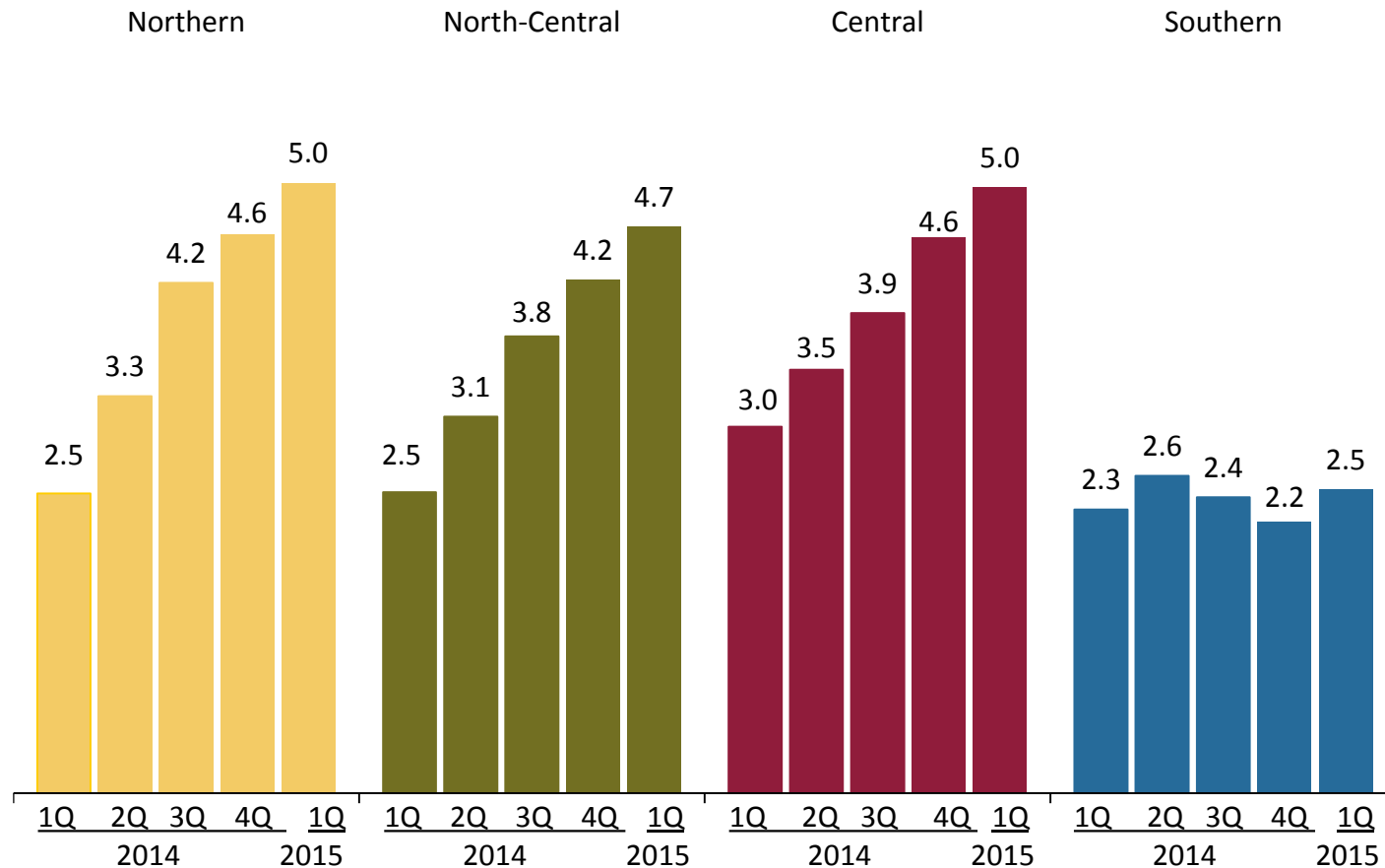
### Commercial Banks



Source: Banco de México.

In all regions, growth in the number of IMSS-affiliated job positions kept accelerating. Still, in the Southern region, the growth rates were smaller as compared to other regions.

## Number of IMSS-affiliated employments Annual change in percent



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

# Outline

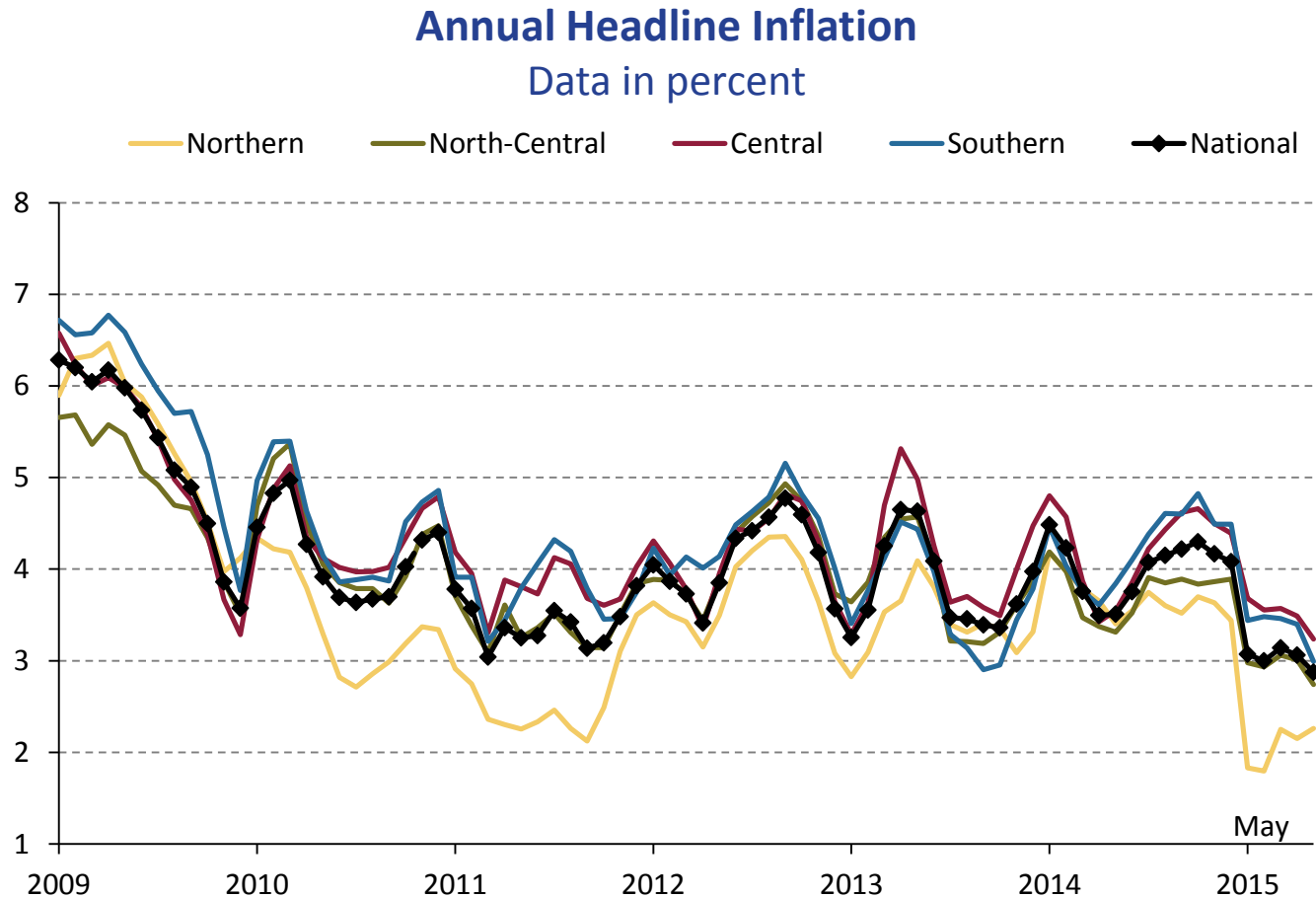
- I. Regional Economic Report
- II. Results January – March 2015**
  - A. Economic Activity
  - B. Inflation**
  - C. Economic Outlook
- III. Final Remarks

# Inflation

- Annual headline inflation went down considerably in early 2015 in all regional economies of Mexico.
  - ✓ This reduction was consequent on the conduction of the monetary policy, which anticipated the fading out of the effects of fiscal modifications of 2014 onto inflation.
- Furthermore, the monetary authority remained alert so that inflation expectations were not affected to avoid second round effects on the price formation process of the economy.
- Additionally, lower prices of telecommunications services and lower energy prices contributed, both directly and indirectly, to the reduction in annual headline inflation in all regions, even when the exchange rate depreciation of the national currency was considered.



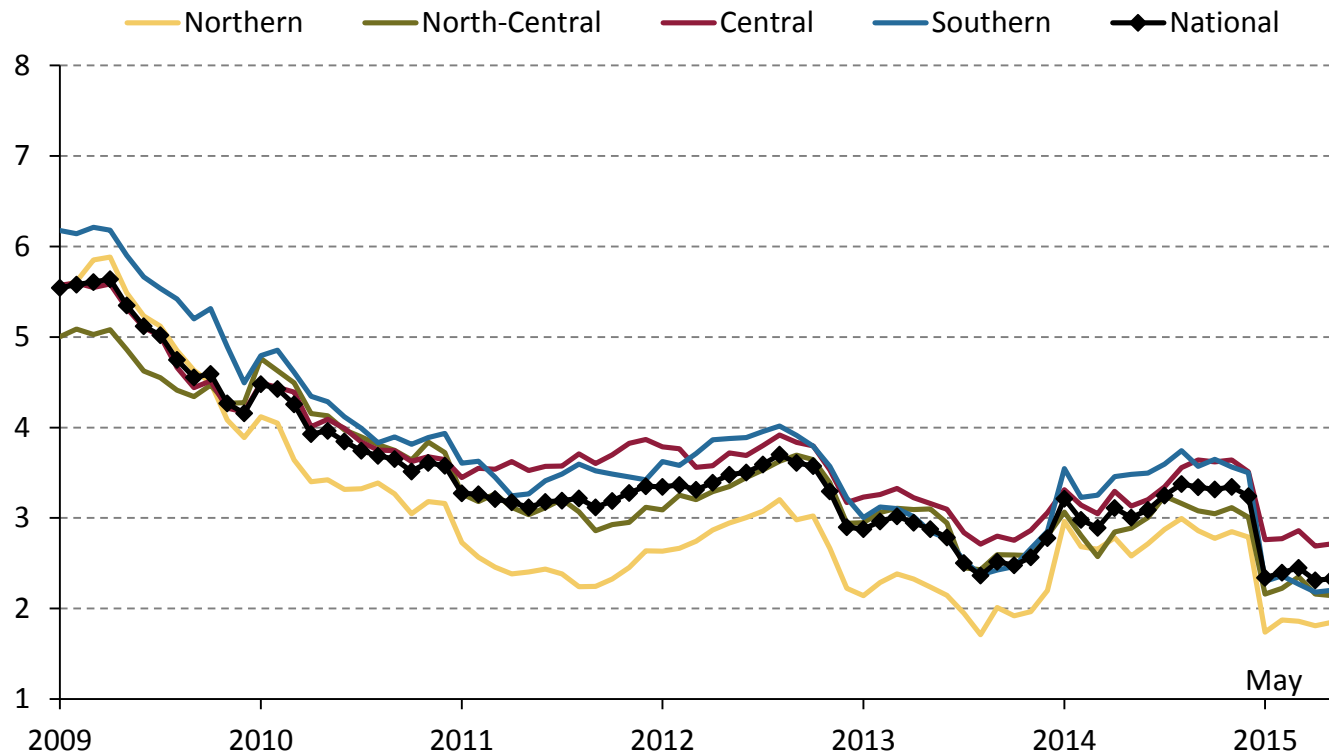
Annual headline inflation decreased considerably in early 2015 in all regions of Mexico.



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

Annual core inflation went down significantly in early 2015. In this regard, it is noteworthy that in all regions it lies at levels below those registered in 2013, prior to the increment observed in 2014, derived from the change in relative prices as a result of the fiscal changes in force since that year.

## Annual Core Inflation Data in percent

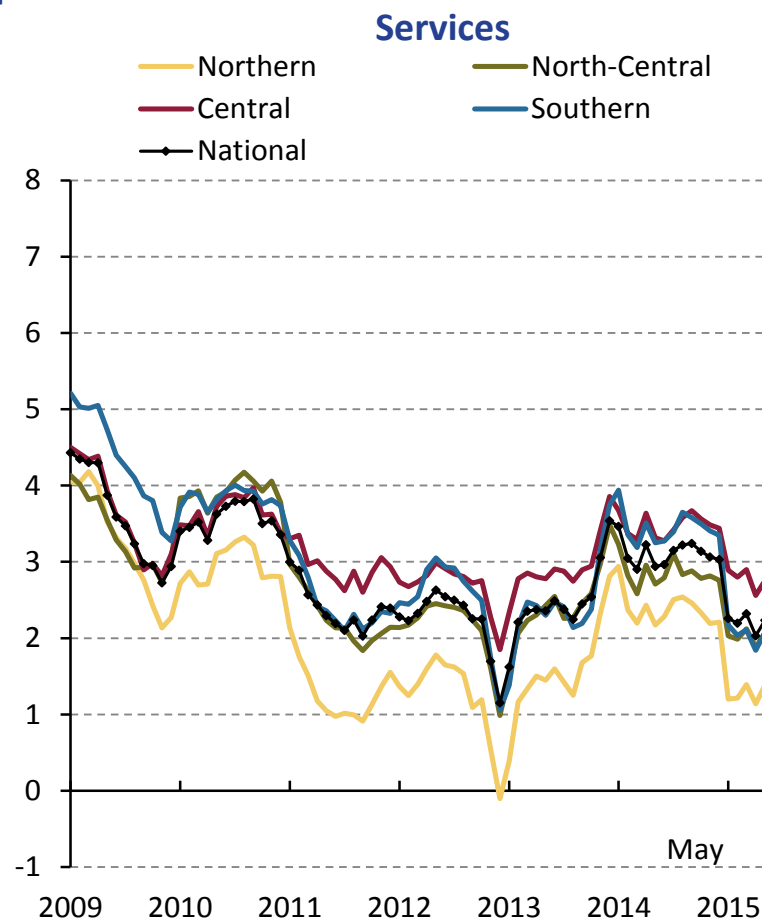
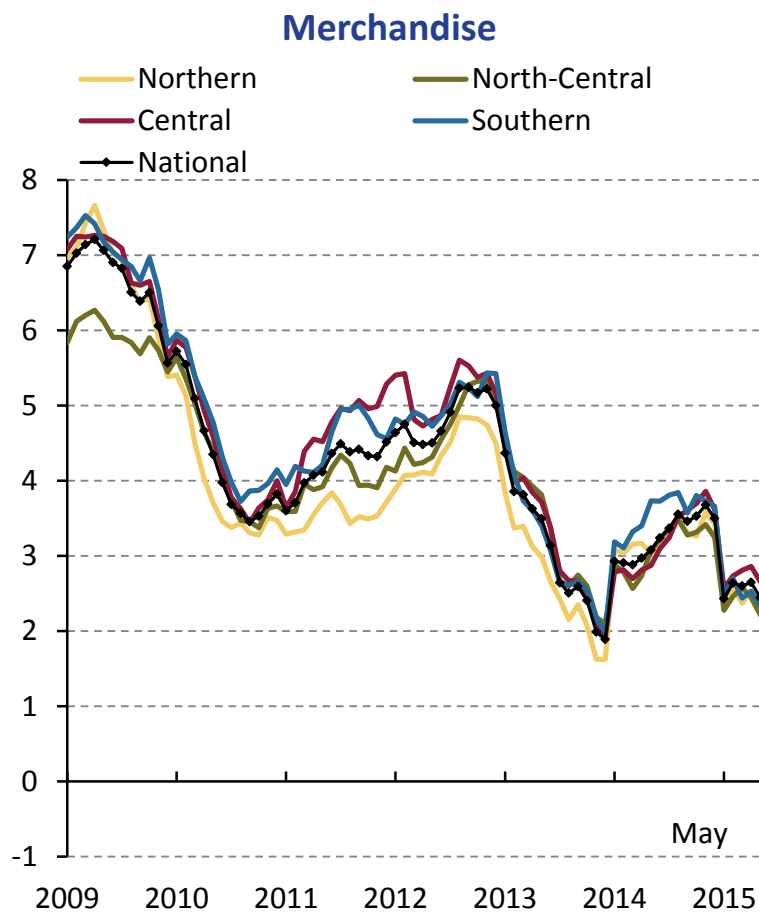


Source: Estimated by Banco de México with data from INEGI and Banco de México.

Both merchandise and services' prices observed considerable reductions in their annual growth rates at the beginning of 2015 and remain below 3 percent in four regions.

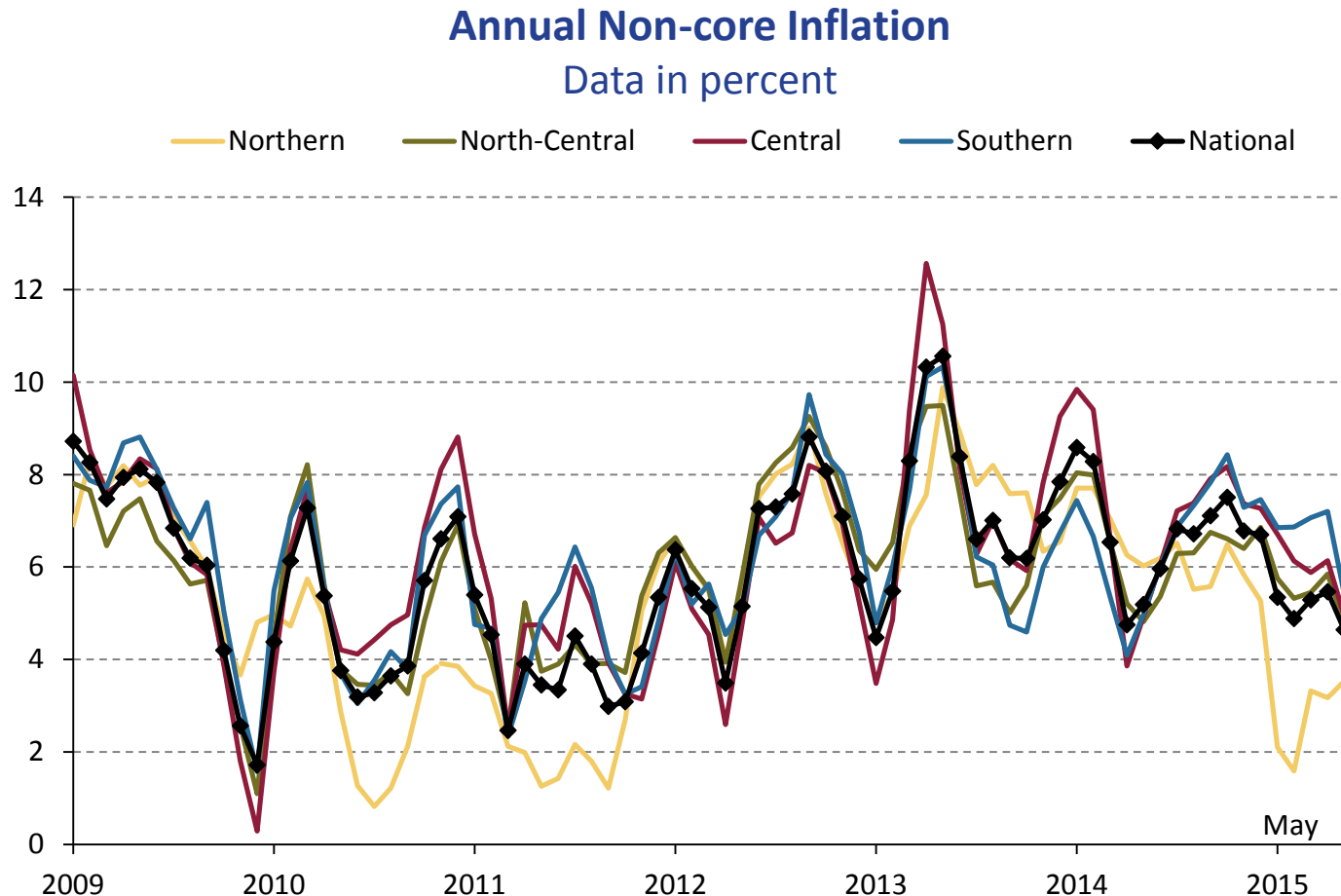
## Components of Annual Core Inflation

Data in percent



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

Non-core inflation also decreased in all regions during the first months of this year. This reduction was contributed to by lower growth rates of energy prices in general.



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

# Outline

- I. Regional Economic Report
- II. Results January – March 2015**
  - A. Economic Activity
  - B. Inflation
  - C. Economic Outlook**
- III. Final Remarks

# Economic Outlook

- Most business agents expect demand for their goods and services to grow in all regions of Mexico, although the sign of expansion weakened with respect to the previous quarter.
- The interviewed business contacts indicated that their expectations are based on:
  - ✓ External factors: the prospect of sustained growth of the U.S. economy.
  - ✓ Domestic factors: the estimated positive effect of the Energy Reform on private investment and different projects in the sector.

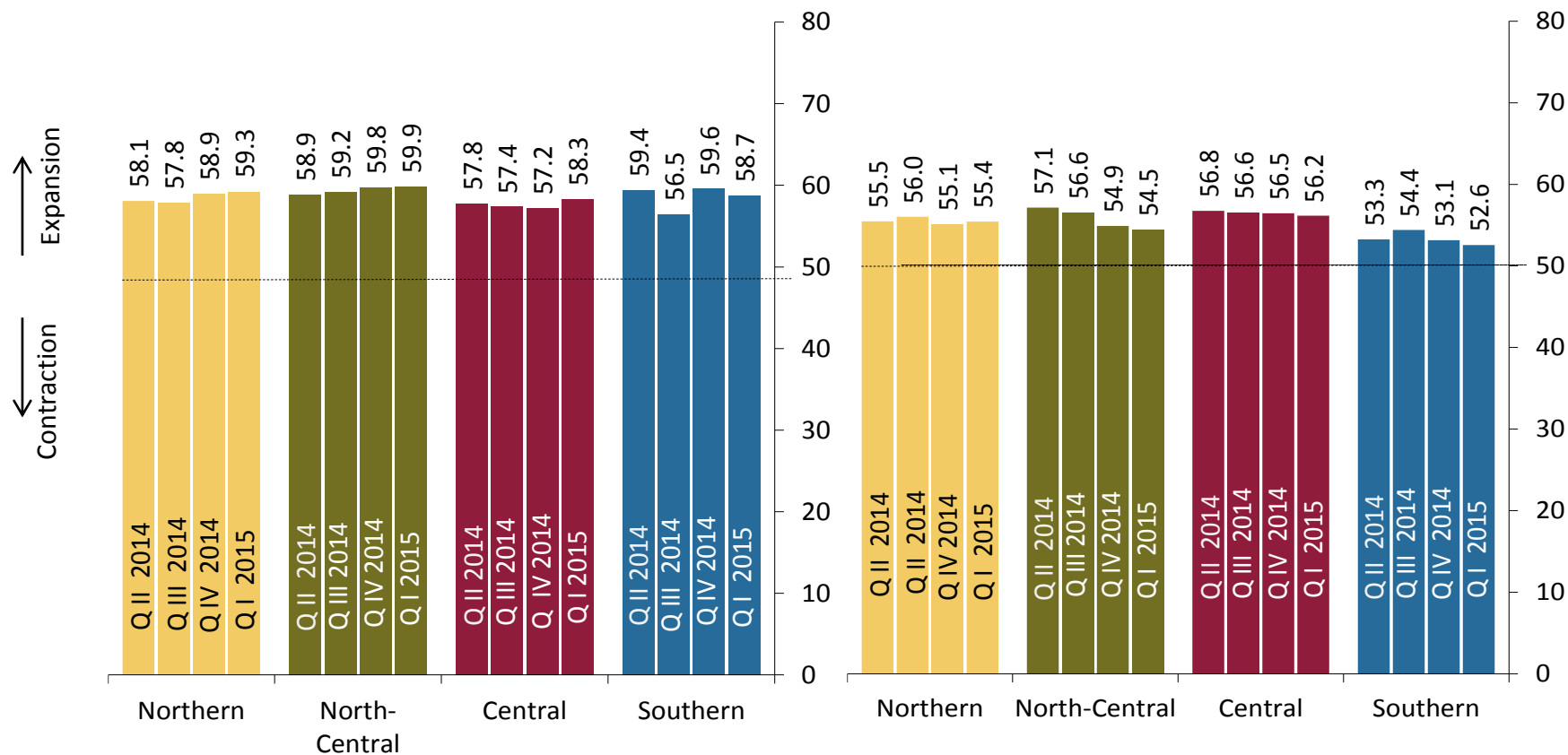
The indicators of orders for the manufacturing and non-manufacturing sectors point to higher levels of economic activity in all regional economies over the next months.

## Regional Index of Manufacturing and Non-Manufacturing Orders: Outlook of Economic Activity, Next 3 Months <sup>1/</sup>

Diffusion indices

### Manufacturing

### Non-Manufacturing



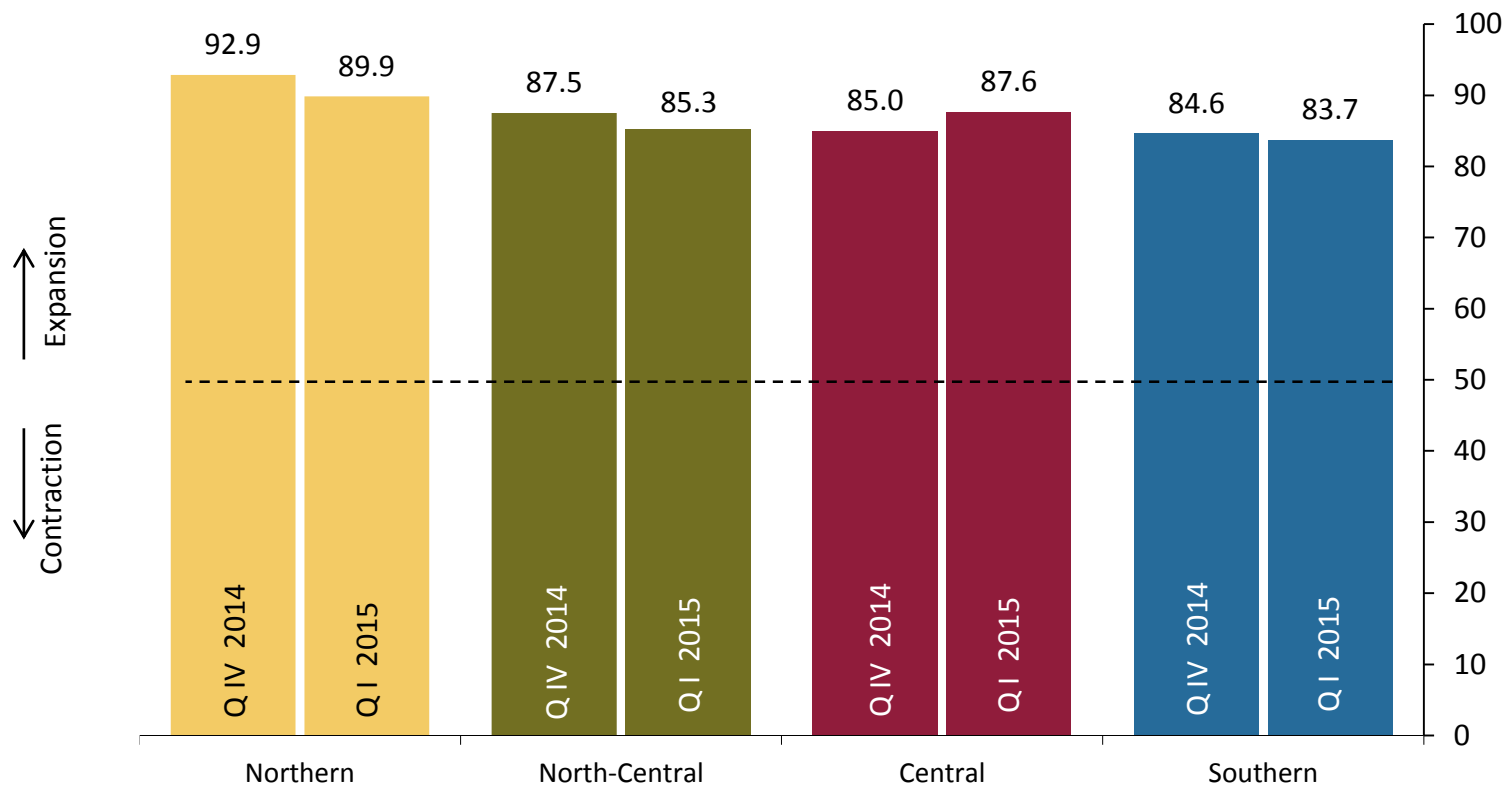
<sup>1/</sup> Seasonally adjusted data.

Source: Banco de México.

Interviewed business contacts anticipate an expansion of demand for own goods and services over the next 12 months. However, in general, the sign of expansion weakened with respect to 4Q 2014.

## Business Agents' Expectations: Estimated Demand, Next 12 Months <sup>1/</sup>

Diffusion index



1/ Results obtained from responses to the question: "With respect to the situation in the current quarter, how do you expect demand for own goods and services to change over the next 12 months?", from the interviews conducted by Banco de México.



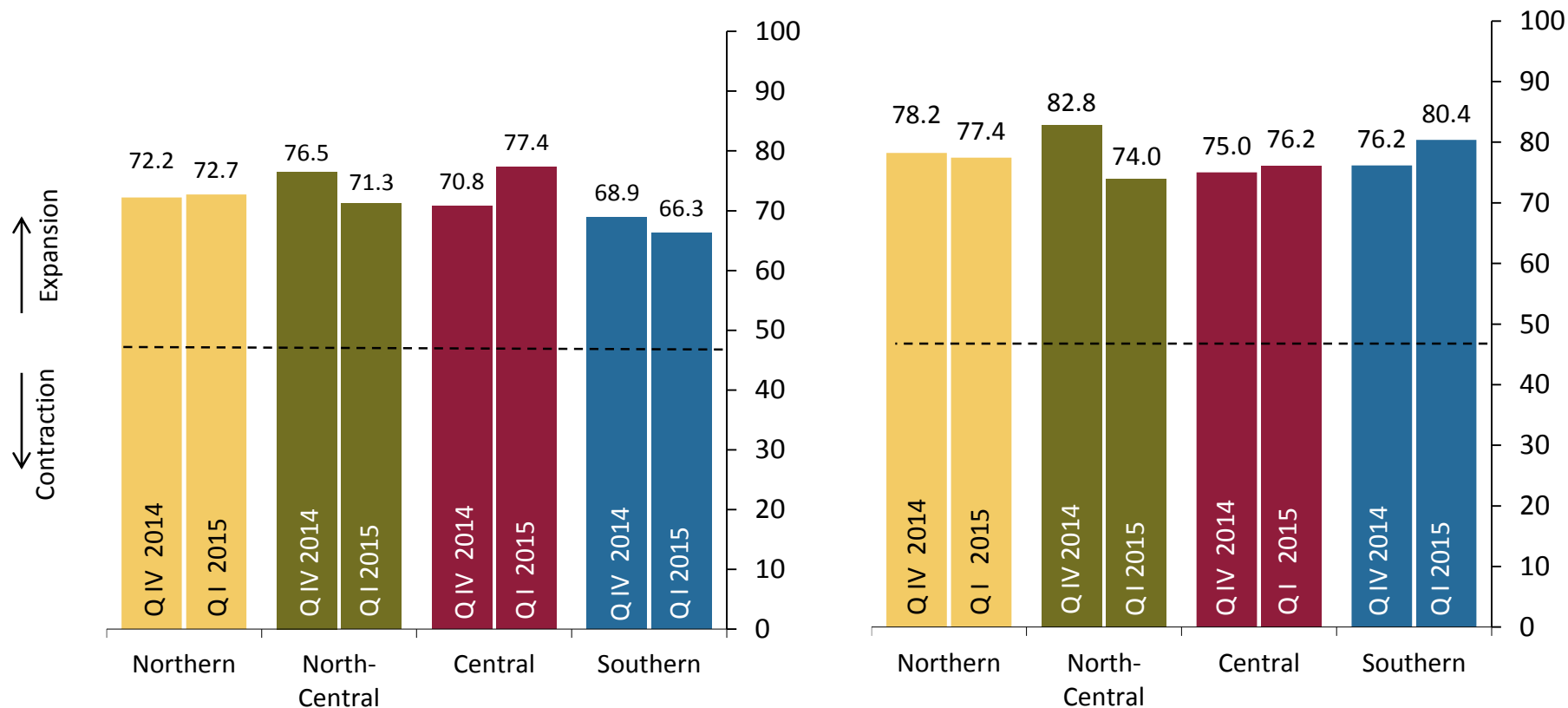
In line with the estimated increase in demand for own goods and services, business contacts expect an expansion in hired personnel and physical capital stock in their firms.

## Business Agents' Expectations: Hired Personnel and Physical Capital Stock, Next 12 Months <sup>1/</sup>

Diffusion indices

### Hired Personnel

### Physical Capital Stock



<sup>1/</sup> Results obtained from responses to the questions: “With respect to the situation in the current quarter, how do you expect personnel hired by your firm to modify over the next 12 months?”, and “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.

# Economic Outlook

- Among upward risks to regional economic activity, in all regions business agents indicated the following:
  - ✓ A greater dynamism of the U.S. economy.
  - ✓ A more favorable evolution of private investment, mainly in automobile and energy sectors.
- Moreover, across regions, business contacts mentioned the following among upward risks:
  - ✓ In the Northern and North-Central regions, the possibility of increased competitiveness in manufacturing industry, related to the completion of various gas pipelines that are currently under construction.
  - ✓ In the North-Central and Southern regions, a more favorable performance in tourism.
  - ✓ In the Central region, the risk that a low crude oil price may generate further reductions in some input prices in automobile industry and higher automobile exports.

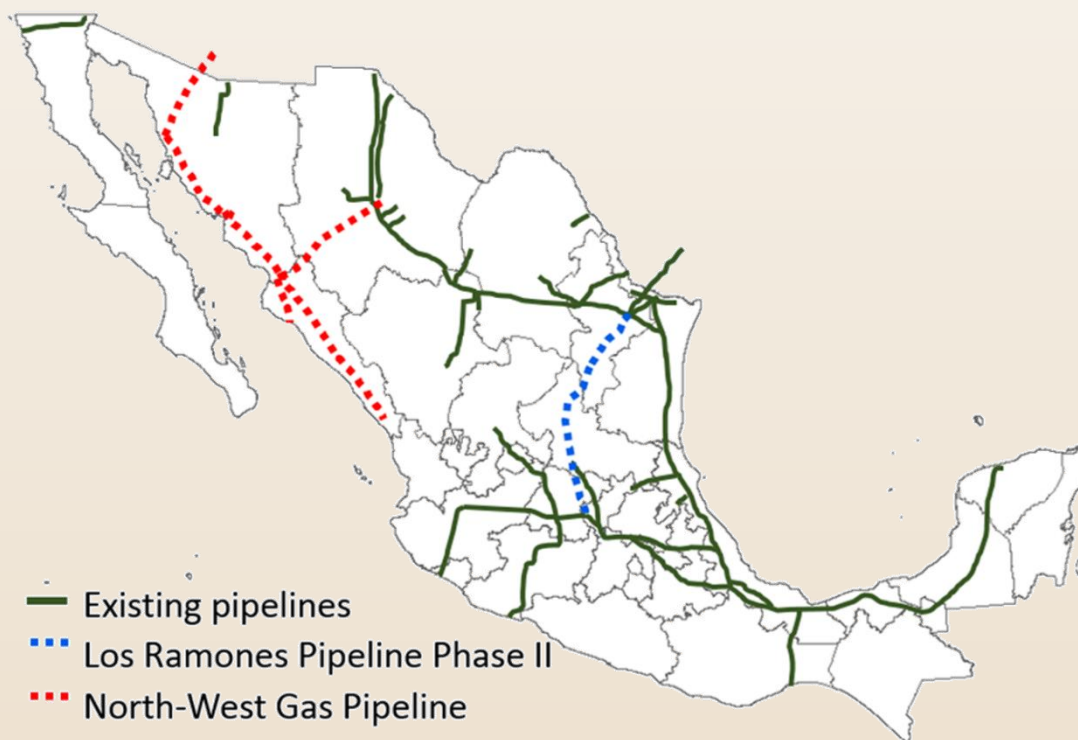
## Box:

# Development of Gas Pipeline Network and Potential Benefits for Regional Manufacturing Industry

- As part of the Energy Reform, infrastructure projects seeking to expand the national network of gas pipelines offer significant potential to boost competitiveness of the manufacturing sector, by means of increasing the natural gas supply at a lower price.
- This Box illustrates the importance of two pipelines, the **Los Ramones Pipeline Phase II** and **the North-West Gas Pipeline**, that are currently under construction. **The manufacturing branches that could benefit the most from the completion of these two projects** are also indicated in the Box.
- It should be stressed that for the possible benefits of these projects to indeed take effect, the regulation needs to lead to an efficient operation of the national gas network, so that this energy supply to domestic market would be under conditions aligned to international standards.

# Box: Development of Gas Pipeline Network and Potential Benefits for Regional Manufacturing Industry

## Natural Gas Pipelines

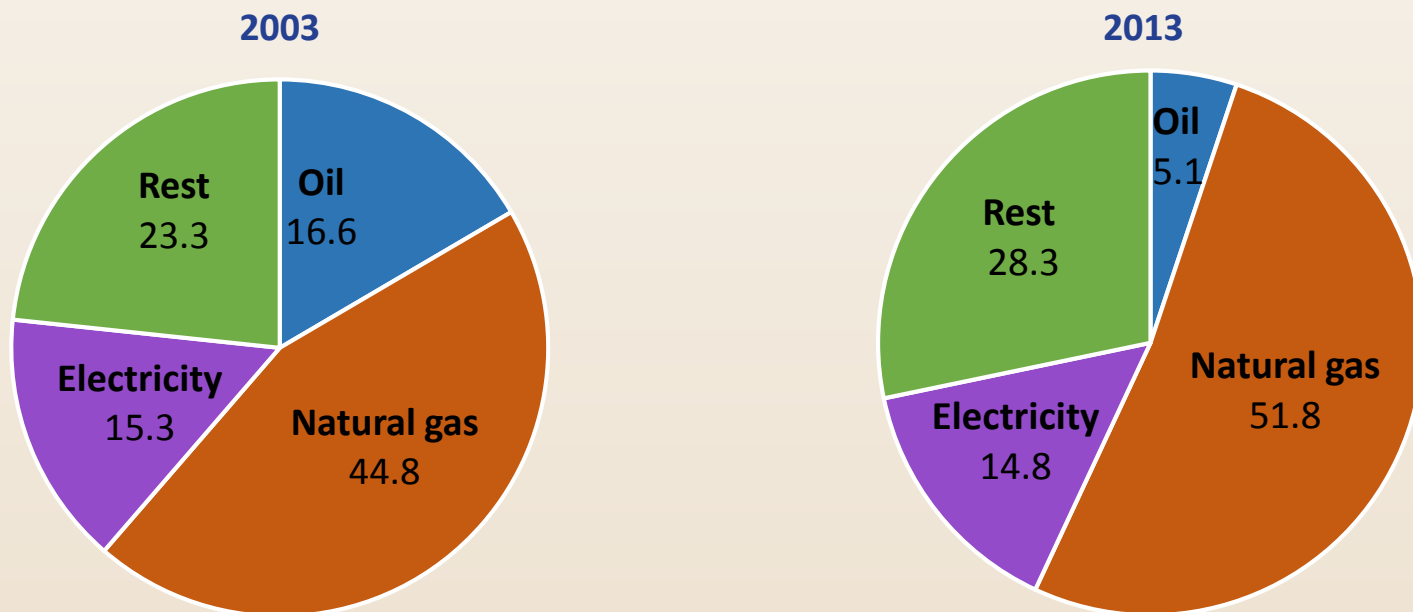


Source: Prepared by Banco de México with data from PEMEX and the Federal Electricity Commission.

## Box:

# Development of Gas Pipeline Network and Potential Benefits for Regional Manufacturing Industry

## Share of Natural Gas in Main Manufacturing Branches' Energy Consumption <sup>1/ 2/</sup> Percent



1/ The manufacturing branches with the highest energy consumption are considered: iron and steel; concrete; petrochemical; chemical; pulp, paper and cardboard; glass; beer; soft drinks, ice and non-alcoholic beverages; cars and trucks; rubber products; fertilizers; and tobacco products.

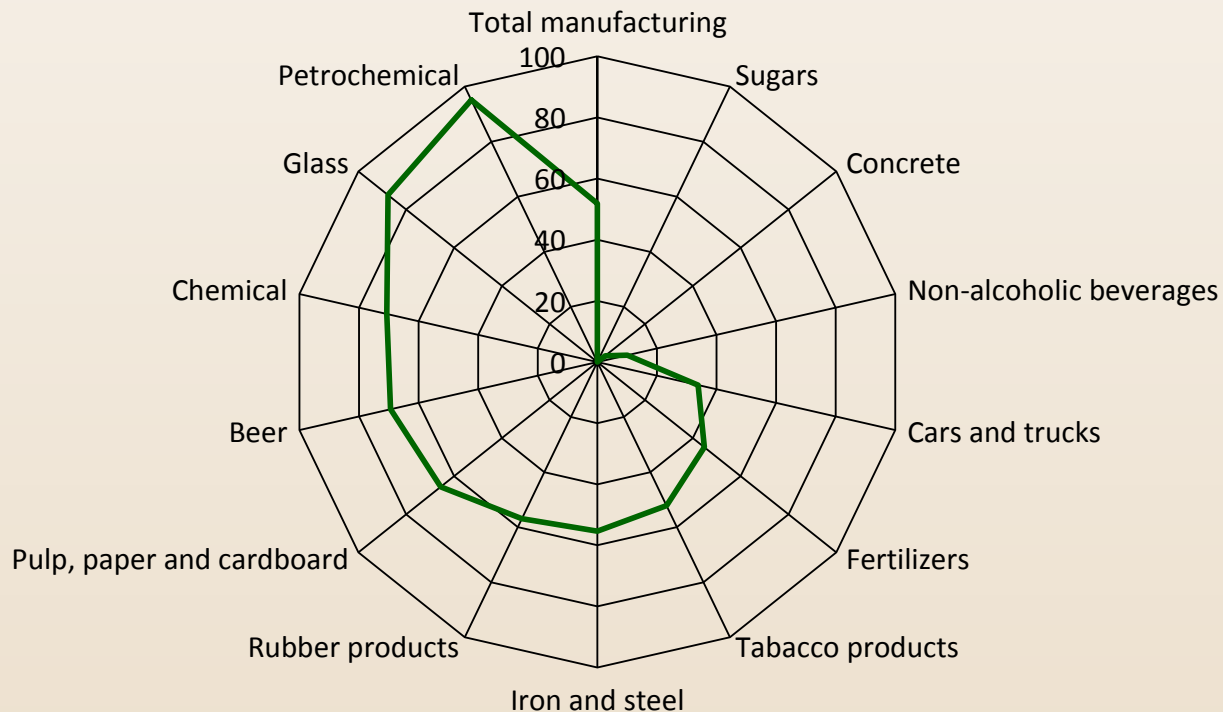
2/ Oil products consumption includes liquid gas, gasolines and naphthas, kerosenes, diesel and fuel oil. In turn, the category "Rest" is composed of solar energy, cane bagasse, carbon and coke.

Source: Estimated by Banco de México with data from Energy Information System of the Ministry of Energy.

## Box:

# Development of Gas Pipeline Network and Potential Benefits for Regional Manufacturing Industry

## Share of Natural Gas in Main Manufacturing Branches' Energy Consumption, 2013 <sup>1/</sup> Percent



<sup>1/</sup> Manufacturing branches with the highest energy consumption are considered.

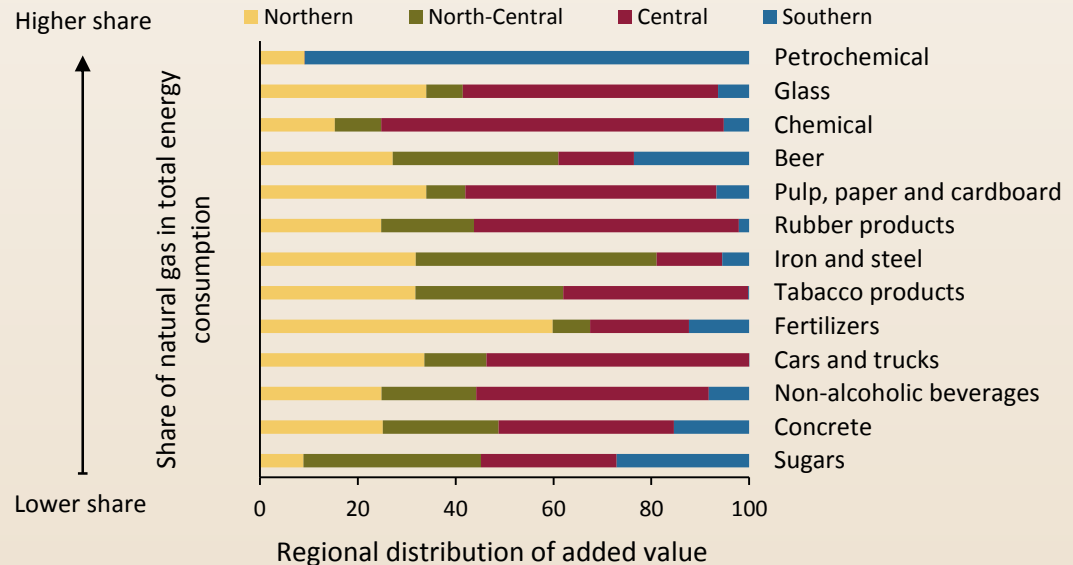
Source: Estimated by Banco de México with data from Energy Information System of the Ministry of Energy.

## Box:

# Development of Gas Pipelines and Potential Benefits for Regional Manufacturing Industry

- ✓ **Branches most intensively using natural gas could benefit from higher supply** of the said energy.
- ✓ In turn, **branches using it less intensively will possibly benefit by replacing their current energy sources with natural gas.**
- ✓ For the benefits derived from the expanded network of gas pipelines to take effect, a **regulation is required**, that would lead to an **efficient operation** of the gas pipeline network.

## Share of Natural Gas in Main Manufacturing Branches' Energy Consumption



Source: Estimated by Banco de México with data from Energy Information System of the Ministry of Energy (2013) and Economic Censuses 2009 of INEGI.

# Economic Outlook

- Among downward risks to regional economic activity, interviewed contacts in four regions indicated the next:
  - ✓ The possibility of a further deterioration in the perception of public safety.
  - ✓ New episodes of exchange rate volatility.
  - ✓ A further fall in international oil prices with a consequent effect on government investment.
  - ✓ A possible slowdown of the U.S. economic activity.



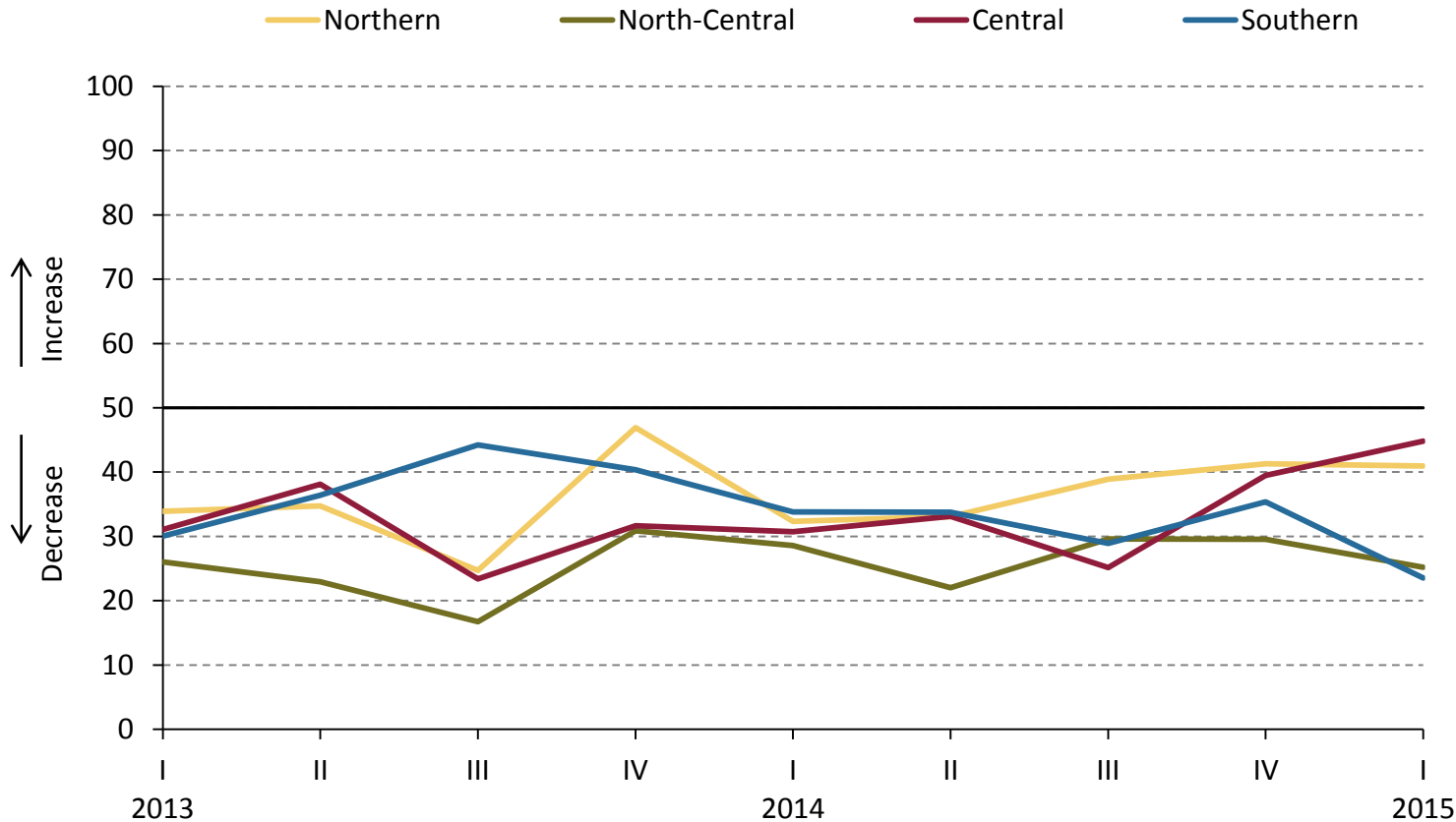
# Economic Outlook

- As regards inflation expectations for the next 12 months, most interviewed contacts in four regions of Mexico anticipate annual changes in sales prices of their goods and services to be lower than in 2014.
- Moreover, the referred business agents expect annual growth rates in input prices and wage costs lower than in the previous year.

In all regional economies, interviewed business agents anticipate, in general, annual changes in their sales prices to be smaller than in 2014. In the North-Central and Southern regions, the sign of lower annual growth rates in their prices even intensified with respect to the previous quarter.

### Business Agents' Expectations: Dynamics of Annual Inflation in Sales Prices, Next 12 Months <sup>1/</sup>

Diffusion index



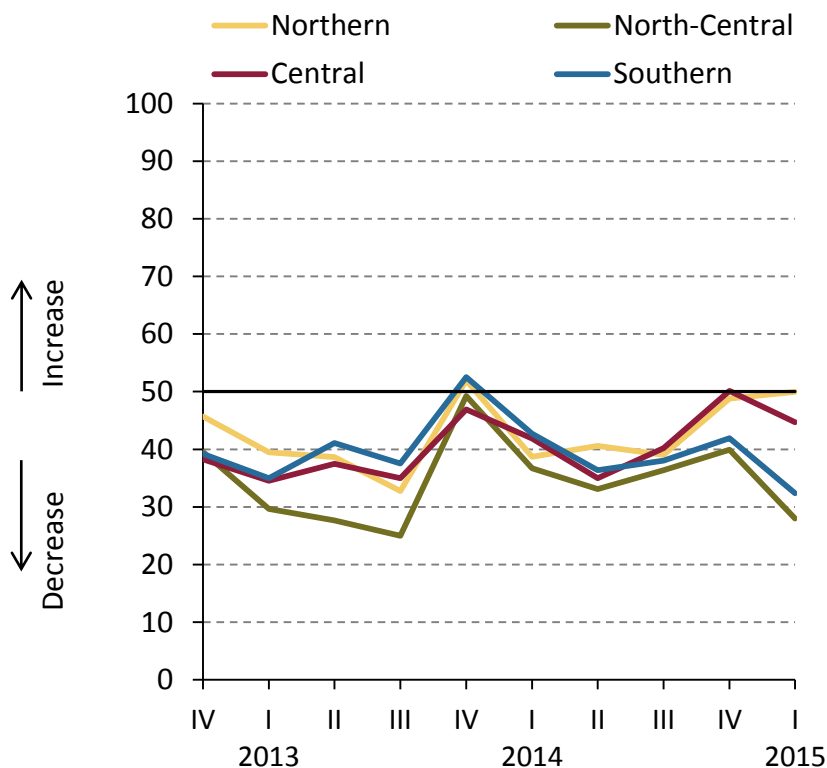
<sup>1/</sup> Results obtained from responses to the questions: "With respect to the situation in 1Q 2015, do you expect any adjustment in sales prices of own goods and services over the next 12 months?" and "As compared to the same period of last year, what magnitude of adjustment do you expect: greater, same or lower?", from the interviews conducted by Banco de México.

Most interviewed business agents expect annual changes in input prices and wage costs to be lower than in 2014.

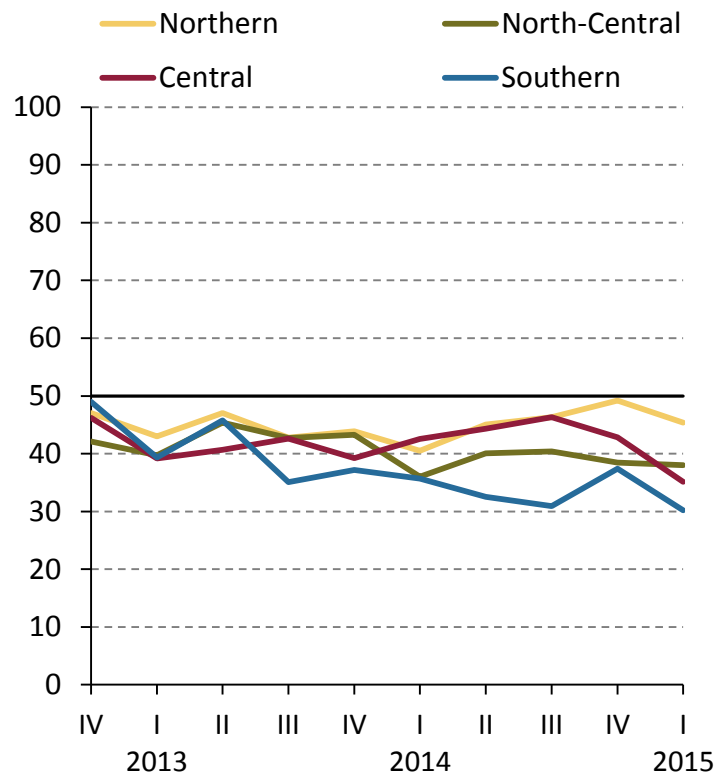
## Business Agents' Expectations: Dynamics of Annual Inflation of Input Prices and Wage Costs, Next 12 Months <sup>1/</sup>

Diffusion index

### Input Prices



### Wage Costs



<sup>1/</sup> Results obtained from responses to the question: "With respect to the situation in 1Q 2015, do you expect any adjustment in input prices and wage costs over the next 12 months?", and "As compared to 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.

# Outline

I. Regional Economic Report

II. Results January – March 2015

A. Economic Activity

B. Inflation

C. Economic Outlook

**III. Final Remarks**

# Final Remarks

- ① In general, economic activity in regional economies continued expanding in 1Q 2015, although this growth moderated with respect to 4Q 2014.
- ② Annual headline inflation decreased significantly in early 2015 in all regions of Mexico. Besides the monetary policy stance, lower telecommunications services prices and energy prices also contributed, both directly and indirectly, to lower inflation in all regional economies.
- ③ Business agents interviewed by Banco de México expect demand for own goods and services to expand over the next 12 months in all regions, although this sign weakened as compared to last quarter.
- ④ As regards inflation, business contacts anticipate that during the following 12 months annual growth rates of their prices will be lower than observed in the same period of last year.



BANCO DE MÉXICO

June 2015

[www.banxico.org.mx](http://www.banxico.org.mx)