

Regional Economic Report
October – December 2023



Outline

- I. Regional Economic Report**
- II. Results October – December 2023**
 - A. Economic activity**
 - B. Inflation**
 - C. Economic outlook**
(based on data collected between January 2 and 25, 2024)
- III. Final remarks**

Regional Economic Report

- The Regional Economic Report is a quarterly publication that includes Banco de México's indicators and analysis on the trends in economic activity, inflation and business agents' perspectives in Mexico's regions.
- The information presented herein is taken into account by Banco de México's Governing Board as part of the information used to evaluate the economic situation and the forecast for the national economy.
- The economic performance and inflation in the regions during Q4-2023 and the prospects of business agents surveyed between January 2 and 25, 2024 on regional economic activity and prices over the following twelve months are analyzed herein.

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A. Economic activity

B. Inflation

C. Economic outlook

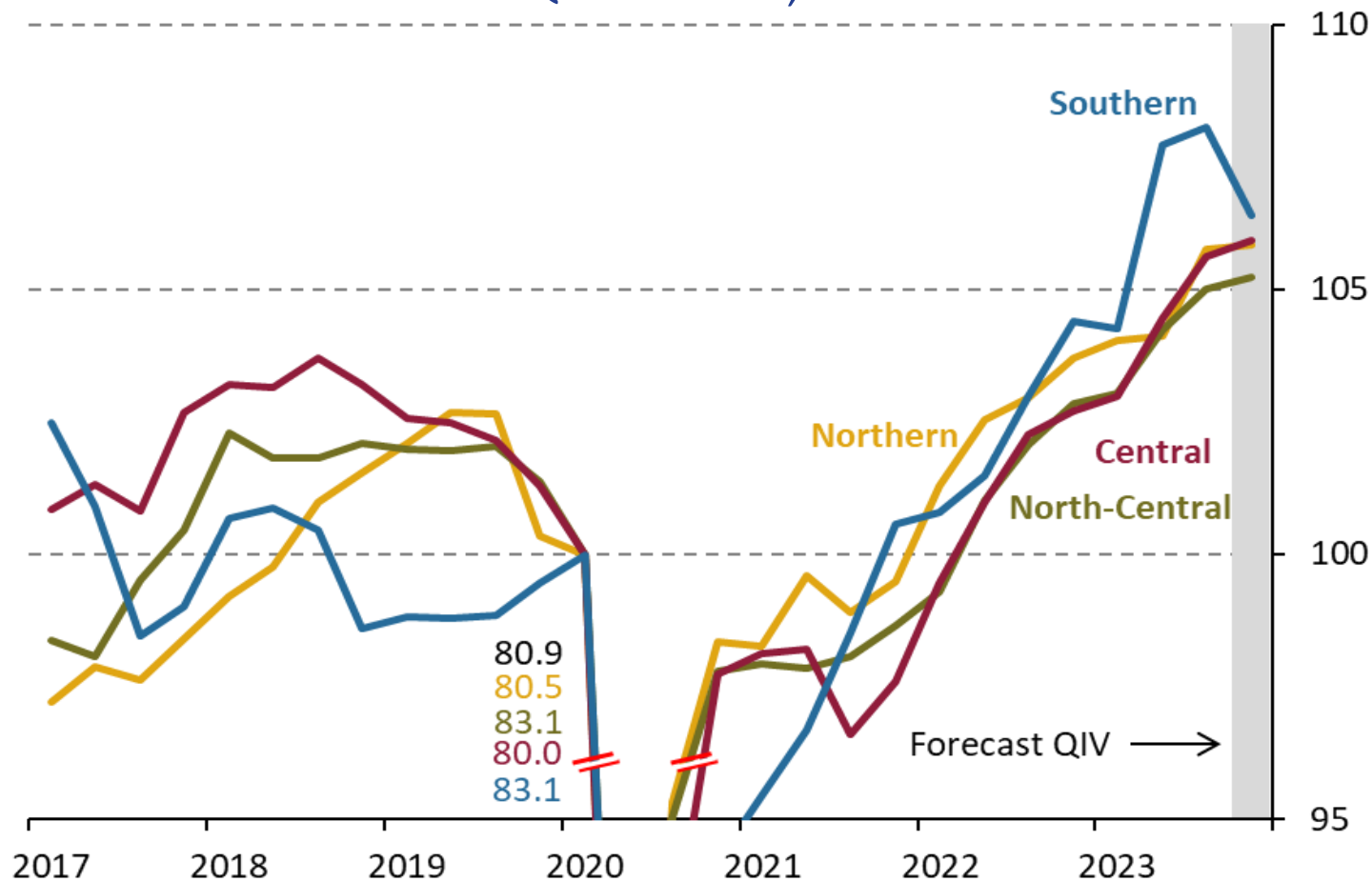
(based on data collected between January 2 and 25, 2024)

III. Final remarks

After the dynamism observed in the first three quarters of 2023, economic activity is estimated to have weakened in all regions in Q4-2023, especially in the Southern one.

Quarterly Indicator of Regional Economic Activity

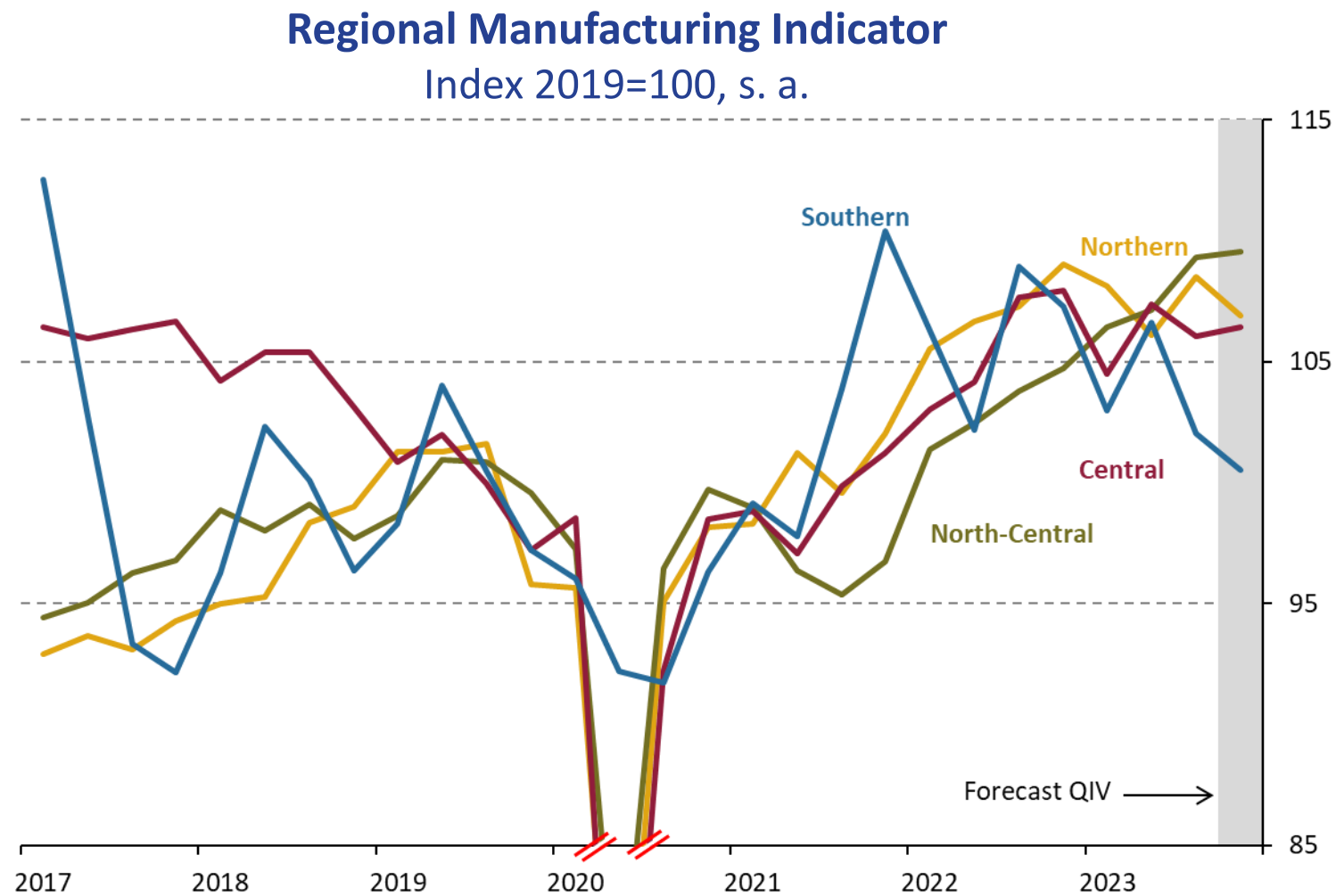
Index Q1 2020=100, s. a.



s. a. / Seasonally adjusted data.

Source: Estimated by Banco de México with seasonally adjusted series of the Quarterly Indicator of State Economic Activity by INEGI.

Manufacturing is anticipated to have exhibited lack of dynamism in all regions during Q4-2023.



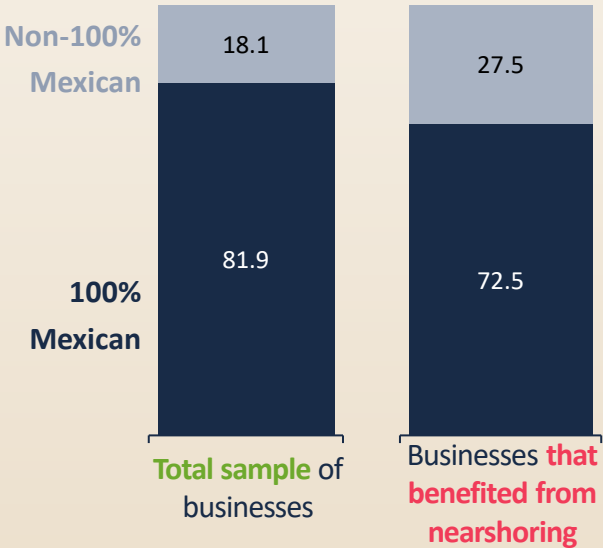
s. a. / Seasonally adjusted data.

Source: Estimated by Banco de México with seasonally adjusted series of the Monthly Indicator of Manufacturing Activity by State from INEGI.

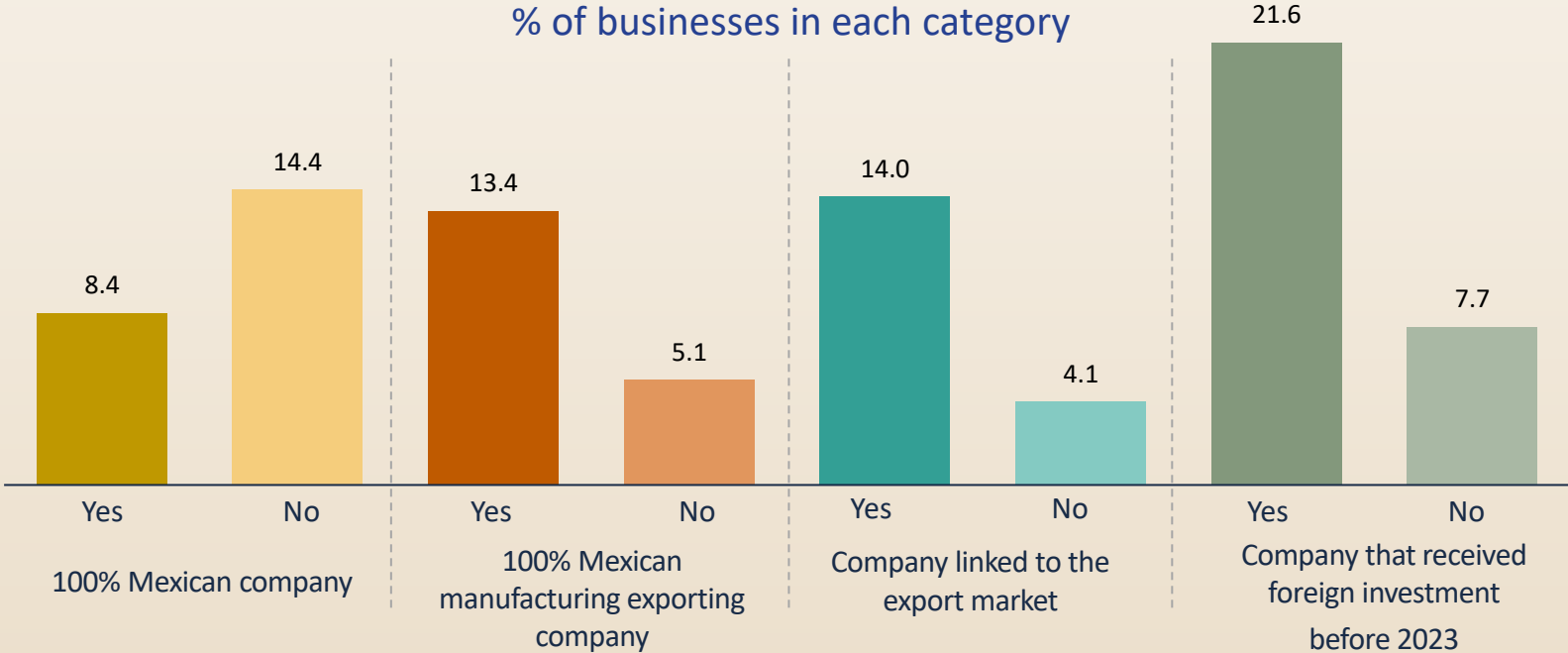
Participation of Mexican businesses in nearshoring

- Information collected through business opinion surveys confirms that nearshoring has benefited companies established in Mexico with different characteristics, including Mexican businesses and those not linked directly to the foreign market, although in a lower proportion as compared to those that have direct links to said market.

Composition of the total sample of businesses and of those that reported benefits from nearshoring
% of businesses



Businesses whose production, sales, or investment increased between July 2022 and June 2023 exclusively due to nearshoring
% of businesses in each category

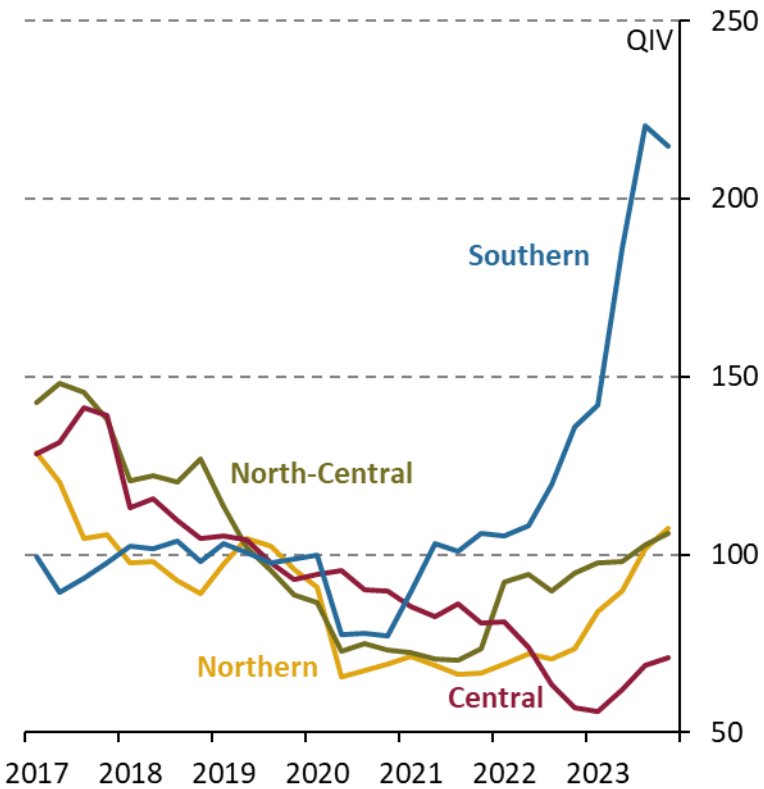


Note: The total sample of businesses consists of those that responded to the surveys in July and November 2023.
Source: Prepared by Banco de México with data from the Monthly Survey of Regional Economic Activity, which is representative of businesses with more than 100 workers in the manufacturing and non-manufacturing sectors at the national and regional levels. The results presented for more disaggregated groups are presented for illustrative purposes only and are not representative from a statistical point of view.

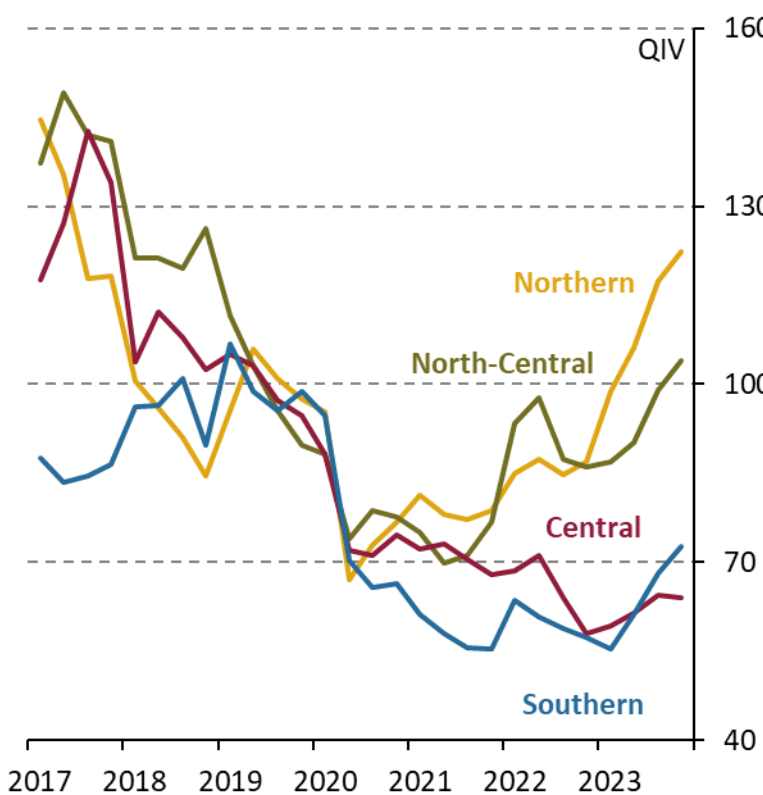
During Q4-2023, spending on construction increased in the Northern and North-Central regions, as a result of the significant growth in private construction. In the Central region overall construction was sluggish, and in the Southern one, public construction exhibited a decrease, although it still remains at high levels.

Real value of production in the construction industry by region
Index 2019=100, s. a.

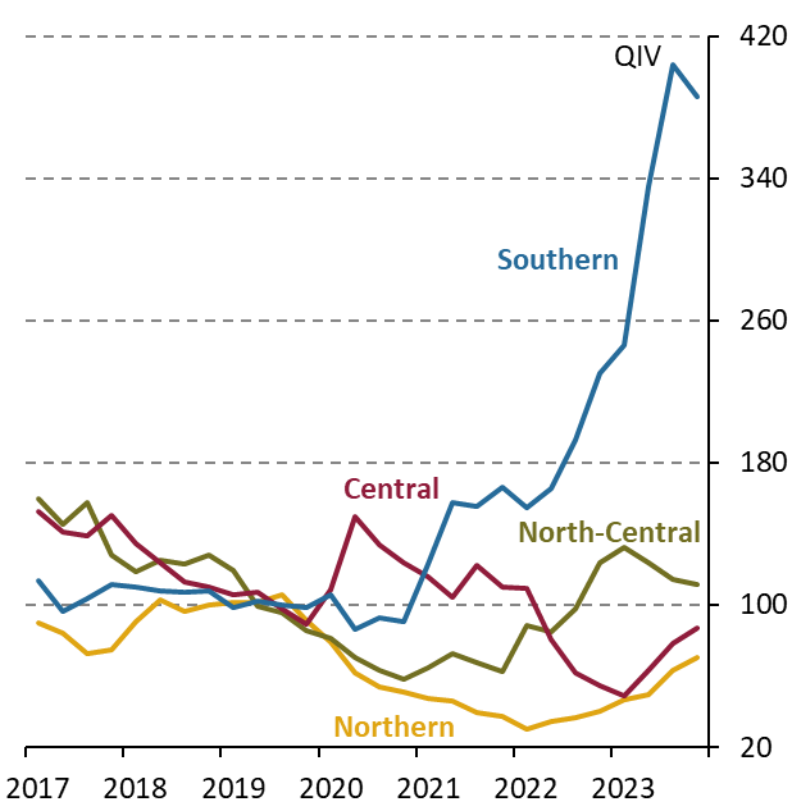
Total



Private



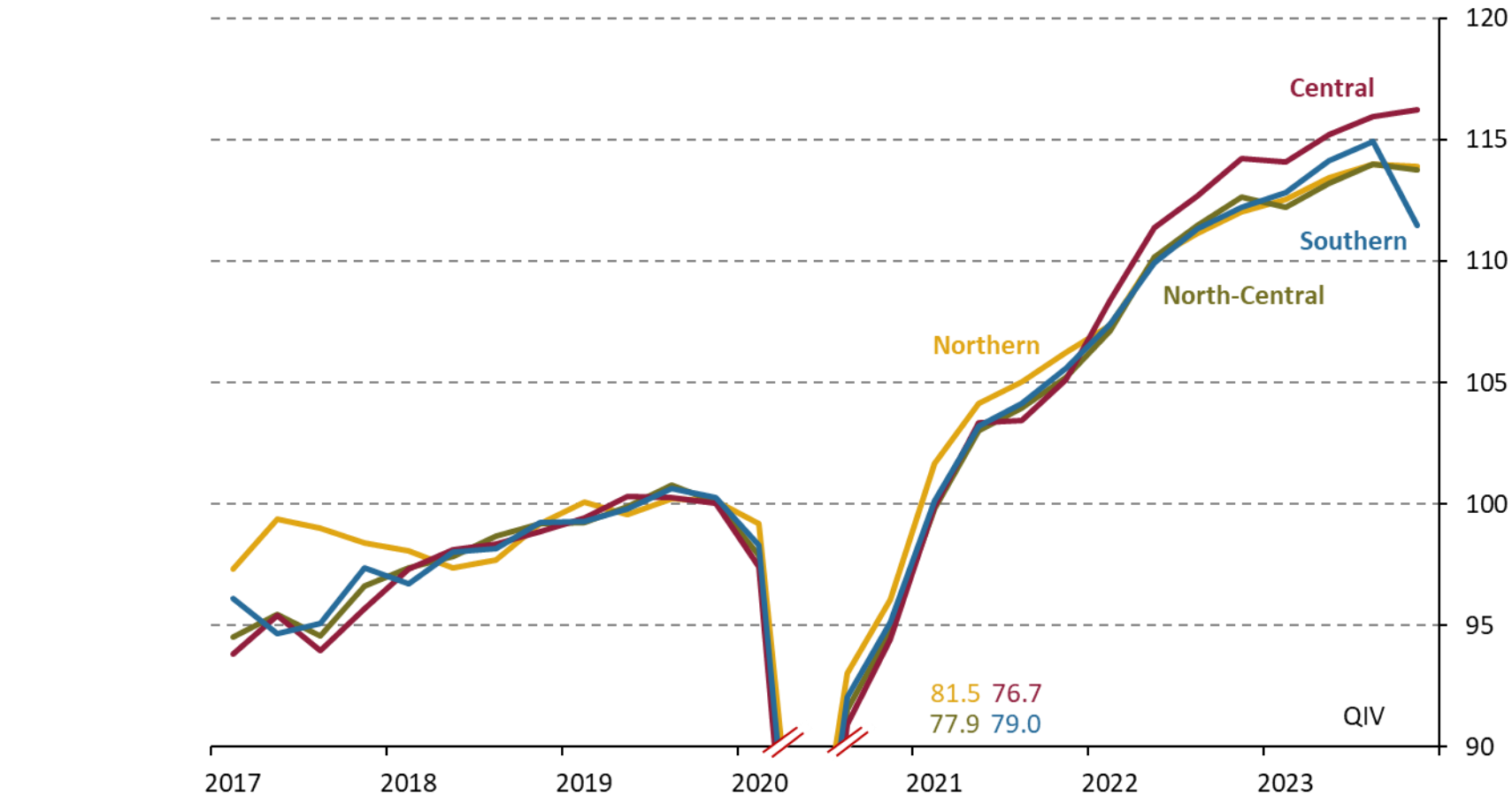
Public



s. a. / Seasonally adjusted data.
Source: Prepared and seasonally adjusted by Banco de México with data from the National Survey of Construction Companies by INEGI.

During Q4-2023, commercial activity in all regions weakened, especially in the Southern one.

Regional Commercial Activity Indicator
Index 2019=100, s. a.



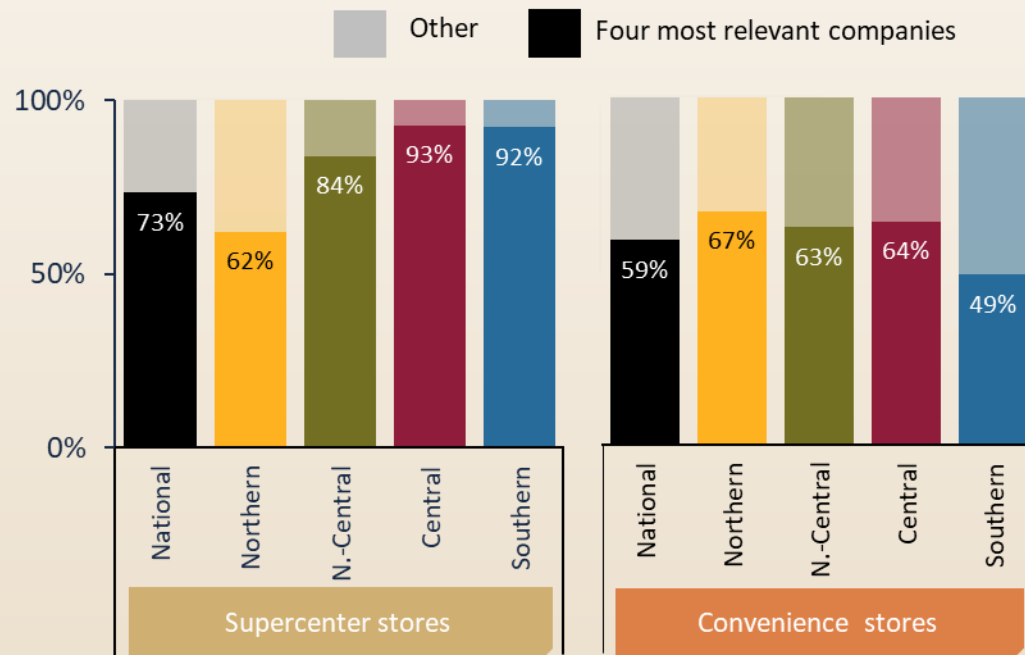
s. a. / Seasonally adjusted data.

Source: Prepared and seasonally adjusted by Banco de México with the series of Revenues of Retailers' Supply of Goods and Services by State from INEGI.

Market concentration in the retail sale of groceries and food in the Mexican regions

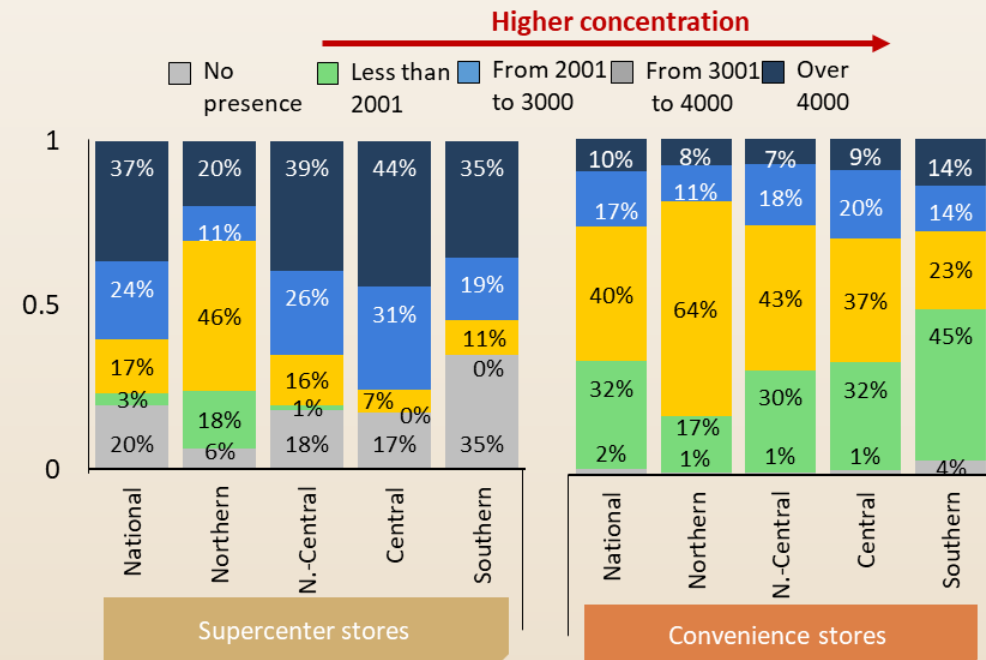
- Two market concentration indicators were calculated for the retail sale of groceries and food: the market share of the four most relevant companies (C4) at the regional level and the Herfindahl-Hirschman Index (HHI) at the municipal level, both using information on employees per establishment.

Market share (C4) in 2023 estimated using employed personnel



Note: C4 refers to the market share of the four main commercial chains.
Source: Prepared by Banco de México with information from INEGI-DENUE, 2023.

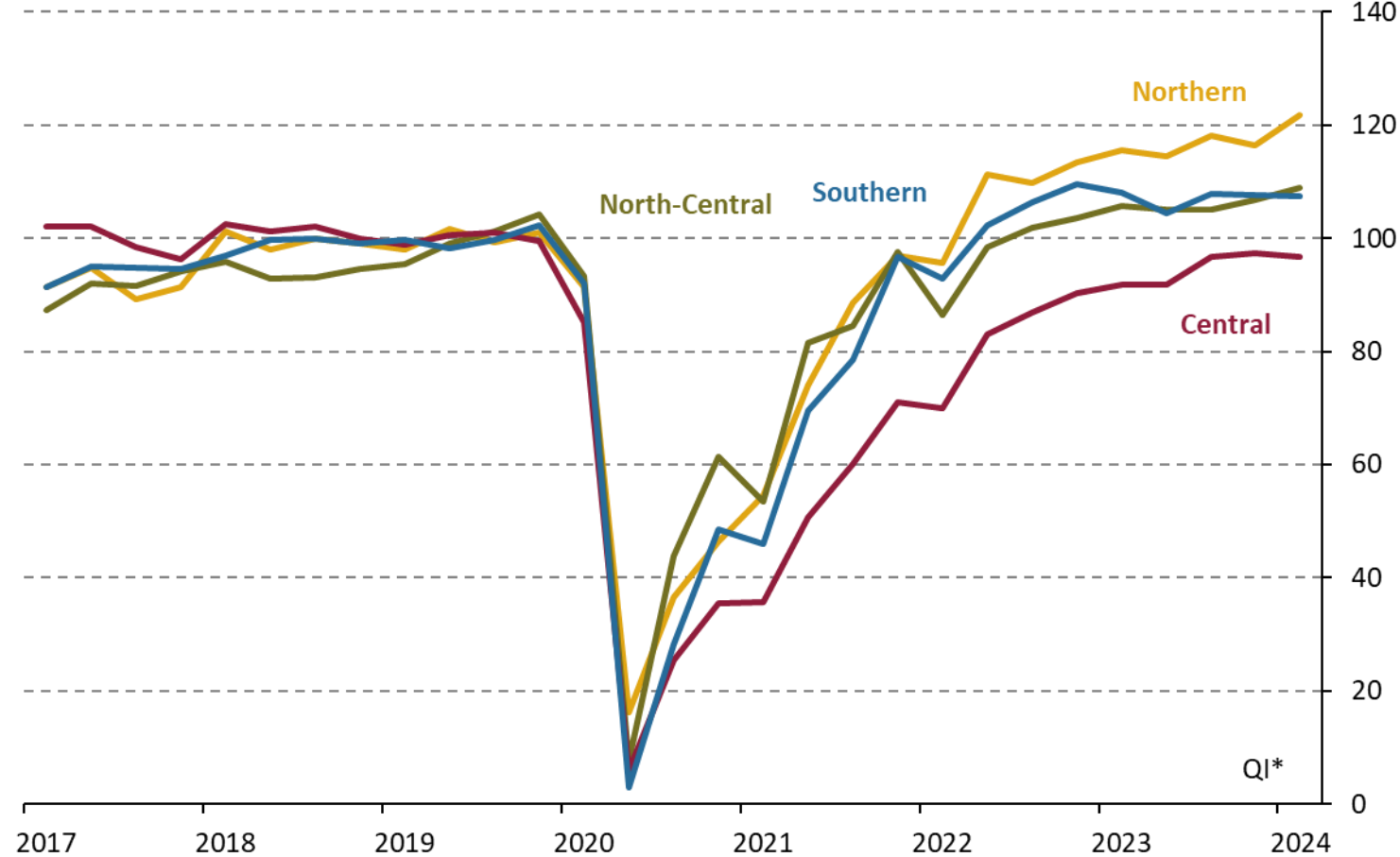
Percentage of population by HHI level in 2023 calculated using employed personnel



Note: The Herfindahl-Hirschman Index (HHI) at the municipal level was calculated based on employment data per company. Each municipality was assigned to one of the four categories defined according to the range of HHI values. Subsequently, the percentage of the population in each region residing in municipalities classified in each HHI category was calculated.
Source: Prepared by Banco de México with information from the 2020 Population and Housing Census and DENUE, 2023.

During Q4-2023, tourism activity, measured by indicators of hotel occupancy, remained sluggish in all Mexican regions.

Regional Indicator of Hotel Occupancy
Index 2019=100, s. a.



s. a. / Seasonally adjusted data.

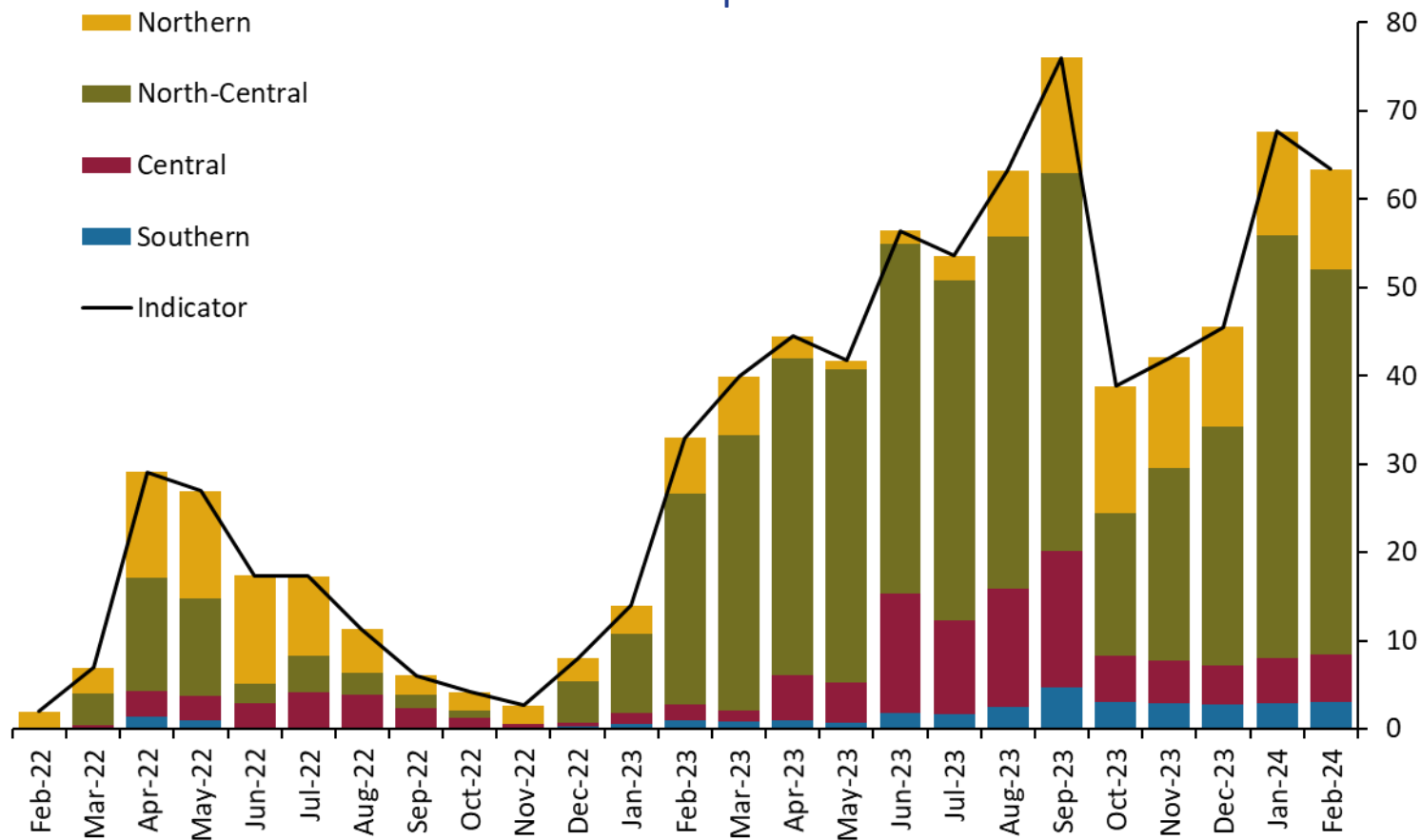
*/ Data as of January 2024.

Source: Prepared and seasonally adjusted by Banco de México with data from the Mexican Ministry of Tourism.

Over the last months of 2023, drought exposure of the Mexican agricultural production resumed its upward trend, which intensified in early 2024.

Percentage of Mexican agricultural production exposed to drought, by region

Data in percent

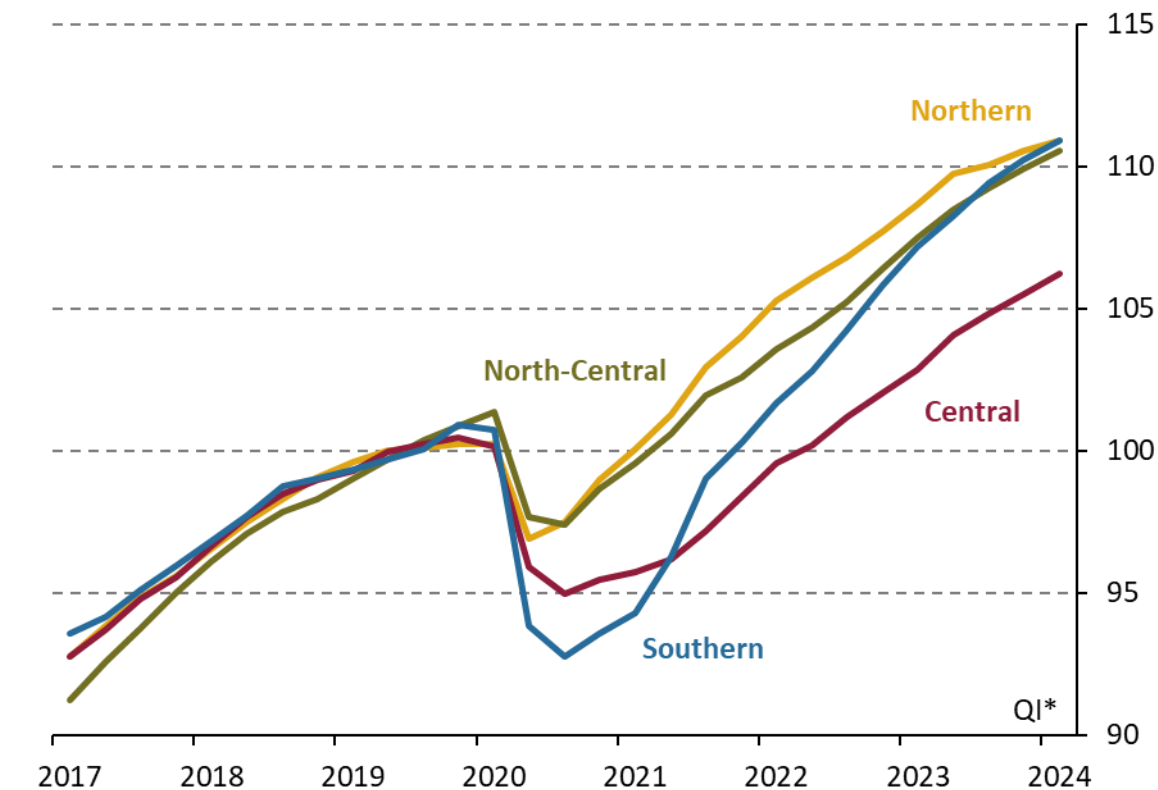


Note: The chart represents the average percentage of national production for major crops potentially exposed to severe, extreme, or exceptional drought conditions, according to the drought monitor of CONAGUA (*Comisión Nacional del Agua*).
Source: Prepared by Banco de México based on data from SIAP (*Servicio de Información Agroalimentaria y Pesquera*) and CONAGUA.

The labor market remained strong in Q4-2023.

Number of IMSS-insured workers

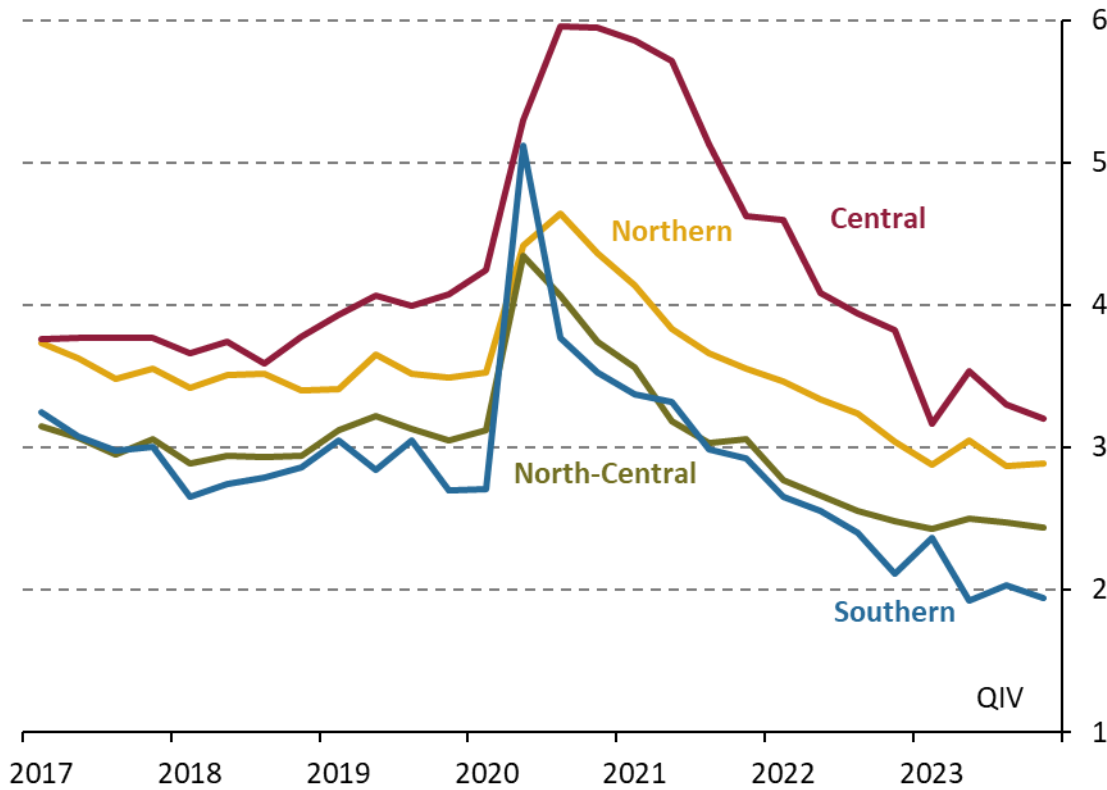
Index 2019=100, s. a. ^{1/}



s. a. / Seasonally adjusted data.
*/ Figures as of February 2024.
^{1/} Permanent and temporary jobs in urban areas.
Source: Prepared and seasonally adjusted by Banco de México with data from IMSS.

Unemployment rate

Percent, s. a.

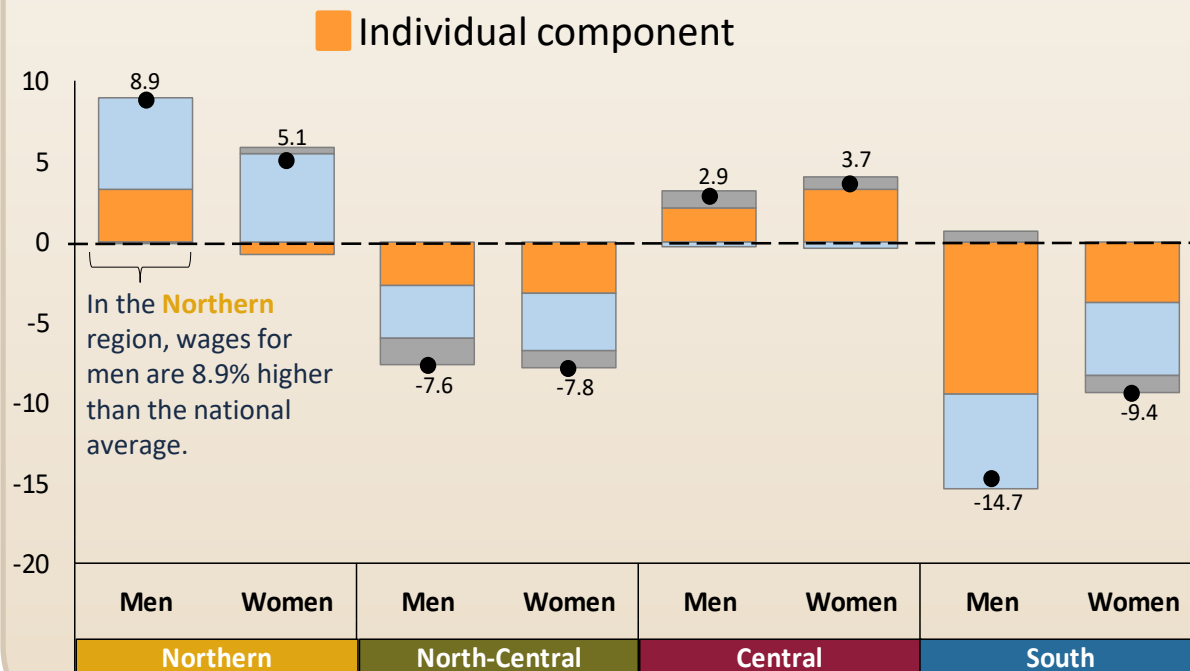


s. a. / Seasonally adjusted data.
Source: Prepared and seasonally adjusted by Banco de México with data from INEGI.

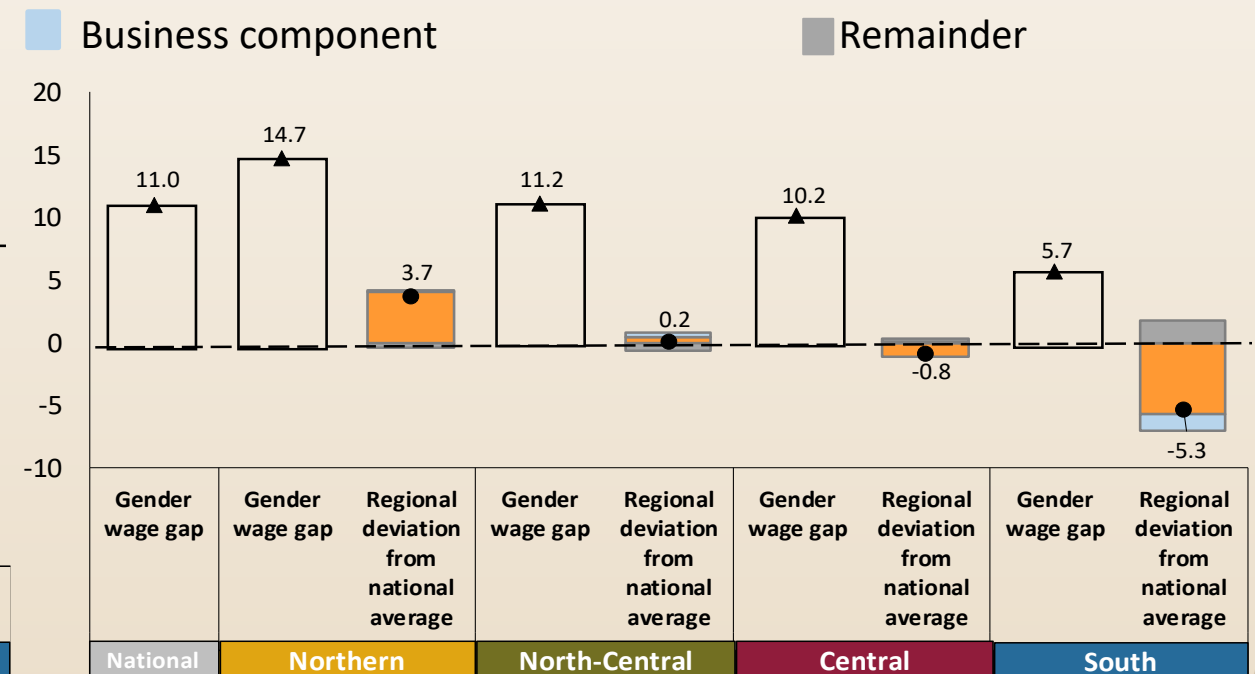
An analysis of gender wage gaps in Mexican regions

- This box uses an econometric model to estimate the extent to which the **characteristics of workers and companies** affect the **gender wage gap in the formal labor market** in different Mexican regions.

**Regional average base salary vs. the national average
in the 2019-2023 period**
Difference in percent



**Regional gender wage gap and deviation from the national average
in the 2019-2023 period**
Gap in percent and deviation in percentage points



Note: The gender wage gap is calculated as the average difference between the logarithms of men's and women's salaries, providing an approximation of the percentage difference in salaries between the genders. Source: Prepared by Banco de México.

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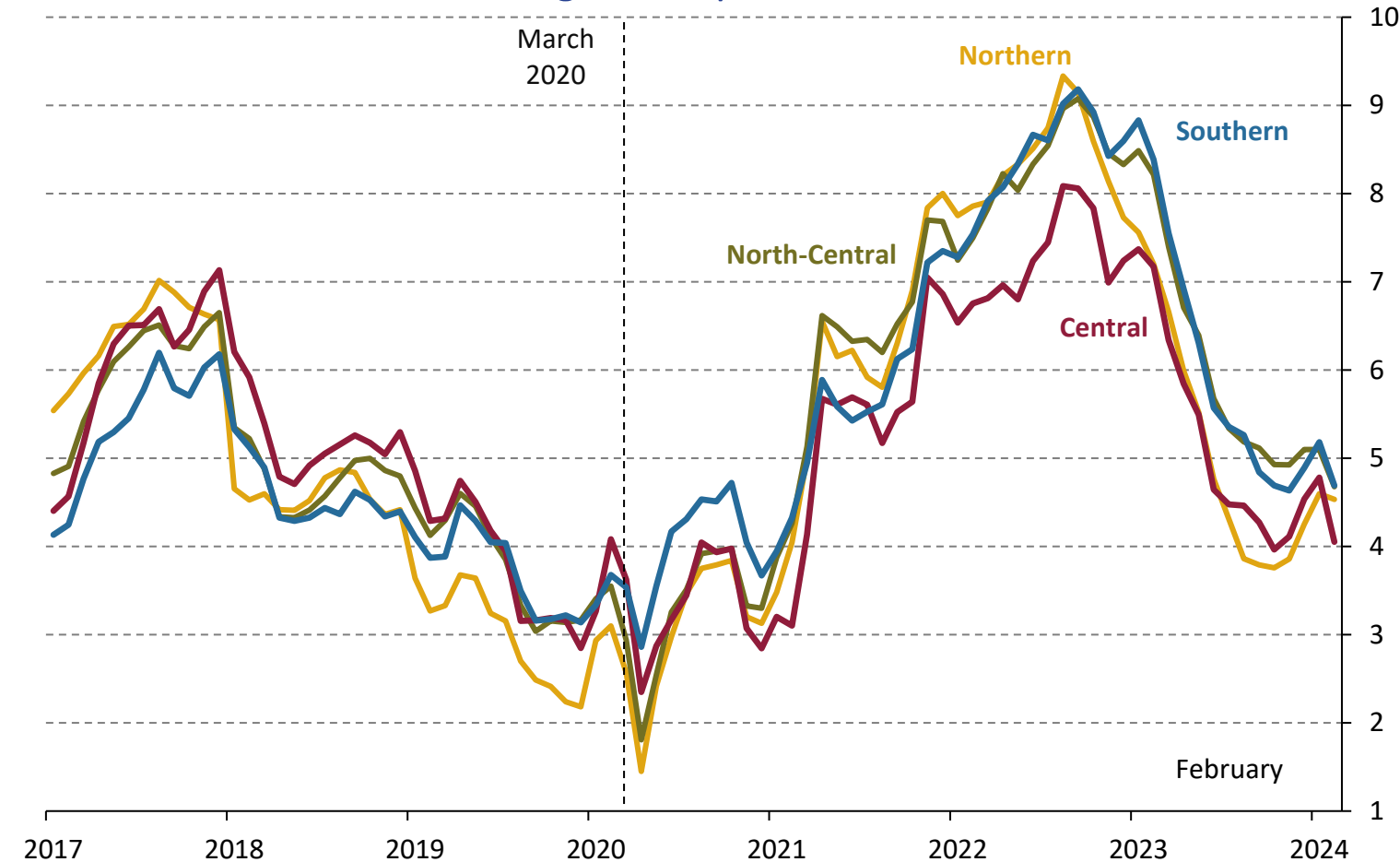
(based on data collected between January 2 and 25, 2024)

III. Final remarks

Annual headline inflation decreased in all regions between Q3-2023 and Q4-2023. This reflected the continued decline in core inflation in all of them, which more than offset the increase observed in their respective non-core inflation rates.

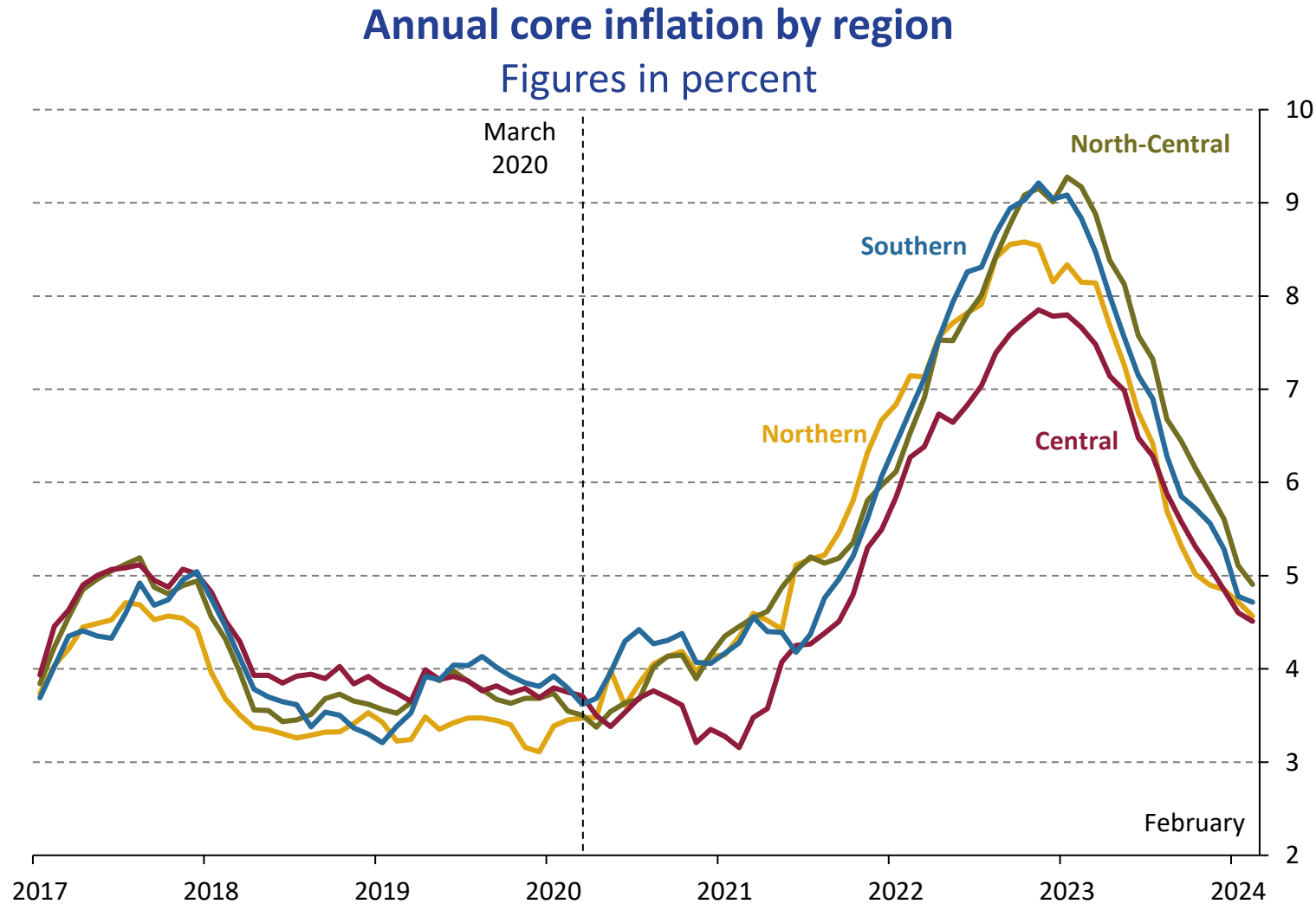
Annual headline inflation by region

Figures in percent



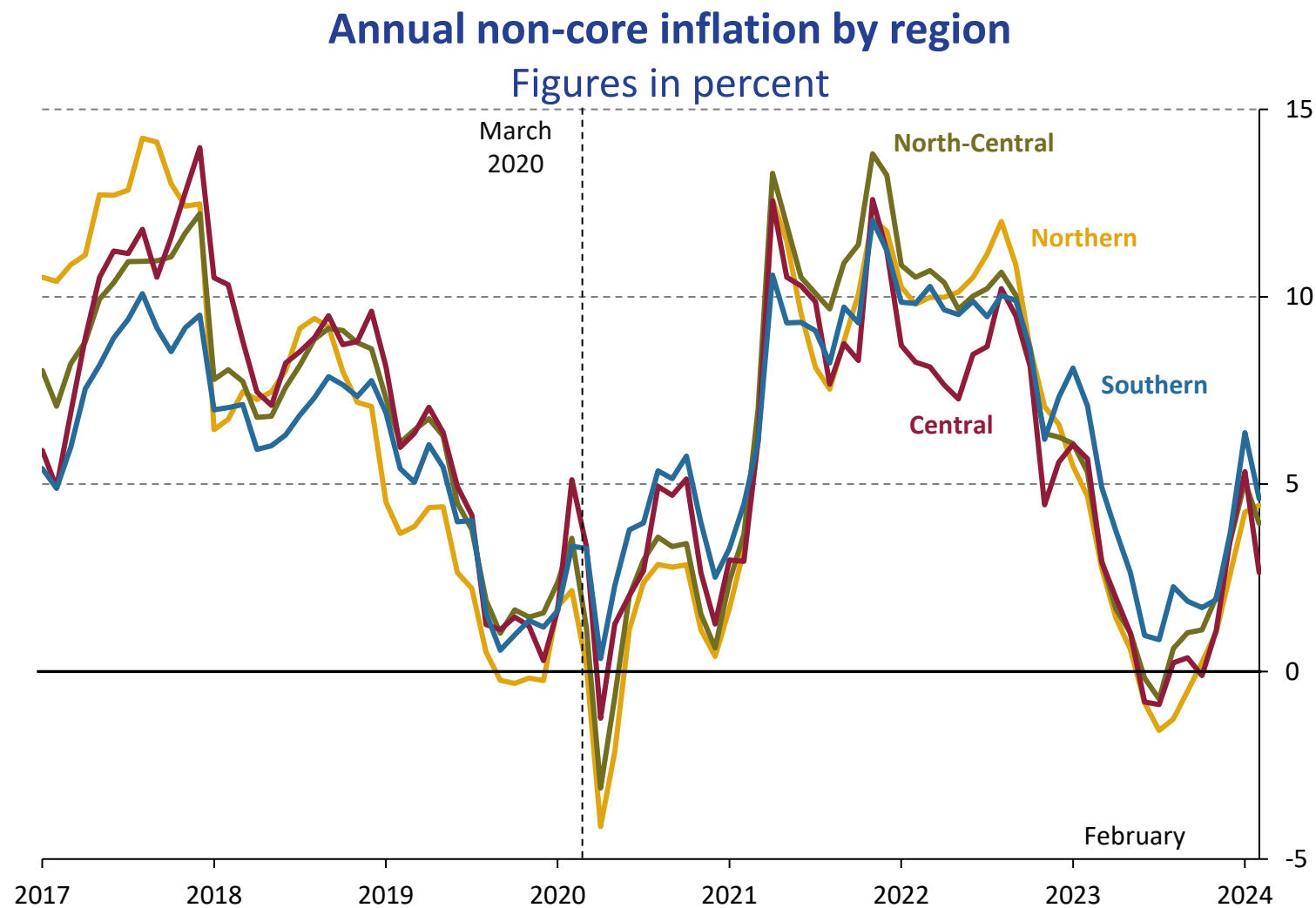
Source: Prepared by Banco de México with INEGI data.

Annual core inflation decreased in all regions between Q3-2023 and Q4-2023 and continued declining in 2024 so far. In all of them, merchandise inflation kept trending downwards, while services inflation continued without showing a clear downward trend.



Source: Prepared by Banco de México with INEGI data.

Annual non-core inflation began trending upwards in all regions after July 2023. However, this trend reversed somewhat in February 2024.

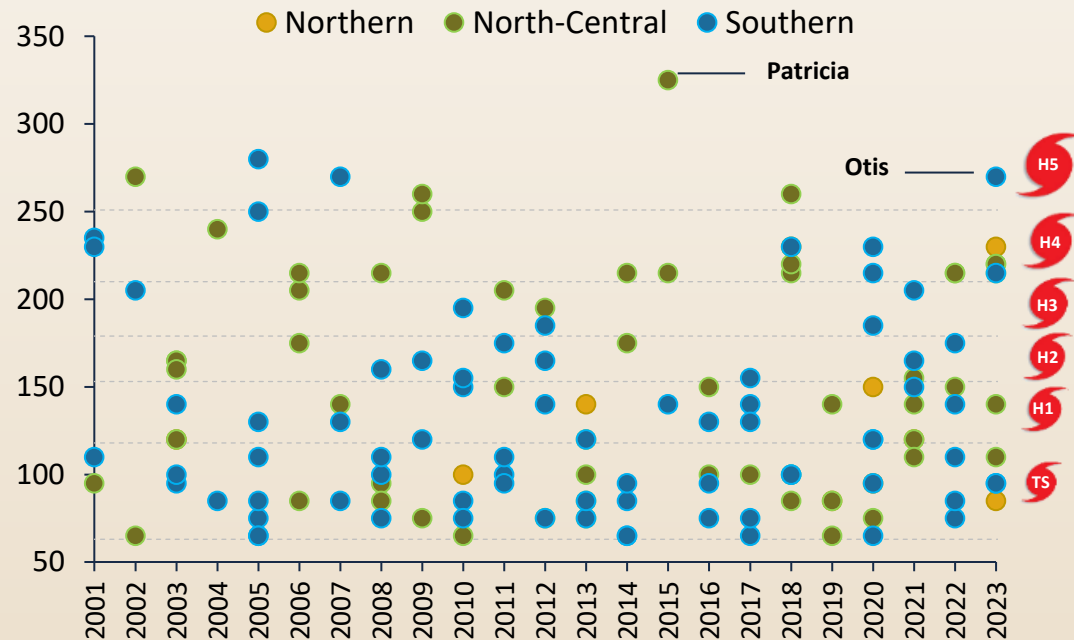


Source: Prepared by Banco de México with INEGI data.

The effect of tropical cyclones on food prices

- An econometric model relating the wind speed of tropical cyclones to the level of food prices suggests that, following the impact of a tropical cyclone, the prices of food merchandise and of fruits and vegetables may increase temporarily.

Maximum wind speed reached by the tropical cyclones that affected Mexico
Kilometers per hour

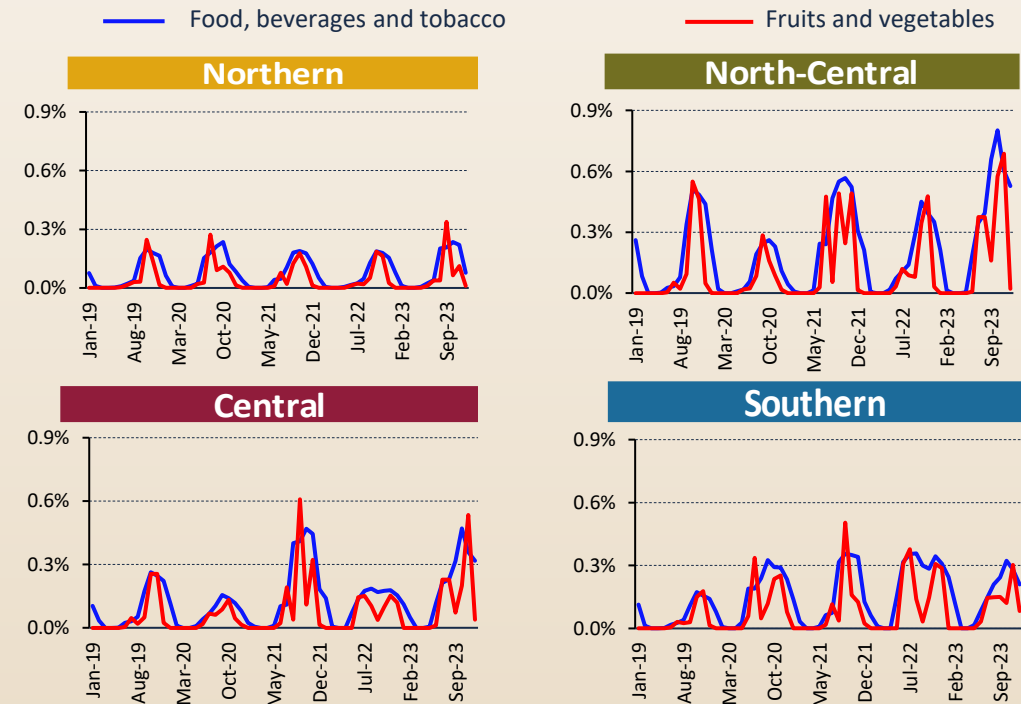


Note: The chart shows the maximum speed reached by each cyclone along its path, which is not necessarily equal to its speed at the moment of landfall.

TS=tropical storm; H1-H5=hurricane category 1 - category 5.

Source: Banco de México estimates with information from SMN.

Estimated average increase in the level of food prices caused by tropical cyclones relative to a scenario in which these would not have occurred
Percent



Source: Banco de México estimates with information from INEGI, NOAA, and DAYMET.

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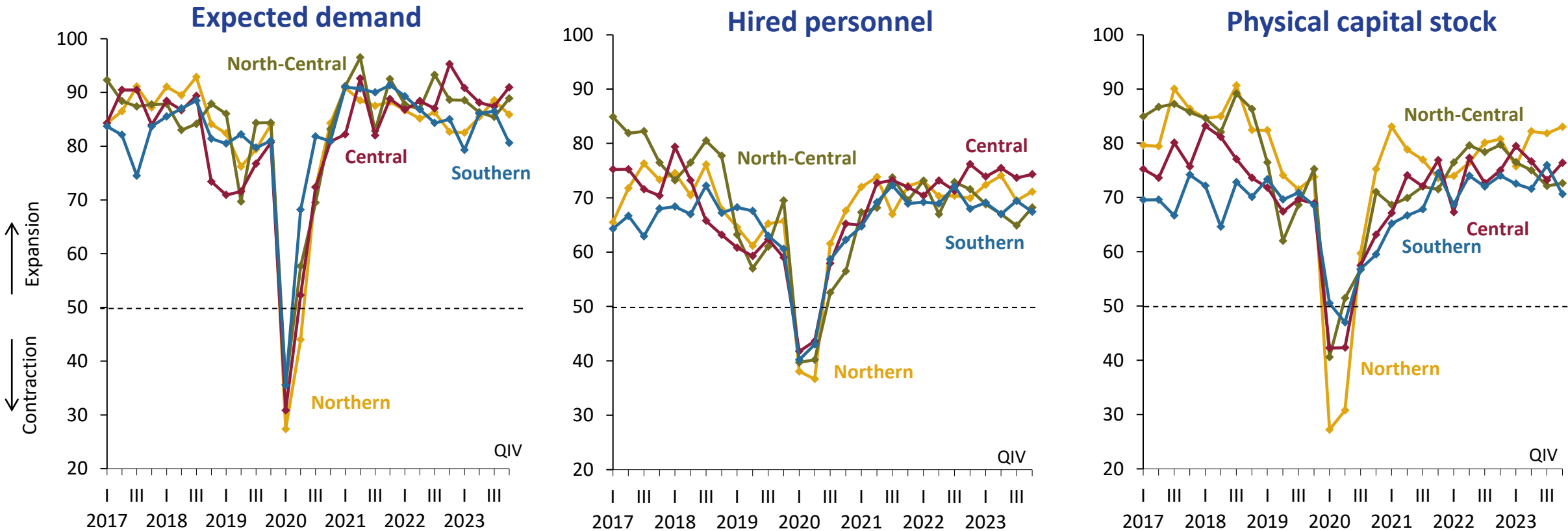
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The diffusion indices of expectations on demand, number of workers hired, and firms' fixed-asset investment for the next 12 months remained in the expansion zone in all regions during Q4-2023.

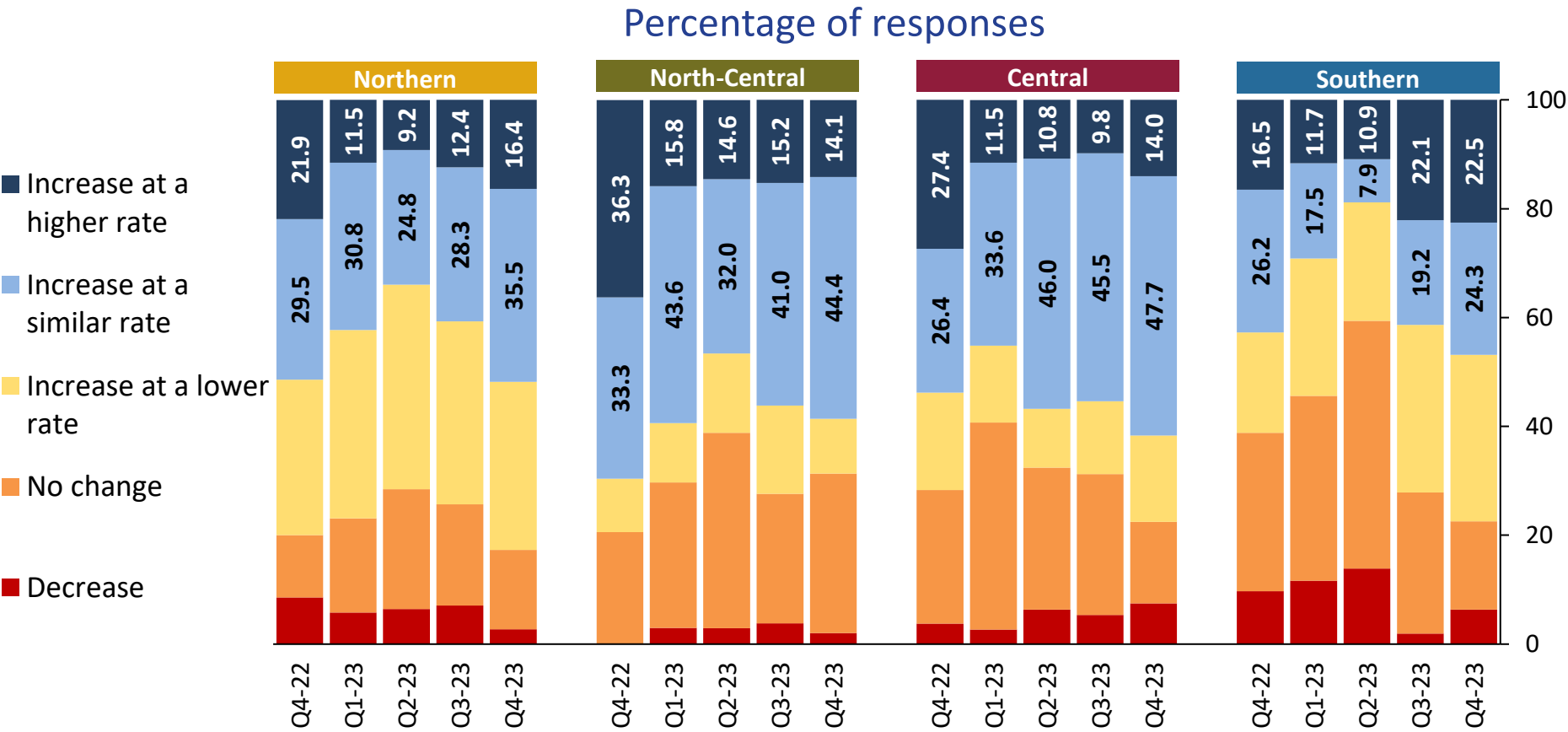
Business agents' expectations: demand, hired personnel and physical capital stock, next 12 months ^{1/}
Diffusion indices



^{1/} Results obtained from the questions: "With respect to the previous 12 months, how do you expect your sales volume to change over the next 12 months, how do you expect the total number of workers in your company to change over the next 12 months?" and "With respect to the investment in fixed assets made by your company during the previous 12 months, how do you expect the level of investment to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of the fourth quarter of 2023, they were obtained between January 2 and 25, 2024.

In all regions, there was a higher percentage of business agents who anticipate that their goods and services' sales prices will increase at a higher or similar rate in the next twelve months compared to the previous twelve months.

Business agents' expectations: annual variation of sales prices;
next 12 months with respect to last 12 months ^{1/}

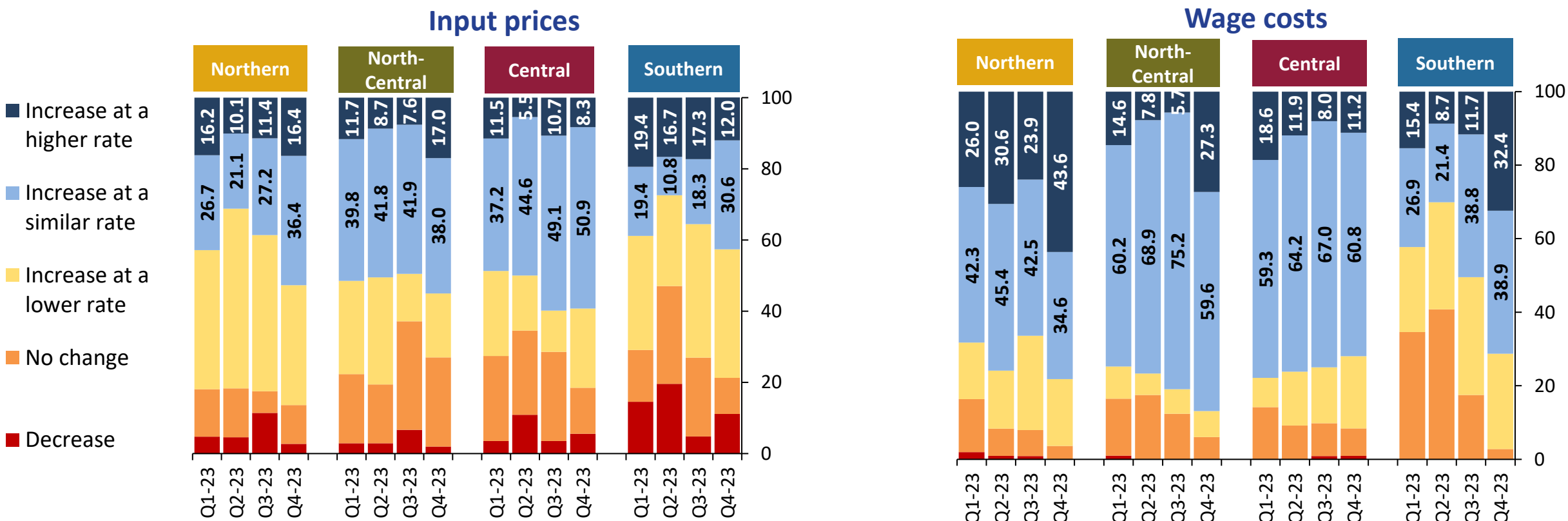


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you anticipate sales prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of the fourth quarter of 2023, they were obtained between January 2 and 25, 2024.

The share of business agents who anticipate their input prices will rise at a higher or similar rate increased in all regions except the Central one. For wage-related costs, the share anticipating an increase at a higher rate rose in all regions.

Business agents' expectations: annual variation of input prices and wage costs;
next 12 months with respect to last 12 months ^{1/}

Percentage of responses



^{1/} Results obtained from the questions: "With respect to the previous 12 months, how do you anticipate the prices of inputs (goods and services) used in your sector to change over the next 12 months?" and "How do you anticipate wages and salaries of workers in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of the fourth quarter of 2023, they were obtained between January 2 and 25, 2024.

Business agents' response distribution when asked about the top three factors that could hinder growth of economic activity in their states over the next six months

Percentage of responses

Based on data collected between December 1 and 29, 2023 ^{1/}

Northern		North-Central		Central		Southern	
Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses
Inflation	36.1%	Inflation	31.1%	Inflation	28.0%	Inflation	36.7%
Governance	20.0%	Governance	27.2%	Governance	27.3%	Governance	26.6%
External conditions	17.7%	Domestic economic conditions	14.7%	Domestic economic conditions	16.2%	Domestic economic conditions	15.5%

^{1/} Question: What do you consider to be the three main factors limiting the growth of economic activity in your state over the next six months? This question is similar to the one included in the questionnaire of the Survey on Expectations of Private Sector Economic Specialists. Figures for December 2023 were obtained based on information collected between December 1 and 29, 2023.

Source: Banco de México.

Business agents' opinion on risks to regional economic activity (based on data collected between January 2 and 25, 2024) ^{1/}

Downward risks

- ✓ That public safety indicators deteriorate.
- ✓ That uncertainty generated by the 2024 elections, common in these types of processes, is higher than expected.
- ✓ That inflation persists at high levels.
- ✓ That severe weather phenomena adversely impact regional economic activity.

Upward risks

- ✓ That public spending, particularly investment in infrastructure projects, is higher than expected.
- ✓ That public safety conditions improve.
- ✓ That more favorable conditions are observed, both domestically and internationally, thus promoting higher levels of private investment.

^{1/} Results obtained from the questions: "What are the 2 main events/situations/facts that if they were to occur would boost economic development in your state over the next 12 months?" and "What are the 2 main events/situations/facts that if they were to occur would limit economic development in your state over the next 12 months?", included in the interviews conducted by Banco de México between January 2 and 25, 2024.

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Final remarks

- **Looking ahead, regional economies are foreseen to continue expanding**, despite facing a complex and uncertain environment that poses significant challenges to their growth.
- **In order to address these challenges**, as well as other obstacles to achieve greater long-term growth in the regions, **it is necessary**:
 - **To encourage the continued strengthening of the rule of law.**
 - **To increase competition in the markets of goods and services** in order to foster innovation and improve the efficiency with which productive units operate.
 - **To continue promoting the construction of transportation, water and energy infrastructure projects** to stimulate investment not only in regions that have historically received most of these flows, but also in the Southern region.
 - **To continue supporting human capital formation and equity in the labor market.**
 - **To implement climate change mitigation and adaptation policies**, particularly in the most vulnerable regions.
- **These actions would not only support the regions in successfully facing the current challenges, but would also help to boost greater sustainable long-term growth and improve the living conditions of their population.**

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