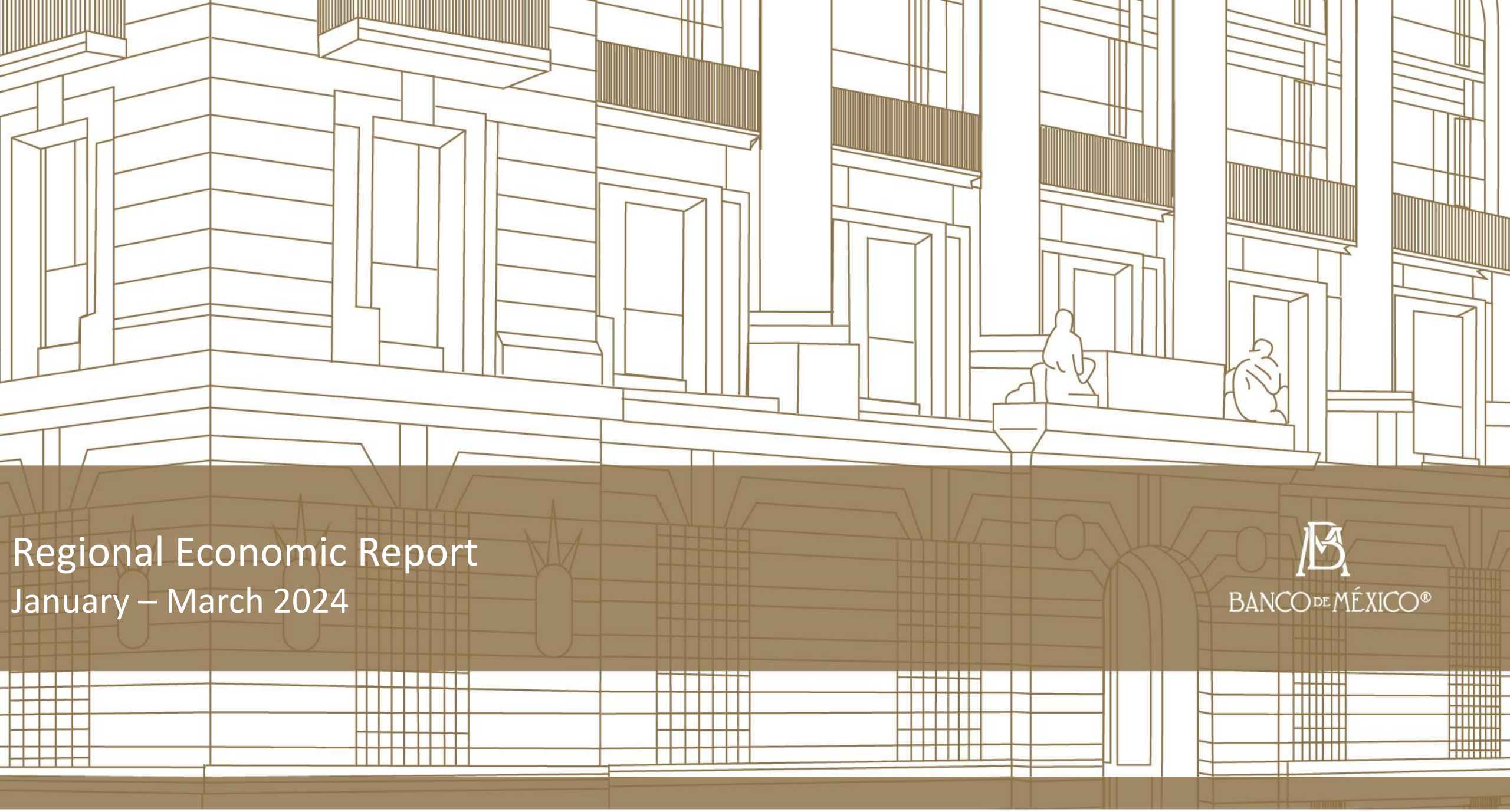


Regional Economic Report
January – March 2024

BANCO DE MÉXICO®

Outline

I. Regional Economic Report

II. Results January – March 2024

A. Economic activity

B. Inflation

C. Economic outlook

(based on data collected between April 1 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 Q1-2024 and the prospects of business agents surveyed between April 1 and 25, 2024 on regional economic activity and prices over the following twelve months are analyzed herein.

Outline

I. Regional Economic Report

II. **Results January – March 2024**

   A. **Economic activity**

   B. Inflation

   C. Economic outlook

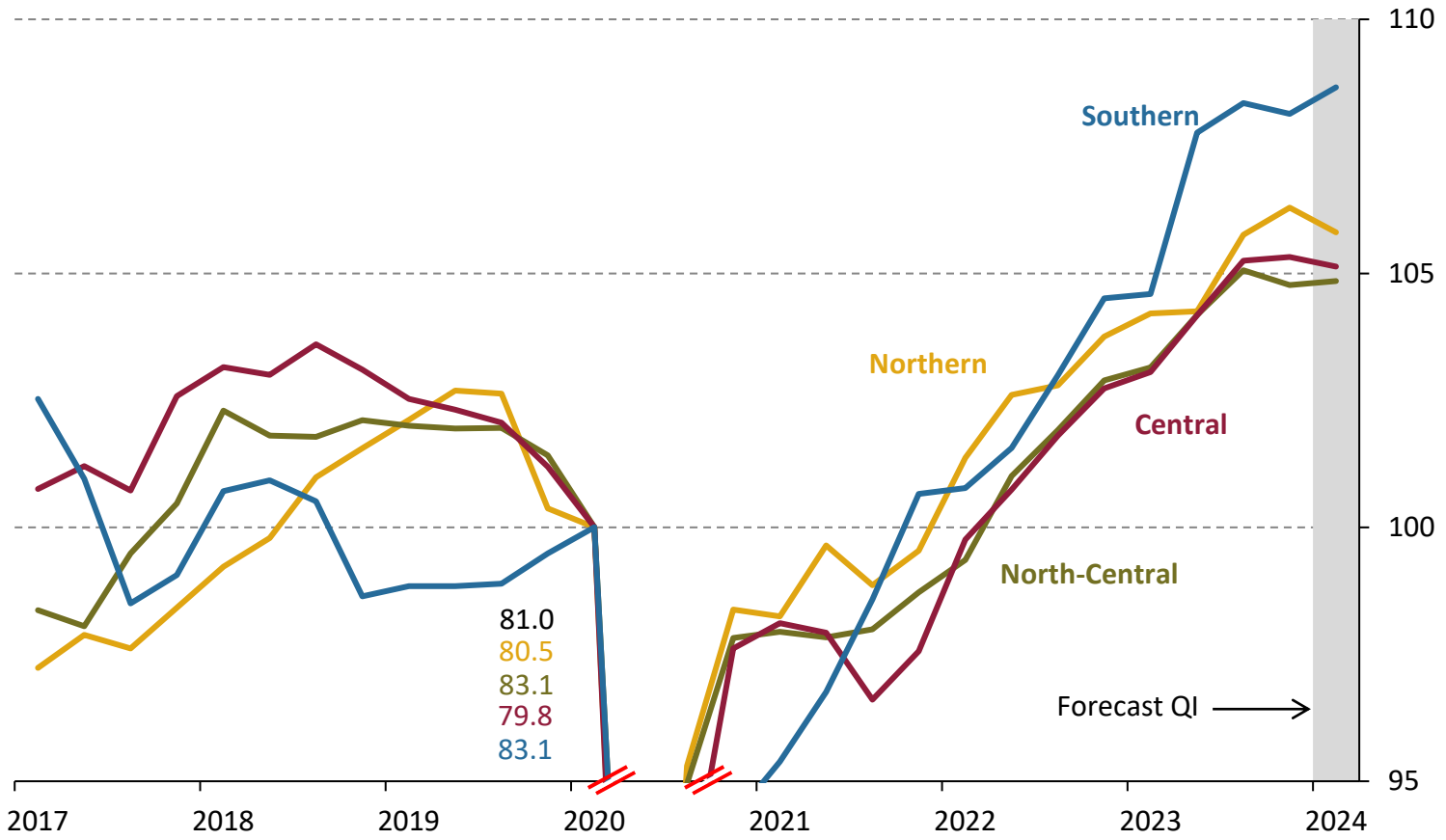
      (based on data collected between April 1 and 25, 2024)

III. Final remarks

Economic activity is estimated to have remained weak in all regions during Q1-2024, except in the Southern one.

Quarterly Indicator of Regional Economic Activity

Index Q1-2020=100, s. a.



s. a. / Seasonally adjusted data.

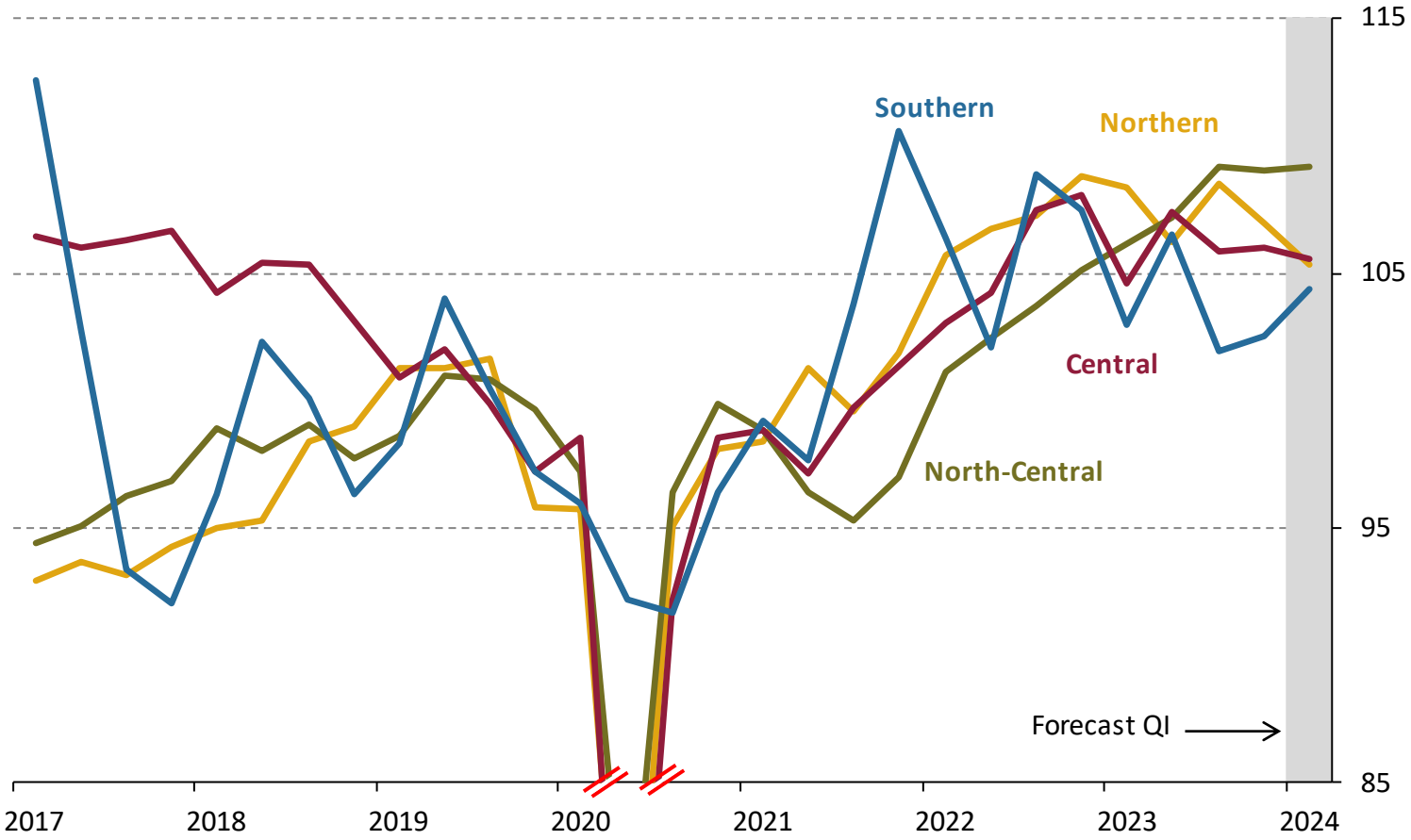
Source: Estimated by Banco de México with seasonally adjusted series of the Quarterly Indicator of State Economic Activity by INEGI.

.

In all regions, manufacturing exhibited weakness, despite the growth anticipated in the Southern region, as it increased from relatively low levels.

Regional Manufacturing Indicator

Index 2019=100, s. a.



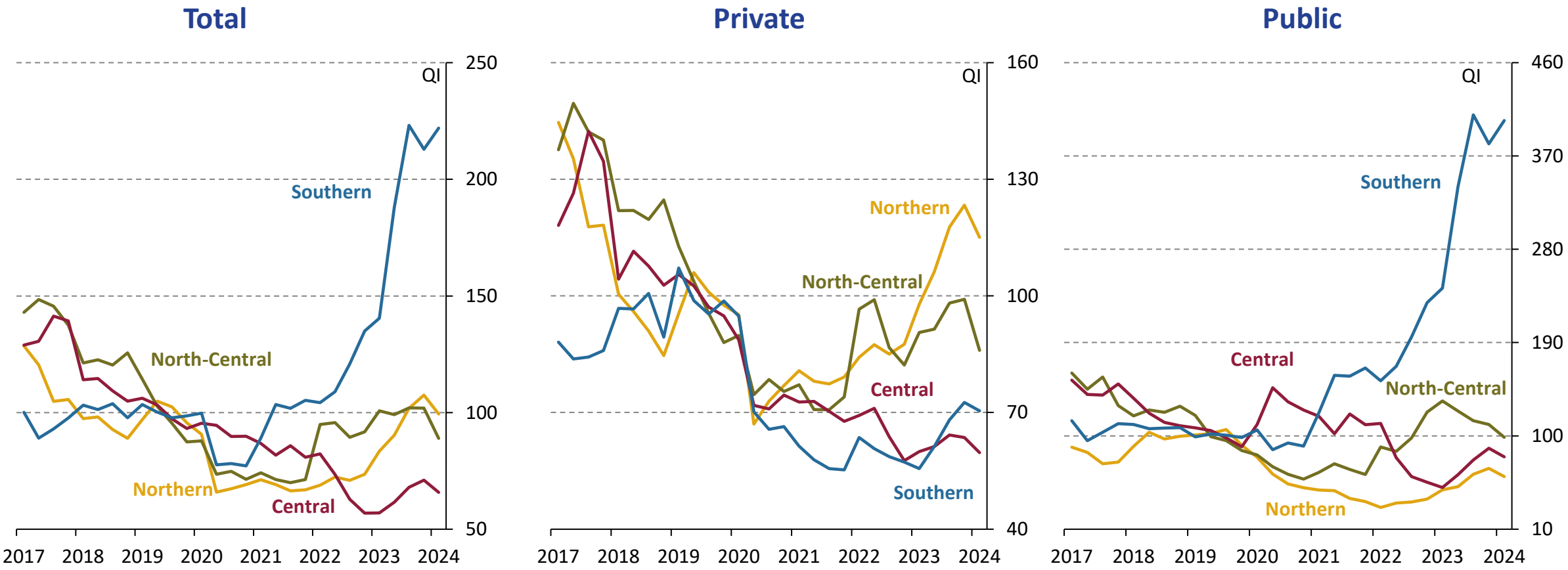
s. a. / Seasonally adjusted data.

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

In Q1-2024, spending on construction contracted in the Northern and Central regions, as a result of a drop in its public and private components. In contrast, in the Southern region spending on construction increased, driven by the expansion of public construction, which remains at particularly high levels.

Real value of production in the construction industry by region

Index 2019=100, s. a.



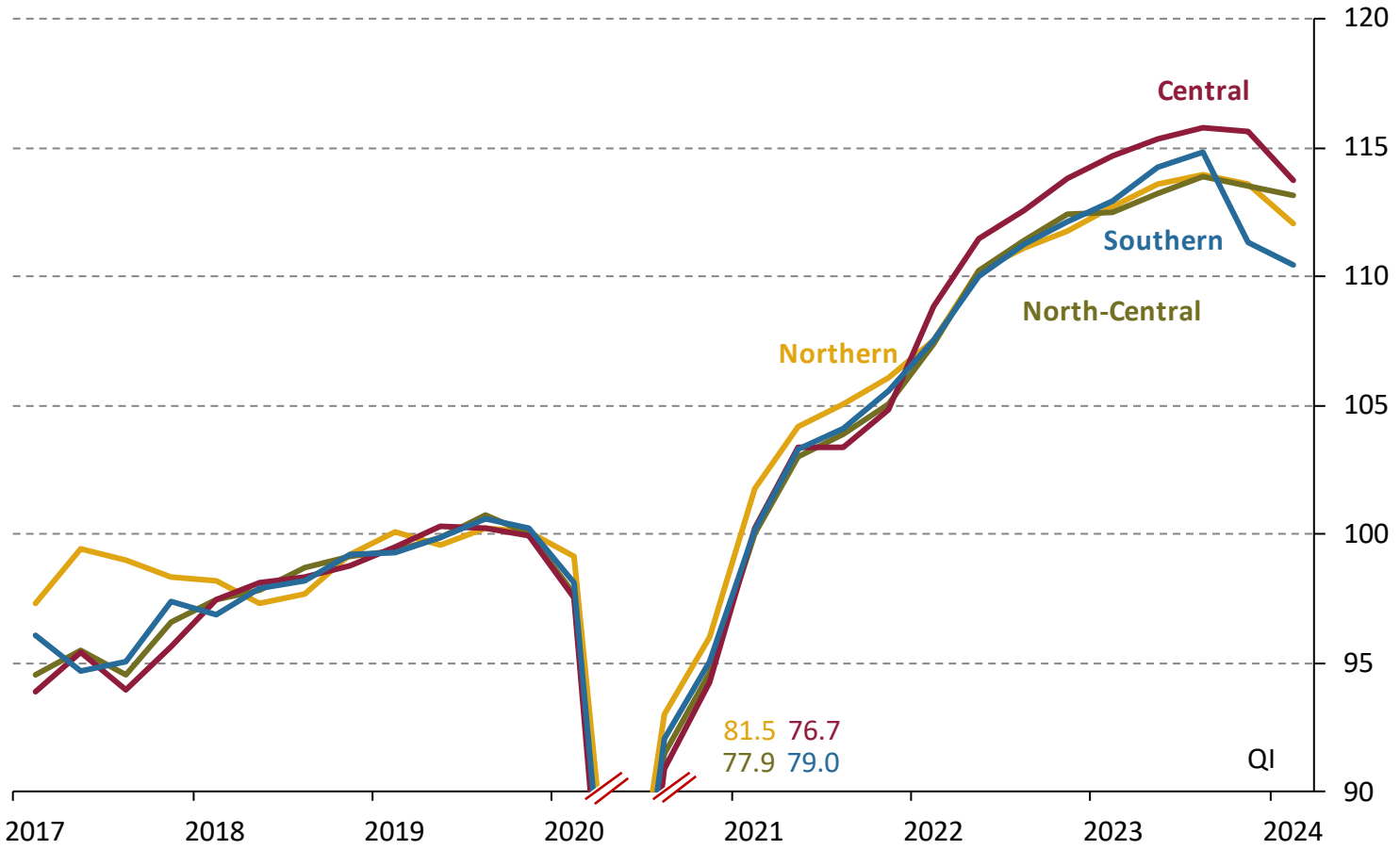
s. a. / Seasonally adjusted data.

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

During Q1-2024, commercial activity in all regions decreased.

Regional Commercial Activity Indicator

Index 2019=100, s. a.



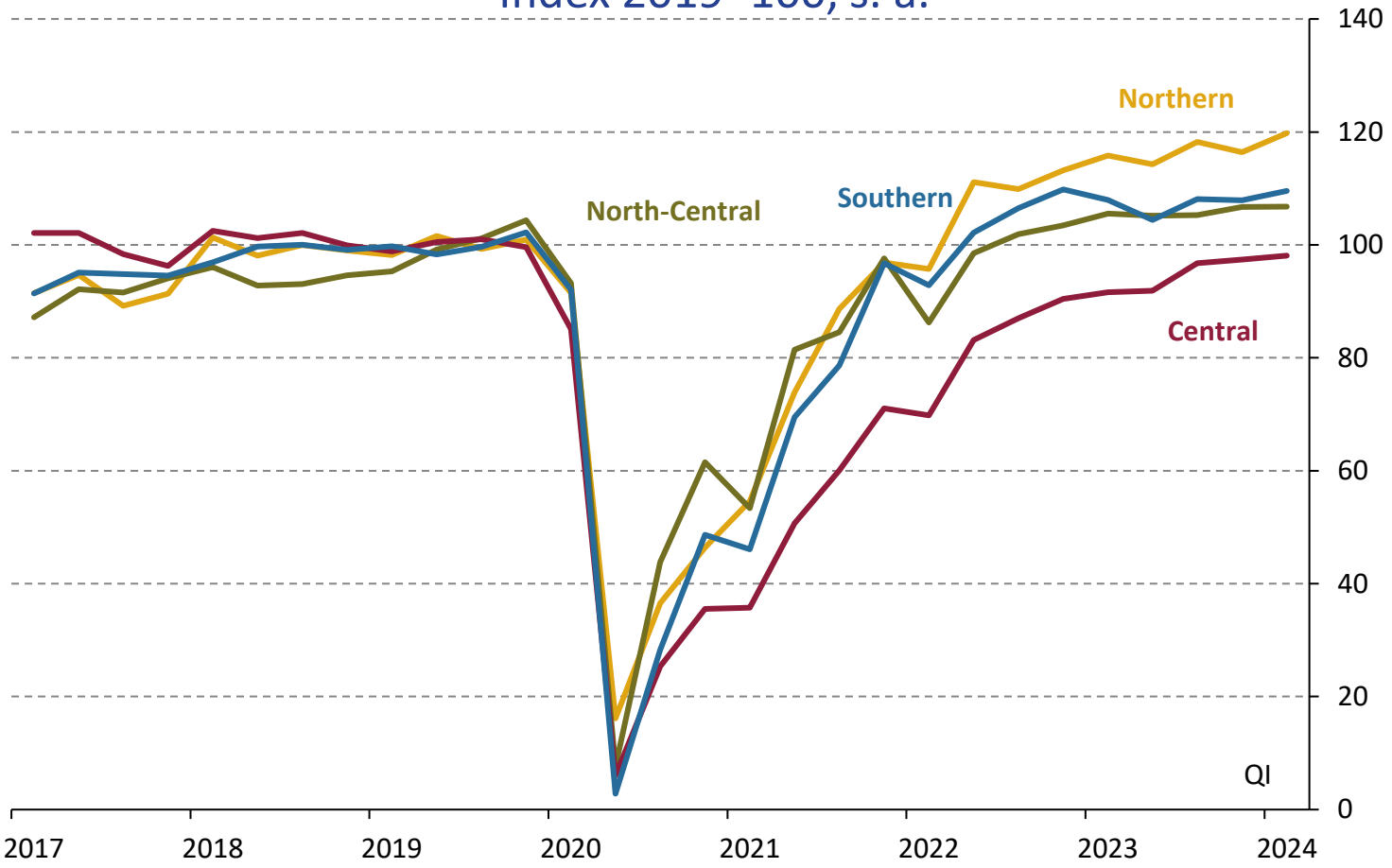
s. a. / Seasonally adjusted data.

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.

Tourism activity, measured by indicators of hotel occupancy, expanded in all regions in Q1-2024, except in the North-Central region where it stagnated.

Regional Indicator of Hotel Occupancy

Index 2019=100, s. a.



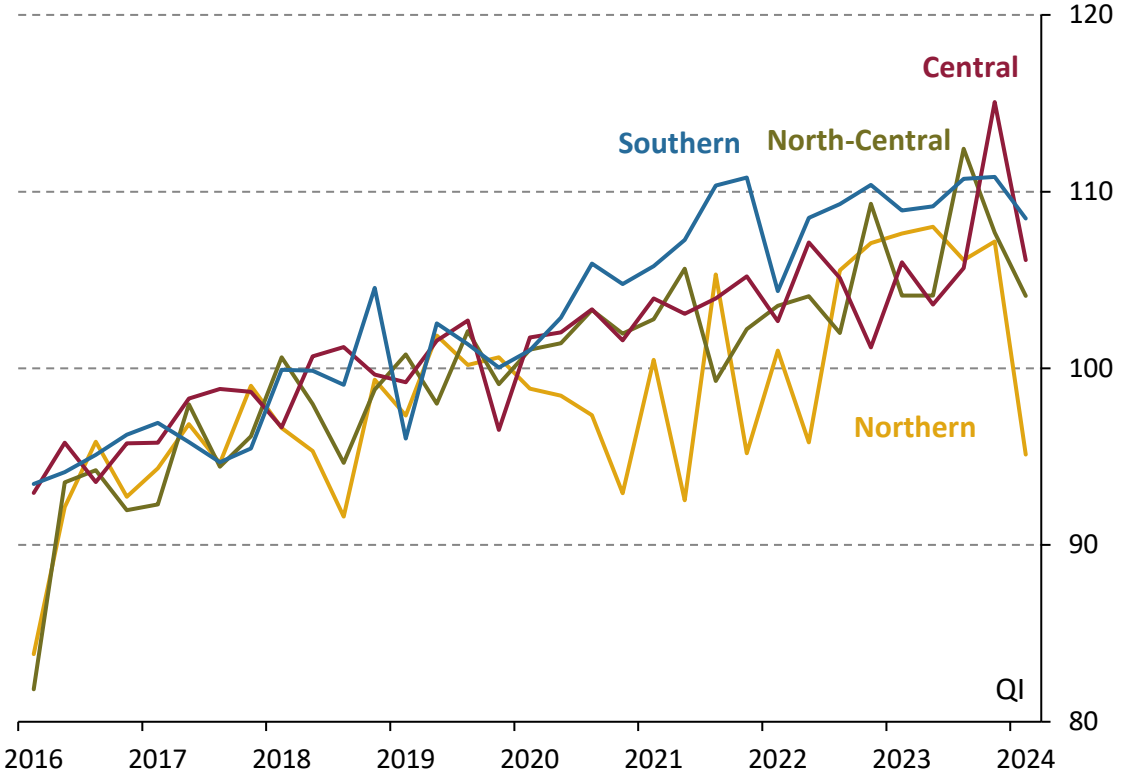
s. a. / Seasonally adjusted data.

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

In Q1-2024, agricultural activity contracted in all regions partly due to the intensification of droughts in Mexico's agricultural areas.

Index of Regional Agricultural Production

Index 2019=100, s. a.



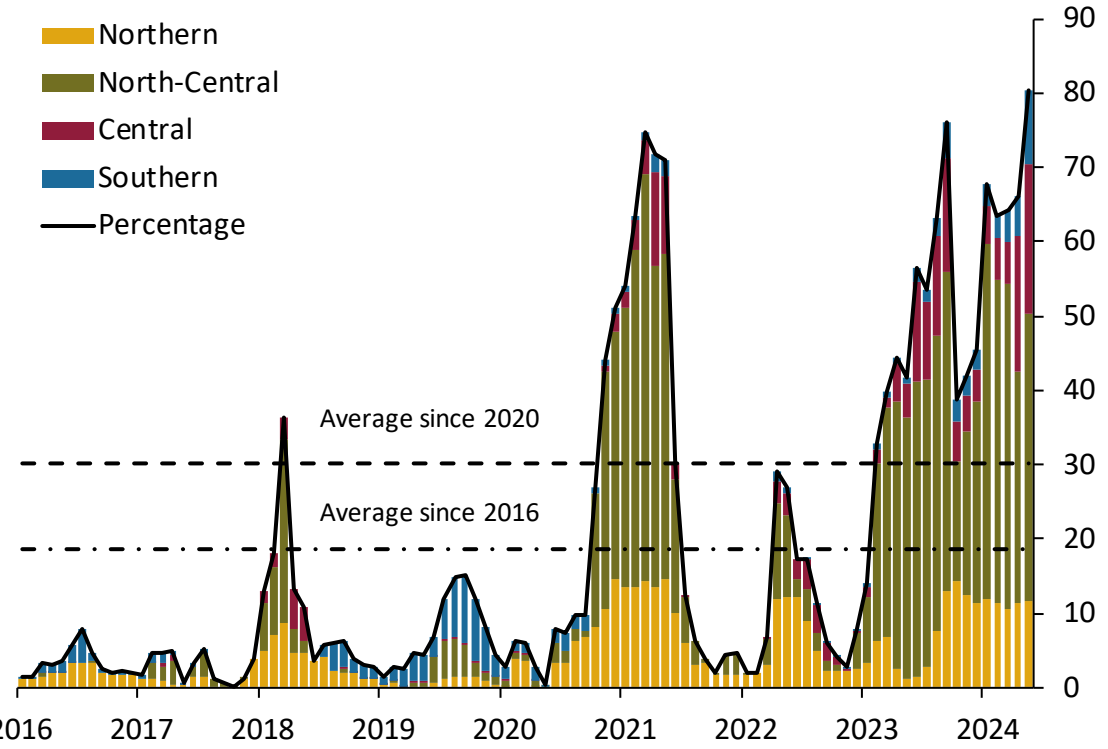
s. a. / Seasonally adjusted data.

Nota: Unlike the estimate of Gross Domestic Product, this indicator excludes information on the value generated by crops and approximates a measure of the gross value of production, rather than the value added generated in the sector.

Source: Prepared by Banco de México based on data from SIAP (*Servicio de Información Agroalimentaria y Pesquera*).

Percentage of Mexican agricultural production exposed to drought

Data in percent

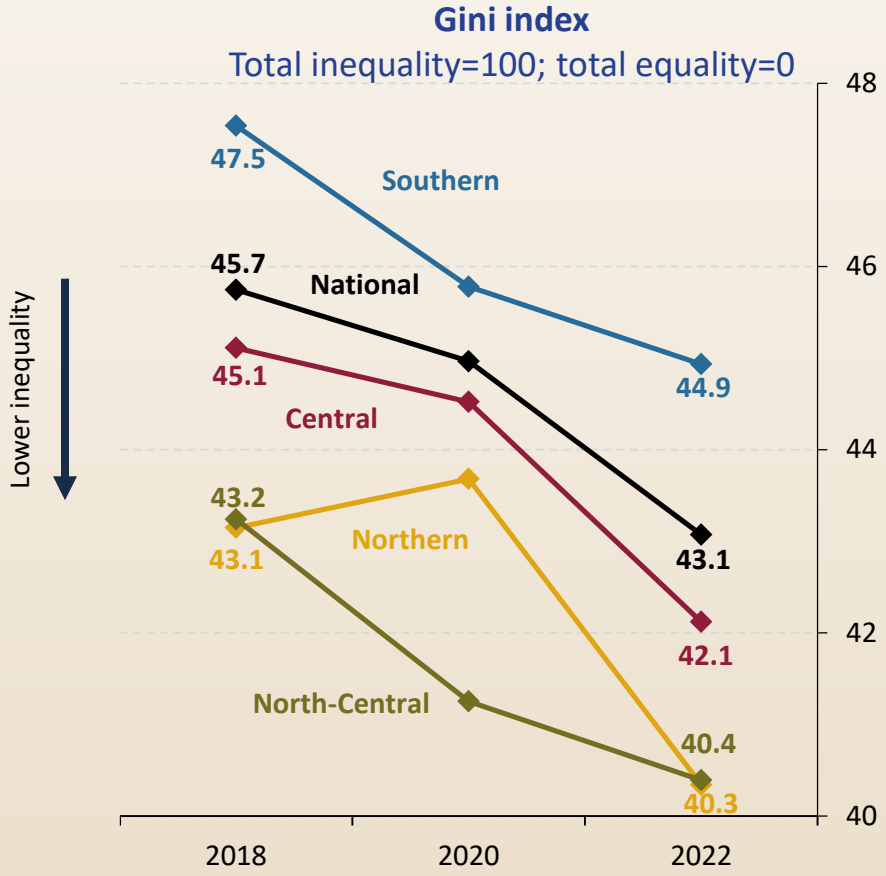


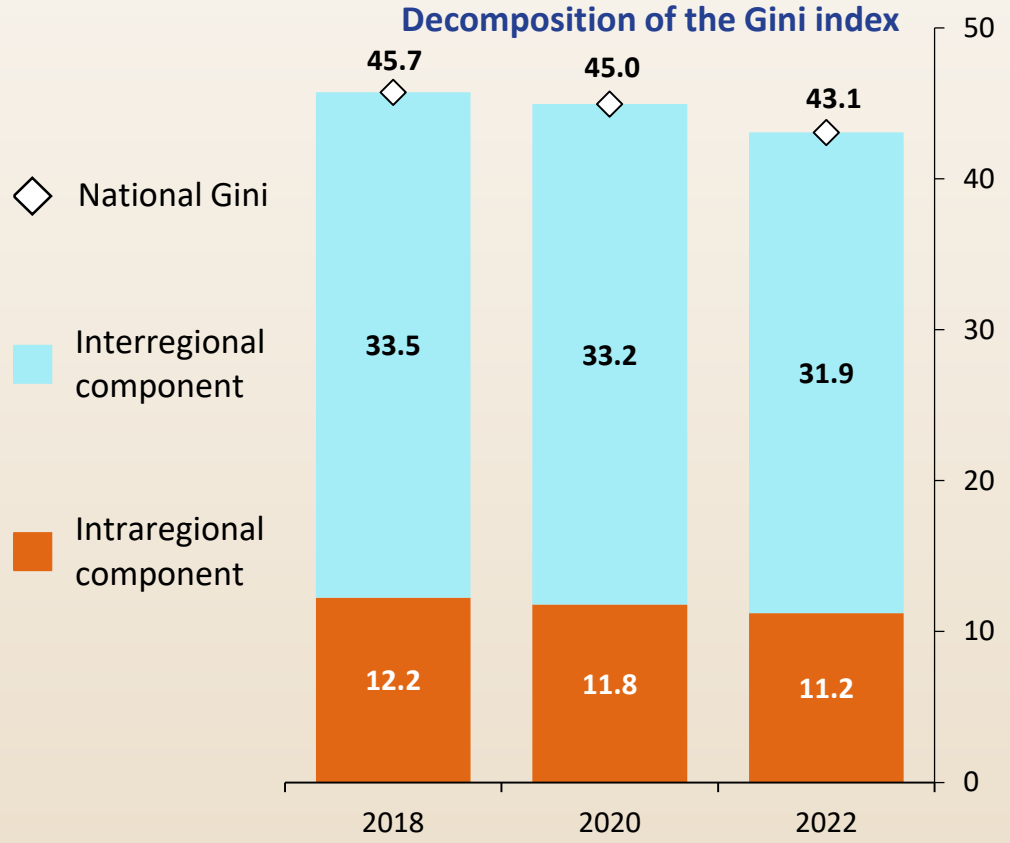
Note: The drought exposure index approximates the percentage of each product's national production that is concentrated in municipalities with severe, extreme or exceptional drought conditions based on historical production data from 2003 to 2022.

Source: Prepared by Banco de México based on data from SIAP (*Servicio de Información Agroalimentaria y Pesquera*) and CONAGUA (*Comisión Nacional del Agua*).

Decrease in regional income inequality in a context of pro-poor growth: 2018-2022

- Income inequality decreased nationally and across regions during the 2018-2022 period. In addition, lower inequality between regions is also estimated to have contributed to the reduction in national income inequality.



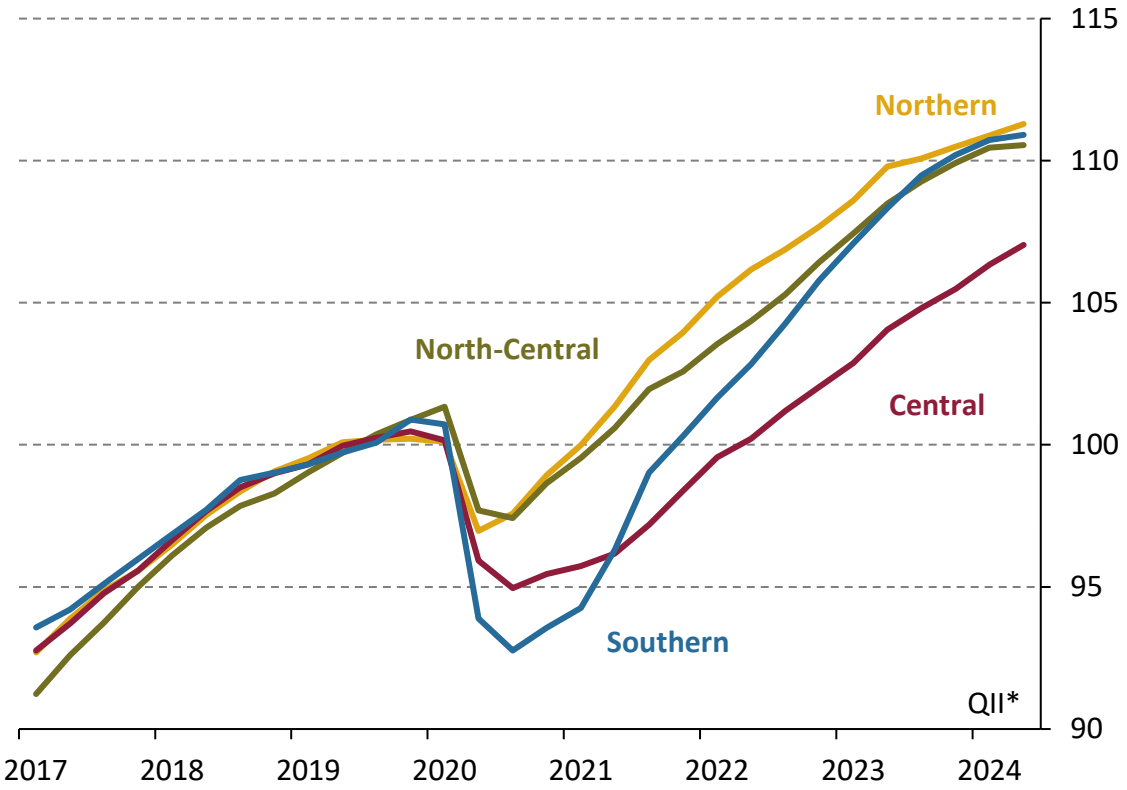


Source: Prepared by Banco de México based on databases generated by CONEVAL (*Consejo Nacional de Evaluación de la Política de Desarrollo Social*) using the ENIGH (*Encuesta Nacional de Ingresos y Gastos de los Hogares*) published by INEGI.

The labor market remained strong in Q1-2024.

Number of IMSS-insured workers

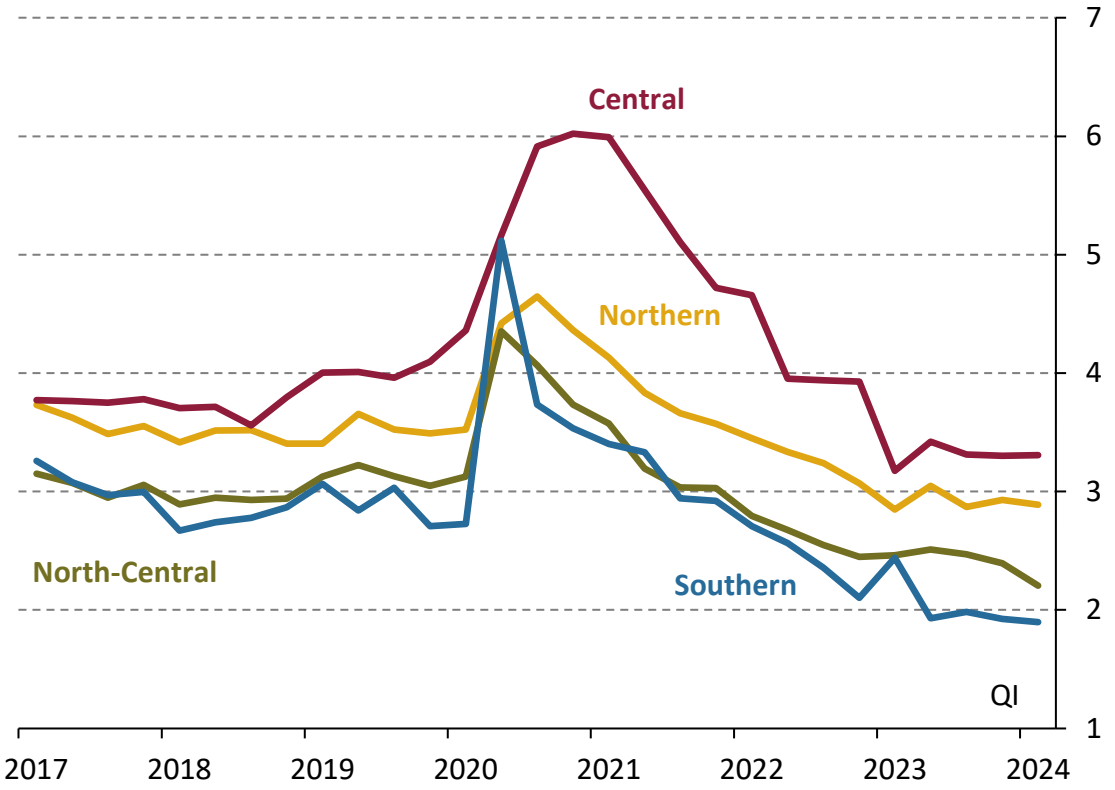
Index 2019=100, s. a.[1/]



s. a. / Seasonally adjusted data.
*/ Figures as of May 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.

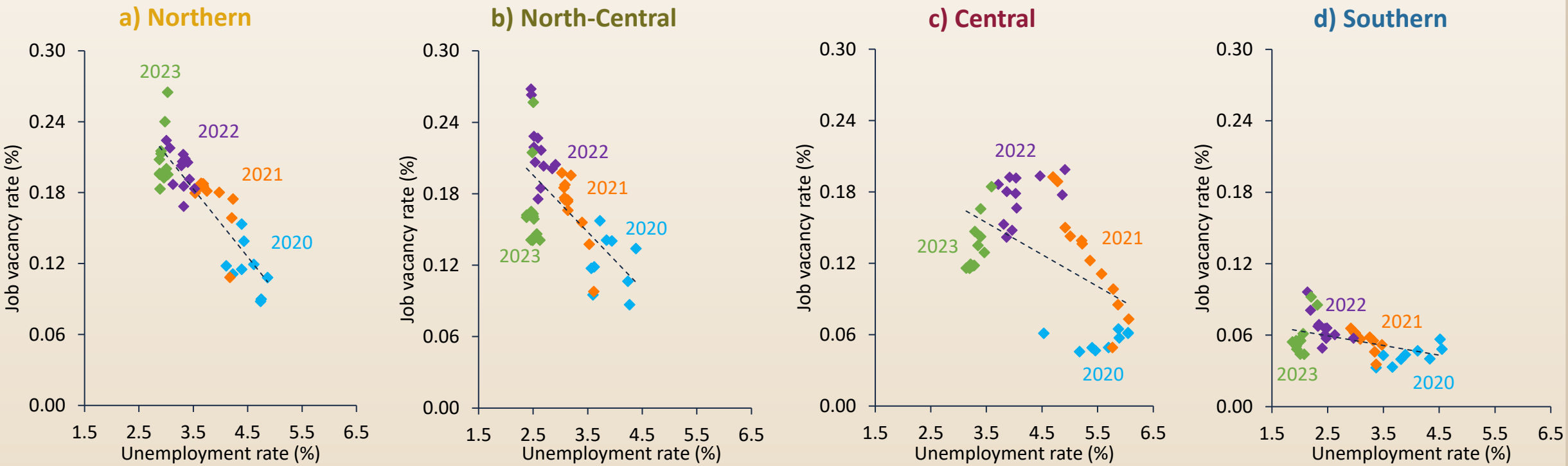


s. a. / Seasonally adjusted data.
Source: Prepared and seasonally adjusted by Banco de México with data from INEGI.

Regional Beveridge curves in Mexico

- In advanced countries, as part of the labor market analysis, it is common to monitor the behavior of **Beveridge curves**, which capture the typically negative relationship between the **unemployment rate** and the **job vacancy rate**. The representation of these curves for Mexico has faced the challenge of having a systematic measure of job vacancies in the economy.

Beveridge curves in the context of the COVID-19 pandemic



Notes: The job vacancy rate is calculated as the number of jobs available in the Bolsa de Trabajo de la Secretaría del Trabajo y Prevsisión Social (STPS, for its acronym in Spanish) as a percentage of Economically Active Population (EAP). The unemployment rate refers to unemployed population as a percentage of the EAP. The dotted line represents the linear adjustment of Beveridge curves. Each point represents the combination of the unemployment rate and the job vacancy rate for one month of the analyzed period. The job vacancy rate and the unemployment rate data are 3-month moving averages.
Sources: Prepared by Banco de México with information from the Unidad del Servicio Nacional de Empleo of the STPS and INEGI.

Outline

I. Regional Economic Report

II. Results January – March 2024

A. Economic activity

B. Inflation

C. Economic outlook

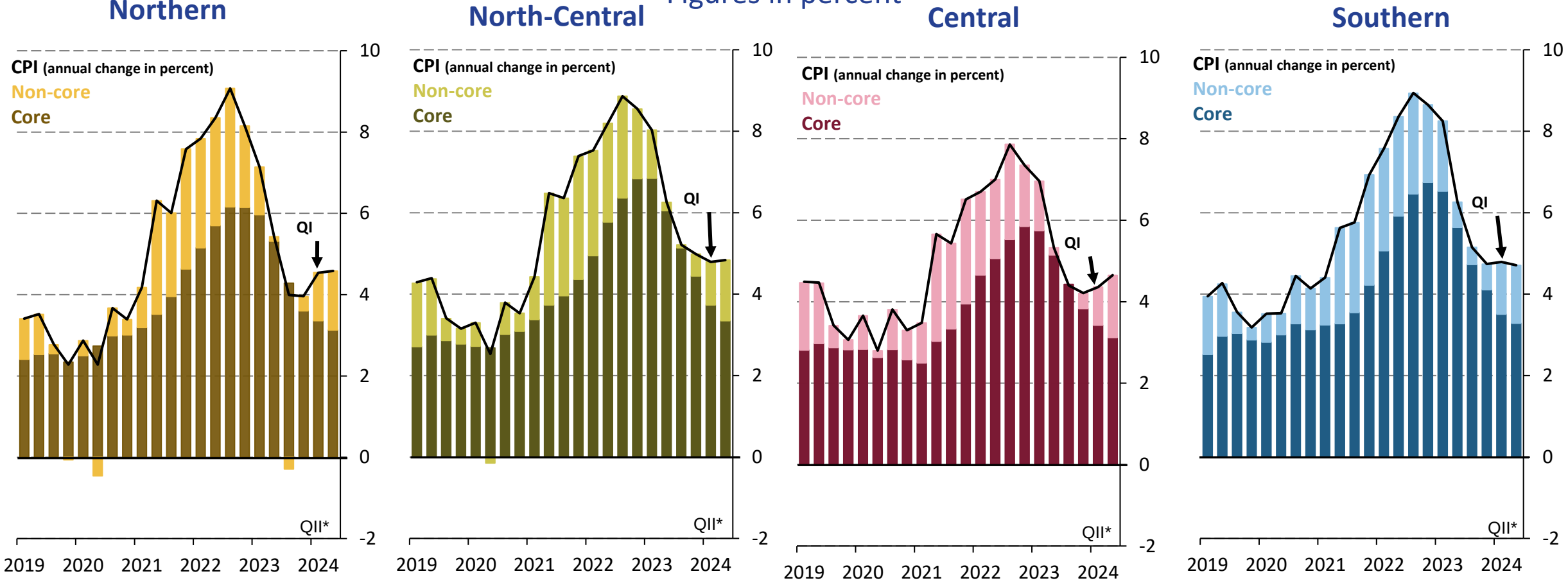
(based on data collected between April 1 and 25, 2024)

III. Final remarks

Between Q4-2023 and Q1-2024 in the Northern, Central and Southern regions, the increase in non-core inflation more than offset the reduction in core inflation, resulting in higher levels of headline inflation. The opposite occurred in the North-Central region.

Incidence on annual headline inflation, by region

Figures in percent



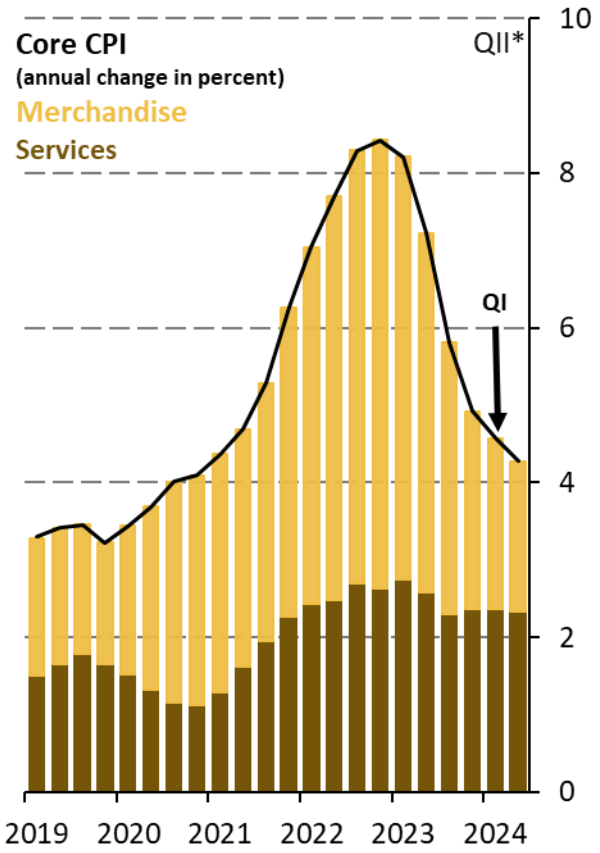
Source: Prepared by Banco de México with data from INEGI.
*/ Change in the average of April and May 2024 indices with respect to the average of April and May 2023 indices.

In Q1-2024 and so far in Q2-2024, within the core component in all regions, annual merchandise inflation continued trending downwards, while annual services inflation remained at high levels without showing a clear downward inflection point.

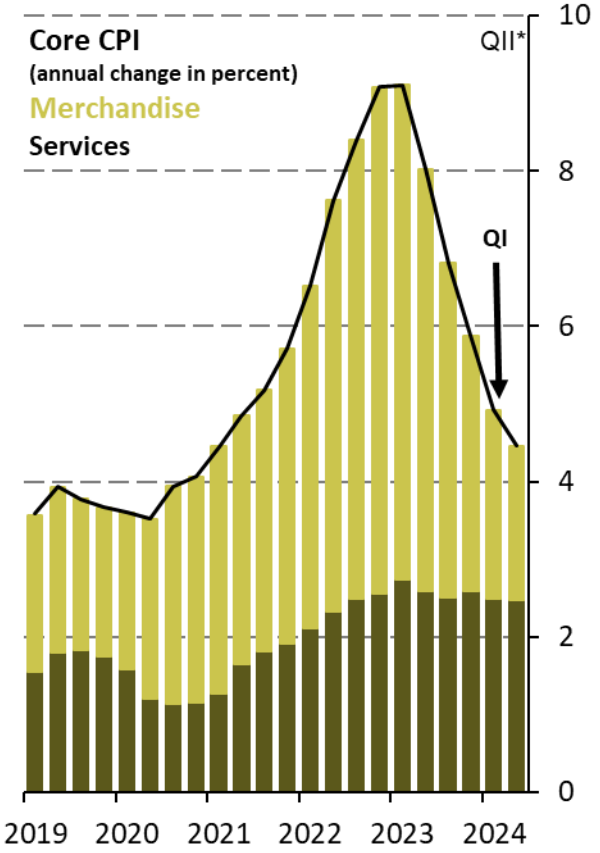
Incidence on annual core inflation by region

Figures in percent

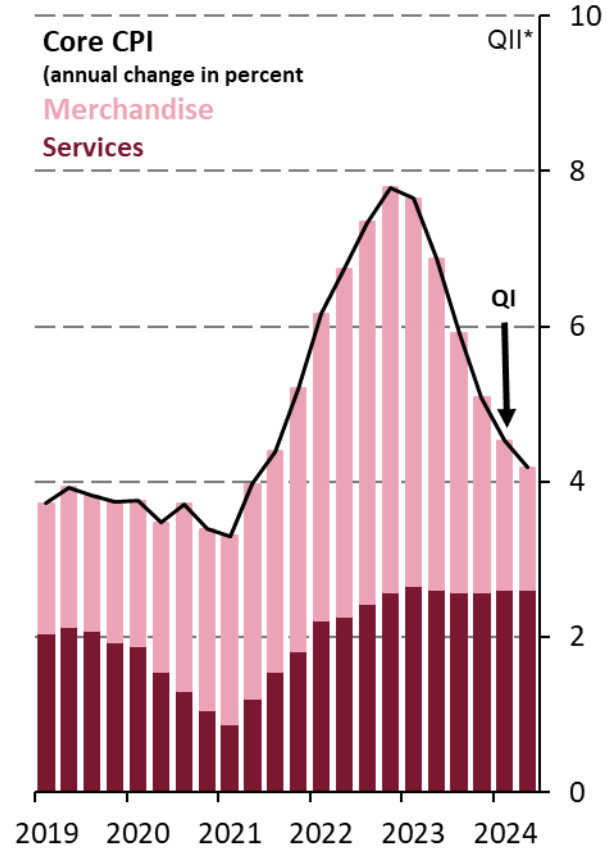
Northern



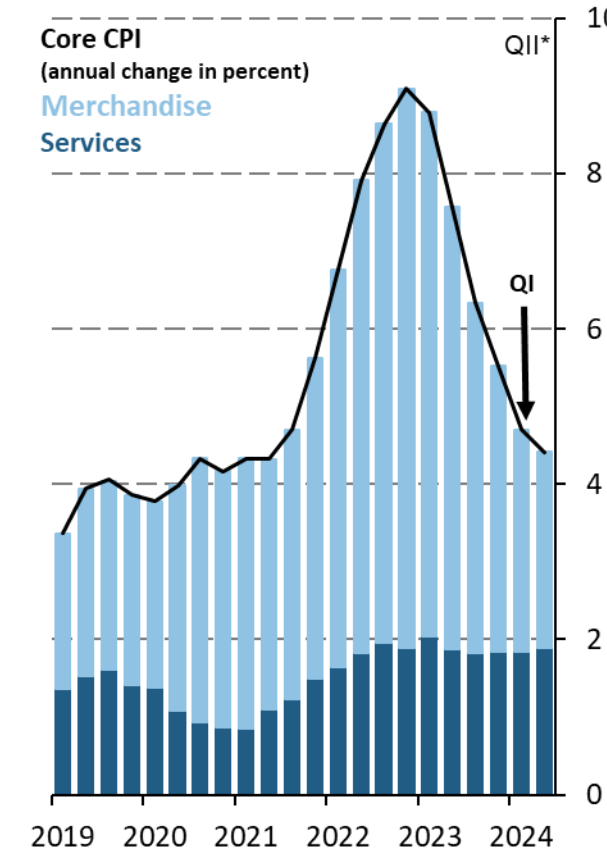
North-Central



Central



Southern



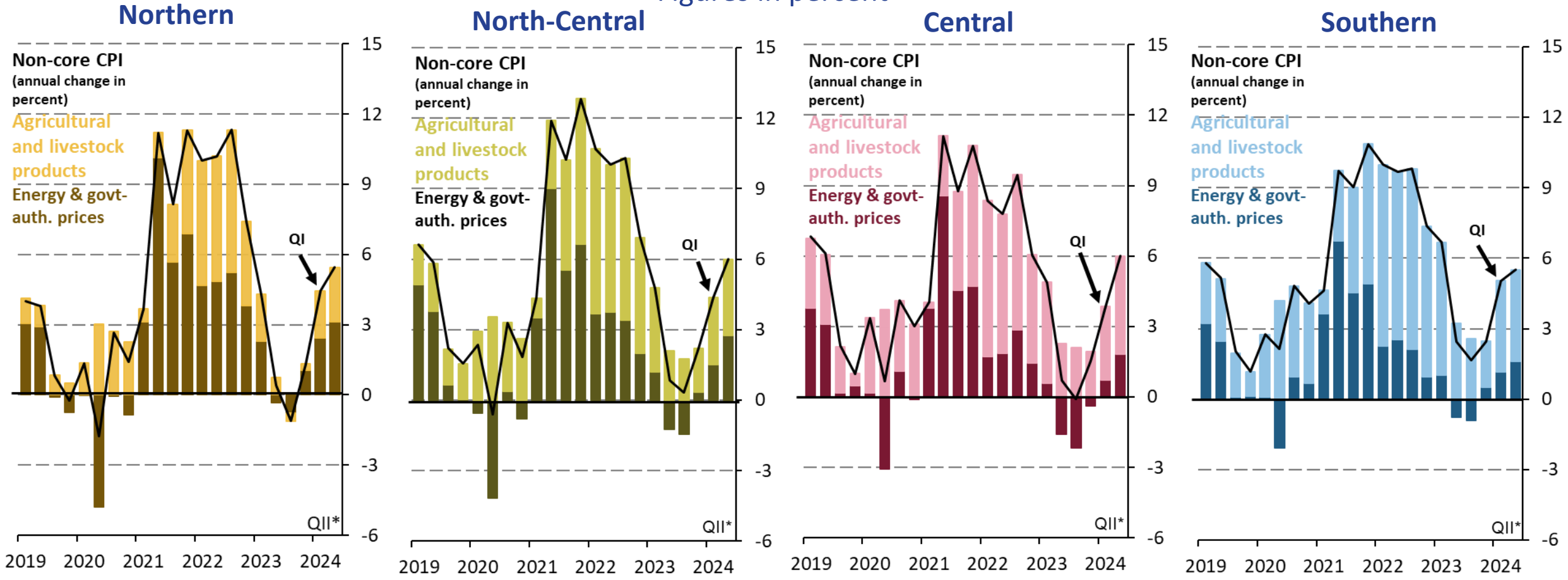
Source: Prepared by Banco de México with INEGI data.

*/ Change in the average of April and May 2024 indices with respect to the average of April and May 2023 indices.

Non-core inflation increased in all regions between Q4-2023 and Q1-2024. This performance was attributed to an increase in energy and agricultural and livestock products inflation in all regions.

Incidence on annual non-core inflation by region

Figures in percent



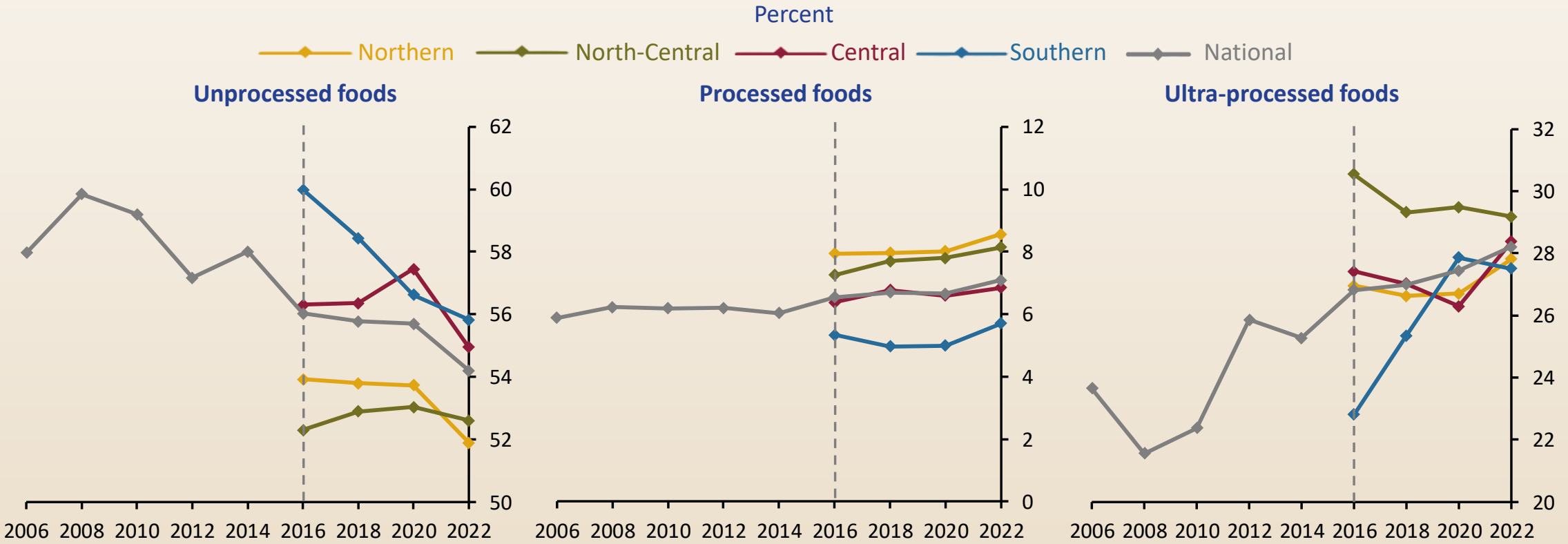
Source: Prepared by Banco de México with INEGI data.

*/ Change in the average of April and May 2024 indices with respect to the average of April and May 2023 indices.

Food consumption by degree of processing in Mexico's regions

- The analysis shows an increasing trend in the caloric intake of ultra-processed foods in Mexican households in recent years, which corresponds to a decrease in the consumption share of unprocessed foods.

Share of calorie consumption in households' total food calorie intake per adult equivalent



Note: The sum of shares in the three panels is less than 100% because the share of culinary ingredients is not shown.
Source: Prepared by Banco de México with ENIGH data.

Outline

I. Regional Economic Report

II. Results January – March 2024

A. Economic activity

B. Inflation

C. Economic outlook

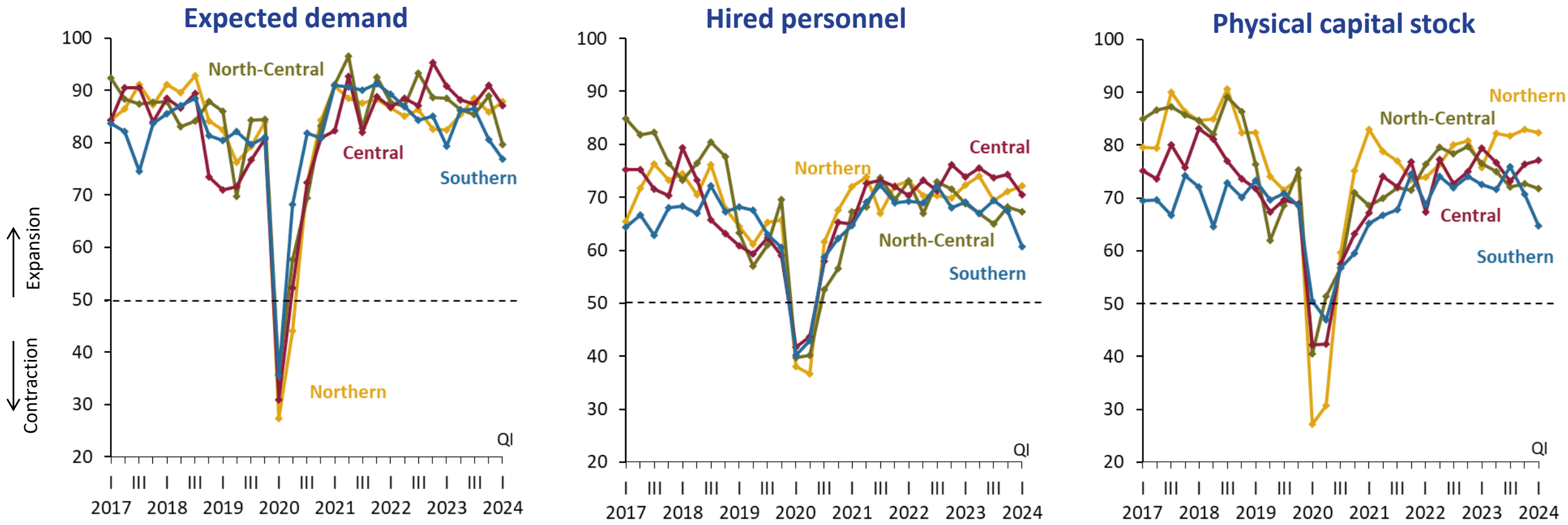
(based on data collected between April 1 and 25, 2024)

III. Final remarks

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 Q1-2024.

Business agents' expectations: demand, hired personnel and physical capital stock, next 12 months[1/]

Diffusion indices

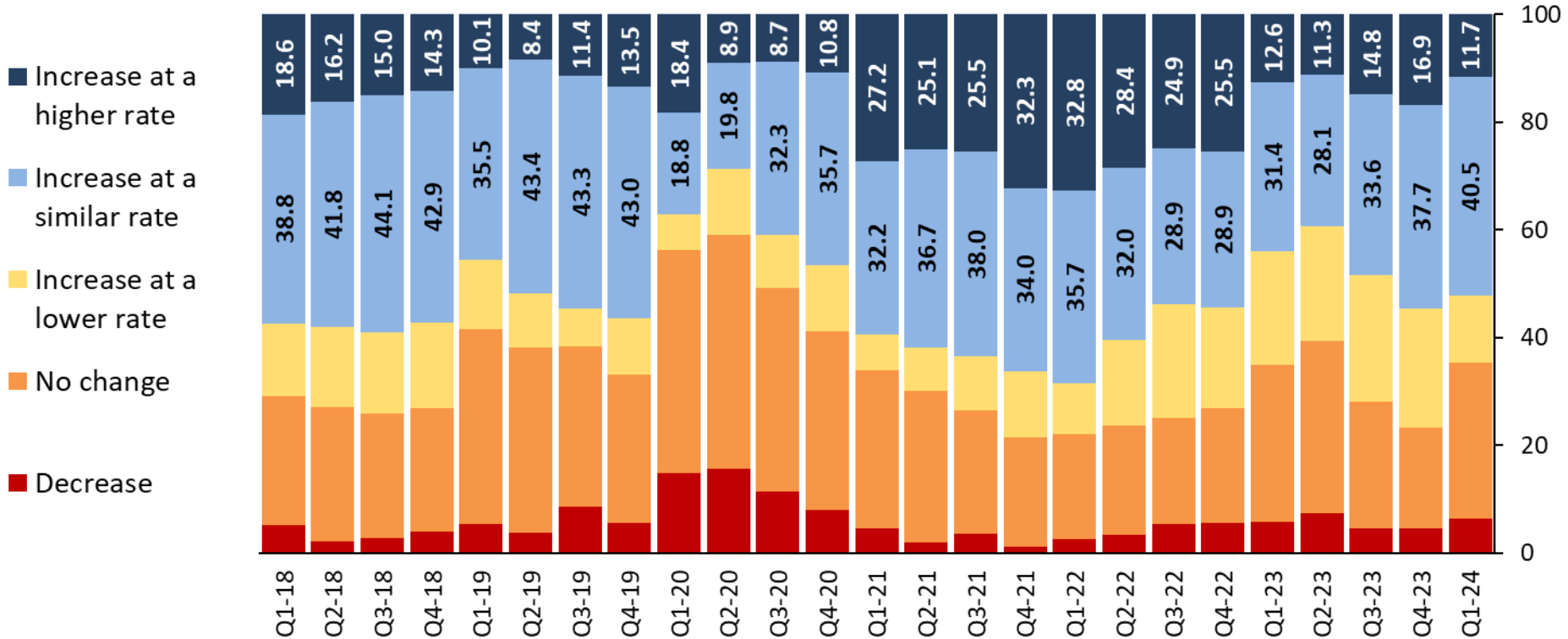


1/Results obtained from the questions: "With respect to the previous 12 months, how do you expect your sales volume to change over the next 12 months, how do you expect the total number of workers in your company to change over the next 12 months?" and "With respect to the investment in fixed assets 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 Q1-2024, they were obtained between April 1 and April 25, 2024.

The percentage of business agents who anticipate that their goods and services' sales prices will increase at a similar or higher rate in the next twelve months decreased in Q1-2024.

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

Percentage of responses

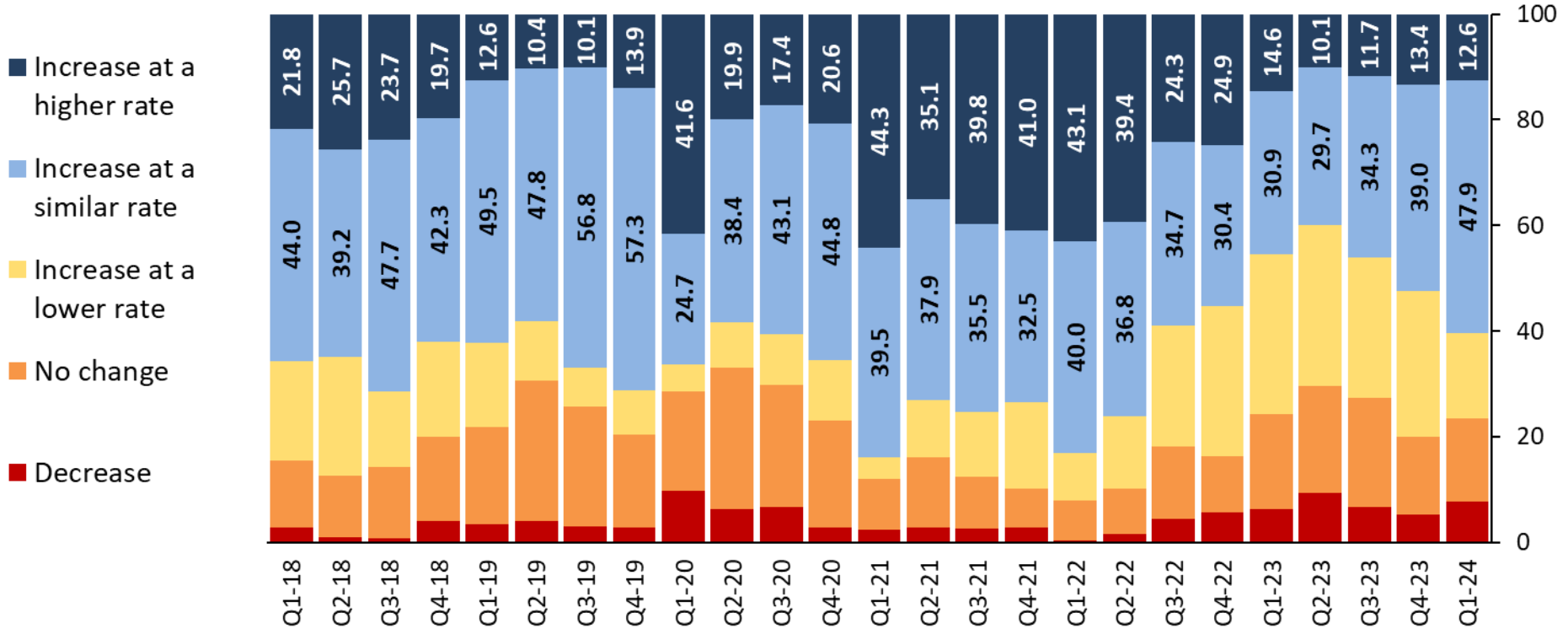


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you anticipate sales prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q1-2024, they were obtained between April 1 and April 25, 2024.

In Q1-2024, the percentage of business agents who anticipate their input prices to grow at a similar or higher rate in the next twelve months continued increasing.

Business agents' expectations: annual variation of input prices; next 12 months with respect to last 12 months[1/]

Percentage of responses

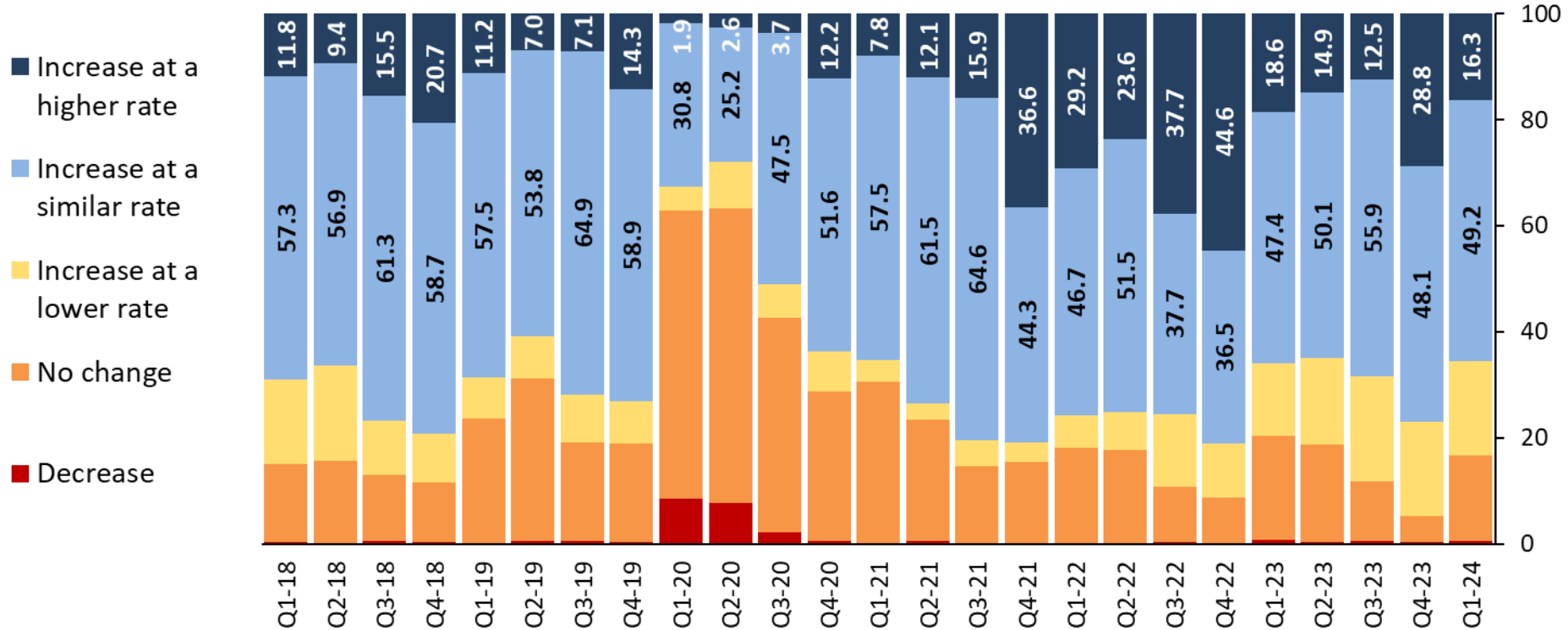


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you anticipate input prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q1-2024, they were obtained between April 1 and April 25, 2024.

As for wage costs expectations, during Q1-2024 there was a reduction in the share of interviewed business agents who expect wage costs to grow at a higher rate in the next twelve months compared to the previous twelve months.

Business agents' expectations: annual variation of 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 wage costs 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 Q1-2024, they were obtained between April 1 and April 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 March 1 and 29, 2024[1/]

Northern		North-Central		Central		Southern	
Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses
Inflation	**30.9%**	Inflation	**27.7%**	Governance	**27.2%**	Inflation	**35.1%**
Governance	**22.4%**	Governance	**26.7%**	Inflation	**27.1%**	Governance	**28.1%**
External conditions	**17.1%**	Domestic economic conditions	**15.0%**	Domestic economic conditions	**19.2%**	Domestic economic conditions	**13.5%**

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 April 2024 were obtained based on information collected between March 1 and 29, 2024.
Source: Banco de México.

Business agents' opinion on risks to regional economic activity (based on data collected between April 1 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 severe weather phenomena adversely impact regional economic activity.
- That inflation and interest rates persist at high levels.

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.
- That leisure and business tourism continues to reactivate.

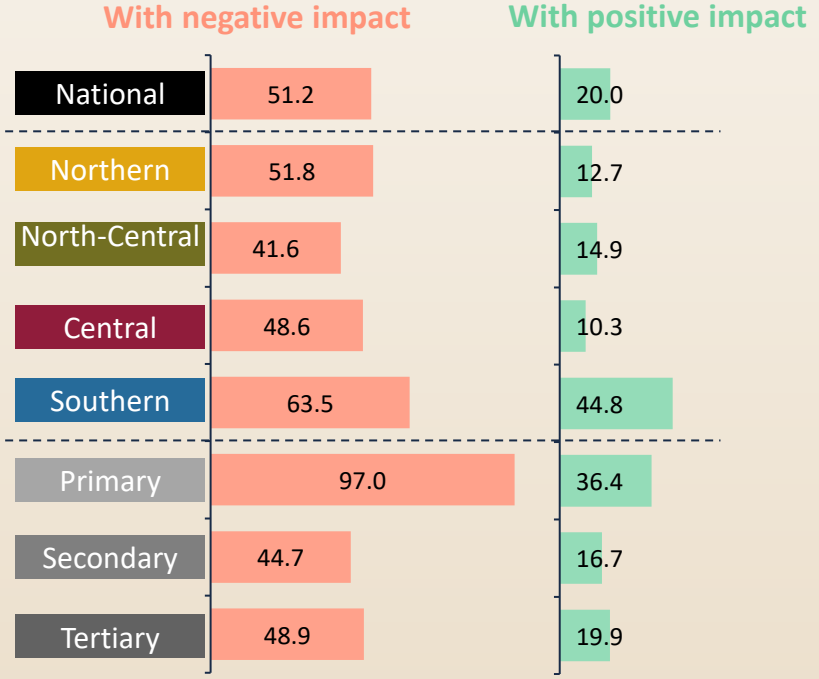
1/ Results obtained from the questions: "What are the 2 main events/situations/facts that if they were to occur would boost economic development in your state over the next 12 months?" and "What are the 2 main events/situations/facts that if they were to occur would limit economic development in your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

Business opinion on the impact of extreme weather events and the adaptation and mitigation strategies adopted by businesses

- Business agents were asked about the observed impact, risk perception and actions adopted by firms in the face of extreme weather events.

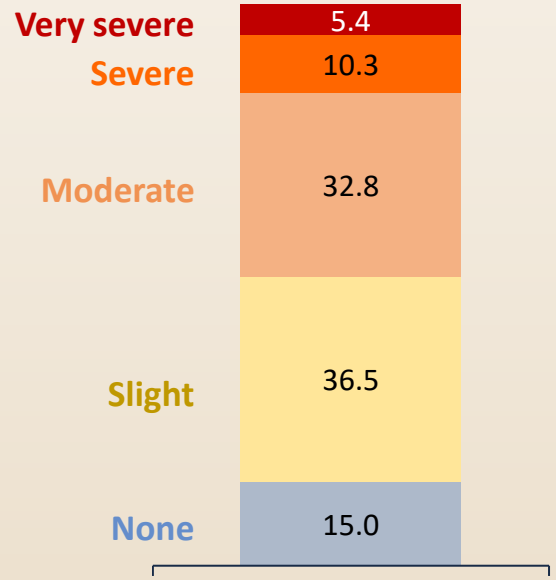
Firms that experienced impacts from extreme weather events in the last five years

% of firms that reported at least one event



Concern level about extreme weather events over the next five years

% of firms that mentioned each category



Actions adopted by firms in response to the occurrence and risk of weather events



Source: Banco de México with information from responses to the following questions from the Oct-Dec 2023 Business Agents Interview Program: "During the last 5 years, how many times was your company affected (either positively or negatively) by the consequences of extreme weather events?", "How would you rate your company's level of concern regarding potential impacts from extreme weather events over the next 5 years?" and "What actions has your company taken in response to the occurrence and risk of weather events?"

Outline

I. Regional Economic Report

II. Results January – March 2024

A. Economic activity

B. Inflation

C. Economic outlook

(based on data collected between April 1 and 25, 2024)

III. Final remarks

Final remarks

- The analysis in this Report contributes to understanding certain factors that could help **regional economies to leverage the opportunities presented by the current situation**, especially the reconfiguration of production processes at the global level:

  - **Strengthening the rule of law and public safety.** Business agents interviewed for this Report have indicated for several years that this measure would give them greater certainty and boost investment in all regions.

  - **Infrastructure construction.** According to one of the boxes included in this Report, more than half of the business agents interviewed at the national level stated that their companies were negatively affected by extreme climate-related events in the last five years. Thus, they would benefit from infrastructure that **facilitates adaptation and mitigation to climate change**.

  - **Continue promoting human capital formation across different dimensions.** As indicated in another box, in recent years the residents of all regions have increased their consumption of ultra-processed foods, which could be reflected in a deterioration of people's health to the detriment of their wellbeing and labor productivity.

- These actions would not only help the regions to face current challenges successfully, but would also promote **more inclusive and sustainable growth in the long term**, thus improving the living conditions of their population.

Regional Economic Report

BANCO DE MÉXICO®

www.banxico.org.mx

June 2024

Disponible en la app:

Banxico
al día