

Regional Economic Report
April – June 2024

BANCO DE MÉXICO®

Outline

I. Regional Economic Report

II. Results April – June 2024

A. Economic activity

B. Inflation

C. Economic outlook

(based on data collected between July 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 Q2-2024 and the prospects of business agents surveyed between July 1 and 25, 2024 on regional economic activity and prices over the following twelve months are analyzed herein.

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C. Economic outlook

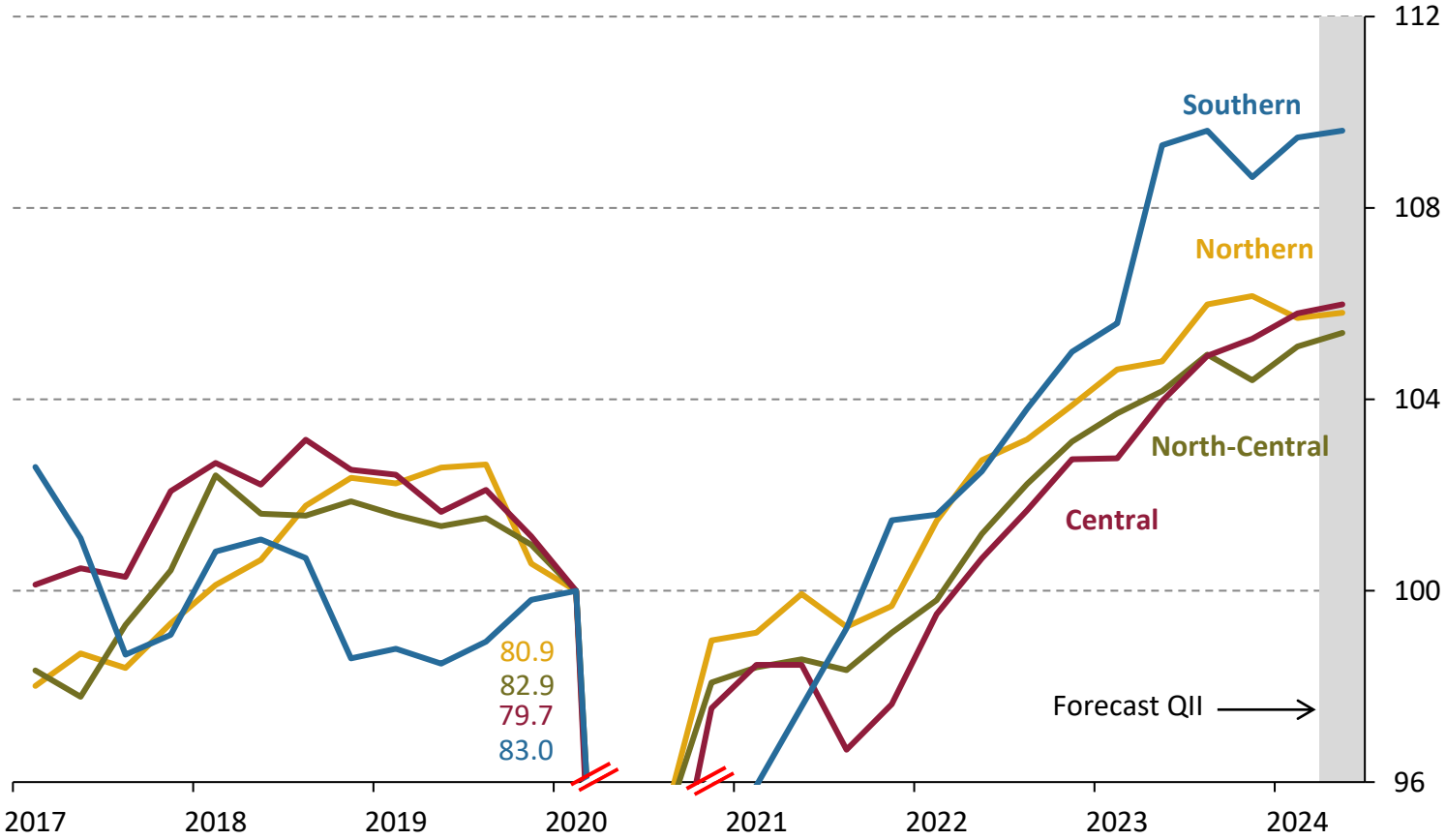
(based on data collected between July 1 and 25, 2024)

III. Final remarks

Economic activity is estimated to have been sluggish in all regions during Q2-2024. The Southern region would continue at relatively higher levels than those observed before the pandemic, compared to other regional economies.

Quarterly Indicator of Regional Economic Activity

Index Q1-2020=100, s. a.

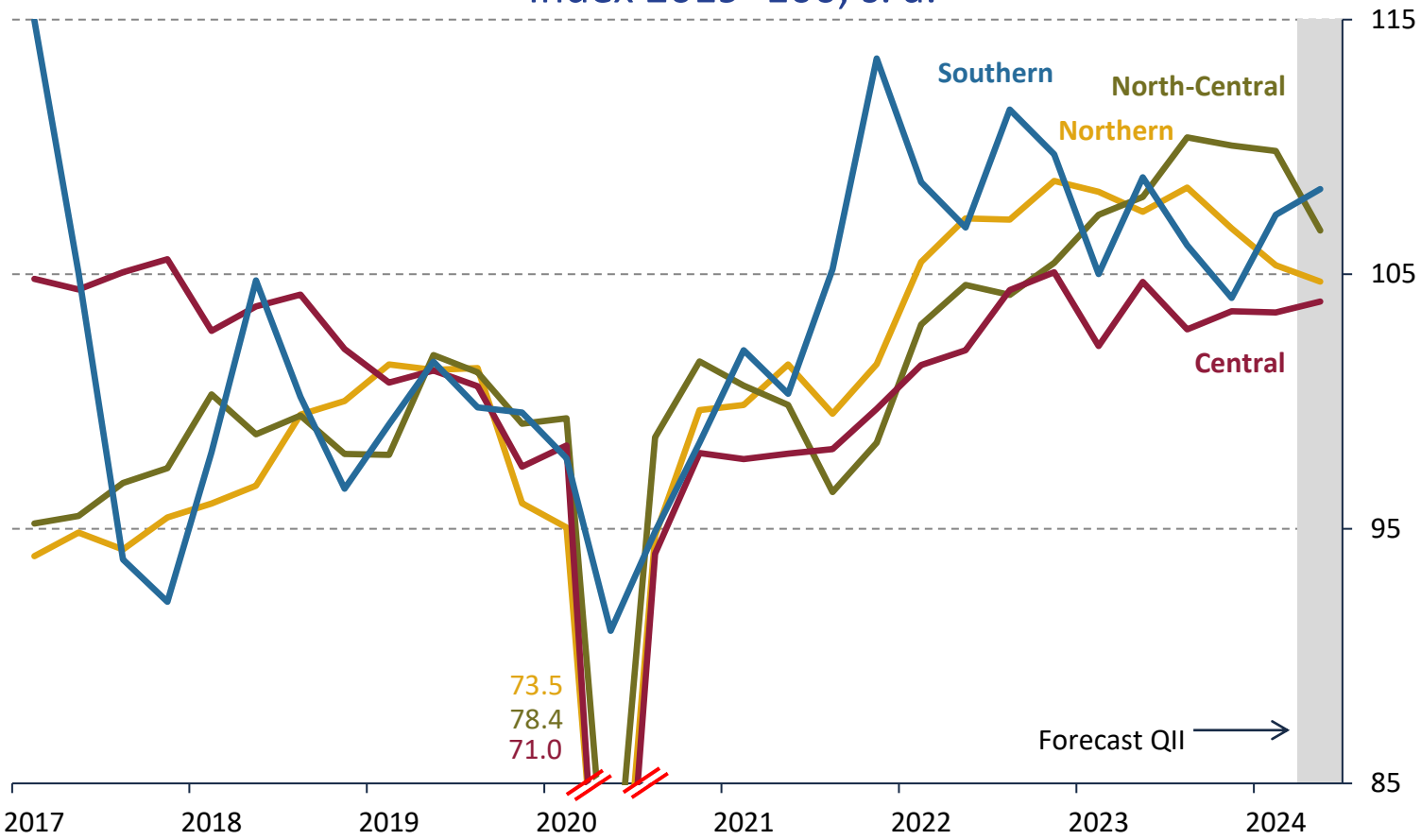


s. a. / Seasonally adjusted data.
Note: The range of the chart was reduced to facilitate its reading. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Estimated by Banco de México with seasonally adjusted series of the Quarterly Indicator of State Economic Activity by INEGI.

Manufacturing continued contracting in the Northern and North-Central regions in Q2-2024, while in the Central and Southern regions it expanded. In all of them, economic activity was below the level observed in Q2-2023.

Regional Manufacturing Indicator

Index 2019=100, s. a.

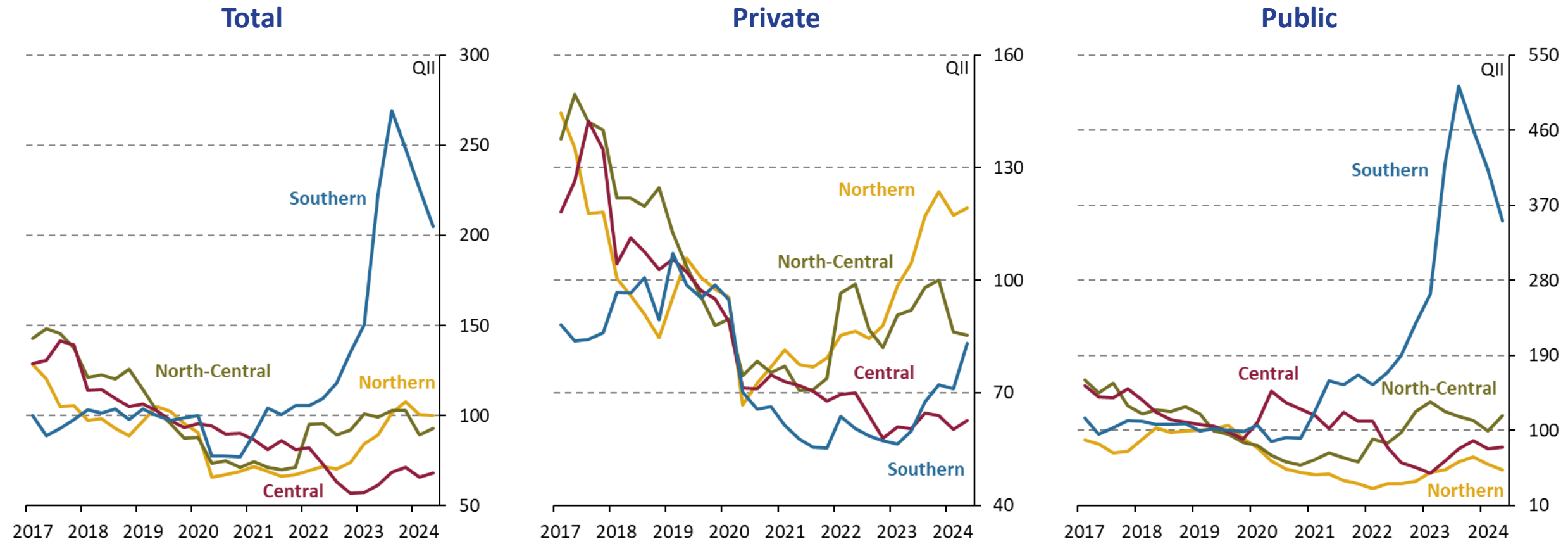


s. a. / Seasonally adjusted data.
Note: The range of the chart was reduced to facilitate its reading. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Estimated by Banco de México with seasonally adjusted series of the Monthly Indicator of Manufacturing Activity by state from INEGI.

During Q2-2024, construction spending continued contracting in the Northern and Southern regions as a result of a fall in its public component, while its private component expanded. In contrast, economic activity in the North-Central and Central regions increased due to an expansion of public construction, and of private construction in the Central one.

Real value of production in the construction industry by region

Index 2019=100, s. a.



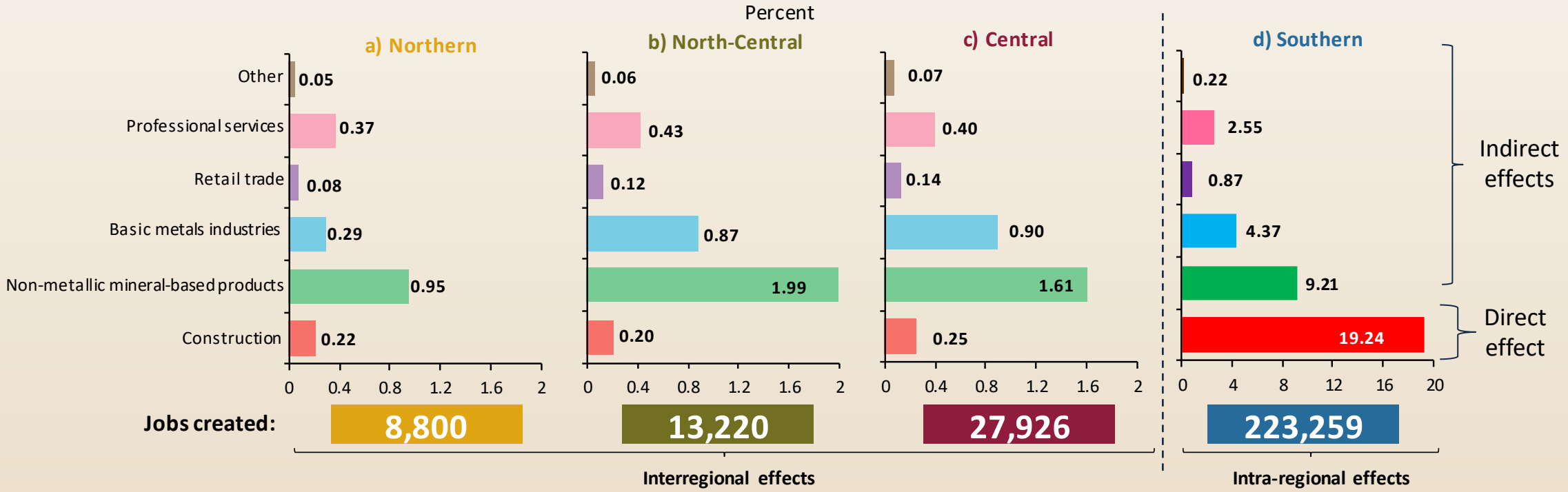
s. a. / Seasonally adjusted data.

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

Effects of higher public construction investment in Southern Mexico on regional employment

- The 2018 Multi-State Input-Output Matrix is used to estimate regional and sectoral employment impacts of higher public construction investment in the Southern region during 2021-2023. Estimates suggest that this increase would not only have benefited employment in the South, but also in other regions, due to the indirect effects on industries that supply inputs and services to the construction sector.

Estimated employment growth by sector and region during 2021-2023 vs. 2018

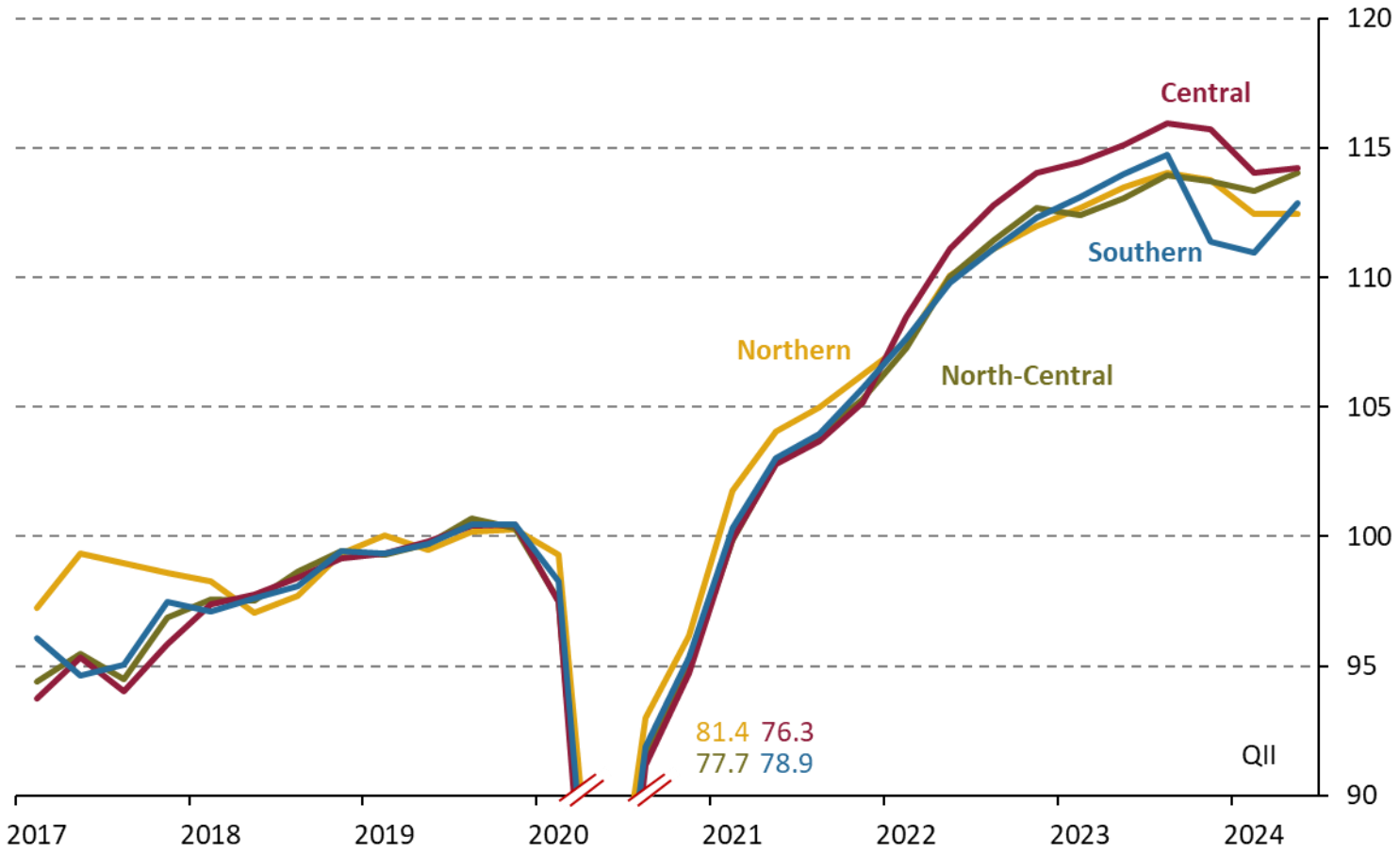


Note: In the Northern, North-Central and Central regions, the interregional effects correspond to the totals since in these regions there were no changes in their final demand. The horizontal axis of the Southern region is scaled differently from the rest of the regions.
Source: Prepared by Banco de México with data from the 2018 Multi-State Input-Output Matrix and INEGI's National Occupation and Employment Survey (ENOE, for its acronym in Spanish).

During Q2-2024, commercial activity stagnated in the Northern and Central regions, while in the North-Central and Southern regions it somewhat reactivated.

Regional Commercial Activity Indicator

Index 2019=100, s. a.

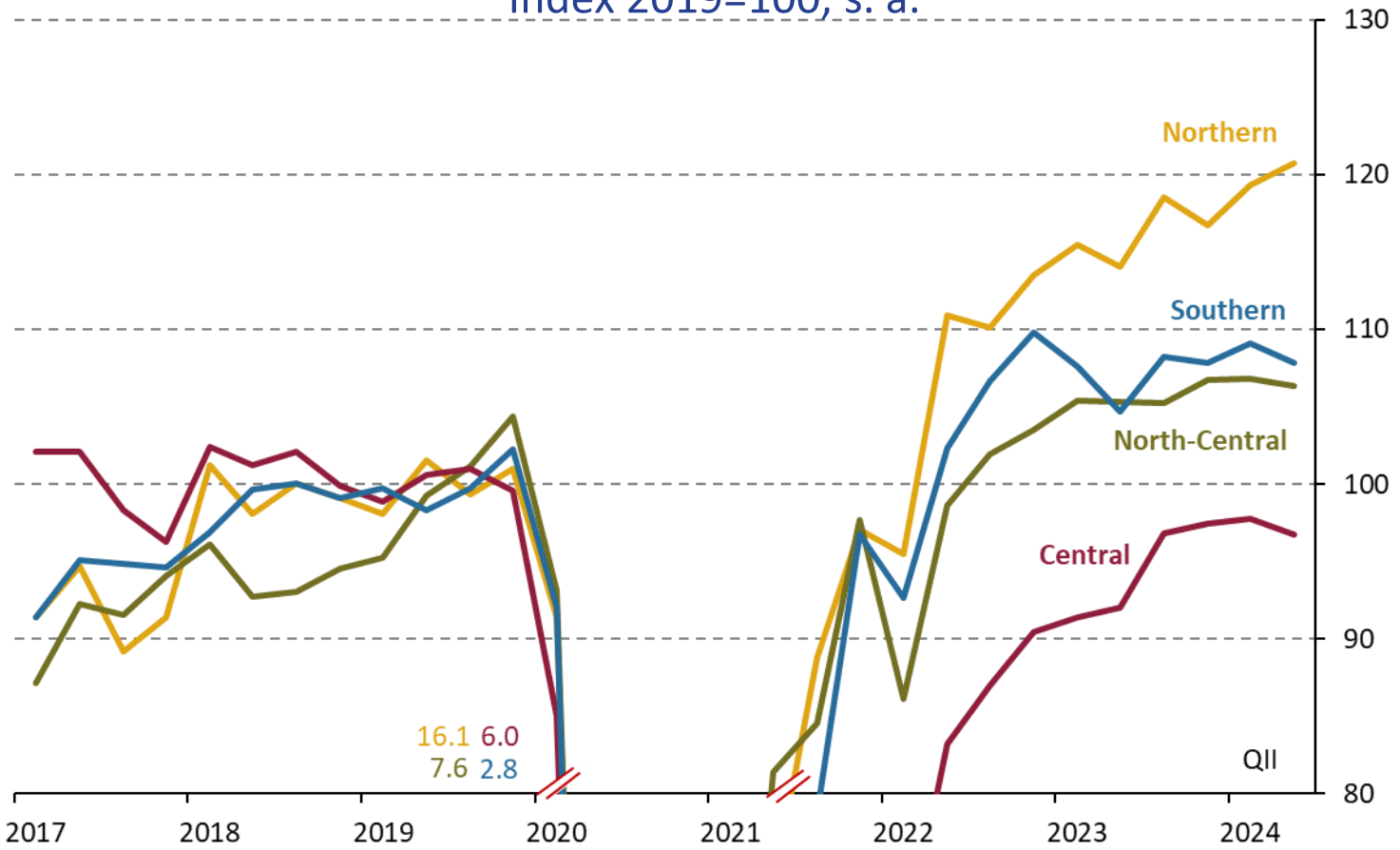


s. a. / Seasonally adjusted data.
Note: The range of the chart was reduced to facilitate its reading. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Prepared and seasonally adjusted by Banco de México with the series of Revenues of Retailers' Supply of Goods and Services by state from INEGI.

Tourism activity, measured by indicators of hotel occupancy, remained sluggish in all regions in Q2-2024, except in the Northern region, where it continued expanding.

Regional Indicator of Hotel Occupancy

Index 2019=100, s. a.

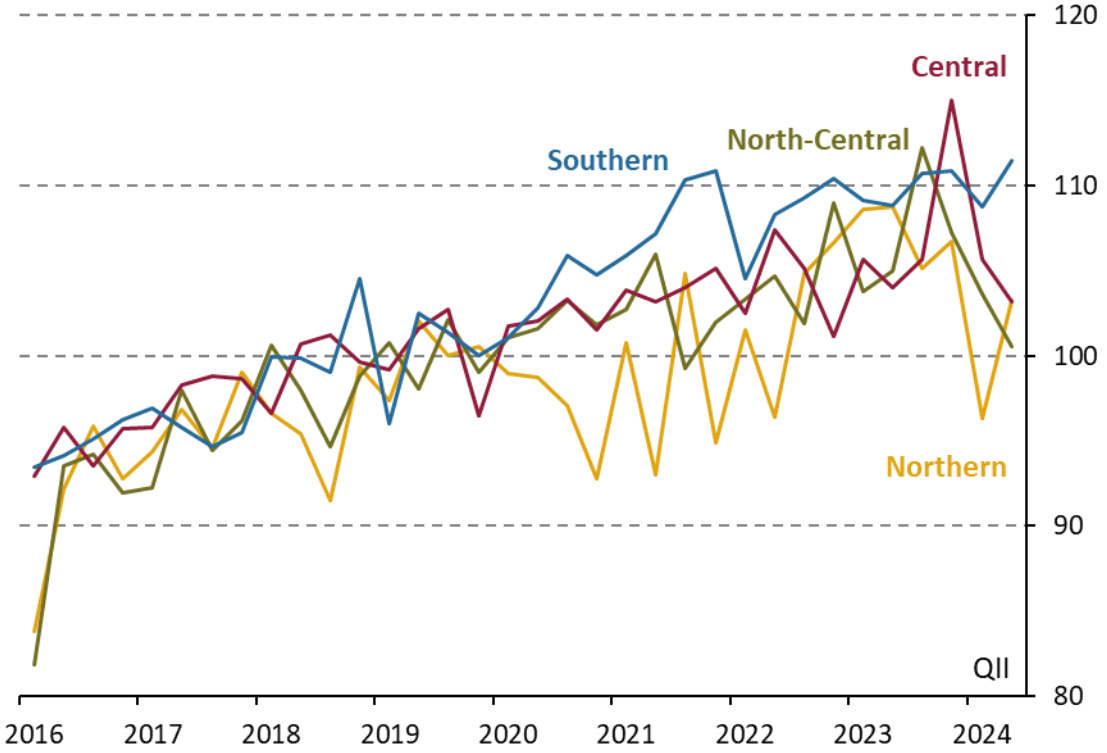


s. a. / Seasonally adjusted data.
Note: The range of the chart was reduced to facilitate its reading. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Prepared and seasonally adjusted by Banco de México with data from the Mexican Ministry of Tourism.

In Q2-2024, agricultural activity expanded in the Northern and Southern regions, while in the North-Central and Central regions it continued contracting. Since June, the drought exposure indicator has trended downwards, reaching in August its lowest level since February 2023.

Index of Regional Agricultural Production

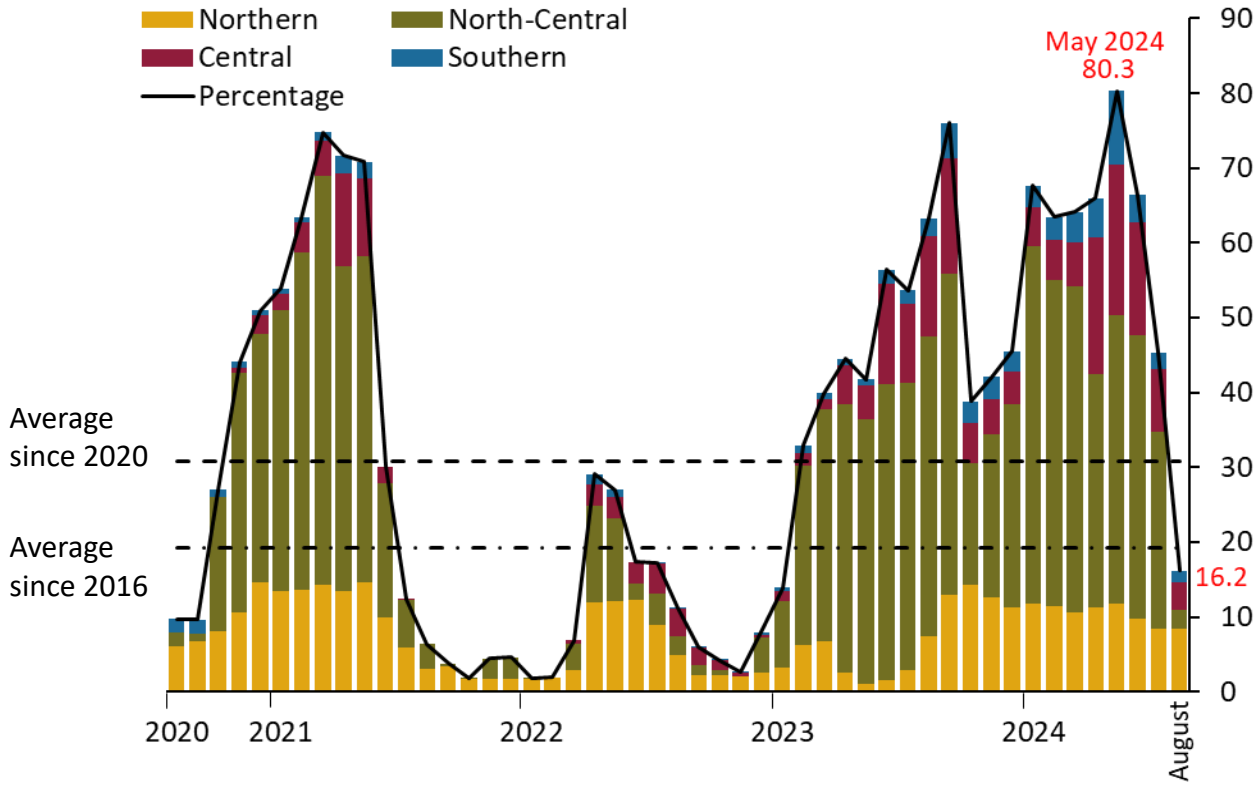
Index 2019=100, s. a.



s. a. / Seasonally adjusted data.
Note: Unlike the GDP estimate, 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 and seasonally adjusted 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



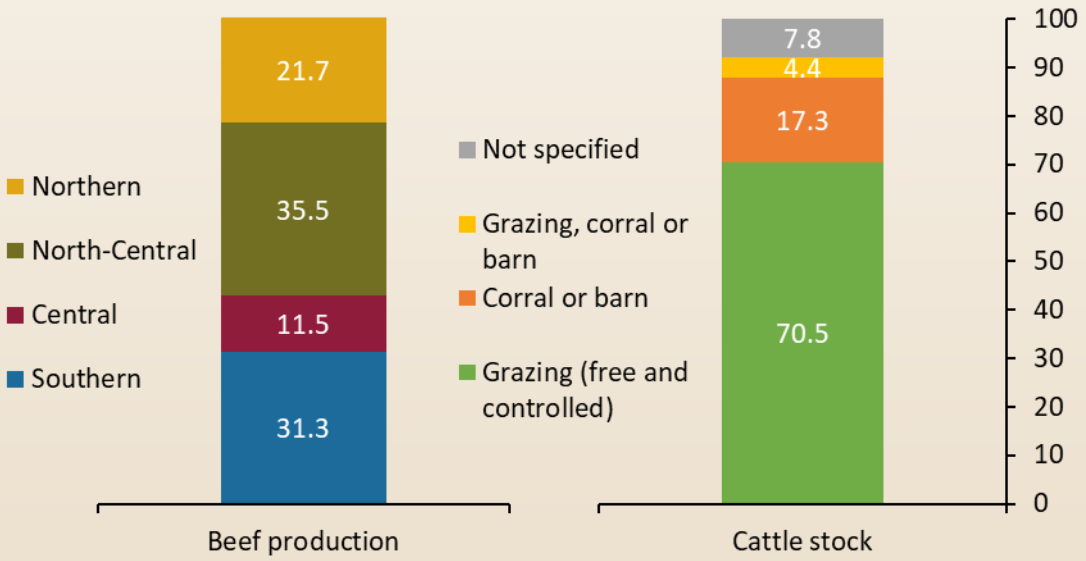
Note: The percentage shown in this chart is the weighted sum of the drought exposure index of 16 agricultural products, with each product weighted according to its share in the total production of the goods considered.
Source: Prepared by Banco de México based on data from SIAP (*Servicio de Información Agroalimentaria y Pesquera*) and CONAGUA (*Comisión Nacional del Agua*).

The effect of drought on beef production and prices

- An econometric model is used to estimate the effect of drought exposure on beef production and on the price paid to beef producers. The results suggest that drought exposure causes a transitory decrease in the average cattle weight at the time of slaughter and a delayed transitory increase in the average price per kilogram of beef paid to producers, although both effects are relatively limited.

Beef production and cattle stock

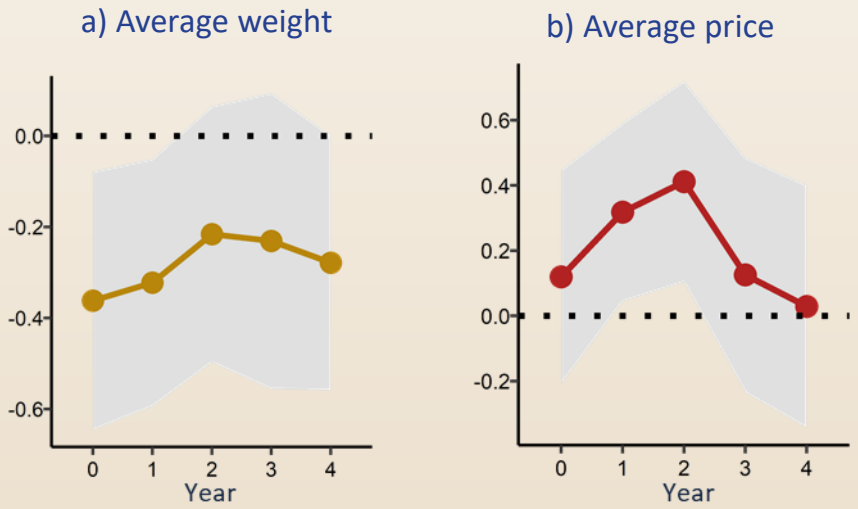
Percentage of the national total



Note: Panel a) shows the average annual share of each region in national beef production. In panel b), the production system was not identified in 7.8% of the cattle stock.
Source: Prepared by Banco de México with information from the 2022 Census of agriculture, livestock and forestry.

Estimated effect of a one-month increase in drought exposure on beef weight and prices

Percent

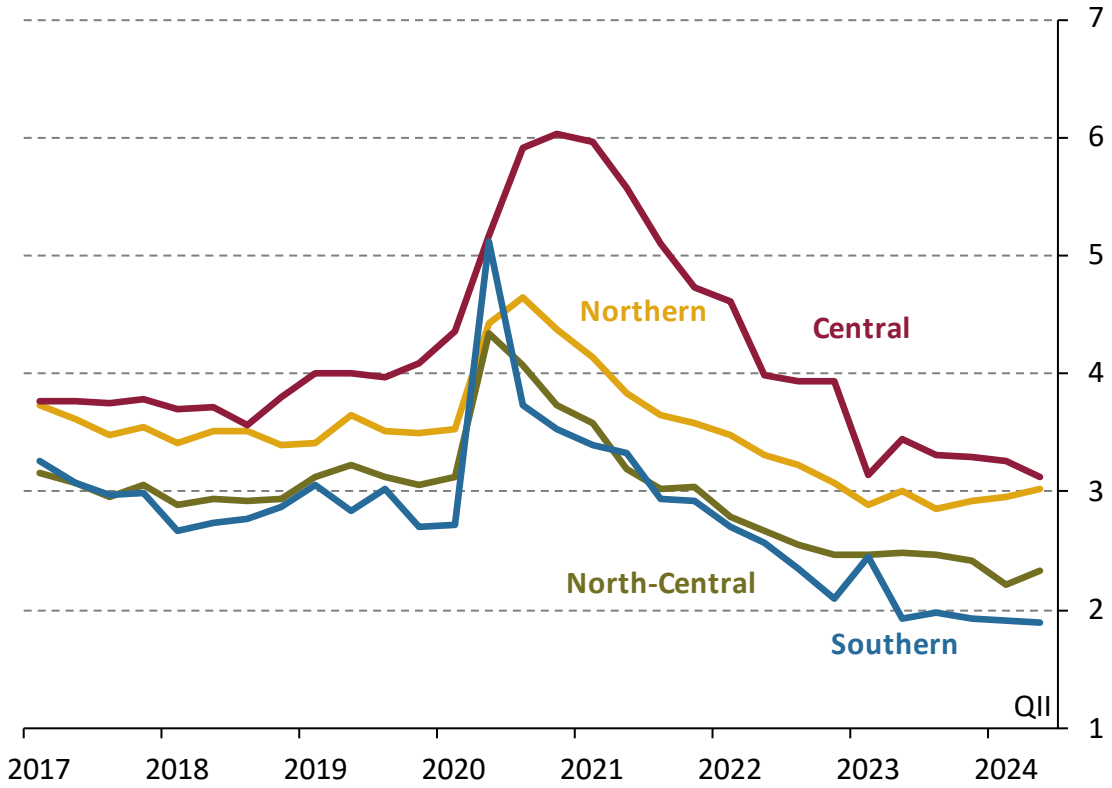


Note: Shaded areas identify confidence intervals with a 95.0% confidence level.
Source: Prepared by Banco de México based on the results of the estimated model.

The labor market remained strong during Q2-2024, albeit with some signs of moderation.

Unemployment rate

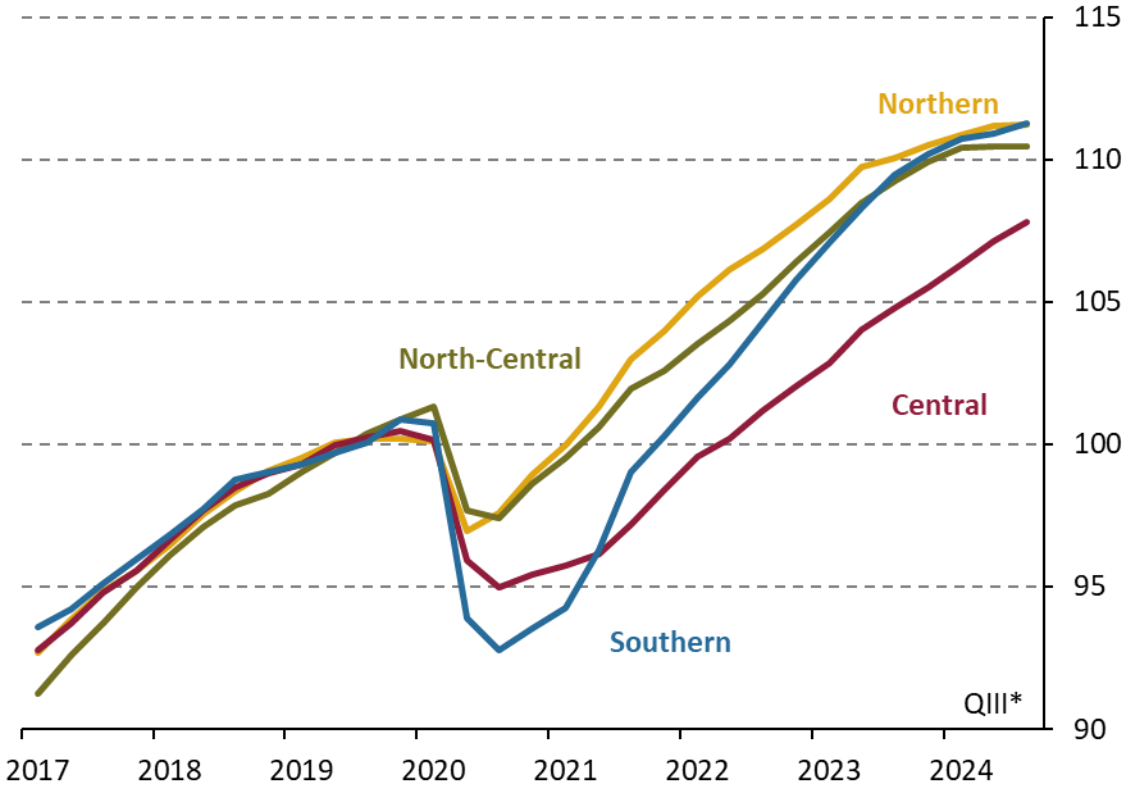
Percent, s. a.



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

Number of IMSS-insured workers

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



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

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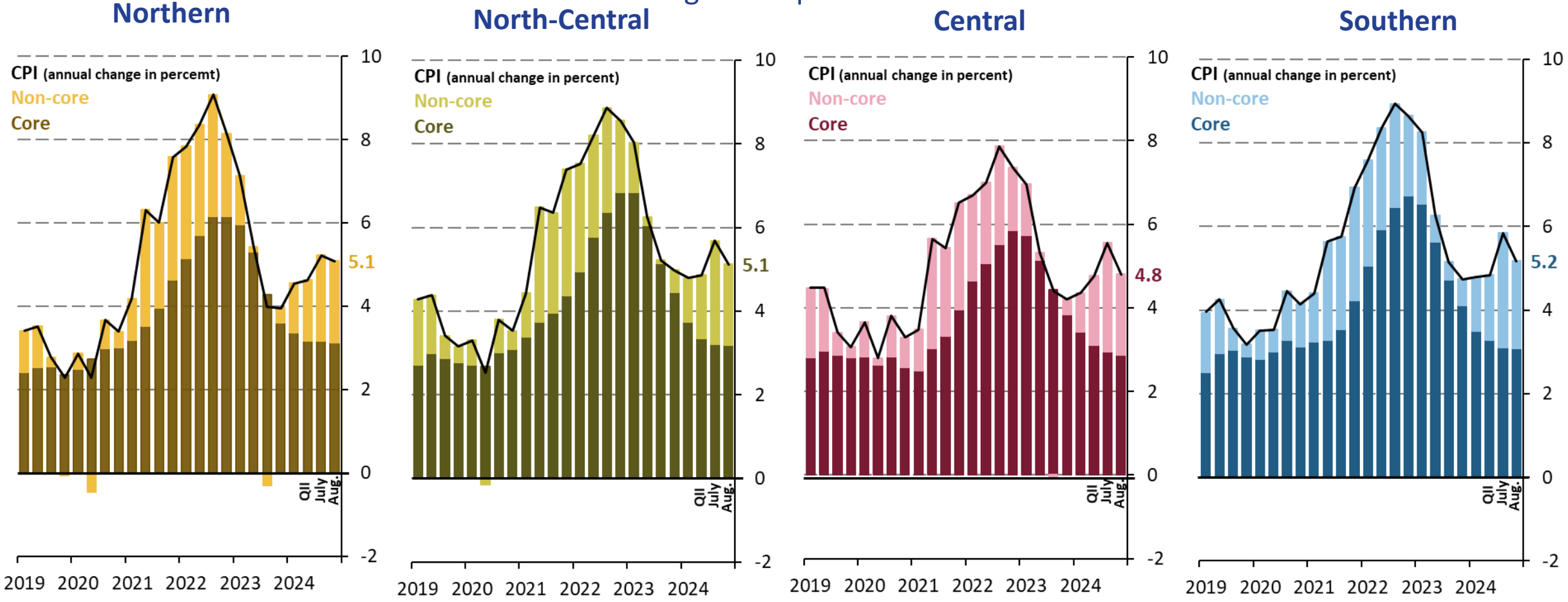
(based on data collected between July 1 and 25, 2024)

III. Final remarks

The upward trend of headline inflation in all regions during Q2-2024 was entirely the result of an increase in non-core inflation. In August, headline inflation declined due to the moderation of non-core inflation, while core inflation continued decreasing.

Incidence on annual headline inflation by region

Figures in percent



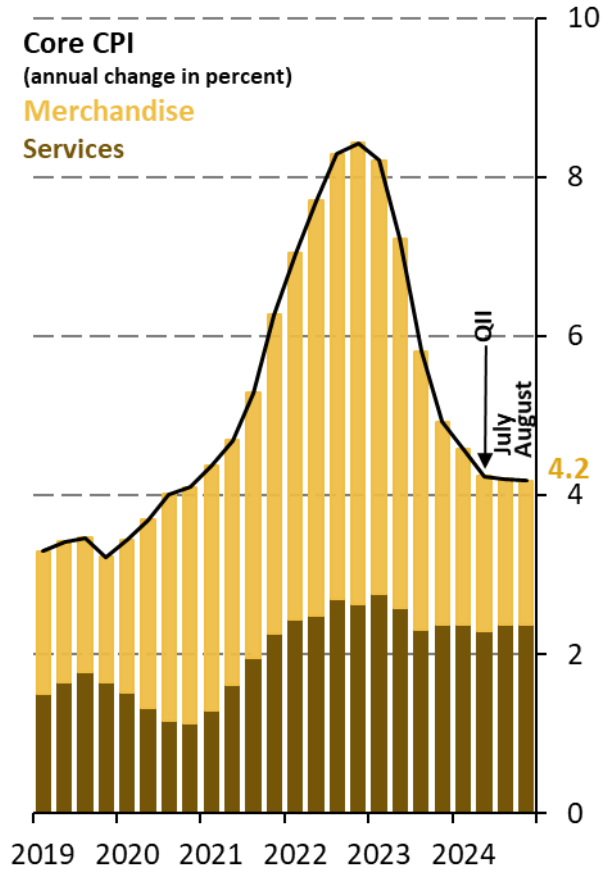
Source: Prepared by Banco de México with data from INEGI.

Core inflation continued to be influenced by the decline in annual merchandise inflation in all regions in Q2-2024 and Q3-2024 so far. Annual services inflation remained at high levels in all regional economies.

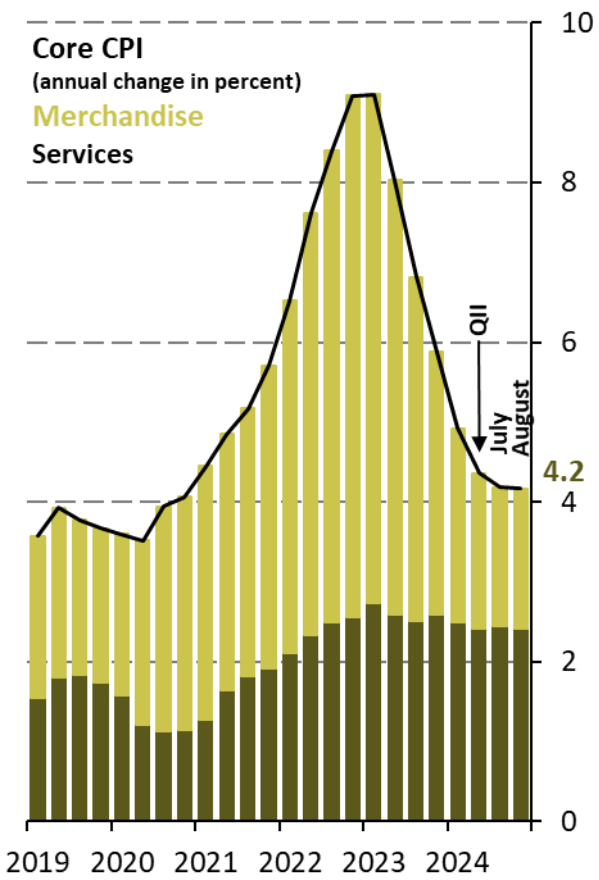
Incidence on annual core inflation by region

Figures in percent

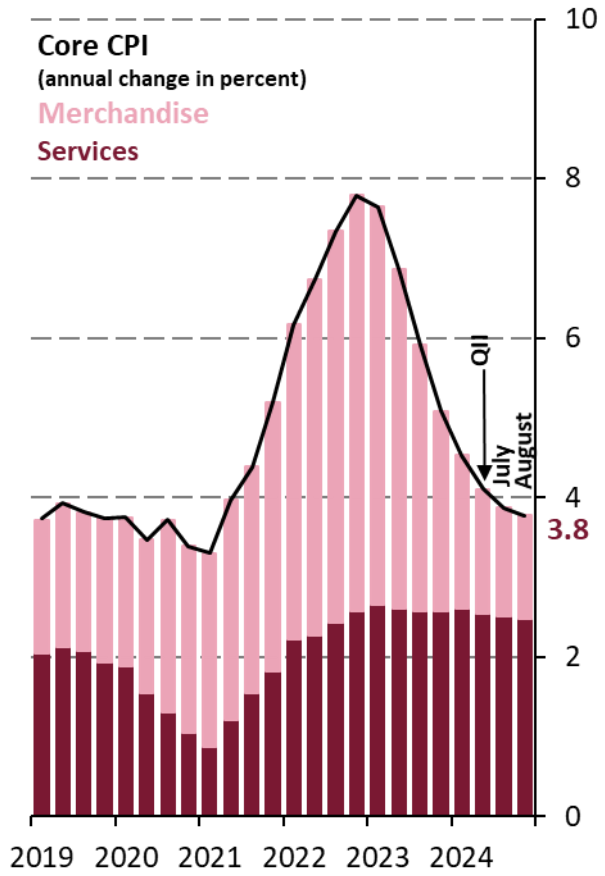
Northern



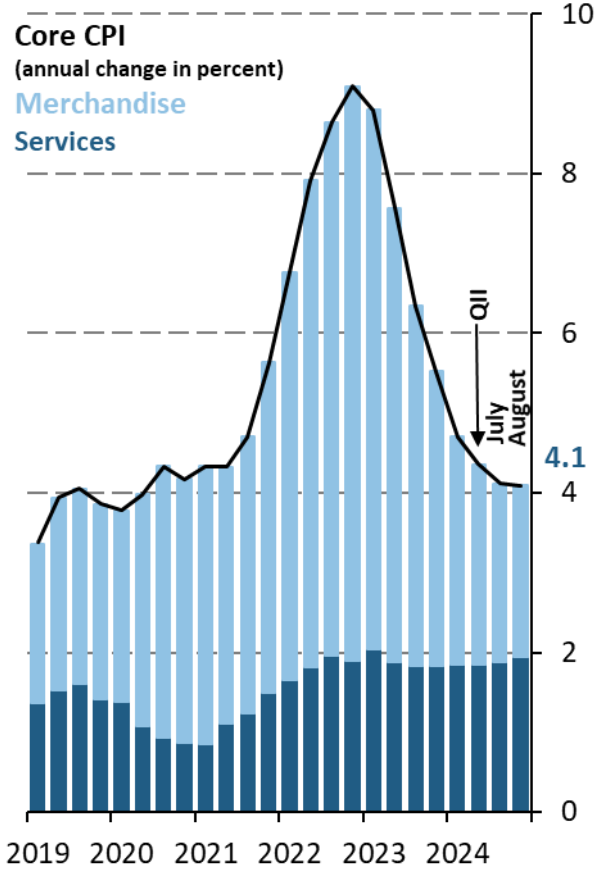
North-Central



Central



Southern

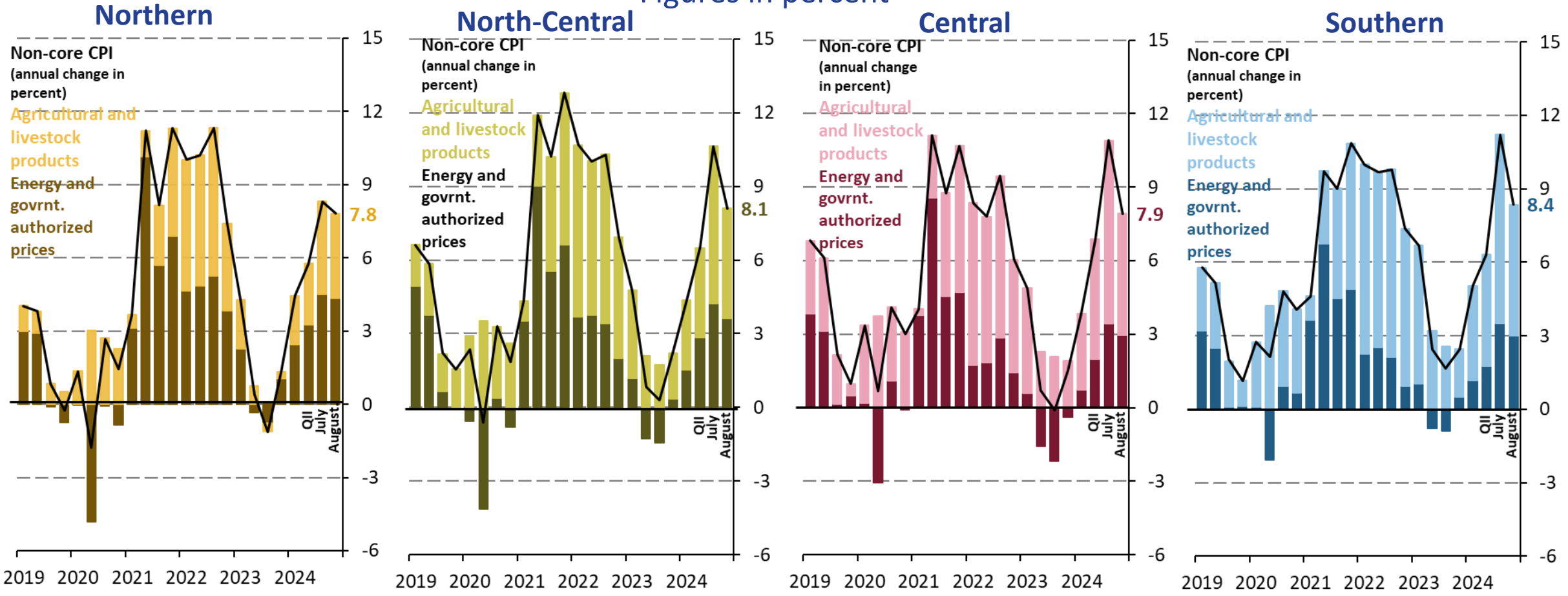


Source: Prepared by Banco de México with INEGI data.

The upward behavior of non-core inflation in all regions in Q2-2024 derived from the atypical pressures that energy and agricultural and livestock product prices experienced simultaneously. In view of a certain reversal of these pressures, non-core inflation decreased in all regions in August.

Incidence on annual non-core inflation by region

Figures in percent

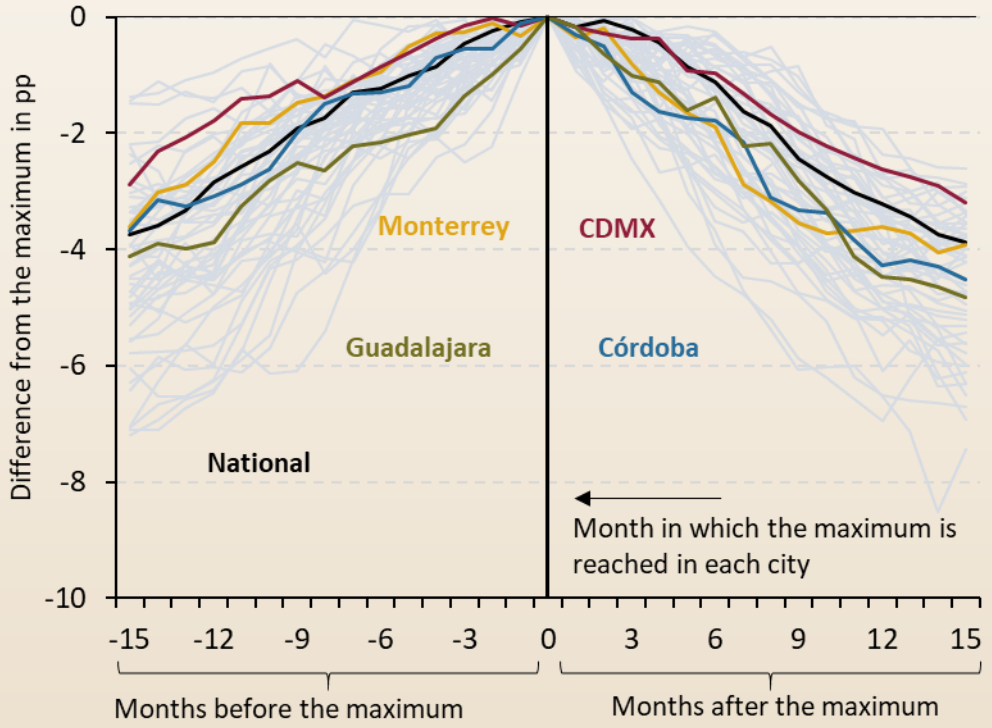


Source: Prepared by Banco de México with INEGI data.

Progress of disinflation in cities where CPI prices are measured

Difference in annual core inflation compared to the maximum reached after February 2020 by city

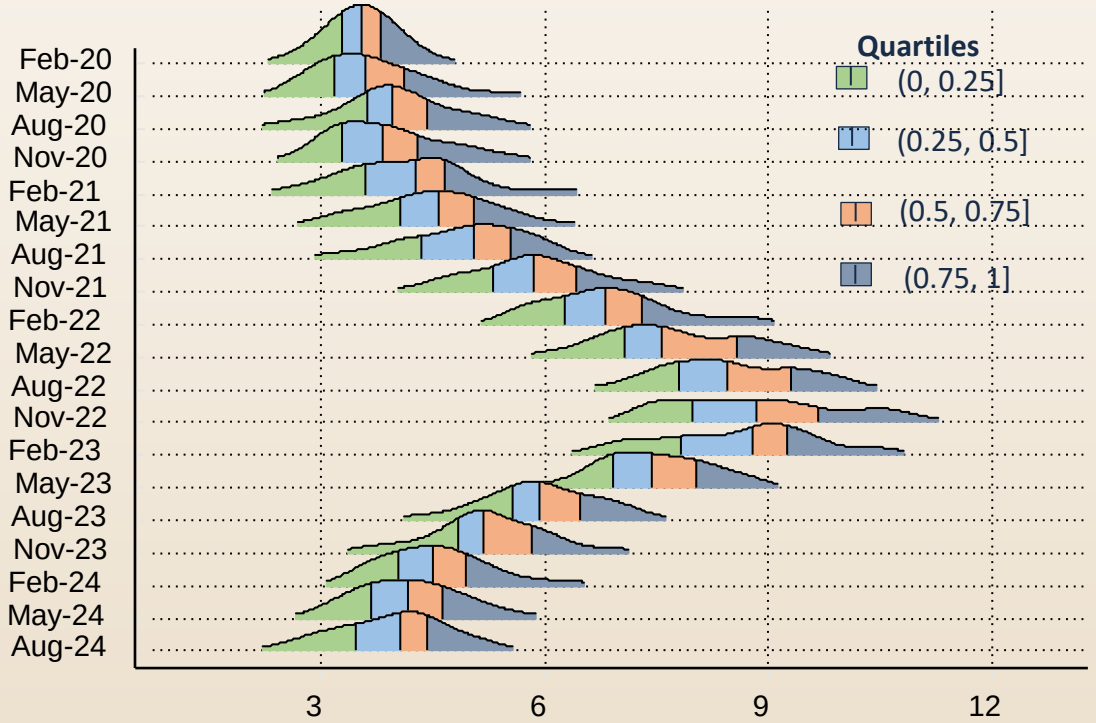
Percentage points



Note: The zero period refers to the month when the peak of annual core inflation is observed for each city and for the national one after February 2020.
Source: Prepared by Banco de México with data from INEGI.

Density functions of annual core inflation in cities

Figures in percent



Note: The unweighted density functions are estimated using annual core inflation of the 55 cities included in the CPI.
Source: Prepared by Banco de México with data from INEGI.

Market concentration in supercenter stores and its association with food and beverage prices and inflation in Mexico

- An econometric panel model is estimated to analyze the relationship between market concentration in supercenter stores and the price levels and inflation of processed foods and beverages sold by these retail chains in Mexican cities for the period 2015 to 2023.

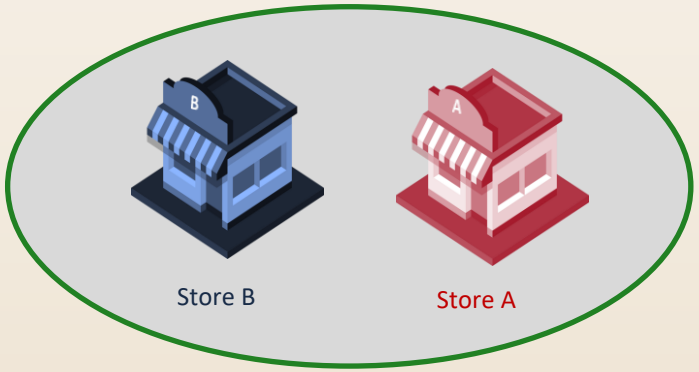
Basket of goods

A basket of 23 CPI items was constructed, including these products:



CPI items can include different presentations and brands

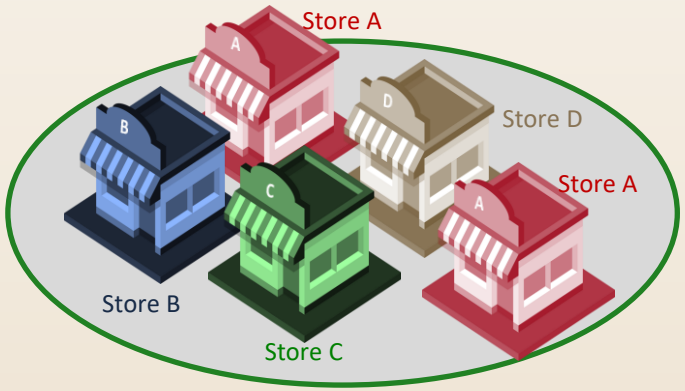
City with high market concentration (few competing stores)



Price of the basket in cities with high market concentration

Higher than*

City with moderate market concentration (more competing stores)



Price of the basket in cities with moderate market concentration

Market concentration does not necessarily affect inflation.*

*/ Based on the estimated econometric model.

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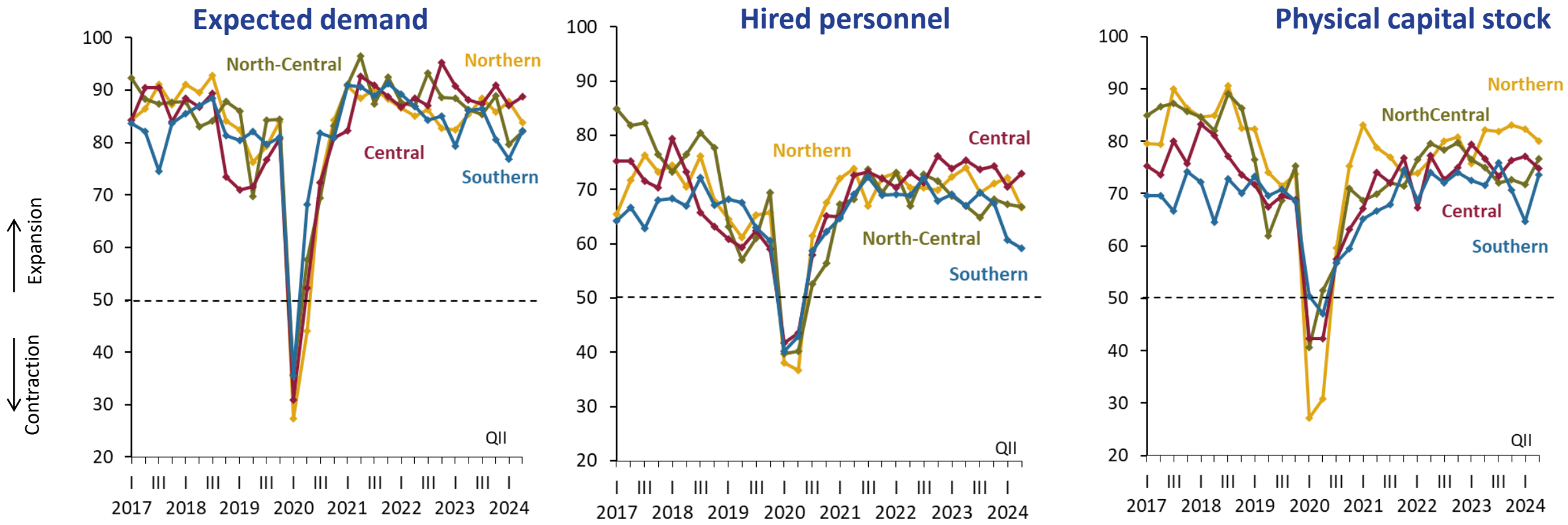
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III. Final remarks

The diffusion indices corresponding to expectations on demand, the personnel and investment in fixed assets of businesses for the next twelve months remained in the expansion zone in all regions during Q2-2024.

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

Diffusion indices

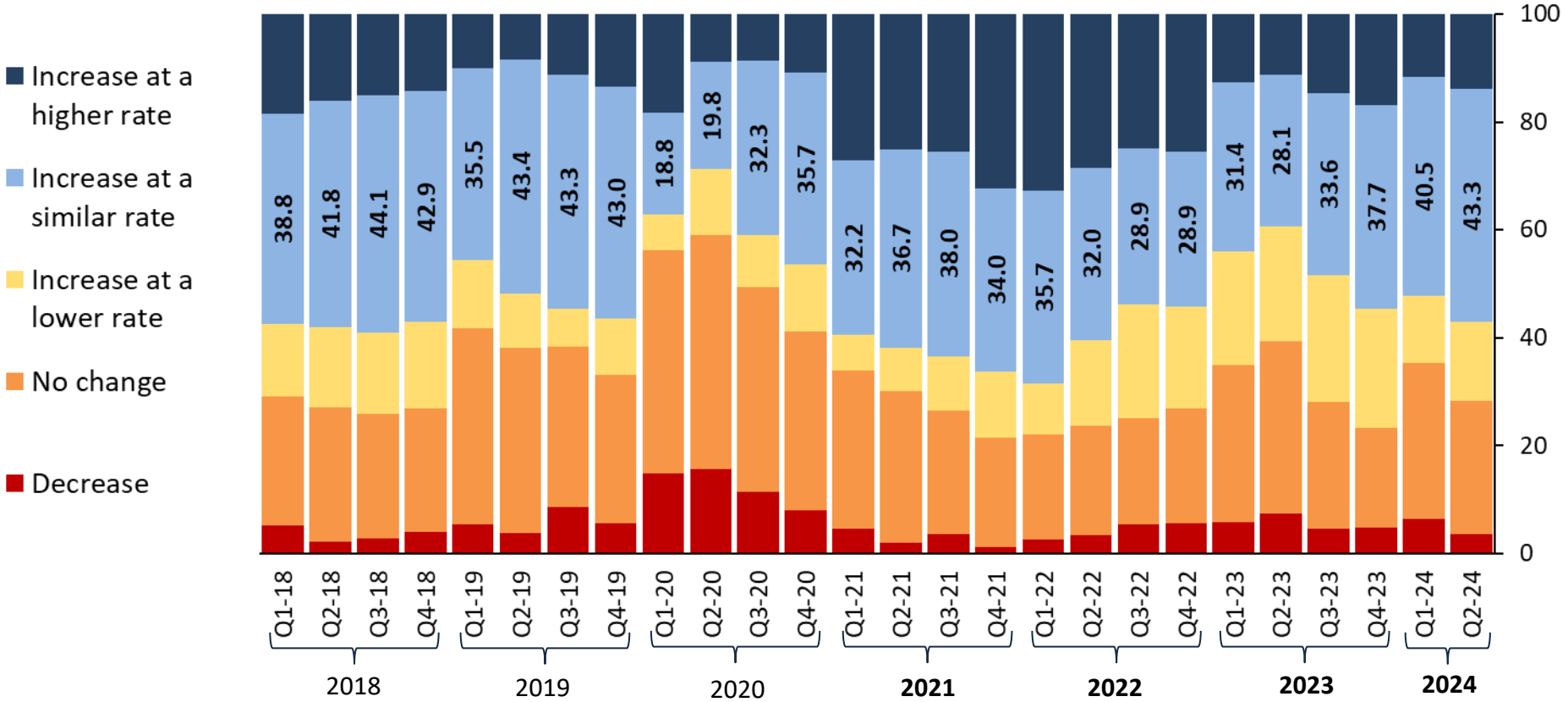


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you expect your sales volume to change over the next 12 months, how do you expect the total number of workers in your company to change over the next 12 months?" and "With respect to the investment in fixed assets 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 Q2-2024, they were obtained between July 1 and July 25, 2024.

In Q2-2024, the highest percentage of responses from interviewed business agents was assigned to the selling prices of goods and services they offer increasing at a similar rate in the next twelve months compared to the previous twelve months. This percentage also continued increasing.

Business agents' expectations: annual variation of sales prices, next 12 months[1/]

Percentage of responses

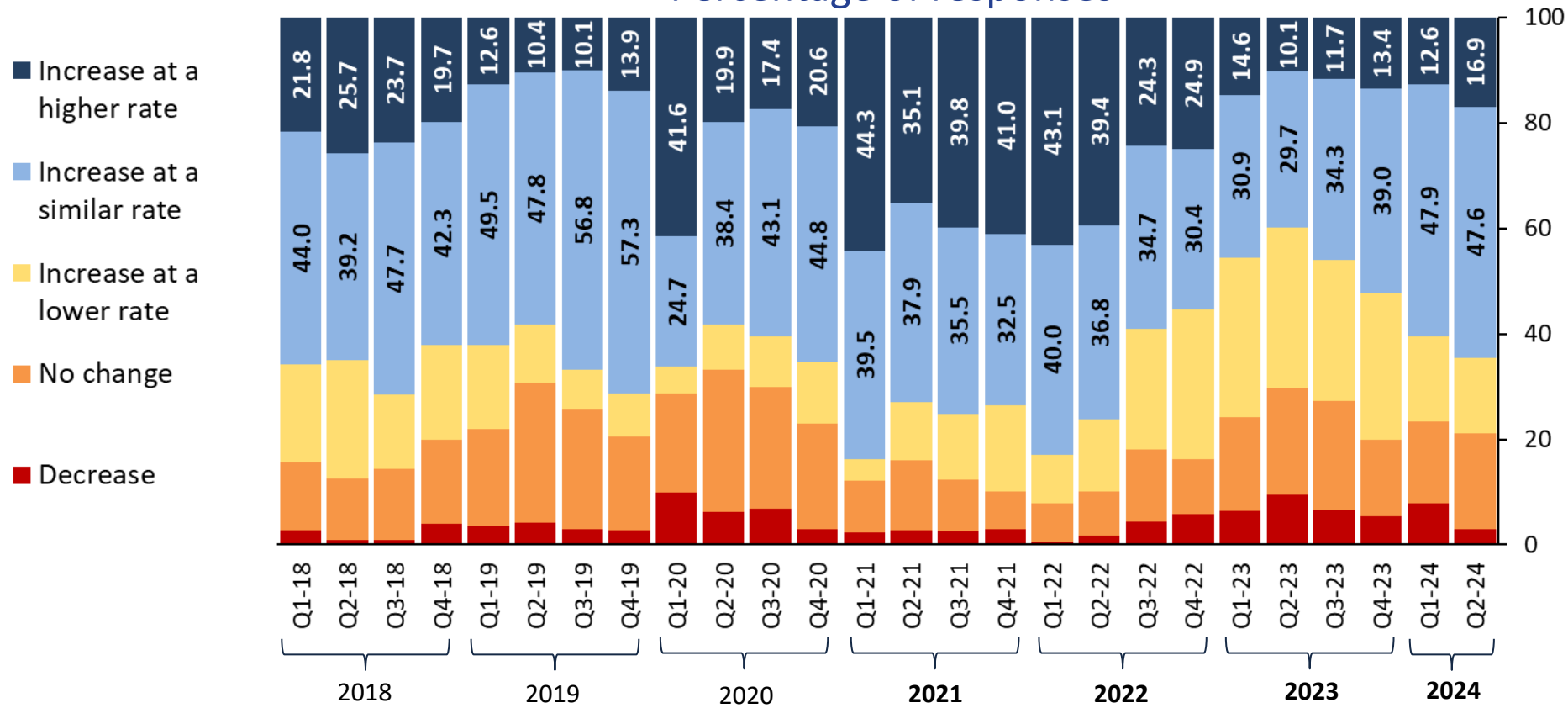


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you anticipate sales prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q2-2024, they were obtained between July 1 and July 25, 2024.

The percentage of business agents who anticipate input prices to increase at a similar or higher rate in the next twelve months relative to the previous twelve months increased in Q2-2024.

Business agents' expectations: annual variation of input prices, next 12 months[1/]

Percentage of responses

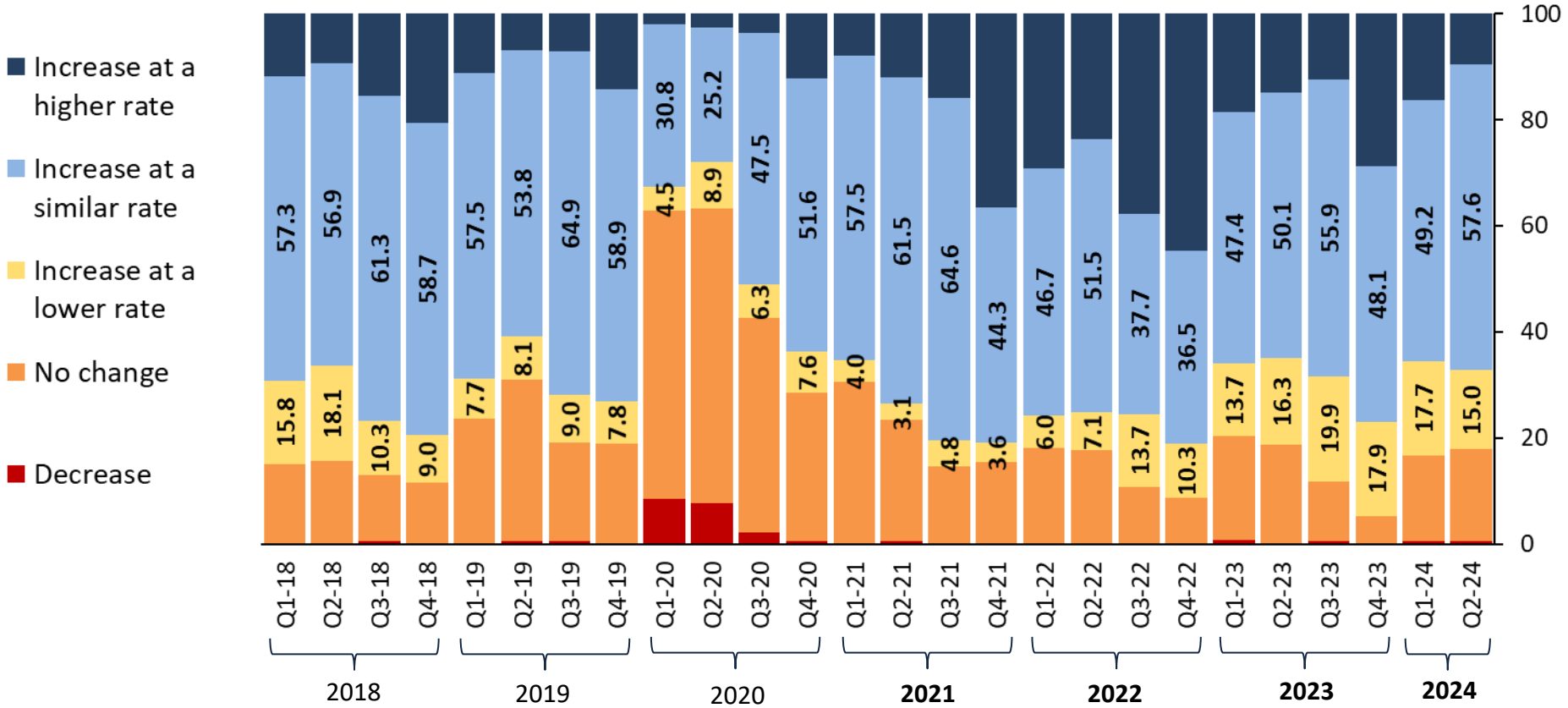


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you anticipate input prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q2-2024, they were obtained between July 1 and July 25, 2024.

In Q2-2024, most of interviewed business contacts continued anticipating an increase in wage costs at a similar or lower rate in the next twelve months compared to the previous twelve months.

Business agents' expectations: annual variation of wage costs, next 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 Q2-2024, they were obtained between July 1 and July 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 June 1 and 28, 2024[1/]

Northern		North-Central		Central		Southern	
Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses
Inflation	**27.5%**	Inflation	**29.6%**	Governance	**28.9%**	Inflation	**30.8%**
Governance	**21.2%**	Governance	**26.8%**	Inflation	**25.2%**	Governance	**29.0%**
External conditions	**19.2%**	Domestic economic conditions	**15.9%**	Domestic economic conditions	**18.6%**	Domestic economic conditions	**16.8%**

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 June 2024 were obtained based on information collected between June 1 and 28, 2024.

Source: Banco de México.

Business agents' opinion on risks to regional economic activity (based on data collected between July 1 and 25, 2024)[1/]

Downward risks

- That public safety indicators deteriorate.
- That inflation and interest rates persist at high levels.
- That adverse weather events materialize for regional economic activity.

Upward risks

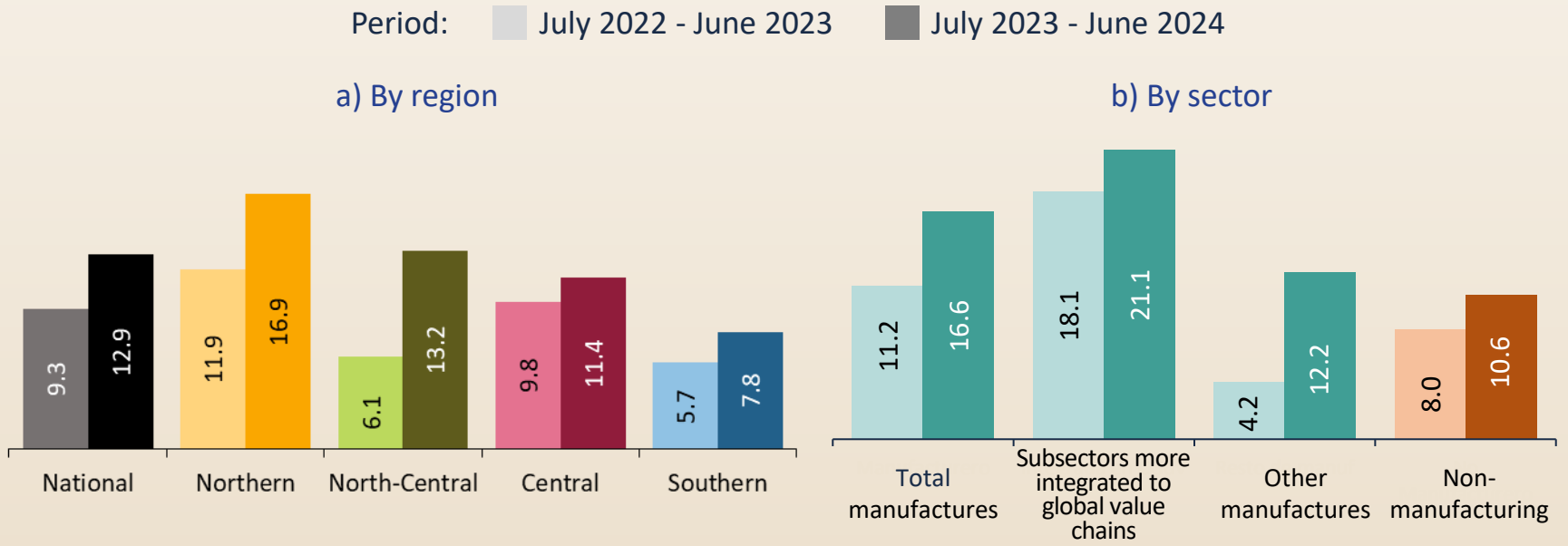
- That public spending, particularly investment in infrastructure works, is higher than expected.
- That more favorable conditions are observed, both domestically and internationally, thus promoting higher levels of private investment.

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 July 1 and 25, 2024.

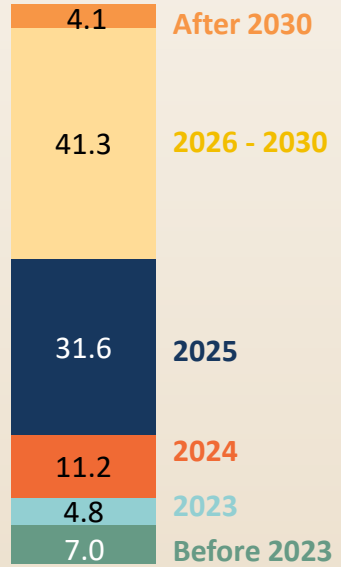
Monitoring business perception of the impact and prospects of nearshoring in Mexico

- Nearshoring continues affecting businesses in Mexico positively. Business opinion still anticipates that this process will yield greater benefits in the coming years, and that in order to leverage this growth opportunity it is important to promote a favorable investment environment.

Firms that reported increases in production, sales or investment as a result of nearshoring in different periods
Percentage of firms with more than 100 employees



Period in which the greatest benefit of nearshoring is expected to be observed
Percentage of firms that have observed or expect to see benefits



Source: Prepared by Banco de México with data from the Monthly Survey of Regional Economic Activity, which is representative of establishments with more than 100 employees in the manufacturing and non-manufacturing sectors at the national and regional levels. The results for groups with greater disaggregation are presented for illustrative purposes, although they are not statistically representative. The manufacturing sector integrated in global value chains groups NAICS subsectors whose share of global manufacturing export value added in total production in 2019 was greater than 10% according to INEGI, and includes the following subsectors: 315, 326, 331, 332, 333, 334, 335, 336, and 339.

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Final remarks

- Looking ahead, regional economies are anticipated to expand at a moderate pace. However, they could perform less favorably than expected, as they face a complex and uncertain environment that poses significant challenges to their growth.

- The analysis included in this Report contributes to understanding certain factors that could help **regional economies face these challenges and leverage the opportunities presented by the current juncture**, especially the global reconfiguration of production processes:

  - **Strengthen the rule of law and public security**. These measures would provide greater certainty and boost the flow of investment in all regions. In particular, they would help capitalize on the opportunities offered by nearshoring.

  - **Build infrastructure**. In addition to attracting investment, it would support job creation not only in the region where it is located, but also across other regions.

  - **Continue implementing climate change mitigation and adaptation policies**. This would limit the impact of adverse weather events on the most vulnerable areas and sectors, such as the livestock sector.

  - **Continue promoting economic competition.** Lower market concentration could be reflected in lower prices for the final consumer.

- 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

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September 2024

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