

Regional Economic Report
July – September 2024

BANCO DE MÉXICO®

Outline

I. Regional Economic Report

II. Results July – September 2024

A. Economic activity

B. Inflation

C. Economic outlook

(based on data collected between September 27 and October 24, 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 Q3-2024 and the prospects of business agents surveyed between September 27 and October 24, 2024 on regional economic activity and prices over the following twelve months are analyzed herein.

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I. Regional Economic Report

II. **Results July – September 2024**

   A. **Economic activity**

   B. Inflation

   C. Economic outlook

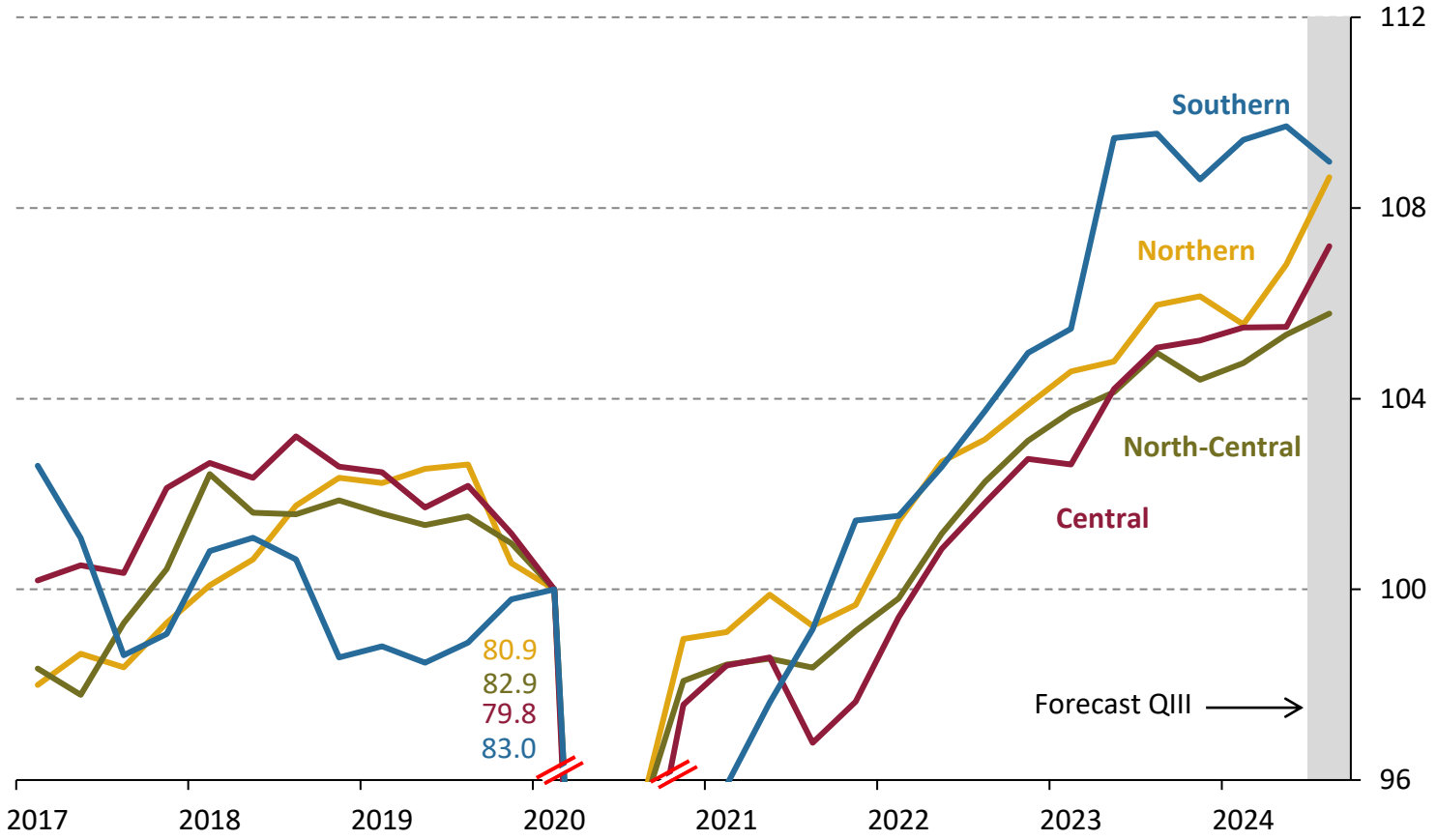
      (based on data collected between September 27 and October 24, 2024)

III. Final remarks

Economic activity is estimated to have grown in the north and the central regions during Q3-2024, while the Southern region is estimated to have weakened.

Quarterly Indicator of Regional Economic Activity

Index Q1 2020=100, s. a.

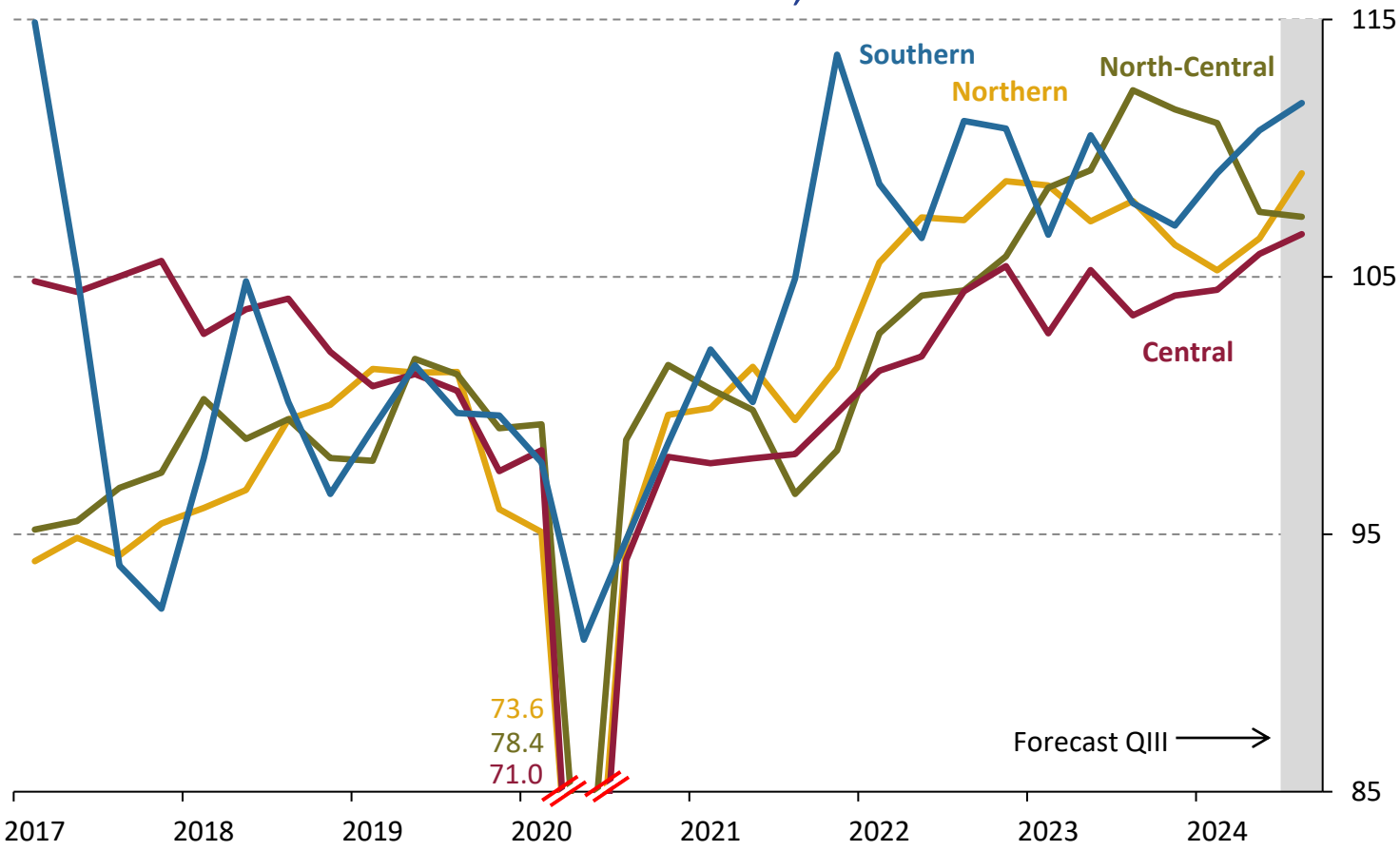


s. a. / Seasonally adjusted data.
Note: The range of the chart was shortened to facilitate its visualization. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Estimated by Banco de México with seasonally adjusted series of the Quarterly Indicator of State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

In Q3-2024, manufacturing production is expected to have continued growing in the north, center, and south. In contrast, it is estimated to have continued declining in the North-Central region, although at a more moderate pace.

Regional Manufacturing Indicator

Index 2019=100, s. a.

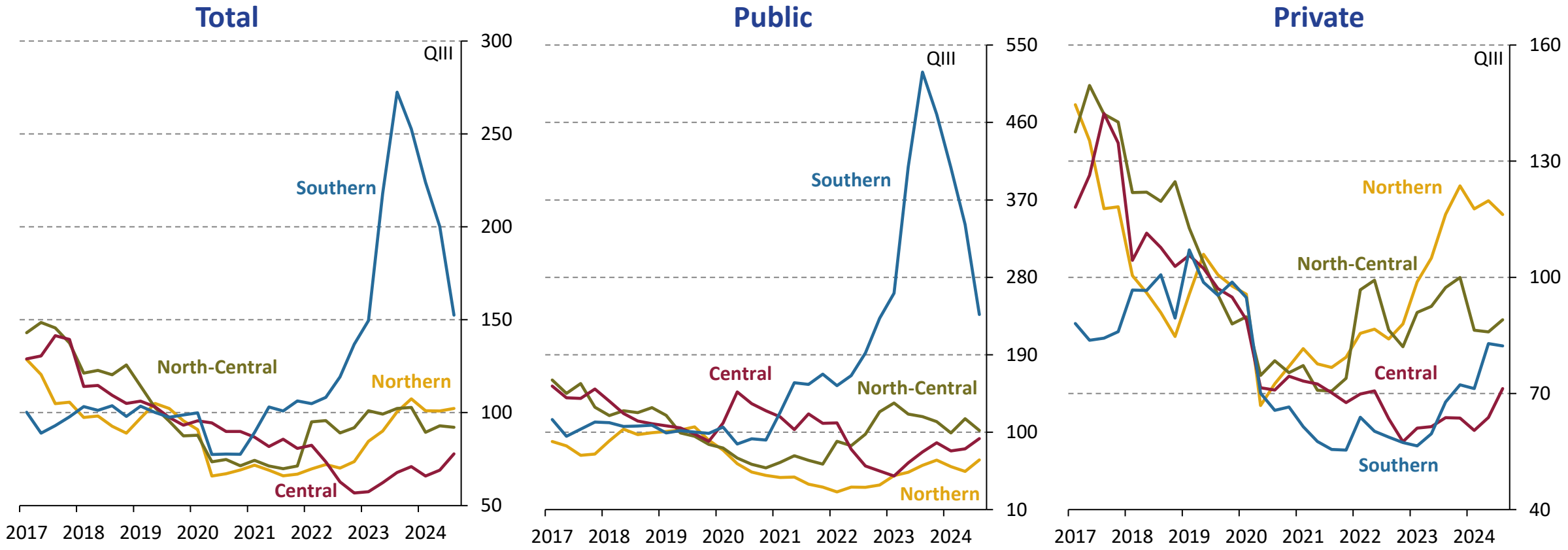


s. a. / Seasonally adjusted data.
Note: The range of the chart was shortened to facilitate its visualization. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Estimated by Banco de México with seasonally adjusted series of the Monthly Indicator of Manufacturing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

After registering particularly high levels, spending on construction in the south continued declining during Q3-2024. Meanwhile, starting from relatively lower levels, spending increased in the north and center, while it decreased in the North-Central region.

Real value of production in the construction industry

Index 2019=100, s. a.



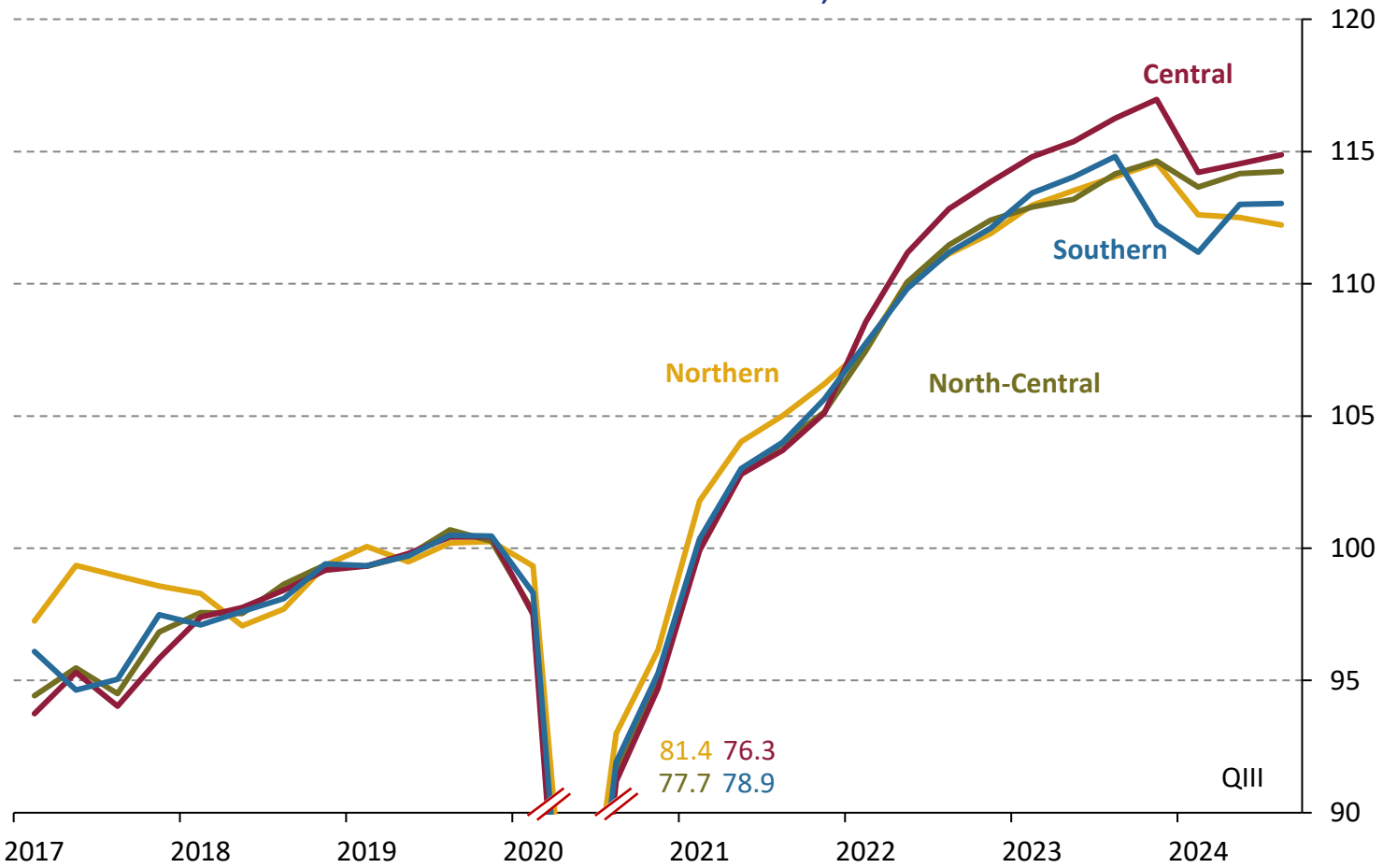
s. a. / Seasonally adjusted data.

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

In Q3-2024, commercial activity remained at levels similar to those of the previous quarter in the North-Central and Southern regions. In the north, it continued contracting at a moderate pace, while in the center, it kept expanding.

Regional Commercial Activity Indicator

Index 2019=100, s. a.

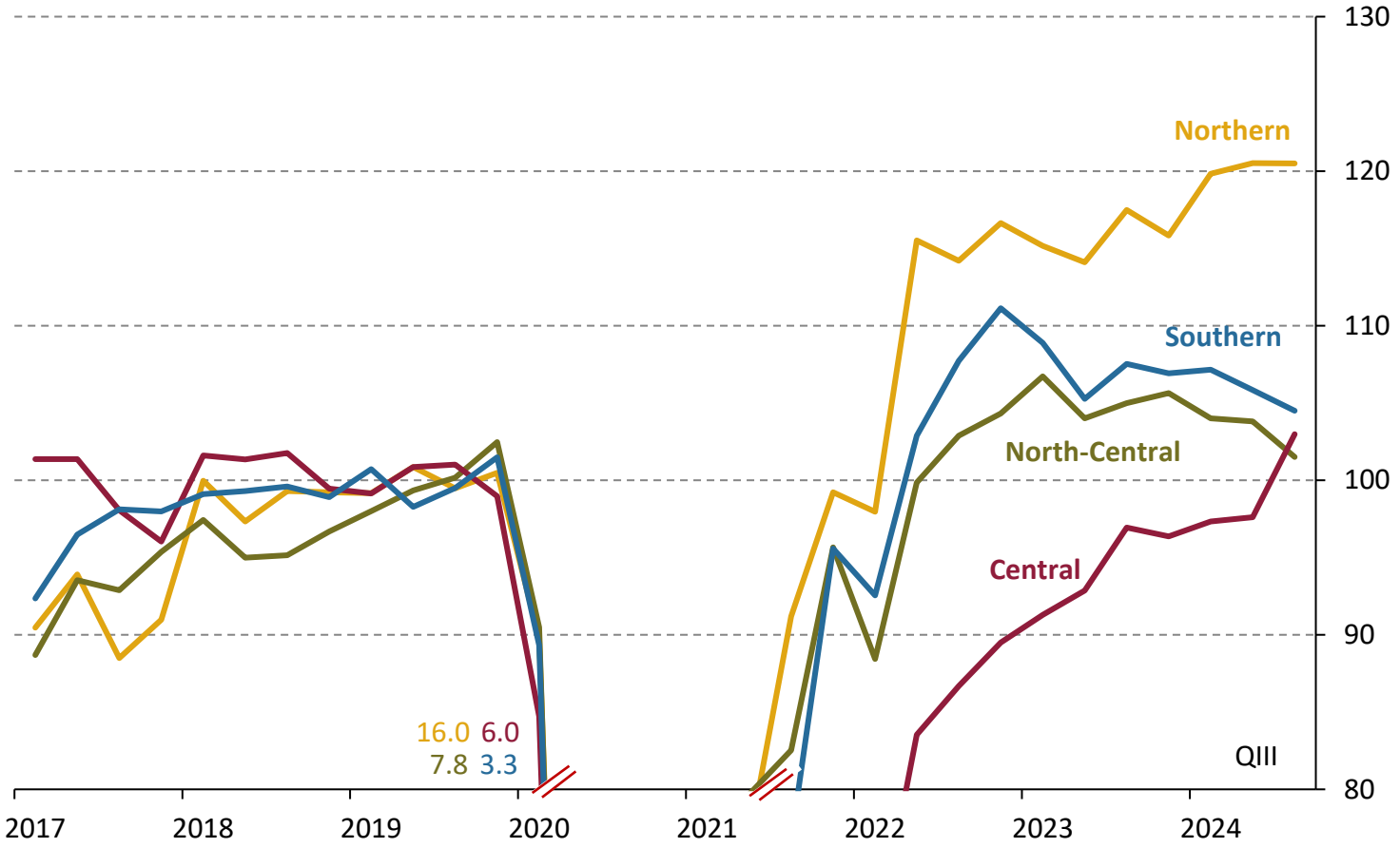


s. a. / Seasonally adjusted data.
Note: The range of the chart was shortened to facilitate its visualization. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Prepared and seasonally adjusted by Banco de México with the series of Revenues of Retailers' Supply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

In Q3-2024, tourism activity in the north remained higher than in other regions. The North-Central and Southern regions continued to show weakness, while the Central region grew at a faster pace, although starting from a lower base.

Regional Indicator of Hotel Occupancy

Index 2019=100, s. a.

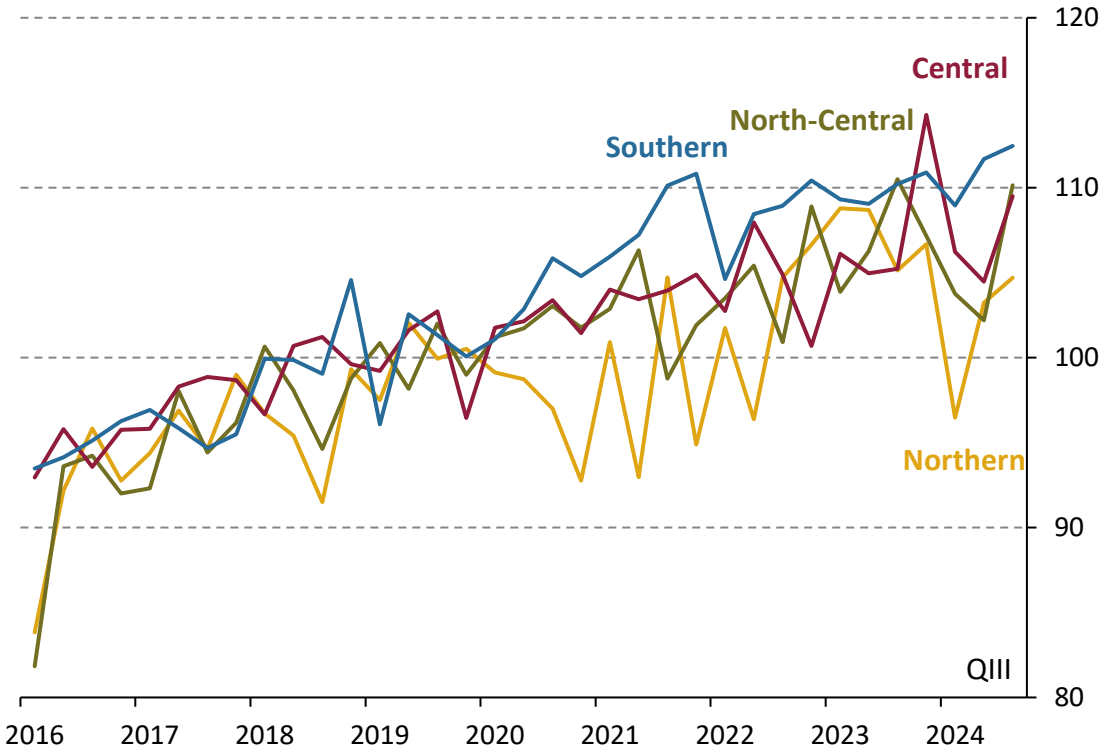


s. a. / Seasonally adjusted data.
Note: The range of the chart was shortened to facilitate its visualization. Figures correspond to the minimum values (Q2-2020) that are not displayed in the chart.
Source: Prepared and seasonally adjusted by Banco de México with data from the Mexican Ministry of Tourism.

In Q3-2024, agricultural activity increased across all regions compared to the previous quarter. From June to September, the proportion of national agricultural production affected by drought decreased, slightly rebounding at the start of Q4-2024.

Index of Regional Agricultural Production

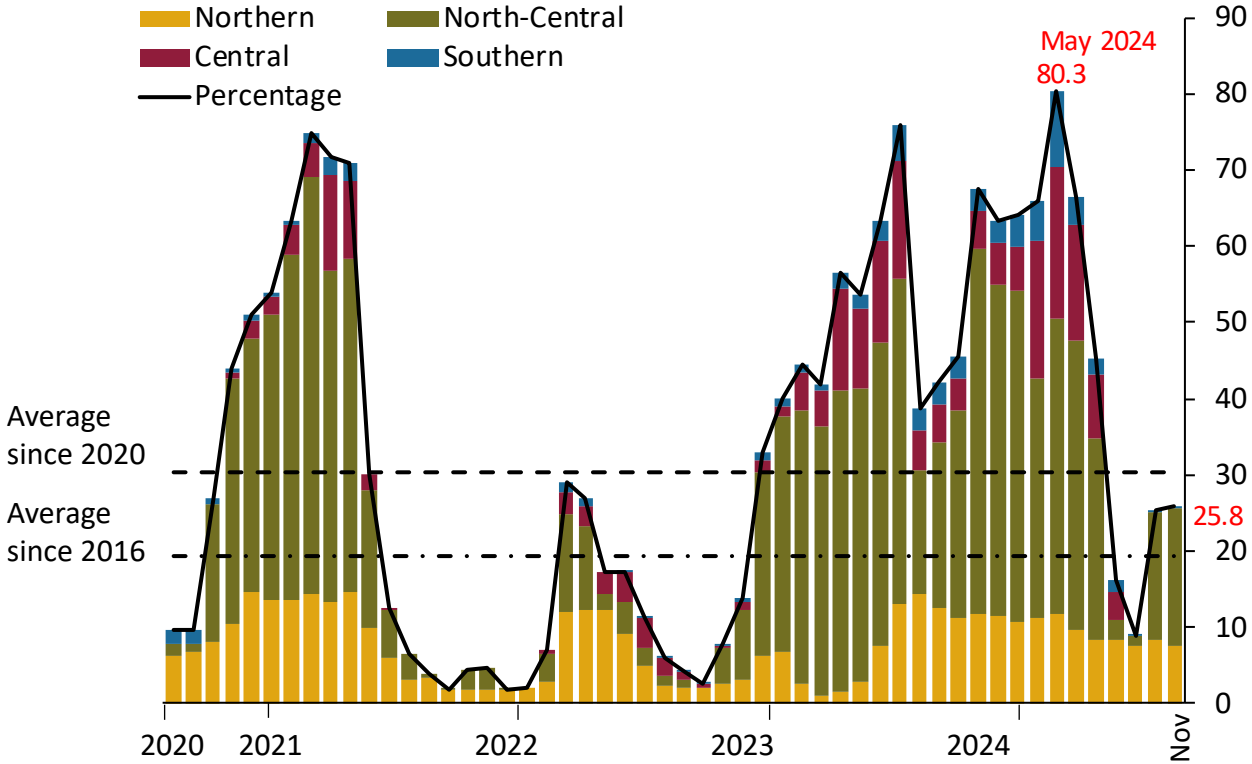
Index 2019=100, s. a.



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 and CONAGUA (*Comisión Nacional del Agua*).

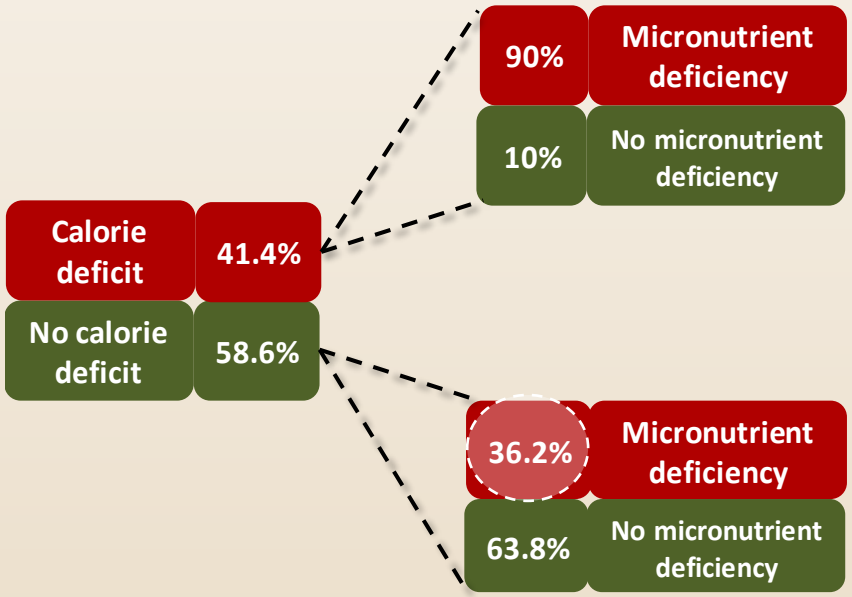
Micronutrient intake across Mexican regions

- This box estimates the proportion of households exhibiting micronutrient deficiencies among those that meet their minimum calorie requirements. This level of deficiencies is widespread at all income levels and in all regions, although it prevails more in low-income households.[1]

Households, by nutritional intake

Proportion conditional on calorie intake

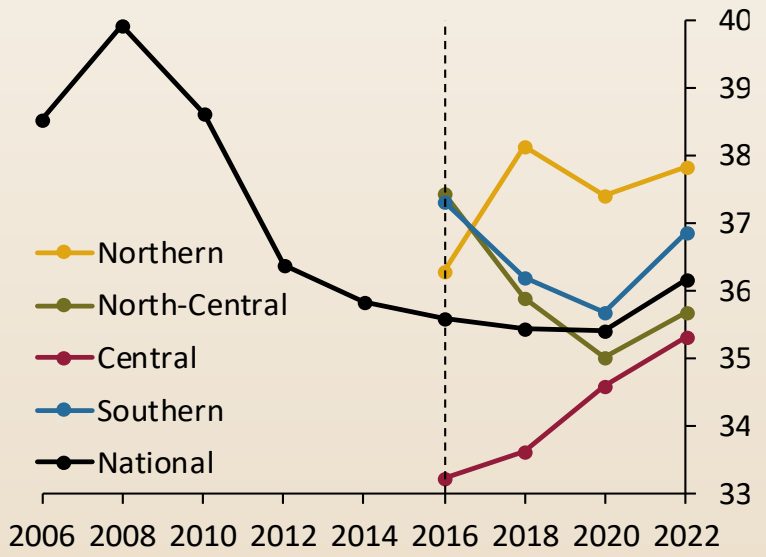
National, in 2022



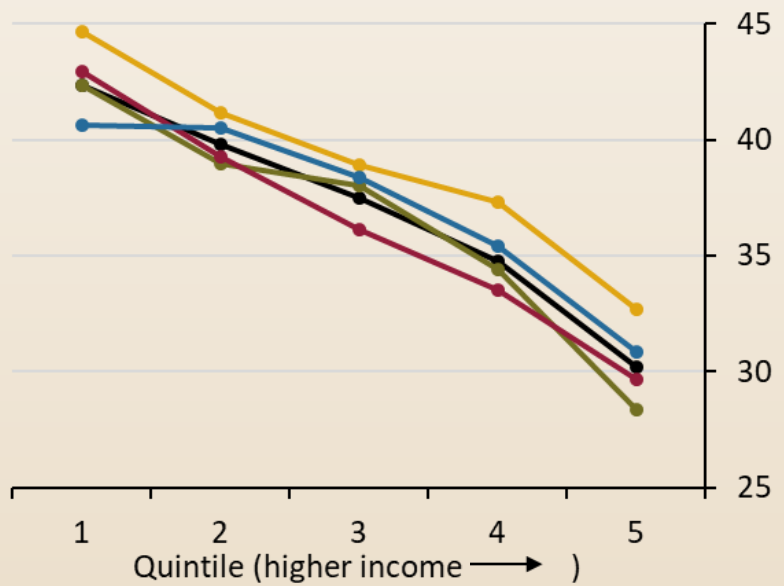
Households with micronutrient deficiencies

Share of households with no calorie deficit

By region, from 2006 to 2022



By region and quintile of income, in 2022

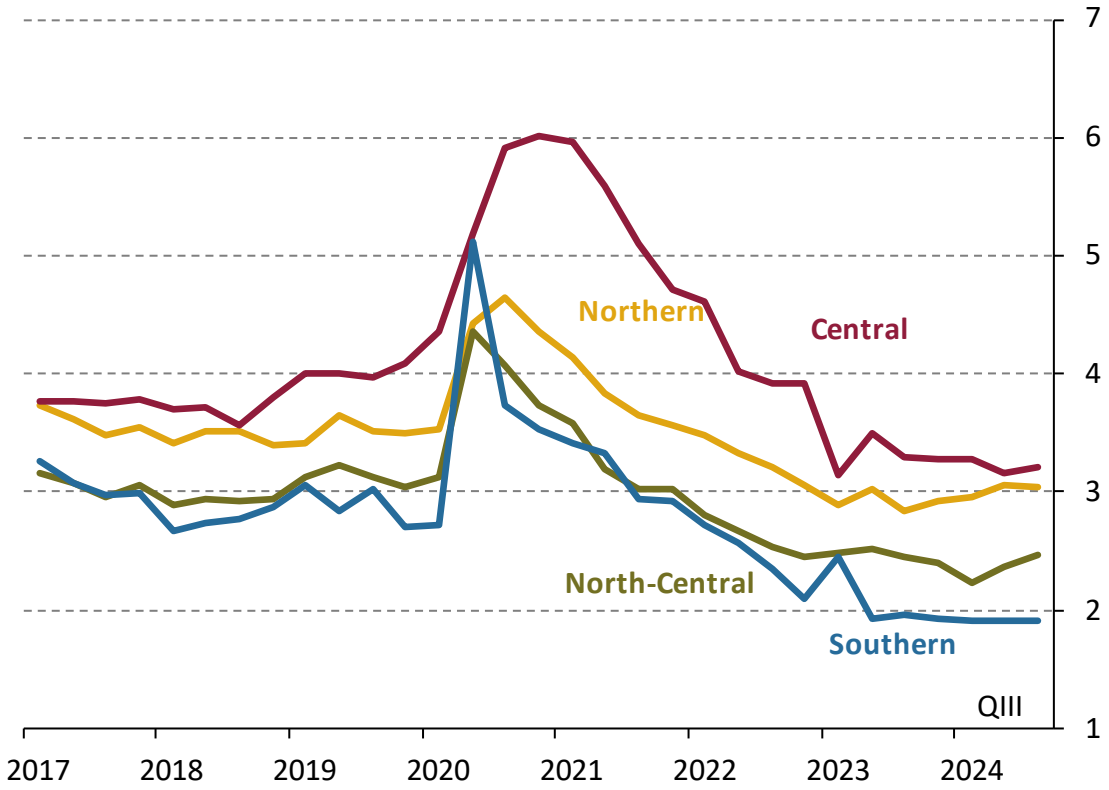


1/ There are over 30 essential micronutrients found in foods that are crucial for optimal human functioning. This Box focuses on zinc, vitamin A, and iron, as these are the most common deficiencies worldwide.
Source: Prepared by Banco de México with data from ENIGH, Mexico Food Base (version 18.1.1, 2019), and the Mexico Food Guide in Bonvecchio et al. (2015).

In Q3-2024, labor market indicators showed a mixed behavior. Unemployment rates remained low, while job creation slowed down.

Unemployment rate

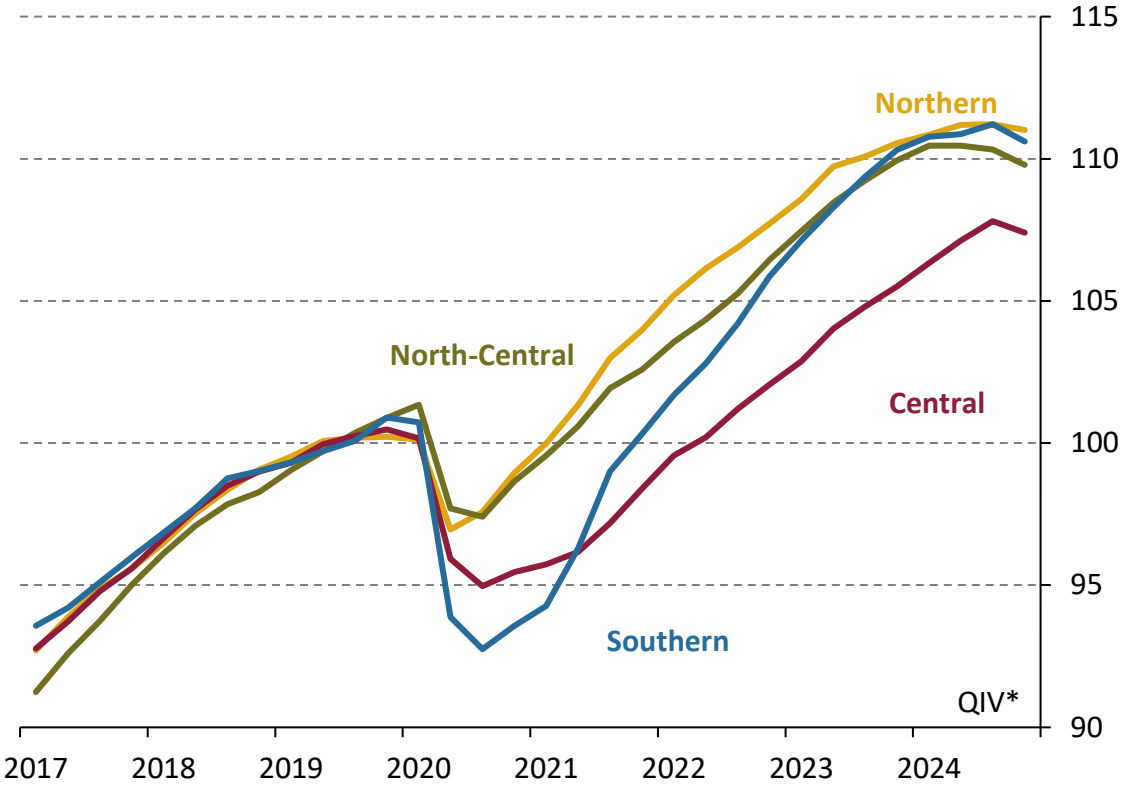
Percent, s. a.



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/]



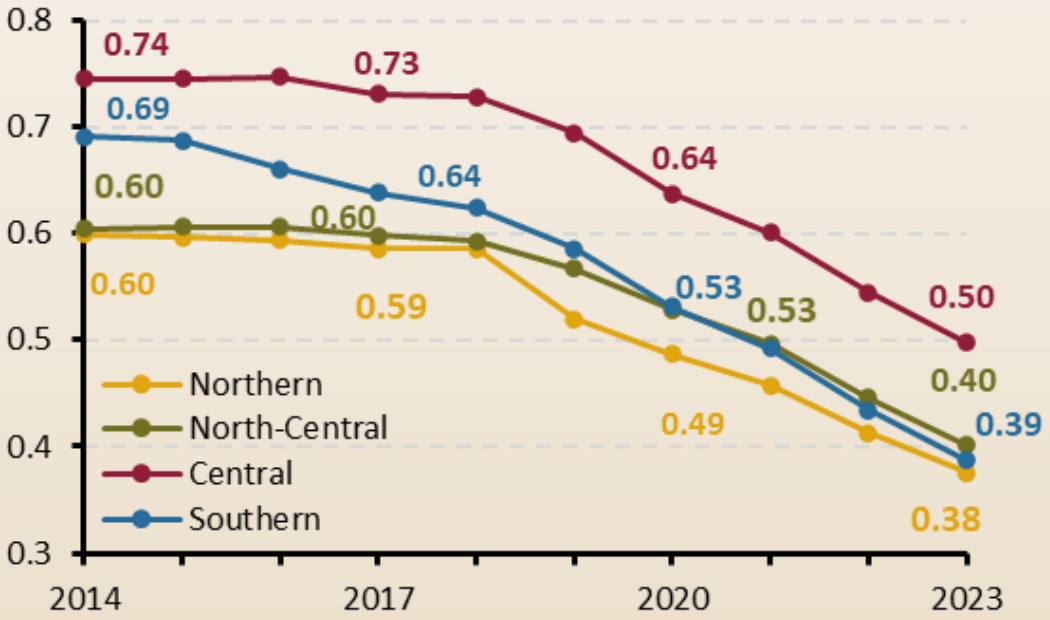
s. a. / Seasonally adjusted data.
*/ Figures as of November 2024.
1/ Permanent and temporary jobs in urban areas.
Source: Prepared and seasonally adjusted by Banco de México with data from IMSS.

Factors contributing to regional wage dispersion

- There is a **widespread wage dispersion** in Mexican regions, although it diminished between 2014 y 2023.
- This box uses an econometric model to estimate the **contribution** of **worker characteristics**, **workplace characteristics**, and a labor market **matching component** to wage dispersion within regions.

Evolution of wage dispersion

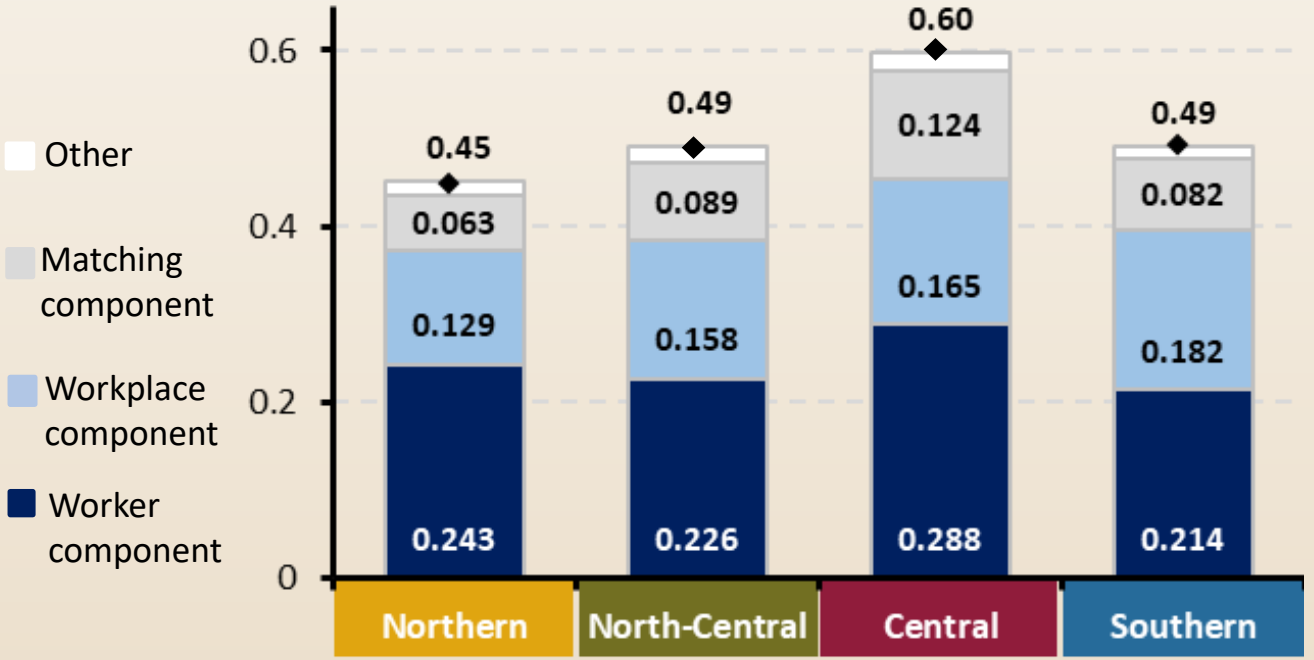
Variance of the logarithm of IMSS daily taxable income



Source: Banco de México's calculations using IMSS microdata.

Wage variance decomposition for 2019-2023

Variance of the logarithm of the IMSS daily taxable income



Note: The number at the upper end of each bar corresponds to the variance and the numbers within the bar correspond to each component. Source: Banco de México's calculations using IMSS microdata.

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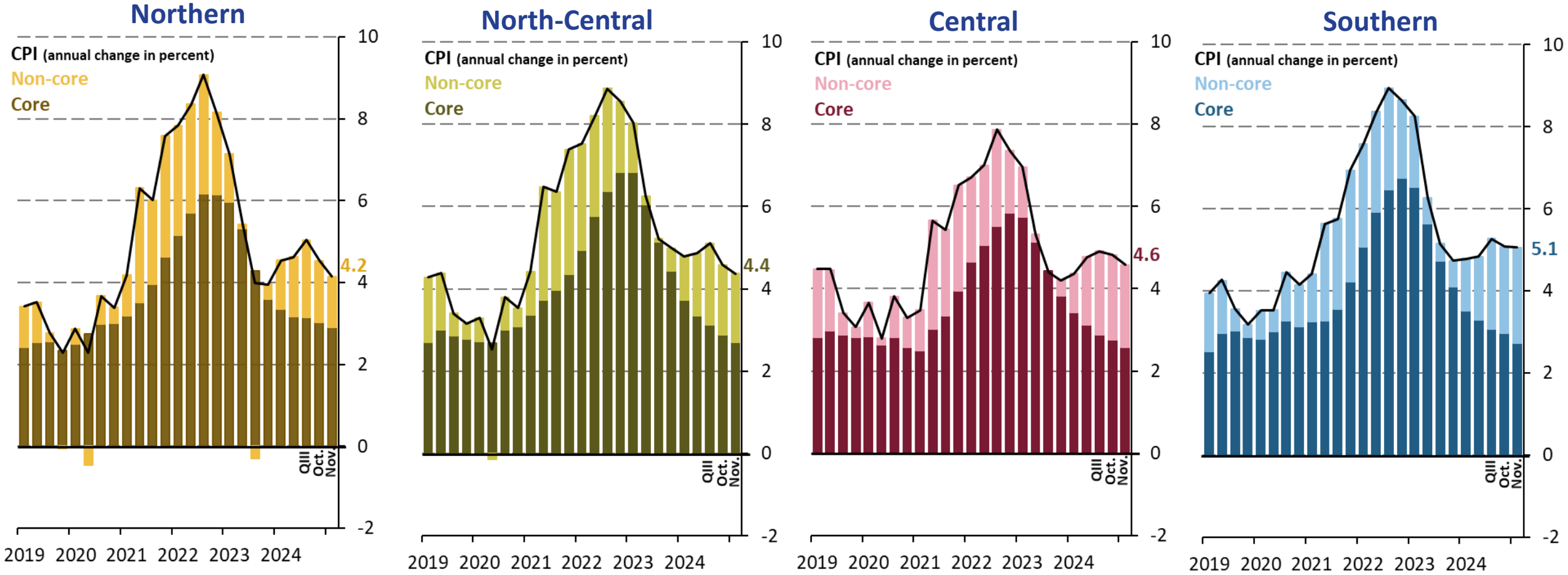
(based on data collected between September 27 and October 24, 2024)

III. Final remarks

Annual headline inflation continued experiencing the effects of supply shocks that have affected the non-core component in all regions. Core inflation continued declining.

Incidence on annual headline inflation by region

Figures in percent

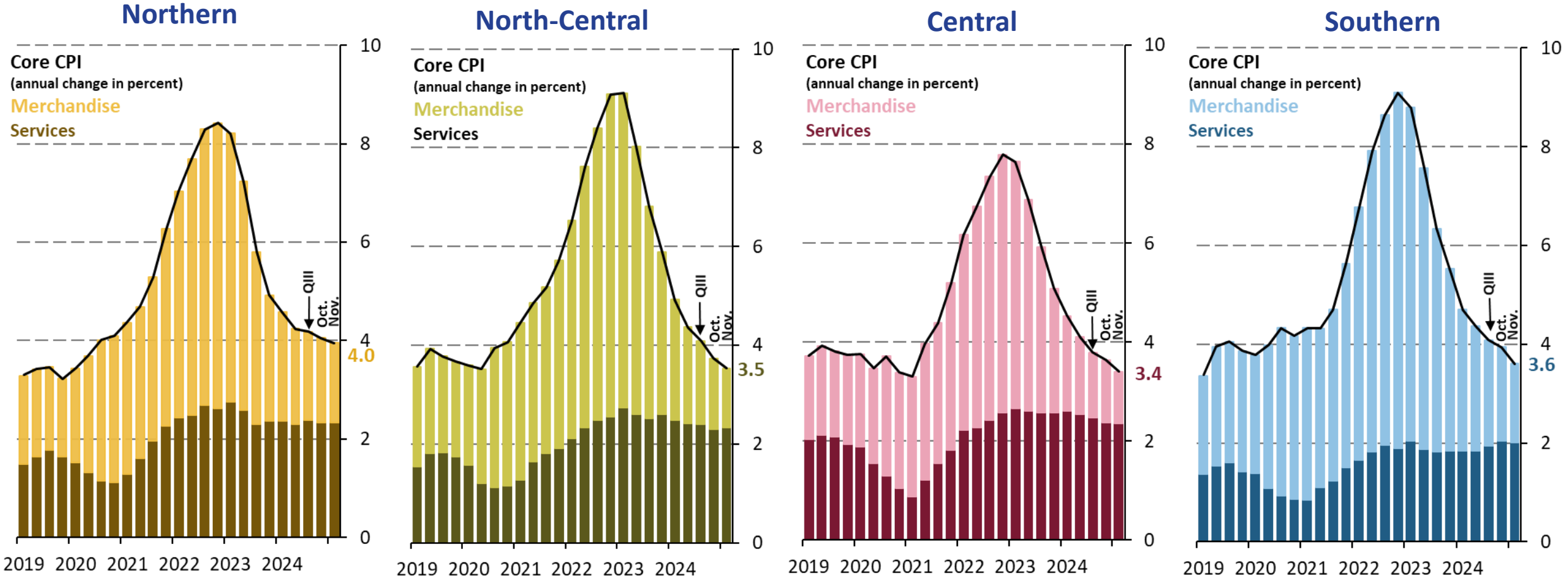


Source: Prepared by Banco de México with data from INEGI.

Within the core component, merchandise inflation continued trending downwards in all regions, while services inflation declined gradually but still remained at high levels.

Incidence on annual core inflation by region

Figures in percent

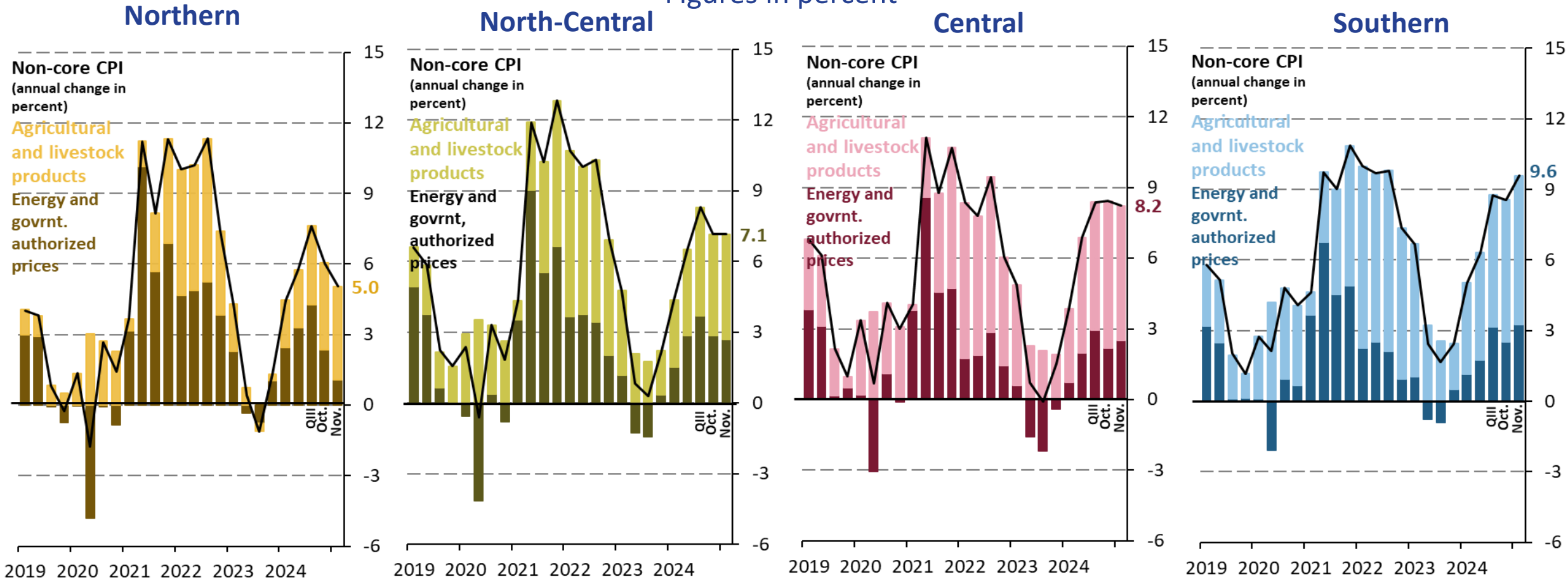


Source: Prepared by Banco de México with data from INEGI.

Non-core inflation increased in all regions in Q3-2024 due to the combined shocks that increased agricultural and livestock products and energy prices. In contrast, at the beginning of Q4-2024, it decreased in the Northern and North-Central regions, remained unchanged in the Central region, and increased in the Southern one.

Incidence on annual non-core inflation by region

Figures in percent



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

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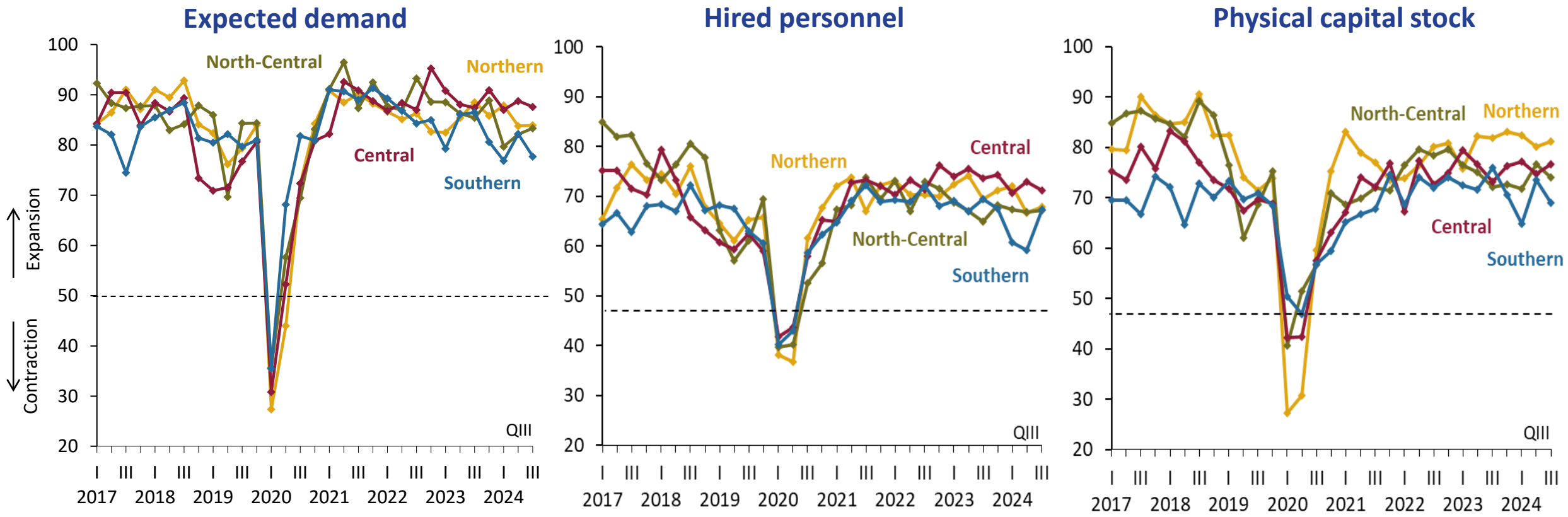
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The growth outlook on demand and personnel hired for the next twelve months remained stronger in the center of the country compared to other regions. As for investment, the strongest signal would continue to be observed in the north.

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

Diffusion indices

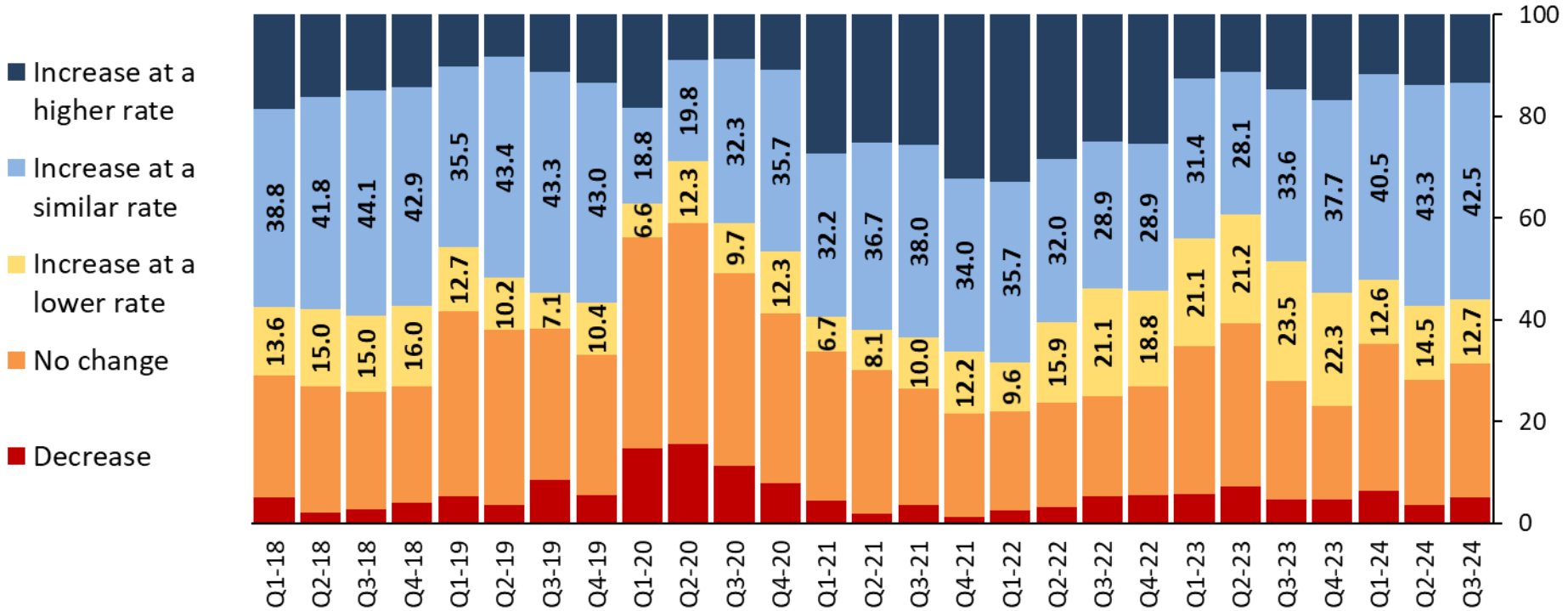


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you expect your sales volume to change over the next 12 months, how do you expect the total number of workers in your company to change over the next 12 months?" and "With respect to the investment in fixed assets 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 Q3-2024, they were obtained between September 27 and October 24, 2024.

In Q3-2024, most interviewed business agents continued anticipating their sales prices to increase at a similar or lower rate over the next twelve months, compared to the previous twelve months.

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

Percentage of responses

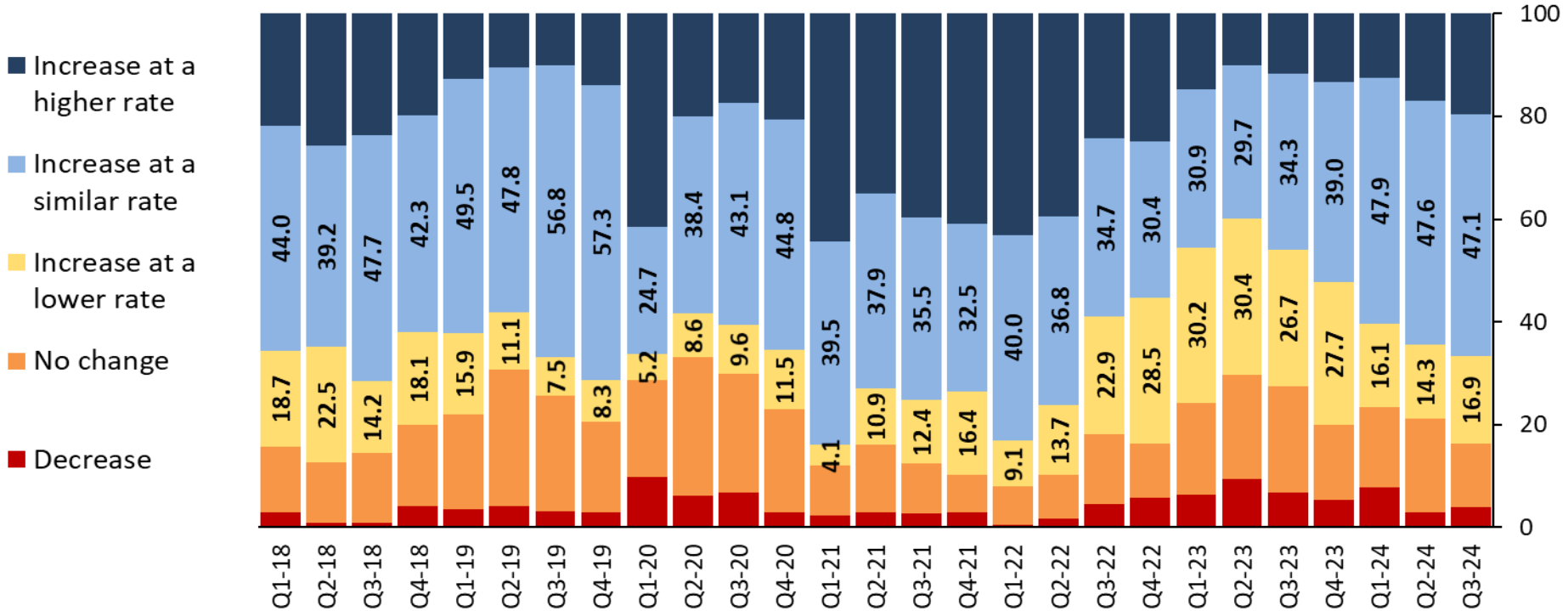


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate sales prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q3-2024, they were obtained between September 27 and October 24, 2024.

Most interviewed business agents continue expecting input prices to increase at a similar or lower rate in the next twelve months compared to the previous twelve months. This proportion is higher than that registered in periods of greater inflationary pressures observed during the pandemic.

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

Percentage of responses

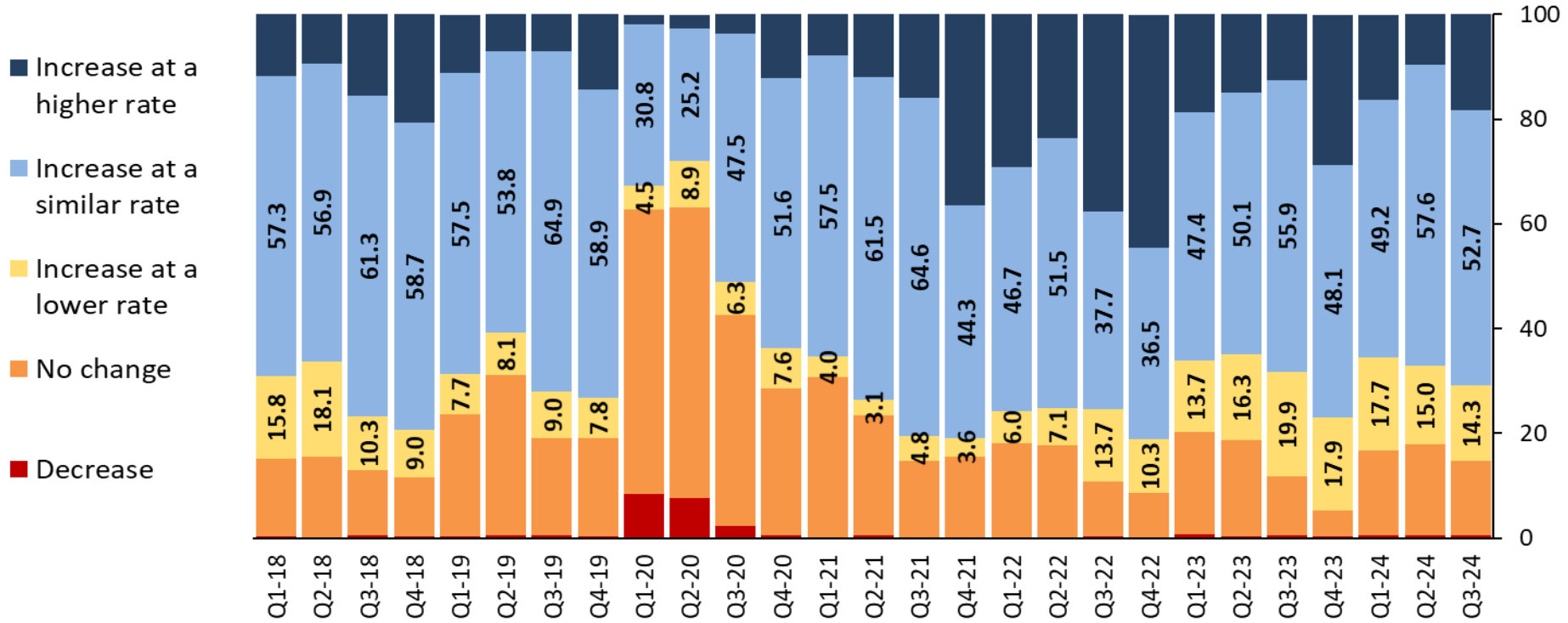


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate input prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q3-2024, they were obtained between September 27 and October 24, 2024.

In Q3-2024, most interviewed business agents 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 question: "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 Q3-2024, they were obtained between September 27 and October 24, 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 September 2 and 30, 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%**	Governance	**29.7%**	Governance	**30.1%**	Governance	**30.4%**
Governance	**25.6%**	Inflation	**23.5%**	Inflation	**24.0%**	Inflation	**29.6%**
External conditions	**17.9%**	Domestic economic conditions	**17.4%**	Domestic economic conditions	**18.2%**	Domestic economic conditions	**16.3%**

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 September 2024 were obtained based on information collected between September 2 and 30, 2024.

Source: Banco de México.

Business agents' opinion on risks to regional economic activity (based on data collected between September 27 and October 24, 2024)[1/]

Downward risks

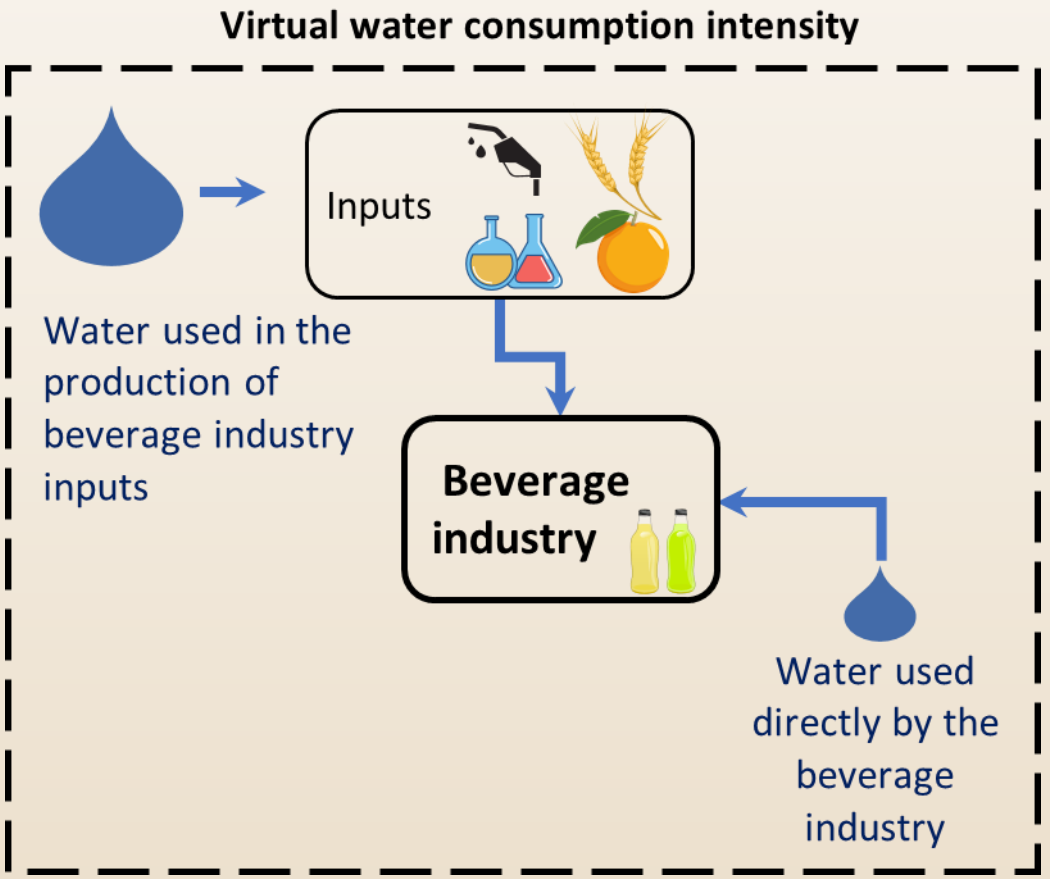
- That public safety indicators deteriorate.
- That inflation and interest rates persist at high levels.
- That public investment at state and federal levels is lower than expected.
- That adverse weather phenomena materialize for regional economic activity.

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 September 27 and October 24, 2024.

Virtual water consumption in productive activities and the export and imports of virtual water resources





- **Primary sector** activities are the most intensive in virtual water consumption, while **services and wholesale trade** are **less intensive**.
- Mexico is a **net importer** of virtual water. This result is largely explained by the agricultural and livestock products that are imported, which are very intensive in water use.

Source: Prepared by Banco de México.

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Final remarks

- **Regional economies face a complex and uncertain environment** that poses significant challenges to their growth.

- The analysis presented in this Report contributes to understanding some of the factors that could help **regional economies address these challenges and capitalize on the opportunities arising from the current situation**, especially the global reconfiguration of production processes:

  - **Strengthen the rule of law and public safety.** According with the interviewed business agents, these measures contribute to generate a climate of stability and confidence for the development of productive activity, in addition to reducing operating costs.

  - **Promote human capital formation.** This strengthens the competitiveness of the regions and contributes to increasing wage income by enhancing the productivity of the labor force. In particular, improving the quality of nutrition is a priority.

  - **Build infrastructure and promote a more efficient use of natural resources.** It is essential to support the construction of water infrastructure and optimize the use of water resources in the regions.

  - **Implement climate change mitigation and adaptation policies.** This would reduce its effects on businesses' productivity and the population's wellbeing.

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December 2024

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Banxico al día