

Regional Sectorial Outlook

Mexico

October 2011
Economic Analysis

- Deterioration of the expectations of the greatest impact on durable consumer goods
- Regions with high poverty levels and medium development the least sensitive to the external cycle
- Competitiveness of production costs will support exports
- Non-oil mining: a sector of opportunities

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Closing date: September 26, 2011

1. Summary

Sectors and Regions in Mexico face an environment of global uncertainty

Since the end of July, a series of events and news have been observed that have generated lower growth expectations in the world. For example, revised data regarding the evolution of GDP in the U.S. were disclosed; discussions to raise the “debt ceiling” in the U.S.; the downgrading of U.S. debt by Standard & Poor’s, from “AAA” to “AA”; the delay in the restructuring of the Grecian debt; and data on GDP growth in the U.S. and Europe for the second quarter that show significant moderation, especially in countries like Germany and France.

The impact on Mexico will be of moderation of economic activity

At the beginning of the year, the outlook for Mexico’s economic growth in 2011 was of robust expansion. However, throughout the year, the forecasts for the U.S. have been adjusted downward, BBVA Research’s base scenario indicates 1.6% growth in the U.S. for 2011 and 2.3% for 2012. This explains the lower growth expectations for the Mexican economy, with GDP growth of 3.8% in 2011 and of 3.3% for 2012, but not recession.

Given the high correlation between the Mexican economy and that of the U.S., the external impact seems modest. Nevertheless, and without ignoring or underestimating the difficulties of the international environment, we must also remember the characteristics and strengths of the Mexican economy: a) the country is only slightly exposed to productive activity in Europe; b) Mexico is able to maintain its share of Mexican exports to the U.S.; c) macro stability was put to the test in the recent recession and was able to emerge unscathed; d) without problems of inflation; and e) conditions are maintained for the flow of credit supply.

In this context, this issue of **Mexico Regional Sectorial Outlook** analyzes the evolution of activity by branch of activity and by state in the first half of the year, and the possible implications of the change in trends during the next few months. Also included as topics for analysis is an article on sectorial competitiveness based on an approach on production costs and on another which reviews in depth the activity of metallurgical mining in Mexico and its perspectives.

Sectorial evolution in the first half of 2011, with less unequal growth

In the first half of the year, the main components of GDP showed sustained expansion. Industrial growth was increasingly supported by internal demand. Also, in the first half of the year, foreign demand continued to be important, reflecting the 5.2% growth of manufacturing, mainly in the export sectors. The expansion of the manufacturing sector and of services has allowed surpassing the levels prior to the crisis, but construction is still lagging compared to the prior maximum levels.

Growth was generalized regionally, although still with important differences

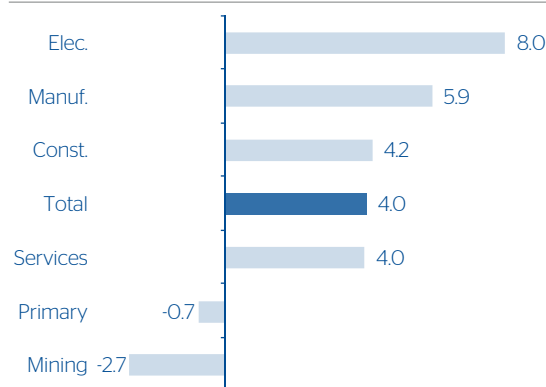
During the first quarter of the year, according to information available at the date of this publication, most of the states showed positive growth and, although the disparity between the growth rates has been reduced, it continues to be relatively broad. The profile of the dominant recovery has been driven mainly by manufacturing through greater dynamism of exports; nevertheless, temporary situations have also had an impact, such as for example, climate conditions. Therefore, the strongest impacts and the fastest recoveries are associated with those states with export manufacturing activity and those regions less exposed to the external economic cycle have suffered a lower impact, such as the central and southern regions.

Outlook: moderate growth, supported by the internal market and productivity

The manufacturing and tourism sectors are those most linked to the U.S. economic cycle through the performance of exports and the inflow of international visitors, respectively. In this environment, the most vulnerable exports are those related with durable consumer goods. In those sectors, exports will grow less or will probably remain stagnant, but are not expected to post negative growth. A positive sign is that the domestic market shows a certain strength, which could partially mitigate a lower export growth rate derived from lower demand in the U.S. Regionally, the industrialized states in the country will continue to be the most dynamic in 2012.

Graph 1

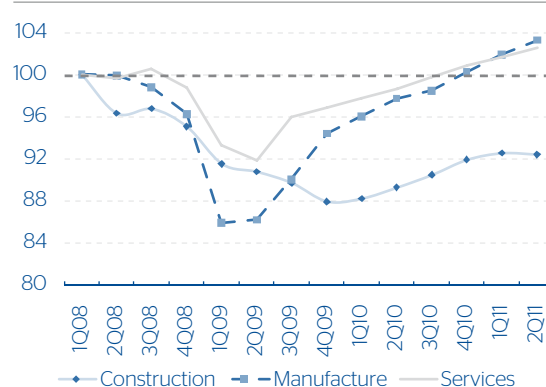
GDP, large sectors 1st half 2011 (Annual % change, sa)



*ae Seasonally-adjusted
Source: BBVA Research with INEGI data

Graph 2

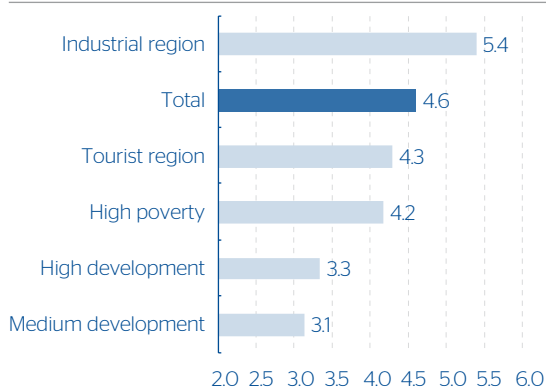
Gross Domestic Product (Index 1Q2008=100, sa)



*ae Seasonally-adjusted
Source: BBVA Research with INEGI data

Graph 3

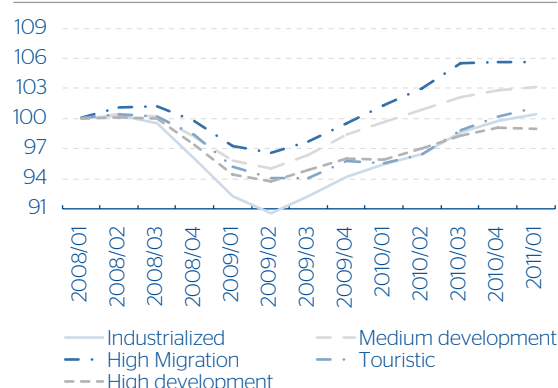
Economic Activity by Region, 1Q2011 (annual % change)



Source: BBVA Research with INEGI data

Graph 4

GDP by Region* (1Q2008 = 100, sa, pm3)



*ae Seasonally-adjusted adjustment
Source: BBVA Research with data from INEGI and the U.S. Federal Reserve

In the section on special topics, an analysis on competitiveness is presented from the standpoint of costs and a study of the metallurgical mining industry. The first of these, cost competitiveness, reinforces and complements the results presented in the **Mexico Regional and Sectorial Outlook** issue of January 2011 where the competitiveness of the Mexican sectors was reviewed with an emphasis on share increases and the Indices of Revealed Competitive Advantages (IVCR for its Spanish initials). In turn, the article on mining activity is of particular importance in the current context of high prices, which has generated an additional boost to this activity and offers interesting opportunities for growth in the medium term.

2. Current situation

2a. Toward moderate growth, lower external sales, which will not be totally offset by the dynamism of the domestic market

A series of unfavorable news and developments diminish global growth expectations

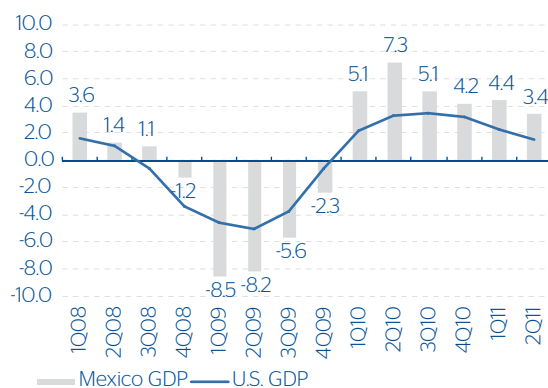
Since the end of July, we have noted a number of different developments and news that have led to lower growth expectations in the world. Such developments have had a greater impact in Europe and to a lesser extent in the United States. Revised data were released with regard to U.S. GDP growth, which showed a deeper recession and a slower recovery than previous figures had indicated.¹ The discussions to boost the “debt ceiling” in the United States have underscored the difficulties in reaching an agreement on the medium-term reduction in the budget deficit and with it, a reduction in the financial markets’ uncertainty in relation to a fiscal consolidation in that country. Other developments include Standard & Poor’s downgrading of U.S. debt from “AAA” to “AA”; the delay in the Greek debt restructuring, which has generated a ‘contagion effect’ in the peripheral countries of Europe; and second quarter U.S. and European GDP growth data, which showed a significant slowdown, especially in countries such as Germany and France.²

The impact on Mexico will be a moderation of economic activity

At the beginning of the year, the growth outlook for the Mexican economy in 2011 was for robust expansion (4.8%) considering that the U.S. economy would post GDP growth (3%). Throughout the year, the U.S. forecasts have been adjusted downward, and now the BBVA Research base scenario indicates expected U.S. growth of 1.6% at the close of 2011 and 2.3% for 2012. The reduced growth of the U.S. economy largely explains the expectation of a new phase of lower growth in the Mexican economy. It should be noted that the Mexican GDP growth rate is relatively higher than that of the U.S. (see chart 5), which shows that Mexico has more rapidly surpassed the levels prior to the 2008 crisis than the United States. (see Graph 6).

Graph 5

Mexico-U.S. GDP (Annual % change, sa)

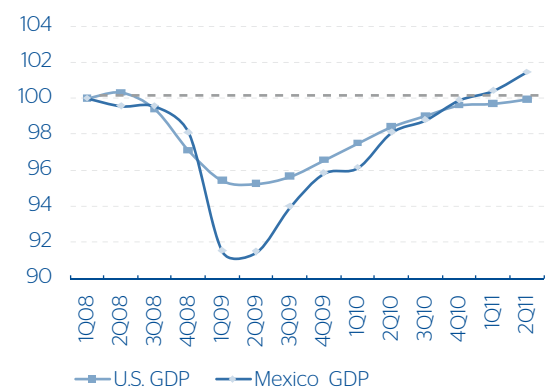


Sa. Seasonally-adjusted

Source: BBVA Research with INEGI and US Federal Reserve data

Graph 6

Mexico-US GDP (1Q2008 Index = 100, sa)



Sa. Seasonally-adjusted

Source: BBVA Research with INEGI and US Federal Reserve data

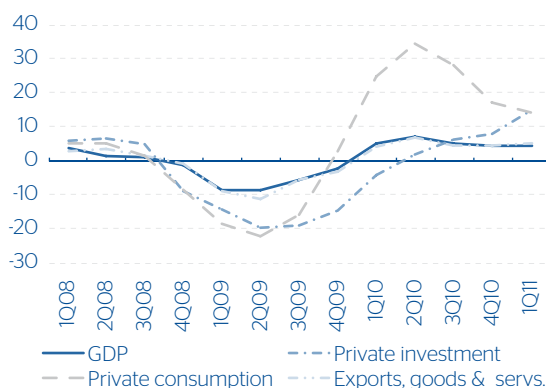
¹ For example, in 2009 the U.S. economy showed a contraction of 3.5% with the revised data, vs. -2.6% based on previous data, indicating a severe recession.

² In the second quarter, the major European economies posted 0.1% growth in the case of Germany and 0.9% for France compared to the first three months of the year.

However, despite the rapid recovery of GDP, not all demand components showed a similar evolution (see Graph 7). While the strength of exports of goods and services allowed the equivalent of pre-crisis levels to be reached in 1Q2010, private consumption lagged three quarters behind, and managed to recover in the 4Q2010. Private investment in 1Q2011 was still 6.8% below pre-crisis levels (see Graph 8).

Graph 7

Growth in GDP and selected demand components (annual % change, sa)

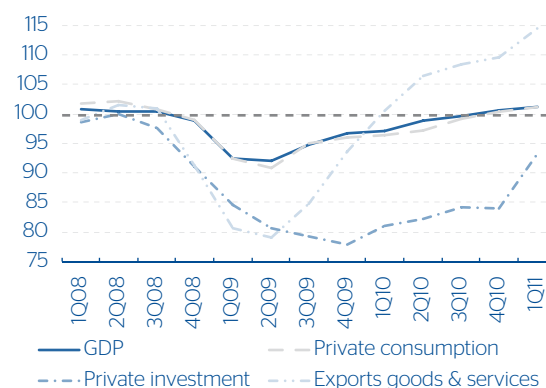


sa Seasonally-adjusted

Source: BBVA Bancomer with INEGI data

Graph 8

GDP and selected demand components (4Q2008 Index = 100, sa)



sa Seasonally-adjusted

Source: BBVA Bancomer with INEGI data

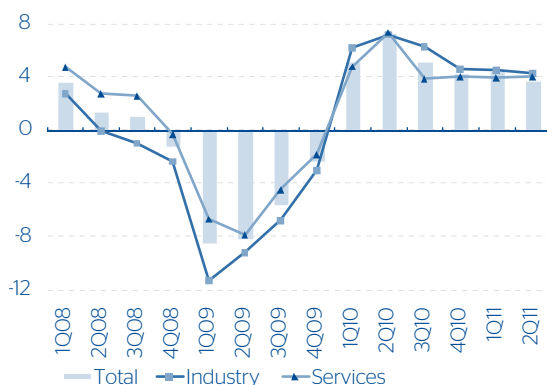
For Mexico, the BBVA Research base scenario indicates that in 2011 the GDP forecast would decline from 4.1% to 3.8% and in 2012 from an initial 3.8% to 3.3%, with a gradual trend toward potential growth, but not recession. While this downward revision might appear to be modest, given the Mexican economy's high correlation with its U.S. counterpart, it also means the following:

a) The country has little exposure to European productive activity due to the reduced trade volume between Mexico and Europe; and financial investment, while relatively higher, can be offset by investment from other countries; b) Mexico can maintain its market share of exports to the United States, in which it is virtually tied with Canada and in second place after China. Maintaining market share can be attributed to two factors; the real depreciation of the peso and the genuine gains in competitiveness in some manufacturing sectors (for example, the automotive industry, some branches of electronics, appliances, food, etc.). See the article on Mexico's cost competitiveness in this issue of **Mexico Regional Sectorial Outlook**, c) macro stability has been put to the test in the recent recession and has emerged unscathed due to authorities' fiscal and monetary commitment. It is considered a sufficiently established value and now more than ever it is important to maintain it, due to the uncertainty in some European countries in relation to the problems of refinancing the sovereign debt; d) No inflationary problems. Small changes on the downside, which is not a concern due to the weakness in demand, the broad maneuvering room in the labor market, and companies' productive capacity, and e) conditions are maintained for the flow of credit, albeit with a more careful origination.

More balanced and robust growth of the Mexican economy in the 1H2011

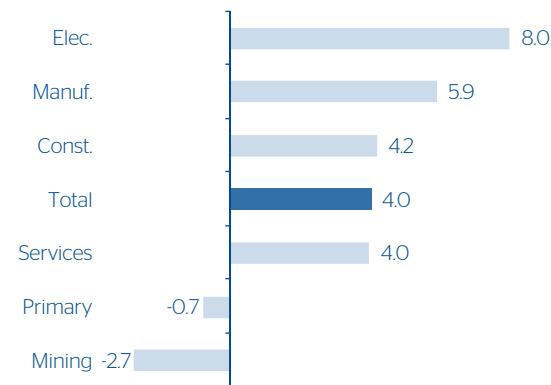
In the first half of the year, the main components of GDP posted a sustained expansion (see Graph 9). Industrial growth was supported by the 4.3% increase in construction output, higher than the growth of the economy as a whole. In addition, in the 1H2011 a very important 5.2% increase in manufacturing was posted, and in fact, both sectors contribute 80% of industrial output (see Graph 10). Mining output posted a decline of 2.7% due to lower oil production volume. The expansion of manufacturing and services has allowed pre-crisis levels to be exceeded (see Graph 11). Construction, however, is still lagging behind its peak levels.

Graph 9

Growth in total GDP, industry and services output (annual % change, sa)


Sa seasonally-adjusted
Source: BBVA Research with INEGI data

Graph 10

Output, major sectors 1H2011 (annual % change, sa)


Sa seasonally-adjusted
Source: BBVA Research with INEGI data

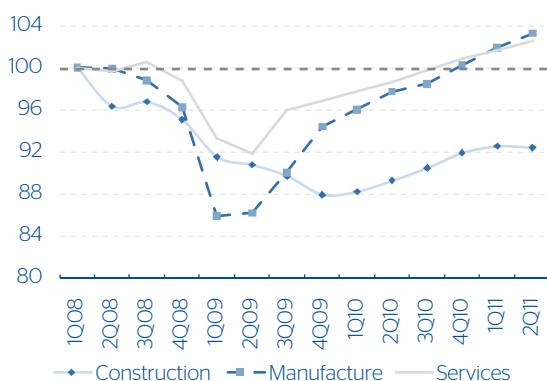
More specifically, in 2Q2011, primary activity output declined 3.7%, which can be attributed to poor weather conditions. However, the rest of the economy continued its expansion, with 4.0% and 4.1% growth in industry and services, respectively.

Mexico's manufacturing output with a 5.9% increase in 1H2011 was strong despite seasonal factors and low growth of the U.S. economy

In 2Q2011 the growth of U.S. imports of manufactured goods slowed (see Graph 12), from an annual 19.7% in the 1Q2011 to 14.8% in the 2Q2011. Similarly, the growth in imports from Mexico declined from 15.7% in the 1Q2011 to 12.6% in the 2Q2011, with growth particularly low in June (9.8%). It should be noted that U.S. imports were also affected in April by the temporary interruption of the Japanese electronics and auto parts supply chain as a result of the tsunami that occurred in late March of this year.

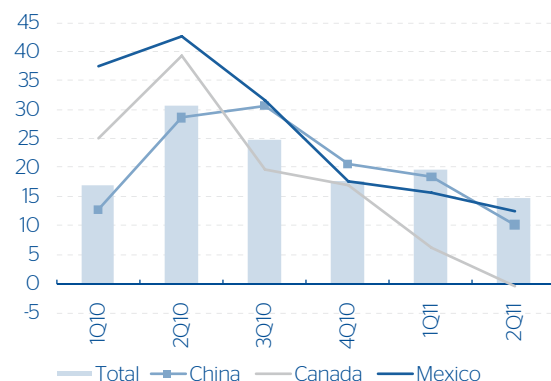
The lower strength of demand in the United States for Mexican goods during 2Q2011 is relatively visible in durable consumer goods such as refrigerators, computers, and telephones, but none of the most important products is close to registering red numbers. In activities such as automotive industry, growth is sustained, and the industry accounts for 26.3% of exports of manufactured goods to the United States; the same occurs with medical equipment.

Graph 11

Gross Domestic Product (1Q2008 Index = 100, sa)


sa Seasonally-adjusted
Source: BBVA Research with INEGI data

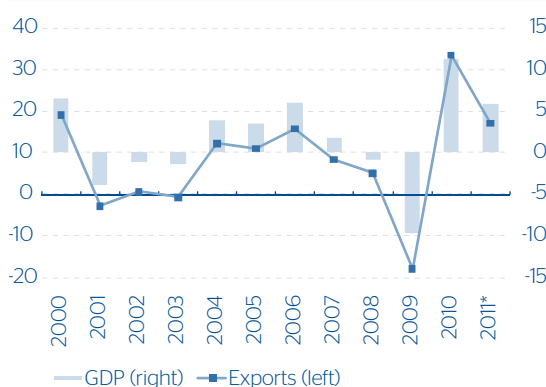
Graph 12

U.S. imports (Annual % change)


Source: BBVA Bancomer with USITC data

The lower strength of U.S. demand for foreign goods is still not clearly reflected in the growth of Mexican manufacturing output, which rose 5.7% in 2Q2011, not very different from the 6.1% increase posted in 1Q2011 (see Graph 13). Moreover, the manufacturing production index increased 6.2% in July 2011. Among the different sectors, the expansion was generalized, except for the fiber-textile-apparel chain, which is fragile and volatile compared to its competitors, and oil derivatives due to the sector's traditional structural deficiencies. Among activities, of particular importance for their above average growth in 1H2011 were transportation equipment (automobile industry), machinery and equipment, basic metals, and plastics, among others (see Graph 14). Sectors registering lower than average growth include food and beverages, electrical products (refrigerators and stoves), and others. Another feature of the growth in manufacturing is a smaller differential between sectors.

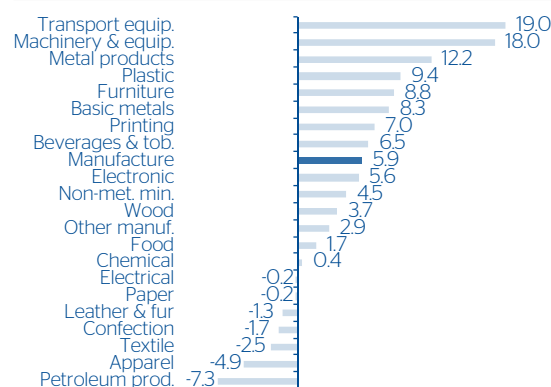
Graph 13

**Manufacturing GDP and exports
(Annual % change)**


*Jan.-June

Source: BBVA Research with INEGI data

Graph 14

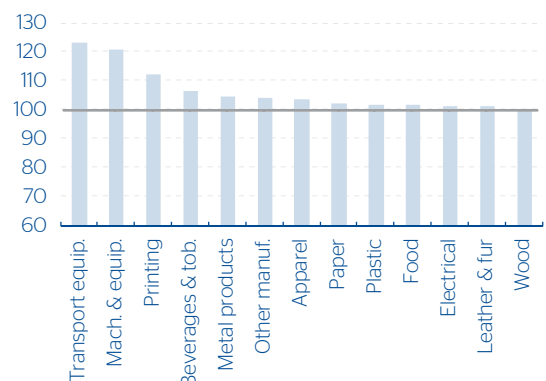
**Manufacturing GDP, 1st six months of 2011
(Annual % change, sa)**


sa Seasonally-adjusted

Source: BBVA Research with INEGI data

Within manufacturing, the rate of recovery has also occurred at different rhythms. Activities related to external demand and to a lesser extent to domestic demand, such as the automotive industry, machinery and equipment, beverages and tobacco, metal products, and other manufactured goods, among others (13 of 21 activities), exceed or equal their pre-crisis levels (see Graph 15), equivalent to 69% of manufacturing output. Those lagging behind or that are about to overcome the recessionary phase (8 of 21 activities) account for 29% of manufacturing output. The latter have less of an export orientation, except for electronics and basic metals (see chart 16).

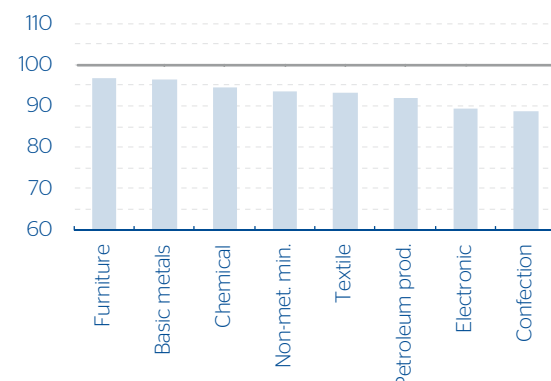
Graph 15

**Manufacturing activities that exceed pre-crisis levels
(1Q2008 Index = 100, sa)**


sa Seasonally-adjusted

Source: BBVA Bancomer with INEGI data

Graph 16

**Manufacturing activities still lagging behind their pre-crisis levels
(1Q2008 Index = 100, sa)**


sa Seasonally-adjusted

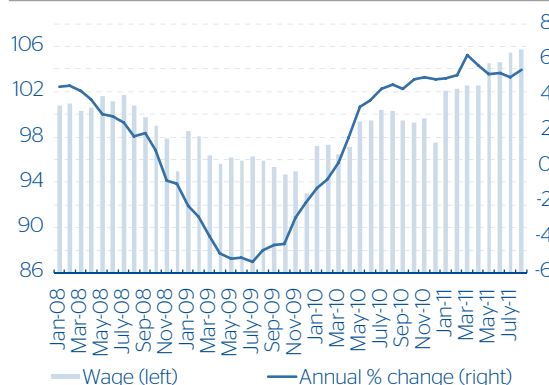
Source: BBVA Bancomer with INEGI data

Domestic demand with renewed strength in the first half of 2011

In the 1H2011 the growth of the economy was supported not only by the increase in foreign demand, but increasingly by domestic demand as well. This parallel growth has allowed the consumption of durable goods (domestic motor vehicle sales grew an annual 11.8% in the 1H2011) and services to post a sustained positive trend. One of the most important determining factors in this has been the positive evolution of formal employment, which has been accompanied by modest improvements in real wages. An important role has also been played by the stability in macroeconomic variables, especially interest rates and prices. While these factors have allowed for a partial reversal of the weaknesses associated with the crisis (see Graph 17), there are still factors that limit a stronger growth in domestic demand such as high unemployment rates (5.2% in the 1H2011 vs. 3.8% in 2007-2008) and the creation of new jobs being concentrated, as in other recovery cycles, in low-paid segments. What may also have influenced this panorama is the still weak recovery in consumer confidence, especially for acquiring durable consumer goods (see Graph 18).

Graph 17

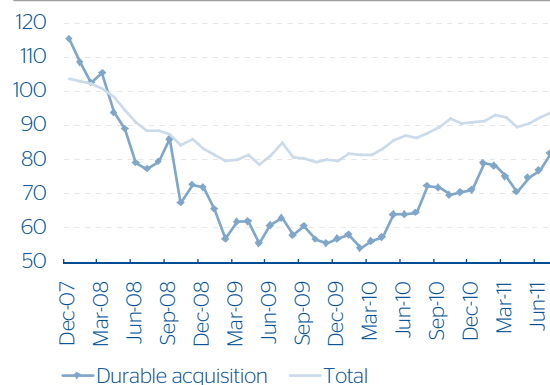
Real total wages of formal private sector employment (2008 index = 100 and annual % change)



Source: BBVA Research with INEGI data

Graph 18

Consumer confidence (January 2003 index = 100, sa)



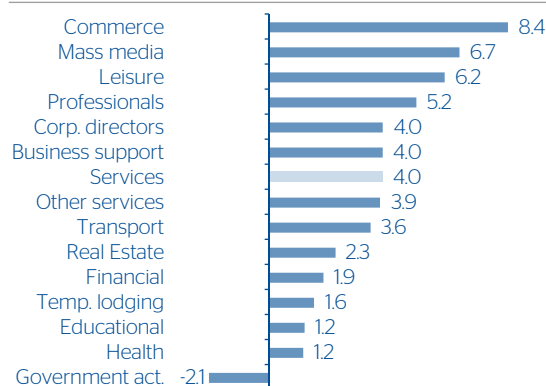
sa Seasonally-adjusted

Source: BBVA Research with INEGI data

The greater strength of domestic demand has allowed the services output to grow an annual 4% during the 1H2011 (see Graph 19), following annual increases of 3.9% in the 1Q2011 and 4.0% in the 2Q2011. Within the services sector, all of its activities posted growth, except government activities, which declined 2.1%. Retail trade not only led the expansion (8.4% in the 1H2011) but it was also the activity that most contributed to growth in services (2 pp of growth or 50%). Also contributing to the growth, albeit to a lesser extent, were the mass media (10.1%), transportation (9.7%), and real estate and rentals (9.6%). In general, a more balanced growth between activities can be observed (see Graph 20).

Graph 19

Growth in services GDP in the 1H2011 (Annual % change, sa)

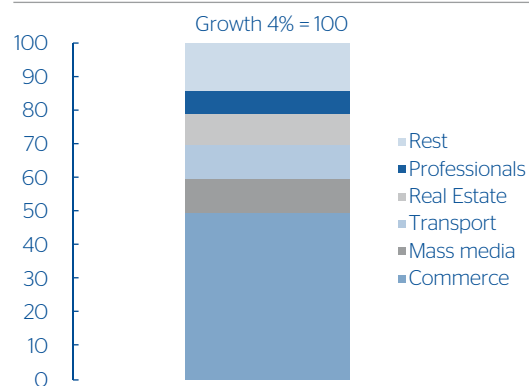


sa Seasonally-adjusted

Source: BBVA Research with INEGI data

Graph 20

Contribution to growth in services 1H2011, sa



sa Seasonally-adjusted

Source: BBVA Research with INEGI data

Toward a lower growth rate in 2012

Even though it is too early to determine how big an impact the external environment could have on Mexico, it is clear that the manufacturing sector--the most tied to the U.S. cycle--will be the most exposed through the performance of its exports. In this environment, the most vulnerable exports will be those related to durable consumer goods such as transportation equipment in motor vehicles (light and heavy) and auto parts, in the electrical equipment sector with refrigerators and freezers; electronic equipment with TVs, computers, telephones, including cell phones, among others. Exports in these sectors will grow less or possibly stagnate, but we do not expect them to enter negative ground. The other vulnerable sector is tourism, given that the global financial turmoil has led to cutbacks in tourist travel because consumers are more cautious about their spending. In the case of Mexico, it is foreign tourism from the United States that generates the most spending.

One positive sign is that the domestic market is showing some strength, which could cushion the effects of a lower rate of export growth, resulting from lower U.S. demand. However, domestic demand has yet to show enough strength to fully offset the adverse global environment. In these circumstances, services and retail activities could begin to slowly lose momentum over the coming months, more consistent with the average growth of the economy.

Chart 1

Mexico, Indicators and sectorial projections, GDP, sa

	Annual % change													
	2008	2009	2010	2011	2012	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	
Total GDP	1.2	-6.2	5.4	3.8	3.3	4.4	3.6	3.9	3.2	3.4	3.4	3.2	3.3	
Primary	1.1	-2.1	3.3	1.1	3.9	2.4	-3.7	2.7	2.9	3.0	8.3	2.8	1.8	
Secondary	-0.2	-7.6	6.0	3.9	3.6	4.5	4.2	3.3	3.5	3.6	3.8	3.6	3.4	
Mining	-1.7	-2.9	2.2	-2.1	1.1	-3.2	-2.3	-2.3	-0.3	1.3	1.0	1.0	1.1	
Electricity, water, and supply of gas	-1.8	2.2	2.4	7.2	3.4	8.3	7.7	6.5	6.3	3.4	3.4	3.4	3.5	
Construction	3.0	-7.3	0.0	4.0	5.4	4.9	3.5	3.1	4.5	4.7	6.4	6.2	4.3	
Manufacturing	-1.0	-9.7	10.1	5.1	3.7	6.1	5.7	4.7	4.0	3.8	3.7	3.5	3.7	
Tertiary	2.4	-5.2	5.0	3.8	3.4	3.9	4.0	4.1	3.3	3.4	2.9	3.5	3.9	
Retail trade	1.0	-14.2	13.4	7.7	5.4	8.3	8.5	7.9	6.1	4.8	3.9	5.8	7.2	
Transportation, mail and storage	0.0	-6.5	6.5	3.3	2.8	3.3	3.8	3.7	2.4	3.5	2.4	2.0	3.4	
Information in mass media	8.0	0.8	5.6	4.4	5.4	7.0	6.3	2.1	2.3	4.1	4.6	7.7	5.4	
Insurance and financial services	12.8	-4.4	2.7	3.3	3.8	1.5	2.3	5.8	3.6	2.9	2.8	4.0	5.6	
Real estate and leasing services	2.5	-1.2	1.8	2.9	3.2	2.4	2.2	3.6	3.1	3.9	2.9	3.0	3.0	
Prof., scientific, and technical serv.	3.1	-4.7	-3.0	3.9	2.5	3.1	7.3	2.5	2.6	4.0	2.6	2.3	1.2	
Corporate and company leadership	14.2	-7.6	1.4	4.1	4.6	2.5	5.6	3.8	4.6	4.6	5.1	5.0	3.7	
Business support serv.	1.8	-4.7	1.3	3.1	2.5	3.5	4.5	2.0	2.5	2.5	2.7	2.7	2.0	
Educat. serv.	0.8	0.5	3.0	1.1	1.0	0.7	1.8	1.0	1.1	1.1	1.0	1.0	1.0	
Health and social welfare services	-1.6	0.7	-1.8	1.1	1.4	0.0	2.4	1.0	0.9	0.8	1.7	1.7	1.4	
Leisure and relaxation, cultural, and sports serv.	1.3	-4.6	1.7	4.1	2.2	5.4	6.9	1.9	2.1	2.1	2.3	2.3	2.1	
Hotel, motel, lodging serv. and prep. of food & bev.	0.8	-7.7	3.9	1.6	2.1	0.8	2.4	1.8	1.3	2.1	2.2	2.1	1.8	
Other serv. except gov't activities	0.7	-1.1	0.6	3.2	2.8	3.2	4.7	2.6	2.6	2.8	2.9	2.8	2.6	
Gov't activities	1.1	4.8	4.4	0.1	1.7	0.7	-4.8	2.0	2.8	2.7	2.0	0.9	1.2	
	% breakdown						Contribution to growth, pp							
	2003	2008	2009	2010	2011	2012		2008	2009	2010	2011	2012		
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0		1.2	-6.2	5.4	3.8	3.3		
Primary	3.8	3.5	3.7	3.6	3.5	3.5		0.0	-0.1	0.1	0.0	0.1		
Secondary	30.7	30.4	29.9	30.1	30.1	30.2		-0.1	-2.3	1.8	1.2	1.1		
Mining	6.2	5.0	5.2	5.0	4.7	4.6		-0.1	-0.1	0.1	-0.1	0.1		
Electricity, water, and supply of gas	1.1	1.3	1.4	1.4	1.4	1.4		0.0	0.0	0.0	0.1	0.0		
Construction	6.2	6.7	6.6	6.3	6.3	6.4		0.2	-0.5	0.0	0.3	0.3		
Manufacturing	17.2	17.4	16.7	17.4	17.7	17.7		-0.2	-1.7	1.7	0.9	0.7		
Tertiary	62.7	63.9	64.5	64.2	64.3	64.4		1.5	-3.3	3.2	2.5	2.2		
Retail trade	11.9	15.5	14.2	15.2	15.8	16.1		0.2	-2.2	1.9	1.2	0.9		
Transportation, mail and storage	6.5	6.9	6.9	7.0	6.9	6.9		0.0	-0.5	0.4	0.2	0.2		
Information in mass media	2.2	3.6	3.9	3.9	3.9	4.0		0.3	0.0	0.2	0.2	0.2		
Insurance and financial services	4.0	4.4	4.5	4.3	4.3	4.3		0.5	-0.2	0.1	0.1	0.2		
Real estate and leasing services	10.1	10.4	11.0	10.6	10.5	10.5		0.3	-0.1	0.2	0.3	0.3		
Prof., scientific, and technical serv.	3.7	3.4	3.5	3.2	3.2	3.2		0.1	-0.2	-0.1	0.1	0.1		
Corporate and company leadership	0.4	0.4	0.4	0.4	0.4	0.4		0.1	0.0	0.0	0.0	0.0		
Business support serv.	2.9	2.5	2.6	2.5	2.5	2.5		0.0	-0.1	0.0	0.1	0.1		
Educat. serv.	4.9	4.5	4.8	4.7	4.6	4.5		0.0	0.0	0.1	0.1	0.0		
Health and social welfare services	3.6	2.8	3.0	2.8	2.7	2.7		0.0	0.0	-0.1	0.0	0.0		
Leisure and relaxation, cultural, and sports serv.	0.5	0.4	0.4	0.4	0.4	0.4		0.0	0.0	0.0	0.0	0.0		
Hotel, motel, lodging serv. and prep. of food & bev.	3.6	2.6	2.6	2.5	2.5	2.4		0.0	-0.2	0.1	0.0	0.1		
Other serv. except gov't activities	3.0	2.6	2.7	2.6	2.6	2.6		0.0	0.0	0.0	0.1	0.1		
Gov't activities	5.6	3.7	4.1	4.1	3.9	3.9		0.0	0.2	0.2	0.0	0.1		

sa Seasonally-adjusted

Note: projections appear in boldface. All figures are subject to review by the Institute

Source: BBVA Research with INEGI data

Chart 2

Mexico: Indicators and sectorial forecasts, manufacturing, sa

	Annual % change												
	2008	2009	2010	2011	2012	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12
Total	-1.0	-9.7	10.1	5.1	3.7	6.1	5.7	4.7	4.0	3.8	3.7	3.5	3.7
Food	1.4	-0.4	1.9	1.8	2.2	2.3	1.0	2.2	1.8	2.0	2.1	2.3	2.3
Beverages and tobacco	2.6	-0.2	-0.4	4.6	2.8	5.5	7.5	2.7	2.6	2.6	2.9	2.7	3.0
Textile inputs	-6.9	-7.5	9.0	-2.5	-0.9	0.7	-5.2	-5.4	0.1	-3.0	-1.6	-0.4	1.6
Production of textile products	-8.4	-9.7	4.8	-1.1	3.1	1.9	-5.0	-2.3	1.1	1.2	3.1	3.7	4.4
Apparel	2.2	-5.7	5.6	-4.7	-3.3	-2.6	-6.8	-5.2	-4.0	-8.7	-5.3	-0.4	1.8
Leather and fur products	-3.2	-6.5	11.0	-0.7	-0.8	0.4	-2.9	0.0	-0.4	0.1	-0.8	-0.8	-1.7
Lumber ind.	-7.6	-4.2	5.9	1.5	1.3	6.5	1.2	-2.7	1.3	2.2	0.4	2.8	-0.1
Paper ind.	2.5	-0.6	4.6	0.5	3.6	0.7	-1.2	1.1	1.4	4.4	4.4	2.2	3.4
Printing and related ind.	5.2	-4.9	10.2	4.3	1.6	10.8	3.7	1.5	1.5	1.3	1.1	2.1	2.0
Oil deriv. prod.	0.7	-1.6	-3.9	-5.5	0.9	-5.2	-9.3	-6.0	-1.1	0.8	0.6	1.0	1.3
Chemicals	-2.2	-2.3	-0.9	2.0	2.4	-0.2	1.0	4.7	2.5	2.2	2.0	2.7	2.9
Plastic and rubber prod.	-1.7	-11.9	9.6	8.0	3.1	10.8	8.3	8.8	4.4	4.3	2.9	3.3	2.1
Non-metal mineral prod.	-3.7	-8.5	2.0	5.9	5.0	6.1	3.0	7.8	6.9	5.5	5.4	5.0	4.3
Basic metal prod.	-0.6	-16.9	13.3	7.4	6.9	10.2	6.7	6.4	6.5	6.8	7.1	7.1	6.8
Metallic prod.	1.0	-15.6	11.7	9.1	3.7	15.0	10.0	8.4	3.5	3.7	4.0	4.0	3.1
Machinery and equipment	-0.4	-20.6	42.5	12.1	5.2	20.5	15.9	7.6	6.2	5.2	5.5	5.5	4.6
Computers and electronics	-12.0	-17.5	8.4	3.8	2.1	7.9	4.1	1.6	1.8	1.8	2.1	2.3	2.1
Electrical equip.	-0.1	-13.8	10.8	1.4	2.6	0.9	-1.0	1.7	4.1	2.0	2.7	2.9	2.7
Transport. equip.	0.6	-27.0	41.2	14.9	7.2	23.1	15.8	12.1	9.1	8.8	7.6	5.4	6.8
Furniture and related prod.	-2.8	-8.0	9.0	6.8	3.9	11.8	6.5	3.7	5.5	4.1	3.1	3.7	4.7
Other manufacturing ind.	1.6	-3.9	3.7	3.0	3.1	3.2	2.6	3.6	2.6	2.8	2.8	3.7	3.1

	% Breakdown						Contribution to growth, pp				
	2003	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Total	100.0	100.0	100.0	100.0	100.0	100.0	-1.0	-9.7	10.1	5.1	3.7
Food	23.0	21.8	24.1	22.3	21.6	21.3	0.3	-0.1	0.5	0.4	0.5
Beverages and tobacco	5.7	6.4	7.0	6.4	6.3	6.3	0.2	0.0	0.0	0.3	0.2
Textile inputs	1.6	1.0	1.0	1.0	0.9	0.9	-0.1	-0.1	0.1	0.0	0.0
Production of textile products	0.6	0.4	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Apparel	3.9	2.6	2.7	2.6	2.4	2.2	0.1	-0.1	0.2	-0.1	-0.1
Leather and fur products	2.2	1.3	1.3	1.3	1.3	1.2	0.0	-0.1	0.1	0.0	0.0
Lumber ind.	1.7	1.1	1.1	1.1	1.1	1.0	-0.1	0.0	0.1	0.0	0.0
Paper ind.	1.9	2.2	2.4	2.3	2.2	2.2	0.1	0.0	0.1	0.0	0.1
Printing and related ind.	1.1	0.9	1.0	1.0	1.0	0.9	0.0	0.0	0.1	0.0	0.0
Oil deriv. prod.	3.0	2.9	3.2	2.8	2.5	2.4	0.0	0.0	-0.1	-0.2	0.0
Chemicals	11.0	9.6	10.4	9.4	9.1	9.0	-0.2	-0.2	-0.1	0.2	0.2
Plastic and rubber prod.	2.9	2.7	2.6	2.6	2.7	2.7	0.0	-0.3	0.3	0.2	0.1
Non-metal mineral prod.	7.1	6.6	6.7	6.2	6.2	6.3	-0.3	-0.6	0.1	0.4	0.3
Basic metal prod.	5.1	5.7	5.2	5.4	5.5	5.7	0.0	-1.0	0.7	0.4	0.4
Metallic prod.	3.0	3.4	3.2	3.3	3.4	3.4	0.0	-0.5	0.4	0.3	0.1
Machinery and equipment	2.8	2.4	2.1	2.7	2.9	2.9	0.0	-0.5	0.9	0.3	0.1
Computers and electronics	3.9	4.8	4.3	4.3	4.2	4.2	-0.6	-0.8	0.4	0.2	0.1
Electrical equip.	2.5	3.4	3.3	3.3	3.2	3.1	0.0	-0.5	0.4	0.0	0.1
Transport. equip.	13.0	17.5	14.1	18.1	19.8	20.5	0.1	-4.7	5.8	2.7	1.4
Furniture and related prod.	1.7	1.3	1.3	1.3	1.4	1.4	0.0	-0.1	0.1	0.1	0.1
Other manufacturing ind.	2.1	2.2	2.3	2.2	2.2	2.1	0.0	-0.1	0.1	0.1	0.1

sa Seasonally-adjusted

Note: projections appear in boldface. All figures are subject to review by the Institute

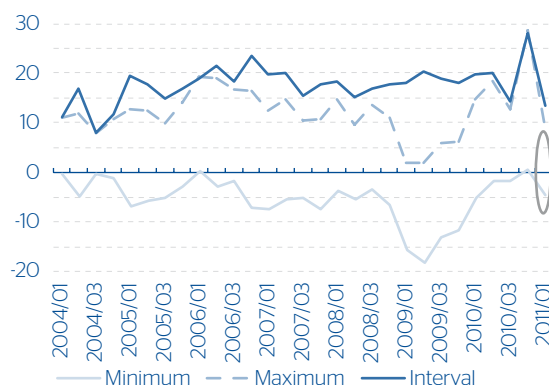
Source: BBVA Research with INEGI data

2b. State economies with less uneven growth

In this section of **Mexico Regional Sectorial Outlook** we review the characteristics of the strength of state economies from the beginning of the recovery in the second half of 2009 to their evolution in the early months of this year, as a reference point along with the assessment of the economic environment in order to identify the major trends for the close of this year and, in general terms, for 2012. In this context, it must be recognized that the international environment has changed in recent months toward more moderate growth expectations and the likelihood of a double relapse of the U.S. economy has again been posed, which represents a risk scenario. However, the BBVA Research base scenario points to growth, albeit more moderate, in the future, which presupposes a gradual easing of elements of uncertainty in the global environment, which affect Mexico, particularly with regard to the performance of the U.S. economy.

Graph 21

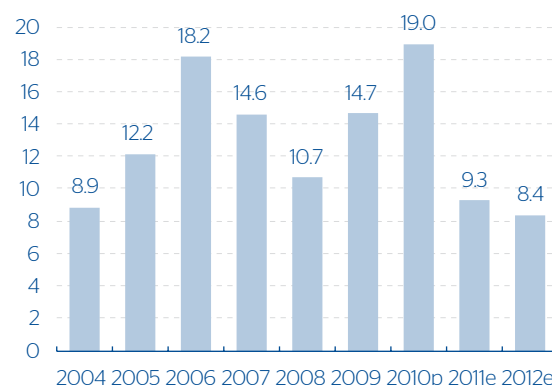
Maximum and minimum GDP growth per state (annual % and pp change)



Source: BBVA Research with INEGI data

Graph 22

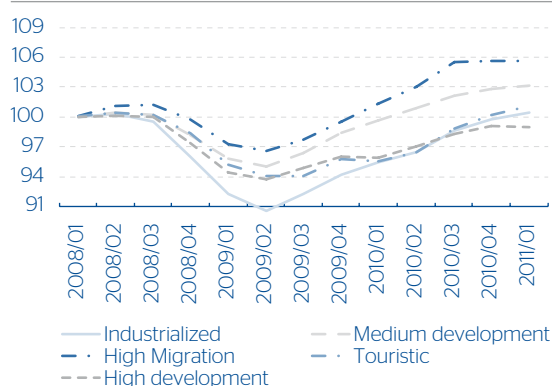
GDP, disparities in growth between states. (Difference between maximum and minimum, pp)



Source: BBVA Research with INEGI data

Graph 23

GDP by region¹ (1Q2008 = 100, sa, 3mma)

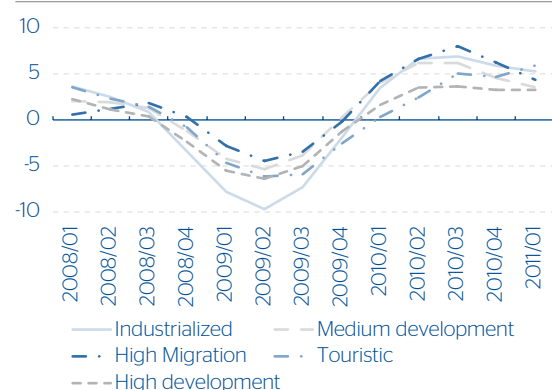


Note: sa = seasonally-adjusted series; pm3 = average of the three observations

Source: BBVA Research with INEGI data

Graph 24

GDP by region¹ (annual % change, sa, 3mma)



Note: sa = seasonally-adjusted series; pm3 = average of the three observations

Source: BBVA Research with INEGI data

¹ Regions according to their orientation and level of development: High level of development: Mexico City, Tourism: Southern Baja California and Quintana Roo, Industrial: Aguascalientes, Northern Baja California, Coahuila, Chihuahua, Jalisco, State of Mexico, Nuevo León, Querétaro, Sonora, Tamaulipas, Medium level development: Campeche, Colima, Durango, Guanajuato, Hidalgo, Michoacán, Morelos, Nayarit, Puebla, San Luis Potosí, Sinaloa, Tabasco, Tlaxcala, Veracruz, Yucatan, Zacatecas, Highly impoverished: Chiapas, Guerrero, and Oaxaca. For a detailed description of these categories, see Regional Sectorial Outlook, November 2007.

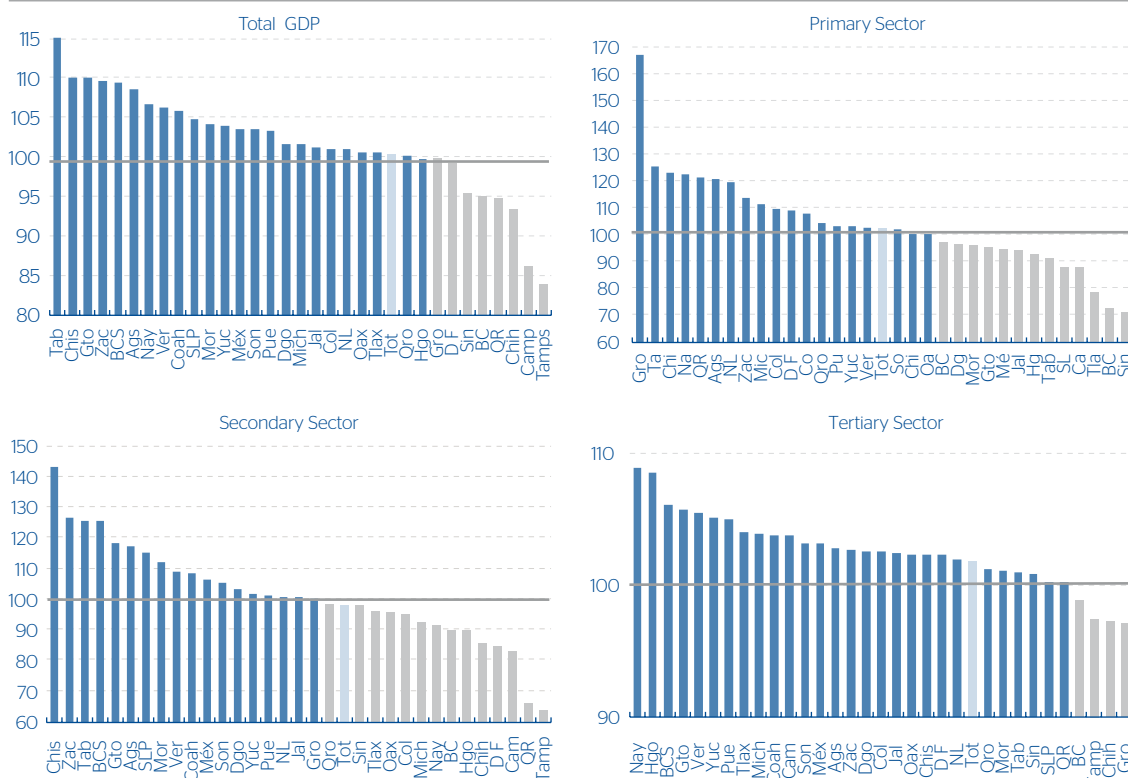
Despite everything, less uneven state economic growth has been observed

During the first quarter, the Mexican economy grew a real annual 4.6%, favoring productive activity in the states. During this period, most of the state economies posted growth, but even though the disparity in growth rates has decreased, it remains relatively large. The dominant pattern of recovery has been mainly driven by manufacturing through greater strength in exports. However, temporary developments have had an impact, for example, freezing temperatures at the beginning of the year were particularly important in some states or on a geographic level the reconfiguration of oil extraction.

After the deep recession that the Mexican economy faced during 2009, with a 10% annual fall in May and a 6.1% yearly average decline, since the second quarter of this year, a gradual recovery has emerged. States that in 2009 experienced a major contraction in their economic growth were those dependent on industrial and tourist activities. Those regions less exposed to the external economic cycle were less affected, such as the states in central and southern Mexico.

Graph 25

Quarterly Index of State Economic Activity (ITAEE, IQ2011), (Index: 1Q2008 = 100)



Note: Blue, greater than 100, Gray, less than 100, Light blue, National total
Source: BBVA Research with INEGI data and our own estimates

The recovery with respect to pre-crisis levels is still insufficient and disparities exist between sectors and states

The recovery from the 2009 crisis has been very uneven among the states. According to the information available on a state level, in the first quarter of this year, 15 states have already exceeded their pre-2008 levels, nine states are at similar levels, and in only eight states (25% of all states or one in four) has economic activity yet to recover the levels of the same period in 2008. The disparities in the level of recovery are considerable; while the economies of the best positioned states are 10% or more above their 2008 levels, those lagging behind the most are 15% below their 2008 levels. In the first situation is Tabasco and in the second Campeche and Tamaulipas; in a second group are Chiapas,

Guanajuato, and Zacatecas with about +10% and Sinaloa, Northern Baja California, Chihuahua and Quintana Roo with minus five points. The main differences in this evolution appear to be positively associated with the presence of oil, the performance of the export sector, and very importantly, with the activity of the automotive industry. The main negative factor is the presence of high levels of violence.

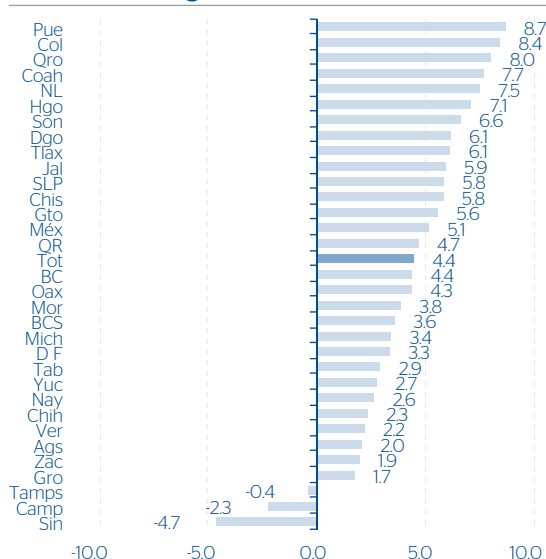
By type of activity, it is in secondary sector activity that the highest number of states have not yet recovered their 2008 levels, 14 in total, very similar to the figure for the primary sector (13 states). Meanwhile, in services only four states lag behind, Northern Baja California, Tamaulipas, Chihuahua, and Guerrero. In terms of disparities, the greatest difference between the states occurs in the primary sector (-28.5% to +66.8%), followed closely by the secondary sector (-35.8% to 43.1%), which contrast with the relative homogeneity of the tertiary sector, whose numbers fluctuate between 2.9% and +8.9%. The differences in the secondary sector appear to be associated with manufacturing specialization and export activity, but reflect the country's selective recovery.

Less heterogeneous sectorial performance in 2011, but not quite in the regions

According to the Quarterly Indicator of State Economic Activity State (ITAE, for it's Spanish initials) in the first quarter of 2011, the most dynamic state economies, with annual growth rates of around 8%, were those of Puebla, Colima, Queretaro, Coahuila and Nuevo Leon. While their industrial export profile is a key factor, with a strong presence of the automobile industry, in a strict sense they are not homogeneous. This is particularly the case with Colima, where it can be said that it is the state furthest from the general profile of the group; it is the least industrialized state; in relative terms particular importance can be assigned to energy and construction and especially the tertiary sector. Therefore, in addition to the general factors, there are also specific elements that drive growth. Among all the states, in Colima the tertiary sector was the strongest and the secondary sector the third most dynamic.

Graph 26

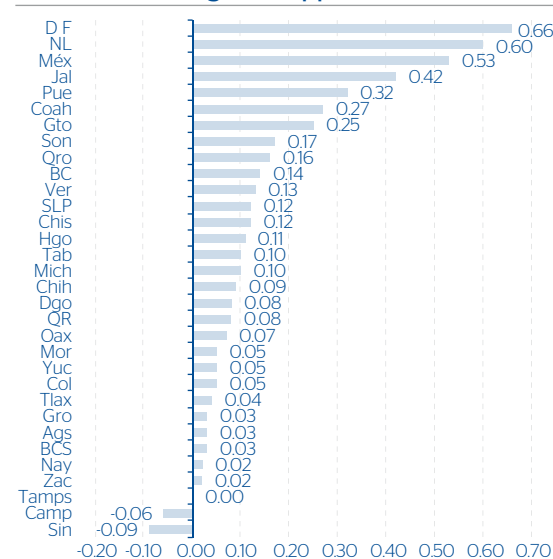
ITAE through 1Q01 (annual % change)



Source: BBVA Research with INEGI data

Graph 27

ITAE through 1Q01 (Contribution to growth, pp)



Source: BBVA Research with INEGI data

The states with lower dynamic economic growth in the same period were Sinaloa, Campeche and Tamaulipas, all of which saw their production levels decrease, with declines of -4.7%, -2.3%, and -0.4%, respectively. In particular, Sinaloa registered the largest contraction in the agricultural sector (-36.9%) as a result of adverse weather conditions. The decline is important due both to its size as well as because in Sinaloa's economy, agriculture has the highest relative percentage share among all the states and it is one of the country's main producers. The freezing temperatures in February 2001 also affected other states, but the most damage to agricultural production was in Sinaloa.

In terms of contribution to overall growth, the most important states were the Federal District, Nuevo Leon, State of Mexico, and Jalisco, accounting for almost half of the country's total growth. Each state's contribution is measured by the size of its economy and its dynamism.

Regionally, there are major differences in sectorial dynamism

For the economy as a whole, ostensibly at least, growth is balanced among large sections. For example, in the first quarter of this year (1Q2011) annual growth was 4.6%, 1.2%, 5.2% and 4.4% for the total, primary, secondary, and tertiary sectors, respectively, or 4.4%, 1.6%, 4.5% and 4.2%². Whatever the reference points may be, the three major sectors of economic activity posted growth. The lower increase in the primary sector can be attributed to random rather than economic factors, while the secondary sector is more dynamic than the tertiary sector and the difference between them is relatively small.

Chart 3

ITAE by sector, 1Q2011 (annual % change)

Primary		Secondary (first part)		Tertiary	
Nay	26.3	Pue	14.4	Col	7.5
Gro	14.6	Qro	13.2	Camp	6.7
Ags	10.2	Col	12.4	Hgo	6.5
Gto	10.0	NL	11.9	Pue	5.7
Jal	9.3	Dgo	11.5	Son	5.6
Mor	8.3	Oax	11.1	Coah	5.6
Oax	8.2	Coah	9.8	Qro	5.4
Ver	7.9	Chis	9.3	Tlax	5.3
Mich	6.6	Son	8.7	SLP	5.2
QR	6.5	Tlax	8.0	Gto	5.0
Hgo	5.9	SLP	7.9	QR	5.0
Zac	5.7	Jal	7.9	BCS	4.9
BC	4.9	Hgo	7.8	Ags	4.9
Coah	4.9	Gto	5.8	Yuc	4.8
Dgo	4.8	BC	5.7	Méx	4.8
Col	4.4	Méx	5.7	Chis	4.8

Source: BBVA Research with INEGI data

Chart 4

ITAE by sector (1Q2011, annual % change)

Primary		Secondary (second part)		Tertiary	
Son	4.4	Mor	3.9	Ver	4.7
NL	4.0	Mich	3.8	Chih	4.7
Chih	4.0	Tab	2.4	NL	4.7
Yuc	3.8	QR	1.5	Jal	4.5
Pue	3.6	Sin	1.4	D F	4.4
Chis	3.1	Zac	0.7	Tab	3.8
Tamps	3.0	BCS	-1.3	BC	3.5
Tlax	1.6	Ags	-2.0	Mor	3.5
Tab	0.8	Chih	-2.1	Dgo	3.5
Méx	0.4	Ver	-2.6	Nay	3.0
D F	0.0	Gro	-2.9	Mich	2.8
BCS	-0.7	D F	-3.6	Tamps	2.5
Qro	-6.0	Yuc	-3.6	Zac	2.2
SLP	-6.2	Camp	-3.8	Oax	2.1
Camp	-16.3	Tamps	-6.1	Sin	2.0
Sin	-36.9	Nay	-11.3	Gro	1.8

Source: BBVA Research with INEGI data

But, in analyzing the evolution of the past year of these three major activity categories by state, the story is different:

- Not all states post positive annual rates in all activities. In five states the primary sector posted negative rates, and in ten states so did the secondary sector, but the tertiary sector registered positive numbers in all the states.
- The secondary sector does not always grow faster than the tertiary sector. In fact, in 14 states the tertiary sector was also the most dynamic. In addition, the differences can be considerable (10 points or more) with even opposite trends being registered.
- The disparities are different between states. The primary sector was the most volatile activity, with growth rates between +26.3% and -36.9%, while the corresponding figures for the secondary sector ranged from +14.4% to -11.3% and for the tertiary sector between 7.5% and 1.8%, with a standard deviation of 10.0, 6.5, and 1.4, respectively (3.0 for the total)
- The sector that contributes most to growth is not always the same. In Nayarit and Sinaloa, the primary sector was the largest contributor to growth, the secondary sector was the most important in this regard in Coahuila, Durango, Nuevo Leon, Oaxaca, Puebla, Queretaro and Tabasco, and in the rest of the country (23 states), the greatest contribution to growth came from the tertiary sector.
- In the states with the highest contribution to national growth, in two of them the greatest momentum comes from industry and in three of them from services.

² Considering the seasonally-adjusted series.

Outlook for state economies in a global environment marked by uncertainty

The outlook for the country's states and regions is based on some basic assumptions. The first involves the BBVA Research base scenario that considers GDP growth of 3.8% in 2011 and 3.3% in 2012. The Mexican economy is gradually moving toward its growth potential of close to 3%. In this regard, 2011 is considered to be the year in which the country's economy will emerge from the crisis, and it is expected that the economy will tend to exceed pre-crisis levels (2008) on a sectorial and regional level. In this environment, high growth in exports will be maintained thanks to the gains in competitiveness that have been posted in some sectors of the economy (see article on competitive cost advantages in this edition of **Mexico Regional Sectorial Outlook**), which will enable a positive momentum to continue for the national economy. However, the weakening of confidence and the financial turmoil in August introduces a downward bias to the trends discussed here.

In 2011 and particularly in 2012, the forecast is for growth in all regions of the country, with less pronounced disparities than in the recent past and more dynamism in the industrial areas. In terms of the GDP recovery observed in 2008, it is the country's highly impoverished regions that will take the lead and the tourism areas will be the most behind. It is in the tourism areas where there is an important disparity with respect to the projections made at the beginning of the year.

Chart 5

GDP by regions*

Real annual growth, %						% share of the total					
	2008	2009p	2010p	2011e	2012e		2008	2009p	2010p	2011e	2012e
Total	1.2	-6.2	5.4	3.8	3.3	Total	100.0	100.0	100.0	100.0	100.0
Industrial	1.5	-8.0	6.3	4.7	3.9	Industrial	40.3	39.5	39.8	40.2	40.4
Highly developed	0.7	-5.5	3.4	3.7	3.2	Medium-level development	36.2	36.8	36.7	36.4	36.2
Tourism	2.1	-6.1	3.5	3.6	3.1	Highly developed	16.9	17.0	16.7	16.7	16.7
Ext. impoverished	1.4	-3.3	6.6	2.9	2.8	Highly impoverished	4.6	4.8	4.8	4.8	4.8
Medium-level development	1.0	-4.8	5.4	2.9	2.8	Tourism	2.0	2.0	2.0	2.0	1.9
Contribution to growth						2008 index = 100					
	2008	2009p	2010p	2011e	2012e		2008	2009p	2010p	2011e	2012e
Total	1.2	-6.2	5.4	3.8	3.3	Total	100.0	93.8	98.9	102.7	106.0
Industrial	0.6	-3.2	2.5	1.9	1.6	Highly impoverished	100.0	96.7	103.0	106.1	109.0
Medium-level development	0.4	-1.8	2.0	1.1	1.0	Industrial	100.0	92.0	97.8	102.4	106.4
Highly developed	0.1	-0.9	0.6	0.6	0.5	Medium-level development	100.0	95.2	100.3	103.2	106.0
Highly impoverished	0.1	-0.2	0.3	0.1	0.1	Highly developed	100.0	94.5	97.8	101.4	104.7
Tourism	0.0	-0.1	0.1	0.1	0.1	Tourism	100.0	93.9	97.2	100.8	103.9

* Regions according to their orientation and level of development: Highly developed: Federal District; Tourism: Southern Baja California and Quintana Roo; Industrial: Aguascalientes, Northern Baja California, Coahuila, Chihuahua, Jalisco, State of México, Nuevo León, Querétaro, Sonora, Tamaulipas; Medium-level development: Campeche, Colima, Durango, Guanajuato, Hidalgo, Michoacán, Morelos, Nayarit, Puebla, San Luis Potosí, Sinaloa, Tabasco, Tlaxcala, Veracruz, Yucatan, Zacatecas; Highly impoverished: Chiapas, Guerrero and Oaxaca.

Source: BBVA Research with INEGI data and our own estimates

The main risks to this scenario are associated with the international environment. With regard to the macro environment, there is an increased probability of a more volatile international scenario, as seen in August and September of this year. Of particular importance in this regard is the behavior of the U.S. economy, which due to the degree of its exposure, could generate a differentiated impact on a state level, with greater consequences in the export-oriented industrial zones. In terms of unexpected developments, there is the weather, which history has clearly shown cannot be ignored, since it has a very pronounced impact on some of the country's most vulnerable areas.

Chart 6
GDP by State

	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
	(billions of 2010 pesos)					Real annual % growth					(Contribution to growth, pp)				
National total	12,057.8	12,463.1	12,653.7	11,893.6	12,537.7	5.1	3.4	1.5	-6.0	5.4	5.1	3.4	1.5	-6.0	5.4
Federal District	2,093.4	2,156.9	2,176.3	2,053.3	2,124.5	4.8	3.0	0.9	-5.7	3.5	0.8	0.5	0.2	-1.0	0.6
Mexico state	1,061.7	1,107.0	1,129.7	1,072.0	1,152.6	5.7	4.3	2.1	-5.1	7.5	0.5	0.4	0.2	-0.5	0.7
Nuevo Leon	891.1	947.1	962.3	873.6	935.5	7.2	6.3	1.6	-9.2	7.1	0.5	0.5	0.1	-0.7	0.5
Jalisco	757.6	787.2	793.1	740.4	782.6	5.0	3.9	0.7	-6.6	5.7	0.3	0.2	0.0	-0.4	0.4
Campeche	834.7	790.6	767.6	695.2	682.2	-2.1	-5.3	-2.9	-9.4	-1.9	-0.1	-0.4	-0.2	-0.6	-0.1
Veracruz	549.1	567.0	566.0	565.0	592.9	8.6	3.2	-0.2	-0.2	4.9	0.4	0.1	0.0	0.0	0.2
Guanajuato	457.7	464.2	469.5	450.6	502.2	5.6	1.4	1.2	-4.0	11.4	0.2	0.1	0.0	-0.1	0.4
Tabasco	403.2	414.8	432.7	442.9	475.2	6.2	2.9	4.3	2.3	7.3	0.2	0.1	0.1	0.1	0.3
Puebla	403.6	419.4	430.4	392.5	429.3	6.2	3.9	2.6	-8.8	9.4	0.2	0.1	0.1	-0.3	0.3
Coahuila	386.3	393.3	401.2	351.8	394.6	6.4	1.8	2.0	-12.3	12.2	0.2	0.1	0.1	-0.4	0.4
Chihuahua	386.0	398.7	403.2	363.6	379.9	6.2	3.3	1.1	-9.8	4.5	0.2	0.1	0.0	-0.3	0.1
Tamaulipas	369.7	394.1	409.6	367.3	370.9	1.0	6.6	3.9	-10.3	1.0	0.0	0.2	0.1	-0.3	0.0
Baja California	351.1	359.5	359.4	326.7	340.5	5.4	2.4	0.0	-9.1	4.2	0.2	0.1	0.0	-0.3	0.1
Sonora	303.8	312.8	314.7	300.1	315.7	8.9	3.0	0.6	-4.6	5.2	0.2	0.1	0.0	-0.1	0.1
Michoacan	286.3	298.0	309.5	291.7	304.6	4.3	4.1	3.9	-5.7	4.4	0.1	0.1	0.1	-0.1	0.1
Sinaloa	244.6	259.0	265.6	252.7	264.5	3.3	5.9	2.5	-4.8	4.7	0.1	0.1	0.1	-0.1	0.1
San Luis Potosi	223.3	227.6	236.0	222.4	244.9	5.7	1.9	3.7	-5.8	10.1	0.1	0.0	0.1	-0.1	0.2
Chiapas	222.1	217.9	227.3	220.0	242.9	3.1	-1.9	4.3	-3.2	10.4	0.1	0.0	0.1	-0.1	0.2
Queretaro	210.2	226.4	236.1	217.7	233.6	7.0	7.7	4.3	-7.8	7.3	0.1	0.1	0.1	-0.1	0.1
Oaxaca	187.8	190.9	195.4	191.0	199.0	0.7	1.6	2.4	-2.3	4.2	0.0	0.0	0.0	0.0	0.1
Hidalgo	183.6	192.3	206.4	189.8	197.9	1.5	4.7	7.3	-8.0	4.3	0.0	0.1	0.1	-0.1	0.1
Guerrero	177.1	185.8	181.7	174.5	182.5	1.4	4.9	-2.2	-4.0	4.6	0.0	0.1	0.0	-0.1	0.1
Yucatan	159.9	169.7	170.3	165.5	177.2	5.8	6.1	0.4	-2.8	7.1	0.1	0.1	0.0	0.0	0.1
Quintana Roo	165.6	181.2	184.0	167.3	171.1	4.9	9.4	1.6	-9.1	2.3	0.1	0.1	0.0	-0.1	0.0
Durango	151.1	153.9	157.1	151.3	157.7	3.1	1.9	2.0	-3.7	4.3	0.0	0.0	0.0	0.0	0.1
Aguascalientes	124.5	131.7	132.7	127.4	138.5	8.9	5.8	0.8	-4.0	8.7	0.1	0.1	0.0	0.0	0.1
Morelos	128.7	132.7	128.7	128.7	137.4	1.8	3.1	-3.1	0.0	6.8	0.0	0.0	0.0	0.0	0.1
Zacatecas	93.5	95.8	103.2	104.8	110.5	5.4	2.4	7.7	1.5	5.5	0.0	0.0	0.1	0.0	0.0
BCS	67.0	72.1	75.3	77.0	81.9	7.3	7.7	4.4	2.3	6.3	0.0	0.0	0.0	0.0	0.0
Nayarit	75.0	71.9	75.1	72.6	77.0	15.8	-4.1	4.5	-3.4	6.1	0.1	0.0	0.0	0.0	0.0
Colima	61.8	64.7	65.4	62.4	69.9	5.6	4.6	1.2	-4.6	12.0	0.0	0.0	0.0	0.0	0.1
Tlaxcala	65.3	66.5	66.9	63.4	68.0	6.5	1.9	0.6	-5.3	7.3	0.0	0.0	0.0	0.0	0.0

* The sum does not coincide with the total due to the rounding out of figures
Source: BBVA Research with INEGI data and our own estimates

3. Topics for Analysis

3a. Which are the most competitive sectors in Mexico? Focus on production costs

In the previous edition of **Mexico Regional Sectorial Outlook** of January 2011, we present an analysis of the competitiveness of the Mexican sectors, with a traditional focus on an increase in the share of Mexican exports in the main market for the country: the United States. The Indices of Revealed Competitive Advantages (IVCR for its Spanish initials) were estimated as an approximation of sectorial competitiveness. The results were encouraging; many manufacturing products even those of high technology were gaining penetration, with Mexico narrowing the gap with respect to the presence of China and becoming the second trading partner of the U.S., competing very closely with Canada as of the third quarter of 2009.

On this occasion, we are making a complementary analysis based on a review of production costs and productivity in order to identify the sectors in Mexico that show a greater productive advantage. Other indirect costs that have gained importance, such as transportation, are also reviewed, as well as the effect of the real peso depreciation in the reduction of prices in Mexican products. Finally, these sectors will be contrasted with those that offer a broader domestic market, so that they allow identifying those sectors that could maintain higher growth rates in the future, based on their cost competitiveness and their potential for growth.

Is the performance of Foreign Direct Investment (FDI) a reference of sectorial competitiveness?

The intensive global competition for the markets have led numerous companies to consider the transfer of their operations to countries offering greater competitiveness, both to achieve increases and to supply the domestic market.

Increasingly, investment decisions not only take into account short-term factors. The declining expansion of the U.S., Europe and Japan is giving way to multiple economic growth centers both in developed economies and in the emerging ones. BBVA Research has recently minted the concept of "EAGLE's", for its denomination. "Emerging and Growth-Leading Economies" that constitutes a methodology in the expansion process and world growth in the coming ten years. This concept not only groups them together due to their strength, but also for the size of their economies, which allows identifying the countries that absolutely and to a greater extent contribute to world growth.

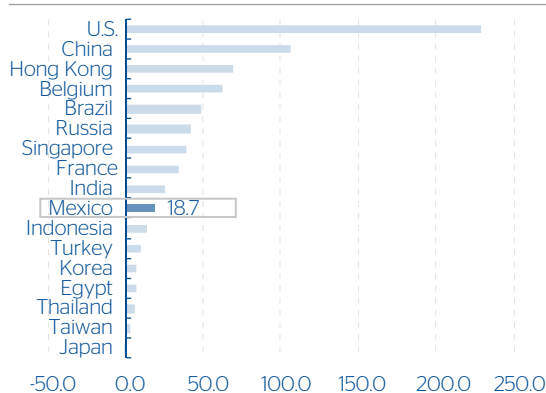
According to BBVA Research estimates, it is estimated that in this decade that is beginning, the EAGLE's will contribute more than 50% of world growth, while the G7 will account for only 7%. The EAGLE's that will contribute most to growth, in a higher to lower order, are: China, India, Brazil, Indonesia, Korea, Russia, Mexico, Egypt, Taiwan and Turkey.

Mexico remains an important recipient of FDI

In 2010, China received the highest amounts of FDI among the emerging countries (see Graph 28) although Indonesia, Singapore, Brazil, Hong Kong and Mexico stood out for their dynamic performance (see Graph 29).

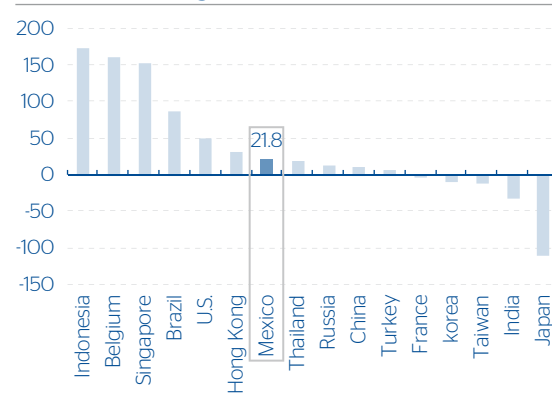
¹ For a more detailed review of the "EAGLE's" methodology please review Who are the EAGLE's? The boost to world growth in the coming ten years. Economic Observatory of BBVA Research, February 14, 2011, at the following e-mail address: www.bbva.com/BBVAResearch/KETD/ketd/esp/nav/geograficas/economiasemergentes/

Graph 28

**Foreign Direct Investment 2010
(Flows in billions of dollars)**


Source: BBVA Research with UNCTAD and Department of the Economy data.

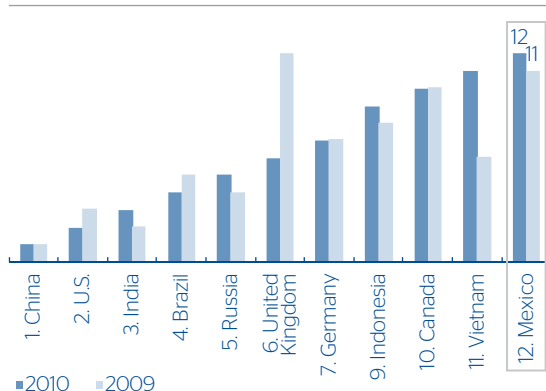
Graph 29

**Foreign Investment 2010
(Annual % change)**


Source: BBVA Research with UNCTAD and Department of the Economy data.

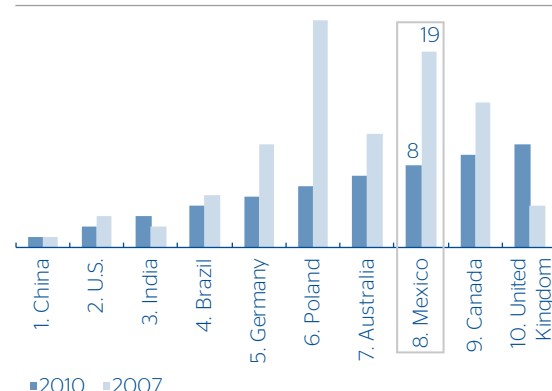
The recovery of FDI in Mexico has been relatively faster than in countries which traditionally have been considered to be strong competitors (China, Russia and India), which is consistent with the recovery of our country and also with the most recent opinion polls that point to Mexico as an important and attractive destination for investment. In the survey conducted by UNCTAD², Mexico ranks among the 15 priority destinations for investment (see Graph 30). Nevertheless, compared to the previous survey (2009-2011), it dropped one place. On the other hand, the confidence index for FDI published by A.T. Kerney³, places Mexico within the first eight places for investment (see Graph 31), by which it advances eleven places compared to the index of 2007 and it is the country that has advanced the most after Poland.

Graph 30

**Most attractive countries for FDI 2010
(Position as a destination)**


Fuente: BBVA Research con datos de UNCTAD WIPS 2010-2012

Graph 31

**Confidence Index for FDI
(Position as a destination)**


Fuente: BBVA Research con datos A.T. Kearney Foreign Direct Investment Confidence Index

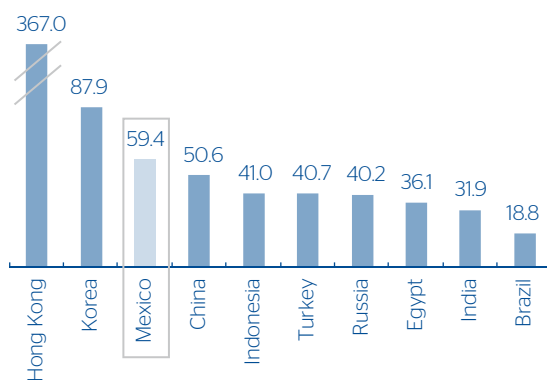
The performance of FDI is consistent with the recovery in Mexico; the greater part is directed to manufacturing, although sectors focused on the domestic market acquire importance

Mexico's main attraction for FDI is its important platform of manufacturing exports of over US\$246 billion in 2010 and another US\$250 billion in manufacturing imports that place Mexico as one of the economies most open to foreign trade (see Graph 32) and with the greatest trade activity internationally.

² UNCTAD World Investment Prospects Survey 2010-2012

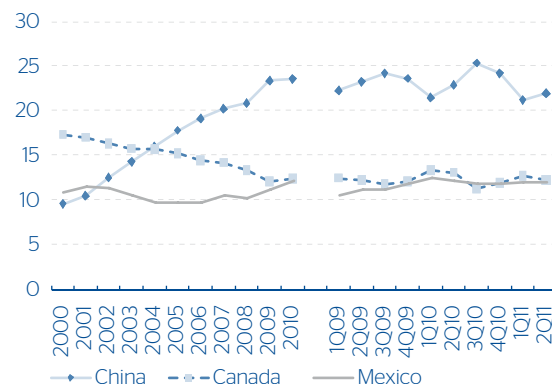
³ A.T. Kerney 2010 conducts the Confidence Index regarding the main destination for FDI. The Index is worked out by means of periodic evaluations of the perception of high executives of the largest companies in the world.

Graph 32

**Trade Opening 2010
(Merchandise trade as % of GDP)**


Note: In the case of Russia and Egypt, the data are for 2009
Source: BBVA Research with IMF and World Bank data

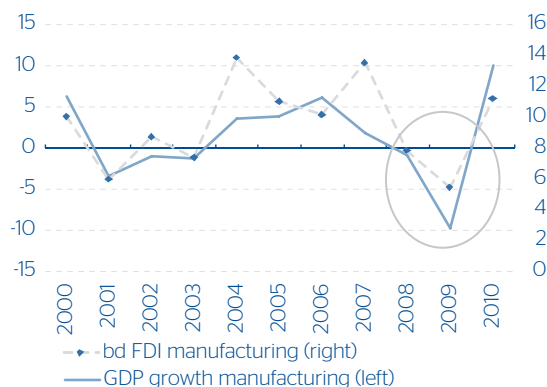
Graph 33

**Manufacturing imports by the U.S.
(% share of main trading partners)**


Source: BBVA Research with USITC data.

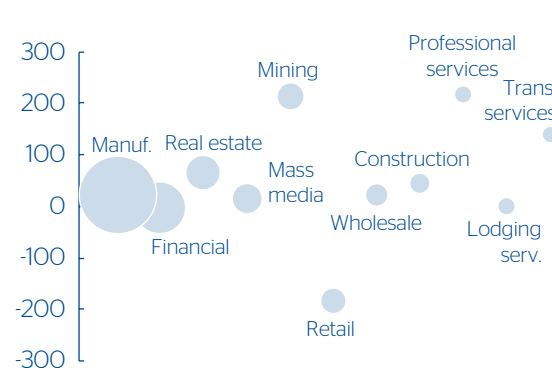
This has allowed widening its market within U.S. imports, placing it as its second trading partner, together with Canada (see Graph 33). The sustained growth of Mexican manufacturing exports is possible thanks to the continuous flow of FDI to the country, even in periods of international financial crisis (2008 and 2009) and the drop in manufacturing output (see Graph 34), allowing for the strengthening of Mexico's competitive advantages compared to its competitors by providing capital and technology for the development of diverse activities.

Graph 34

**FDI and GDP in manufacturing
(billions of dollars and annual % change)**


Source: BBVA Research with INEGI and Department of the Economy data.

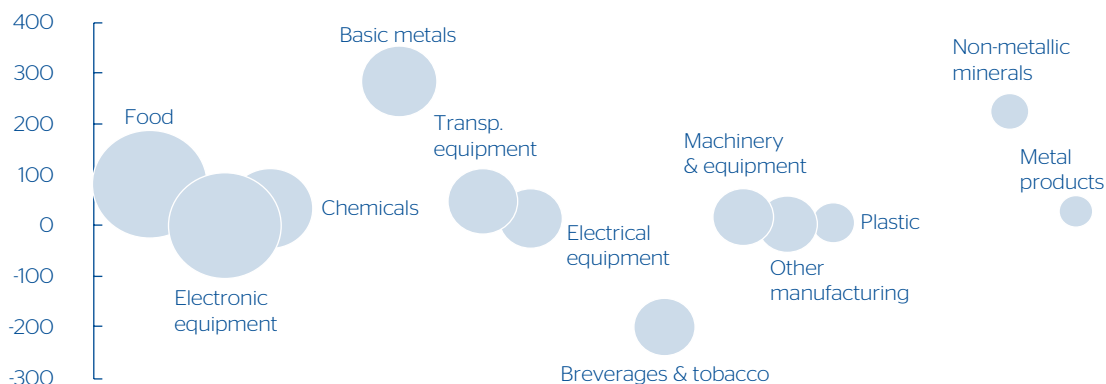
Graph 35

**FDI large sectors of the economy
(Average % change 2002-2010)**


Source: BBVA Research with Department of the Economy data.

Since 2002, when growth of the Mexican economy is resumed, FDI has mainly been focused on export manufacturing activity for export (see Graphs 35 and 36) (44.7% of total FDI), even though the size of the domestic economy has justified that some of those companies not lose sight of the local market such as the retail market, food and beverages, financial and real estate services and temporary lodging where tourism is included. In manufacturing, the concentration of FDI in one sector is lower (see Graph 37). Particularly noteworthy are, in first place, the processed foods and electronic and computer equipment sectors, both with a little more than 19% each of which account for FDI in manufacturing, and, to a lower extent, chemistry and basic metals, which accounted for 10.9% and 8.5%, respectively.

Graph 36

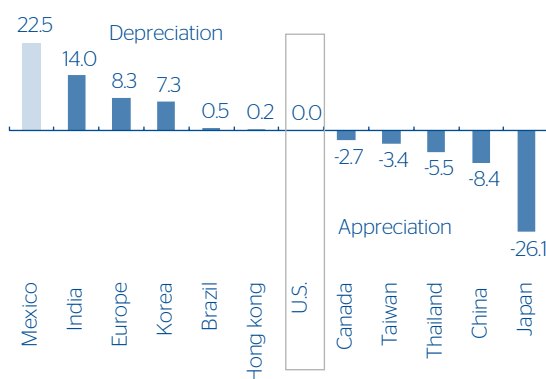
**FDI, main manufacturing sectors
(Average % change 2002-2010)**

Source: BBVA Research with Department of the Economy data.

Short-term advantage; the depreciation of the peso against the dollar

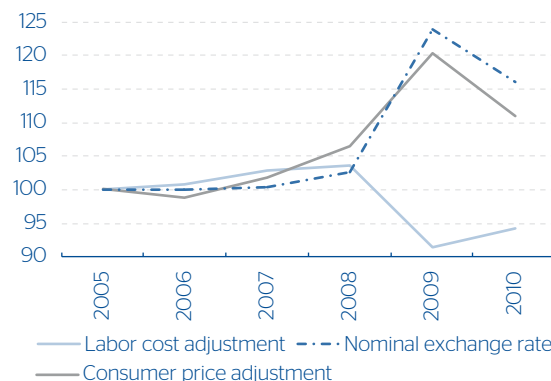
The global crisis and more intensive maneuvering in the management of economic policy that the Mexican economy has been acquiring, have generated a transitory competitive advantage for Mexico where it has benefited from a more attractive nominal exchange rate as well as from its depreciation against various currencies, among them the U.S. dollar. In nominal terms, the peso depreciated 22.5% in September 26 compared to 2008 (see Graph 37). The peso-dollar exchange rate, adjusted by price differential and unitary labor costs in 2010, is showing price a lowering of 4.3% and of 9.1% compared to 2008 (see Graph 38).

Graph 37

**Nominal exchange rate compared to the U.S. dollar
(% change, 26 Sep. 2011 vs. 2008)**

Source: BBVA Research with U.S. Federal Reserve data.

Graph 38

**Peso/dollar parity; Mexico
(2005=100)**

Source: BBVA Research with World Bank data.

In the case of China, the growing inflationary pressure and the appreciation of its currency have reduced its competitive advantage in the U.S. market. Chinese products have been rising in price in view of a panorama characterized by high prices of raw materials, indicating higher input costs due to higher oil prices, which have increased transportation costs, and wage increases, particularly in the southern production zones of that country.

The higher prices in Chinese products on the U.S. market favor Mexican producers who are more competitive, a fact that has led to greater growth in Mexico's market share compared to China. In 2010, China marginally increased its share of the U.S. import market, going from 23.4% in 2009 to 23.6% in 2010. On the other hand, Mexico increased its share by close to one percentage point, from 11.4% to 12.2% in the same years.

Mexico's advantages in the medium and long terms

According to BCG⁴ the main criteria that are considered in making domestic and foreign investment decisions are six (see Chart 7: those referring to costs (direct or indirect) represent 80% of the weighting; they include production costs (35%), transportation (20%), the potential of the domestic market (10%), operating costs (15%) and investment risk (10%). The quality of the resources and other aspects account for 10%. For purposes of the analysis, we will concentrate on the first three, which in turn depend on the characteristics of the specific sector, the weight of which varies from one sector to another. In order to simplify, they were averaged, given the scope of this note.

Chart 7

Competitiveness criteria

	Peso	Detail		Peso	Detail
35% Production costs*:			10% Availability/ease of resource f/management:		
Labor	37-98%	Sector	1) Effective schooling; 2) Cultural affinity	7.7% e/o	Country
Electricity	1-35%	Country	3) General infrastructure; 4) Rigidity of the system,		
Fuel (diesel, gas, and gasoline)	0-63%	Country	of employment; 5) Hours worked per year;		
Other inputs			6) Labor relations; 7) Availability of engineers and		
20% Transportation costs:			scientists; 8) Protection to intellectual property;		
Infrastructure quality	50%	Country	9) Anti-monopolistic policies; 10) No. of transac-		
Maritime distance	50%		tions f/opening a business; 11) Expenses In I+D (%		
Importance of			of GDP); 12) Cost to company for violence & crime;		
Transportation for the sector		Sector	13) Bank and non-bank loans		
10% Consumption potential					
Current consumption	33%	Sector			
Expected consumption	67%	Sector			
15% Operating costs:			10% Investment cost/risk:		
Corporate tax rate	45%	Country	Regulation favors loans	20%	Country
Duty or non-duty tariff	45%	Country	Real estate cost of ind. land	20%	Country
Telephone subscription cost (GDP %)	10%	Country	Policy toward the FDI	20%	Country
			Business operating risk	20%	Country
			Country risk	20%	Country

*The relative weight depends on the cost structure of each sector.

In Mexico BCG came near the CE of INEGI

Source: BBVA Research with BCG data.

a) Production costs

Labor

Production costs, in turn, consist of labor (54%), electricity (5%), fuel (5%) and others (36%). Labor costs are the component with the greatest weight; 37% is the minimum that it can represent for a determined sector, with a maximum of up to 98% of the total. The labor-intensive sectors are in services, where of note is the support to businesses, research and development and education. Another relevant sector is mining.

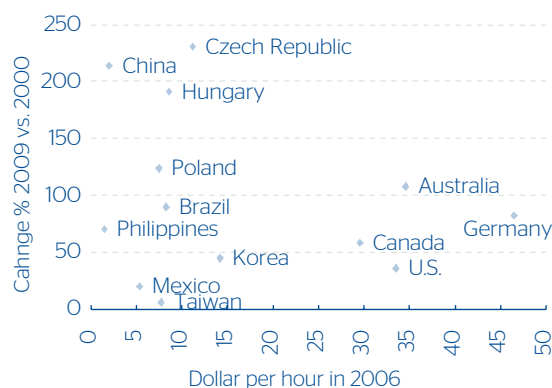
Comparatively, Mexico offers a competitive labor cost (see Graph 39), among an important complex of emerging and developed countries. For example, if we consider China, the main competitor in the U.S. market, we will see that the per hour labor wage has been reduced to that of Mexico, as a result of the high rises in China of over 200% in the past decade and a moderate

⁴ BCG The Boston Consulting Group in the Diagnosis document and the strategies for attracting investment and operations to Mexico, October 2009.

advance in Mexico of a nominal 20.4% in a similar period. In fact, if we consider monthly wages in China and Mexico, we will see that, on average, the wage gap closed between both countries (see Graph 40). It is possible that in the future some sectors in China will show higher labor costs than in Mexico.

Graph 39

Per hour wage in manufacturing*

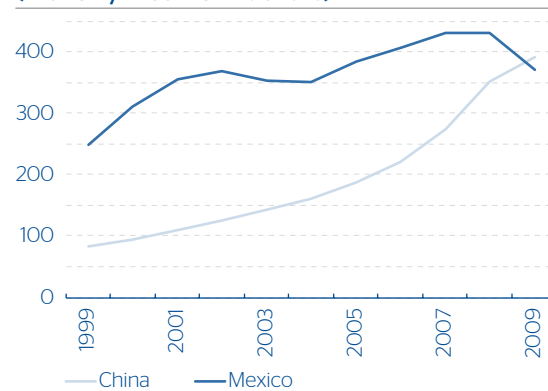


*Total employees

Source: BBVA Research with U.S. Bureau of Labor Statistics data, March 2011; in the case of China, 2009 vs. 2002

Graph 40

Total average wage Mexico-China (Monthly income in dollars)



Source: BBVA Research with OIT data, 2009 estimated

The wages per sector in Mexico and China also show generalized growth according to available sectorial statistics (see Chart 8). In China, the growth in wages has been high and almost generalized among the sectors in recent years. In Mexico, wage increases per sector also grew, although at a more moderate rate. In manufacturing, the most relevant sector in terms of relative Mexico-China competitiveness, the wage differences have been reduced in 2009, with Mexico only 11.3% more expensive compared to China (see Graph 41).

Chart 8

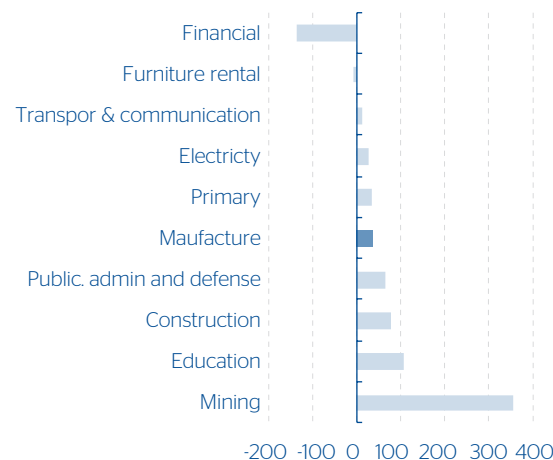
Wage by selected sectors 2009 (monthly perception in dollars)

	Dollars		Diff. Mexico-China	
	Mexico	China	Abs.	Rel, %
Mining	816.7	461.7	355.0	76.9
Education	512.6	405.1	107.6	26.6
Construction	366.7	288.9	77.8	26.9
Pub. admin. and defense	506.8	442.2	64.5	14.6
Manufacturing	361.2	324.7	36.6	11.3
Primary	207.7	173.9	33.8	19.5
Electricity	552.1	526.1	26.0	4.9
Transport. & communication	452.0	440.1	11.8	2.7
Real estate rental	400.0	407.0	-7.0	-1.7
Financial	692.9	829.9	-137.0	-16.5

Source: BBVA Research with OIT data. The 2009 figures are estimated

Graph 41

Gap in monthly Mexico-China perceptions (dollars)



Source: BBVA Research with OIT data, 2009 estimated.

To summarize, the average wage gap, so as to decide the establishment of operations in Mexico vs. China for exporting to the U.S., has been narrowing at least in the short term. Due to this, it could possibly translate into the redirection of production for export from other cheaper countries like Mexico. However, there are other production costs, like electricity and fuel.

Electricity

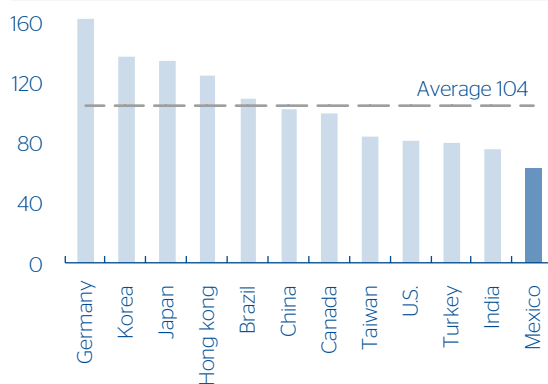
Electricity has an average weight of 5% in the cost structure of a product. However, specific sectors such as the production of cement, plaster, ceramics, glass, iron and steel, mining and tourism could represent up to 35% of the total in the group of countries considered. The price of electricity in Mexico, adjusted for quality, is at the average level (0.19 US dls/kwh kilowatt-hour in 2010 vs. 0.20 for the average), although substantially more expensive than China and India (0.07 y 0.08 dls/kwh respectively).

Fuels

Fuels, like gasoline and diesel, on average represent 5% in the production cost structure. However, in sectors like auto-transportation, passenger transportation, agriculture (vegetables, fruits and flowers) and animal transportation could come to represent up to 65% of the total. Gasoline and diesel prices are lower in Mexico than the average (see Graphs 42 and 43).

Graph 42

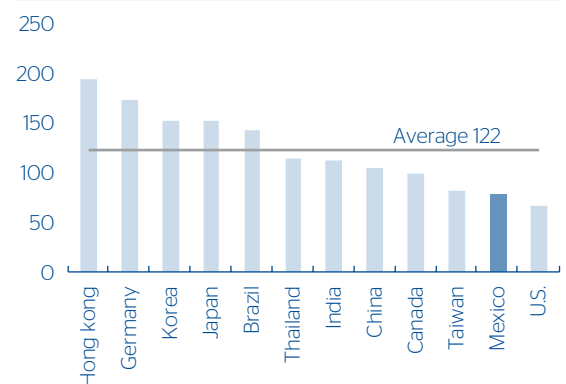
Diesel Price 2008-2010 (U.S. cents/Lt)



Source: BBVA Research with International Fuel Prices 2010 GLZ data.

Graph 43

Gasoline Price 2008-2010 (U.S. cents/Lt)



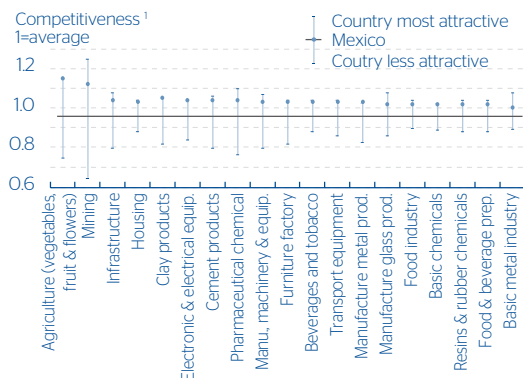
Source: BBVA Research with International Fuel Prices by GTZ data.

Based on the figures above, it can be said that, in general, Mexico has earned competitiveness in recent years in production costs, both for manufactured goods and in services. The advantage has been supported by lower labor and fuel costs. Of the 15 manufacturing activities considered, Mexico is the most attractive in 11 in production costs compared to the group of countries considered⁵. Also notable are the agricultural and housing sectors (see Graph 44). In services, it is also the most outstanding in 12 of 16 activities, compared to the countries considered (see Graph 45).

⁵ The countries considered by BCG are Germany, Brazil, China, Colombia, Korea, United States, India, Mexico, Poland and Turkey.

Graph 44

Relative competitiveness in production² costs: agriculture, mining, construction and manufacturing



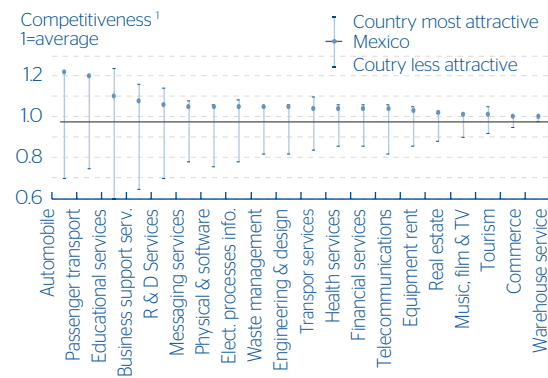
1. Index of relative competitiveness to: the US, Mexico, China, Colombia, Brazil, India, Poland, Korea, Germany, Turkey.

2. Depending on the cost structure of the sector.

Source: BBVA Research with BCG data.

Graph 45

Relative competitiveness in production² costs: services



1. Index of relative competitiveness to: the US, Mexico, China, Colombia, Brazil, India, Poland, Korea, Germany, Turkey.

2. Depending on the cost structure of the sector.

Source: BBVA Research with BCG data.

B) Transportation costs

In addition to the cost of production, the second most significant expense for consideration in the relocation of production are transportation costs. These represent 20% in the cost structure, which in turn are determined by distance (50%) and the quality of infrastructure (50%). As refers to distance, Mexico has a structurally favorable geographic position (see Chart 9) for serving the U.S. market, particularly for those products that are sensitive to transportation costs and delivery times. Although Mexico has made important efforts in terms of the quality of infrastructure, for example, in the construction and expansion of highways, there are still many challenges to overcome, since it does show deficiencies that place it below the average of its competitors (see Graph 46).

Chart 9

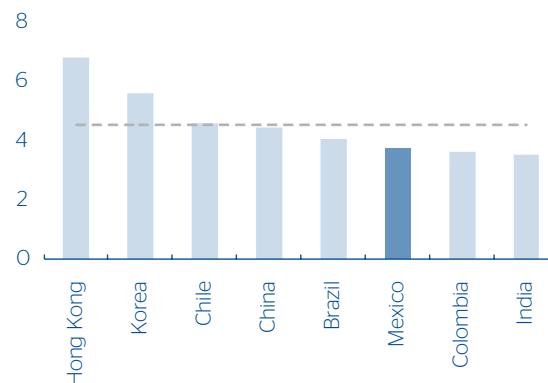
Distance to main consumption centers (Maritime days)

	Mexico	China	India	Brazil	Korea	USA
US (NY)	5.0	32.0	25.0	15.0	21.0	-
US (LA)	4.0	18.0	31.0	23.0	17.0	-
Europe (Rotterdam)	16.0	32.0	20.0	17.0	33.0	11.0
Japan (Yokohama)	19.0	4.0	17.0	35.0	3.0	15.0

Fuente: BBVA Research con datos de BCG

Graph 46

Transportation infrastructure quality 2010-2011



Fuente: BBVA Research con datos de WEF

Mexico's strategic geographic location, with a 3,000 km. border with one of the largest markets in the world, is a key advantage for sectors that sell their products to the U.S. market where logistics and transportation represent a significant part in their cost structure. Also, it is relevant for some companies with a capacity of strict response and with "just in time" (JIT) requirements.

In order to measure this advantage, it must be considered that an important part of world trade consists in large-sized products, which for those who purchase them, the transportation cost could represent an important proportion of the final price. In terms of evaluating cost, the volume-peso, volume-value ratio is very important. For example, let us compare the freight costs for the transportation of a 2TEU container (a unit equivalent to 20 feet) with a U.S. destination from Mexico City and from Shanghai, China, where shipment costs include land and maritime transportation, which are US\$2,699 and US\$5,437, respectively (see Chart 10). For example, we can appreciate that Mexico has a competitive advantage in producing household appliances, since the proportion of the shipping costs are much lower from Mexico than from China. On the contrary, in the case of the DVD/CD player, the proportion of the transportation cost regarding the price is very small, which is why labor costs are relevant.

Chart 10

Freight costs can play a significant role in the creation of a competitive advantage

Product	Retail price in the US (dolls)	Units. for a 2 TEUs cont.	Freight costs per unit Asia (% retail)	Freight costs per unit Mex. (% retail)	Advantage
Refrigerator	500	55	\$ 100.0 (20.0%)	\$ 48.7 (9.7%)	Mexico
Stove	450	95	\$ 58.0 (12.9%)	\$ 28.2 (6.3%)	Mexico
TV of 29"	450	170	\$ 33.0 (7.1%)	\$ 15.9 (3.5%)	Mexico
DVD/CD player	150	3,700	\$ 1.5 (1.0%)	\$ 0.7 (0.5%)	China

Source: BBVA Research with BCG data.

Chart 11

Relative competition of Mexico in transportation costs

Sector	Relevance in costs	Competitiveness
Agriculture, vegetable, fruit & flower prod.	5	1.4
Clay Manuf. prods.	5	1.4
Cement Manuf. prods.	5	1.4
Animal breeding	4	1.3
Chemical, resins and rubber	4	1.3
Ethylc Manuf. prods.	4	1.3
Furniture Manuf.	4	1.3
Basic chemistry	3	1.2
Machinery and equipment Manuf.	3	1.2
Transportation equip.	3	1.2
Electric and electronic eq. Manuf.	2	1.2
Mining	2	1.2
Processed foods	2	1.2
Physical media and software	2	1.2
Beverages and tobacco	1	1.1
Chemical-pharmaceuticals	1	1.1

Competitiveness, =1 country aver, > 1 competitive, < 1 not competitive
Time-distance relevance, 5=quite relevant, 1=not too relevant

Source: BBVA Bancomer with BCG data.

Due to the above, the sectors where Mexico has a structural advantage in transportation are those that produce heavy articles like clay and cement, of large volume and high value like machinery and equipment, vehicles and auto-parts and in perishable merchandise like non-processed food and animal breeding (see Chart 11). Also, it favors sectors in which the response time for the shipment of components is essential. For example, fashion articles, like clothes and textiles; the advantage of reacting quickly to changes in demand and not depending on a supply chain is quite relevant. The same applies to electronics and perishable merchandise.

C) Consumption potential

The consumption potential is the third criterion (relative weight 10%) to consider by companies to decide whether to invest or transfer future operations out from their borders. The domestic markets of the emerging countries have great attraction for FDI; demographically they have young labor, they are attractive for sale and supply, and they show high growth rates and a high expansion outlook of their domestic market. The economic potential of the emerging countries as a group, represent more than half of the world population and are realizing an important part of the world production. They offer opportunities for trade to the extent that the need increases for capital goods, machinery, energy transmission equipment, transportation equipment and high

technology products. In order to compare the potential market of this group the potential market index⁶ (PMI) was used. In 2010, the Index places Hong Kong as the domestic market with the greatest potential, while the one with the least potential is Venezuela. Mexico placed in the middle of the table (position 13) although at a disadvantage compared to Brazil (11th), China (2nd) and India (9th) among others (see Chart 12).

Chart 12

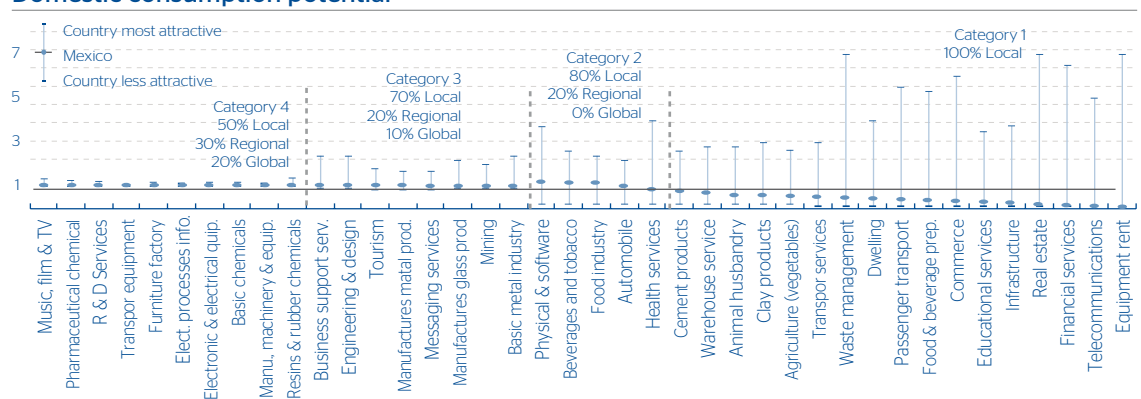
Domestic market potential, 2010

Place	Country
1	Hong Kong
2	China
4	South Korea
5	Czech. Rep.
6	Poland
9	India
10	Turkey
11	Brazil
13	Mexico
21	Russia
26	Venezuela

Source: BBVA Research with The Economist data.

In order to measure the consumption potential at a sector level, four target categories were considered important: 1) 100% to the local market; 2) 80% to the local market, 20% to the regional; 3) 70% to the local market, 20% to the regional and 10% to the global; and 4) 50% to the local market, 30% to the regional and 20% to the global market. According to BCG, Mexico is not too attractive in sectors aimed 100% to the local market like telecommunications, passenger transportation and housing, among others, while in sectors exposed to foreign competition like transportation equipment, the differences between the countries are reduced, given the imported components that share these industries (see Graph 47).

Graph 47

Domestic consumption potential

1. Index of relative competitiveness to : US, Mexico, Chile, Colombia, Brazil, India, Poland, Korea, Germany, Turkey.

2. Depending on the cost structure of the sector

Source: BBVA Research with BCG data.

⁶ This Index published by The Economist allows companies to compare the emerging markets among themselves in various dimensions. Eight dimensions have been selected to represent potential : 1) size of the market; 2) growth rates; 3) intensity; 4) consumption capacity 5) trade infrastructure; 6 economic freedom; 7) receptivity of the market; and 8) country risk. For further detail see <http://globalEDGE.msu.edu/resourceDesk/mp/>

Conclusions: the two approaches confirm more competitive sector groups

In brief, and based on the six criteria indicated by BCG, the sectors classified as of “high competitiveness” (see Chart 13) are similar to those that manage to continuously increase their competitive revealed advantage (CRA) and that were identified in **Mexico Regional Sectorial Outlook** of January 2011. This is the most apt group for attracting private investment that will promote its development. These sectors have a high impact on Mexico and are competitive compared to other countries.

Chart 13

Sectors of high competitiveness

1. Transportation equipment Light and heavy vehicles Auto parts Air-space	4. Mining (except oil and gas) 5. Support services to businesses 6. Food industry Processed and non-processed food
2. Machinery and equipment Industrial refrigerators Larger household equipment: refrigerators, stoves: Gasoline motors for vehicles	7. Health Medical equipment Health services Curing material Medicines
3. Electric and electronic equipment Telephone apparatuses Radio, TV and communications equipment Audio and video Computers	8. Tourism Temporary lodging services

Source: BBVA Research with BCG data.

Currently, Mexico is the main exporter of flat screens in the world, the second in refrigerators and freezers (after China) and the third in mobile phones. In transportation equipment, it is the sixth largest exporter of motor vehicles in the world (in value) and it is almost twice as large as Brazil and India combined. Also, it is the key supplier to the U.S. market; one of every 10 light vehicles sold in the U.S. are produced in Mexico; 3 to 10 light vehicles imported by the U.S. come from Mexico. In fresh food, it is the main exporter of vegetables in the American continent and the main producer and exporter of avocado and the second exporter of fresh tomatoes in the world; in the air-space category, it is the main receptor of FDI in the world, in pharmaceutical and bio-technological products, clinical tests and medical devices, Mexico offers lower production costs compared to the leading countries in the industry. In the branch of medical instruments and apparatuses, Mexico was also the main supplier to the U.S. and the sixth exporter at a world level. In pharmaceutical products, it is the first exporter to Latin America.

The priority sectors promoted in the domestic market are basically three: financial services, housing and trade, even though there are others equally important (see Chart 14), although they are not necessarily competitive compared to the countries considered by BCG.

Chart 14

Sectors that promote the development of the domestic market

1. Messenger and packaging services 2. Support services to businesses 3. Tourism 4. Physical media and software 6. Music / movies 7. Electronic processing of information 8. Engineer and design services 9. Research and development services	1. Housing 2. Infrastructure 3. Trade 4. Passenger transportation 5. Transportation service 8. Real-estate rental 9. Rental of personal property 10. Waste management 11. Educational services 12. Food and beverage preparation 13. Financial services
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Source: BBVA Research with BCG data.

Key sectors fostering the development of professionals and entrepreneurs are usually services of high aggregate value (see Chart 15), complementary to industries of high potential and competitiveness. In this respect, it should be noted that Mexico meets the requirements to become the key supplier of the Information Technology (IT) market. The advantages the country offers have allowed for the value of the information technologies services market (including placing third place the business processes or BPOs) to have reached US\$4.2 billion in 2008, while the software market totaled US\$2.4 million in the same period.

Chart 15

Sectors that promote the development of professionals and entrepreneurs

1. Agriculture (vegetables, flowers and fruit products)
2. Physical media and software
3. Research and development services
4. Architecture, engineer and design services

Source: BBVA Research with BCG data.

Chart 16

Sectors that are platforms for development

1. Infrastructure
2. Telecommunications
3. Educational services

Source: BBVA Research with BCG data.

Finally, the priority sectors that are platforms for development and have a high multiplying effect in production (see Chart 16) are at a disadvantage with respect to international competitors of Mexico because they are showing an important lag, which reduces the growth potential of other sectors.

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3b. Is it possible to obtain greater brilliance from metallurgical-mining in Mexico?

Despite the turbulence, the medium-term global environment for the emerging economies favors a strong demand for metals

Global turbulence has generated a greater "risk premium" worldwide in view of the problem of refinancing some European countries' sovereign debt and budget management in the U.S., which are factors that have not eliminated the outlook of high growth for the emerging economies over future decades. Also, the broad conditions of global liquidity have led investors to enter different markets in search of a greater demand for profitability shored up by an increase in prices of raw materials.

The base scenario considered by BBVA Research considers that, in the medium term, the prices of metals will stabilize. The upward bias in the medium term is derived from strong growth in Asia. This should help curb price growth, the increase in the supply of metals (due to the maturing of investments made previously) and the short-term bias—which is downward—derived from lower growth of the more developed economies. That is, the international uncertainty could lead to a greater moderation in global growth, causing a lower demand for metals.

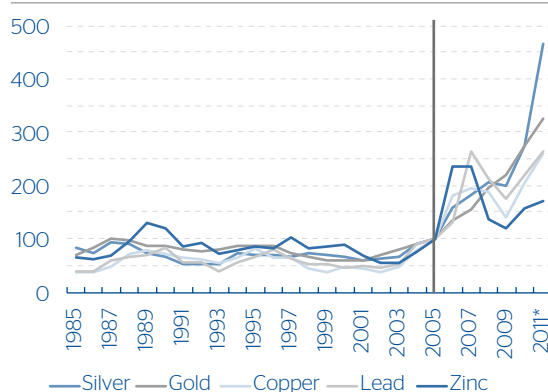
1. Trends in world demand for basic metals

Demand for basic metals showed strong growth due to the recovery of the world economy that began in 2010, but above all because of the high and sustained growth of the emerging economies, headed by the Asian nations (mainly China and India, and in Latin America by Brazil). In fact, economic growth in China and the U.S., the two largest consumers of precious metals (gold and silver) and basic metals (copper, lead and zinc), will continue to pressure prices upward (see Graph 48 and Chart 17). In Asia, the Chinese market is the most important in terms of leading the demand for basic metals, due to its sustained industrialization process. But other countries, like Brazil, Russia and India have also bolstered demand.

As regards precious metals, a change in policy by the central banks must also be considered, as they have become net buyers of gold for the first time after 21 years of net sales. It is expected that this trend will continue with new acquisitions by the emerging countries and limited sales by the more developed economies. The goal is to restore the balance between gold and foreign currencies in their total reserves, thereby achieving some diversification of their assets.

Graph 48

International prices of basic metals (Index 2005=100)



* Metals Week Forecast

Source: BBVA Research with data from the Department of the Economy

Chart 17

International prices of basic metals (Nominal dollars)

Metal	2008	2009	2010	1S11	2011*
Gold (London Final, Dlls/Oz)	871.7	973.0	1,224.7	1,443.3	1,454.0
Silver (London Fix, US/Oz)	15.0	14.7	20.2	34.9	34.1
Copper (LME, Settle, Ctvs, Dlls./lb)	315.5	233.6	341.8	426.5	435.9
Lead (LME Settle, Ctvs, Dlls./lb)	94.8	78.0	97.5	117.1	117.5
Zinc (LME Settle, Ctvs Dlls./lb)	85.0	75.1	98.0	105.5	107.7

* Metals Week Forecast

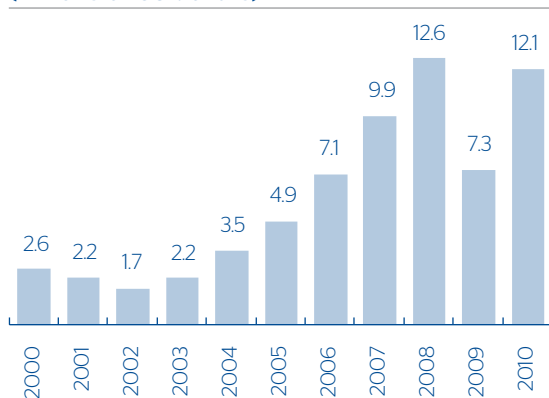
Source: BBVA Research with data from the Department of the Economy

2. Trends in world supply

In response to the rising trend in metal prices and more stable market conditions, most companies increased their exploration budgets in 2010 to US\$ 12.1 billion (see Graph 49) and during this year, despite the turbulence. After rising during six consecutive years to a historic high of US\$ 14.4 billion in 2008, the exploration budgets for non-ferrous metals dropped 42% in 2009, although they continued high compared to the first half of the previous decade. In 2010, metal prices, the main drivers of exploration costs, improved significantly. The budgets for gold accounted for 51% of the total, from 48% in 2009 (see Graph 50). However, and despite the growth of investment, especially in Latin America (which accounted for 27% of the world exploration budget in 2010), mining faced new challenges that will limit its growth in the next few years: the increasing capacity of the Asian countries to set prices; a greater intervention by governments in different manners (nationalizations, higher taxes and new royalty formats); the depletion of metal deposits in the developed countries, the result of strong resistance in their communities to develop mining; inadequate infrastructure and lack of qualified talent, in addition to the impact of climate change, adding new mining risks, as well as greater demands to achieve sustainable development, that is more environmental friendly.

Graph 49

World investment in exploration of non-ferrous minerals*
(Billions of US dollars)

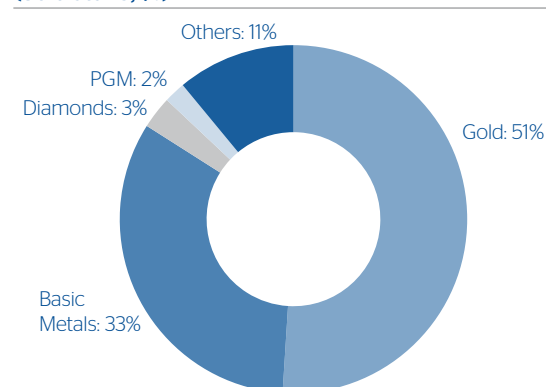


*Refers to expenses related with basic and precious metals, diamonds, uranium and other industrial minerals; excludes iron minerals, aluminum, carbon, oil and gas.

Source: BBVA Research with data from (MEG) Metals Economics Group

Graph 50

World investment in exploration, 2010: US\$12.1 billion
(Structure, %)



Source: BBVA Research with data from MEG PMG Platinum Metals Group

3. Other determining factors that contribute to the rising trend in prices

In general, the news of mixed economic performance throughout the world has led investors to search for alternatives to offset risk and protect their portfolios' return. On one hand, concern continues with regard to the developed countries' economic health, leading market participants to try to cover various risks, including exposure to currency risks and systemic crises. High growth rates in an environment of strong demand for raw materials by China and India and by Latin America have also led to higher inflation levels. Moreover, investors have increased their operations, considering that there could be a negative impact on strong currencies, as well as those of many emerging markets, including the Chinese yuan. To summarize, the problems of monetary policy and high budget deficits in the U.S. and the Euro zone have reinforced raw materials as a source of investment, and many of them face limitations to increase their supply in the short and medium term. For example, the price of gold, after an average price of US\$372 per ounce in the 1985-2005 period, has shown a rising trend as of 2006 in prices that surpass US\$1,800 per ounce.

In view of the favorable world scenario of metal prices, it is pertinent to analyze the general situation of metallurgical mining in Mexico in recent years. Later, for purposes of analysis, we classify metals in three groups, two of which we will deal with in this article of **Mexico Regional Sectorial Outlook**, and in future editions we will deal with the group of basic metals that include iron and steel. In the first group, we analyze the situation of precious metals (gold and silver), where the evolution of production and demand in the world and in the national scenario is analyzed. In the second group of non-ferrous metals, we will deal with copper.

Metallurgical mining products in Mexico

1. Metallurgical mining

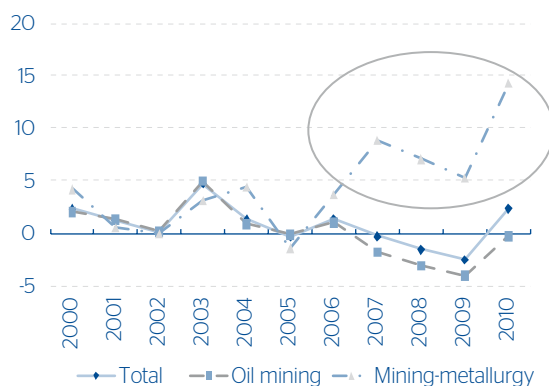
Conditions in Mexico could lead to its becoming a world leader in the production to metallurgical mining products, since of the 37 minerals extracted in the country, 22 are considered as having high potential due to the deposits in the country. It should be noted that among this group, 15 have a high production level worldwide. In 2010, Mexico¹ was the number one producer of silver, with 19% of the world total, 2nd in fluorite production (19.5%), 3rd. in bismuth (13%), 3rd. in celestite (3.2%), 3rd. in sodium sulphate (5.6%), 4th. in wollastonite (8.3%), 5th in lead (4.8%), 5th in molibdenum (4.6%), 5th in diatomite (5%), 6th in cadmium (6.3%), 7th in graphite (0.6%), 7th in baryta (1.9%), 7th in salt (3.2%), 7th in gypsum (3.2%), 8th in magnesium (1.4%), 8th in zinc (3.9%), 11th in gold (3%), 11th in feldspar (3.9%), 11th in sulphur (2.8%), 12th in copper (1.7%), 14th in iron (0.5%) and 14th in phosphorite (0.8%). Also, 70% of the territory is apt for continuing to locate world class mineral deposits such as the 11 that currently exist in Fresnillo, Toyoltita, Buenavista del Cobre (previously Cananea), Guanajuato, Real del Monte and Pachuca, Charcas, St. Eulalia, La Herradura, Las Cuevas, Molango and Peñasquito.

2. Strong growth in the last five years, including the 2009 crisis

In Mexico, metallurgical mining activity was the component in mining with the strongest growth in the last five years, on average 7.8% which compares quite favorably with that observed in non-oil mining (-1.6%) and in the economy overall (-0.1%). Only in 2010, GDP growth was 14.3%, contributing 1% to GDP in Mexico (see Graphs 51 and 52).

Graph 51

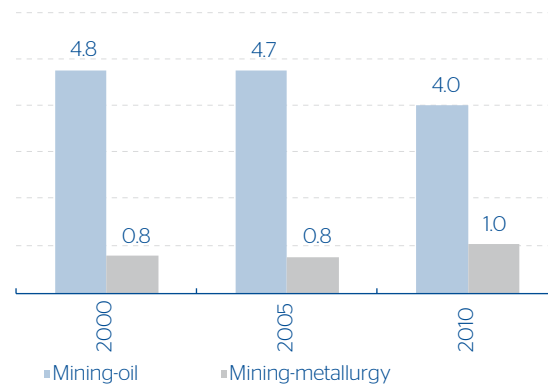
Dynamic of mining GDP in Mexico (annual % change)



Source: BBVA Research with INEGI data

Graph 52

Mining components contribution to GDP in Mexico (% share)



Source: BBVA Research with INEGI data

¹ Celestite and fluorite with information from Camimex (Mexico's Mining Chamber).

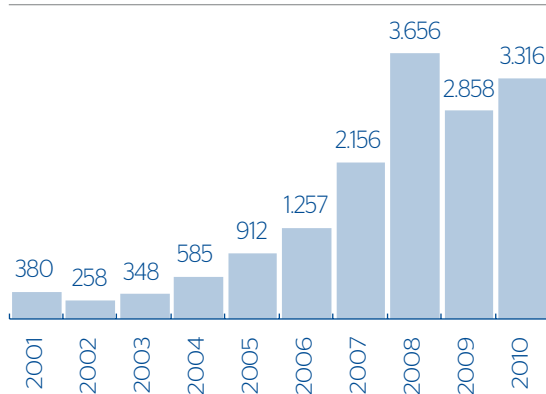
3. The dynamism achieved is not only attributed to the abundance of resources, but also to more open legislation on investment, which allows up to 100% of mining concessions to foreign investors²

The Mining Law of 1992 replaced 1961 legislation and opened new areas to foreign investment that had previously been limited to companies with Mexican capital investment. The requirement was eliminated for foreign investors to form a partnership with companies of Mexican capital in a proportion of 49%/51%, respectively. In addition, the duration of the mining concessions that are granted for 50 years may now be extended. It can therefore be said that there is a total opening, with the coming of vast international investments, at the forefront of what is happening in legislations in Latin America.

The high levels of investment (see Graph 53) and of foreign direct investment (FDI) flows, accrued in the last six years (US\$8 billion) have made possible a continuous increase in the production volume (see Graph 54). The greater part of FDI comes mainly from Canada (62%) and the U.S. (25%). As in the trend at the global level, investment in exploration has been mainly in the precious metals.

Graph 53

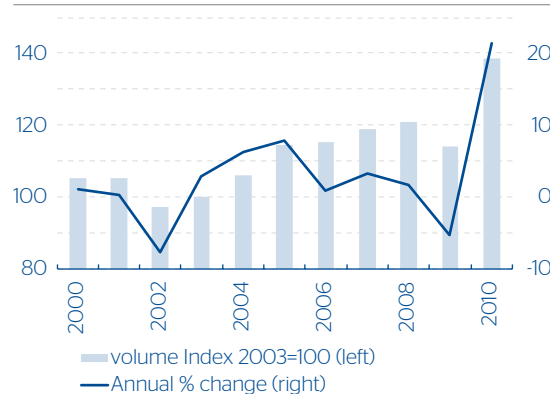
Metallurgical mining investment in Mexico (Millions of dollars)



Source: BBVA Research with CAMIMEX data

Graph 54

Metallurgical mining production (Volume index 2003=100)



Source: BBVA Research with INEGI data

The positive trend of investment in recent years has led to an almost continuous increase in production volumes. During the crisis of 2009, the industry adjusted its cost structure due to the drop in demand and the cancellation of projects and/or the closing of operations. Although this situation had a severe impact on employment (see Graph 55), it led to improved efficiency, increasing its viability in the medium and long term.

4. By components, the evolution of gold production in precious metals and of molybdenum in industrial non-ferrous metals is outstanding

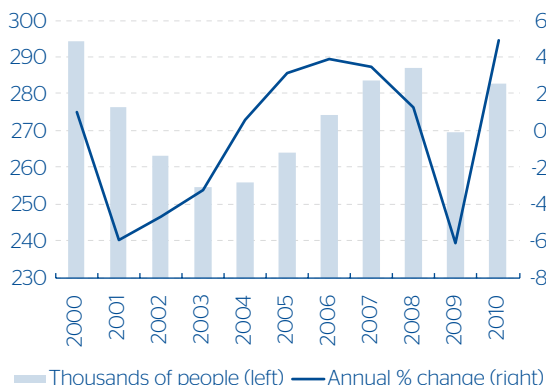
Although the course of metallurgical mining production is positive, by components it is quite differentiated (see Graph 56). In precious metals, the growth trend in gold production (which began in 2005) was particularly significant. Profitability has shown an increase due to the reduction of extraction costs in Mexico (currently between US\$372 and US\$454 /ounce), with the price per ounce at US\$1,350, three times greater than in 2005. In industrial metals, molybdenum (a sub-product of copper) is recognized for its hardening features in gas ducts as well as its anti-corrosive quality in specialty steels.

Foreign demand and prices drive up the production value of metallurgical mining products. In 2010, its value totaled 127 billion nominal pesos, an annual increase of 33.7% (see Graph 57). Of this, 55% was due to a greater demand for precious metals, 30% to industrial metals, 3.4% to siderurgical metals and the remaining 1.5% to non-metallic minerals. Gold and silver account for 50% of foreign demand (see Graph 58).

² In 1993 Mexico's Mining Law (Ley Minera), eliminated the requirement for foreign investments to enter a partnership with companies with Mexican capital, in a proportion of 49%/51%, respectively. This new legislation introduced another important change: the duration of the concessions granted for 50 years can now be extended.

Graph 55

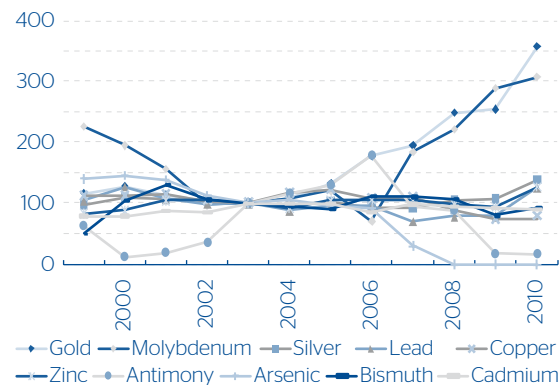
Formal private employment in the metallurgical mining industry in Mexico
(Thousands of persons avg. and annual % chg.)



Source: BBVA Research with INEGI data

Graph 56

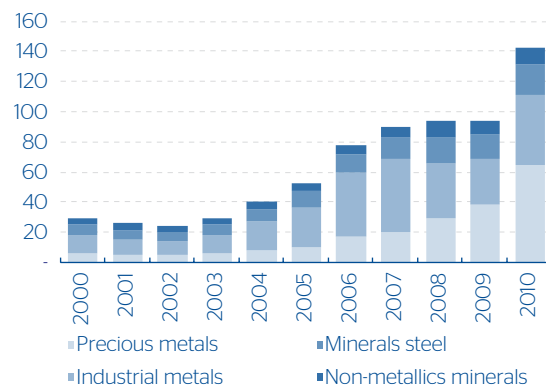
Production of precious metals and non-ferrous industrial metals
(Volume index 2003=100)



Source: BBVA Research with INEGI data

Graph 57

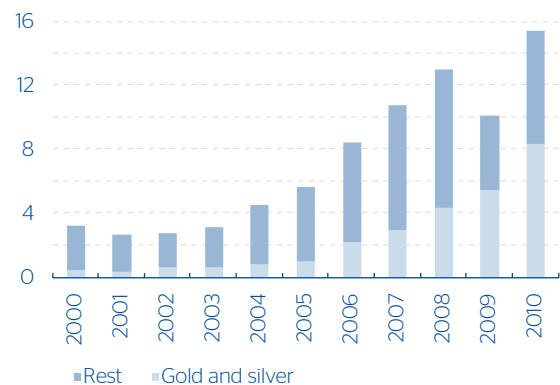
Metallurgical mining production
(Billions of nominal pesos)



Source: BBVA Research with INEGI data

Graph 58

Metallurgical mining exports
(Billions of U.S.dollars)



Source: BBVA Research with INEGI data

5. Importance of metallurgical mining in the economies of the states in Mexico

This activity is important in nine states, with Zacatecas particularly outstanding, where it is the main economic axis, with 28.8% of its GDP, to a lower extent in Sonora (although it contributes more to the value of the industry), and in Durango and Colima. Four states in the country contribute with 80% of the production value of metallurgical mining in the country (see Chart 18 and Graph 59).

Evolution of specific world markets, national and regional production

1. Gold

World gold production has grown in little explored countries such as Mexico and Ghana, with a strong share in large and medium international mining. The world production of gold grew almost 5% in 2010, with the largest growth seen in Ghana, Australia and Mexico. World demand for gold grew 9% in 2010, with the main use up to recent times being jewelry (54%), mainly by the growing middle class in China and India. The projects of the companies that operate on a global level have shown important increases in Mexico, in some cases doubling the production of gold per ounce, as for example GoldCorp (see Charts 19 and 20).

Chart 18

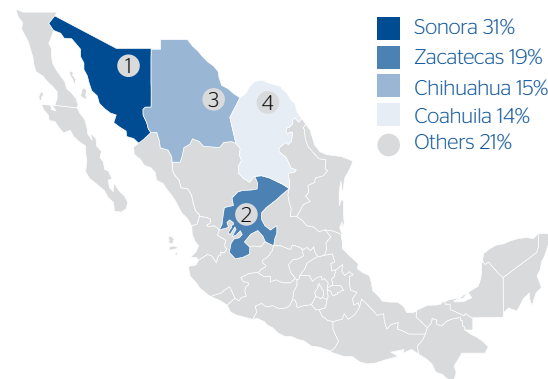
Importance of metallurgical mining in state economies 2008 (As % of GDP)

State	2008
National	0.9
Zacatecas	28.8
Sonora	11.1
Durango	7.2
Colima	6.0
Coahuila	4.5
San Luis Potosí	3.6
Baja California Sur	3.0
Chihuahua	2.8
Michoacan	1.2
Rest	0.3

Source: BBVA Research with INEGI data

Graph 59

Contribution of the states to metallurgical mining production (billions of U.S.dollars)



Source: BBVA Research with INEGI data

In Mexico, gold production totaled 79.4 metric tons, a 27.1% increase compared to the previous year, continuing its rising trend of the last five years. The positive cycle of gold prices will continue to benefit mainly Sonora and Chihuahua, which account for 50% of the country's gold production. It should be noted that these states have very diversified economies, which protect them from significant economic effects in the event of an abrupt change in prices. This is not the case of Zacatecas, which accounts for a 14% share of gold production, where one third of the State's economic activity depends on metallurgical mining (see Graphs 60 and 61).

Chart 19

Gold production and world reserves (Metric tons)

	2009	2010e	Annual % change	Reserves
China	320	345	7.8	1,900
Australia	222	255	14.9	7,300
U.S.	223	230	3.1	3,000
Russia	191	190	-0.5	5,000
South Africa	198	190	-4.0	6,000
Peru	182	170	-6.6	2,000
Indonesia	130	120	-7.7	3,000
Ghana	86	100	16.3	1,400
Canada	97	90	-7.2	990
Uzbekistan	90	90	0.0	1,700
Mexico	62	79	27.2	1,400
Brazil	60	65	8.3	2,400
Rest	649	641	-1.2	10,000
World Total	2,450	2,565	4.7	51,000

e In the case of Mexico, these figures are observed; for the rest, 2010 is estimated.

Source: BBVA Research with MEG (Metals Economic Group) data

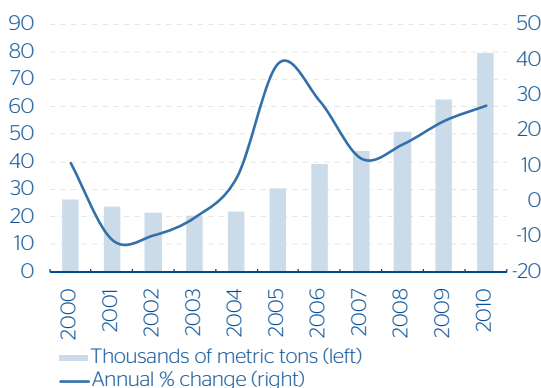
Chart 20

Main gold projects in the world (Thousands of ounces)

Project	Location	Company	2010	2011
Total	Mexico		729	1,144
• Peñasquito	Mexico	Goldcorp	168	350
• Pinos Altos	Mexico	Agnico Eagle	131	168
• Soledad Dipolos	Mexico	Fresnillo Plc.	110	130
• Dolores	Mexico	Minefinders Corp.	56	108
• Palmarejo	Mexico	Coeur D'Alene	95	102
• San Francisco	Mexico	Timmins Gold	84	90
• El Castillo	Mexico	Argonaut Gold	51	75
• El Águila	Mexico	Gold Resource	15	70
• Creston Mascota	Mexico	Agnico Eagle		31
• Campo Morado (G9)	Mexico	Nyrstar	19	20
Rest of the World				
• Boddington	Australia	Newmont	788	862
• Malartic	Canada	Osisko Mining Corp		494
• Bisha	Eritrea	Nevsun Resouces		476
• Meadowbank	Canada	Agnico Eagle	311	404
• Sukari	Egypt	Cenramin/EGSMA	178	370
• Essakene	Burkina Fasso	Iamgold	150	352
• Tongon	Ivory Coast	Rangold Resource	77	288
• Martabe	Indonesia	G-Resources Group		195
• Toka Tindung	Indonesia	Arch. Resour.		113

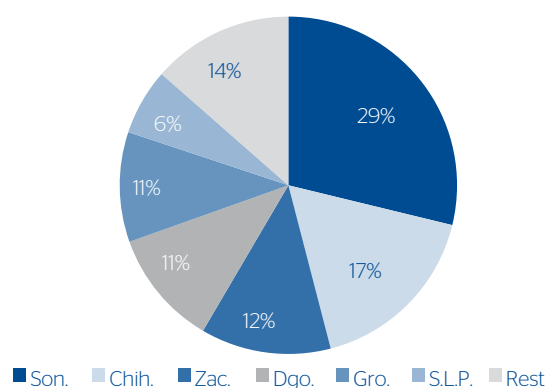
Source: BBVA Research with Camimex data

Graph 60

**Gold production in Mexico
(Metric tons)**

Source: BBVA Research with INEGI data

Graph 61

**Gold production by State
(2010 % breakdown)**

Source: BBVA Research with INEGI data

2. Silver

World silver production grew 6.1% in 2010, with significant growth in Mexico, Canada and Chile. It is estimated that in 2010, demand for silver grew 10%, and for industrial use the growth trend in 2010 was 18%. Its uses have multiplied more every day. Traditionally it has been used in currency, photography and silver utensils. In industry, it is used in batteries, strong welding products, catalyzers and in electronics. More recently, its uses have grown in medical applications, mirrors and coating products, solar energy and water purification (see Charts 21 and 22).

At the regional level, the state most favored by the cycle of rising prices is Zacatecas, which accounts for 46% of total production in the country. Far behind are Chihuahua and Durango, with 15% and 12%, respectively. In Zacatecas, production is significant in the Peñasquillo project, which in 2010 grew nearly five times its production, from 2,600 to 11,200 thousand ounces. In Chihuahua, the Palmarejo, Dolores and Pinos Altos projects are outstanding, almost doubling production, from 4,900 to 9,000 thousand ounces. These mining projects are concessioned to large national and international mining companies (see Graphs 62 and 63).

Chart 21

**Silver world production and reserves
(Tons)**

	2009	2010	Annual % change	Reserves
Mexico	3,550	4,400	23.9	37,000
Peru	3,850	4,000	3.9	120,000
China	2,900	3,000	3.4	43,000
Australia	1,630	1,700	4.3	69,000
Chile	1,300	1,500	15.4	70,000
Russia	1,400	1,400	0.0	n.d.
Bolivia	1,300	1,360	4.6	22,000
U.S.	1,250	1,280	2.4	25,000
Poland	1,200	1,200	0.0	69,000
Canada	600	700	16.7	7,000
Rest	2,820	2,600	-7.8	50,000
World Total	21,800	23,140	6.1	510,000

Source: BBVA Research with MEG data

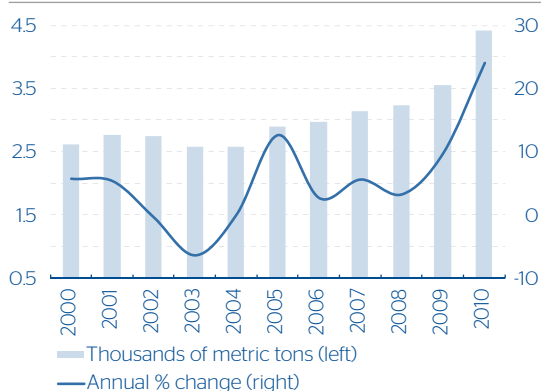
Chart 22

**Main silver projects in the world
(Thousands of ounces)**

Project	Location	Company	2010	2011
Total	Mexico		29.7	56.0
• Peñasquillo	Mexico	Goldcorp	11.2	23.0
• Palmarejo	Mexico	Coeur D'Alene	6.1	8.1
• Saucito	Mexico	Fresnillo Plc.	0.2	4.6
• La Encantada	Mexico	First Majestic	3.9	4.5
• El Águila	Mexico	Gold Resource	1.9	3.2
• Dolores	Mexico	Minefinders Corp.	1.2	2.5
• Pinos Altos	Mexico	Agnico Eagle	1.7	2.4
• Campo Morado (G9)	Mexico	Nyrstar	1.8	1.8
• Nuestra Señora	Mexico	Scorpio Mining	0.9	1.4
• San José	Mexico	Fortuna Minerals	0.5	0.5
• Santa Elena	Mexico	Silver Crest	0.1	0.5
Rest of the world				
• Pirquias	Argentina	Silver Standard	6.3	8.5
• Wolverine	Canada	Jinduicheng Xise	0.7	4.0
• Hidden Valley	PNG	Harmony	2.3	2.4
• Martabe	Indonesia	G-Resources Group Ltd		1.9
• Esperanza	Chile	Antofagasta Plc	0.2	1.4
• Bisha	Eritrea	Nevsun Resources		0.8
• Malartic	Canada	Osisko Mining Corp		0.6
Reopenings				
• Buenavista	Mexico	Grupo Mexico		2.3
• La Guitarra	Mexico	Silvermex	0.7	3.5

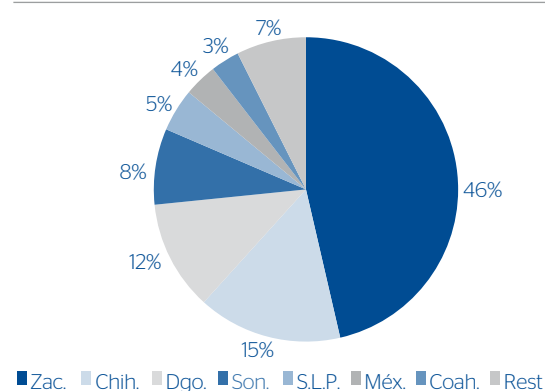
Source: BBVA Research with Camimex data

Graph 62

**Silver production in Mexico
(Thousands of tons)**

Source: BBVA Research with INEGI data

Graph 63

**Silver production by state
(% breakdown)**

Source: BBVA Research with INEGI data

3. Copper

World copper mining production grew 0.8% (16.2 million tons). The main producer of mineral copper is Chile with 34% of the total. At a distance are Peru, China and the U.S. There are good perspectives for world production, thanks to significant demand from China for sustained economic growth over the next few years. In addition to strong demand, the copper market presents a more limited extraction capacity due to the average law on deposits (see Charts 23 and 24).

In Mexico, copper mining production grew 12.3% (2701 thousand metric tons) in 2010, breaking the declining trend of 2008-2009. In the future, the outlook for Mexico is positive, mainly for Sonora due to the fact that this state is the country's main copper producer, with 72% of the total. Production growth will be more significant with the full rehabilitation of the Buenavista del Cobre (previously Cananea) operation. In Sonora, Grupo Mexico's La Caridad mine is the largest producer in the country. Moreover, there are three new projects in Baja California, Baja California South and Chihuahua that require an investment of approximately 3.9 billion dollars by Grupo México, Baja Mining and Jinchuang Group, respectively, which could double the current production capacity (see Graphs 64 and 65).

Chart 23

**World production of refined copper
(Thousands of metric tons)**

	Thousands of tons.	% breakdown
Total	16.2	100.0
Chile	5.5	34.0
Peru	1.3	8.0
China	1.1	7.0
U.S.	1.1	7.0
Australia	1.0	6.0
Indonesia	0.8	5.0
Zambia	0.8	5.0
Russia	0.8	5.0
Canada	0.5	3.0
Poland	0.5	3.0
Kazajistan	0.3	2.0
Mexico	0.2	1.0

Source: BBVA Research with MEG data

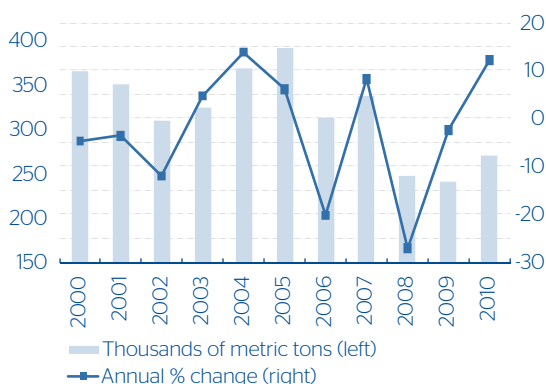
Chart 24

Main copper projects in Mexico, 2010

Unit	Company	State	Thousands of tons
• La Caridad	Gpo. Mexico	Son.	118
• Milpillas	Ind. Peñoles	Son.	22
• NEMISA	Neg. Minera Sta.	SLP	18
• Cozamin	Capstone Mining	Zac.	16
• María	Minera Frisco	Son.	9
• Tayahua	Minera Frisco	Zac.	7
• Sta. Bárbara	Minera México	Chih.	5
Total			194

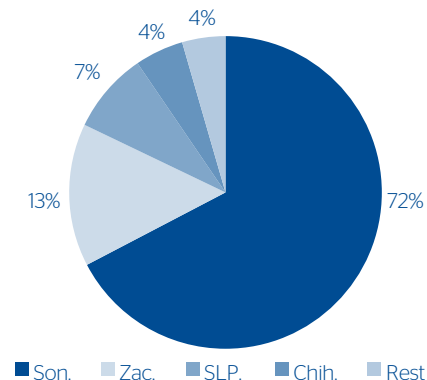
Source: BBVA Research with Camimex data

Graph 64

**Copper production in Mexico
(Thousands of metric tons)**

Source: BBVA Research with INEGI data

Graph 65

Copper production by state, 2010

Source: BBVA Research with INEGI data

Conclusions: mining with potential for growth in Mexico

The metallurgical mining sector is an opportunity for investors and for Mexico. The abundance of natural resources and labor costs are incentives for investment. In Mexico, the average monthly mining salary in the mining sector is US\$482, compared with US\$1,137 in Brazil and US\$1,472 in Turkey. In South Korea, the U.S. and Germany, it is US\$1,611, US\$3,384 and US\$3,696, respectively, indicating that labor costs in Mexico are between 60% and 80% lower than in those countries. Also, union problems have decreased significantly, and from the legal standpoint the country does not present significant restrictions on investment.

The base scenario considers high metal prices for several more years, the result of greater economic activity worldwide. As regards gold, although some analysts estimate that the price could be close to US\$1,800 per ounce, the reasons for continued price increases in gold continue: uncertainty and inflation. In 2010, quantitative monetary expansion in the United States, Japan and the United Kingdom was one of the causes for the rise in the price of this commodity and these programs are expected to continue this year. Stabilization is expected in gold prices, at an average of around US\$1,600 per ounce in the 2011-2013 period, with a slight trend downward in real terms. This situation will be subject to the evolution of the risks mentioned at the beginning of this document of **Mexico Regional Sectorial Outlook**.

Silver is the metal that presents the greatest opportunity for Mexico. Demand for silver has increased more than that of gold and its price is much lower in comparison. Silver applications have multiplied and the outlook is good, with many current technologies using it, such as for example, electric vehicles. Also, the outlook for copper is also one of opportunity for Mexico (with the rehabilitation of the Buenavista del Cobre mine previously Cananea). At a global level, it is not clear where there are deposits to explore and recent discoveries are insufficient to meet the foreseeable demand. The main application is in the electrification of new communities in the emerging world, among others.

The backlog in labor matters and high transportation costs due to insecurity are the major challenges for the future. The accident at the Pasta de Conchos, Coahuila mine on February 19, 2006 led to several miners' strikes demanding better working conditions. Also, the end of the strike in Cananea will help the sector attract investments again. Mexico must guarantee an appropriate environment for national and foreign investment, because there is interest on the part of investors and the country could take advantage of a higher value for its resources.

The risks

Although the scenario is seen as positive, there are risk factors that cannot be ruled out, and more so now that there are several elements of global uncertainty that threaten world economic recovery with high oil prices. Two factors must be considered in 2011. The main risks refer to refinancing of the sovereign debt of some European countries and the management of the U.S. public debt. Other risks for metals refer to additional moderations in the Asian economies, in particular that of China. Another risk that will always be present is China's discretionary management of its inventories, which has a bearing on the metal markets.

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- The Silver Institute World Silver Survey 2010

4. Appendix

4a. Indicators of economic performance by state

Chart 25

Selected indicators

	AAGR ³ , % 2003-2010							Place in the National					
			GDP*	GDP*/inhab.			Real	GDP	inhab.	Remi- ttances	Employ- ment ⁴	Rec. Fed. ⁵	Comp. ⁶
	GDP*	Population ²	2010, dollars	2010, dollars	Real GDP	Population	GDP inhab.						
	2010 ¹							2010	2010	2010	2010		
National	12,538	112,337	992,220	8,833	2.2	1.2	1.0						
Distrito Federal	2,124	8,851	168,128	18,995	1.7	0.1	1.6	1	2	9	1	2	1
Mexico	1,153	15,176	91,218	6,011	3.2	1.4	1.8	2	23	3	3	1	28
Nuevo Leon	935	4,653	74,034	15,909	3.2	1.6	1.6	3	4	24	4	7	2
Jalisco	783	7,351	61,933	8,425	2.1	1.3	0.9	4	15	10	2	4	14
Campeche	682	822	53,990	65,646	-3.4	1.3	-4.6	5	1	31	28	28	12
Veracruz	593	7,643	46,923	6,139	3.5	0.8	2.7	6	21	7	5	3	26
Guanajuato	502	5,486	39,743	7,244	2.7	1.5	1.2	7	19	4	7	8	22
Tabasco	475	2,239	37,605	16,799	5.0	1.5	3.4	8	3	29	25	13	29
Puebla	429	5,780	33,974	5,878	2.8	1.1	1.7	9	24	5	12	6	24
Coahuila	395	2,748	31,224	11,361	2.1	1.4	0.6	10	5	26	10	19	4
Chihuahua	380	3,406	30,068	8,827	1.7	0.9	0.9	11	12	17	6	14	9
Tamaulipas	371	3,269	29,356	8,981	1.3	1.3	0.0	12	11	16	9	12	8
Baja California	340	3,155	26,943	8,540	1.5	2.2	-0.6	13	13	20	8	16	6
Sonora	316	2,662	24,987	9,385	3.1	1.5	1.6	14	9	23	11	17	11
Michoacan	305	4,351	24,104	5,540	2.0	0.9	1.0	15	28	1	15	10	25
Sinaloa	264	2,768	20,931	7,562	2.5	0.7	1.8	16	17	15	13	15	10
San Luis Potosi	245	2,586	19,378	7,495	3.3	0.9	2.4	17	18	11	16	20	17
Chiapas	243	4,797	19,225	4,008	2.0	1.7	0.4	18	32	13	20	5	30
Queretaro	234	1,828	18,490	10,115	4.2	2.2	2.0	19	8	19	14	23	3
Oaxaca	199	3,802	15,745	4,141	1.8	0.9	1.0	20	31	6	24	9	32
Hidalgo	198	2,665	15,661	5,876	2.6	1.6	0.9	21	25	8	23	18	27
Guerrero	183	3,389	14,443	4,262	1.5	0.9	0.6	22	30	2	26	11	31
Yucatan	177	1,956	14,024	7,171	3.9	1.2	2.7	23	20	28	17	21	18
Quintana Roo	171	1,326	13,542	10,216	3.1	3.1	0.1	24	6	30	18	26	13
Durango	158	1,633	12,484	7,645	1.4	1.0	0.4	25	16	18	21	24	21
Aguascalientes	138	1,185	10,959	9,248	3.7	1.8	2.0	26	10	22	19	30	5
Morelos	137	1,777	10,875	6,119	1.9	1.4	0.5	27	22	14	22	25	16
Zacatecas	110	1,491	8,744	5,866	3.9	0.9	2.9	28	26	12	27	22	20
Baja California Sur	82	637	6,479	10,170	5.5	3.6	1.8	29	7	32	29	32	7
Nayarit	77	1,085	6,096	5,618	3.9	1.6	2.2	30	27	21	30	27	23
Colima	70	651	5,531	8,502	2.6	2.0	0.5	31	14	27	31	31	15
Tlaxcala	68	1,170	5,381	4,599	1.5	1.5	0.1	32	29	25	32	29	19

1/ Billions of pesos

2/ Población 2010, thousands of people

3/ Average Annual Growth Rate¹

4/ Total registered workers by the Social Security Institute (IMSS)

5/ Federalized resources

6/ State competitiveness index (IMCO)

* It refers to the gross added value. The sum of the state figures does not coincide with national due to the net taxes to subsidies figures

Source: BBVA Research with INEGI, Conapo, Banxico, IMSS, SHCP, IMCO (Instituto Mexicano de la Competitividad, A.C.) data.

4b. Indicators by state

Chart 26

Region: High Development

	Mexico City					
	2009	2010	3Q10	4Q10	1Q11	2Q11
Economic Activity (QIEAS*) Total	-5.4	3.5	2.8	3.4	3.3	na
Primary Sector	6.8	-4.8	2.8	-26.5	0.0	na
Secondary Sector	-5.5	-2.8	-7.3	1.2	-3.6	na
Tertiary Sector	-5.2	4.3	3.6	4.2	4.4	na
Construction** (annual % change)	0.1	-23.6	-27.8	-14.3	-6.9	29.0
Public works	65.8	-29.9	-39.5	-11.1	-12.0	33.8
Private works	-29.5	-16.9	-16.2	-16.9	-1.8	24.3
Retail sales (annual % change)	-2.9	1.3	1.5	0.9	5.2	5.5
Wholesale sales (annual % change)	-5.6	4.8	5.7	5.1	3.8	0.5
Total Employment (annual % change)	-2.3	1.3	1.8	4.4	4.7	4.7
Industry	-8.2	-4.7	-3.0	3.9	7.9	7.4
Services	-0.5	2.9	3.2	4.5	3.8	4.0
Total air traffic (passengers Transport, annual % change)	7.4	0.2	1.2	-2.0	-2.3	6.7
Federalized resources (annual % change)	-8.2	2.7	-7.4	19.2	-4.5	21.1
Participations (Branch 28)	-14.9	8.1	1.2	1.7	1.0	3.8
Contributions (Branch 33)	4.6	-1.7	-5.7	47.6	-3.1	13.9
Remittances (annual % change)	-11.1	3.6	7.6	9.7	11.6	11.5

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 27

Region: Tourism

	Baja California Sur						Quintana Roo					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	1.7	6.3	4.0	10.0	3.6	nd	-9.2	2.3	0.7	6.3	4.7	nd
Primary Sector	-4.8	7.9	6.7	3.7	-0.7	nd	15.0	22.3	20.1	31.5	6.5	nd
Secondary Sector	28.2	0.8	-8.6	23.4	-1.3	nd	-15.6	-17.2	-28.4	4.0	1.5	nd
Tertiary Sector	-4.3	7.5	7.1	5.9	4.9	nd	-7.5	4.6	4.3	6.2	5.0	nd
Construction** (annual % change)	-17.0	-29.1	-32.5	-24.6	-19.4	-3.2	-24.7	-29.6	-36.3	-27.1	16.4	46.6
Public works	36.0	-21.1	-26.9	-20.8	-27.2	-14.4	25.4	-32.7	-34.2	-19.9	60.7	44.8
Private works	-37.9	-35.9	-22.7	-23.9	-11.6	-3.3	-35.2	-28.4	-36.9	-30.3	0.5	47.3
Retail sales (annual % change)	11.8	2.8	10.3	-4.4	-1.9	0.5	-5.7	-1.7	2.3	0.4	-0.4	1.6
Wholesale sales (annual % change)	-21.2	10.6	11.9	17.8	7.4	3.1	-15.8	-7.8	-2.1	-14.8	-1.2	4.6
Total Employment (annual % change)	-9.5	-1.1	0.2	1.1	1.2	1.8	-5.2	2.1	4.5	4.5	3.6	3.5
Industry	-20.9	-7.3	-7.0	-4.1	-3.6	-5.9	-24.7	-6.7	-3.8	-4.8	-0.9	-1.9
Services	-3.8	0.6	2.0	2.1	2.8	4.5	0.5	4.0	6.2	6.6	4.5	4.6
Total air traffic (passengers Transport, annual % change)	-8.6	5.3	9.0	-0.2	-2.5	-2.1	0.0	10.3	14.8	4.9	4.0	3.6
Federalized resources (annual % change)	-6.4	-5.0	-2.0	-10.8	14.2	-6.0	-12.1	3.1	5.4	-0.4	5.1	-1.8
Participations (Branch 28)	-11.9	4.6	-2.5	0.1	5.7	10.5	-13.3	7.2	-0.7	1.4	2.3	5.0
Contributions (Branch 33)	1.9	0.9	-1.8	2.5	24.4	-9.3	2.1	0.3	-5.3	1.8	4.8	2.4
Remittances (annual % change)	-8.1	5.6	2.5	7.9	-6.9	9.4	-12.1	1.5	3.6	4.8	7.9	4.8

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 28

Región: Industrializada

	Aguascalientes						Baja California					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-4.0	8.7	6.6	4.7	2.0	nd	-9.2	4.2	4.8	4.6	4.4	nd
Primary Sector	-1.6	5.1	6.9	17.2	10.2	nd	-1.6	-7.0	10.6	8.4	4.9	nd
Secondary Sector	-2.6	13.4	8.3	4.3	-2.0	nd	-14.0	3.1	3.2	2.8	5.7	nd
Tertiary Sector	-4.6	4.9	4.4	3.6	4.9	nd	-6.7	5.2	4.9	5.1	3.5	nd
Construction** (annual % change)	46.1	-19.7	-20.8	-28.5	-19.5	-3.5	-11.4	-10.6	-6.2	-18.0	-6.0	-1.1
Public works	40.5	1.9	40.1	-44.3	-16.0	-39.6	7.8	12.2	25.0	-10.0	0.2	1.2
Private works	49.3	-31.6	-46.0	-9.6	-21.2	34.3	-19.9	-24.4	-22.7	-23.9	-11.6	-3.3
Retail sales (annual % change)	-3.0	-0.5	2.0	-0.9	0.4	3.9	3.5	3.3	6.6	2.0	-0.3	1.4
Wholesale sales (annual % change)	-17.9	1.7	8.9	5.6	4.4	10.3	-14.3	-4.1	-3.1	-2.3	-0.9	0.7
Total Employment (annual % change)	-4.7	4.0	5.3	3.4	2.5	2.1	-8.1	3.2	4.3	5.0	5.3	4.4
Industry	-7.6	5.7	7.3	6.5	7.5	4.8	-15.3	5.7	9.0	8.2	7.2	3.9
Services	-2.4	3.0	4.1	1.0	-1.4	0.0	-2.6	-2.1	-2.2	-0.1	3.5	4.0
Total air traffic (passengers Transport, annual % change)	-33.2	2.5	-2.9	2.7	9.9	10.1	2.2	5.9	8.9	4.4	4.7	-2.6
Federalized resources (annual % change)	-7.1	-6.6	0.8	-20.8	16.1	3.5	-10.3	3.1	-0.2	8.9	-1.5	-2.4
Participations (Branch 28)	-18.1	8.5	-0.2	3.0	4.2	5.9	-15.0	11.1	1.1	5.7	-5.6	0.2
Contributions (Branch 33)	-2.5	1.8	-3.5	8.2	4.2	0.4	-1.1	0.1	-9.7	23.6	7.4	3.5
Remittances (annual % change)	-15.3	4.3	11.2	12.3	2.2	0.4	-3.9	8.2	7.2	10.8	15.6	11.1
	Chihuahua						Coahuila					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-10.4	4.5	3.5	2.3	2.3	nd	-12.6	12.2	11.6	6.5	7.7	nd
Primary Sector	8.1	2.9	1.4	-3.2	4.0	nd	6.9	-1.4	0.4	2.2	4.9	nd
Secondary Sector	-15.2	5.4	2.4	1.6	-2.1	nd	-19.9	21.2	18.4	9.1	9.8	nd
Tertiary Sector	-8.9	4.1	4.0	3.7	4.7	nd	-6.2	5.7	6.6	4.7	5.6	nd
Construction** (annual % change)	-18.3	2.7	19.2	11.1	-17.7	1.8	-23.9	-3.6	9.6	28.3	12.1	11.5
Public works	37.8	-6.2	11.5	-7.8	-26.4	2.0	-11.1	3.0	10.5	58.7	34.2	13.7
Private works	-41.2	11.2	25.7	33.7	-11.1	1.6	-28.2	-6.3	9.2	16.1	4.0	10.4
Retail sales (annual % change)	-8.0	0.7	1.4	4.0	2.6	8.9	-4.2	3.8	7.0	2.7	-1.5	4.7
Wholesale sales (annual % change)	-15.4	-2.7	-0.6	0.2	-4.4	-0.4	-4.7	5.7	7.2	7.4	5.0	1.1
Total Employment (annual % change)	-10.8	5.5	7.7	5.1	4.3	2.5	-7.5	8.3	10.5	10.9	10.5	8.8
Industry	-18.5	7.9	12.1	6.7	5.7	3.1	-13.1	13.8	18.1	17.7	17.9	14.2
Services	0.2	3.1	3.0	3.5	2.5	1.7	0.2	2.3	2.2	3.3	2.0	2.2
Total air traffic (passengers Transport, annual % change)	-11.7	5.9	10.6	5.3	-5.2	-2.8	-17.2	-13.9	-16.5	-13.6	2.5	20.1
Federalized resources (annual % change)	-11.3	7.1	5.2	5.5	1.0	-1.0	-14.6	7.5	0.0	15.3	2.6	-2.8
Participations (Branch 28)	-16.0	11.3	1.4	6.7	-2.3	-0.3	-14.8	12.1	-0.1	8.6	3.4	3.8
Contributions (Branch 33)	-1.6	1.9	1.1	5.9	4.7	1.9	-3.5	0.0	-1.0	2.4	2.6	1.4
Remittances (annual % change)	-14.3	-2.3	-0.9	1.1	-0.6	3.3	-16.1	0.0	0.9	5.1	-5.2	6.7

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available
Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 29

Región: Industrializada

	Jalisco						Estado de México					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-6.6	5.7	5.4	5.9	5.9	nd	-5.4	7.5	8.5	6.8	5.1	nd
Primary Sector	-10.0	5.0	6.4	9.4	9.3	nd	-8.6	4.3	21.2	-4.1	0.4	nd
Secondary Sector	-7.0	3.9	4.9	8.0	7.9	nd	-5.3	12.5	16.7	11.7	5.7	nd
Tertiary Sector	-5.7	6.3	5.1	4.5	4.5	nd	-4.5	4.6	3.4	4.2	4.8	nd
Construction** (annual % change)	-22.5	9.9	10.2	13.7	7.9	12.3	5.6	44.3	53.4	48.3	9.2	-21.0
Public works	8.8	16.3	21.5	26.1	29.8	18.6	6.5	153.1	233.5	146.8	15.8	-37.5
Private works	-35.8	5.4	3.2	5.3	-9.2	6.9	5.2	-4.2	-10.3	6.7	3.1	4.6
Retail sales (annual % change)	-2.9	3.1	6.8	5.2	6.5	5.4	6.5	2.4	3.0	5.8	10.2	8.2
Wholesale sales (annual % change)	-6.1	1.8	-1.3	-2.3	-1.0	-1.6	-4.7	0.9	2.0	2.3	7.0	0.0
Total Employment (annual % change)	-1.4	3.5	4.3	4.6	4.7	4.2	-3.0	4.2	5.8	5.6	5.2	4.3
Industry	-7.5	5.0	7.4	7.6	7.6	5.6	-5.3	6.3	8.0	7.4	6.0	3.5
Services	2.3	2.4	2.3	2.7	2.9	3.2	-0.9	2.6	4.0	4.2	4.6	5.0
Total air traffic (passengers Transport, annual % change)	-8.3	6.2	7.9	-2.2	-2.2	-2.5	-38.5	-17.4	-4.0	-22.0	-16.1	-29.1
Federalized resources (annual % change)	-10.2	10.5	13.3	21.4	7.6	4.5	-11.6	10.2	5.6	12.5	11.2	2.4
Participations (Branch 28)	-16.1	11.9	1.6	5.3	7.0	4.8	-18.5	16.6	3.3	9.5	15.3	0.2
Contributions (Branch 33)	-0.2	1.5	0.7	6.5	5.6	3.0	-0.7	2.9	2.3	8.0	7.0	4.9
Remittances (annual % change)	-11.7	3.7	8.8	12.2	5.7	3.5	-17.9	-3.6	-1.1	0.4	-2.9	0.1

	Nuevo León						Querétaro					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-9.2	7.1	5.7	8.3	7.5	nd	-7.9	7.3	5.2	7.6	8.0	nd
Primary Sector	18.9	10.6	-16.4	26.6	4.0	nd	-1.7	8.4	5.2	19.8	-6.0	nd
Secondary Sector	-12.8	9.5	8.7	15.4	11.9	nd	-9.9	7.9	4.3	10.8	13.2	nd
Tertiary Sector	-6.3	5.2	3.4	3.9	4.7	nd	-6.6	6.6	5.3	5.0	5.4	nd
Construction** (annual % change)	-24.0	17.5	35.9	27.8	8.9	4.5	7.0	-8.8	-7.5	3.1	14.4	3.5
Public works	-2.6	97.2	94.3	138.7	23.8	13.2	36.7	23.1	14.6	74.8	28.1	29.8
Private works	-28.6	-5.7	14.0	-3.1	1.4	-0.5	-1.4	-21.3	-17.5	-23.6	6.7	-7.7
Retail sales (annual % change)	-3.1	2.4	3.1	3.4	0.2	3.5	-3.1	6.2	8.5	7.5	1.5	4.8
Wholesale sales (annual % change)	-11.6	15.1	8.2	2.3	2.3	3.7	-9.1	1.0	4.1	8.3	12.1	15.9
Total Employment (annual % change)	-4.0	5.4	6.6	7.2	6.2	5.3	-2.9	8.8	10.4	10.5	10.1	9.3
Industry	-9.4	7.7	9.7	10.8	9.3	7.3	-7.5	14.3	16.2	17.8	15.5	13.8
Services	0.6	3.7	4.3	4.5	3.9	3.8	1.3	5.0	6.6	5.2	5.5	5.3
Total air traffic (passengers Transport, annual % change)	-9.4	2.9	5.9	7.0	1.8	4.0	-17.1	0.1	0.1	-18.5	20.8	37.1
Federalized resources (annual % change)	-12.4	8.0	12.9	7.4	-4.4	1.4	-10.9	3.5	6.7	0.5	4.3	6.1
Participations (Branch 28)	-17.1	9.0	-1.1	5.0	-8.1	-1.9	-15.5	4.7	2.1	1.7	4.4	7.6
Contributions (Branch 33)	-0.5	1.5	0.8	6.4	4.6	2.5	-2.9	0.7	-0.4	6.9	4.6	3.8
Remittances (annual % change)	-9.7	-3.0	-2.6	3.1	1.3	8.5	-17.7	-1.4	4.2	7.2	5.5	3.7

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 30

Región: Industrializada

	Sonora						Tamaulipas					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-4.6	5.2	2.2	4.8	6.6	nd	-10.5	1.0	2.3	4.8	-0.4	nd
Primary Sector	3.0	5.5	1.7	0.2	4.4	nd	2.3	0.8	-4.8	11.6	3.0	nd
Secondary Sector	-5.6	5.1	-1.2	3.9	8.7	nd	-17.6	-1.0	4.4	10.4	-6.1	nd
Tertiary Sector	-4.6	5.1	3.7	5.9	5.6	nd	-6.0	2.1	1.3	1.4	2.5	nd
Construction** (annual % change)	-8.3	-16.3	-24.0	-6.7	22.2	0.0	-20.0	8.6	11.3	31.5	10.9	9.7
Public works	11.1	-22.9	-34.1	34.9	75.0	6.3	-6.3	12.2	10.8	28.5	3.1	10.4
Private works	-20.6	-10.5	-15.2	-31.4	-8.5	-4.3	-35.4	2.7	12.2	38.1	23.8	8.6
Retail sales (annual % change)	1.0	0.2	0.3	0.0	1.4	5.0	-0.4	0.4	4.2	0.9	-4.7	0.3
Wholesale sales (annual % change)	-0.7	-1.7	-0.7	9.3	5.6	-1.4	-11.9	2.5	6.4	7.3	3.7	5.9
Total Employment (annual % change)	-5.1	5.6	7.1	6.6	5.3	4.8	-7.0	2.8	4.6	3.6	2.2	0.6
Industry	-12.0	6.3	9.4	8.6	9.0	6.0	-14.0	4.8	9.1	6.1	4.1	-0.3
Services	0.4	4.0	5.2	5.9	6.1	6.4	0.9	0.9	0.3	1.4	0.5	1.7
Total air traffic (passengers Transport, annual % change)	10.8	3.0	4.6	3.9	-0.7	1.4	-2.8	-5.7	-1.7	-14.7	-4.1	11.8
Federalized resources (annual % change)	-10.1	4.8	14.9	-0.8	15.5	-4.1	-10.7	4.7	11.8	-4.1	1.9	-5.9
Participations (Branch 28)	-15.5	7.9	-0.7	3.9	7.6	6.0	-15.4	12.6	-0.2	4.9	0.8	-6.4
Contributions (Branch 33)	-4.3	1.1	7.1	5.9	27.8	-29.6	-3.7	-0.2	1.8	1.3	-4.1	1.3
Remittances (annual % change)	-10.6	4.9	1.1	23.6	21.1	13.5	-17.3	-2.9	-3.2	4.4	8.0	6.0

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available
Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 31

Región: Desarrollo Medio

	Campeche						Colima					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-9.5	-1.9	-1.7	1.1	-2.3	nd	-5.1	12.0	11.0	28.8	8.4	nd
Primary Sector	9.8	7.8	4.9	17.4	-16.3	nd	-16.8	6.7	9.7	2.7	4.4	nd
Secondary Sector	-10.7	-2.8	-2.7	0.4	-3.8	nd	-0.9	33.8	25.8	108.7	12.4	nd
Tertiary Sector	-3.5	1.9	2.9	3.2	6.7	nd	-4.9	5.3	5.8	5.4	7.5	nd
Construction** (annual % change)	12.8	-3.9	-2.1	16.3	6.4	7.7	14.4	28.7	24.0	47.5	47.1	78.3
Public works	16.8	-6.5	-4.5	13.8	-3.8	3.9	43.5	36.2	39.8	47.8	34.0	161.3
Private works	-15.7	21.1	19.5	34.5	109.6	37.4	-15.8	15.4	-0.8	46.7	76.6	-26.6
Retail sales (annual % change)	-6.6	-3.8	0.2	-3.8	1.6	4.8	-5.5	6.9	11.4	4.5	0.1	5.0
Wholesale sales (annual % change)	-0.9	1.9	1.5	8.3	7.5	11.3	8.4	22.4	14.7	8.4	26.2	1.0
Total Employment (annual % change)	2.7	-0.3	-0.3	3.4	5.0	4.2	0.2	5.6	6.5	8.3	9.1	7.8
Industry	4.2	-4.4	-6.5	3.4	6.1	2.6	-2.2	13.7	14.7	18.0	21.8	19.9
Services	2.6	2.9	4.2	3.6	4.4	5.1	1.1	2.6	3.5	4.8	4.8	3.6
Total air traffic (passengers Transport, annual % change)	-7.5	0.3	2.8	-6.2	-3.9	-6.7	-21.3	-9.9	-15.5	-10.8	-10.6	-6.2
Federalized resources (annual % change)	-15.6	6.4	6.2	4.6	4.5	2.5	-13.0	4.0	2.4	11.8	9.5	1.9
Participations (Branch 28)	-22.6	10.2	-1.9	-0.9	-2.9	-4.3	-12.5	4.0	-0.4	2.0	4.6	7.6
Contributions (Branch 33)	-3.1	0.2	-1.7	2.3	3.1	0.8	-0.5	0.6	-8.7	8.5	-8.3	2.2
Remittances (annual % change)	-23.4	-1.3	2.9	3.2	-1.5	4.7	-10.9	4.3	9.3	12.6	7.3	3.1

	Durango						Guanajuato					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-4.3	4.3	2.8	5.8	6.1	nd	-4.6	11.4	8.9	6.7	5.6	nd
Primary Sector	-0.4	-1.3	2.0	-3.1	4.8	nd	-10.5	-4.2	12.9	10.2	10.0	nd
Secondary Sector	-3.9	3.2	1.0	10.8	11.5	nd	-2.9	20.4	12.5	7.5	5.8	nd
Tertiary Sector	-4.7	5.8	3.4	5.1	3.5	nd	-4.9	6.8	5.9	5.9	5.0	nd
Construction** (annual % change)	14.7	-7.2	-9.3	-10.8	22.3	7.4	-11.3	-13.5	-14.7	7.6	11.8	9.8
Public works	40.4	-3.4	4.9	-5.0	38.9	12.4	6.6	-24.6	-26.3	-10.9	-11.2	29.5
Private works	-18.8	-15.7	-34.5	-23.8	-22.0	-3.4	-24.0	-2.5	-2.4	27.7	35.3	-1.0
Retail sales (annual % change)	-3.5	2.6	4.0	2.6	-1.6	1.7	-7.2	6.0	7.0	6.2	2.3	5.5
Wholesale sales (annual % change)	2.8	10.3	11.1	6.4	-1.6	-8.0	-2.9	6.4	5.6	11.2	8.5	11.8
Total Employment (annual % change)	-2.1	3.8	4.1	4.3	3.8	4.1	-1.3	5.5	6.1	6.1	5.3	4.8
Industry	-5.7	8.4	7.6	8.7	5.0	7.1	-3.2	7.1	7.4	7.3	6.8	6.2
Services	0.9	0.1	1.6	1.3	3.4	1.5	0.5	4.1	4.6	5.0	3.7	3.3
Total air traffic (passengers Transport, annual % change)	-12.6	-4.6	-11.6	1.5	2.0	14.0	-18.9	-2.5	-5.6	-5.4	-5.5	0.1
Federalized resources (annual % change)	-7.7	-2.1	4.7	-4.2	5.7	6.8	-8.1	6.6	7.3	4.6	9.3	8.2
Participations (Branch 28)	-15.6	11.2	1.1	4.5	1.5	5.0	-18.4	15.6	2.6	8.9	13.0	7.6
Contributions (Branch 33)	-0.9	0.8	2.3	5.3	3.3	0.4	2.7	1.7	0.5	7.1	7.1	4.1
Remittances (annual % change)	-15.4	1.3	4.8	10.5	10.2	6.7	-16.3	2.0	6.0	11.5	9.2	4.8

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico y SHCP-UCEF

Chart 32

Región: Desarrollo Medio

	Hidalgo						Michoacán					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-8.3	4.3	4.9	7.9	7.1	nd	-6.0	4.4	2.3	2.7	3.4	nd
Primary Sector	-5.3	1.6	9.6	6.1	5.9	nd	-2.2	-0.8	-4.8	5.1	6.6	nd
Secondary Sector	-14.5	-0.3	2.7	7.6	7.8	nd	-14.3	3.9	-0.2	-2.1	3.8	nd
Tertiary Sector	-3.2	7.7	5.7	8.2	6.5	nd	-3.7	5.3	3.8	3.8	2.8	nd
Construction** (annual % change)	-38.3	13.7	28.7	44.2	33.3	-23.1	-33.3	15.6	-0.2	-0.5	9.1	1.3
Public works	-14.8	8.6	48.1	47.7	123.5	-14.3	12.8	11.6	-3.0	-4.1	-1.3	-25.1
Private works	-49.4	17.8	15.1	41.3	1.4	-30.5	-52.5	19.5	2.8	3.6	18.4	22.3
Retail sales (annual % change)	nd	nd	nd	nd	nd	nd	7.2	0.0	4.0	-2.0	5.3	9.4
Wholesale sales (annual % change)	nd	nd	nd	nd	nd	nd	-3.5	-4.1	-6.5	-1.1	-2.6	-2.3
Total Employment (annual % change)	-3.9	2.5	3.9	6.6	7.4	7.4	2.2	4.4	5.5	4.8	3.7	3.2
Industry	-10.3	1.4	4.4	10.3	11.8	13.6	-3.4	4.5	5.3	6.2	4.8	3.4
Services	3.0	3.8	3.7	3.5	3.5	1.9	4.2	3.4	4.1	0.0	0.0	0.0
Total air traffic (passengers Transport, annual % change)	nd	nd	nd	nd	nd	nd	-26.7	-5.5	-0.6	-15.0	-18.1	-20.5
Federalized resources (annual % change)	-14.6	6.0	8.9	14.6	12.6	3.0	-9.5	5.9	1.6	6.5	5.0	3.2
Participations (Branch 28)	-15.7	11.6	0.1	8.9	8.9	5.0	-16.7	15.8	4.2	8.6	9.5	7.4
Contributions (Branch 33)	-4.0	1.3	0.4	9.4	3.7	4.9	-1.0	0.5	-3.5	1.3	3.6	1.1
Remittances (annual % change)	-21.9	-4.7	0.0	2.1	3.4	2.8	-13.2	0.7	4.0	6.9	4.0	-0.1

	Morelos						Nayarit					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-0.1	6.8	6.5	6.8	3.8	nd	-3.7	6.1	11.3	3.6	2.6	nd
Primary Sector	0.5	-0.7	3.7	5.4	8.3	nd	0.5	6.7	46.4	-5.0	26.3	nd
Secondary Sector	9.3	12.9	12.3	15.4	3.9	nd	-10.2	-2.2	7.4	-4.0	-11.3	nd
Tertiary Sector	-4.3	3.8	3.2	2.2	3.5	nd	-1.7	8.7	8.2	7.6	3.0	nd
Construction** (annual % change)	44.4	-2.2	-13.0	-14.4	5.4	-2.8	-27.3	-8.4	-8.4	-14.1	-5.8	-4.0
Public works	99.3	-12.9	-40.8	-51.3	27.3	-34.8	3.3	-7.7	-0.2	-10.2	-21.0	-20.8
Private works	30.7	1.8	0.9	3.1	-1.2	15.1	-53.2	-9.6	-20.6	-19.6	27.9	30.0
Retail sales (annual % change)	-1.1	3.2	7.2	0.5	-1.1	1.4	nd	nd	nd	nd	nd	nd
Wholesale sales (annual % change)	-25.8	-8.4	-9.1	-8.8	-5.9	-1.9	nd	nd	nd	nd	nd	nd
Total Employment (annual % change)	-0.9	4.1	4.6	6.5	5.8	4.4	-1.9	4.3	4.0	4.6	3.6	3.2
Industry	-4.4	8.4	10.5	13.1	10.4	5.4	-18.0	-2.1	-1.3	-6.2	-6.4	-3.5
Services	0.7	2.3	2.0	3.6	3.8	3.8	6.4	6.7	6.4	8.9	6.6	5.3
Total air traffic (passengers Transport, annual % change)	nd	nd	nd	nd	nd	nd	-23.3	-9.4	-18.4	-5.0	15.1	26.7
Federalized resources (annual % change)	-9.8	8.3	10.5	9.5	6.9	10.1	-6.5	6.0	5.0	15.5	3.5	4.4
Participations (Branch 28)	-16.1	12.7	0.7	7.0	8.9	9.8	-9.6	8.2	1.8	0.8	4.5	9.7
Contributions (Branch 33)	0.5	0.9	-0.5	7.1	7.9	0.2	-0.4	1.4	-0.6	5.3	6.0	-0.4
Remittances (annual % change)	-12.2	1.4	3.4	4.3	2.0	4.3	-9.5	-1.1	-0.3	6.3	8.0	1.6

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 33

Región: Desarrollo Medio

	Puebla						San Luis Potosí					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-9.1	9.4	10.5	7.1	8.7	nd	-6.1	10.1	12.7	2.2	5.8	nd
Primary Sector	-2.3	2.9	2.8	3.4	3.6	nd	-3.6	5.6	13.7	15.9	-6.2	nd
Secondary Sector	-17.6	16.6	21.7	12.7	14.4	nd	-7.1	18.0	26.8	-2.4	7.9	nd
Tertiary Sector	-4.1	5.8	5.0	4.1	5.7	nd	-5.2	5.3	4.0	4.3	5.2	nd
Construction** (annual % change)	-14.6	-2.1	-12.6	4.8	-13.6	-24.6	2.5	-10.6	-8.1	-8.2	0.7	-2.2
Public works	1.5	6.5	1.4	7.6	-31.7	-38.1	16.1	-21.1	-22.9	-24.9	-31.9	-37.9
Private works	-24.2	-8.9	-22.1	2.4	5.2	-12.1	-7.3	-1.3	6.5	5.7	28.1	24.8
Retail sales (annual % change)	-3.5	5.2	4.1	5.9	2.7	4.1	-5.2	0.5	2.1	5.3	0.2	1.5
Wholesale sales (annual % change)	-5.7	-1.8	-0.7	-3.0	-4.3	-3.0	-15.4	7.7	13.2	18.1	8.3	1.9
Total Employment (annual % change)	-1.8	5.0	6.4	6.1	5.8	4.1	-2.6	4.4	6.3	8.1	7.4	6.3
Industry	-6.8	5.0	7.4	8.0	6.8	3.9	-8.1	5.8	9.1	11.7	11.8	10.3
Services	2.5	4.9	5.6	4.5	4.7	4.0	2.3	3.1	3.7	5.1	4.0	3.2
Total air traffic (passengers Transport, annual % change)	-31.6	-7.0	-20.0	-43.8	-47.1	-45.4	-15.5	12.5	10.2	11.3	9.0	4.6
Federalized resources (annual % change)	-12.6	8.0	3.9	6.3	4.4	1.3	-9.9	5.1	-0.6	9.7	8.7	1.0
Participations (Branch 28)	-18.3	18.2	7.8	8.9	0.2	6.3	-16.6	14.6	1.5	8.5	4.8	4.9
Contributions (Branch 33)	0.3	2.0	-1.0	5.6	7.5	3.1	-4.0	1.0	0.3	6.3	3.2	-0.2
Remittances (annual % change)	-15.1	-0.1	2.1	4.2	9.4	5.5	-17.8	0.6	3.5	12.5	5.7	10.9

	Sinaloa						Tabasco					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-5.1	4.7	2.3	7.7	-4.7	nd	2.2	7.3	4.9	6.1	2.9	nd
Primary Sector	-6.9	24.0	4.7	46.1	-36.9	nd	-3.5	1.6	9.6	-2.0	0.8	nd
Secondary Sector	-2.9	-5.9	-1.5	2.8	1.4	nd	7.6	9.4	6.7	5.8	2.4	nd
Tertiary Sector	-4.7	3.8	2.4	2.6	2.0	nd	-5.7	3.9	1.2	6.9	3.8	nd
Construction** (annual % change)	21.3	-13.2	-14.9	-23.2	-22.5	-3.7	5.7	0.7	-13.1	-6.0	1.9	6.7
Public works	30.4	23.1	64.3	29.2	9.2	17.0	11.5	5.4	-3.2	0.1	7.9	6.3
Private works	16.8	-33.5	-50.9	-48.6	-41.7	-23.0	-10.9	-16.1	-42.9	-29.7	-19.3	8.6
Retail sales (annual % change)	6.2	0.3	-0.5	0.6	0.3	3.1	-9.1	1.1	5.9	1.3	3.9	8.5
Wholesale sales (annual % change)	-10.6	-10.3	-17.5	-15.0	-22.1	-23.7	-3.2	-9.6	-11.7	-5.4	-2.8	2.6
Total Employment (annual % change)	-0.9	3.4	3.2	2.8	0.2	1.5	1.8	3.5	3.4	4.8	4.2	5.1
Industry	-7.5	3.2	3.8	3.1	3.7	2.4	0.5	0.8	-0.2	5.8	5.4	9.0
Services	1.5	1.3	1.8	0.2	0.0	4.9	2.6	5.4	6.3	4.1	3.2	2.5
Total air traffic (passengers Transport, annual % change)	2.5	1.9	-1.6	-6.8	-8.2	-3.4	-15.9	-3.9	-10.9	3.7	6.0	13.0
Federalized resources (annual % change)	-12.2	4.9	8.8	-2.9	2.5	-5.8	-9.9	3.5	2.8	-1.2	0.8	-3.5
Participations (Branch 28)	-14.3	12.6	1.7	7.0	0.1	-0.1	-10.6	4.2	-0.9	-1.4	-3.6	-1.2
Contributions (Branch 33)	1.3	0.3	-2.0	2.5	5.8	1.4	0.3	-0.1	-1.1	1.2	5.0	2.5
Remittances (annual % change)	-6.6	3.1	3.8	8.5	6.2	6.8	-27.0	-2.5	1.8	4.1	-1.2	-1.0

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 34

Región: Desarrollo Medio

	Tlaxcala						Veracruz					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-5.3	7.3	7.6	11.0	6.1	nd	-0.2	4.9	3.1	3.6	2.2	nd
Primary Sector	-8.9	5.0	19.2	7.3	1.6	nd	0.3	-2.5	2.5	-5.6	7.9	nd
Secondary Sector	-8.8	11.2	11.6	27.7	8.0	nd	7.4	5.2	0.0	10.1	-2.6	nd
Tertiary Sector	-3.3	5.6	5.1	4.0	5.3	nd	-4.3	5.4	5.0	0.8	4.7	nd
Construction** (annual % change)	4.1	39.6	55.4	47.5	-62.1	-64.6	21.9	6.8	7.5	9.0	-9.3	0.5
Public works	27.7	51.1	-50.9	-48.6	-41.7	-23.0	37.8	2.4	0.8	2.1	-15.9	-12.7
Private works	-31.3	7.7	82.7	11.7	-8.8	-36.7	-7.6	19.0	24.2	29.6	7.0	36.3
Retail sales (annual % change)	nd	nd	nd	nd	nd	nd	-1.9	3.4	3.3	5.1	2.6	3.1
Wholesale sales (annual % change)	nd	nd	nd	nd	nd	nd	-2.4	-3.7	0.2	-4.3	-3.0	-3.5
Total Employment (annual % change)	-7.4	5.9	9.5	8.3	5.8	5.3	1.9	3.5	4.3	4.2	2.6	1.4
Industry	-13.1	7.0	11.9	13.9	8.9	6.9	3.0	2.1	1.3	0.6	-2.0	-1.3
Services	3.2	4.3	5.9	0.0	1.1	2.9	1.4	4.1	5.6	5.7	4.7	2.5
Total air traffic (passengers Transport, annual % change)	nd	nd	nd	nd	nd	nd	-6.2	-5.4	-8.0	-18.7	-6.3	-4.8
Federalized resources (annual % change)	-8.7	6.8	4.8	11.4	2.5	2.7	-10.9	7.1	5.4	6.5	6.7	-1.7
Participations (Branch 28)	-9.7	12.1	2.3	4.3	3.8	5.0	-16.6	15.4	3.1	8.4	12.4	2.8
Contributions (Branch 33)	-1.0	1.3	-2.8	5.1	3.8	1.3	0.1	0.5	1.2	3.8	4.3	0.9
Remittances (annual % change)	-15.4	0.0	3.1	6.3	9.8	4.3	-20.1	-4.4	-0.6	0.7	3.7	1.8

	Yucatán						Zacatecas					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-2.7	7.1	6.6	5.3	2.7	nd	0.5	5.5	6.0	4.8	1.9	nd
Primary Sector	9.5	1.0	0.8	4.5	3.8	nd	2.1	2.9	15.9	-4.9	5.7	nd
Secondary Sector	0.9	11.4	9.2	7.1	-3.6	nd	6.9	9.2	9.0	18.0	0.7	nd
Tertiary Sector	-4.0	5.6	5.6	4.4	4.8	nd	-2.6	4.0	1.9	1.4	2.2	nd
Construction** (annual % change)	-4.2	-4.2	-0.2	-12.3	-0.3	-0.5	18.0	-9.6	-14.6	-1.8	-8.5	0.2
Public works	57.1	-11.5	-13.3	-27.8	-37.0	-12.6	4.7	-19.7	-20.2	1.4	-4.4	-10.8
Private works	-39.8	6.8	18.8	15.3	59.4	15.0	-7.6	19.0	24.2	29.6	7.0	36.3
Retail sales (annual % change)	-0.5	1.5	0.0	0.1	3.0	2.8	-1.7	-0.2	-0.7	-2.7	-6.1	0.7
Wholesale sales (annual % change)	-3.2	-1.0	-3.3	3.9	0.8	0.1	-11.0	-9.3	0.2	-3.3	3.9	0.3
Total Employment (annual % change)	-1.4	3.0	3.0	3.6	3.0	2.9	2.6	5.4	5.2	4.9	4.3	3.6
Industry	-10.7	2.5	2.5	4.7	2.6	0.3	3.0	9.0	8.9	7.9	9.2	7.1
Services	3.8	3.3	3.2	3.1	3.2	4.0	2.7	3.6	3.3	3.3	1.5	1.4
Total air traffic (passengers Transport, annual % change)	-9.7	8.8	8.9	-1.6	-0.9	7.8	-9.6	3.6	0.5	-18.4	-15.4	-24.8
Federalized resources (annual % change)	-9.7	2.7	3.1	6.2	3.6	2.5	-5.5	-1.6	3.4	-18.8	4.6	-11.4
Participations (Branch 28)	-13.3	6.5	1.0	2.3	1.9	6.9	-10.7	11.1	1.4	2.1	7.7	6.5
Contributions (Branch 33)	-0.5	0.4	-0.8	4.5	3.6	2.0	-0.1	1.0	-2.3	-25.6	4.4	-23.5
Remittances (annual % change)	-19.5	2.6	5.8	5.1	0.4	4.8	-16.1	1.6	6.7	10.3	4.1	5.9

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available

Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

Chart 35

Región: Desarrollo Medio

	Chiapas						Guerrero					
	2009	2010	3Q10	4Q10	1Q11	2Q11p	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-3.1	10.4	11.0	14.1	5.8	nd	-4.4	4.6	3.5	4.9	1.7	nd
Primary Sector	-1.8	1.0	3.8	6.2	3.1	nd	-2.8	1.7	7.0	0.1	14.6	nd
Secondary Sector	-1.9	24.2	28.9	46.9	9.3	nd	-4.7	10.9	5.1	13.0	-2.9	nd
Tertiary Sector	-3.5	6.6	5.0	4.4	4.8	nd	-4.3	3.6	2.8	3.7	1.8	nd
Construction** (annual % change)	-0.4	37.5	47.4	21.9	-2.0	6.8	-7.7	-18.2	-28.8	-22.8	-17.2	-8.6
Public works	2.4	41.6	53.4	10.7	-16.2	-5.4	37.5	-8.1	-7.7	-13.7	13.4	-23.5
Private works	-6.4	27.9	30.6	57.5	23.9	45.9	-24.0	-2.5	-47.2	-31.4	-40.2	12.1
Retail sales (annual % change)	-1.5	1.0	2.0	0.3	1.0	4.1	-3.1	-1.8	0.0	0.6	-3.4	2.5
Wholesale sales (annual % change)	-8.4	-8.2	-7.8	-10.5	-4.0	-2.3	-19.2	-1.5	-5.7	2.8	-4.1	-7.8
Total Employment (annual % change)	4.7	6.1	5.7	6.0	4.8	4.9	-1.6	-1.6	-0.6	0.9	0.0	0.7
Industry	5.0	8.1	9.5	7.1	5.2	-0.6	-10.7	-10.7	-11.9	-5.4	-1.6	-3.4
Services	4.9	6.2	5.5	6.2	4.6	5.7	2.3	2.4	3.3	2.6	0.2	1.3
Total air traffic (passengers Transport, annual % change)	-7.3	-1.6	9.4	14.2	14.3	22.6	-12.2	-11.1	-1.4	-9.4	-12.6	-13.7
Federalized resources (annual % change)	-7.2	8.0	10.2	-0.5	5.4	-7.0	-10.1	6.6	8.5	5.2	5.2	8.3
Participations (Branch 28)	-14.7	10.6	1.8	4.8	6.3	3.0	-17.3	16.5	3.7	8.3	11.0	14.3
Contributions (Branch 33)	1.2	0.4	-0.8	4.1	5.6	2.3	-2.6	0.5	-1.8	5.6	3.5	0.5
Remittances (annual % change)	-25.0	-5.7	-2.1	-0.5	7.0	2.8	-16.6	0.2	2.9	3.1	5.7	1.5

	Oaxaca					
	2009	2010	3Q10	4Q10	1Q11	2Q11p
Economic Activity (QIEAS*) Total	-2.6	4.2	6.2	0.6	4.3	nd
Primary Sector	-1.5	-1.8	4.3	6.4	8.2	nd
Secondary Sector	2.0	4.1	16.8	-8.5	11.1	nd
Tertiary Sector	-3.7	4.8	2.7	2.2	2.1	nd
Construction** (annual % change)	13.1	24.1	38.4	67.5	55.4	20.5
Public works	27.4	26.6	45.6	70.6	48.7	5.0
Private works	-33.0	8.4	8.1	42.9	98.9	127.7
Retail sales (annual % change)	-11.1	14.0	14.5	13.5	-0.9	-1.4
Wholesale sales (annual % change)	-11.7	-10.1	-7.7	-6.4	-4.7	-3.3
Total Employment (annual % change)	2.7	1.3	1.5	1.9	1.4	1.6
Industry	0.3	-2.7	-4.2	5.1	0.8	2.2
Services	3.4	2.6	3.2	1.2	1.5	1.6
Total air traffic (passengers Transport, annual % change)	-12.9	-8.5	-8.1	-17.0	-26.0	-7.1
Federalized resources (annual % change)	-9.5	5.3	5.0	-9.3	6.4	5.7
Participations (Branch 28)	-16.5	15.4	1.8	8.4	6.0	6.2
Contributions (Branch 33)	-2.3	0.7	-2.4	-16.4	8.1	5.0
Remittances (annual % change)	-14.9	0.0	3.4	4.6	6.8	4.4

* Quarterly Indicator of Economic Activity Statewide (Indicador Trimestral de la Actividad Económica Estatal); ** Production value in real terms; na = not available
Source: INEGI, IMSS, Pemex, SCT, Sector, CNBV, Banxico and SHCP-UCEF

5. Special Topics Included in Previous Issues

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Editorial Board

Adolfo Albo

Jorge Sicilia

Julián Cubero

Fernando González

This report has been produced by

Editor

Adolfo Albo

a.albo@bbva.bancomer.com

Fernando González

f.gonzalez8@bbva.bancomer.com

Alma Martínez

ag.martinez2@bbva.bancomer.com

BBVA Research

Group Chief Economist

Jorge Sicilia

Chief Economists & Chief Strategists:

Financial System and Regulation

Santiago Fernández de Lis

sfernandezdelis@grupobbva.com

Pensions

David Tuesta

david.tuesta@grupobbva.com

Financial Systems

Ana Rubio

arubiog@grupobbva.com

Regulatory Affairs

María Abascal

maria.abascal@grupobbva.com

Developed Economies:

Rafael Doménech

r.domenech@grupobbva.com

Spain

Miguel Cardoso

miguel.cardoso@grupobbva.com

Europe

Miguel Jiménez

mjimenezg@grupobbva.com

United States

Nathaniel Karp

nathaniel.karp@bbvacompass.com

Emerging Economies:

Alicia García-Herrero

alicia.garcia-herrero@bbva.com.hk

Cross-Country Emerging Markets Analysis

Álvaro Ortiz-Avarca

Mexico

Adolfo Albo

a.albo@bbva.bancomer.com

Macro Analysis Mexico

Julián Cubero

juan.cubero@bbva.bancomer.com

Asia

Stephen Schwartz

stephen.schwartz@bbva.com.hk

South America

Joaquín Vial

jvial@bbvaprovida.cl

Argentina

Gloria Sorensen

gsorensen@bancofrances.com.ar

Chile

Alejandro Puente

apuente@grupobbva.cl

Colombia

Juana Téllez

juana.tellez@bbva.com.co

Peru

Hugo Perea

hperea@grupobbva.com.pe

Venezuela

Oswaldo López

oswaldo_lopez@provincial.com

Market & Client Strategy:

Antonio Pulido

ant.pulido@grupobbva.com

Equity and Credit

Ana Munera

ana.munera@grupobbva.com

Interest Rates, Currencies and

Commodities

Luis Enrique Rodríguez

luisen.rodriquez@grupobbva.com

Asset Management

Henrik Lumholdt

henrik.lumholdt@grupobbva.com

Financial Scenarios

Sonsoles Castillo

s.castillo@grupobbva.com

Economic Scenarios

Juan Ruiz

juan.ruiz@grupobbva.com

BBVA Research Mexico

Avda. Universidad 1200

Colonia Xoco

C.P. 03339 México D.F.

Publicaciones:

E-mail: researchmexico@bbva.bancomer.com

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