

Mexico

# Regional Sectorial Outlook

January 2011

## Economic Analysis

- A better sectorial and regional outlook due to a favorable panorama of the U.S. economy and employment in the country
- 2011 will be a year of more balanced growth; export growth will be maintained, partly boosted by gains in competitiveness, and domestic market growth will be more generalized
- The tourist, industrial and high development regions will continue to be the most dynamic



# Index

1. Summary .....	2
2. Current situation .....	3
2.1 Sectorial outlook and evolution 2011: toward a year of less but more generalized growth, based on the domestic market .....	3
2.1a. Sectorial Forecasts .....	12
2.2 Current Regional Situation: Toward more homogeneous growth of the states in 2011 .....	14
2.2a. 2011 Outlook: Toward more homogenous and generalized growth in all the states .....	16
2.2b. Forecasts by state .....	17
Inset 1. Natural disasters: high cost due to the unusual nature of the phenomena, poor urban zoning and inferior housing construction and deficiencies in a culture of prevention .....	18
3. Topics for analysis .....	20
3.1 The automobile industry in Mexico is benefiting from the restructuring in the U.S., although it is facing strong global competition .....	20
Inset 2: The challenges posed by electric vehicles for the world .....	35
3.2 Tourism in Mexico: facing the challenge of greater growth .....	37
4. Appendix .....	49
4a. Indicators of economic performance by state .....	49
4b. Indicators by state .....	50
5. Special Topics Included in Previous Issues .....	59

**Closing date: December 31, 2010**

# 1. Summary

## **The year 2010 was of high growth (estimated GDP of 5.3%), possibly the highest since 2000**

Nevertheless, it was characterized by dissimilar growth among sectors. Exports were the main driving force for expansion, favoring the growth of manufacturing production. In contrast, the takeoff of the domestic market was seen toward the final stretch of the year, reflected in lower average growth in services and a setback in construction. Compared with 2008, while some sectors have improved and experienced new record levels (the primary sector and electricity), others are still lagging but with a good outlook of soon surpassing their maximum level (services and manufacturing). The construction sector, despite the lag, promises strong recovery in the next biennium.

In 2011, the world economy continued the process of recovery that began at the end of 2009. Economic growth in the U.S. could be 3% in 2011, slightly higher than the close estimated for 2010 (2.9%). This environment is positive for the country. In Mexico, we expect a better year in 2011, more balanced among the sectors, although in terms of growth, we will see a 4.3% growth rate, which is far from a significant slowdown compared to the 5.3% of 2010. Growth among the sectors will be less dispersed, and a less concentrated contribution will be observed (for more details see the section on the sectorial situation and its forecast), that is, a more balanced and generalized increase will be seen among the various sectors of the economy. The most dynamic will be those concentrated in the manufacture of durable consumer goods and in services. In turn, those sectors showing lower than average growth in the economy will be those linked to demand for basic use goods and less competitive sectors.

What will continue to sustain the Mexican economy in 2011 will be export growth (with a better competitive position), in addition to a greater contribution of the domestic market. In the automotive sector, we expect that after an extraordinary 2010 (see the Automotive sector in this edition), in 2011, export growth will be between 5% and 10% and domestic demand will grow between 10% and 15%. Also, due to their importance in the future, we analyze the challenges facing governments, society and automobile manufacturers in the introduction of "green" vehicles, on this occasion, electric.

## **Improvement of the regional outlook for 2011**

At the end of 2010, INEGI (the National Institute of Geography and Statistics) published results for 2009 GDP by state. The results confirm in general the trends observed, but there are also some differences: the dispersion is now lower, the tourist regions were less affected and the main oil-producing states now show a relatively more homogeneous behavior. The year 2011 is expected to be a year of growth with only a slight change among regions, which will be favorable to medium development states and those that are lagging.

In 2010, the natural contingencies had strong impacts on the regions, which are analyzed in this document. The magnitude of the damages pressured the authorities to allocate additional resources to the 2011 expenditures budget for reconstruction. However, the problem goes beyond reconstruction, in view of the threat of climate change.

Tourism: an important activity for the country, with a strong regional impact. Among myths and realities, the challenge is to optimize available resources. In Mexico, in 2008, tourism accounted for 8.7% of total economic activity and 6.9% of employment. Undoubtedly, the jobs created are important but the share of tourism in employment is relatively low and is below its share of GDP. At the close of 2010 however, there were clear indicators of recovery and therefore the outlook is favorable.

## 2. Current situation

### 2.1 Sectorial outlook and evolution 2011: toward a year of less but more generalized growth, based on the domestic market

The world economic recession of 2009 severely affected the Mexican economy (GDP fell 6.1%). The unprecedented plummeting of world trade and the high integration of the U.S. and Mexican economies directly affected the sectors most exposed to the external cycle (manufacturing, trade, transportation, and tourism) and indirectly affected the sectors most tied to internal demand (services and construction), as a result of an unprecedented decline in employment and remittances in the country, as well as the restructuring of the auto industry in the United States. These factors were coupled with the influenza outbreak (H1N1). All these elements contributed to what, on other occasions, we have called “the perfect storm” for Mexico.

#### 2010: strong recovery of the sectors tied to external demand, with internal demand lagging behind

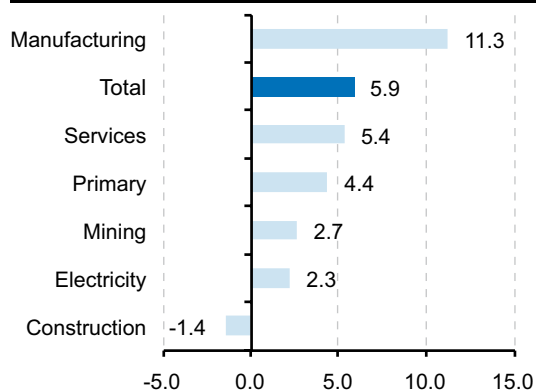
The year 2010 was marked by high growth (GDP is estimated at 5.3%), which possibly will be the greatest since 2000. Nevertheless the year was characterized by heterogeneous growth among sectors. Exports were the main motor of the economic expansion, favoring the growth in manufacturing production. In contrast, the expansion of the domestic market occurred toward the final stretch of the year, which was reflected in lower than average annual growth of services and a decline in construction.

#### Profile of sectorial growth in 2010

In 2010 the growth of the economic sectors continued to be uneven. While some sectors have posted and even surpassed new maximum levels, others are still behind 2008 numbers, in addition to experiencing a slow recovery. Among the major sectors, manufacturing was particularly important, leading the growth in GDP, while services were below average and construction showed negative growth (see graph 1). Manufacturing, despite its strong growth, is still 2% below its 2008 level. Meanwhile, services and mining matched their pre-crisis levels, while electricity and the primary sector posted new highs (see graph 2).

Graph 1

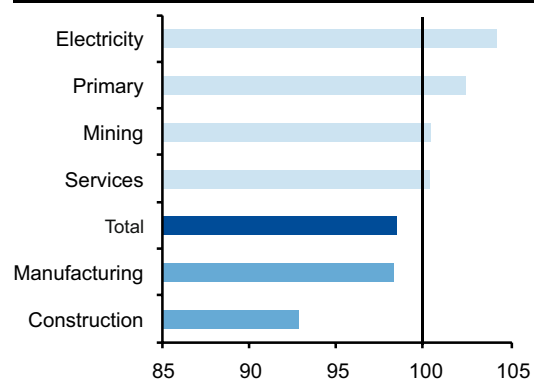
#### In 2010 \* all the sectors posted growth except construction (annual % change)



\* Jan.-Sept.  
Source: BBVA Research with INEGI data

Graph 2

#### GDP of major sectors, 2010\* (2008 index=100)

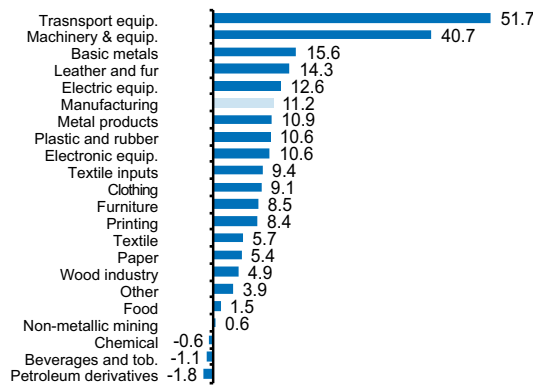


\* Jan.-Sept.  
Source: BBVA Research with INEGI data

It should be pointed out that as of the second half of 2010, economic growth rates began to gradually decline. This can be attributed to a higher comparison base for the second half of 2009, which was when manufacturing production began its recovery, and the effect of the downturn in U.S. demand for manufactured goods in the third quarter of 2010. However, the recent economic growth rates can be considered more sustainable.

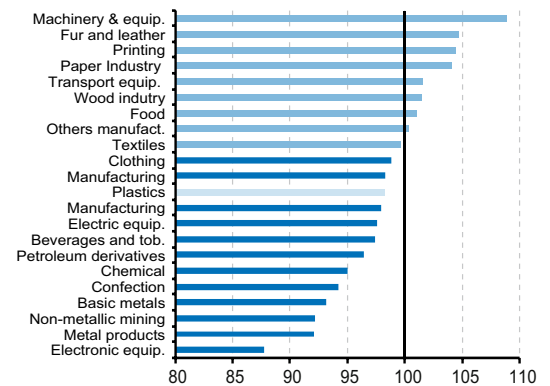
In manufacturing, the growth in 2010 was almost across-the-board (see graph 3), and in two sectors it was particularly outstanding: 51% in transportation equipment, both in the production of light and heavy vehicles as well as in auto part production, spurred by external demand and the 40.7% increase in machinery and equipment. This growth has allowed both sectors to surpass their maximum levels reached before the 2009 crisis (see graph 4).

Graph 3  
**In 2010 \* all the sectors posted growth except construction (annual %change)**



\* Jan.-Sept.  
Source: BBVA Research with INEGI data

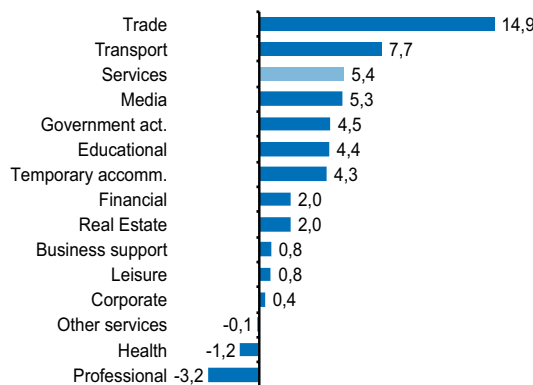
Graph 4  
**GDP major sectors, 2010 \* (2008 index=100)**



\* Jan.-Sept.  
Source: BBVA Research with INEGI data

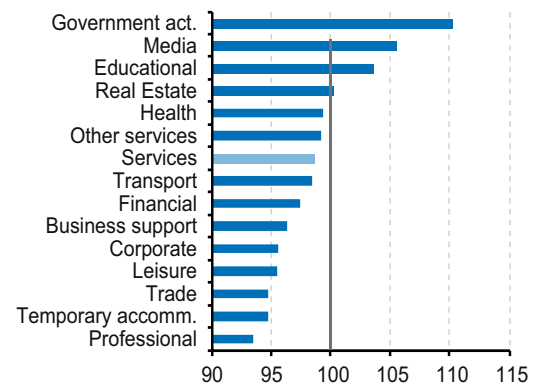
In the services sector, of particular importance was the high growth in retail trade and to a lesser extent in transportation, as a result of the strength of foreign trade (see graph 5). This occurred despite the considerable fall in 2009 and household consumer spending and companies' expenditure having delayed their recovery until the second half of the year. However, retail trade is still far from reaching its 2008 levels, by about 5% (see graph 6).

Graph 5  
**In 2010 \* retail trade led the recovery (annual % change)**



\* Jan.-Sept. Source: BBVA Research with INEGI data

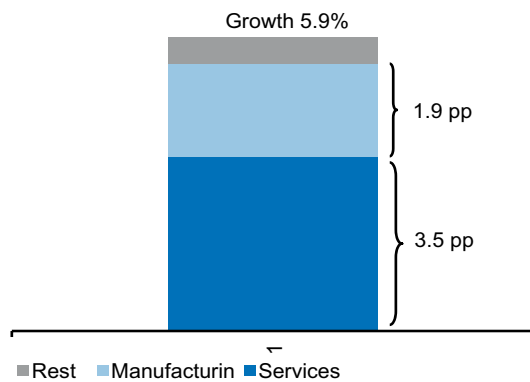
Graph 6  
**In 2010 \*, 4 of 14 activities are already above or equal to their 2008 levels; equivalent to 36% of services**



\* Jan.-Sept. Source: BBVA Research with INEGI data

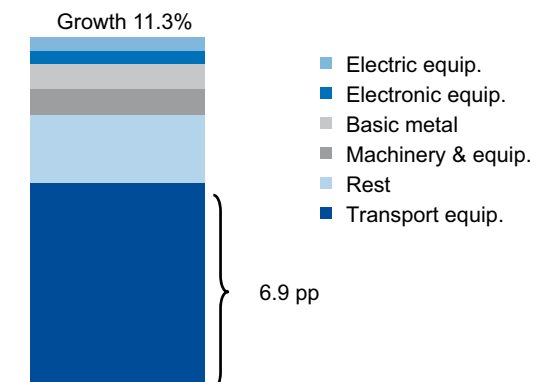
In synthesis, the growth of sectorial economic activity was concentrated in manufacturing (1.9 percentage points, pp) and in services due to their high relative weight more than as a result of their strength (3.5 pp). The two together accounted for 90% of the 5.9% growth in total GDP registered through the third quarter of 2010. In turn, 60% of the growth in manufacturing output (11.3%) can be attributed to transportation equipment (6.9 percentage points), while to a lesser extent, machinery and equipment and basic metals also contributed to growth, each accounting for 1 pp of the increase. In the 5.4% growth in the services sector in 2010, the same phenomenon occurred, with 76% of the growth corresponding to retail trade (3.3 pp) and transportation (0.82 pp) (see graphs 7, 8, 9).

Graph 7  
**Contribution to total GDP growth in 2010 \* by major sectors (annual % change and percentage points)**



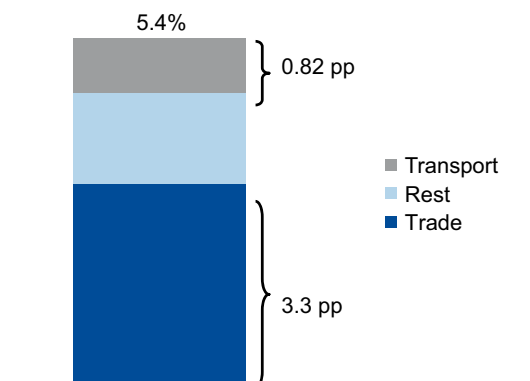
\* Jan.-Sept.  
Source: BBVA Research with INEGI data

Graph 8  
**Contribution to the growth of 2010 manufacturing GDP \* (annual % change and percentage points)**



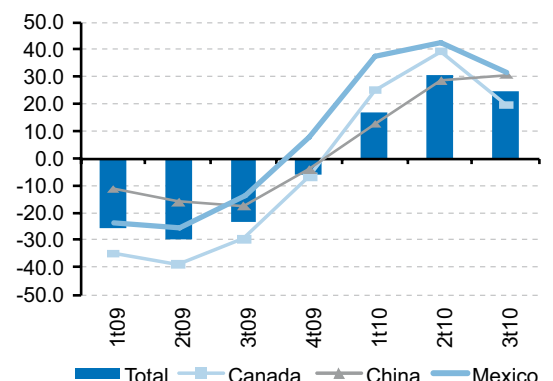
\* Jan.-Sept.  
Source: BBVA Research with INEGI data

Graph 9  
**Contribution to GDP growth of the services sector in 2010 \* (annual % change and percentage points)**



\* Jan.-Sept.  
Source: BBVA Research with INEGI data

Graph 10  
**Evolution of U.S. imports (annual % change)**



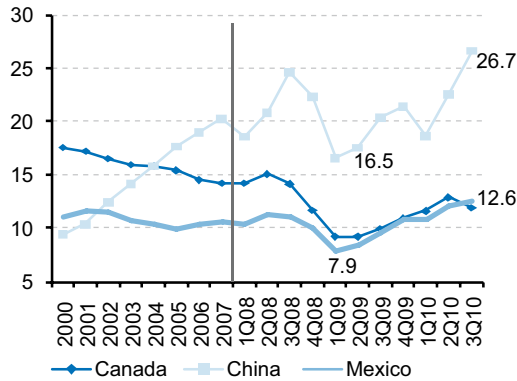
\* Jan.-Sept.  
Source: BBVA Research with INEGI data

Mexico, the United States' second largest trade partner, displaced Canada. Based on the high growth of exports of manufactured goods to the United States (see graph 10), in 3Q10 for the first time ever, Mexico became the U.S.' second largest trade partner, accounting for 12.6% of the market, and in the process displacing Canada. In 3Q10, Mexico's share of the U.S. market posted a recovery of approximately 60%, considering the lowest point of 7.9% in 1Q09. The

same phenomenon occurred with China, whose corresponding market share rose from 16% to 26% (see graph 11). The rapid recovery of Mexico's market share was sustained by greater demand, but also as a result of the gains in the country's competitiveness.

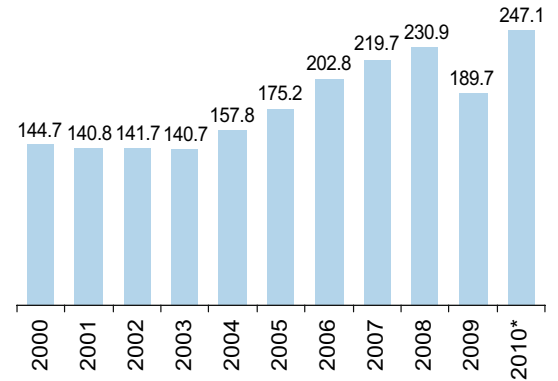
### Exports of manufactured goods: the main motor of growth for Mexico

Graph 11  
**Main countries' market share of the U.S. imports of manufactured goods (% share)**



Source: BBVA Research with INEGI and USITC data

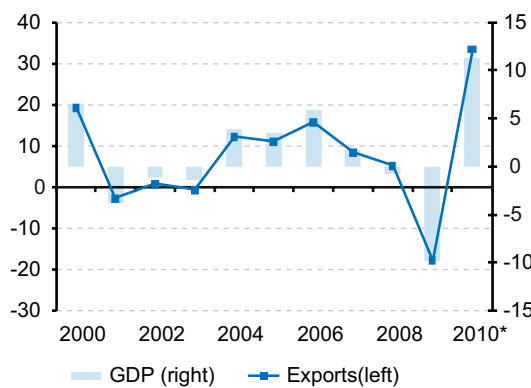
Graph 12  
**Exports of Mexican manufactured goods (Billions of dollars)**



\* Annualized, with Jan.- Nov. statistics.  
Source: BBVA Research with INEGI data

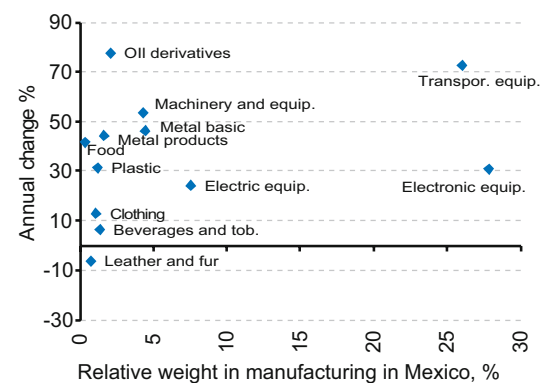
In 2010 it was estimated that exports of Mexican manufactured goods reached their highest levels in history (see graph 12), at close to 250 billion dollars, which represents a 30% increase (see graph 13), the highest growth since 1995. The increase in Mexican exports to the United States practically has been generalized among the sectors, with the exception of leather and footwear (see graph 14).

Graph 13  
**Exports and Manufacturing Output (annual % change)**



\* Jan.-Sept.  
Source: BBVA Research with INEGI data

Graph 14  
**U.S. imports of Mexican goods in 2010 show high and generalized increases, except for leather and footwear**

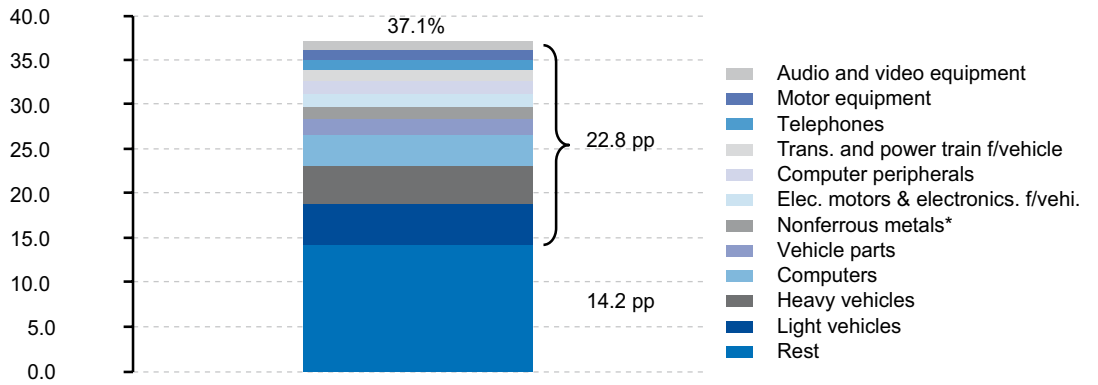


Source: BBVA Research with USITC data

In fact, as a result of the strong specialization of production, the bulk of the growth of U.S. imports from Mexico comes from the electronic and auto clusters (see graph 15).

Graph 15

**61% of the growth of U.S. imports of Mexican manufactured goods in 2010 \* corresponds to 11 activities**

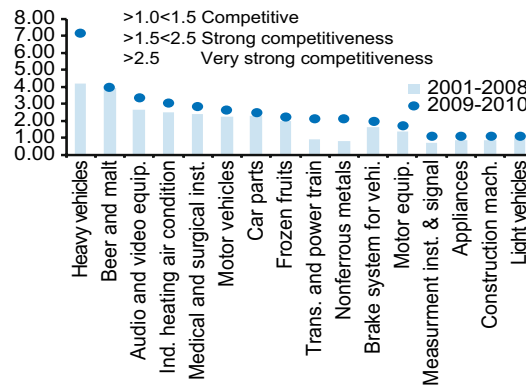


\* with January-September data  
Source: BBVA Research with USITC data

Improvements in the competitive situation of the products imported by the United States from Mexico. To analyze the competitive situation of the products exported by Mexico to the United States in the 2009-2010 period, as a reference we used the 50 main products that Mexico exports to the United States, which represent 80% of total exports of manufactured goods, and this was compared with the 2001-2008 period. During the 2009-2010 period, of the 50 products, 37 show a more advantageous situation, while in the previous period the corresponding number was 34. Of 37 products that are currently listed in the Revealed Competitive Advantage Index (RCAI)<sup>1</sup>, 16 improved their position (see graph 16). In the automotive sector, of particular importance was the extraordinary growth of the RCAI for heavy vehicles and transmissions and power trains. For the 21 remaining products, even though some maintained or declined in their RCAI ranking, all remained in an advantageous situation (see graph 17).

Graph 16

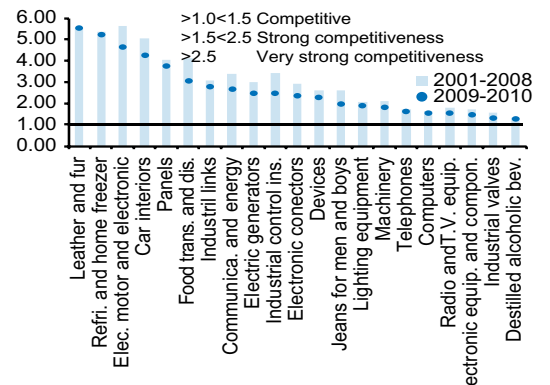
**Revealed Competitive Advantage Index (RCAI): those that improved their position in 2009-2010 vs. 2001-2008**



\* with January-September data  
Source: BBVA Research with USITC data

Graph 17

**Revealed Competitive Advantage Index (RCAI): those that weakened their position in 2009-2010 vs. 2001-2008**



\* with January-September data  
Source: BBVA Research with USITC data

<sup>1</sup> for further details on the RCAI (Revealed Competitive Advantage Index), see the June 2010 issue of *Regional Sectorial Outlook*



Most of the products that the United States imports from Mexico have an important market share. Chart 1 presents the 50 main products classified according to their penetration in the U.S. market. Those that have a “high” penetration in the United States (more than 45%) represent 13.9% of Mexican manufactured goods exports. Most of the products that are imported from Mexico (48.1%) have a U.S. market share of between 15% and 44%, with automobiles and computers particularly significant in this regard. Products with medium and low market share levels account for 18.6% of Mexico’s exports. It should be pointed out that in the three categories, most of the products gained market share. In synthesis the competitive situation for Mexican exports in the U.S. market has improved significantly (see graph 19). Among the factors that could have contributed to this good performance are higher labor productivity, lower relative transportation costs, the real depreciation of the peso, and relatively lower labor costs than in the case of the country’s competitors.

Chart 1

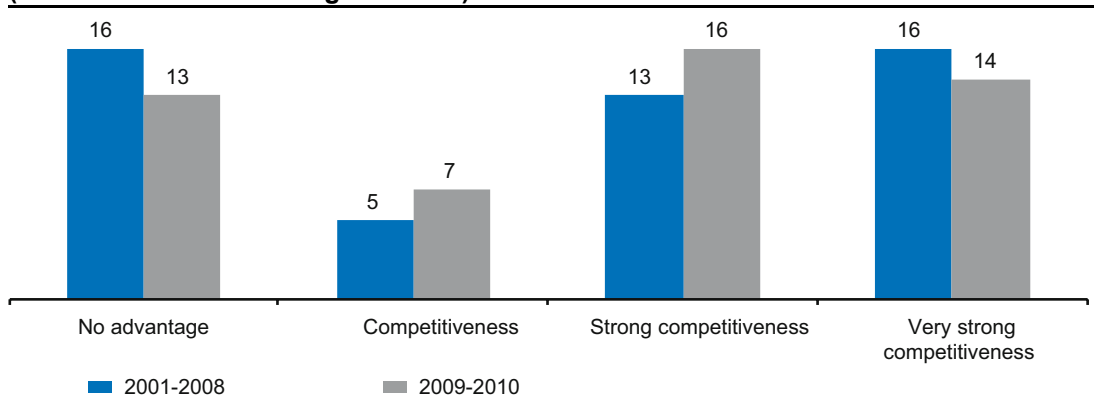
**Penetration of Mexican products in the U.S. market in 2010 vs. 2008**

	Penetration in U.S.				Penetration in U.S.		
	Mex. Manufactured products,%	2010	Dif. 2010 vs. 2008, pp		Mex. Manufactured products,%	2010	Dif. 2010 vs. 2008, pp
<b>“High” market share</b>				<b>“Medium high” market share</b>			
Heavy vehicles	6.9	90.9	35.1	Brake systems for vehicles	0.5	22.7	1.5
Leather and fur	0.7	67.0	4.5	Lighting equip. Computers	0.5	21.4	-1.5
Household refrigerators	1.3	58.7	-0.6	Computers	5.4	20.6	9.5
Elec. motors (vehicles)	2.9	54.5	1.1	Hardware	0.6	20.3	1.0
Interior equip. for vehic.	1.3	51.9	4.0	Telephone apparatuses	3.4	18.5	0.7
Beer and Malt	0.9	45.4	2.6	Radio & TV equip.	4.3	17.6	-0.4
Light fixtures	0.7	44.6	5.6	Power-driven hand-held tools	0.3	17.4	0.7
<b>% of Mex. exports</b>	<b>14.7</b>			Electrical equip.	0.5	16.1	0.4
<b>“Medium high” market share</b>				Industrial valves	0.6	16.0	1.9
Audio & video equip.	8.7	37.9	-0.1	Alcoholic bev.	0.4	15.1	0.9
Ind. air cond. & heating	1.4	37.2	5.0	<b>% of Mex. Exports</b>	<b>47.4</b>		
Energy distrib. Ap.	0.6	34.9	-7.6	<b>“Medium low” market share</b>			
Surgical & med. instr.	1.7	33.4	3.3	Construction mach.	0.7	14.69	5.95
Ind. connect.	1.2	32.4	2.0	Electro-medical app.	0.6	13.44	2.89
Communications app.	0.9	30.7	-1.9	Light vehic.	7.8	12.88	2.27
Ind. control instr.	1.0	30.6	4.1	Farm machinery	0.5	12.15	4.14
Spare parts for vehic.	0.7	30.3	3.5	Navigation instr.	0.4	11.99	2.73
Elec. generators	1.3	30.0	2.2	Other plastics	0.8	9.84	0.58
Parts for vehic.	3.4	28.8	2.7	Other metal prod.	0.4	9.57	-0.84
Mot. / gasoline for vehic.	1.7	28.2	0.1	Acces. for surgery	0.5	9.37	-2.05
Electron. connectors	0.5	28.0	0.9	Iron & steel	1.2	8.70	0.38
Sugar	0.4	26.9	-6.0	Other computer equip.	1.6	7.84	3.84
Transmissions for vehic.	1.8	26.6	10.1	Plastics & resins	0.4	7.61	0.65
Prod. for wiring	0.4	26.4	0.2	Other electronic prods.	0.4	7.40	-1.50
Motor equip.	1.3	24.2	9.2	Other mach.	0.4	6.52	-1.29
Non ferrous metals	3.2	23.6	12.6	Oil derivatives	2.0	5.27	0.50
Pants & Jeans (men & boys)	0.7	23.5	-0.2	Semiconductors	0.6	3.87	1.04
				<b>% de Mex. Exports</b>	<b>18.2</b>		

Jan.-Sept. of every year  
Source: BBVA Research with USITC data

Graph 18

**Revealed Competitive Advantage Index (RCAI) was better in 2009-2010 vs. 2001-2008 (number of manufacturing activities)**



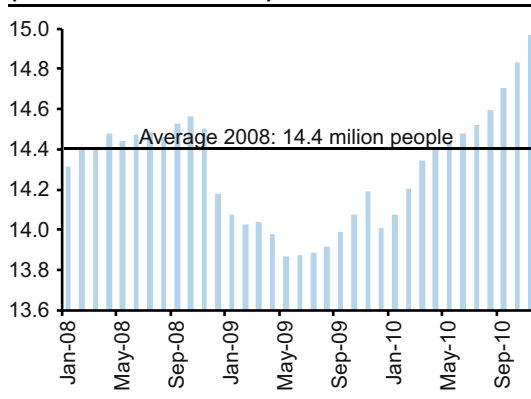
Source: BBVA Research with USITC data

**Signs of strengthening of internal demand in 2010**

Throughout most of 2010, the main factor spurring growth was external demand, while internal demand remained weak. This has prevented sectors such as construction, the consumption of durable goods, and some services from posting favorable sustained growth trends. One of the determining factors in this evolution is employment, even though the jobs that were lost during the crisis have now been recovered, and employment levels are even above those of 2008 (see graph 18). The jobs created after the crisis have been concentrated mainly in the services sector, which usually requires less training than in manufacturing, and therefore, are relatively lower paid (see chart 2). In fact, manufacturing industry employment still has not recovered its 2008 levels (see chart 3).

Graph 19

**Workers enrolled in the Mexican Social Security Institute (IMSS) (millions of affiliates)**



Source: BBVA Research with STPS data

Chart 2

**Services sector employment, 2010 vs. 2008 (thousands)**

	2008	2010	dif. Abs.	2010 vs. 2008 Contrib. Crec.
<b>Services</b>	<b>8,644</b>	<b>8,911</b>	<b>267</b>	<b>3.1</b>
Professional	1,625	1,715	89	1.0
Trade	2,857	2,936	79	0.9
Government act.	926	980	53	0.6
Educational	509	534	26	0.3
Financial	282	298	16	0.2
Health	196	205	9	0.1
Recreation	147	153	6	0.1
Other services	52	56	5	0.1
Real estate	74	74	0	0.0
Corporate	0	0	0	0.0
Business support	0	0	0	0.0
Media	84	82	-1	0.0
Temp. accomm.	764	750	-14	-0.2
Transport	687	671	-16	-0.2

In 2008 and 2010, this refers to the Jan.-Sept. period  
Source: BBVA Research with IMSS data

Chart 3

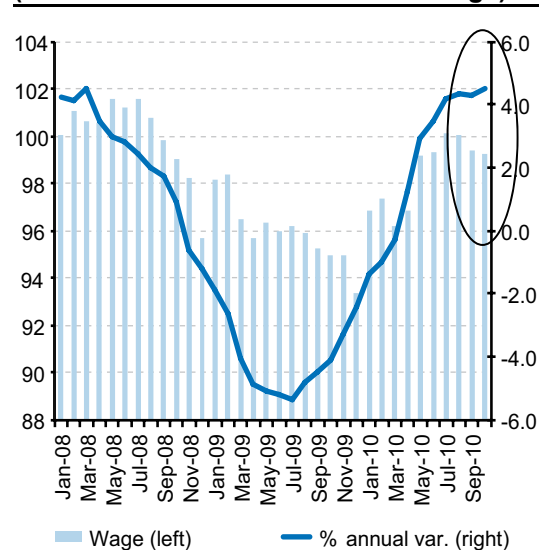
**Manufacturing industry employment 2010 vs. 2008 (thousands)**

	2008	2010	dif. Abs.	2010 vs. 2008 Contrib. Crec.
<b>Manufacturing</b>	<b>3,885</b>	<b>3,699</b>	<b>-186</b>	<b>-4.8</b>
Food	529	542	13	0.3
Chemical	226	233	7	0.2
Machinery & equip.	111	116	5	0.1
Oil base	7	7	0	0.0
Fur and leather	105	105	0	0.0
Basic metals	75	73	-2	0.0
Paper ind.	90	87	-2	-0.1
Plastics	246	242	-4	-0.1
Lumber ind.	41	37	-4	-0.1
Bev. and Tob.	140	133	-7	-0.2
Textiles	111	104	-7	-0.2
Printing & publish.	149	138	-10	-0.3
Non-metallic min.	136	124	-12	-0.3
Furniture and rel.	90	78	-12	-0.3
Other manuf. goods	169	155	-14	-0.4
<b>Metallic prod.</b>	<b>336</b>	<b>311</b>	<b>-25</b>	<b>-0.6</b>
<b>Transport. Equip.</b>	<b>471</b>	<b>440</b>	<b>-31</b>	<b>-0.8</b>
<b>Electro., comp.</b>	<b>525</b>	<b>488</b>	<b>-37</b>	<b>-0.9</b>
<b>Apparel</b>	<b>327</b>	<b>289</b>	<b>-39</b>	<b>-1.0</b>

In 2008 and 2010 this refers to the Jan.-Sept. period. Boldface, strongly export-oriented sectors  
Source: BBVA Research with IMSS data

Graph 20

**Total wage of formal private sector employment (2008 Index=100 and % annual change)**

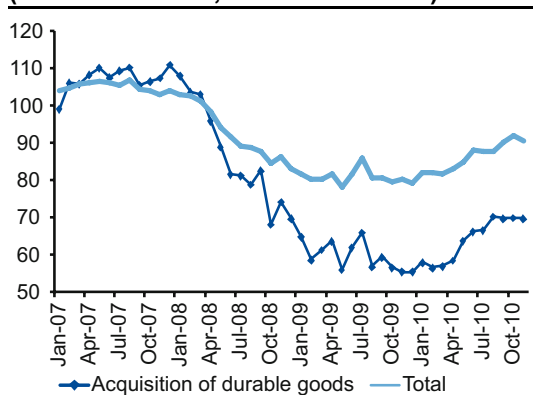


Source: BBVA Research with STPS and Banxico (central bank) data

In terms of the jobs created during 2010, it should be mentioned that most (75%) are temporary, which are also paid less than permanent jobs. This situation has translated into a slow recovery of the total wages, which in real terms is barely approaching the levels observed in 2008 (see chart 3) and, consequently, in a weak recovery of consumer confidence, especially in relation to the acquisition of durable goods (see graph 21) and private consumer spending levels below 2008 (see graph 22). Nevertheless, an overall view of the behavior of all these variables points to a more generalized reactivation of the domestic market during 2011.

Graph 21

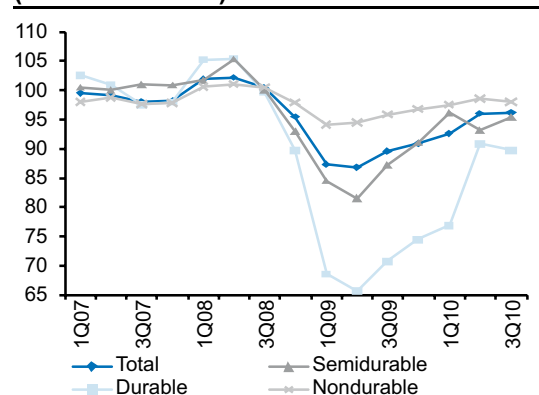
**Consumer confidence (Index 2003=100, annual estimate)**



Source: BBVA Research with INEGI data

Graph 22

**Private consumption of goods (2008 Index=100)**

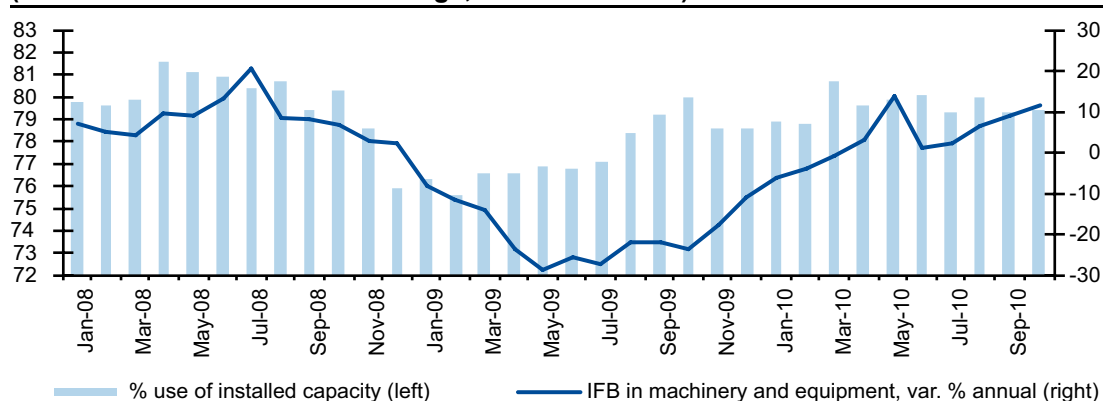


Source: BBVA Research with INEGI data

Although private investment also posted slight rebounds, the macroeconomic conditions lead us to assume that throughout 2011 a gradual recovery will take place. Such investment will soon have to post greater growth, since the depreciation of assets and their replacement should be close at hand following a long period during which this did not occur. Furthermore, to maintain competitiveness in manufacturing requires a continuous investment process to guarantee the best product at the lowest cost (see graph 23).

Graph 23

**Gross fixed investment and use of installed capacity  
(2008 Index=100 and annual change, annual estimate)**



Source: BBVA Research with INEGI data

### In 2011, the base scenario points to a consolidation of the recovery

Toward the end of 2010, business expenditures in machinery and equipment began to recover, which is a very good omen; this implies that investment is taking on a certain dynamism. In addition, all the segments of the construction sector improved their performance, and will be strengthened by infrastructure programs, the reconstruction of the areas affected by natural disasters, the conclusion of different state governments' terms in office, and the beginning of the 2012 primary election campaigns, which provide a certain boost to public investment. Although private consumption has grown, and spending still lags behind 2008 levels, the main challenge for 2011 will be to energize it, while support from higher employment levels and low inflation will be decisive factors.

An element that must be taken into account for 2011 is that the world economy will continue with the recovery process that began at the end of 2009. U.S. economic growth in 2011 could be 3%, slightly higher than that estimated for the close of 2010 (2.9%). This environment is positive for the country. In Mexico for 2011 we expect a better year, more balanced among the sectors, although in terms of growth we anticipate rates of 4.3%, which are far from representing a significant downturn with regard to the 5.3% posted in 2010. The growth among sectors will be less dispersed, and a less concentrated contribution to growth can be expected (for further details on a sectorial level, see the section on sectorial projections), that is, a more balanced and more generalized growth will be seen among the different sectors of the economy.

The most dynamic sectors will be those concentrated in the production of durable consumer goods and in services. Meanwhile, the sectors where growth will be below the average for the economy will be those tied to the demand for basic goods and products and not very competitive sectors.

What will help sustain the Mexican economy in 2011 will be the strength of exports (with a better competitive position), together with a greater contribution from internal demand. In the case of the automotive sector, it is expected that after an extraordinary 2010, in 2011 auto industry exports will post growth between 5% and 10%. By the same token, a gradual recovery of remittances and international tourism in the context of recovery of the U.S. economy can also be expected to bolster the Mexican economy.

## 2.1.a Sectorial Forecasts

Chart 4

**Mexico, Indicators and sectorial projections, GDP**

	% yearly change												
	2008	2009	2010	2011	2012	1T10	2T10	3T10	4T10	1T11	2T11	3T11	4T11
Total GDP	1.5	-6.1	<b>5.3</b>	<b>4.3</b>	<b>3.8</b>	5.1	7.3	5.3	<b>3.4</b>	<b>4.5</b>	<b>3.6</b>	<b>4.2</b>	<b>5.0</b>
Primary	1.1	-2.0	<b>3.7</b>	<b>2.5</b>	<b>2.0</b>	0.0	4.6	8.8	<b>1.5</b>	<b>2.4</b>	<b>2.6</b>	<b>3.0</b>	<b>1.9</b>
Secondary	-0.1	-7.4	<b>5.9</b>	<b>3.8</b>	<b>4.4</b>	5.9	7.3	6.2	<b>4.4</b>	<b>3.7</b>	<b>3.4</b>	<b>3.6</b>	<b>4.5</b>
Mining	-1.5	-2.4	<b>2.8</b>	<b>3.3</b>	<b>3.3</b>	1.8	3.3	2.9	<b>3.1</b>	<b>3.8</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>
Electricity, water, and supply of gas	-2.2	1.9	<b>2.7</b>	<b>3.0</b>	<b>3.7</b>	0.9	2.7	3.2	<b>4.0</b>	<b>3.2</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>
Construction	3.1	-6.4	<b>0.2</b>	<b>4.6</b>	<b>6.1</b>	-3.2	-1.6	0.5	<b>5.3</b>	<b>5.8</b>	<b>4.1</b>	<b>4.4</b>	<b>4.2</b>
Manufacturing	-0.7	-9.9	<b>9.5</b>	<b>3.7</b>	<b>4.2</b>	11.5	12.8	9.7	<b>4.5</b>	<b>2.9</b>	<b>3.3</b>	<b>3.5</b>	<b>5.2</b>
Services	2.9	-5.3	<b>4.9</b>	<b>4.5</b>	<b>3.5</b>	4.7	7.3	4.1	<b>3.7</b>	<b>5.5</b>	<b>4.1</b>	<b>3.9</b>	<b>4.3</b>
Retail trade	2.1	-14.2	<b>12.5</b>	<b>6.6</b>	<b>5.2</b>	14.3	18.3	12.1	<b>5.9</b>	<b>9.7</b>	<b>5.7</b>	<b>5.5</b>	<b>5.5</b>
Transportation, mail and storage	0.0	-6.6	<b>6.6</b>	<b>3.9</b>	<b>4.2</b>	7.6	10.5	5.3	<b>3.3</b>	<b>4.1</b>	<b>3.4</b>	<b>3.0</b>	<b>4.9</b>
Information in mass media	8.0	0.8	<b>5.2</b>	<b>3.7</b>	<b>5.7</b>	5.4	4.3	6.1	<b>5.1</b>	<b>4.5</b>	<b>4.7</b>	<b>2.9</b>	<b>2.8</b>
Insurance and financial services	15.5	-6.6	<b>2.7</b>	<b>4.5</b>	<b>4.0</b>	0.4	5.0	0.7	<b>5.1</b>	<b>3.6</b>	<b>4.5</b>	<b>4.5</b>	<b>5.3</b>
Real estate and leasing services	3.0	-1.0	<b>2.0</b>	<b>3.2</b>	<b>3.0</b>	4.4	1.4	0.3	<b>2.2</b>	<b>3.4</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>
Prof., scientific, and technical serv.	3.1	-4.7	<b>-2.3</b>	<b>2.6</b>	<b>1.8</b>	-3.6	-3.6	-2.4	<b>0.4</b>	<b>2.8</b>	<b>2.7</b>	<b>2.4</b>	<b>2.6</b>
Corporate and company leadership	14.1	-7.7	<b>2.1</b>	<b>4.9</b>	<b>1.2</b>	-5.2	-2.1	9.0	<b>7.7</b>	<b>8.6</b>	<b>7.9</b>	<b>1.5</b>	<b>2.2</b>
Business support serv.	1.8	-4.7	<b>1.3</b>	<b>2.3</b>	<b>2.5</b>	-0.4	1.9	0.8	<b>3.0</b>	<b>2.0</b>	<b>2.6</b>	<b>2.1</b>	<b>2.4</b>
Educat. serv.	0.8	0.4	<b>3.5</b>	<b>1.7</b>	<b>1.6</b>	1.7	13.9	-0.9	<b>1.1</b>	<b>2.3</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
Health and social welfare services	-1.6	0.8	<b>-1.8</b>	<b>1.9</b>	<b>2.4</b>	1.3	-9.8	0.7	<b>1.3</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>
Leisure and relaxation, cultural, and sports serv.	1.3	-4.6	<b>0.6</b>	<b>2.0</b>	<b>2.3</b>	-1.8	1.7	2.4	<b>0.0</b>	<b>3.5</b>	<b>2.3</b>	<b>0.0</b>	<b>2.4</b>
Hotel, motel, lodging serv. and prep. of food & bev.	0.8	-7.7	<b>3.7</b>	<b>2.2</b>	<b>2.1</b>	-0.9	11.9	2.7	<b>2.2</b>	<b>1.8</b>	<b>2.3</b>	<b>2.2</b>	<b>2.4</b>
Other serv. except gov't activities	0.4	-0.5	<b>-0.2</b>	<b>2.9</b>	<b>2.8</b>	-0.7	-0.4	0.1	<b>0.4</b>	<b>2.4</b>	<b>2.9</b>	<b>2.9</b>	<b>3.3</b>
Gov't activities	1.2	4.6	<b>5.7</b>	<b>2.3</b>	<b>1.3</b>	0.7	8.0	4.8	<b>9.2</b>	<b>6.9</b>	<b>-0.3</b>	<b>1.0</b>	<b>1.9</b>
	% breakdown						Contribution to growth, pp						
	2003	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012		
Total GDP	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	1.5	-6.1	<b>5.3</b>	<b>4.3</b>	<b>3.8</b>		
Primary	3.8	3.5	3.7	<b>3.6</b>	<b>3.5</b>	<b>3.5</b>	0.0	-0.1	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>		
Secondary	30.6	30.3	29.9	<b>30.1</b>	<b>29.9</b>	<b>30.1</b>	0.0	-2.2	<b>1.8</b>	<b>1.1</b>	<b>1.3</b>		
Mining	6.1	5.0	5.2	<b>5.1</b>	<b>5.0</b>	<b>5.0</b>	-0.1	-0.1	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>		
Electricity, water, and supply of gas	1.1	1.3	1.4	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	0.0	0.0	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
Construction	6.2	6.7	6.6	<b>6.3</b>	<b>6.3</b>	<b>6.5</b>	0.2	-0.4	<b>0.0</b>	<b>0.3</b>	<b>0.4</b>		
Manufacturing	17.1	17.3	16.6	<b>17.3</b>	<b>17.2</b>	<b>17.3</b>	-0.1	-1.7	<b>1.6</b>	<b>0.6</b>	<b>0.7</b>		
Services	62.5	64.0	64.5	<b>64.3</b>	<b>64.0</b>	<b>63.9</b>	1.8	-3.4	<b>3.2</b>	<b>2.5</b>	<b>2.3</b>		
Retail trade	11.8	15.6	14.3	<b>15.3</b>	<b>15.6</b>	<b>15.8</b>	0.3	-2.2	<b>1.8</b>	<b>1.0</b>	<b>0.8</b>		
Transport., mail and storage	6.5	6.9	6.9	<b>7.0</b>	<b>6.9</b>	<b>6.9</b>	0.0	-0.5	<b>0.5</b>	<b>0.3</b>	<b>0.3</b>		
Information in mass media	2.2	3.6	3.9	<b>3.9</b>	<b>3.8</b>	<b>3.9</b>	0.3	0.0	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>		
Insurance and financial services	4.0	4.5	4.5	<b>4.3</b>	<b>4.3</b>	<b>4.4</b>	0.6	-0.3	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>		
Real estate and leasing serv.	10.0	10.4	11.0	<b>10.7</b>	<b>10.6</b>	<b>10.5</b>	0.3	-0.1	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>		
Prof., scientific, and technical serv.	3.7	3.4	3.5	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>	0.1	-0.2	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>		
Corporate and company leadership	0.4	0.4	0.4	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	0.1	0.0	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
Business support services	2.9	2.5	2.6	<b>2.5</b>	<b>2.4</b>	<b>2.4</b>	0.0	-0.1	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>		
Educational services	4.9	4.5	4.8	<b>4.7</b>	<b>4.6</b>	<b>4.5</b>	0.0	0.0	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>		
Health and social welfare services	3.6	2.8	3.0	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>	0.0	0.0	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>		
Leisure and relaxation, cultural, and sports serv.	0.5	0.4	0.4	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	0.0	0.0	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
Hotel, model lodging serv. and prep. of food & bev.	3.5	2.6	2.6	<b>2.5</b>	<b>2.5</b>	<b>2.4</b>	0.0	-0.2	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>		
Other serv. except government activities	3.0	2.6	2.7	<b>2.6</b>	<b>2.6</b>	<b>2.5</b>	0.0	0.0	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>		
Gov't activities	5.5	3.7	4.1	<b>4.1</b>	<b>4.0</b>	<b>3.9</b>	0.0	0.2	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>		

Note: projections appear in boldface. All figures are subject to review by the Institute  
 Source: BBVA Research with INEGI data

Chart 5

Mexico: Indicators and sectorial forecasts, manufacturing output

	Annual % change												
	2008	2009	2010	2011	2012	1T10	2T10	3T10	4T10	1T11	2T11	3T11	4T11
Total	-0.7	-9.9	<b>9.5</b>	<b>3.7</b>	<b>4.2</b>	11.5	12.8	9.7	<b>4.5</b>	<b>2.9</b>	<b>3.3</b>	<b>3.5</b>	<b>5.2</b>
Food	1.4	-0.2	<b>1.8</b>	<b>2.9</b>	<b>2.8</b>	0.6	1.8	2.0	<b>2.9</b>	<b>2.7</b>	<b>2.7</b>	<b>3.0</b>	<b>3.0</b>
Beverages and tobacco	2.6	-1.2	<b>-0.8</b>	<b>3.2</b>	<b>4.7</b>	-3.9	0.1	0.1	<b>0.4</b>	<b>2.5</b>	<b>3.6</b>	<b>3.1</b>	<b>3.5</b>
Textile inputs	-6.9	-7.5	<b>7.3</b>	<b>1.5</b>	<b>1.9</b>	10.7	13.2	5.1	<b>0.6</b>	<b>1.1</b>	<b>1.7</b>	<b>1.4</b>	<b>1.7</b>
Production of textile products	-8.4	-10.1	<b>5.1</b>	<b>3.4</b>	<b>5.5</b>	5.5	9.7	2.3	<b>3.0</b>	<b>2.4</b>	<b>2.3</b>	<b>3.5</b>	<b>5.2</b>
Apparel	2.2	-5.6	<b>5.8</b>	<b>1.8</b>	<b>3.3</b>	13.3	10.8	4.3	<b>-3.4</b>	<b>4.0</b>	<b>1.0</b>	<b>2.0</b>	<b>0.4</b>
Leather and fur products	-3.2	-6.5	<b>11.7</b>	<b>2.2</b>	<b>1.0</b>	16.3	18.3	9.4	<b>3.9</b>	<b>3.8</b>	<b>2.6</b>	<b>1.7</b>	<b>0.5</b>
Lumber ind.	-7.6	-4.3	<b>4.4</b>	<b>3.4</b>	<b>7.4</b>	-2.2	14.4	3.2	<b>2.7</b>	<b>6.9</b>	<b>0.4</b>	<b>1.3</b>	<b>5.5</b>
Paper ind.	2.5	-0.6	<b>5.2</b>	<b>4.0</b>	<b>3.8</b>	4.5	6.2	5.4	<b>4.8</b>	<b>3.6</b>	<b>4.2</b>	<b>3.8</b>	<b>4.3</b>
Printing and related ind.	5.2	-4.9	<b>8.2</b>	<b>1.8</b>	<b>3.0</b>	2.7	13.3	8.5	<b>8.4</b>	<b>2.5</b>	<b>1.4</b>	<b>1.6</b>	<b>2.0</b>
Oil deriv. prod.	0.7	-1.6	<b>-1.3</b>	<b>1.2</b>	<b>3.2</b>	-3.8	2.2	-3.6	<b>0.2</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>	<b>2.5</b>
Chemicals	-2.3	-4.4	<b>-0.7</b>	<b>2.5</b>	<b>2.9</b>	1.3	-2.0	-1.1	<b>-0.9</b>	<b>0.6</b>	<b>2.5</b>	<b>3.3</b>	<b>3.8</b>
Plastic and rubber prod.	-1.7	-9.4	<b>8.3</b>	<b>2.1</b>	<b>4.4</b>	9.6	13.0	9.4	<b>1.8</b>	<b>1.8</b>	<b>1.3</b>	<b>1.9</b>	<b>3.5</b>
Non-metal mineral prod.	-3.7	-8.5	<b>1.1</b>	<b>4.2</b>	<b>4.0</b>	-0.4	1.5	0.7	<b>2.5</b>	<b>4.4</b>	<b>3.9</b>	<b>3.8</b>	<b>4.5</b>
Basic metal prod.	-0.6	-17.1	<b>12.0</b>	<b>4.0</b>	<b>3.8</b>	17.6	16.2	13.0	<b>2.4</b>	<b>2.5</b>	<b>3.6</b>	<b>4.6</b>	<b>5.6</b>
Metallic prod.	0.9	-15.1	<b>9.4</b>	<b>5.1</b>	<b>5.1</b>	5.6	12.4	14.9	<b>5.2</b>	<b>4.2</b>	<b>5.4</b>	<b>5.1</b>	<b>5.8</b>
Machinery and equipment	-0.3	-21.4	<b>35.5</b>	<b>4.4</b>	<b>5.0</b>	24.3	42.1	55.5	<b>21.5</b>	<b>3.9</b>	<b>4.4</b>	<b>4.5</b>	<b>4.9</b>
Computers and electronics	-12.0	-17.5	<b>9.6</b>	<b>4.6</b>	<b>3.4</b>	11.9	14.4	6.5	<b>6.2</b>	<b>5.9</b>	<b>3.2</b>	<b>4.5</b>	<b>5.0</b>
Electrical equip.	-0.1	-12.5	<b>11.0</b>	<b>4.8</b>	<b>5.9</b>	6.2	16.2	15.5	<b>6.5</b>	<b>3.7</b>	<b>3.7</b>	<b>5.5</b>	<b>6.3</b>
Transport. equip.	0.6	-26.7	<b>39.6</b>	<b>5.4</b>	<b>6.5</b>	55.7	69.9	34.7	<b>12.6</b>	<b>2.2</b>	<b>4.3</b>	<b>3.8</b>	<b>11.2</b>
Furniture and related prod.	-2.8	-8.0	<b>7.6</b>	<b>3.9</b>	<b>2.9</b>	6.9	12.0	7.9	<b>4.2</b>	<b>4.9</b>	<b>3.2</b>	<b>3.4</b>	<b>4.0</b>
Other manufacturing ind.	1.6	-2.4	<b>4.2</b>	<b>6.0</b>	<b>5.5</b>	2.2	4.4	5.1	<b>5.1</b>	<b>5.6</b>	<b>5.6</b>	<b>6.0</b>	<b>6.8</b>
	% Breakdown						Contribucion to growth, pp						
	2003	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012		
Total	100.0	100.0	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	-0.7	-9.9	<b>9.5</b>	<b>3.7</b>	<b>4.2</b>		
Food	23.0	21.8	<b>24.1</b>	<b>22.4</b>	<b>22.3</b>	<b>22.0</b>	0.3	0.0	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>		
Beverages and tobacco	5.7	6.4	<b>7.0</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	0.2	-0.1	<b>-0.1</b>	<b>0.2</b>	<b>0.3</b>		
Textile inputs	1.6	1.0	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	-0.1	-0.1	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>		
Production of textile products	0.6	0.4	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	0.0	0.0	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		
Apparel	3.9	2.6	<b>2.7</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	0.1	-0.1	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>		
Leather and fur prod.	2.2	1.3	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	0.0	-0.1	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>		
Lumber ind.	1.7	1.1	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	-0.1	0.0	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>		
Paper ind.	1.9	2.2	<b>2.4</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>	0.1	0.0	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>		
Printing and related ind.	1.1	0.9	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	0.0	0.0	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>		
Oil deriv. prod.	3.0	2.9	<b>3.2</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	0.0	0.0	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>		
Chemicals	11.1	9.6	<b>10.2</b>	<b>9.3</b>	<b>9.2</b>	<b>9.0</b>	-0.2	-0.4	<b>-0.1</b>	<b>0.2</b>	<b>0.3</b>		
Plastic and rubber prod.	2.9	2.7	<b>2.7</b>	<b>2.7</b>	<b>2.6</b>	<b>2.6</b>	0.0	-0.3	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>		
Non-metal min. prod.	7.1	6.6	<b>6.7</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	-0.3	-0.6	<b>0.1</b>	<b>0.3</b>	<b>0.2</b>		
Basic metallic prod.	5.1	5.7	<b>5.2</b>	<b>5.3</b>	<b>5.4</b>	<b>5.3</b>	0.0	-1.0	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>		
Metal prod.	3.0	3.4	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>	0.0	-0.5	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>		
Machinery and equipment	2.8	2.4	<b>2.1</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	0.0	-0.5	<b>0.7</b>	<b>0.1</b>	<b>0.1</b>		
Computers and electronics	3.9	4.8	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	-0.6	-0.8	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>		
Electrical equip.	2.5	3.4	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	0.0	-0.4	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>		
Transport equipment	13.0	17.5	<b>14.2</b>	<b>18.1</b>	<b>18.4</b>	<b>18.8</b>	0.1	-4.7	<b>5.6</b>	<b>1.0</b>	<b>1.2</b>		
Furniture and related products	1.7	1.3	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	0.0	-0.1	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>		
Other manufacturing ind.	2.1	2.2	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	0.0	-0.1	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>		

Note: Projections appear in boldface. All figures are subject to review by the Institute  
Source: BBVA Research with INEGI data

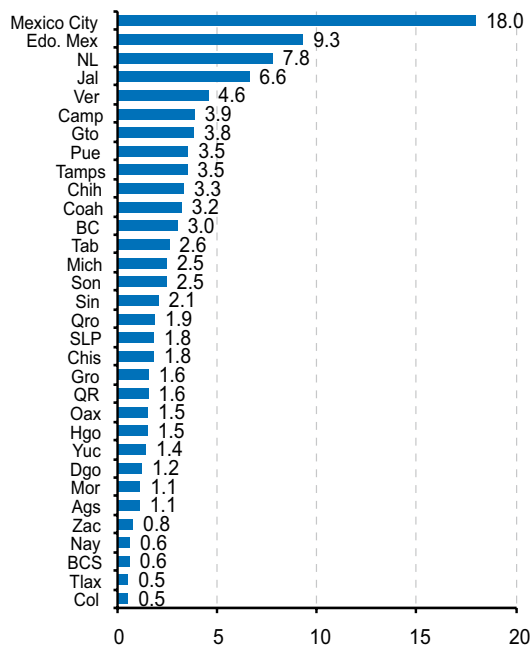
## 2.2 Current Regional Situation: Toward more homogeneous growth of the states in 2011

### State GDP in 2009: the impact from the recession; the new figures are showing less severity and lower volatility

On December 16th, the INEGI<sup>1</sup> published GDP results by state. The results confirm in general terms the trends that had been observed in the Quarterly Indicator of State Economic Activity (ITAE, Spanish initials for Indicador Trimestral de Actividad Económica Estatal), among others: the impact of the recession in all the states although with nuances among them, a greater contraction in the industrialized areas and lower in those highly marginal due to the external nature itself of the crisis. But there are also some differences between the preliminary figures and the current ones: the dispersion is lower now; the tourist areas were less affected than previously estimated, and the main oil states, Campeche and Tabasco, are now showing a more homogeneous performance.

Graph 24

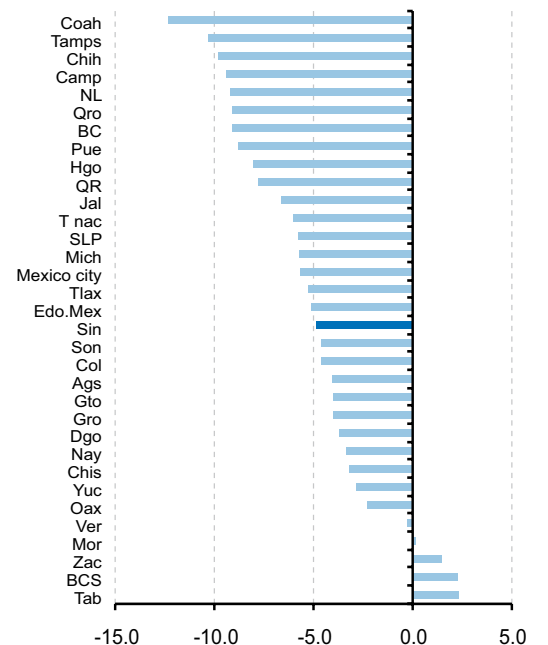
#### GDP breakdown by state 2009 (% share in the national total)



Source: BBVA Research with INEGI data

Graph 25

#### GDP Performance by state 2009 (annual % change)



Source: BBVA Research with INEGI data

The 2009 figures continue to show the high concentration of the country's activities in only a few states. This is normal, given the geoGraph extension, the concentration of powers, the natural vocation, etc. The three main states (Federal District (Mexico City), State of Mexico and Nuevo Leon) according to GDP size, represent 36.1% of the total and the next three (Jalisco, Veracruz and Campeche) 15.1%; therefore, 50% of production is concentrated in six states in the country.

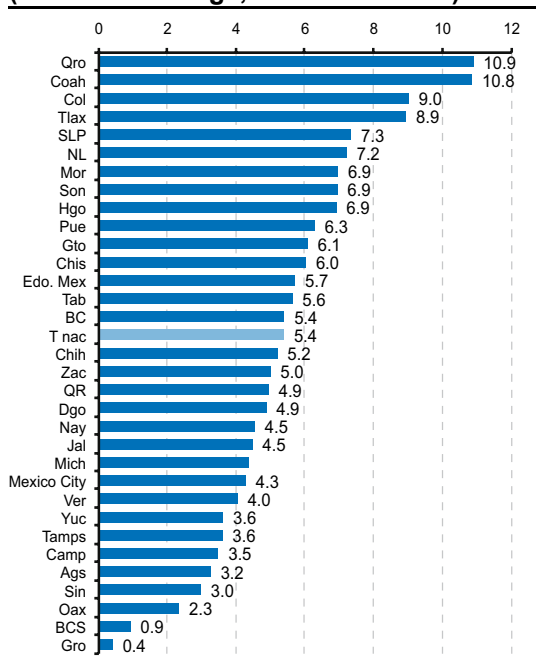
The new figures do not modify the trends commented in the previous edition of Regional Sectorial Outlook Mexico. The greater concentration of activity in 2009 was in those states most exposed and integrated with the U.S. economic cycle which are characterized as being

<sup>1</sup> INEGI: Instituto Nacional de Estadística y Geografía, México

Industrialized and exporting (in particular of automobile products) or tourist activity also associated abroad through international travelers. In turn, those which received a lower impact were those associated with the oil industry, both for exploration and the extraction of hydrocarbons. The considerable government investment in those oil-producing states mitigated the impact of the recession. The Federal District (Mexico City) deserves to be mentioned apart, due to its size, diversification and quite probably for having received the highest impact from the influenza. The Federal District's performance was very close to the national total.

Graph 26

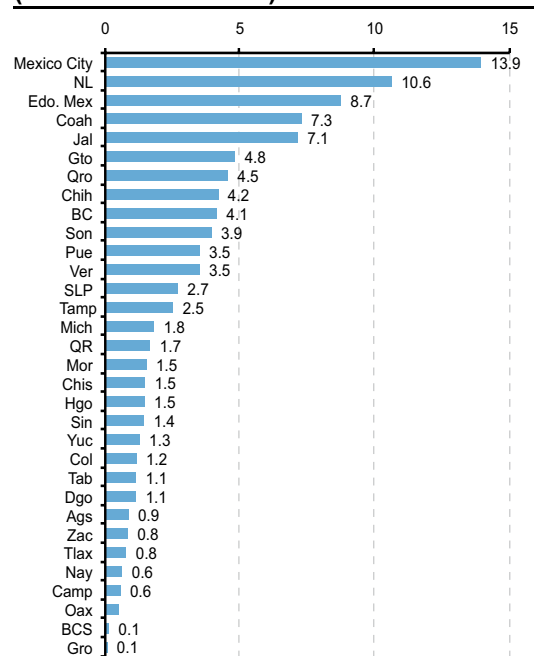
**Formal private employment with affiliated workers in the IMSS (Annual % change, November 2010)**



Source: BBVA Research with IMSS data

Graph 27

**Contribution to annual creation of total jobs, November 2009 (% share of the total)**



Source: BBVA Research with IMSS data

**2010 was a year of recovery, although still quite differentiated toward the exporting areas**

Up to a certain point, the factors that caused the recession are also associated with the recovery. For example: the dynamism of exports headed by the restructuring of the U.S. automobile companies, the improvement of the quota in the U.S. export market, surpassing Canada and placing Mexico as the second importer of that country (see article Current Sectorial Situation in this edition), the overcoming of the health emergency and its specific impact on certain states, to mention the main ones. In addition, its impact has also been generalized. Up to the date of the close of this edition, the updated state GDP indicator (ITAEI) was still not available, but there are different more timely variables available which reflect the generalized recovery of activity: one that due to its coverage and availability is very useful, is the formal private employment or workers affiliated in the Mexican Social Security Institute (IMSS for its Spanish initials) and the results of which will be analyzed below.

With information through the month of November 2010, formal private employment posted growth in all the states of the country, although there are great differences among some of them, at one end Queretaro and Coahuila registered two-digit annual changes, and at the other end, Baja California Sur and Guerrero registered modest progress of 0.9% and 0.4%, respectively. In this period, in most states, rates surpassing the population growth are prevailing and the employment levels have surpassed those prevailing prior to the crisis.



In terms of contribution, the growth is important but also the size and weight of each state. Seen from this angle, the main employment generating states in the period analyzed were the following: the Federal District with 105,000, Nuevo Leon, with 80,000, the State of Mexico with 66,000, Coahuila with 55,000, Jalisco with 54,000 and Guanajuato with 35,000. These six states created 52.5% of the annual jobs through the month of November 2010 and they are the same that generate half of the national GDP. Employment is important due to its social implications, and because it is also a reflection of the recovery and will also be the basis for future growth through the strengthening of the domestic market.

Chart 6

**GDP by regions (Real annual growth,%)**

	Real annual growth, %					% share in the total			
	2008	2009p	2010e	2011e		2008	2009p	2010e	2011e
Total	1.5	-6.1	5.2	4.3	Total	100.0	100.0	100.0	100.0
Tourist	2.5	-5.8	6.0	5.8	Tourist	2.0	2.0	2.0	2.0
Industrial	1.8	-7.8	6.7	4.8	Industrial	40.3	39.5	40.0	40.2
High development	1.0	-5.6	3.9	4.4	High development	16.9	17.0	16.8	16.8
Medium development	1.4	-4.5	4.7	3.9	Medium development	36.2	36.8	36.6	36.4
Highly marginalized	1.8	-3.1	2.8	2.8	Highly marginalized	4.6	4.8	4.7	4.6

	Contribution to growth					2008 Index = 100			
	2008	2009p	2010e	2011e		2008	2009p	2010e	2011e
Total	1.5	-6.1	5.2	4.3	Total	100.0	94.0	99.0	103.2
Tourist	0.0	-0.1	0.1	0.1	Tourist	100.0	94.2	99.8	105.6
Industrial	0.7	-3.1	2.7	1.9	Industrial	100.0	92.2	98.3	103.0
High development	0.2	-1.0	0.7	0.7	High development	100.0	94.4	98.1	102.4
Medium development	0.5	-1.7	1.7	1.4	Medium development	100.0	95.5	100.0	103.8
Highly marginalized	0.1	-0.1	0.1	0.1	Highly marginalized	100.0	96.9	99.6	102.4

\* Regions as per their vocation and level of development: **High development:** Federal District annual; **Tourist:** BCS and QR; **Industrial:** Ags, BC, Coah, Chih, Jal, Méx, NL, Qro, Son, Tamps; **Medium development:** Camp, Col, Dgo, Gto, Hgo, Mich, Mor,Nay, Pue, SLP, Sin, Tab, Tlax, Ver, Yuc, Zac; **Highly marginalized:** Chis, Gro and Oax.

## 2.2a. 2011 Outlook: Toward more homogenous and generalized growth in all the states

The evolution of economic activity in the coming years will depend greatly on the performance of the U.S. economy and of its degree of linkage with each state. Even though 2010 was boosted by foreign demand through exports and through its boost to industrialized states, it is also true that it was a year of recovery from the deterioration in the production of the previous year, and the achievements only brought the activity levels closer to those prevailing prior to the crisis, which is why effective growth will be that of this year of 2011 when the strengthening of the domestic market will have a more important role and will be an important complement for growth.

In general terms, we can affirm that 2010 was a year of recovery and that 2011 will be a year of growth, similar to the average for the country prior to the crisis, although with a small change among the regions which will be favorable to states of medium and lagging development. Between 2004 and 2008, the highest growth was observed in the tourist and industrial regions. These were the most affected by the crisis and those that came out of it to recover more rapidly and will continue to be the most dynamic in the coming years, but we estimate that they will grow at lower rates than the historic. Even though the areas of medium development and high marginalization will grow at a lower rate than the total for the economy or the industrial area, this rate will be higher than the one they had prior to the crisis. For the area of high development (Federal District) we also expect better growth.

In 2011, all the regions and all the states of the country will have surpassed the level of activity that they had prior to the crisis and the share in the national economy will continue to rise for the high development, industrial and tourist regions. The risks to these scenarios are related externally due to the existing doubts regarding the structural solidity of the developed economies, in particular the sustainability of recovery in the U.S., and, internally, due to aspects linked to the recovery of consumer confidence and producers (insecurity, political environment) and the effects that natural phenomena could continue to cause (see inset section on natural disasters in this edition). The outlook for the regions is for a more generalized and better quality growth than that observed in 2010, surpassing the dynamics of the population.

## 2.2.b Forecasts by state

Chart 7

### GDP by State\*

	2008p	2009p	2010e	2011e	2008p	2009p	2010e	2011e	2008p	2009p	2010e	2011e
	(Billions of 2008 pesos)				(Annual % growth)				(Annual % share)			
National total	12,313.7	11,574.0	12,187.5	12,711.5	1.5	-6.1	5.2	4.3	100.0	100.0	100.0	100.0
Aguascalientes	125.6	120.6	131.5	139.9	0.9	-4.0	9.0	6.4	1.0	1.0	1.1	1.1
Baja California	349.1	317.4	336.8	353.8	0.1	-9.1	6.1	5.1	2.8	2.7	2.8	2.8
Baja California Sur	70.8	72.4	76.5	81.2	4.5	2.3	5.7	6.0	0.6	0.6	0.6	0.6
Campeche	893.1	809.1	803.2	801.7	-2.8	-9.4	-0.7	-0.2	7.3	7.0	6.6	6.3
Coahuila	385.8	338.3	386.1	403.0	2.1	-12.3	14.1	4.4	3.1	2.9	3.2	3.2
Colima	63.4	60.4	63.3	66.1	1.3	-4.6	4.7	4.5	0.5	0.5	0.5	0.5
Chiapas	215.7	208.9	215.8	222.1	4.5	-3.2	3.3	2.9	1.8	1.8	1.8	1.7
Chihuahua	382.0	344.5	367.6	384.9	1.3	-9.8	6.7	4.7	3.1	3.0	3.0	3.0
Distrito Federal	2,085.6	1,968.0	2,045.0	2,134.8	1.0	-5.6	3.9	4.4	16.9	17.0	16.8	16.8
Durango	147.0	141.6	147.2	151.7	2.2	-3.7	3.9	3.1	1.2	1.2	1.2	1.2
Guanajuato	448.8	430.8	459.9	475.8	1.3	-4.0	6.7	3.5	3.6	3.7	3.8	3.7
Guerrero	173.5	166.6	171.1	175.3	-2.1	-4.0	2.7	2.5	1.4	1.4	1.4	1.4
Hidalgo	189.8	174.6	180.9	188.8	7.5	-8.0	3.6	4.3	1.5	1.5	1.5	1.5
Jalisco	766.3	715.5	744.5	770.6	0.9	-6.6	4.0	3.5	6.2	6.2	6.1	6.1
México	1,063.9	1,009.8	1,068.9	1,114.9	2.2	-5.1	5.9	4.3	8.6	8.7	8.8	8.8
Michoacán	295.8	278.9	291.4	302.1	4.0	-5.7	4.5	3.7	2.4	2.4	2.4	2.4
Morelos	126.4	126.5	130.7	133.2	-3.0	0.0	3.3	1.9	1.0	1.1	1.1	1.0
Nayarit	70.8	68.5	70.7	73.0	4.6	-3.3	3.3	3.2	0.6	0.6	0.6	0.6
Nuevo León	929.5	843.9	902.1	953.1	1.7	-9.2	6.9	5.6	7.5	7.3	7.4	7.5
Oaxaca	180.2	176.2	180.3	185.9	2.5	-2.3	2.4	3.1	1.5	1.5	1.5	1.5
Puebla	409.9	373.9	408.6	429.6	2.7	-8.8	9.3	5.1	3.3	3.2	3.4	3.4
Querétaro	232.7	214.6	232.4	245.1	4.4	-7.7	8.3	5.5	1.9	1.9	1.9	1.9
Quintana Roo	174.1	158.2	167.9	177.4	1.7	-9.1	6.1	5.6	1.4	1.4	1.4	1.4
San Luis Potosí	227.3	214.2	232.5	242.1	3.8	-5.8	8.5	4.1	1.8	1.9	1.9	1.9
Sinaloa	245.4	233.6	241.8	250.9	2.7	-4.8	3.5	3.7	2.0	2.0	2.0	2.0
Sonora	296.8	283.1	305.0	324.5	0.7	-4.6	7.7	6.4	2.4	2.4	2.5	2.6
Tabasco	465.6	476.6	501.3	526.8	4.4	2.4	5.2	4.9	3.8	4.1	4.1	4.1
Tamaulipas	426.2	382.2	401.1	418.0	4.1	-10.3	4.9	4.2	3.5	3.3	3.3	3.3
Tlaxcala	64.3	61.0	64.9	67.2	0.7	-5.2	6.4	3.5	0.5	0.5	0.5	0.5
Veracruz	549.5	548.6	567.5	589.9	0.0	-0.2	3.4	3.9	4.5	4.7	4.7	4.6
Yucatán	163.0	158.4	165.8	172.3	0.5	-2.8	4.7	3.9	1.3	1.4	1.4	1.4
Zacatecas	95.4	96.8	101.9	106.9	7.9	1.5	5.3	4.8	0.8	0.8	0.8	0.8

\* It refers to the gross aggregate value in basic securities

p: Preliminary information as of this date; e: Estimate as of this date

Source: BBVA Research with INEGI data.

## Inset 1. Natural disasters: high cost due to the unusual nature of the phenomena, poor urban zoning and inferior housing construction and deficiencies in a culture of prevention

The year 2010 was marked by major natural disasters. In Mexico and in many countries worldwide, 2010 was a particularly complicated year due to natural disasters, with a high material price tag and cost in human lives. In Mexico, there was an earthquake and an intense season of hurricanes and tropical storms that led to unusually high flooding and dams and reservoirs overflowing, affecting the northwest at the beginning of the year; northeast Mexico at the beginning of the rainy season, and later on the Gulf of Mexico coastal states and southern Mexico. Due to their importance, in this article in **Regional Sectorial Outlook Mexico**, we will analyze and quantify, based on the available sources of public information, the economic impact of the hurricanes that caused the greatest destruction, namely Hurricane **Alex** in Coahuila, Nuevo León and Tamaulipas and **Karl** in Veracruz and Tabasco. In doing so, we do not seek to minimize or ignore what occurred in other states nor other natural disasters, for example, the earthquake in Baja California or the heavy rainfall in Michoacán, which also had an important impact.

It seems difficult to separate the recent phenomenon from the broader issues of global warming and climate change<sup>1</sup>, but 2010 has undeniably been an atypical year in relation to the recent past but perhaps could be an advance warning of adverse developments that could occur in the future. In the Seminar “*Climate Change and Competitiveness: Challenges and Opportunities for Mexico at the COP16*”, Economy Minister Bruno Ferrari mentioned some data that illustrate the scope of these changes, explaining that “the emission of greenhouse gas effect has raised the average temperature of the planet in the past few years, which translates into the following effect: appreciable changes in the beginning, duration and end of the seasons, an increase in sea levels of around four centimeters in the past 17 years; the melting of approximately 1.8 million square kilometers- almost the size of Mexico- of the North Pole in the past 30 years; the most intense rains registered since 1940 in different states of the country, with the consequences that this has had for thousands of families<sup>2</sup>. The Governor of Veracruz also referred to the same issue, emphasizing “the greatest

Chart 8

### Estimate of the Economic Impact

	Hurricane Alex			Hurricane Karl	
	Coahuila	Nuevo León*	Tamaulipas	Veracruz	Tabasco
GDP, 2008, mns. of current pesos	372,154.8	886,003.1	405,268.4	541,732.6	434,375.7
GDP, 2008,% of the total I	3.2	7.5	3.4	4.6	3.7
population, thousands	Coahuila 2,655	N León 4,502	Tamaulipas 3,230	State 7,295	Tabasco 2,061
	La Laguna 1,007	Monterrey 3,738	Tampico 803	ZMVeracruz 796	ZM Villahermosa 676
	Torreón 577	Linares 72	Reynosa RB 633	ZM Xalapa 618	Cárdenas 217
	Saltillo 725	Montemorelos 54	Matamoros 462	ZM P Rica 494	Comalcalco 180
	Monclova 294	Anáhuac 18	Nvo Laredo 355	ZM Orizaba 391	Himanguillo 163
	Piedras Neg 170			ZM Minatitlán 340	
Cost of reconstruction, millions of pesos	400.0	18,000.0	1,000.0	80,000.0	7,000.0
Cost vs. State GDP,%	0.1	2.0	0.2	14.8	1.6
Public state gov't rev. per state, millions of 2009 pesos	33,709.3	53,271.5	41,760.5	82,831.3	35,970.4
Damages vs. state fiscal rev.	1.2	33.8	2.4	96.6	19.5

ZM = Metropolitan area

Source: BBVA Research with state government data, SHCP, Conapo, Interior Ministry, \* in Nuevo León damages were quantified without the reconstruction of Constitución and Morones Prieto avenues, which will be under the responsibility of the Department of Communications and Transportation (SCT). Compensatory payments as estimated by the insurance companies; just in the case of Hurricane Alex were for around 2.58 billion pesos. And from the 6th Veracruz State Government Report.

<sup>1</sup> In the May 2010 edition of Migration Watch Mexico a detailed analysis was presented for the evidence of climate change and the country's vulnerable areas were identified. They are beginning to be considered as a factor, albeit not the main one, but a representative element nonetheless of migration flows.

*rainfalls known in the history of the state”... “a destructive potential not very often seen”<sup>3</sup>. The Department of the Interior, marking the formal end of the rainy season and the tropical hurricane season, provided the following statistics, among other data: “33 tropical hurricanes were recorded... since May some 60 Declarations of Emergency were issued for 620 municipalities in 16 states... and furthermore, in the rainy and hurricane season alone, Declarations of Disaster were issued for 748 municipalities in 14 states”...” the total cost of the natural disasters during the 2010 rainy season and tropical hurricane season could reach more than 45.30 billion pesos”<sup>4</sup> the melting of approximately 1.8 million square kilometers- almost the size of Mexico- of the North Pole in the past 30 years; the most intense rains registered since 1940 in different states of the country, with the consequences that this has had for thousands of families<sup>2</sup>. The Governor of Veracruz also referred to the same issue, emphasizing “the greatest rainfalls known in the history of the state”... “a destructive potential not very often seen”<sup>3</sup>. The Department of the Interior, marking the formal end of the rainy season and the tropical hurricane season, provided the following statistics, among other data: “33 tropical hurricanes were recorded... since May some 60 Declarations of Emergency were issued for 620 municipalities in 16 states... and furthermore, in the rainy and hurricane season alone, Declarations of Disaster were issued for 748 municipalities in 14 states”...” the total cost of the natural disasters during the 2010 rainy season and tropical hurricane season could reach more than 45.30 billion pesos”<sup>4</sup>*

Impact of Hurricanes Alex and Karl. At the end of June and the first few days of July, in their northbound trajectory, Hurricane Alex dumped heavy rains in Yucatan, Chiapas, Oaxaca, Campeche and the coast of Veracruz, but its biggest impact was in northeast Mexico, when it entered land, in particular in Nuevo León and its metropolitan area. The atypical nature of the rain, the geoGraphical characteristics of the area, and the concentration of housing in urban areas combined to increase the magnitude of the damage. Of course, the hurricane’s impact in Coahuila and Tamaulipas was also important. At the same time, it is necessary to examine Hurricane Karl in a broader context. In 2010 the rainy season was particularly intense in southern Mexico, and Hurricane Karl is important for being the most powerful hurricane in recent years, but in addition, it was also accompanied in this period by other hurricanes and tropical storms that increased the area’s humidity, raised water levels in dams and reservoirs, and resulted in overflowing

rivers and streams. Meanwhile, the State of Veracruz has an extensive coastline and a large amount of makeshift housing and soil erosion that increase the risk of floods and damages in one of the country’s more populated states. Hurricane Alex is noteworthy for being the first hurricane of the season but Karl should be noted for having generated more destruction, particularly in Veracruz and Tabasco.

### **The difficulties of quantifying the damages**

It is not easy to quantify the total amount of damages; there is the destruction of infrastructure, homes, cars, the temporary disruption of communications and the flow of people and goods, delays in flights, damage to companies’ and families’ properties and assets, etc. An initial count shows the following: the greatest losses occurred in Veracruz, Nuevo León, and Tabasco. To be able to estimate the total value of the losses depends on the particular method being employed. For example: the Department of the Interior (Gobernación) quantifies the funds that have been channeled and will be channeled throughout 2011 through the National Natural Disaster Fund (Fonden), plus the special outlays approved in this year’s federal budget. These include “budgetary resources, financing and insurance for about 50 billion pesos for reconstruction expenditures... In addition... Banobras will launch a credit program so that the affected states can access financing for 20 billion pesos”<sup>5</sup>. Based on the above-mentioned figures, the total cost of the losses can be estimated to be on the order of 1% of GDP on a national level, which takes on an even greater scope if we consider the country’s shortages and multiple development needs.

### **Assessment: the importance of strengthening a culture of prevention and generating the incentives for a more secure urban development**

Hurricanes Alex and Karla are not an exception, but rather are an indication of developments that can be repeated in the future. Therefore, planning and prevention are indispensable in communities that are vulnerable and increasingly populated. The costs were greater due to deficient housing standards in vulnerable areas and given the lack of a culture of prevision. The allocation of financial resources in the budget is correct as a short-term measure, but in the long term it is necessary to design strategies that encompass the strengthening of protective measure, zoning reclassification, and the creation of better conditions for communities.

<sup>2</sup> Economy Ministry. Press release N° 145

<sup>3</sup> Fidel Herrera, 6th Government Report

<sup>4</sup> SEGOB, Bulletin 30/11/10

<sup>5</sup> SHCP, Communique, 16/11/2010

## 3. Topics for analysis

### 3.1 The automobile industry in Mexico is benefiting from the restructuring in the U.S., although it is facing strong global competition

For the Mexican economy, the automobile industry represents the second manufacturing activity in the country, behind the food industry. But, individually, we do consider the industry, the manufacturer of specifically one sole product, as the most important. It contributes approximately one fifth of manufacturing GDP due to its strong dynamism and to its size; it is the manufacturing sector that has most contributed to the recent recovery of the economy. Due to this, it is crucial to analyze the global environment of the automobile industry, the new rules, the main actors and the challenges they are facing. Throughout 2010 and following an unprecedented drop in 2009, the world automobile markets are recovering although to lower levels than those seen prior to the crisis. The reconfiguration of the industry at a global level, so as to balance the strong and recent drop in demand and the restructuring of supply, still has a long way to go.

This article of *Regional Sectorial Outlook Mexico* is structured as follows: in the first section, there is a brief introduction of the evolution of the global automobile industry and the challenges that it will have to face, from the standpoint of both demand and supply. In the second, the restructuring of Chrysler and General Motors (GM) is briefly analyzed and its effects for the area of the North American Free Trade Agreement (NAFTA). This same section deals with the elements that could turn out to be effective for private investment in this sector and are seen in high flows of Foreign Direct Investment (FDI), despite the global recession and which will have to continue to be studied in depth so as to increase its share in the world market. In the third section, we present the situation of the automobile industry, and the challenges and opportunities that it must face going forward. In the fourth section, the estimates for the end of the year 2010 are presented, as well as the forecasts for the next two years of production and sales in the domestic market, in the central scenario considered by BBVA Research. Finally, some conclusions on the topic are offered.

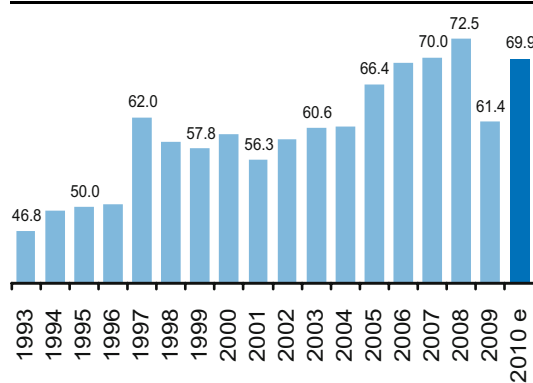
#### **Global Environment of the Automobile Industry**

**The global decline of the market in 2009 regressed to levels similar to those of the beginning of the decade.**

The international financial crisis accelerated the restructuring process started years before, for most of the automobile companies of the world. In terms of demand, the drop in families' income as a result of higher unemployment and the sudden loss of confidence regarding the recovery process were determining factors in the industrialized countries. With regard to supply, the lack of liquidity and the financial crisis in the U.S. automobile companies were the detonators for the contraction of world production. Global manufacturing of light vehicles (cars and SUV'S) totaled 61.4 million units in 2009 (see graph 28), the lowest level since 2004, equivalent to a drop of 11 million units (-15.4%) compared to 2008. The reduction resulted despite the fact that China produced 4.5 million vehicles more than the previous year. The situation of the U.S. car manufacturers could have been more serious had it not been for the considerable government help it received through incentives to sales to replace used cars

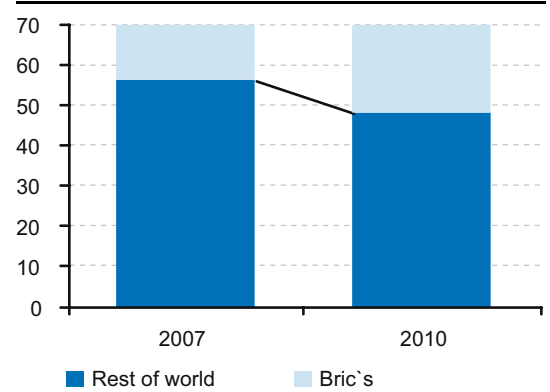
and direct help to companies, which allowed that in the last quarter of 2009, sales in many countries had a positive change in trend and a gradual recovery to start production at a world level, although markedly differentiated at a regional level. The most recent figures are pointing to an estimated closing of production in the world in 2010 of almost 70 million units, still slightly lower by 3.6% compared to the maximum seen in 2008.

Graph 28  
**World vehicle production (Millions of units)**



Source: BBVA Research with OICA data and PwC with OIC A data

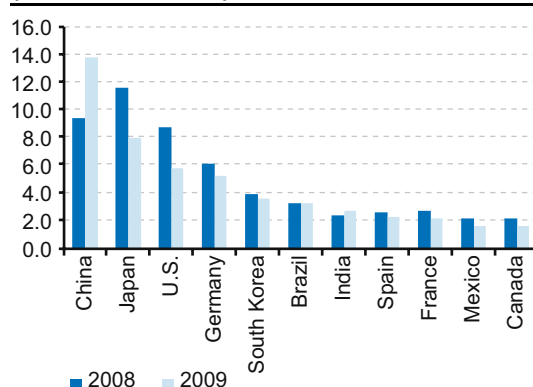
Graph 29  
**Vehicle production in Bric's (Millions of units)**



Source: BBVA Research with PwC data.

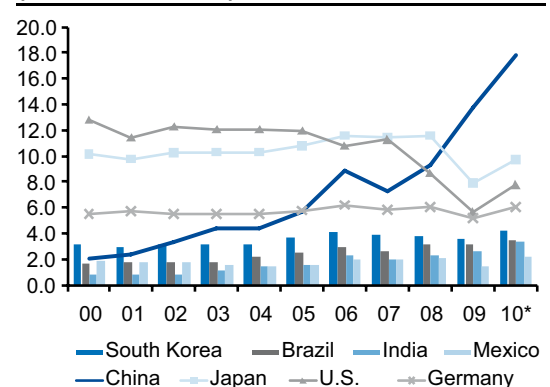
The severe drop in demand in the mature markets in the industrialized countries accelerated the surge in emerging countries (see graph 29). It is important to emphasize that China, since 2009, not only became the most important producer in the world automobile industry, with almost 14 million units, but is also the most dynamic of the last decade (see graph 31).

Graph 30  
**The 10 most important vehicle producers in the world (Millions of units)**



Source: BBVA Research with OICA data

Graph 31  
**Main vehicle producers in the world (Millions of units)**



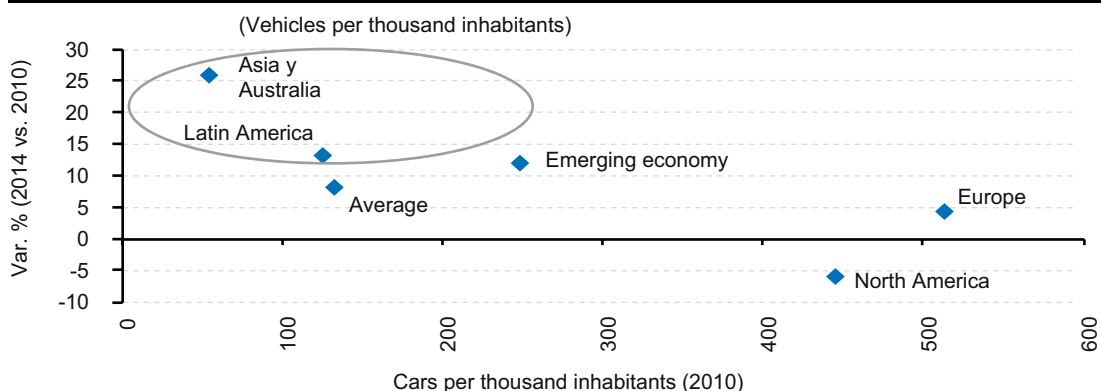
\* 2010 with others from 1S10  
Source: BBVA Research with OICA data

### Main trends in global demand

Most of the estimates coincide in that the greater dynamism of the demand for vehicles will be forthcoming from the emerging markets in the medium term. Those that will observe the greatest potential for growth will be the Asian countries, Australia, Latin America and those denominated as economies in transition (see graph 23). In fact, approximately 50% of first-time demand for vehicles will come from the Asian region. The North American region will also contribute with approximately 24% of the growth, although only to place itself at levels similar to those observed early in 2008, more as a replacement form of existing units than as that of new demand (see chart 9). In China there are only 22 vehicles circulating for every 1,000 inhabitants; the same occurs in India where there are 11 vehicles for every 1,000 inhabitants. In Latin America, Brazil stands out with 145 vehicles for every 1,000 inhabitants; in Mexico there are 125 vehicles for every 1000 inhabitants. Greater available income and the population dynamics will be favorable in the emerging economies, thereby leading to more acquisition of vehicles, mainly for families and individuals who would purchase a car for the first time.

Graph 32

#### The markets with the greatest potential for growth by economic area 2010-2014 (Vehicles per every thousand inhabitants)



Source: BBVA Research with Economist Intelligence Unit, Jan 2010 data.

Chart 9

#### Vehicle registration (Millions of units)

	2008	2009	2010	2011	2012	2013	2014	Forecasts 2011-2014	
								Chg.% accum.	Cont. grth. pp
Emerging*	4.9	2.5	2.6	2.9	3.3	3.7	4.2		
% change		-49.0	4.0	11.5	13.8	12.1	13.5	61.5	3.2
Asia and Australia	15.9	17.3	18.8	20.6	22.4	24.6	26.9		
% change		8.8	8.7	9.6	8.7	9.8	9.3	43.1	16.2
Middle East**	1.1	0.9	0.9	1.0	1.1	1.2	1.3		
% change		-18.2	0.0	11.1	10.0	9.1	8.3	44.4	0.8
North America	14.1	11.2	11.4	12.4	13.8	14.7	15.5		
% change		-20.6	1.8	8.8	11.3	6.5	5.4	36.0	8.2
<b>World</b>	<b>53.2</b>	<b>47.6</b>	<b>49.9</b>	<b>53.6</b>	<b>58.1</b>	<b>62.6</b>	<b>67.1</b>		
% change		-10.5	4.8	7.4	8.4	7.7	7.2	34.5	34.5
Latin America	3.8	3.5	3.7	4.0	4.3	4.6	4.9		
% change		-7.9	5.7	8.1	7.5	7.0	6.5	32.4	2.4
Europe	13.5	12.9	12.5	12.8	13.2	13.7	14.3		
% change		-4.4	-3.1	2.4	3.1	3.8	4.4	14.4	3.6

Source: BBVA Research with Economist Intelligence Unit data.

The changing preference for vehicles of consumers will also have great challenges. The changes will depend on whether they deal with a mature market or a developing one or of a specific region, which is why producers will have to be very flexible in order to meet the requirements of their customers and, at the same time, be profitable. For global customers of vehicles, the value and security of these will be a key factor. Vehicles will not be very large and those with improved functions will have greater demand.

In the developing countries, the cost will not be the only consideration for purchasing a vehicle; in a short time, it will also be necessary to offer security, efficiency and technology, characteristics commonly familiar to consumers of mature markets. For example, the growth of the middle class in China and of new higher-income classes have led to a growing demand for luxury vehicles. Safely continues to be a primary necessity for customers in all the markets. To satisfy this demand, manufacturers will have to meet the standards in increasingly cheaper vehicles. Government policies regarding emission controls and the relative costs of fuels have centered the attention of the consumers on efficiency and vehicles that are conscious of the environment. However, not everyone is willing to pay for them.

Chart 10

**Global vehicle production and forecasts (2010-2014)**

	Thousands of units			2014 vs. 2009		
	2008	2009	2014	Dif. Abs.	Chge. %	Contrib. grth
<b>Total</b>	57.8	57.2	<b>85.2</b>	28.1	49.1	49.1
USA	8.7	5.7	<b>10.5</b>	4.8	84.8	8.5
China	9.3	13.8	<b>17.3</b>	3.5	25.2	6.1
India	2.3	2.6	<b>5.0</b>	2.4	91.4	4.2
Mexico	2.1	1.5	<b>2.8</b>	1.3	85.7	2.3
Japan	11.6	7.9	<b>9.1</b>	1.1	14.5	2.0
Brazil	3.2	3.2	<b>4.3</b>	1.1	33.6	1.9
France	2.6	2.1	<b>2.5</b>	0.5	23.8	0.9
Canada	2.0	1.5	<b>1.9</b>	0.5	31.8	0.8
South Korea	3.8	3.5	<b>3.9</b>	0.4	11.3	0.7
Spain	2.5	2.2	<b>2.5</b>	0.3	13.7	0.5
Germany	6.0	5.2	<b>5.5</b>	0.3	5.0	0.5

Source: BBVA Research with PWC April 2010 data.

**Main trends in global supply**

World production data through the first quarter of 2010 have shown important growth in China, Japan, the U.S., Canada and Mexico; the annual increase was higher than 40%. Projections for 2014 forecast more than 80 million units for 2015 (see Chart 2). However, the structure of the industry will no longer be the same.

One aspect that is still of concern is the overcapacity of the industry. Currently, the production capacity is 90 million units and estimated capacity is of 70 million units for 2010; the excess capacity is slightly more than 20%. This figure does not seem to be too high, although when it is considered regionally, it acquires greater relevance: two thirds is in the Pacific Asia and the European Union.

The re-dimensioning of the industry made important progress in 2009. Notwithstanding the disinvestment of recent years, currently more than 86% of the world production is concentrated in ten corporate groups. Many of the alliances are sought for the benefits they grant. Maintaining a high production scale allows rationalizing distribution, increasing asset efficiency and access to markets and technological development and innovation. However, it cannot be said that the



restructuring has ended. A dynamic process can be maintained in the coming years, which is why new alliances, mergers and acquisitions should not be surprising.

The Chinese manufacturers have been very active seeking alliances and acquisitions. Among these business actions is the acquisition of technology. BAIC acquired the rights of some Saab platforms and is building new models on them. Geely acquired Volvo to continue its manufacture, and the joint collaboration of Brilliance and BMW to manufacture BMW in China. Production of these models in China will bring with it the adoption of knowledge and “know how” technology to make inroads in the global vehicle market.

If the greater dynamism of vehicle demand will be forthcoming from the emerging markets in the medium term, then most manufacturers will continue to move to the demand centers, not only for reasons of labor costs, engineering and lower transportation costs, but also because they will be better positioned in the demand centers.

The challenge for the industry is to manage to pass to the new business models and increasingly more complex market competition, where customer demand is constantly changing and to be more cautious with their expenses, although increasingly more demanding in terms of quality, yield and reduction of contaminating emissions. They should also innovate permanently and increasingly incorporate efficient vehicles with alternative systems (hybrid and electric) and those that are increasingly more accessible to consumers, so that they will pay for them (see chart 2) The challenges of electric vehicles in the world are in this edition.

### North America: restructuring to lower cost areas continues. The recovery in demand will be slow

The dramatic drop in demand in the U.S. market in 2008 and 2009, at levels equivalent to 1982, had consequences for the entire North American region. In general, the U.S. was already showing a negative trend since 2008, although the point of most concern was in 2009 when vehicle sales plummeted to 10.4 million, the lowest level in 27 years, from 16.5 in 2007 to only 13.5 million units in 2008. This affected producers of the NAFTA region in a generalized way, although with varying intensity. U.S. production underwent drops of 19.3% in 2008 and 34.2% in 2009, until it stood at 5.5 million units, a little less than half of the 2007 levels. The situation of the main regional market rapidly affected Canada, with a 19.5% drop in 2008 and

Chart 11

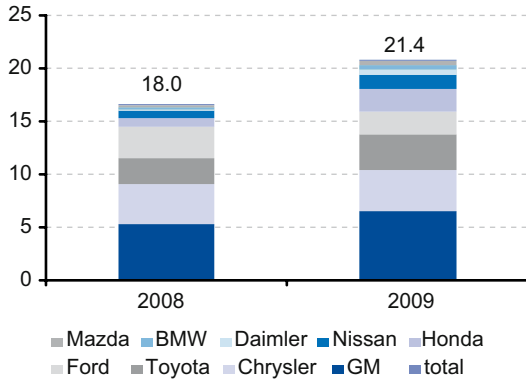
#### Production in the NAFTA area (Thousands of units)

	2008	Annual % change	% share	2009	Annual % hange	% share
<b>Light vehicles</b>	<b>12.662</b>	<b>-16.2</b>	<b>100.0</b>	<b>8.600</b>	<b>-32.1</b>	<b>100.0</b>
USA	8.447	-19.3	66.7	5.560	-34.2	64.6
Canada	2.047	-19.5	16.2	1.479	-27.7	17.2
Mexico	2.168	3.5	17.1	1.561	-28.0	18.2
<b>Heavy vehicles</b>	<b>343</b>	<b>-15.3</b>	<b>100.0</b>	<b>208</b>	<b>-39.5</b>	<b>100.0</b>
USA	225	-19.5	65.5	137	-39.0	66.0
Canada	35	-2.4	10.3	11	-67.4	5.5
Mexico	83	-7.3	24.2	59	-28.8	28.5
<b>Total</b>	<b>13,005</b>	<b>-16,2</b>		<b>8,807</b>	<b>-32,3</b>	
Light	12.662	-16.2		8.600	-32.1	
Heavy	343	-15.2		208	-39.5	

Fuente: BBVA Research with Ward's data.

Graph 33

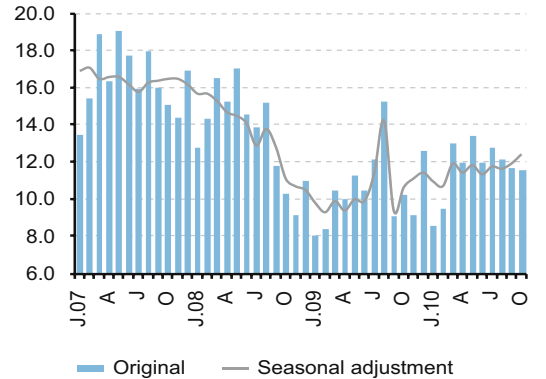
**Contribution to the U.S. drop in sales by manufacturer, 2009 (Percentage points)**



Source: BBVA Research with Ward's data

Graph 34

**Light vehicle sales : USA (Millions of annualized units)**



Source: BBVA Research with BEA data

27.7% in 2009. In Mexico, the reduction in production of light vehicles was delayed until early 2009 (see Chart 11). Production of heavy vehicles reacted more rapidly to the drop in the U.S. market and deepened in 2009.

Virtually all the vehicle manufacturers reduced their sales in the U.S. in 2009 (see graph 34) with the exception of Korea (Hyundai-Kia), which increased them by 8.9% and the Japanese Subaru, by 15.3%. However, the impact was much more severe for GM and Chrysler, with their drop in sales being 32%, which just magnified their liquidity, pushing them to request federal loans and the protection of Chapter 11 in 2009. In the first case, it meant a temporary injection of capital from the U.S. government. Each one of the companies came out of bankruptcy in a 40-day period (see *Mexico Regional and Sectorial Outlook* of July 2009). GM and Chrysler were in a disadvantageous situation for a long time, due to their high labor costs (medical care and retirement plans) and a mix of incompatible products with high and relatively lagging oil prices, compared to the change in consumer preferences. As a result of the marked restructuring by GM and Chrysler in 2009, they reduced their structural costs and aligned their production and distribution channels to the new sales levels. This situation, together with competitive products, in particular by GM, has placed them on the way to achieve their transformation into more profitable companies going forward, to attract new capital, such as the recent placement of shares on the international market and waging a battle in a smaller, more competitive market.

In 2010, the U.S. market slowly recovered with annualized sales levels close to 12 million units, fewer than the 16.4 million vehicles sold during the pre-crisis period, thus favoring the rise in production in the NAFTA area. The progress made in production in the area is differentiated and more accelerated in Mexico, a situation that has allowed it to surpass levels prior to the crisis in light vehicles, and it is very close to achieving this in heavy vehicles (see chart 12). In that area, Mexico is gaining market share in the production of light vehicles, and, in the case of heavy vehicles, its share is rising in a spectacular manner.

Chart 12

**NAFTA Vehicle production\***

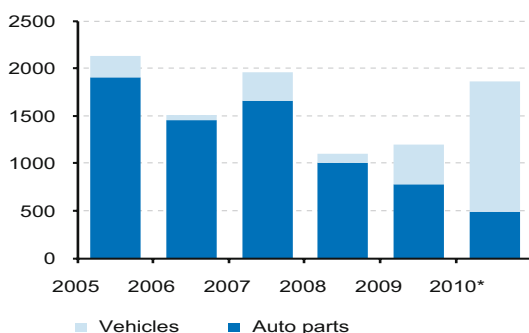
	Thousands of units				% Breakdown			
	2007	2008	2009	2010	2007	2008	2009	2010
<b>Light</b>	<b>12.798</b>	<b>9.886</b>	<b>6.851</b>	<b>10.032</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
USA	8.945	6.644	4.467	6.414	69.9	67.2	65.2	63.9
Canada	2.162	1.622	1.171	1.752	16.9	16.4	17.1	17.5
<b>Mexico</b>	<b>1.691</b>	<b>1.620</b>	<b>1.213</b>	<b>1.865</b>	<b>13.2</b>	<b>16.4</b>	<b>17.7</b>	<b>18.6</b>
<b>Heavy</b>	<b>351</b>	<b>276</b>	<b>210</b>	<b>203</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
USA	243	184	146	125	69.2	66.8	69.6	61.5
Canada	32	25	18	4	9.1	9.0	8.7	2.1
<b>Mexico</b>	<b>76</b>	<b>67</b>	<b>46</b>	<b>74</b>	<b>21.7</b>	<b>24.2</b>	<b>21.7</b>	<b>36.4</b>

\*Jan-Oct of each year 1) Includes pickups and SUV's. Source: BBVA Research with Ward's data

The intense restructuring of the NAFTA area, in particular that of the U.S. and Canada, has brought benefits for production in Mexico, which continues to be attractive to foreign direct investment (FDI), despite the global crisis. Foreign direct investment to the sector has been sustained and directed toward vehicle production as well as to auto parts (see graph 36). Most of the FDI continues to come from the U.S., although European and Japanese capital is also important (see chart 13). The strengthening of production capacity in Mexico was possible due to the existence of experienced and inexpensive labor and to the closeness to what continues to be one of the largest and attractive markets in the world. Also, it has a highly integrated industry in the entire chain of value, including engineering, product design, trial testing, and research and development. The areas of opportunity for FDI are broad, if we consider that automobile foreign trade totals more than US\$70 billion annually, of which US\$24 billion are imports that could be replaced by local production which is mostly parts, accessories and tires.

Graph 35

**Foreign investment in Mexico  
Automobile industry  
(Millions of dollars)**



Note: 2010 annualized figure with first quarter data  
\*Includes auto and truck bodies, transmission systems, suspension and brakes, etc.  
Source: BBVA Research with SE data

Chart 13

**Investment in Mexico  
by automobile company  
(Millions of dollars)**

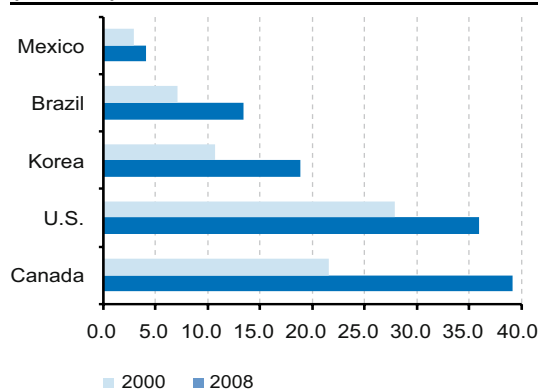
	2008-09	2010	Cum.
Daimler Trucks	300		300
General Motors	300	1,360	1,660
Volkswagen	1,000	550	1,550
Ford	1,600		1,600
Fiat	500		500
Nissan		600	600
<b>North American</b>	<b>1,900</b>	<b>1,360</b>	<b>3,260</b>
<b>European</b>	<b>1,800</b>	<b>550</b>	<b>2,350</b>
<b>Japanese</b>	<b>0</b>	<b>600</b>	<b>600</b>
<b>Total</b>	<b>3,700</b>	<b>2,510</b>	<b>6,210</b>

Source: BBVA Research with newspaper sources

Mexico holds a favorable competitive position as pertains to costs, compared to developed economies (see graphs 37 and 38), although it is behind the emerging economies (China, India and the Czech Republic) so that increasing the comparable incentives to these countries will allow increasing investment in the sector. Mexico has competitive advantages in its geoGraph location, in the chain of supply and logistics, although it should improve in price and availability of raw materials (for example: steel smelting and forging) and energy (electricity and gas) and in technological development.

Graph 36

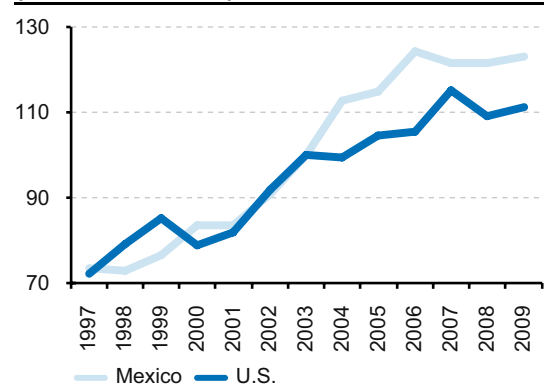
**Pay per hour:  
Automobile industry  
(Dollars)**



Source: BBVA Research with U.S. BLS, Aug.2010 data

Graph 37

**Industria automotriz:  
Productividad laboral\* México vs. EUA  
(Indice 2003=100)**



\* Production per employee  
Source: BBVA Research with INEGI and BEA data.

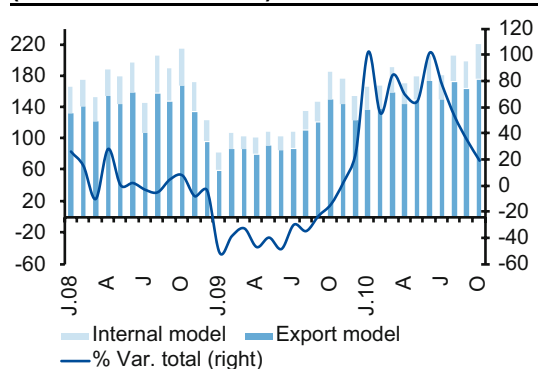
## The automobile industry in Mexico

### a) The export market

In 2009, the automobile industry in Mexico was struck twice by the international financial crisis and by the restructuring of the automobile industry in the United States. Total vehicle production was reduced 28% due to the direction of production to the export markets. In 2010, the situation changes radically: production grew 61% through October 2010 (see graph 39) and the value of exports not only recovered the level prior to the crisis, but also surpassed it (see Graph 40), thereby constituting itself as one of the main motors for growth in the country, by contributing one fifth of total manufacturing exports.

Graph 38

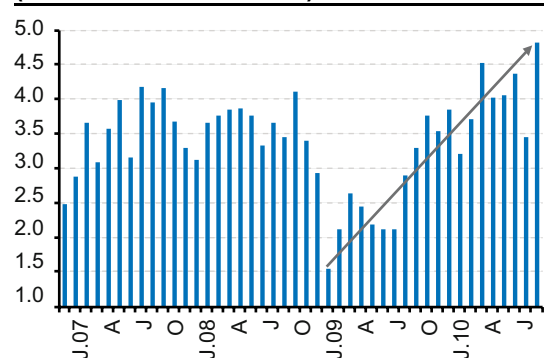
**Vehicle production in Mexico  
(Thousands of units)**



Source: BBVA Research with AMIA data

Graph 39

**Exports of the automobile industry\*  
(Billions of U.S. dollars)**



\* Includes light and heavy land vehicles and their parts  
Source: BBVA Research with INEGI data

The main destination of Mexico's automobile exports is the U.S. market, although some efforts are being made to seek other markets (see chart 14). Automobile sales abroad consist of vehicles (light and heavy) 51%, and the rest are parts and accessories. Automobile exports from Mexico to the U.S. are having a growing penetration compared to the main competitors (see graph 14), but in heavy trucks and auto parts, they are of 90% and 30%, respectively, being the main supplier, while, in light vehicles, Mexico is the fourth supplier, with close to 15% of the U.S. import market (See graphs 42 and 43).

Chart 14

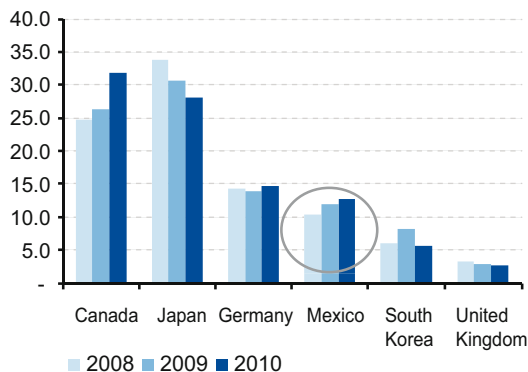
**Mexican exports by geoGraph destination (Thousands of units)**

	2008	2009	Annual % change	Jan	Annual %	% share		
				Oct-10	change	2008	2009	2010
North America	1.199	978	-18.5	1.182	55.4	77.3	79.9	76.6
Europe	203	127	-37.5	146	45.5	13.0	10.3	9.8
South America	107	100	-7.0	155	109	6.9	8.1	9.6
Asia	34	12	-63.7	31	203.1	2.2	1.0	2.1
Others	2	3	18.8	11		0.1	0.2	0.8
Africa				9	n.a.			0.6
Central America*	7	5	-36.6	8	141.0	0.5	0.4	0.5
<b>Total</b>	<b>1,552</b>	<b>1,223</b>	<b>-21.2</b>	<b>1,544</b>	<b>62</b>			

Fuente: BBVA Research con datos AMIA \* incluye Caribe

Graph 40

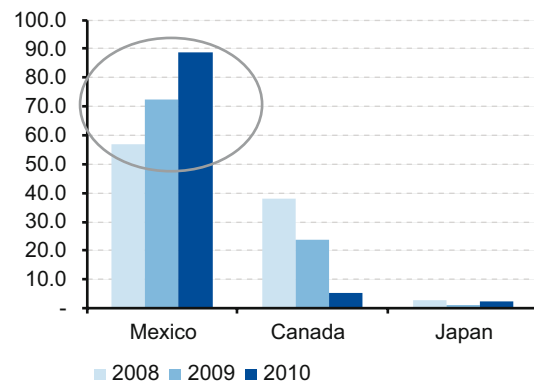
**Light cars and trucks\* (% share)**



\* January-August of each year  
Source: BBVA Bancomer with USITC data

Graph 41

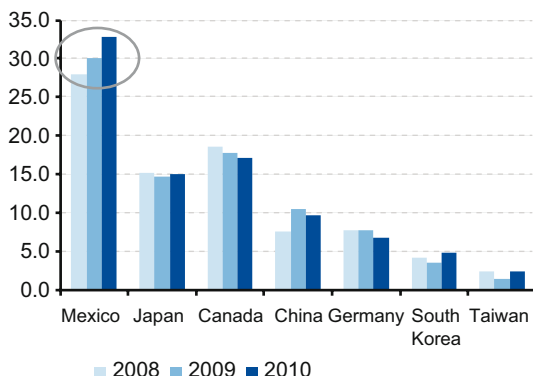
**Imports from the U.S.: Heavy trucks\* (% share)**



\* January-August of each year.  
Source: BBVA Research with USITC data

Graph 42

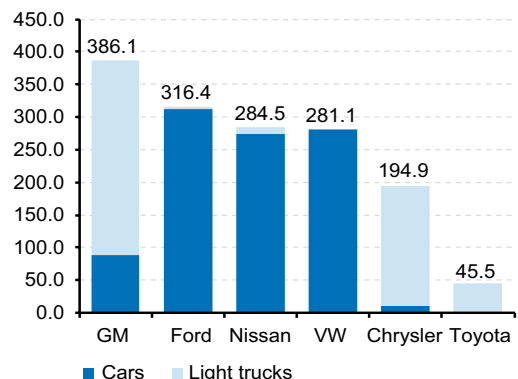
**U.S. Imports :  
Auto parts  
(% share)**



\* January-August of each year.  
Source: BBVA Bancomer with USITC data

Graph 43

**Mexico Exports  
by brand and segment  
(Thousands of units, Jan.-Oct. 2010)**



Source: BBVA Bancomer with USITC data.

The most important companies at world level are producing in Mexico: GM, Chrysler and Toyota are aimed at the segment of light vehicles, the rest to automobiles (see graph 44). Following the drop in production of GM, today it is positioning itself again as the main producer and exporter of light vehicles of the country (see chart 15). All the automobile companies are on the offensive for the year 2011 model, with small and more efficient automobiles. Ford launched its new Fiesta, produced in its plant in Cuautitlán; VW will produce the new Polo in Puebla and the redesigned Jetta or Bicentennial automobile; Nissan presents the Match hatchback manufactured in Aguascalientes; GM will manufacture the Chevrolet Spark in Coahuila and in Guanajuato, the Sierra and Silverado pickups, both hybrids as a result of the closing of the plant in Oshawa, Canada, and the Fiat 500 in Toluca.

Chart 15

**Vehicle production in Mexico\*  
(% share)**

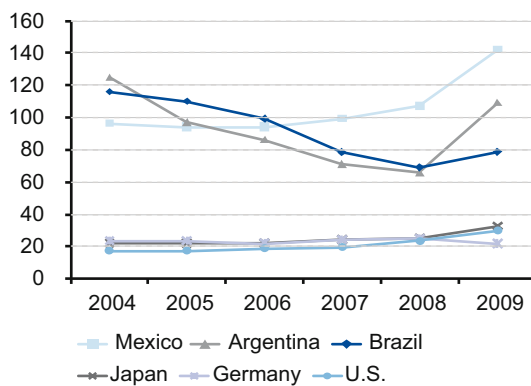
Company	2008	% share	2009	% share	Dif. pp	2010	% share	Dif. pp
<b>GM</b>	<b>421.9</b>	<b>23.3</b>	<b>260.7</b>	<b>22.2</b>	<b>-1.2</b>	<b>474.7</b>	<b>25.2</b>	<b>3.1</b>
<b>Nissan</b>	<b>391.5</b>	<b>21.7</b>	<b>288.7</b>	<b>24.5</b>	<b>2.9</b>	<b>419.1</b>	<b>22.3</b>	<b>-2.3</b>
<b>VW</b>	<b>388.4</b>	<b>21.5</b>	<b>257.8</b>	<b>21.9</b>	<b>0.4</b>	<b>349.7</b>	<b>18.6</b>	<b>-3.3</b>
Ford	270.4	15.0	184.2	15.7	0.7	326.0	17.3	1.7
Chrysler	249.8	13.8	111.2	9.4	-4.4	220.4	11.7	2.3
Honda	43.5	2.4	39.5	3.4	0.9	46.3	2.5	-0.9
Toyota	42.8	2.4	34.9	3.0	0.6	45.5	2.4	-0.5
<b>Total</b>	<b>1.808</b>	<b>100</b>	<b>1,177</b>	<b>100</b>		<b>1.882</b>	<b>100</b>	

\* January-October 2010  
Source: BBVA Research with AMIA data.

**b) The domestic market**

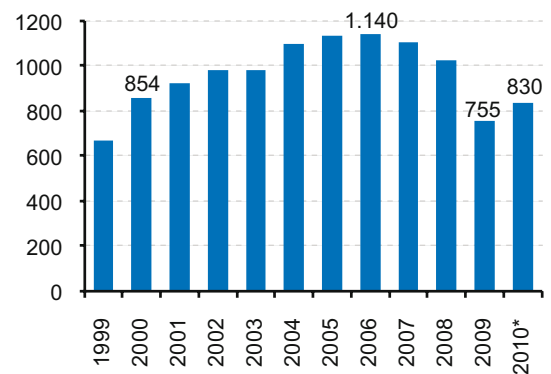
The domestic vehicle market in Mexico is not too dynamic or developed. Compared to equivalent economies, in Mexico one new car is sold for every 147 persons. In Brazil, one car is sold for every 78 inhabitants (see graph 45). In 2010, domestic sales, severely affected during last year's crisis, are rallying very slowly. It is estimated that 2010 will close with 830 units, which would imply a drop of 27.2%, compared to the maximum reached in 2006, but higher by 10% compared to 2009 (see graph 46). It should be noted that, since 2007, the market has been decreasing continuously, due in part to imports of used cars from the U.S., since they are in direct competition to the new vehicles in the domestic market.

Graph 44  
**Number of persons per new vehicle sold**



Source: BBVA Research with Ward's, AMIA data.

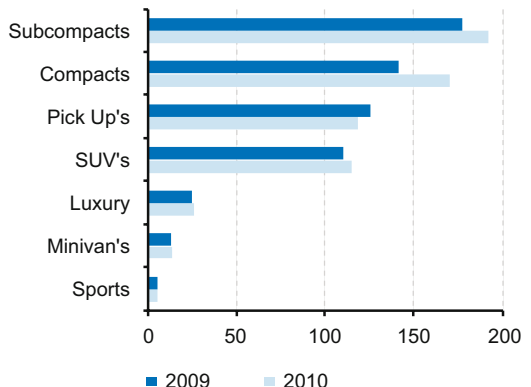
Graph 45  
**Domestic vehicle sales<sup>1</sup> (Thousands of units)**



\*estimated closing  
1 As of August 25, 2005, by decree it was allowed to import used cars from abroad, generating an important supply in the used cars chain. It is estimated that, since that date, 4.5 million units have entered the country.  
Source: BBVA Research with AMIA data

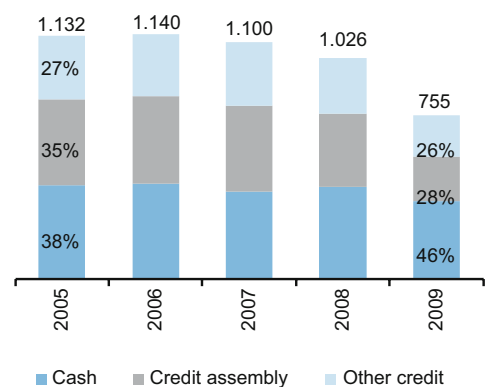
The domestic market is of low unit value (see graph 47); 56% are compact and sub-compact cars. Credit sales by the automobile financing companies has decreased significantly in recent years due to the scarcity of funds by the automobile assembly companies, although banking credit has remained. (see graph 48).

Graph 46  
**Domestic sales by category (thousands of units)**



\*with January-October data of each year  
Source: BBVA Research with AMIA data

Graph 47  
**Sales in the domestic market (Breakdown of the financing media thousands of units)**



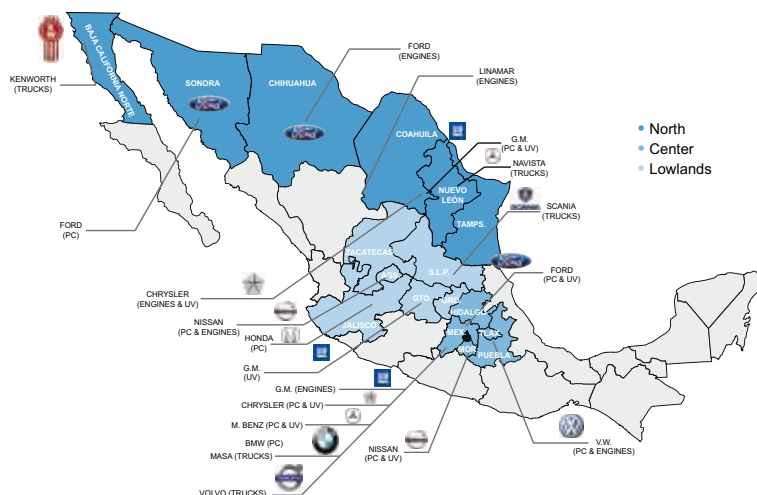
\* It refers to the financial arm of the automobile company.  
Source: BBVA Research with AMIA data

### c) Importance in the state economies

The share of the automobile industry is outstanding in all of the states along the northern border, where it constitutes 47% of the gross aggregate census value (VABC for its Spanish initials), and to a lower extent in central Mexico and the lowlands, with 27% and 23.3%, respectively. In Aguascalientes, more than one third of its GDP is generated by the automobile industry; in Puebla and Coahuila it is also important: 25.6% and 22.3% of GDP. Automobile manufacturing activity is a strong generator of employment in the northern area, particularly in Coahuila and Chihuahua, with 14% and 10% of the state total (see graph 47 and chart 15).

Graph 48

#### Main automobile clusters in the country



Source: BBVA Research with AMIA data

Chart 16

#### How important is the automobile industry? (% share, 2008)

	GDP	Employment	Wages
<b>National</b>	<b>4.3</b>	<b>2.7</b>	<b>5.5</b>
Coahuila	22.3	10.0	15.3
Chihuahua	16.2	14.0	21.0
Sonora	11.6	5.9	10.0
Tamaulipas	5.7	6.8	10.3
Nuevo Leon	4.7	3.6	4.3
Baja California	4.2	1.8	4.1
<b>North</b>	<b>9.7</b>	<b>6.7</b>	<b>9.9</b>
Guanajuato	8.9	2.8	5.5
Queretaro	11.5	6.5	12.9
San Luis Potosi	8.6	6.2	11.1
Aguascalientes	35.3	6.7	24.3
Jalisco	1.8	1.0	2.1
<b>Lowlands</b>	<b>8.4</b>	<b>3.1</b>	<b>7.3</b>
México	6.5	2.6	6.6
Puebla	25.6	4.5	20.8
Morelos	10.6	1.8	10.0
Tlaxcala	2.1	2.4	5.0
<b>Centro</b>	<b>10.8</b>	<b>3.0</b>	<b>10.1</b>

Source BBVA Research with INEGI data (CE 2009)

Chart 17

#### Contribution of the states to vehicle GDP1 in 2008 (%)

	Total	Vehi.	Autopart.	Rest*
Coah	16.0	18.1	15.3	7.6
Chih	10.3	-	17.8	2.5
NL	7.6	0.9	11.8	10.1
Son	6.5	10.1	4.5	2.3
Tamps	4.1	-	7.0	0.8
BC	2.5	4.2	1.1	4.9
<b>North</b>	<b>47.0</b>	<b>33.3</b>	<b>57.6</b>	<b>28.2</b>
Pue	14.3	29.4	5.4	1.0
Méx	10.7	11.1	8.8	30.6
Mor	1.9	2.9	0.5	11.0
<b>Center</b>	<b>27.0</b>	<b>43.5</b>	<b>14.8</b>	<b>42.7</b>
Ags	7.5	10.1	6.4	1.2
Gto	6.2	10.7	3.4	4.5
Qro	4.6	0.3	7.6	3.2
SLP	2.9	0.9	3.9	6.6
Jal	2.0	1.9	1.8	4.6
<b>Lowlands</b>	<b>23.3</b>	<b>23.9</b>	<b>23.1</b>	<b>20.1</b>
<b>Total</b>	<b>97.2</b>	<b>100.0</b>	<b>95.5</b>	<b>90.9</b>

1/ It refers to the gross aggregate census value 2008

\*Automobile bodies and rubber products

Source: BBVA Research with INEGI, CE 2009 data.

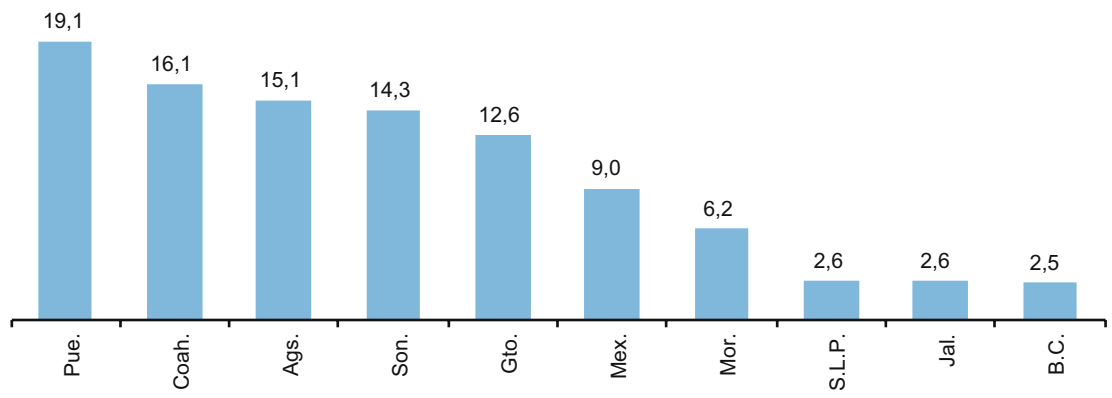
Also, 57% of the auto parts VABC is generated in the cluster in the north of the country, while 43.5% of light and heavy vehicles VABC is generated in the cluster of the central part of the country. In terms of employment, 57% of the personnel employed in the industry is located in the cluster in the north where the auto parts sector is outstanding, labor intensive. On the contrary, the central region is where the lowest proportion of employment is observed, being directed to more capital intensive activities, like vehicle assembly (see chart 16).



In 2009, 86% of vehicle manufacturing was concentrated in six states, with Puebla, Coahuila and Aguascalientes more significant. Nevertheless, the drop in production and, thereby, the impact on its economy was not symmetrical. The drop in the automobile industry meant for the country at least 1.5 percentage points of national GDP. The contraction of the industry in 2009 had a strong impact in Coahuila with a 14 pp reduction in the GDP of the state, followed by Puebla and Aguascalientes, with 7.1 pp in each of their GDP. In the rest of the states, the impact was lower because of their more diversified economies. The favorable evolution of production in San Luís Potosi compared to the rest is due to the fact that it started its operation in 2008 with low production compared to its total capacity.

Graph 49

**Share of the states in light vehicle production, 2010\*  
(As % of total units)**

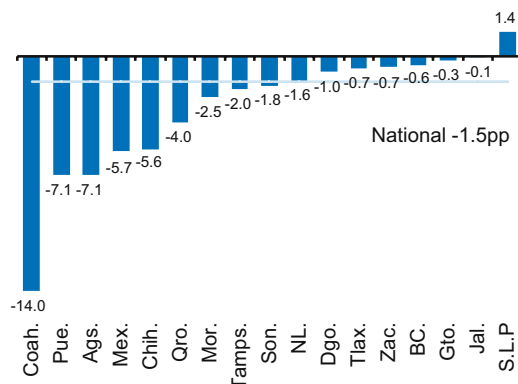


\*annualized data with January-August information  
Source: BBVA Research with PwC data.

In 2010, annual growth of 56% in the automobile industry is feasible due to all the states that are linked to it, which will be benefited by this recovery that is surpassing the 2008 levels in most cases. Thus, at the end of 2010, states like Coahuila, Aguascalientes, Chihuahua and Puebla will be the most benefited. Special mention is due to Mexico which will contribute more than 50 pp to its GDP of 2010. This extraordinary boost is forthcoming from the rehabilitation of the Ford plant in Cuautitlán. Regarding the light vehicle production levels of 2008, only Coahuila, and to a lower extent Puebla, will continue to lag in 2010.

Graph 50

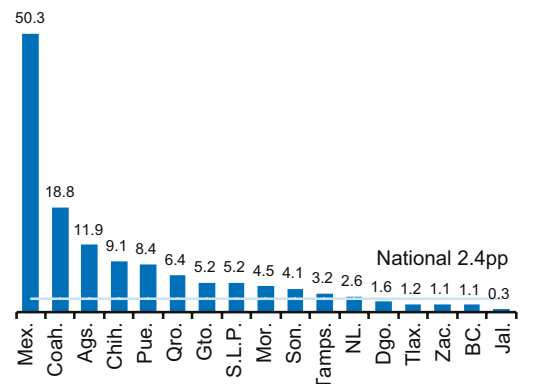
**Impact of the drop in the vehicle  
Industry on the economies  
of the states, 2009  
(Percentage points of GDP of the state)**



\* with January-August data  
Source: BBVA Research with INEGI and PwC data

Graph 51

**Impact of the recovery of the automobile  
industry of the economies of the states,  
2010\*(Percentage points of the GDP of  
the state)**



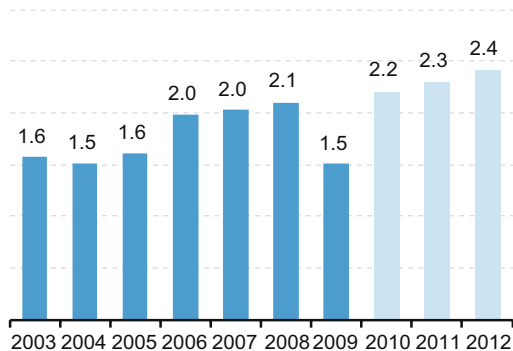
\*with January-August data  
Source: BBVA Research with INEGI and PwC data

**d) Sector Production and Sales Forecasts**

It is estimated that at the end of 2010, vehicle production in Mexico surpassed the levels prior to the crisis. Toward 2012, it is feasible that 2.4 million annual units will be reached (see graph 52). The growth in production will be forthcoming from exports. The growth rate of the higher production than estimated will depend, in terms of supply, on the efforts to improve competitiveness, the availability and cost of materials, but also, in terms of demand, on job creation, on the recovery of consumer confidence levels which will generate greater demand of durable goods, like automobiles, and on the sustained recovery of financing to the sector. In contrast with the performance of the export market the recovery of the domestic vehicle market will be gradual. In 2012, it is probable that the 2008 level will be reached, although below the maximum levels observed in 2006 (see graph 53).

Graph 52

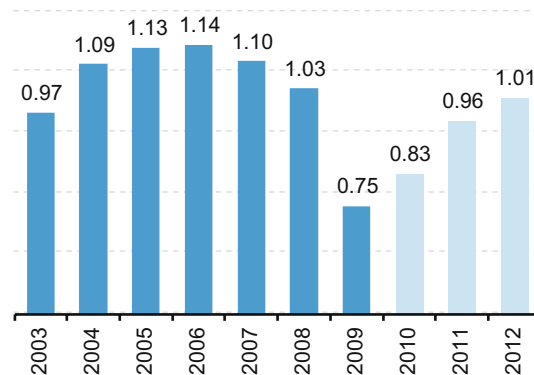
**Light vehicle production in Mexico (Millions of units)**



Source: BBVA Research with INEGI and PwC data

Graph 53

**Vehicle sales in the domestic market\* (Millions of units)**



\*including imported vehicles  
Source: BBVA Research with AMIA al 21 Oct 10 data

**Conclusions: the automobile industry in Mexico with opportunities for growth, although it is necessary to maintain its productivity dynamism in order to continue its good results**

The international financial crisis accelerated the reconfiguration process of the global automobile industry; the changes are still occurring. China has emerged as the main world producer and market. The markets with greater potential for growth will be China and India, as well as the emerging countries and the Latin American economies. The main challenges that the automobile industry must face is to manufacture vehicles with more efficient technology in fuel consumption at a low cost, and to quickly adapt to the preferences of consumers in constant change within an increasingly competitive market.

As a result of the restructuring of the North American automobile industry and the rise in oil prices in 2008, vehicle manufacturers and their suppliers have intensified the transference of production processes to Mexico and to other manufacturing destinations. The country maintains its attraction with a highly integrated industry, with high productivity and competitiveness, with the presence of the most important original equipment manufacturers (OEM) that is strongly aimed at exports, and, also, with a competitive manufacturing sector, low transportation cost and with more flexible plants.

After the food sector GDP, the automobile industry is the most important within the manufacturing industry. In Mexico, it contributes 3.2% of GDP, 20.4% of manufacturing exports and more than 450,000 jobs. In annualized terms, it exports close to US\$50 billion, the highest historic level of the manufacturing industry. Mexico is an important player in the U.S. automobile market; it contributes 90% of the imports of heavy vehicles, 30% of total imports of auto parts and 13% of light vehicles. GM has once again positioned itself as the main vehicle producer in Mexico, followed by Nissan and VW.

Even though there is very positive progress in the industry in Mexico, there are some concerns that should be kept in mind regarding the U.S. market that could limit growth in production. The outlook for a recovery of the U.S. economy, without jobs, and long-lasting unemployment continue to weigh heavily in the spirit of consumers and could be considered in different risk scenarios. In fact, the weakness in demand continues to be a limiting factor; the manufacturers are maintaining diverse fiscal incentives to encourage production, although not at the 2009 levels. Even though it has permitted them to be profitable at lower production levels and sales prior to the crisis, the restructuring of the U.S. companies still reflects a modest recovery limiting the process.

To summarize, even though all the factors are favoring Mexico, the country still faces many challenges that continue to put a brake on growth. In macro aspects, the high costs of public services do not stimulate productivity, etc. The automobile industry in Mexico has also been pounded by the growing costs of raw materials such as steel, aluminum, and resin; these are higher than in other places. Also a challenge that is still pending is to provide dynamism to the domestic market; the space and the opportunity to do it are present.

## References

Secretaría de Economía (2007), "Estudio de prospectiva tecnológica de la industria automotriz en México" ATkearney

Deloitte (2009) "A new era: Accelerating toward 2020. An automotive industry transformed"

Asociación Mexicana de la Industria Automotriz (2010) boletines de prensa 2010

PriceWaterhouseCoopers (PwC) en su sitio [www. autofacts.com](http://www.autofacts.com)

## Inset 2: The challenges posed by electric vehicles for the world

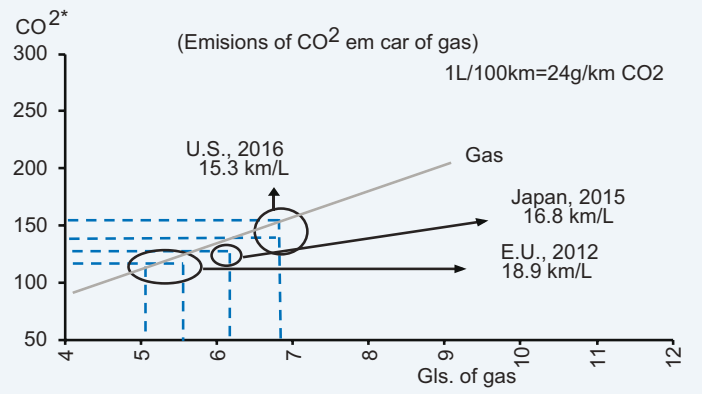
A strong concern exists worldwide to introduce “green” automobiles that pollute less and are environmentally friendly. Most of the big auto makers consider hybrid and electric vehicles (the latter known as EV) to be part of the immediate future. For example, there is the Leaf produced by Nissan; Volt from GM, and Focus EV from Ford, among others. However, there are still doubts concerning the extent and speed with which these new technologies will be able to penetrate the market. They currently represent less than 2% of total global production. Given their importance, in this article we will analyze the challenges faced in introducing electric vehicles on a global level.

There are multiple reasons that motivate the demand for “green” automobiles, which range from the rise in the price of fossil fuels (among them, gasoline and diesel), technological independence, to concerns over environmental protection. As a result, many governments have implemented a wide range of policies aimed at reducing carbon dioxide emissions. Such measures include higher taxes on fossil fuels, subsidies for research and development, and government subsidies to encourage the use of “green” technologies by consumers.

At the beginning of 2009, the U.S. government announced new more stringent federal regulations on the use of fuels for motor vehicles. Among the measures are a contemplated 30% rise in their energy efficiency, which represents an increase in the CAFE<sup>1</sup> standard from 27.4 to 35.5 miles per gallon in the period ranging from 2009 to 2016, equivalent to a yield of approximately 15.3 km/L (see graph 1). Other governments, such as the Japanese, have promoted more ambitious measures, such as reaching 2015 with a yield of 16.8 km/L. The measures also contemplate the development of a battery for 2015 with 50% more capacity and that is 85% less expensive than the current ones and, for 2020 ensuring that 50% of the new motor vehicles sold are electric. In the European Union, legislation seeks to reach a goal of achieving a yield of 18.9 km/L in new automobiles for 2012 through a reduction of CO<sub>2</sub> leaving the car’s exhaust system to an average of 130 g / km. In countries such as Germany, France, and Japan the regulations on energy efficiency in terms of fuel consumption are accompanied by fiscal pressures aimed at discouraging consumers from not

Graph 54

### The regulations will speed up the entry of more energy efficient cars (CO<sub>2</sub> emissions in gasoline powered cars)



\* In tons/100000 Kms

Source: BBVA Bancomer with PwC data

choosing efficient vehicles. In these countries the price of conventional fuels can wind up being twice as expensive as in the United States and Canada.

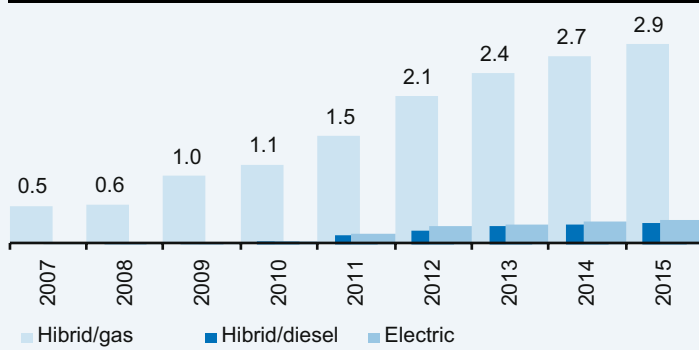
In this context, it can be affirmed that there is a concern that is beginning to become generalized on a global level<sup>2</sup> to encourage the use of more efficient energy, but it is not still clear what type of technology will be chosen. The information thus far available points to a greater use of hybrid and electric cars, but in the medium term the use of other alternatives such as employing biofuels (ethanol or natural gas) cannot be ruled out. In a short-term horizon, toward 2015 (see graph 2) it is expected that hybrid technology will prevail (3.6% of the total) over the use of electric cars (1.4% of the total), although internal combustion vehicles will continue dominating the picture (close to 95% of total production, with 75.8% corresponding to gasoline and 19.2% to diesel). It is also felt that the entry of the population into the world of technology will have an influence. Vehicles such as EV cars will spark greater interest on the part of the developed economies. Meanwhile, the option of low technological intensity (for example, Tata Motors’ Nano model) and other alternatives such as biofuels can be more broadly accepted in markets in which the climate or

<sup>1</sup> **Corporate Average Fuel Economy (CAFE)**. Efficiency standard for fuel consumption. Takes into consideration the differences between vehicles and light trucks..

<sup>2</sup> For example, recently the Mexico City government and Nissan signed an agreement for the introduction of the first 100 electric taxis in 2011. The company has similar agreements with other governments to produce 20,000 electric units (Leaf) in 2011.

Graph 55

**Production of new hybrid and electric motor vehicles worldwide (millions of units)**



Source: BBVA Research with PwC data

local resources are favorable for such models compared to gasoline powered vehicles. Among them we can cite some emerging economies as well.

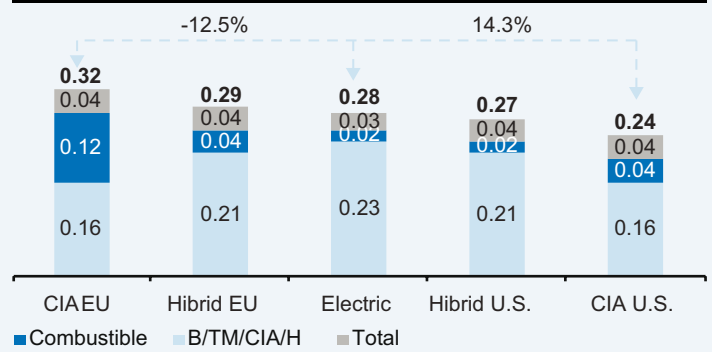
The benefits of EV can be identified on the following levels: society, users, and governments. For users, the main advantages of using an EV are: 1) having a vehicle without gas emissions, 2) silent operation, 3) efficiency levels of 60% vs. 20% for conventional motors, 4) consumers spending less on fuel than with traditional technologies. In the European Union, the cost of EV fuel is considerably less than that of the advanced internal combustion engine. In the United States, the differences are not so pronounced (see graph 3). For governments, the advantages of EV are mainly that it reduces dependence on oil and in some cases it can allow for lower energy imports and, of course, such cars favor ecological policies.

The main inconveniences for users are the cost of acquiring the electric vehicles. The difference in the initial price between the EV and that of traditional internal combustion cars can vary between 7,000 and 10,000 dollars; equivalent to 20% of the price. Other obstacles are the lack of infrastructure for recharging batteries and in some cases less powerful automobiles.

EV technology poses several challenges that must be overcome in the next few years. The main barrier that the auto industry will have to overcome will be to bring down the price of the "Ion-lithium" battery, due to the high cost

Graph 56

**Operating costs of different technologies 2012-2015 \* (Km per dollar)**



EU: European Union TM = Powertrain, B: Battery, H: Hybrid, and CIA: advanced internal combustion.  
Assumes gasoline prices of 2US\$/gallon in the United States and 1.69US\$/liter in the European Union  
Source: BBVA Bancomer with McKensey Co. data

of its raw material. The industry will also have to shorten the time needed to recharge the battery, which currently is between 30 and 60 minutes in quick charge and from four to eight hours in long charge. Most of the recharges should be done overnight, in off peak hours or when there is less demand for electric power. In addition, there are still doubts on who should supply the infrastructure for recharging car batteries, since its absence restricts drivers to short trips.

In conclusion, although the main auto companies are undertaking strong investments for EV technology, to overcome the difficulties that are currently involved will take a few years and doing so will depend on the industry's technological advances, government policies aimed at encouraging their use, and consumers' preferences. All these elements will be, in the final analysis, what determines the speed with which this new and promising technology is incorporated.

**Bibliographical References:**

- Deloitte, A new era, Accelerating Howard 2020, 2009
- PriceWaterhouseCoopers (PwC), Capitalising on Change, The electric future of automotive industry, 2009
- Mckinsey, A new segmentation for electric vehicles

### 3.2 Tourism in Mexico: facing the challenge of greater growth

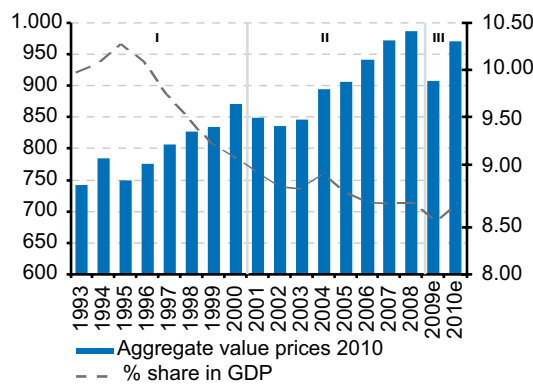
Tourism has been one of the sectors that has suffered the most recently. During 2009, temporary lodging services were the fourth sector among thirty with greater contraction. The impact of various factors explain this behavior: the global recession and some internal shocks, such as the influenza epidemic. Tourist activity can be analyzed from different perspectives: its participation, growth and contribution to the economy, its contribution to the country's revenue in foreign currency, the capacity of families to participate in these activities or its importance from a social standpoint, among the main ones. In this article of Regional Sectorial Outlook Mexico we have considered that, because of the importance of this sector, it should be analyzed based on the following breakdown: in the first section, some myths and realities; in the second, the impact of external and internal shocks on tourist activity; in the third, the challenges, opportunities and forecasts for this year. It should be noted that due to the characteristics of public information available, the reference periods are different. For a more structural analysis up to 2008, it is derived from the national accounts and for the current analysis, complementary information from recent months is used.

#### A. Myths

##### 1- Tourism is one of the economic sectors that grows the fastest

Graph 57

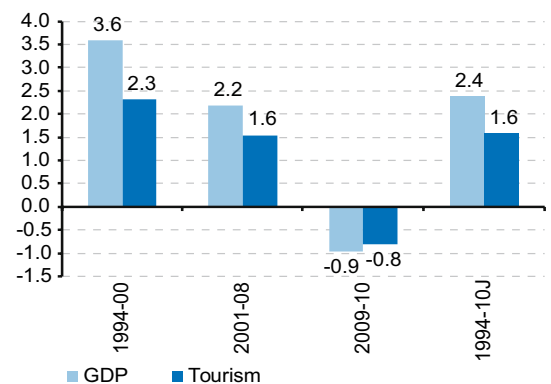
**Tourism: added value and share in the economy (Billions of 2010 pesos and % of GDP)**



Source: BBVA Research with INEGI data and our own calculations

Graph 58

**GDP growth vs. tourism (Annual average % change)**



Source: BBVA Research with INEGI data and our own calculations

In Mexico, in 2008, the aggregate value of tourist activity surpassed 980 billion pesos (of 2010), equivalent to 8.7% of the total for the economy, with accumulated growth of 33% compared to 1993, but it lost share in the economy, due to modest growth. In the period analyzed, and adding the current situation, three stages are identified, up to the year 2000 with greater growth, but at the same time a greater loss in share, from 2001 to 2008, with a tendency toward stability and the current situation 2009-2010 with the contraction and recovery of tourist activity. Between 1993 and 2010, total productive activity in the country grew almost one point above that of tourist activity, 2.4% and 1.6%, respectively. Of course, in a period of 17 years, a considerable spread is accumulated.

**2- Tourism is a labor intensive activity**

It is estimated that employment generated by the tourist sector in 2008 was 2.5 million paid jobs, equivalent to 6.9% of overall national employment, as estimated in the national accounts. Undoubtedly, the number of jobs generated is important, but its participation is relatively low and is below its share of GDP. Because tourism is a typically service activity, a slightly higher figure might have been expected. Therefore, it can be said that tourism generates marginally fewer jobs per product unit than the average for the economy, or that it is less labor intensive than the total, since tourist activity requires large investments in lodging facilities, food preparation, transportation and leisure activities, etc., because it is a very competitive market with demanding users.

Chart 18

**Share of tourist activity in the economy  
(Series base 2003, %)**

	In GDP at constant prices	In employ- ment
1999	9.3	6.7
2000	9.1	6.7
2001	8.9	6.7
2002	8.8	6.6
2003	8.8	6.6
2004	8.9	6.9
2005	8.8	6.9
2006	8.7	6.7
2007	8.7	6.7
2008	8.7	6.9

Source: BBVA Research with INEGI, SCNM, CST 2008 data

Chart 19

**Foreign currency revenue by selected  
sources (millions of US\$ dollars)**

	2009	2010	
Oil exports	30,910	33,215	Jan-Oct
Family remittances	21,181	16,156	Jan-Sept
Foreign direct investment	14,462	14,362	Jan-Sept
Tourism	11,275	9,060	Jan-Sept

Source: BBVA Research with Banxico data and our own calculations

**3- Tourism is an important generator of foreign currency revenue**

In 2009, and considering accrued foreign currency revenue from tourism to the month of September 2010, these were 11 and 9 billion dollars respectively, an important figure although below income generated from oil exports, family remittances and foreign direct investment, which among these, tourism was fourth. Of course, non-oil exports are much higher.

**4- Mexico, one of the main tourist destinations in the world**

In 2009, Mexico ranked tenth in flow of international tourists (travelers that stay overnight), with 21.5 million persons, but 42% of these were border visitors and accounted for only 6% of total revenue. In addition, revenue due to border visitors has not grown in the last 30 years. Therefore, the most important flow was of 12.7 million foreign tourists that generate demand and growth of the sector.

In the same year, 2009, Mexico received 2.4% of international tourists, but 1.3% of income and ranked 20 in this variable, 31 in tourist expenditures and 51 in competitiveness and rooms per inhabitant. Undoubtedly, Mexico has an important place in international tourism, depending on what and with whom it is compared. In Latin America, it is the most important destination. Compared to some new emerging countries, it is not easy to compete, and in terms of the human, natural and cultural resources available in the country, it can position itself better in the international market.

The breakdown of foreign visitors has changed over time. In 1980 border visitors accounted for 93.5% of tourists and 47.5% of revenue; in 2010 with figures through August, the results were 77.5% and 17.4%, respectively. In a period of 30 years, the number of foreign tourists that visited Mexico grew more than 300%, but border travelers only 8%. In addition, for the latter,

Chart 20

**Mexico ranks 10th in international tourist arrivals, millions of people**

2009 Rank	2009	% change 09/08	% 2009
World	880.0	-4.2%	100.0
1 France	74.2	-6.3	8.4
2 U.S.	54.9	-5.3	6.2
3 Spain	52.2	-8.7	5.9
4 China	50.9	-4.1	5.8
5 Italy	43.2	1.2	4.9
6 U. Kingdom	28.0	-7.0	3.2
7 Turkey	25.5	2.0	2.9
8 Germany	24.2	-2.7	2.8
9 Malaysia	23.6	7.2	2.7
10 Mexico	21.5	-5.2	2.4
11 Austria	21.4	-2.6	2.4

Source: BBVA Research with WTO data

Chart 21

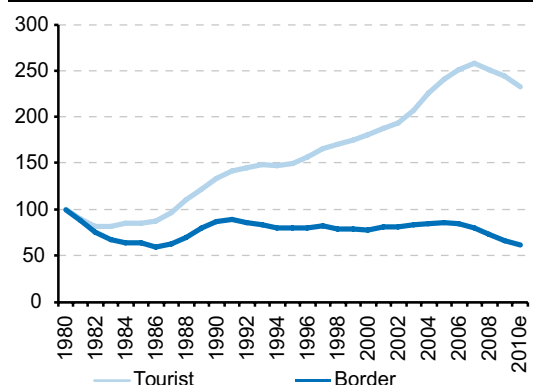
**In international tourism, Mexico is one of the main destinations, but:**

- Rank 10th in tourist arrivals
- Rank 20th in tourist revenue.
- Rank 31 in tourism disbursements.
- Rank 51 in competitiveness
- Rank 51 in rooms per inhabitant

Source: BBVA Research with WTO data, 2009

Graph 59

**Revenue from international visitors to Mexico, constant dollars (1990 = 100, last September 2010, pm12)**



Fuente: BBVA Research with Banxico data

Chart 22

**International tourism in selected countries, 2009**

	Visitors, thousand persons	Revenue		Comp.
		Mill. dls.	% of GDP	
China	50,875	<b>39,675</b>	0.92	47
Turkey	25,506	<b>21,250</b>	2.68	56
Mexico	21,454	<b>11,275</b>	1.04	51
Brazil	4,802	<b>5,305</b>	0.33	45
R Dom.	3,992	<b>4,065</b>	8.88	67
Argentina	4,329	<b>3,916</b>	1.19	65
Cuba	2,405	<b>2,080</b>	nd	nd
C Rica	1,923	<b>2,075</b>	6.96	42
Peru	2,140	<b>2,046</b>	1.61	74
Chile	2,750	<b>1,568</b>	0.93	57

Fuente: BBVA Research with OMT data

in the last ten years, the trend descended and the same evolution is seen in dollar revenue for this segment. There are many reasons that explain the slowdown or reversal of border tourism versus tourism in the interior of the country: the improvement in living standards, availability of multiple options, more accessible prices, particularly in air transportation, availability of greater leisure time and the deterioration of conditions along the border, among the main ones. Perhaps the most important is that tourists that remain more days and generate a greater economic benefit have maintained sustained growth in the long term but with a relatively high geoGraph concentration.

**B. Realities**

**1- Tourism and travelers, two similar terms**

The concept of tourism or tourist activities used in the national accounts and in accordance with international recommendations is somewhat broader than vacation or leisure trips, and include all those persons that visit a different site than their customary environment for a period lower than 12 months and do not intend a change of residence, to seek work, etc. Therefore, visitors or tourists have different intentions: vacation, family, religion, health, business, etc.

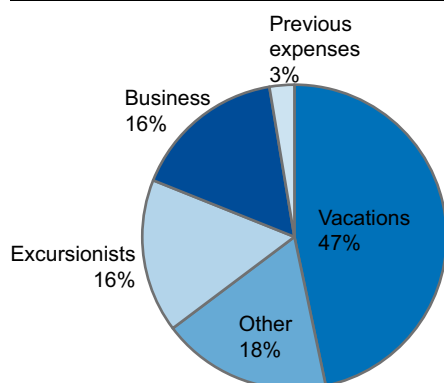


In general terms, the motivation for half of all visitors is to vacation, but in each place, the profile depends on the characteristics of each site: vacationers predominate in beach resorts or archeological sites. It should be noted that in industrial cities or entities, the weight of business trips increases, and in some cases or on specific dates, religious motivation is important. This implies that the goods and services demanded by national and international travelers can be different among the different countries, states or cities and even in time. In this article of **Regional Sectorial Outlook Mexico** this broad concept of tourism is used unless another specific concept is explicitly stated.

**2- Tourism is not necessarily synonymous with foreign travelers**

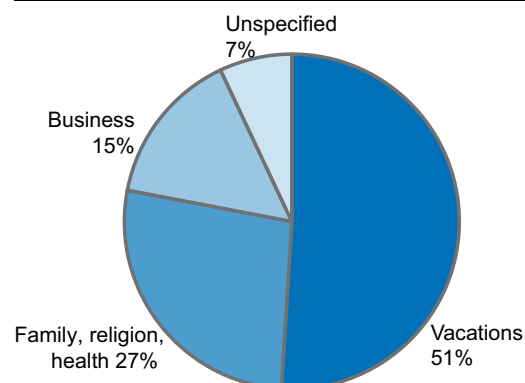
International tourism statistics register flows between countries, while national statistics deal with internal flows, both national and international. In Mexico, the greater part of tourists are national, whether in number (82%), hotel nights (68.3%) or air travel passengers (65%), among other indicators. However, foreign tourists have a higher average stay, 3.4 and 1.6 days respectively, have a strong presence in three states where beach areas are important and where four and five star hotels predominate and the average stay is even higher; for example 5.3 days in Cancún. Undoubtedly, for the state of Quintana Roo and for Nayarit and Baja California South, foreign tourism is a very important source of activity. Of course there are other states with a clear and preponderant tourist attraction and others that, due to their size and the diversification of activities, tourism, although important, is somewhat diluted in the general context of productive activities.

Graph 60  
**Mexico: Percentage breakdown of tourist consumption by travel forms and motives 2008**



Source: BBVA Research with INEGI data

Graph 61  
**Motivation of international travelers in the world (% share)**



Source: BBVA Research with WTO data

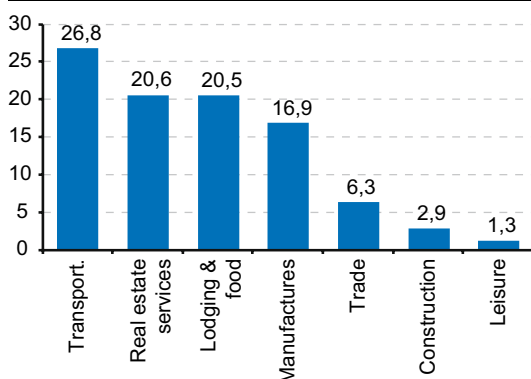
**3- Tourism is more than just lodging**

Tourist activities demand a vast assortment of products and services: transportation, lodging, food, leisure activities, etc. The sector that most contributes to its aggregate value is transportation in all its modes, with 26.8% of total tourist activities, and in second and third place with almost equal value, real estate services and lodging, and the preparation of meals and beverages (20.6% and 20.5%, respectively). Manufacturing share is also high, with 16.9%. These four sectors account for 85% of the total.

The importance of tourism is also relevant in each sector; for example, in lodging services and the preparation of food and beverages, almost 70% of its total aggregate value depends on tourism, whereas in transportation and recreational activities, it is around 30%, and in real

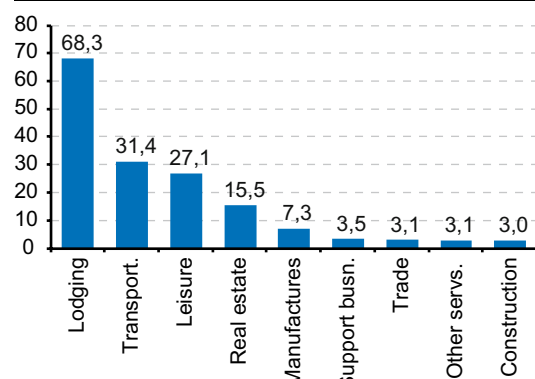


Graph 66  
**GDP % breakdown of tourism by economic activity**



Source: BBVA Research with INEGI, 2008 data

Graph 67  
**Importance of tourist services in each activity in the country (% share)**



Source: BBVA Research with INEGI, 2008 data

In 2009, 26% of available rooms in Mexico were in five-star hotels and generated 56% of the added value of this activity, and when the four-star hotels are added, the figures are 45% and 80%, respectively. This implies quality and diversified services and necessarily high investment.

Chart 23  
**Hotel infrastructure in Mexico, 2009 \***

	Num. Hotels	Num. Hoteles rooms	Hotels	Rooms
<b>Total</b>	<b>16,526</b>	<b>621,946</b>	<b>100.0</b>	<b>100.0</b>
One star	2,555	52,969	15.5	8.5
Two stars	2,208	59,957	13.4	9.6
Three stars	2,849	104,544	17.2	16.8
Four stars	1,714	120,842	10.4	19.4
Five stars	1,041	164,771	6.3	26.5
Without classification**	6,159	118,863	37.3	19.1

\* Figures through December  
\*\* Economy class, no rating or classification  
Source: BBVA Research with INEGI data

Chart 24  
**Aggregate value of lodging services (Based on GDP for first quarter 2010)**

	Billions of pesos	% share
<b>Total</b>	<b>114.2</b>	<b>100.0</b>
One star	2.0	1.7
Two stars	3.7	3.2
Three stars	11.4	10.0
Four stars	25.9	22.6
Five stars	64.8	56.7
Not subject to classification	6.5	5.7

Source: BBVA Research with INEGI 2008 data

### 5- Tourist activities are of a dynamic nature and face challenges

One of the characteristics of tourism in the world is the enormous competition between destinations, the incorporation of new participants, the strong growth of some emerging countries, the constant renovation and sophistication of the services required and the need of advancing at least at the same pace as competitors. In this context, Mexico needs, in addition to making use of its natural advantages and its privileged geoGraph position in terms of the U.S. and Canadian markets, to adapt permanently to the needs of the market and to changes in population trends, such as for example, older adults, medical tourism, tourists that in winter seek warmer climates and retired adults, among other groups.

Chart 25

**The tourist sector is very dynamic and faces challenges**

Supply factors	Intense competition in tourist services
New international competitors	Some competitive factors
Variety of destinations with ambitious expansion plans	Comprehensive services
New access opportunities for the user	Recreational activities
Low-cost airlines	Business activities
Internet	Location
	Access to infrastructure
	Business centers
	Commercial centers
	Amenities

Source: BBVA Research with WTO data

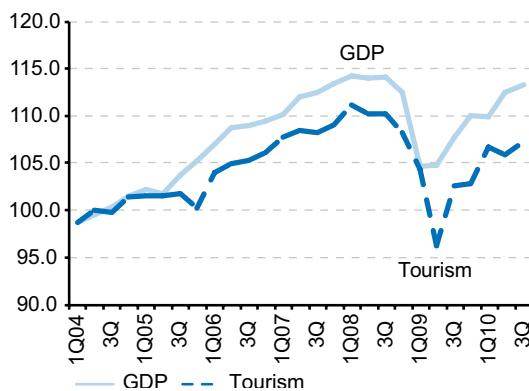
**C. Internal and external shocks**

Tourism-related activities had a particularly difficult year in 2009, due to two shocks, an external shock due to the world recession that affected all the economy and an internal shock due to the effect of the influenza attack with its major consequences in the second quarter of the year. In addition, there was the insecurity factor, the fight against drug traffic and the suspension of activities of the airline company, Compañía Mexicana de Aviación, which could be considered a third shock for the tourism sector, which led to a greater slowdown in tourism compared to total activity, particularly in the second quarter of 2009 when the preventive measures against the influenza were intensified.

It can be said that the month of May 2009 was critical for tourism in Mexico. In that month revenue from foreign tourism fell 55.9% compared to the same month the previous year. Airplane passengers were 41.1% lower, native tourists in Mexico City hotels fell 52.2%, and foreign visitors at hotels declined 77.4%, to mention some indicators. Of course, the effect of the influenza was not just limited to the month of May and its impact on all tourist activities

Graph 68

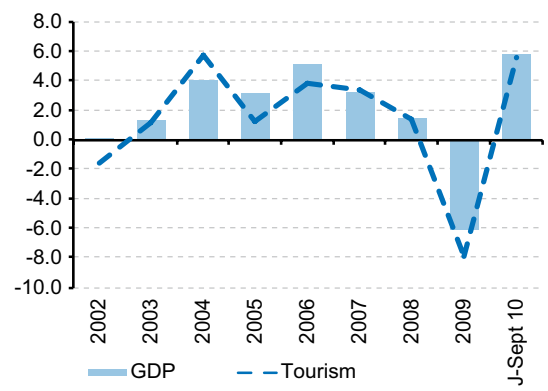
**Activity index: tourism vs. the economy (2004 = 100)**



Source: BBVA Research with INEGI data and our own calculations

Graph 69

**Growth: tourism and the economy (Annual % change)**



Source: BBVA Research with INEGI data and our own calculations

probably doubled contraction of the sector. But this belongs to the past and what is important is the present evolution and its perspectives, which are relatively favorable.

The situation of the airline, Compañía Mexicana de Aviación, must be considered from a broader perspective: to the recession and the influenza outbreak must be added the characteristics of the sector. For example, the growth of competition in previous years, the participation of low-cost airlines in the market, the restructuring of the sector with the departure of the weaker companies, high fuel costs, plus labor liabilities and the delay in starting up the company again.

Compañía Mexicana de Aviación had an important share of the market in the different segments where it participated and undoubtedly its closing affected the industry. However, the suspension of activities took place at the end of the high tourist season, which reduced the impact to some extent, since in the following low-season months it was easier to restructure the market with the resources available. This did not prevent the rise in air transportation prices or difficulties in specific destinations that were only serviced by the company. The most recent information regarding the problem is that the company's activities will most probably be resumed. It will be necessary to later analyze the impact on the capacity of commercial aviation to meet the demand.

Graph 70

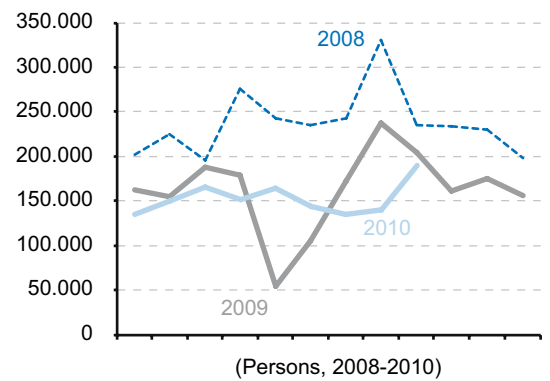
**Federal District (Mexico City):  
Native tourists in hotels  
(Persons, 2008-2010)**



Source: BBVA Research with Federal District (Mexico City) government data

Graph 71

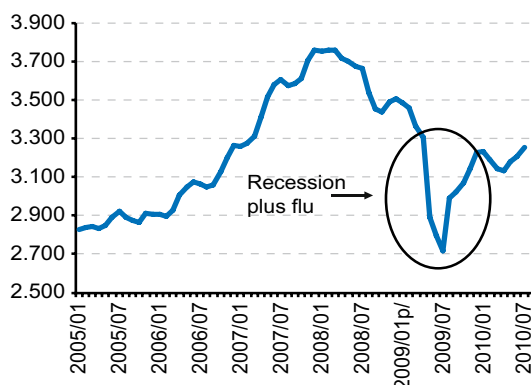
**Federal District (Mexico City):  
International tourists in hotels  
(Persons, 2008-2010)**



Source: BBVA Research with Federal District (Mexico City) government data

Graph 72

**Total number of passengers  
in regular flights  
(Thousands, ae, 3-month moving average)**



Source: BBVA Research with INEGI and SCT (Department of Communications and Transportation) data

Chart 26

**Mexicana de Aviación:  
Share in air traffic, 2009**

% of the total	23.6
% of national companies	35.5
% of national services	27.2
% of national companies in international services	65.4
% of international services in total international services	19.8

Source: BBVA Research with SCT (Department of Communications and Transportation), Civil Aeronautics data

**D. Challenges and opportunities**

Based on arrivals of international tourists, Mexico has been one of the ten major tourist destinations in the world for many years, a relative importance that is in accord with the size of its economy, or its population or its territory or natural resources. But this rank is not guaranteed; in fact, Mexico lost two positions between 1990 and 2009 to place tenth this last year, with the entry of China and Turkey in the group of major tourist destinations.

Mexico has a natural market in the United States and Canada, the origin of 80% of international visitors by air to this country. In turn, for our neighbors to the north, Mexico is also a natural destination for 32% of those residents that travel abroad by air or by land. In 2009, 61.5 million U.S. residents traveled abroad, of which 19.5 million came to Mexico, but only 5.2 million by air, the group that is more important for tourist activity. The other 14.2 million include border visitors, Mexican immigrants in the U.S. (known as paisanos) who visit their families in Mexico, and cruise ship passengers. Mexico ranks first among destinations of U.S. tourists, with 13.7% of total travelers and Canada is the second destination in importance.

Chart 27

**World Tourism  
(Arrival of international tourists)**

Place	1990	2009
1	France	France
2	U.S.A.	U.S.A.
3	Spain	Spain
4	Italy	China
5	Hungary	Italy
6	Austria	U. Kingdom
7	U. Kingdom	Turkey
8	Mexico	Germany
9	Germany	Malasia
10	Canada	Mexico

Source: BBVA Research with WTO data, 2009

Chart 28

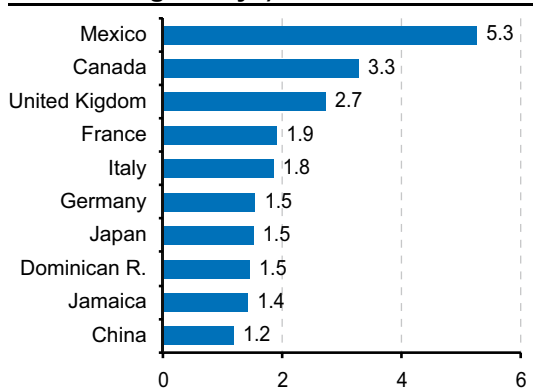
**Mexico must make better use of its advantages**

- Great diversity of natural resources**  
11 thousand kilometers. Of beaches, the greater part unspoiled.
- Broad array of historic and cultural treasures**  
127 archeological zones and 111 thousand historical monuments
- Economic integration with the United States**

Source: BBVA Research with INEGI and SECTUR data

Graph 73

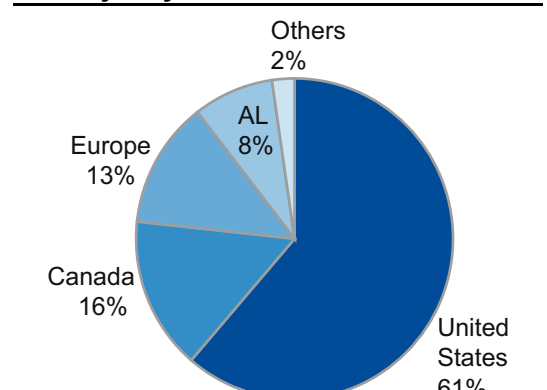
**Main destinations of U.S. tourism by air, 2009 (Millions of tourists with overnight stays)**



Source: BBVA Research with U.S. Department of Commerce data

Graph 74

**International tourists in Mexico, by air, January-July 2010**



Source: BBVA Research with SECTUR data

It is important to note that among the ten main destinations for the U.S. are the Dominican Republic and Jamaica, two destinations that compete mainly with Cancún and the Mayan Riviera. Competition is good for everyone, but it is important to stress that by air travel and from certain destinations, distance is not a factor. In the first six months of 2010, tourism from the United States to the Caribbean slightly surpassed tourism from the U.S. to Mexico and it is necessary to compete in price, quality, diversified services and safety: in other words, greater competitiveness.

In 2009, Mexico ranked 51 among 133 countries in tourism competitiveness. Among the countries that receive more tourists in the world: France, the United States and Spain, these are not necessarily among the first three places in competitiveness, but rank among the first places. Therefore, the index is a good indicator of strengths and opportunities. In our own classification, subject to certain nuances, we have classified the pillars of competitiveness into three large groups: strengths, opportunities and weaknesses. According to each variable,

Chart 29

**Tourism competitiveness 2009: Mexico and main destination countries  
(Position among 133 countries)**

Pillars	Main tourist destinations					Other destinations			
	Mexico	France	USA	Spain	Italy	China	Turkey	Brazil	Dominican R.
Natural resources	18	39	1	30	90	7	89	2	55
Cultural resources	20	7	9	1	5	15	27	14	95
Imp. of tourism	35	21	44	4	51	28	46	84	13
Air trans. infrastructure	40	5	2	10	27	34	44	46	47
Tourism infrastructure	49	14	10	1	3	80	44	45	51
Regulation	58	25	16	74	71	87	44	94	26
Human resources	63	23	7	31	41	46	75	55	92
Tech. infrastructure	69	19	15	31	25	68	57	60	83
Health and hygiene	74	9	47	35	27	91	62	80	68
Price competitiveness	77	132	107	96	130	20	109	91	81
Land transportation infrastructure	84	3	18	20	40	55	62	110	99
Attitude toward the sector	90	55	106	48	71	127	47	108	14
Environmental sust.	101	4	106	31	51	105	104	33	108
Safety	126	55	122	66	82	116	92	130	101
<b>Total competitiveness</b>	<b>51</b>	<b>4</b>	<b>8</b>	<b>6</b>	<b>28</b>	<b>47</b>	<b>56</b>	<b>45</b>	<b>67</b>
	Strength 1 to 45			Opportunity 46 to 90			Weakness + than 90		

Source: BBVA Research with data from The Travel and Tourism Competitiveness Report, 2009, WEF

these are placed in the first, second or third one third of the general classification. Of course, the strengths prevail in the main tourist destinations and in the selected emerging destinations, the opportunities.

In México, according to the components of the competitiveness index, among the 14 variables considered, the country is strong in four of them; in eight it offers opportunities, and in two it shows weaknesses. In the first group, its natural resources are outstanding, with safety in the last group (the list and position of each of the pillars is presented in Chart 29). The options to improve the sector's competitive position are many, as are the country's resources, which represent favorable perspectives for tourist activity.

**E. Recent Evolution**

In the last week of November 2010<sup>1</sup> (from November 22 to 28) in the 70 main Datatur<sup>2</sup> centers, hotel occupancy was 7.7% higher than the previous year and practically the same (+0.2%) as in 2008 and in the same week. However, when the average for the period is considered, the

<sup>1</sup> Last available datum at the close of this edition

<sup>2</sup> Statistical information system of the Department of Tourism

Chart 30

**Indicators of tourist activity: (Number of occupied hotel rooms at November 28, 2010)**

	Occupancy through Nov.28	Annual % change			Occupancy through Nov 28	Annual % change	
		Acum.	Sem.			Acum.	Sem.
<b>Beach resorts</b>	<b>76,734</b>	<b>12.6</b>	<b>8.0</b>				
Riviera Maya	21,079	25.7	15.7	Oaxaca	1,916	11.2	-1.0
Cancún	19,401	4.2	7.7	Mérida	3,127	2.9	24.9
Acapulco	7,392	22.7	7.9	León	2,056	13.1	21.5
Los Cabos	5,495	20.0	-1.4	Querétaro	2,579	16.2	4.4
Puerto Vallarta	6,626	1.1	-2.9	Aguascalientes	1,389	15.2	8.9
Mazatlán	4,791	-4.1	3.0	Morelia	1,507	19.9	4.6
Veracruz	4,353	-7.0	-13.2				
Nuevo Vallarta	3,573	34.3	48.3	<b>Magic towns</b>	<b>1,825</b>	<b>-3.8</b>	<b>23.7</b>
Ixtapa Zihuatanejo	2,760	1.9	-3.1	S Cristóbal de las C	1,196	-4.4	53.9
Huatulco	1,255	6.7	2.9	Taxco	280	-10.0	-15.8
				Valle de Bravo	129	-3.9	-10.2
				El Fuerte	212	6.4	0.7
<b>Large cities</b>	<b>41,778</b>	<b>13.7</b>	<b>6.3</b>	<b>Border towns</b>	<b>4,488</b>	<b>5.5</b>	<b>8.4</b>
Mexico City	27,815	18.9	10.8	Tijuana	2,495	1.9	7.4
Guadalajara	7,232	12.4	5.6	Ciudad Juárez	1,994	9.4	9.7
Monterrey	6,731	-5.7	-14.0				
<b>Colonial cities</b>	<b>15,297</b>	<b>11.5</b>	<b>11.1</b>	<b>Subtotal</b>	<b>140,122</b>	<b>12.3</b>	<b>8.0</b>
Puebla	2,723	9.1	9.8	<b>Other important destinations</b>	<b>30,770</b>	<b>3.6</b>	<b>6.5</b>
				<b>Total</b>	<b>170,892</b>	<b>10.7</b>	<b>7.7</b>

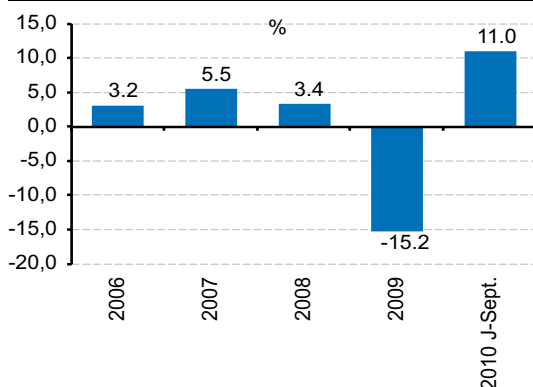
Source: BBVA Research with SECTUR data

respective data are 10.7% and -4.3%. This indicates good annual growth, but on average, it is still below that of 2008 although with a positive trend at the close. One of the characteristics of the evolution of tourism is the heterogeneity among cities and regions; for example, between the Mayan Riviera and Cancún or between Guadalajara and Monterrey, to mention two beach resorts and two cities, the particular conditions of each one of these necessarily generate different results. For example, natural disasters or violence has not been the same throughout the country.

The recovery of tourism is observed both in the number of international visitors as well as in national tourism. However, according to the information available, although there is growth, international tourism has not recovered its levels prior to the 2008 crisis, as has occurred with national travelers. The good performance of the economy in 2010 and the promotions in the country seem to be generating good results. The existing relationship between the growth of tourism and of temporary lodging and food preparation also indicate the recovery of tourism in 2010.

Graph 75

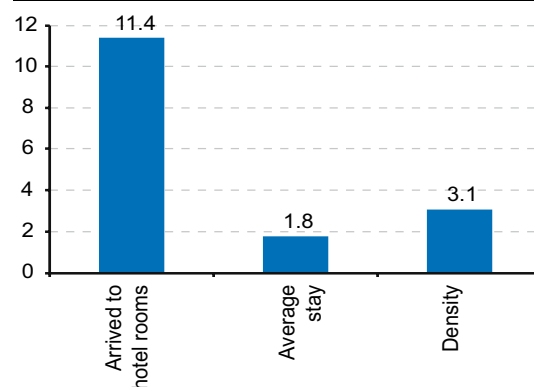
**Revenue from foreign visitors  
(Dollars, annual % change)**



Source: BBVA Research with Sector, Datatur data

Graph 76

**National Tourism  
(Annual % change, January-July 2010)**



Source: BBVA Research with Sector, Datatur data



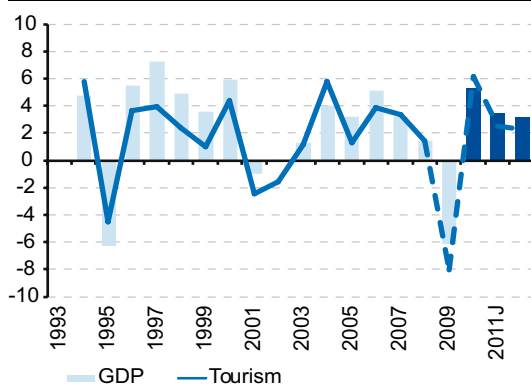
## F. Outlook: growth will continue in 2011; the challenge will be to improve competitiveness and increase growth

The tourist sector in Mexico has more strengths than weaknesses. Therefore, the outlook is positive; the sector will continue to grow and the country is one of the main tourist destinations in the world, although within an environment of some risks. Once the recession and the impact of the influenza is overcome, the evolution of tourist activity will depend on the macroeconomic environment on one hand and of Mexico's additional efforts as a country. In the international sphere, global uncertainty has not dissipated and the task of economic reordering is still not completed in the developed economies. Therefore, growth below their theoretical potential is foreseeable, which will surely be reflected in Mexico and in particular in the flow of foreign tourists.

Internally, although the national economy has strengths, it is necessary to improve competitiveness and safety. In particular, in the tourism sector, the international supply of tourist services is increasing in quality, destinations, origin and options for international travelers. The main risk for tourist activity is generated in the weakness of the external environment because our international visitors are mainly from the United States, Canada and Europe; and internally because of the safety factor and the possible impact of climate change in some of our coasts.

Graph 77

### Dynamism of GDP and Tourism (Annual % change)



Source: BBVA Research with INEGI data and our own estimates

Chart 31

### Outlook for tourist activity (Annual % change)

	GDP	Tourism
2005	3.2	1.3
2006	5.2	3.8
2007	3.3	3.3
2008	1.5	1.4
2009	-6.1	-8.0
2010e	5.2	6.2
2011	4.3	3.9
2012	3.8	3.4

Source: BBVA Research with INEGI data and our own estimates

In this context, the challenge is to make use of our strengths to dynamize the sector and advance in the areas of opportunities to consolidate it and again obtain growth rates in the sector that surpass the average for the economy.

## References

- INEGI, 2010. "Sistema de Cuentas Nacionales de México, Cuenta Satélite del Turismo de México", varios años
- Secretaría de Turismo, México. Datatur y reportes periódicos sobre "Resultados de la actividad turística"
- Secretaría de Turismo del Distrito Federal. "Indicadores estadísticos del sector, 2002-2010"
- U.S. Department of Commerce. "2009 United States Resident Travel Abroad"
- World Tourism Organization (UNRTO). "Tourism Highlights, 2010 Edition"
- World Economic Forum. "The Travel & Tourism Competitiveness Report 2009"

## 4. Appendix

### 4a. Indicators of economic performance by state

Chart 32

#### Indicators of economic performance by state

	AAGR3, % 2003-2009							National ranking					
	GDP* 2009 <sup>1</sup>	Popula- tion <sup>2</sup>	GDP* 2009, dollars	GDP*/ inhab. dollars	Real GDP/ inhab.	Popu- lation	Real GDP/ inhab.	Real GDP/ 2009	GDP/ inhab. 2009	Remit- tances 2009	Empley- ment <sup>4</sup> 2009	Rec. Fed. <sup>5</sup>	Comp. <sup>6</sup>
National	<b>11,574</b>	<b>110,774</b>	<b>1,039,120</b>	<b>9,251</b>	<b>1.8</b>	<b>1.4</b>	<b>0.4</b>						
Mexico City	1,972	8,861	177,041	20,603	1.4	0.1	1.3	1	2	9	2	2	1
México	1,012	14,936	90,842	6,182	2.6	1.6	1.0	2	23	3	4	1	28
Nuevo León	846	4,562	75,922	16,883	2.6	1.8	0.8	3	4	22	5	7	2
Campeche	811	810	72,789	91,435	-3.6	1.5	-5.0	4	1	31	29	29	12
Jalisco	717	7,247	64,369	9,043	1.6	1.4	0.2	5	14	4	3	4	14
Veracruz	550	7,567	49,355	6,672	3.3	0.9	2.4	6	21	7	6	3	26
Tabasco	478	2,200	42,874	19,774	4.7	1.8	2.8	7	3	28	26	13	29
Guanajuato	432	5,395	38,755	7,294	1.5	1.7	-0.2	8	20	2	8	8	22
Tamaulipas	383	3,223	34,387	10,858	1.4	1.5	0.0	9	8	16	10	12	8
Puebla	375	5,707	33,634	6,010	1.9	1.3	0.7	10	26	5	13	6	24
Chihuahua	345	3,369	30,995	9,410	1.5	1.0	0.5	11	12	17	7	14	9
Coahuila	339	2,704	30,436	11,435	0.5	1.6	-1.1	12	5	26	11	20	4
Baja California	318	3,077	28,557	9,349	1.2	2.5	-1.3	13	13	21	9	15	6
Sonora	284	2,617	25,471	9,878	2.8	1.7	1.1	14	10	24	12	17	11
Michoacán	279	4,303	25,091	5,958	1.8	1.1	0.7	15	27	1	15	10	25
Sinaloa	234	2,746	21,011	7,839	2.3	0.8	1.5	16	17	15	14	16	10
Querétaro	215	1,783	19,309	10,907	3.8	2.5	1.3	17	7	19	16	24	3
San Luis Potosí	215	2,560	19,274	7,696	2.3	1.0	1.3	18	18	11	17	19	17
Chiapas	209	4,705	18,790	4,048	0.8	1.9	-1.1	19	32	12	21	5	30
Oaxaca	177	3,765	15,848	4,304	1.6	1.0	0.6	20	31	6	24	9	32
Hidalgo	175	2,616	15,708	6,086	2.4	1.9	0.5	21	24	10	25	18	27
Guerrero	167	3,353	14,986	4,569	1.1	1.0	0.1	22	30	8	27	11	31
Yucatán	159	1,927	14,251	7,535	3.5	1.3	2.1	23	19	29	18	21	18
Quintana Roo	159	1,280	14,236	11,100	3.3	3.5	-0.2	24	6	30	19	26	13
Durango	142	1,614	12,742	8,058	1.1	1.1	-0.1	25	16	18	22	23	21
Morelos	127	1,749	11,380	6,614	1.2	1.6	-0.4	26	22	14	23	25	16
Aguascalientes	121	1,162	10,846	9,452	3.0	2.0	1.0	27	11	23	20	27	5
Zacatecas	97	1,475	8,711	6,035	4.0	1.1	2.9	28	25	13	28	22	20
Baja California Sur	73	612	6,514	10,558	5.7	4.1	1.5	29	9	32	30	32	7
Nayarit	69	1,065	6,159	5,862	3.7	1.9	1.8	30	28	20	31	28	23
Tlaxcala	61	1,151	5,484	4,841	0.7	1.7	-1.0	31	29	25	33	30	19
Colima	61	635	5,438	8,636	1.2	2.3	-1.1	32	15	27	32	31	15

1/ Billions of pesos;

2/ Población 2009, thousands of people, BBVA Research estimate

3/ Average Annual Growth Rate

4/ Total registered workers by the 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, Banco de México, IMSS, SHCP, IMCO (Instituto Mexicano de la Competitividad, A.C.)

## 4b. Indicators by state

Chart 33

### Region: High Development

	Mexico City					
	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-1.1	-5.8	-4.6	-0.6	-1.4	-3.2
Construction** (annual % change)	-1.0	31.9	48.6	45.6	-8.1	-25.9
Public works	-27.8	36.7	42.5	21.5	-9.0	2.8
Private works	28.4	29.0	51.7	60.0	-7.1	-49.1
Electricity distribution (annual % change)	1.0	1.0	6.7	-4.9	-7.3	-17.4
Retail sales (annual % change)	2.8	-2.9	-1.8	0.0	0.0	3.2
Wholesale sales (annual % change)	3.8	-5.6	-7.6	-3.5	0.3	7.9
Total employment (annual % change)	2.1	-2.3	-2.8	-3.5	-1.5	-1.5
Industry	0.1	-8.2	-9.0	-12.7	-11.2	-6.7
Services	2.7	-0.5	-0.8	-0.8	1.3	3.0
Gasoline sales (annual % change)	0.8	-2.4	-1.5	-0.4	2.4	1.6
Total air traffic (annual % change)	-7.0	7.4	-7.1	-17.0	8.0	0.5
Federalized resources (annual % change)	15.6	-8.2	-11.8	-3.3	4.5	-7.4
Participations (Branch 28)	14.2	-14.9	3.1	8.9	22.2	1.2
Contributions (Branch 33)	4.5	4.6	-9.1	-27.6	-9.7	-5.7
FDI (annual accum. flows, US\$ millions)	12590.1	8149.0	8149.0	3343.1	4167.7	4878.1
Remittances (annual % change)	-19.6	-11.3	-18.4	-9.4	7.1	7.7

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 34

### Region: Tourism

	Baja California Sur						Quintana Roo					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-2.8	-7.5	-5.7	-2.0	-4.1	-5.9	0.4	-7.6	-11.1	-0.9	2.3	-4.5
Construction** (annual % change)	34.5	1.4	-10.7	-15.6	-42.3	-7.4	-11.7	-36.3	-27.7	-24.1	-35.9	-42.2
Public works	40.7	52.8	17.5	60.8	-3.5	-10.2	-19.4	-6.8	-18.7	-5.5	-31.9	-21.6
Private works	31.7	-23.4	-26.9	-49.8	-62.7	-3.3	-9.8	-42.6	-30.3	-29.7	-37.6	-47.5
Electricity distribution (annual % change)	1.9	1.1	9.7	-1.7	0.6	1.5	1.4	1.1	16.1	14.7	-3.5	-3.6
Retail sales (annual % change)	-5.1	11.8	9.8	15.2	4.7	1.6	4.8	-5.7	-11.3	-11.3	-8.9	-0.2
Wholesale sales (annual % change)	-14.5	-21.2	-19.7	-9.9	6.0	6.6	5.7	-15.8	-17.7	-9.9	-10.5	-0.6
Total employment (annual % change)	4.6	-9.5	-10.9	-7.8	-4.2	-4.2	4.7	-5.2	-7.9	-5.7	-2.9	-2.9
Industry	-2.7	-20.9	-21.6	-17.7	-11.1	-5.8	-7.1	-24.7	-29.3	-20.3	-10.7	-7.4
Services	7.6	-3.8	-5.3	-2.8	-2.1	-0.9	9.0	0.5	-1.5	-1.9	-1.3	5.3
Gasoline sales (annual % change)	4.0	-5.4	-4.9	-0.5	-0.4	1.2	na	na	na	na	na	na
Total air traffic (annual % change)	13.8	-8.6	-2.3	4.5	15.7	19.9	5.3	0.0	10.3	7.6	10.5	6.5
Federalized resources (annual % change)	12.1	-6.4	-15.5	-8.0	1.7	-2.0	15.2	-12.1	-21.8	0.3	7.5	5.4
Participations (Branch 28)	11.9	-11.9	2.2	7.6	14.3	-2.5	15.5	-13.3	2.5	14.9	13.0	-0.7
Contributions (Branch 33)	1.9	1.9	-5.2	-1.9	4.9	-1.8	3.5	2.1	-2.3	-0.3	5.3	-5.3
FDI (annual accum. flows, US\$ millions)	129.3	60.9	60.9	0.1	2.4	4.7	54.4	54.5	54.5	1.3	2.3	1.8
Remittances (annual % change)	9.6	-8.2	-16.0	6.2	6.3	2.5	0.1	-12.1	-9.3	-8.2	5.5	3.7

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 35

**Region: Industrialized**

	Aguascalientes						Baja California					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-4.0	-7.9	12.0	42.6	18.7	11.3	-2.0	-17.5	-6.8	7.1	13.7	5.4
Construction** (annual % change)	-5.6	25.5	38.7	33.1	-2.5	4.1	-11.9	-9.8	-15.7	-6.6	-22.3	-11.0
Public works	-26.4	87.9	93.0	160.3	-5.5	11.2	-18.8	15.0	9.9	45.3	23.0	12.4
Private works	9.0	-4.2	9.8	-33.4	-0.4	0.2	-7.9	-22.4	-28.2	-33.2	-46.3	-28.4
Electricity distribution (annual % change)	0.9	1.0	10.2	5.8	2.3	7.2	1.4	1.0	7.4	-0.1	2.6	-4.0
Retail sales (annual % change)	2.1	-3.0	-2.9	1.7	-3.0	-0.2	3.6	3.5	0.3	4.1	-0.7	5.3
Wholesale sales (annual % change)	-5.0	-17.9	-21.0	-12.8	-9.7	3.7	-11.5	-14.4	-11.9	-3.7	-3.9	-7.9
Total employment (annual % change)	-0.4	-4.7	-5.8	-2.8	2.2	2.2	-1.2	-8.1	-9.1	-5.8	0.0	0.0
Industry	-0.4	-7.6	-8.3	-4.0	2.5	6.9	-5.1	-15.3	-17.2	-11.1	-1.4	8.4
Services	-0.4	-2.4	-4.1	-1.8	2.3	4.3	2.4	-2.6	-2.5	-2.8	-2.8	-4.1
Gasoline sales (annual % change)	-2.1	5.1	19.9	6.2	4.9	-6.0	5.5	-8.3	-0.9	2.6	4.0	0.8
Total air traffic (annual % change)	-11.2	-33.2	-17.4	4.4	15.3	-2.1	-22.0	2.2	8.7	-1.4	11.0	10.6
Federalized resources (annual % change)	19.6	-7.1	2.2	-5.1	3.8	0.8	14.2	-10.3	-13.9	1.4	2.9	-0.2
Participations (Branch 28)	15.7	-18.1	1.9	14.5	18.4	-0.2	19.1	-15.0	-1.1	18.4	20.1	1.1
Contributions (Branch 33)	5.5	-2.5	-4.0	-0.5	2.9	-3.5	4.0	-1.1	-4.9	-5.7	-2.7	-9.7
FDI (annual accum. flows, US\$ millions)	36.7	0.5	0.5	8.6	24.5	23.4	1484.8	499.6	499.6	233.2	377.5	553.0
Remittances (annual % change)	-6.7	-15.3	-21.2	-9.5	4.9	11.2	1.8	-3.8	0.1	4.6	10.0	7.3
	Chihuahua						Coahuila					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-0.6	-18.1	-7.8	13.4	20.0	10.5	-0.6	-27.0	-4.3	45.0	52.3	24.8
Construction** (annual % change)	0.9	-23.8	-22.7	-28.4	-15.0	11.1	30.3	-13.9	-28.8	-29.5	-35.9	-13.1
Public works	-6.4	26.0	46.6	32.0	12.5	28.5	26.3	12.9	-12.7	12.1	-44.9	-15.9
Private works	4.0	-42.8	-44.9	-53.1	-31.5	-3.6	31.8	-23.6	-34.6	-43.5	-31.4	-11.7
Electricity distribution (annual % change)	2.0	1.0	17.0	-0.6	1.0	6.1	1.1	1.0	14.9	-6.0	9.6	0.5
Retail sales (annual % change)	-0.1	-7.8	-7.1	-6.6	-1.4	-1.4	2.3	-4.3	-7.0	-0.1	3.8	2.1
Wholesale sales (annual % change)	1.2	-15.1	-20.9	-13.3	-8.9	-1.0	6.9	-5.7	-9.4	-1.6	0.4	5.3
Total employment (annual % change)	-3.0	-10.8	-11.3	-5.8	1.8	1.8	1.0	-7.5	-8.8	-4.4	2.9	2.9
Industry	-7.2	-18.5	-19.5	-10.6	1.0	13.2	-0.9	-13.1	-14.6	-7.3	4.2	17.1
Services	4.3	0.2	0.6	0.6	3.5	1.6	3.4	0.2	-0.3	-0.5	1.7	1.7
Gasoline sales (annual % change)	3.9	-4.8	-1.1	0.3	-0.9	-2.6	6.3	-1.1	1.7	5.0	1.6	6.0
Total air traffic (annual % change)	-7.6	-11.7	-6.1	-6.4	12.4	10.6	-6.1	-17.2	-9.9	-3.4	-2.0	-6.4
Federalized resources (annual % change)	18.1	-11.3	-11.3	6.3	11.8	5.2	17.9	-14.6	-23.1	4.4	10.7	0.0
Participations (Branch 28)	23.0	-16.0	-0.7	15.2	23.4	1.4	18.8	-14.8	0.7	16.9	24.4	-0.1
Contributions (Branch 33)	5.0	-1.6	-3.9	-1.9	2.4	1.1	3.3	-3.5	4.7	1.4	-3.2	-1.0
FDI (annual accum. flows, US\$ millions)	1385.0	980.4	980.4	90.9	727.2	1139.3	1116.3	124.6	124.6	4.9	19.3	-4.6
Remittances (annual % change)	0.7	-13.7	-12.5	-8.8	0.0	-0.9	1.8	-17.9	-27.6	-4.3	-0.8	1.0

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 36

**Region: Industrialized**

	Jalisco						Estado de México					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-4.2	-5.0	-4.2	0.2	6.8	3.9	-0.8	-7.9	1.0	7.4	12.4	10.3
Construction** (annual % change)	-3.7	-19.0	-33.4	-5.6	2.7	48.7	-5.1	-7.0	-5.5	-8.1	14.6	19.4
Public works	14.2	43.5	10.0	110.8	49.0	159.7	36.2	9.8	-13.8	3.9	25.1	48.2
Private works	-7.3	-34.5	-42.7	-35.7	-21.2	3.1	-17.3	-15.2	-0.5	-14.4	6.8	0.5
Electricity distribution (annual % change)	1.2	1.0	-1.1	4.5	3.4	4.4	1.0	1.1	15.7	-3.4	-2.2	-9.1
Retail sales (annual % change)	2.9	-2.9	-3.8	0.5	0.4	-0.3	-0.5	6.5	8.5	9.4	-3.6	4.2
Wholesale sales (annual % change)	-1.5	-6.1	-4.0	-1.9	3.1	8.2	0.8	-4.7	-6.2	-3.7	-7.1	6.3
Total employment (annual % change)	2.7	-1.4	-2.0	-0.5	1.6	1.6	2.3	-3.0	-3.9	-2.1	1.0	1.0
Industry	0.1	-7.5	-8.6	-4.4	0.2	6.3	-1.3	-5.3	-5.7	-3.3	2.4	8.5
Services	4.1	2.3	2.0	1.6	2.2	1.9	5.6	-0.9	-2.4	-1.1	-0.2	2.9
Gasoline sales (annual % change)	1.2	-0.6	0.2	-13.0	-14.3	-14.2	5.3	0.5	0.9	1.7	2.6	-0.8
Total air traffic (annual % change)	-4.2	-8.3	3.7	-0.2	20.0	7.4	17.0	-38.5	-26.0	-13.3	1.8	-3.2
Federalized resources (annual % change)	15.2	-10.2	-15.3	2.1	6.4	13.3	18.9	-11.6	-15.1	6.3	16.6	5.6
Participations (Branch 28)	19.6	-16.1	0.2	17.0	24.8	1.6	24.1	-18.5	-1.5	18.0	39.8	3.3
Contributions (Branch 33)	5.3	-0.2	-2.7	-1.1	0.1	0.7	7.8	-0.7	-1.3	-0.4	2.1	2.3
FDI (annual accum. flows, US\$ millions)	-1.4	543.4	543.4	131.5	417.5	848.0	934.9	1396.4	820.4	777.0	1396.4	645.8
Remittances (annual % change)	-3.3	-11.6	-19.8	-9.0	4.8	8.8	-3.5	-18.2	-25.7	-12.9	-0.1	-1.1
	Nuevo León						Querétaro					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	2.2	-12.8	-3.5	11.2	13.6	11.7	-1.7	-11.3	-2.6	12.4	16.6	11.9
Construction** (annual % change)	0.2	-18.0	-21.8	-18.8	-1.2	0.2	13.5	-7.4	1.3	-6.8	-8.3	-6.7
Public works	13.2	-4.2	-13.4	-19.9	2.2	7.0	-12.3	21.2	61.6	27.0	44.4	-1.3
Private works	-4.2	-23.5	-25.7	-18.3	-3.0	-2.9	23.2	-15.1	-13.0	-16.5	-21.5	-8.8
Electricity distribution (annual % change)	1.5	1.0	12.5	6.8	8.7	5.9	0.9	1.4	61.5	50.5	-14.7	-10.6
Retail sales (annual % change)	-1.1	-3.1	-5.4	1.2	0.1	3.0	4.4	-3.1	-1.1	-2.0	2.5	6.2
Wholesale sales (annual % change)	1.2	-11.6	-2.4	7.1	21.3	34.1	-1.1	-9.1	-5.9	-9.5	-9.0	1.0
Total employment (annual % change)	4.0	-4.0	-5.4	-3.3	2.0	2.0	3.6	-2.9	-4.3	-0.7	4.9	4.9
Industry	1.0	-9.4	-10.6	-7.0	1.9	10.2	-0.2	-7.5	-8.1	-3.9	7.8	16.9
Services	6.9	0.6	-1.1	-0.4	2.0	3.9	7.2	1.3	-0.8	2.1	3.5	5.6
Gasoline sales (annual % change)	4.1	-2.0	-1.5	-0.6	1.4	-3.2	-0.2	1.9	4.1	1.5	0.5	0.7
Total air traffic (annual % change)	-5.5	-9.4	-10.1	-10.0	7.4	3.2	-14.9	-17.1	31.8	12.7	0.4	-5.8
Federalized resources (annual % change)	14.4	-12.4	-19.3	2.9	9.3	12.9	14.7	-10.9	-11.8	-0.7	8.0	6.7
Participations (Branch 28)	21.2	-17.1	-1.7	15.6	16.8	-1.1	18.8	-15.5	0.6	0.6	16.1	2.1
Contributions (Branch 33)	6.9	-0.5	-5.0	-1.7	0.2	0.8	4.4	-2.9	-6.4	-3.4	-0.2	-0.4
FDI (annual accum. flows, US\$ millions)	1255.2	1019.4	1019.4	112.7	5193.3	5127.1	158.3	433.4	433.4	31.6	102.4	192.2
Remittances (annual % change)	-7.7	-9.6	-14.0	-10.0	-1.8	-2.6	-6.8	-17.8	-28.2	-19.9	4.4	4.2

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 37

**Region: Industrialized**

	Sonora						Tamaulipas					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	1.2	-9.6	1.9	36.1	11.0	5.4	2.4	-16.6	-8.0	4.6	7.0	10.1
Construction** (annual % change)	-25.0	-5.7	5.5	-0.1	-5.6	13.2	0.3	-23.7	-25.5	-16.5	-2.9	7.6
Public works	-5.9	16.3	24.5	-20.1	-32.1	-11.8	-7.7	-22.8	-6.7	0.9	14.3	28.4
Private works	-34.2	-20.8	-11.0	22.3	23.0	40.5	9.4	-24.5	-39.7	-30.6	-15.6	-11.0
Electricity distribution (annual % change)	1.7	1.0	13.1	4.3	9.2	-1.6	2.2	1.1	24.7	24.1	2.3	4.8
Retail sales (annual % change)	7.3	1.0	-0.7	0.9	0.6	-0.1	3.2	-0.4	-3.1	-0.1	-2.4	-1.7
Wholesale sales (annual % change)	-0.8	-0.7	2.6	-10.4	-7.6	-7.2	2.6	-13.0	-9.4	-6.7	3.9	-0.1
Total employment (annual % change)	0.6	-5.1	-6.0	-2.1	2.7	2.7	0.9	-7.0	-8.0	-5.2	-0.4	-0.4
Industry	-4.6	-12.0	-12.7	-7.3	0.3	8.7	-1.4	-14.0	-16.1	-10.3	-2.2	7.3
Services	7.1	0.4	-0.3	0.5	1.9	3.3	3.7	0.9	1.5	0.3	1.6	0.4
Gasoline sales (annual % change)	5.5	-1.8	-0.6	1.9	-0.6	0.8	6.4	0.0	2.3	-2.4	-9.1	-10.6
Total air traffic (annual % change)	-7.1	10.8	19.9	-1.4	0.1	0.8	-0.9	-2.8	1.1	-8.6	9.4	-1.0
Federalized resources (annual % change)	13.5	-10.1	0.3	1.6	5.5	14.9	16.8	-10.7	-4.9	0.5	12.7	11.8
Participations (Branch 28)	20.5	-15.5	-1.7	13.1	15.5	-0.7	19.4	-15.4	0.3	19.1	28.8	-0.2
Contributions (Branch 33)	4.4	-4.3	10.1	-4.0	-1.3	7.1	4.1	-3.7	8.4	-5.0	2.3	1.8
FDI (annual accum. flows, US\$ millions)	1294.2	250.6	250.6	23.3	46.1	71.7	361.5	183.1	183.1	-20.5	47.5	114.7
Remittances (annual % change)	-5.2	-10.6	-7.2	-2.7	0.5	1.1	-1.9	-17.1	-19.7	-15.6	3.3	-3.2

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 38

**Region: Medium Development**

	Campeche						Colima					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-1.9	-3.9	-4.0	7.6	2.9	-2.7	3.1	-7.7	3.7	1.9	1.2	-3.8
Construction** (annual % change)	-7.9	22.3	18.5	19.3	-10.8	-21.4	-32.4	20.4	2.4	37.9	-0.6	61.1
Public works	-9.7	23.3	21.3	20.0	-11.6	-24.8	-43.0	54.7	42.5	126.7	9.3	94.0
Private works	21.3	10.5	-9.3	11.3	1.4	24.9	-21.7	-4.8	-18.0	-15.8	-14.6	29.7
Electricity distribution (annual % change)	2.9	0.8	-42.1	14.3	6.9	138.7	1.2	0.9	42.8	44.8	-1.2	6.1
Retail sales (annual % change)	23.8	-6.6	-8.9	-10.1	-6.4	-5.1	-0.1	-5.5	-6.7	4.9	8.2	4.0
Wholesale sales (annual % change)	-2.9	-0.9	5.6	4.2	-1.2	-1.2	-6.7	8.4	13.3	32.9	18.2	56.1
Total employment (annual % change)	3.9	2.7	3.2	-1.1	-1.8	-1.8	2.8	0.2	1.2	1.0	2.4	2.4
Industry	-0.3	4.2	7.8	-3.3	-5.7	-8.2	-0.6	-2.2	-1.1	3.0	7.8	15.7
Services	6.5	2.6	1.3	1.1	1.4	2.2	3.9	1.1	2.3	0.1	0.2	2.2
Gasoline sales (annual % change)	4.0	8.4	7.4	-9.4	3.1	3.9	19.9	-1.3	-16.2	55.6	61.5	65.8
Total air traffic (annual % change)	-3.7	-7.5	-4.3	-5.5	13.8	0.4	-15.9	-21.3	19.1	-17.7	0.7	-19.4
Federalized resources (annual % change)	28.8	-15.6	-11.7	3.3	12.2	6.2	13.2	-13.0	-20.0	1.1	1.5	2.4
Participations (Branch 28)	69.0	-22.6	-4.3	16.3	32.3	-1.9	13.3	-12.5	4.5	2.0	13.2	-0.4
Contributions (Branch 33)	2.3	-3.1	-4.6	-2.7	3.0	-1.7	5.9	-0.5	6.9	-0.8	4.5	-8.7
FDI (annual accum. flows, US\$ millions)	-17.1	23.8	23.8	1.0	0.8	9.2	2.3	21.8	21.8	0.0	1.2	2.5
Remittances (annual % change)	-8.1	-23.4	-26.9	-10.9	0.7	2.9	0.8	-12.4	-28.9	-9.7	7.2	9.3
	Durango						Guanajuato					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	4.1	-7.4	-5.3	-1.6	4.4	6.0	-4.3	0.6	20.9	30.8	48.3	16.7
Construction** (annual % change)	26.8	8.8	8.6	-7.9	7.2	-8.4	0.3	-5.8	-12.6	-9.6	-0.6	10.2
Public works	70.0	23.3	33.8	-24.6	16.8	0.6	4.9	9.9	12.4	12.3	18.2	-4.6
Private works	-9.1	-13.9	-31.4	46.7	-13.2	-29.5	-2.4	-16.0	-29.5	-23.2	-14.4	21.0
Electricity distribution (annual % change)	1.2	1.1	14.9	13.4	9.1	18.9	1.0	1.0	22.2	-2.4	3.1	7.9
Retail sales (annual % change)	5.0	-3.5	-2.5	-2.2	2.2	1.4	1.6	-7.2	-10.2	3.5	4.9	5.7
Wholesale sales (annual % change)	0.3	2.8	0.3	5.7	9.1	15.2	-1.2	-2.9	-4.9	-4.3	4.0	4.3
Total employment (annual % change)	1.5	-2.1	-2.9	1.0	3.4	3.4	2.0	-1.3	-1.7	0.4	3.8	3.8
Industry	-1.2	-5.7	-5.4	0.5	9.7	7.9	-1.9	-3.2	-2.9	-0.1	5.2	9.1
Services	4.5	0.9	-1.0	1.1	-2.3	-0.4	5.4	0.5	-0.2	0.7	2.6	4.3
Gasoline sales (annual % change)	2.0	1.8	6.8	-0.7	2.2	1.4	4.4	1.4	1.5	2.1	2.5	1.3
Total air traffic (annual % change)	4.2	-12.6	-5.1	0.4	14.1	17.2	-17.1	-18.9	5.2	3.9	8.0	-6.2
Federalized resources (annual % change)	13.5	-7.7	-3.5	-4.5	-3.3	4.7	18.1	-8.1	-5.2	4.2	10.6	7.3
Participations (Branch 28)	20.7	-15.6	2.6	18.2	22.8	1.1	24.7	-18.4	-1.7	20.6	33.0	2.6
Contributions (Branch 33)	5.9	-0.9	7.9	-3.6	0.4	2.3	7.7	2.7	-3.3	-0.7	0.1	0.5
FDI (annual accum. flows, US\$ millions)	578.4	74.3	74.3	4.4	25.6	158.8	162.2	66.8	66.8	-91.1	-87.0	-95.2
Remittances (annual % change)	0.0	-15.4	-19.1	-13.3	4.7	4.7	-1.2	-16.3	-23.7	-13.2	5.3	6.0

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 39

**Region: Medium Development**

	Hidalgo						Michoacán					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-0.3	-5.6	-0.1	-0.5	0.9	2.3	1.5	-19.8	-1.9	0.7	4.6	12.4
Construction** (annual % change)	90.9	-45.4	-55.9	-62.8	-26.9	20.8	5.5	-24.8	-16.6	7.8	42.2	35.5
Public works	50.9	-10.4	-30.4	-41.8	-33.0	-5.1	8.9	30.4	62.0	79.5	100.6	41.0
Private works	114.8	-60.2	-68.5	-73.1	-22.8	50.6	4.0	-50.6	-52.3	-36.3	8.3	29.6
Electricity distribution (annual % change)	0.8	0.9	-2.9	-6.4	1.2	10.6	1.4	0.9	-20.0	-4.5	12.4	11.0
Retail sales (annual % change)	nd	nd	nd	nd	nd	nd	5.5	7.2	5.1	9.0	0.5	-1.9
Wholesale sales (annual % change)	nd	nd	nd	nd	nd	nd	0.4	-3.5	-0.8	-3.3	-3.2	-5.6
Total employment (annual % change)	4.5	-3.9	-5.1	-4.8	-1.5	-1.5	3.9	2.2	1.6	2.0	3.0	3.0
Industry	2.3	-10.3	-11.7	-12.0	-6.3	-1.8	2.5	-3.4	-5.7	-0.4	1.7	5.0
Services	7.0	3.0	1.9	2.8	3.4	4.7	3.9	4.2	4.4	2.2	2.7	3.6
Gasoline sales (annual % change)	10.2	2.8	4.2	6.0	9.1	5.1	5.5	2.8	4.1	3.3	4.0	1.3
Total air traffic (annual % change)	na	na	na	na	na	na	-20.5	-26.7	18.7	-3.0	5.3	7.6
Federalized resources (annual % change)	15.8	-14.6	-12.7	-2.6	4.1	8.9	14.4	-9.5	-10.7	9.6	5.9	1.6
Participations (Branch 28)	23.8	-15.7	-0.6	20.3	18.4	0.1	23.8	-16.7	0.4	24.0	28.1	4.2
Contributions (Branch 33)	5.6	-4.0	1.2	-4.2	0.4	0.4	5.0	-1.0	6.7	8.0	-4.3	-3.5
FDI (annual accum. flows, US\$ millions)	40.2	0.2	0.2	0.1	0.1	0.5	31.8	24.8	24.8	-3.3	-3.6	-6.4
Remittances (annual % change)	-13.5	-21.6	-29.8	-18.7	-1.5	0.1	2.7	-13.2	-21.2	-11.7	4.9	4.0
	Morelos						Nayarit					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-9.4	-0.7	3.8	6.7	2.8	2.3	-4.4	-3.9	-5.0	-3.2	16.7	1.4
Construction** (annual % change)	5.1	59.4	70.8	134.8	64.3	26.8	26.2	5.1	12.3	-40.9	-57.1	-37.9
Public works	33.7	375.9	689.9	860.7	200.4	128.8	95.5	13.7	23.9	-44.2	-63.1	-49.3
Private works	2.9	28.8	29.7	66.9	41.5	6.7	-51.8	-34.3	-37.8	-16.7	0.1	74.1
Electricity distribution (annual % change)	1.2	1.1	10.4	-0.1	-2.7	-2.3	3.4	0.6	-76.8	-48.2	-14.8	29.1
Retail sales (annual % change)	3.9	-1.1	-0.6	-2.6	1.7	3.7	nd	nd	nd	nd	nd	nd
Wholesale sales (annual % change)	-12.8	-25.8	-30.4	-10.0	-8.1	-7.6	nd	nd	nd	nd	nd	nd
Total employment (annual % change)	1.1	-0.9	-1.0	-0.9	1.3	1.3	4.8	-1.9	-3.0	0.4	3.4	3.4
Industry	-2.5	-4.4	-5.8	-3.6	1.2	9.6	4.8	-18.0	-22.2	-12.9	-1.0	1.8
Services	2.8	0.7	1.1	0.1	1.4	1.7	3.8	6.4	7.7	6.0	4.5	6.0
Gasoline sales (annual % change)	4.0	5.0	3.7	3.5	2.9	1.2	2.9	8.3	1.5	2.4	1.2	-2.5
Total air traffic (annual % change)	na	na	na	na	na	na	-9.2	-23.3	-3.7	4.5	7.2	-1.5
Federalized resources (annual % change)	12.8	-9.8	-7.0	6.0	7.4	10.5	13.4	-6.5	-5.7	1.6	1.2	5.0
Participations (Branch 28)	19.8	-16.1	1.6	20.9	23.7	0.7	18.6	-9.6	6.6	15.2	16.2	1.8
Contributions (Branch 33)	4.9	0.5	0.9	-2.6	-0.2	-0.5	4.2	-0.4	-7.3	-1.9	2.7	-0.6
FDI (annual accum. flows, US\$ millions)	133.8	-57.7	-57.7	-21.8	-22.5	-33.7	23.6	18.6	18.6	0.3	1.1	2.9
Remittances (annual % change)	1.0	-12.8	-21.5	-7.1	5.3	3.4	1.8	-9.4	-17.7	-12.0	2.0	-0.3

\* Value of finished work, at constant prices (deflated with the construction prices index)

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



Chart 40

**Region: Medium Development**

	Puebla						San Luis Potosí					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	3.9	-18.0	-4.0	17.8	25.3	29.4	2.2	-11.7	-5.4	7.8	11.8	29.8
Construction** (annual % change)	8.0	-31.2	-34.0	-27.0	-2.0	-8.3	11.8	-1.2	-2.2	14.8	43.3	11.8
Public works	1.5	-12.0	-24.0	-15.5	3.2	-7.4	33.1	6.6	19.9	109.1	127.5	0.3
Private works	12.6	-43.4	-40.2	-36.1	-8.1	-9.3	1.4	-6.2	-15.0	-14.6	14.1	23.2
Electricity distribution (annual % change)	1.4	1.0	0.0	13.9	34.5	45.5	3.5	1.0	1.7	11.0	12.9	6.6
Retail sales (annual % change)	0.8	-3.5	-1.6	1.6	4.0	6.4	5.0	-5.2	-6.3	-7.9	-3.8	-2.0
Wholesale sales (annual % change)	1.2	-5.7	-6.2	-3.9	-3.3	0.0	3.9	-15.4	-13.7	-11.8	-3.3	3.5
Total employment (annual % change)	1.9	-1.8	-2.3	-0.7	2.5	2.5	1.8	-2.6	-3.8	-2.0	0.4	0.4
Industry	0.6	-6.8	-8.1	-5.4	0.4	5.1	1.5	-8.1	-9.6	-7.8	-1.3	5.3
Services	3.0	2.5	2.8	3.3	4.2	5.5	1.9	2.3	1.5	2.9	1.8	1.5
Gasoline sales (annual % change)	2.5	-2.2	-0.3	2.1	6.0	8.3	3.5	0.9	3.1	3.8	1.8	-2.1
Total air traffic (annual % change)	8.0	-31.6	-8.8	9.8	18.5	3.7	-4.3	-15.5	-5.9	4.4	25.4	-1.0
Federalized resources (annual % change)	19.5	-12.6	-12.1	13.7	8.2	3.9	13.4	-9.9	-14.4	7.2	4.6	-0.6
Participations (Branch 28)	25.7	-18.3	1.7	28.8	29.5	7.8	20.7	-16.6	-0.8	23.3	26.4	1.5
Contributions (Branch 33)	8.4	0.3	-4.5	3.9	-0.4	-1.0	5.3	-4.0	-7.2	-2.0	-0.6	0.3
FDI (annual accum. flows, US\$ millions)	205.9	77.2	77.2	64.6	90.0	78.8	84.0	-57.0	-57.0	35.4	36.7	-2.9
Remittances (annual % change)	0.8	-16.8	-27.4	-10.6	3.7	2.1	-0.3	-16.8	-25.4	-14.3	2.2	3.6
	Sinaloa						Tabasco					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	0.2	-2.6	-1.7	-3.4	-0.9	-0.6	-8.4	-7.5	-20.5	-2.9	-1.6	1.7
Construction** (annual % change)	9.4	0.1	2.6	-4.1	9.4	0.1	32.2	11.1	10.4	9.1	53.5	-16.1
Public works	0.8	30.3	11.8	49.1	10.5	-7.1	36.4	20.5	29.4	17.5	69.4	-9.9
Private works	14.9	-17.3	-3.1	-28.9	8.2	6.9	19.4	-21.3	-40.4	-23.4	-6.5	-49.2
Electricity distribution (annual % change)	1.4	1.0	7.6	12.0	3.3	9.3	1.8	1.1	5.9	7.2	-2.4	-1.4
Retail sales (annual % change)	4.9	6.2	6.5	4.3	1.6	-0.5	0.2	-9.1	-10.5	-2.5	-0.8	-2.0
Wholesale sales (annual % change)	3.5	-10.6	-13.7	-14.7	0.7	-8.1	-4.4	-3.2	-3.8	-3.5	-8.8	-12.2
Total employment (annual % change)	6.1	-0.9	-1.2	-0.9	3.2	3.2	6.0	1.8	1.3	1.7	2.2	2.2
Industry	2.9	-7.5	-6.8	-3.2	1.2	6.0	8.8	0.5	-0.1	-0.8	-2.5	-0.8
Services	0.3	1.5	2.3	-0.6	2.8	6.8	4.8	2.6	2.1	2.6	5.1	6.5
Gasoline sales (annual % change)	7.9	0.2	0.4	0.8	-0.6	-1.7	9.0	2.3	4.1	-0.8	3.0	-1.6
Total air traffic (annual % change)	-13.1	2.5	36.5	12.7	5.4	-2.4	1.2	-15.9	-7.5	-1.5	10.0	9.7
Federalized resources (annual % change)	17.2	-12.2	-18.3	6.9	7.6	8.8	15.9	-9.9	-13.9	-0.1	13.0	2.8
Participations (Branch 28)	21.7	-14.3	4.3	18.0	24.8	1.7	18.0	-10.6	6.9	4.4	15.7	-0.9
Contributions (Branch 33)	6.1	1.3	-2.4	-0.7	1.4	-2.0	6.0	0.3	-4.3	-2.8	2.5	-1.1
FDI (annual accum. flows, US\$ millions)	44.6	13.8	13.8	4.1	4.1	4.1	35.2	0.2	0.2	0.0	0.0	0.0
Remittances (annual % change)	-5.3	-6.4	-8.3	-5.4	5.9	3.7	-13.9	-26.7	-28.7	-15.2	0.7	2.1

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 41

**Region: Medium Development**

	Tlaxcala						Veracruz					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-5.4	-10.3	-2.9	4.2	9.4	9.1	3.7	-7.8	-5.6	-4.4	3.3	2.8
Construction** (annual % change)	-13.7	-17.9	-23.2	-54.1	-22.0	-5.5	-18.1	8.6	5.2	14.8	13.9	1.8
Public works	95.7	15.2	-10.2	-52.3	-45.2	-19.4	-34.2	34.0	33.4	34.4	12.9	-8.1
Private works	-45.2	-51.9	-46.2	-60.0	13.2	32.4	28.3	-29.2	-32.2	-17.4	16.5	36.6
Electricity distribution (annual % change)	1.2	1.0	4.5	4.0	5.9	1.8	1.0	1.1	34.0	33.4	6.6	4.0
Retail sales (annual % change)	nd	nd	nd	nd	nd	nd	-0.6	-1.8	-0.1	-0.2	1.8	3.3
Wholesale sales (annual % change)	nd	nd	nd	nd	nd	nd	-2.8	-2.9	-2.0	-4.8	-2.7	-7.2
Total employment (annual % change)	-1.8	-7.4	-8.2	-4.9	0.1	0.1	2.0	1.9	1.3	1.0	2.3	2.3
Industry	-5.2	-13.1	-14.6	-9.7	-3.2	7.5	1.6	3.0	1.7	2.5	4.8	0.0
Services	5.2	3.2	3.7	3.7	5.8	5.4	2.3	1.4	1.2	0.3	1.2	4.0
Gasoline sales (annual % change)	na	na	na	na	na	na	6.4	4.7	5.8	74.9	32.2	-0.8
Total air traffic (annual % change)	na	na	na	na	na	na	-3.1	-6.2	8.8	0.6	23.5	-9.8
Federalized resources (annual % change)	18.6	-8.7	-5.0	4.8	5.5	4.8	15.8	-10.9	-13.1	5.8	10.9	5.4
Participations (Branch 28)	20.8	-9.7	6.5	21.2	22.5	2.3	22.7	-16.6	0.2	20.9	31.4	3.1
Contributions (Branch 33)	7.1	-1.0	-8.4	1.4	1.3	-2.8	5.6	0.1	-4.6	-1.3	-1.5	1.2
FDI (annual accum. flows, US\$ millions)	10.4	5.1	5.1	-1.2	-2.9	-3.5	14.2	58.8	58.8	17.8	28.9	30.6
Remittances (annual % change)	2.0	-14.1	-20.8	-14.2	4.2	3.1	-6.7	-20.1	-26.5	-17.5	0.8	-0.6
	Yucatán						Zacatecas					
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10
Manufacturing production (annual % change)	-2.9	1.3	15.6	2.9	12.0	16.3	6.5	0.9	2.0	13.5	7.2	14.9
Construction** (annual % change)	-26.1	3.9	4.3	-3.6	10.3	-29.3	31.1	16.6	7.3	-14.4	2.3	-22.6
Public works	-18.3	43.3	54.4	42.5	50.7	-31.3	63.3	7.8	-1.9	-37.5	-19.2	-23.0
Private works	-32.7	-37.1	-43.1	-65.2	-27.3	-24.6	-2.3	31.9	28.6	33.5	37.6	-22.1
Electricity distribution (annual % change)	1.3	1.1	12.9	6.3	0.2	5.1	1.2	1.4	41.2	96.7	70.4	93.8
Retail sales (annual % change)	7.0	-0.5	1.8	2.1	2.2	4.1	4.4	-1.7	0.0	-2.7	3.0	0.0
Wholesale sales (annual % change)	4.2	-3.2	-4.5	-6.7	-3.4	-1.4	0.6	-11.0	-17.8	-12.7	-23.8	-8.0
Total employment (annual % change)	1.4	-1.4	-1.6	-1.0	1.7	1.7	7.2	2.6	1.4	2.1	4.9	4.9
Industry	-4.2	-10.7	-11.1	-8.3	-2.0	5.1	11.9	3.0	2.6	3.8	6.9	10.9
Services	4.9	3.8	3.8	2.8	3.5	3.6	4.9	2.7	1.0	1.3	3.7	4.3
Gasoline sales (annual % change)	7.5	-1.7	1.9	4.4	5.5	1.4	-7.0	2.4	37.8	15.2	8.8	-6.6
Total air traffic (annual % change)	-4.2	-9.7	14.1	9.2	23.5	9.1	-6.6	-9.6	-9.1	2.7	34.1	6.9
Federalized resources (annual % change)	18.3	-9.7	-15.6	-4.3	6.6	3.1	15.2	-5.5	-6.6	-4.4	15.6	3.4
Participations (Branch 28)	20.1	-13.3	2.3	6.6	17.5	1.0	21.5	-10.7	7.6	19.8	23.1	1.4
Contributions (Branch 33)	6.1	-0.5	-5.7	-2.4	0.6	-0.8	5.6	-0.1	10.4	-0.5	33.2	-2.3
FDI (annual accum. flows, US\$ millions)	25.9	-3.9	-3.9	-0.8	-1.2	-0.2	1490.2	35.8	35.8	3.3	-6.2	-3.2
Remittances (annual % change)	-3.3	-17.7	-20.1	-2.5	2.1	5.8	-10.5	-16.0	-24.0	-11.2	2.8	6.7

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

Chart 42

**Region: High Marginalization**

	Chiapas						Guerrero						
	2008	2009	4T09	1T10	2T10	3T10	2008	2009	4T09	1T10	2T10	3T10	
Manufacturing production (annual % change)	-5.5	11.3	10.6	10.3	1.2	-2.8	-4.8	-5.8	2.8	2.5	1.5	3.2	
Construction** (annual % change)	-1.9	-15.7	-18.4	-24.9	24.8	36.0	18.0	-25.5	-29.3	-30.3	-10.5	12.5	
Public works	5.8	-24.6	-31.2	-23.8	12.2	84.3	-30.9	26.4	13.5	-15.9	-41.9	20.6	
Private works	-12.9	-1.0	6.1	-26.6	44.6	-3.6	52.3	-42.0	-43.7	-37.5	11.4	6.5	
Electricity distribution (annual % change)	2.1	0.7	-34.6	-50.6	-50.6	-32.6	0.7	1.3	18.6	17.8	35.7	33.7	
Retail sales (annual % change)	2.2	-1.5	-0.6	-0.1	0.7	1.1	-0.2	-3.1	-0.5	-6.3	-4.4	-3.5	
Wholesale sales (annual % change)	2.0	-8.4	-6.0	-10.1	-6.8	-7.9	-13.6	-19.2	-15.9	-7.9	-5.3	2.0	
Total employment (annual % change)	2.9	4.7	5.4	5.1	6.5	6.5	2.5	-1.6	-2.8	-1.9	-0.9	-0.9	
Industry	1.8	5.0	1.5	7.1	7.5	9.6	0.1	-10.7	-12.1	-12.5	-11.9	-12.5	
Services	3.1	4.9	6.8	5.0	6.9	6.0	3.6	2.3	1.3	2.3	3.1	3.7	
Gasoline sales (annual % change)	9.7	2.3	11.2	16.4	16.6	5.9	7.5	1.8	3.1	2.1	1.4	-2.3	
Total air traffic (annual % change)	3.7	-7.3	-10.4	-22.2	-1.8	7.3	9.7	-12.2	1.8	8.7	8.6	8.6	
Federalized resources (annual % change)	15.8	-7.2	-2.6	2.9	20.8	10.2	13.8	-10.1	-4.0	4.9	8.3	8.5	
Participations (Branch 28)	22.0	-14.7	1.0	12.7	25.2	1.8	28.0	-17.3	0.5	28.3	28.2	3.7	
Contributions (Branch 33)	5.9	1.2	-6.0	-2.2	0.9	-0.8	5.2	-2.6	0.7	-0.7	-0.6	-1.8	
FDI (annual accum. flows, US\$ millions)	0.5	0.4	0.4	0.1	0.5	0.5	1.2	12.7	12.7	21.9	-2.7	-21.9	
Remittances (annual % change)	-11.7	-24.3	-25.1	-19.3	-0.6	-2.1	-1.2	-18.0	-26.4	-12.8	8.7	2.8	
	Oaxaca												
	2008	2009	4T09	1T10	2T10	3T10							
Manufacturing production (annual % change)	1.8	-6.5	-6.7	-15.6	-5.9	0.3							
Construction** (annual % change)	-20.1	29.6	43.8	7.6	-50.2	-19.6							
Public works	-9.5	49.0	50.2	4.5	-54.3	-48.2							
Private works	-36.7	-14.0	30.8	20.6	-23.4	98.2							
Electricity distribution (annual % change)	1.2	1.1	2.2	30.8	15.7	16.1							
Retail sales (annual % change)	-1.1	-11.1	-9.6	-9.1	11.3	17.1							
Wholesale sales (annual % change)	0.9	-11.7	-13.3	-16.7	-14.6	-11.6							
Total employment (annual % change)	2.8	2.7	1.9	1.9	0.3	0.3							
Industry	1.0	0.3	-2.3	-3.8	-6.5	-4.4							
Services	3.5	3.4	3.2	3.7	2.6	2.4							
Gasoline sales (annual % change)	5.6	4.6	6.5	4.7	5.2	-0.9							
Total air traffic (annual % change)	3.3	-12.9	-0.5	1.0	18.9	11.3							
Federalized resources (annual % change)	16.8	-9.5	-3.1	9.3	15.8	5.0							
Participations (Branch 28)	26.4	-16.5	0.8	25.4	28.6	1.8							
Contributions (Branch 33)	5.2	-2.3	2.6	6.3	11.5	-2.4							
FDI (annual accum. flows, US\$ millions)	15.6	22.2	22.2	0.4	0.8	1.0							
Remittances (annual % change)	2.5	-17.4	-29.9	-13.2	5.3	3.4							

\* Value of finished work, at constant prices (deflated with the construction prices index)

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

## 5. Special Topics Included in Previous Issues

### June 2010

After the “storm”, what is the sectorial outlook?

Sectorial competitiveness of the Mexican economy: an evaluation of Mexico’s competitiveness against that of China

Evolution and regional outlook of economic activity

Implications of the new methodology for measuring states’ GDP

Regional competitiveness of the Mexican economy: how much have we advanced and what do we still have to do?

Some indicators in countries with higher growth rates than Mexico

The pending task: strengthen growth; implement second generation structural reforms

### July 2009

Which States will Be Most Affected by the Recession?

The Sectors Most Affected by the Recession in the U.S.

The Motor Vehicle Industry Situation in Mexico

The Impact of Swine Flu on Tourism

Job Losses in 2009: how many and where?

### July 2009 Special Infrastructure

Infrastructure, in Mexico and in the World

Key Issues in Financing

### Mayo 2008

The oil in the world

The oil in Mexico

Natural Gas: Are we sure the supply?

More an less exposed to U.S.

U.S. slowdown: vulnerable sector

The results of state GDP

### November 2007

Regional grouping: how and why

Courses of the global automotive and effects in Mexico

Foreign Direct Investment: living on past glories

### November 2006

A look at the count of population and housing

### January 2006

Regional economic distribution through census

### April 2005

Are remittances driving factor for state economies?

### June 2004

Mexico-US emigration: features

Available in [www.bbvarsearch.com](http://www.bbvarsearch.com) in Spanish and English

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

**Consejo Editorial**

**Adolfo Albo**      **Jorge Sicilia**      **Julián Cubero**      **Fernando González**

**Han elaborado esta publicación**

*Editor*

**Adolfo Albo**  
a.albo@bbva.bancomer.com

**Fernando González**  
f.gonzalez8@bbva.bancomer.com

**Alma Martínez**  
ag.martinez2@bbva.bancomer.com

**BBVA Research**

*Economista Jefe del Grupo*  
**José Luis Escrivá**

*Economistas Jefe y Estrategas Jefe de las Unidades:*

*Escenarios Económicos y Financieros y Regulación:*

**Mayte Ledo**  
teresa.ledo@grupobbva.com  
Escenarios Financieros  
**Sonsoles Castillo**  
s.castillo@grupobbva.com  
Sistemas Financieros  
**Ana Rubio**  
arubiog@grupobbva.com  
Escenarios Económicos  
**Juan Ruiz**  
juan.ruiz@grupobbva.com  
Regulación y Políticas Públicas  
**María Abascal**  
maria.abascal@grupobbva.com

*España y Europa:*

**Rafael Doménech**  
r.domenech@grupobbva.com  
España  
**Miguel Cardoso**  
miguel.cardoso@grupobbva.com  
Europa  
**Miguel Jiménez**  
mjimenezg@grupobbva.com

*Economías Emergentes:*

**Alicia García-Herrero**  
alicia.garcia-herrero@bbva.com.hk  
Análisis Transversal Economías Emergentes  
**Daniel Navia**  
daniel.navia@grupobbva.com  
Pensiones  
**David Tuesta**  
david.tuesta@grupobbva.com  
Asia  
**Stephen Schwartz**  
stephen.schwartz@bbva.com.hk  
Sudamérica  
**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  
Perú  
**Hugo Perea**  
hperea@grupobbva.com.pe  
Venezuela  
**Oswaldo López**  
oswaldo\_lopez@provincial.com

*Market & Client Strategy:*

**Antonio Pulido**  
ant.pulido@grupobbva.com  
Equity y Crédito  
**Ana Munera**  
ana.munera@grupobbva.com  
Tipos de Interés, Divisas y Materias Primas  
**Luis Enrique Rodríguez**  
luisen.rodriguez@grupobbva.com  
Asset Management  
**Henrik Lumholdt**  
henrik.lumholdt@grupobbva.com

*Estados Unidos y México:*

**Jorge Sicilia**  
j.sicilia@bbva.bancomer.com  
Estados Unidos  
**Nathaniel Karp**  
nathaniel.karp@bbvacompass.com  
México  
**Adolfo Albo**  
a.albo@bbva.bancomer.com  
Análisis Macro México  
**Julián Cubero**  
juan.cubero@bbva.bancomer.com

**Interesados dirigirse a:**

**BBVA Research Mexico**  
Avda. Universidad 1200  
Colonia Xoco  
C.P. 03339 México D.F.  
Teléfono: + 52 55 56216620  
E-mail: researchmexico@bbva.bancomer.com

**Otras publicaciones:**

