Regional Economic Report
April – June 2025
Summary

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During the second quarter of 2025, GDP grew at a higher rate than in the previous quarter. However, slack conditions persisted, reflecting the sustained weakness in economic activity over several quarters. From a sectoral perspective, quarterly economic growth was driven by a moderate recovery in tertiary activities, following the sluggish performance of the previous two quarters. Industrial activity expanded compared to the first quarter, although it remained at relatively low levels. In contrast, primary activities declined after having rebounded during the first quarter.

At the regional level, economic activity is estimated to have likely grown in the Northern, North-Central, and Central regions during the second quarter of 2025, while it is estimated to have continued showing weakness in the Southern region.[1] Economic expansion in the north is estimated to have been driven by growth in the industrial sector and certain tertiary activities, such as commercial activity. In the North-Central region, economic growth likely reflected the expansion of both construction and trade. In the center, economic activity was driven by the favorable performance of manufacturing activity, growth in certain tertiary activities, such as trade and tourism, and a significant expansion in agricultural and livestock production. The observed weakness in the south was likely attributed to a contraction in primary and secondary sectors, which was offset by the evolution of certain tertiary segments, such as retail sales.

As part of the complementary analysis of economic activity, Box 1 presents labor productivity indices disaggregated by region and sector for the period 2006-2025. It shows that, during said period, labor productivity registered low average growth across all regions, although a slightly higher rate in the North-Central region. The tertiary sector was the main driver of said growth, while in the Northern and North-Central regions the manufacturing sector also contributed notably. In contrast, the mining sector registered the most notable negative impact in the Southern region, partially offset by the recent strong performance of the construction sector. In the current context of trade tensions, Box 2 shows that, based on recent perceptions among Mexican businesses, the process of nearshoring to Mexico has lost momentum, although it has not come to a complete halt.

Annual headline inflation increased across all regions between the first and second quarters of 2025. This behavior was mainly driven by the increase in core inflation across all regions, particularly in its merchandise inflation component, while services inflation remained persistent. The rise in headline inflation in all regions between said quarters was also supported, albeit to a lesser extent, by the increase in their respective non-core inflation rates, associated with a higher inflation of agricultural and livestock products. So far in the third quarter of 2025, headline inflation decreased in all regions compared to the previous quarter. In August, it registered 3.51, 3.74, 3.45, and 3.70% in the Northern, North-Central, Central, and Southern regions, respectively. The decline in headline inflation across all regions was driven by a reduction in non-core inflation, mainly

[1] The Northern region includes Baja California, Chihuahua, Coahuila, Nuevo León, Sonora and Tamaulipas; the North-Central region considers Aguascalientes, Baja California Sur, Colima, Durango, Jalisco, Michoacán, Nayarit, San Luis Potosí, Sinaloa, and Zacatecas; the Central region includes Ciudad de México, Estado de México, Guanajuato, Hidalgo, Morelos, Puebla, Querétaro, and Tlaxcala; and the Southern region includes Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz, and Yucatán.

reflecting the significant decline in the annual variation in fruit and vegetable prices. During the same month, core inflation stood at 4.05, 4.43, 4.08, and 4.51%, respectively.

To complement the analysis of recent inflation behavior, Box 3 explores the relationship between businesses' short-term expectations and the following two factors: their exchange rate forecasts and their perception of uncertainty. The results suggest that businesses anticipating a depreciation of the Mexican peso tend to expect higher levels of inflation. In contrast, the uncertainty perceived by businesses in recent months does not appear to have significantly influenced their short-term inflation expectations.

The diffusion indices of business executives' expectations regarding demand for products they offer, for personnel hired, and for investment in fixed assets for the next twelve months remained in the expansion zone in all regions. During the reported quarter, these indices increased overall, after having decreased in the previous quarter, although they reached levels lower than those generally observed during 2024.

Expectations for the next twelve months indicate that all regions registered a generalized decrease in the share of business executives who anticipate higher increases in sales prices, wage costs, and input costs. Likewise, in all regions, the vast majority of executives continued anticipating that these variables would grow at rates equal to or lower than those observed during the previous twelve months.

The interviewed business executives identified the following risks that could affect regional economic growth over the next twelve months. On the downside: i) that public safety indicators deteriorate; ii) that uncertainty related to US trade policy intensifies; and iii) that public investment in infrastructure at both state and federal levels is lower than expected. On the upside: i) that public spending, particularly on infrastructure projects, is higher than expected; ii) that the uncertainty associated with the implementation of various tariff measures by the US government dissipates; and iii) that more favorable conditions are observed both domestically and internationally, to encourage private investment.

Some consulted business executives have expressed concern about the recent changes in US policies, particularly those related to the US immigration policy and its possible implications for regional economies in Mexico. In this regard, Box 4 analyzes Mexican migration flows to the United States and documents significant shifts in regional patterns between the five-year periods 2013–2018 and 2018–2023. All regions exhibit a higher flow of individuals migrating to the United States, with the Southern region showing the greatest increase. Thus, the percentage of migrants from the Southern region with respect to the national total increased between the two five-year periods analyzed, while that of the North-Central region decreased.

Regional economies continue facing a complex and uncertain environment that poses significant challenges to growth. Looking ahead, their performance is expected to remain weak. On the external front, uncertainty persists regarding the policies that Mexico's main trading partner could implement. This could particularly affect states in the Northern and Central regions, given their high level of integration with the international market. Similarly, states that have historically been migrant-sending and that rely heavily on remittances as a relatively significant share of their economies, which is the case of certain states in the North-Central and Southern regions, could also be affected. On the domestic front, public insecurity remains a challenge, with business executives reporting disruptions to their business operations in different regions of the country. In addition, there is the threat of extreme weather events, which could have a differentiated impact on productive sectors and states. The interviewed business contacts also identify the risk of lesser public funding channeled to the regions. Nevertheless, such consolidation would help preserve solid macroeconomic fundamentals, strengthening the regional economies capacity to withstand global risks and external shocks.

Given these challenges, it is essential to continue strengthening domestic sources of growth, creating favorable conditions for investment, and seizing the opportunities offered by the current juncture. In this regard, Mexican trade under the USMCA framework has received preferential treatment, presenting an

opportunity to strengthen North America's value chains, expand regional participation in them, and boost their export sectors.

Thus, continuously promoting infrastructure development is a priority, given its key role in improving regional connectivity and competitiveness. It is also necessary to foster human capital development and the adoption of new technologies in order to strengthen regional productive capacity and provide greater value added to the North American production platform. Since this Report was first released, interviewed business executives have emphasized, among other factors, the importance of strengthening public safety and the rule of law as essential elements to attract investment and promote economic development. It is also key to advance in the implementation of climate change mitigation and adaptation policies in the country's most vulnerable areas and sectors. These actions would not only help the regions tackle the current challenges, but would also contribute to more inclusive and sustainable long-term growth, thereby promoting economic and social prosperity of the Mexican population.