

Regional Economic Report
January – March 2025

BANCO DE MÉXICO®

Outline

I. Regional Economic Report

II. Results January – March 2025

A. Economic activity

B. Inflation

C. Economic outlook

(based on data collected between March 26 and April 24, 2025)

III. Final remarks

Regional Economic Report

- The Regional Economic Report is a quarterly publication that includes Banco de México's indicators and analysis on the trends in economic activity, inflation and business agents' perspectives in Mexico's regions.

- The information presented herein is taken into account by Banco de México's Governing Board as part of the information used to evaluate the economic situation and the forecast for the national economy.

- The economic performance and inflation in the regions during Q1-2025 and the prospects of business executives surveyed between March 26 and April 24, 2025 on regional economic activity and prices over the following twelve months are analyzed herein.

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I. Regional Economic Report

II. **Results January – March 2025**

   A. **Economic activity**

   B. Inflation

   C. Economic outlook

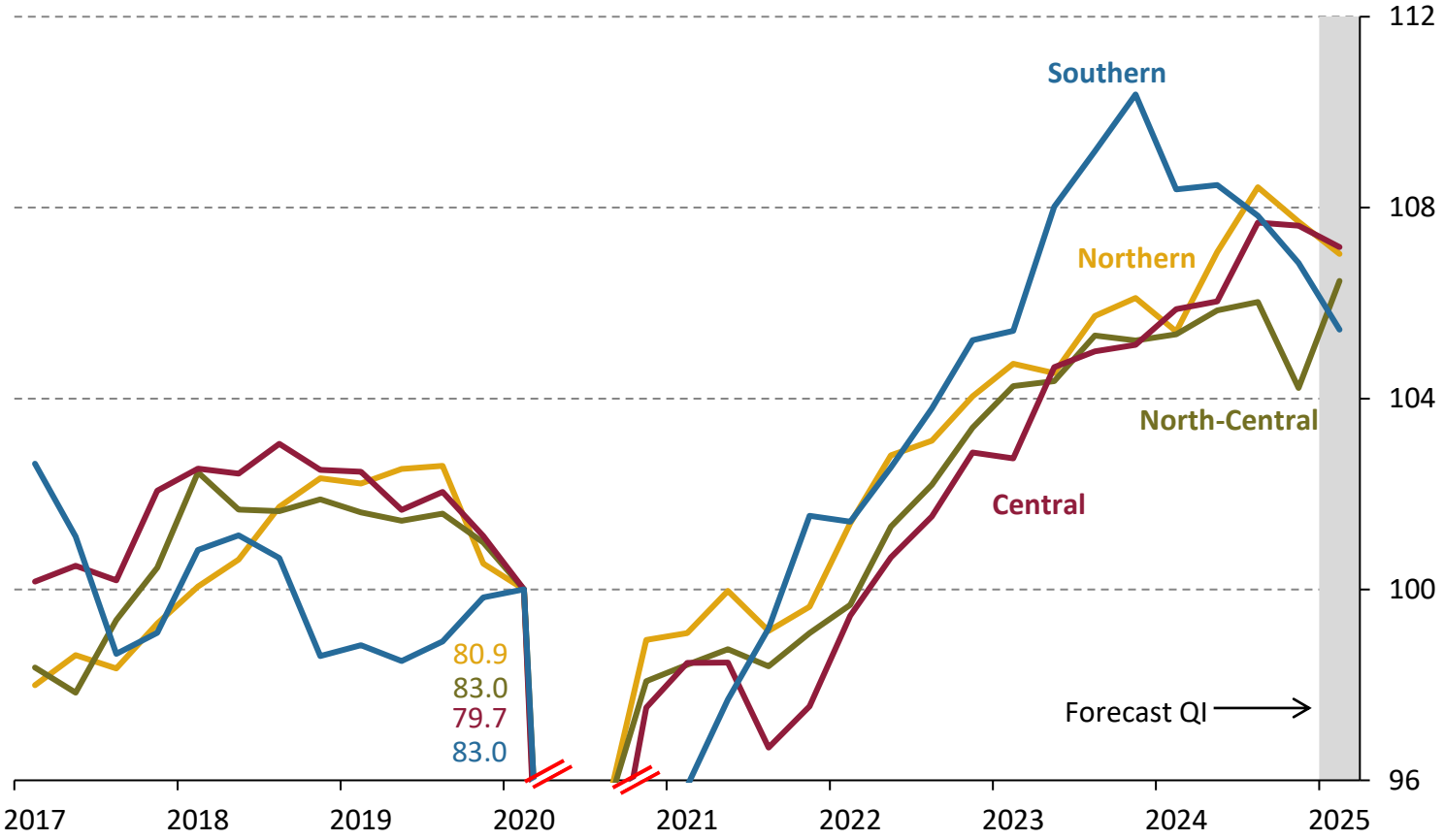
      (based on data collected between March 26 and April 24, 2025)

III. Final remarks

Economic activity is estimated to have continued contracting in the Northern, Central, and, more notably, the Southern regions during Q1-2025. Economic activity in the North-Central region is expected to have registered growth, following the fall observed in the previous quarter.

Quarterly Indicator of Regional Economic Activity

Index Q1 2020=100, s. a.



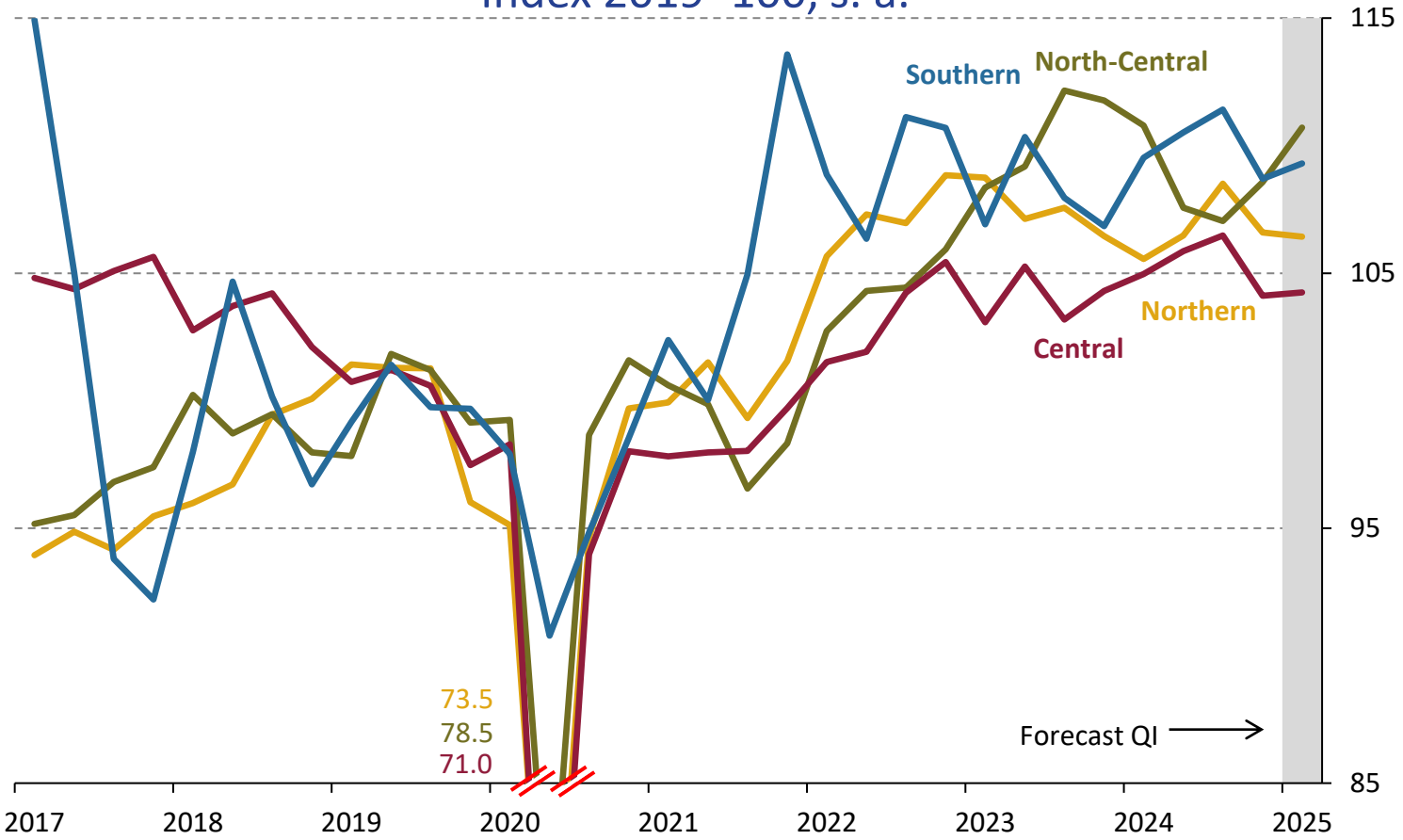
s. a. / Seasonally adjusted data.

Source: Estimated by Banco de México with seasonally adjusted series of the Quarterly Indicator of State Economic Activity by INEGI.

Manufacturing output is estimated to have remained weak in all Mexican regions. However, in the North-Central region it expanded considerably in Q1-2025, possibly indicating a certain reactivation.

Regional Manufacturing Indicator

Index 2019=100, s. a.



s. a. / Seasonally adjusted data.

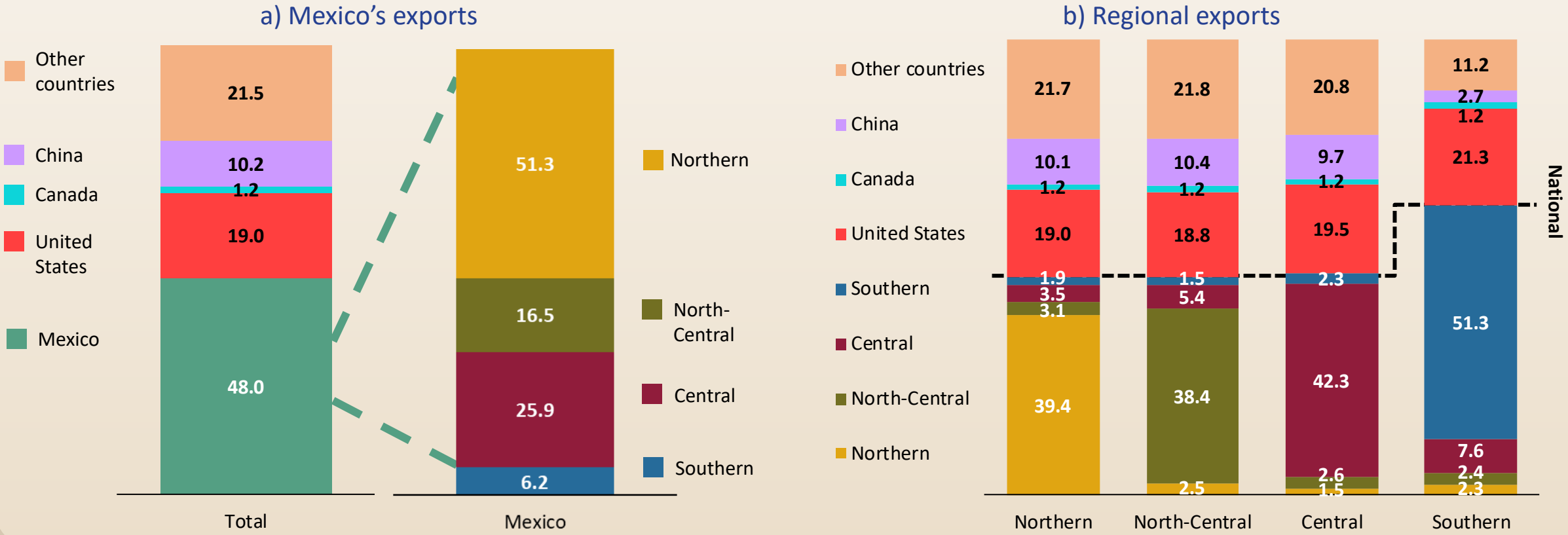
Source: Estimated by Banco de México with seasonally adjusted series of the Monthly Indicator of Manufacturing Activity by state from INEGI.

Geographic origin of value added in regional manufacturing exports

- This box aims to analyze the origin of the value added in Mexico's manufacturing exports.

Estimated origin of value added in manufacturing exports

Percent

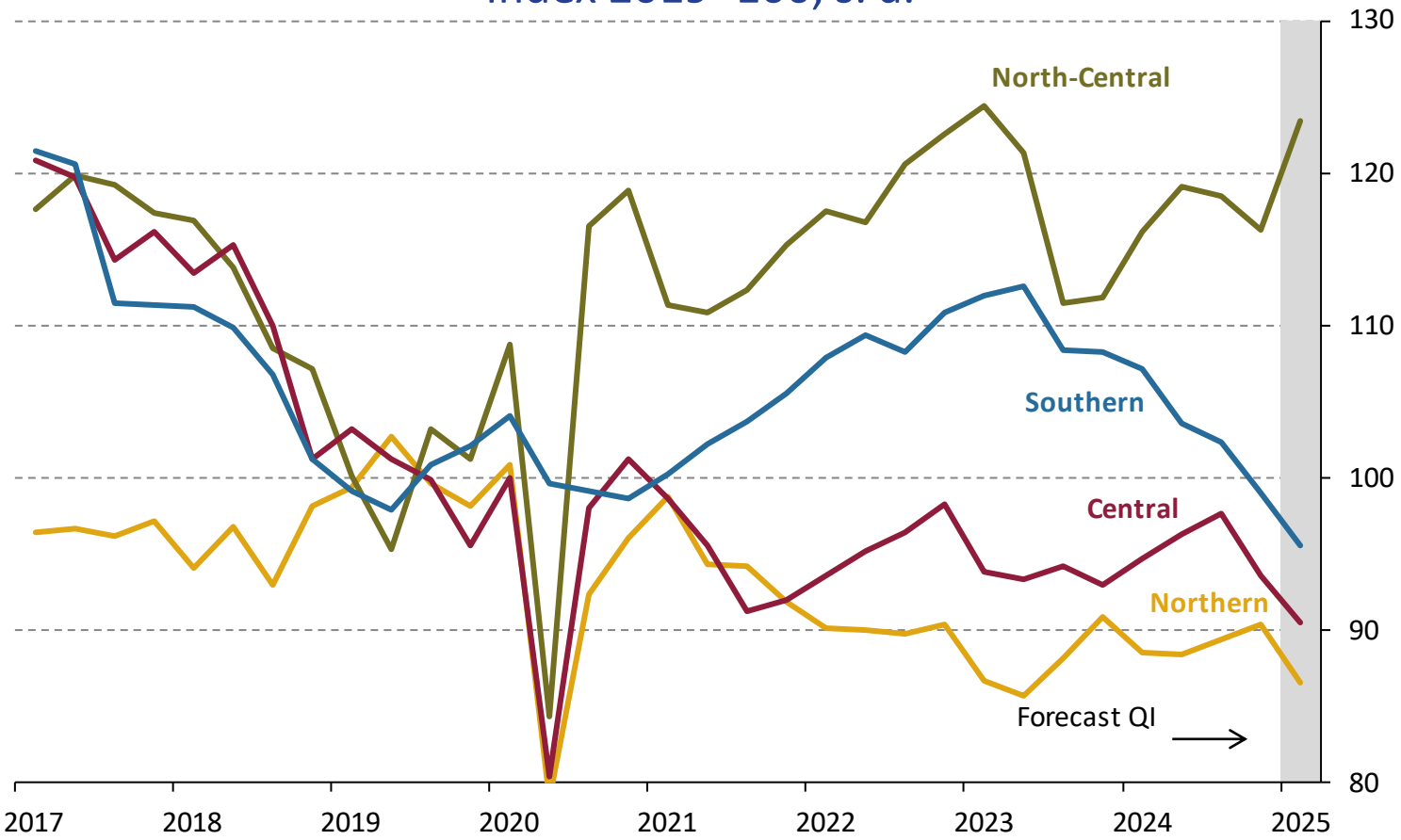


Source: Prepared by Banco de México based on INEGI's 2018 Multi-State Input-Output Matrix and the OECD 2018 TiVA indicators.

Mining activity is expected to have continued trending downwards in the Southern region. In other regions, mining is estimated to have remained weak, although in the North-Central region it appears to have increased marginally and reached relatively higher levels.

Regional Indicator of Mining, Quarrying, and Oil and Gas Extraction

Index 2019=100, s. a.



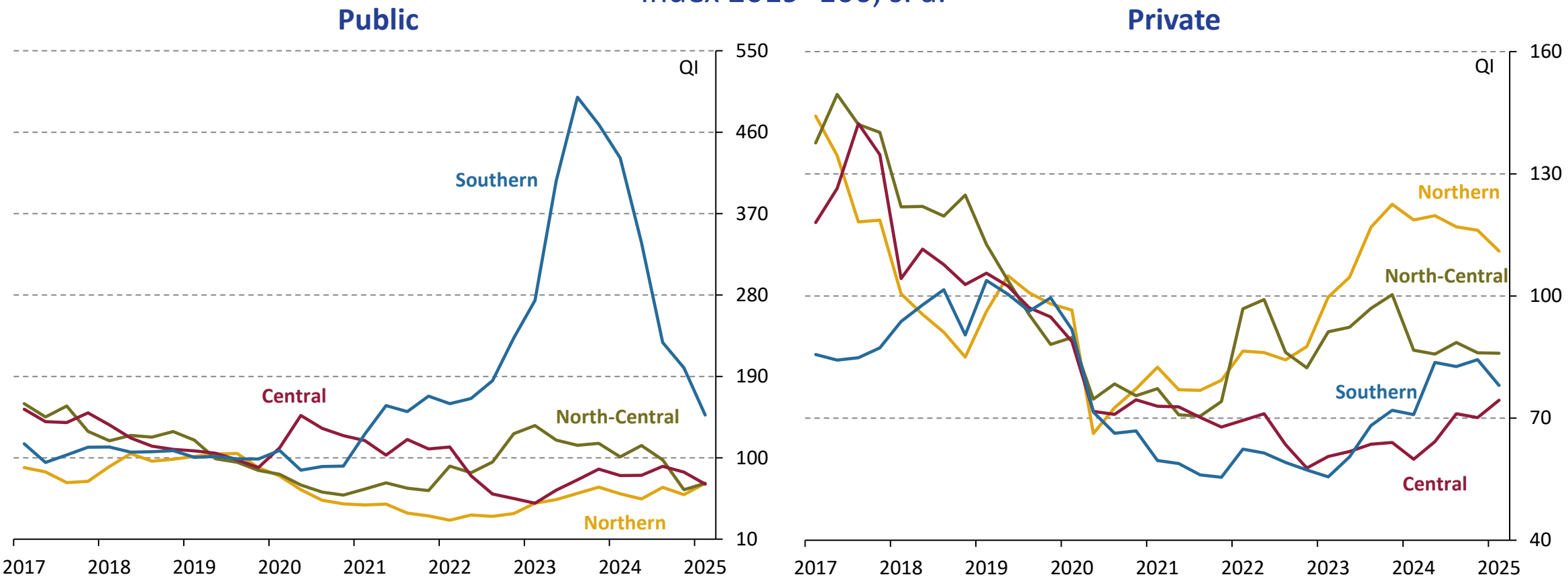
s. a. / Seasonally adjusted data.

Source: Prepared and seasonally adjusted by Banco de México based on series of the Monthly Mining Activity Indicator by State from INEGI.

Public construction in the Southern region continued declining in Q1-2025, after having previously reached particularly high levels. Private construction remained elevated in the Northern region, although its growth has stalled. It contracted in the North-Central and Southern regions, while it expanded in the Central one.

Real value of production in the construction industry

Index 2019=100, s. a.



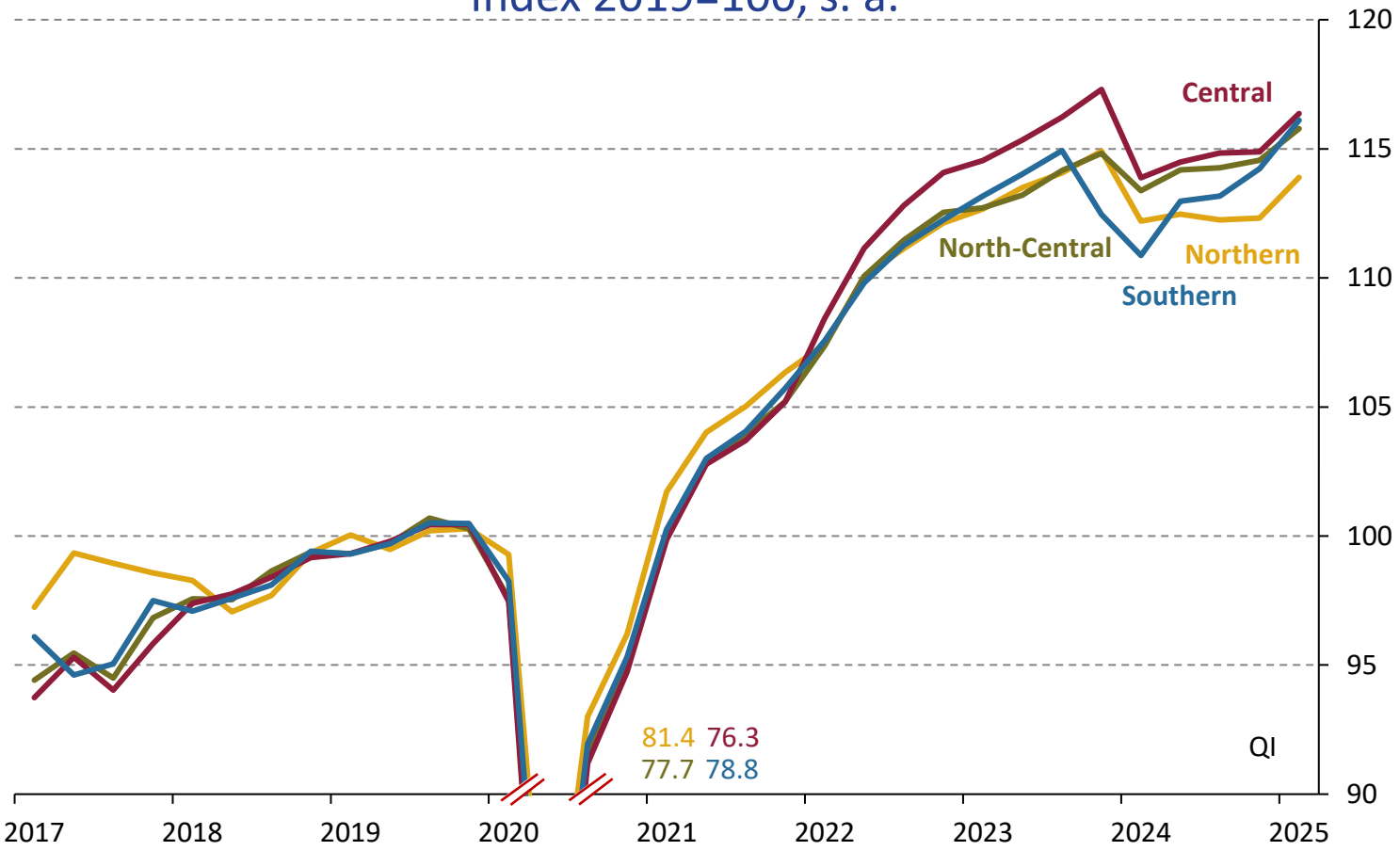
s. a. / Seasonally adjusted data.

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

In Q1-2025, commercial activity increased in all Mexican regions, although its recovery was more notable in the Southern region.

Regional Commercial Activity Indicator

Index 2019=100, s. a.



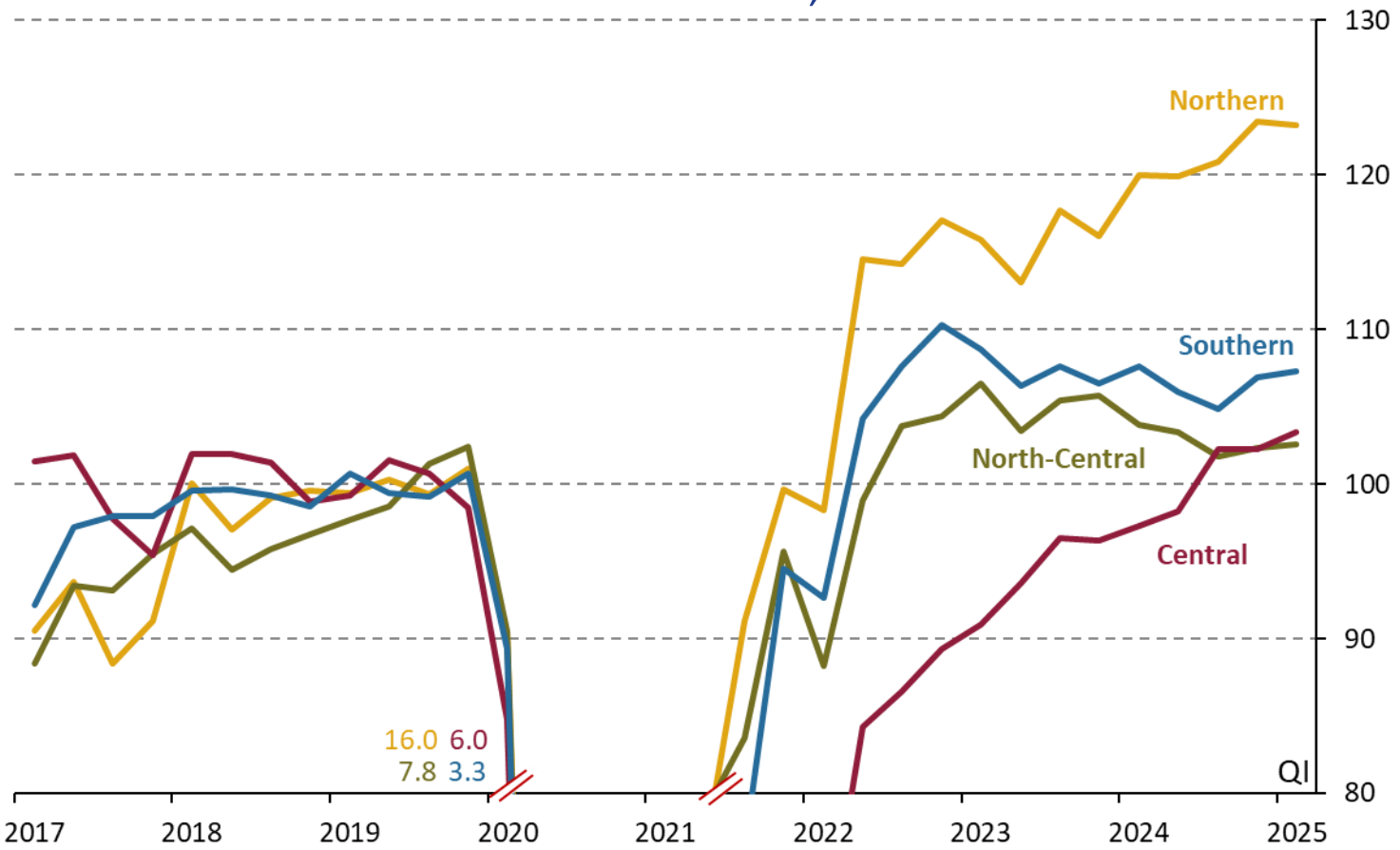
s. a. / Seasonally adjusted data.

Source: Prepared and seasonally adjusted by Banco de México with the series of Revenues of Retailers' Supply of Goods and Services by state from INEGI.

In Q1-2025, tourism activity, measured by indicators of hotel occupancy, registered moderate growth in all regions, except the Northern one, where economic activity remained at levels above those of other regions relative to 2019.

Regional Indicator of Hotel Occupancy

Index 2019=100, s. a.



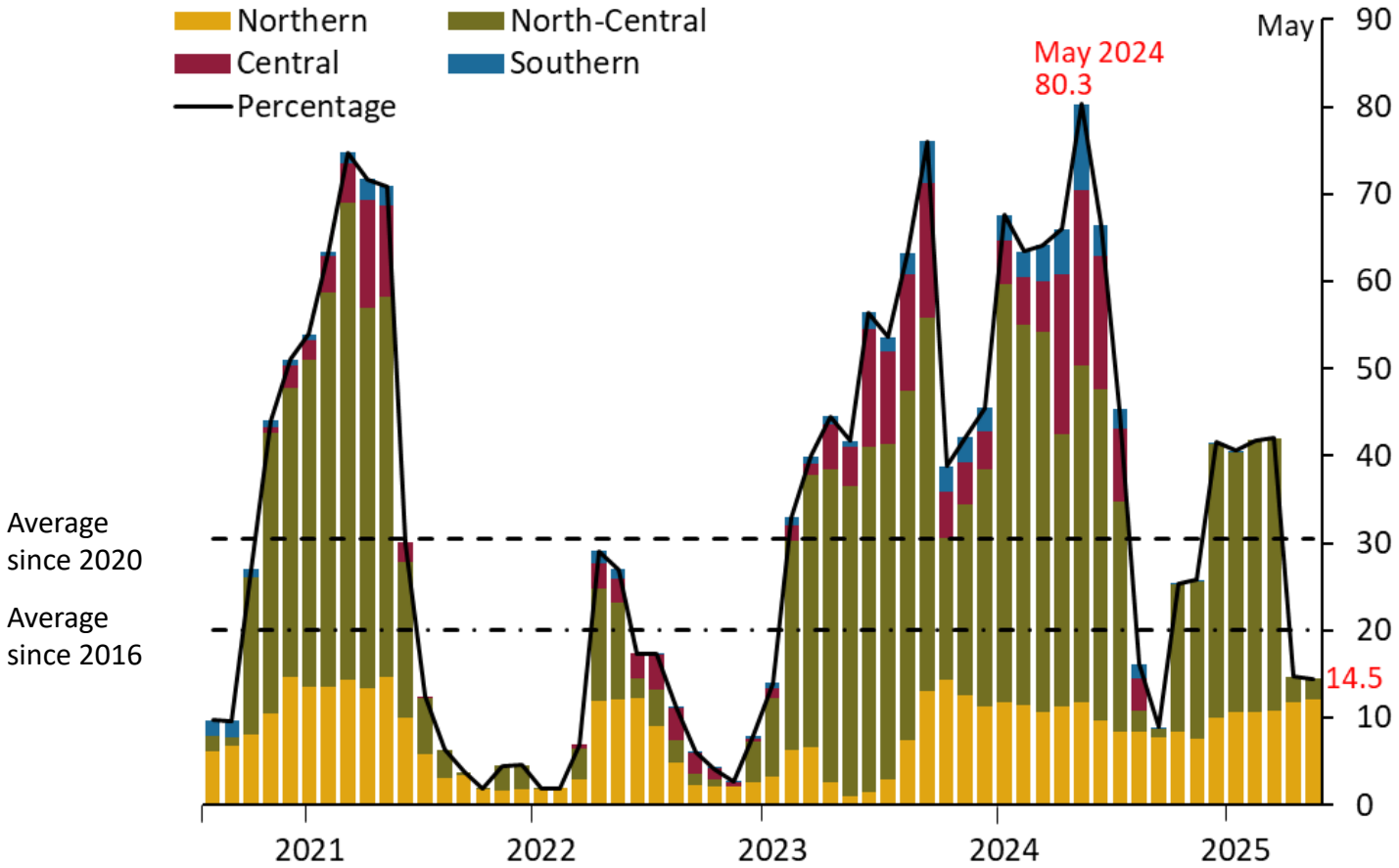
s. a. / Seasonally adjusted data.

Source: Prepared and seasonally adjusted by Banco de México with data from the Mexican Ministry of Tourism.

In Q1-2025, overall drought exposure was above its historical average. However, it decreased significantly in April and May.

Percentage of Mexican agricultural production exposed to drought

Data in percent

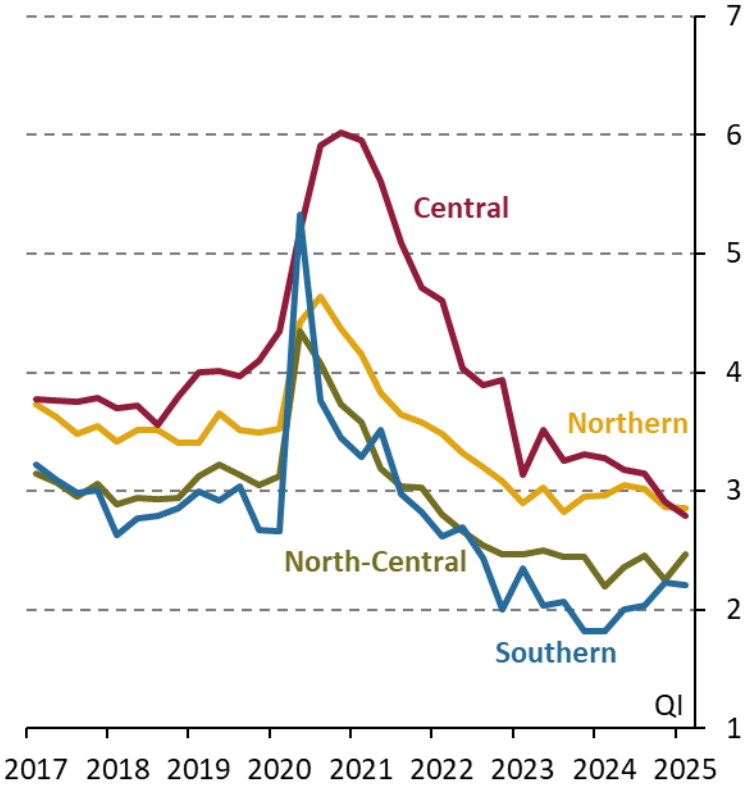


Note: The percentage shown in both charts is the weighted sum of the drought exposure index of 16 agricultural products, with each product weighted according to its share in the total production of the goods considered.
Source: Prepared by Banco de México based on data from SIAP (*Servicio de Información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

During Q1-2025, formal job creation remained notably sluggish across all Mexican regions. Meanwhile, the unemployment rate continued at low levels in all regions.

Unemployment rate

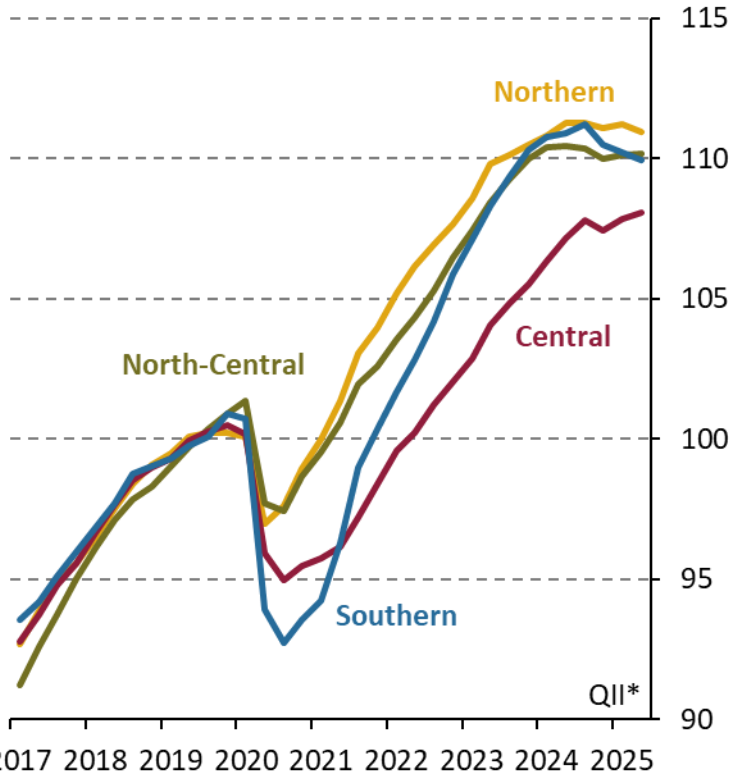
Percent, s. a.



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

Number of IMSS-insured workers

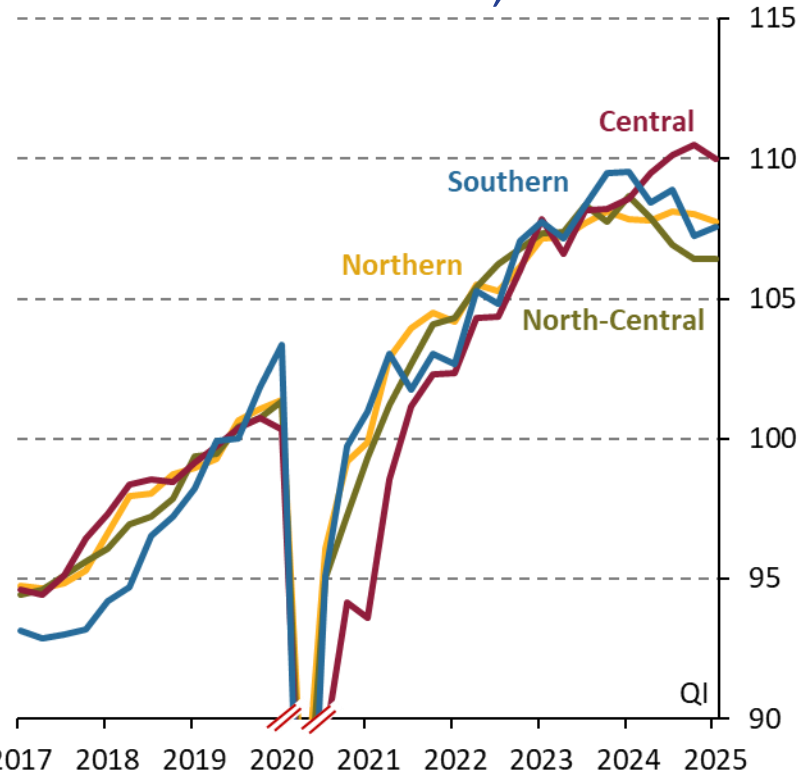
Index 2019=100, s. a.[1/]



s. a. / Seasonally adjusted data.
*/ Figures as of May 2025.
1/ Permanent and temporary jobs in urban areas.
Source: Prepared and seasonally adjusted by Banco de México with data from IMSS.

Employed population

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



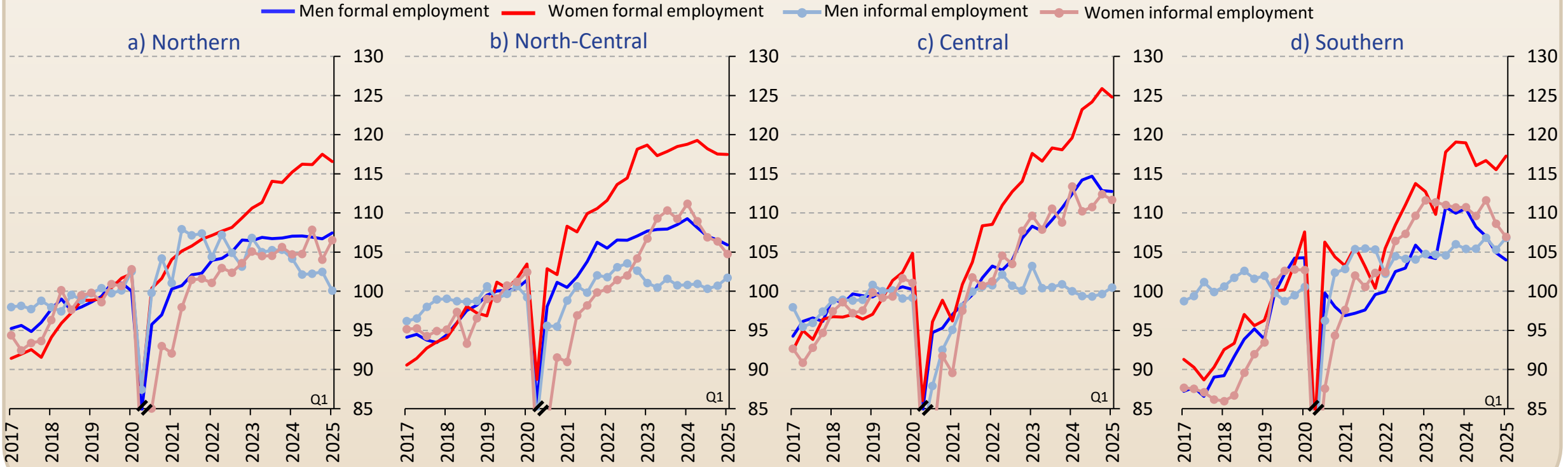
s. a. / Seasonally adjusted data.
Source: Prepared and seasonally adjusted by Banco de México with data from INEGI.

Evolution of regional employment by gender and formality status

Following the shock caused by the pandemic, employment recovery varied across regions, with differences by gender and formality status. However, employment growth has slowed down for both men and women, regardless of whether they are in formal or informal jobs, or of the region in which they are employed.

Employed population by region

Index 2019 = 100, s. a.



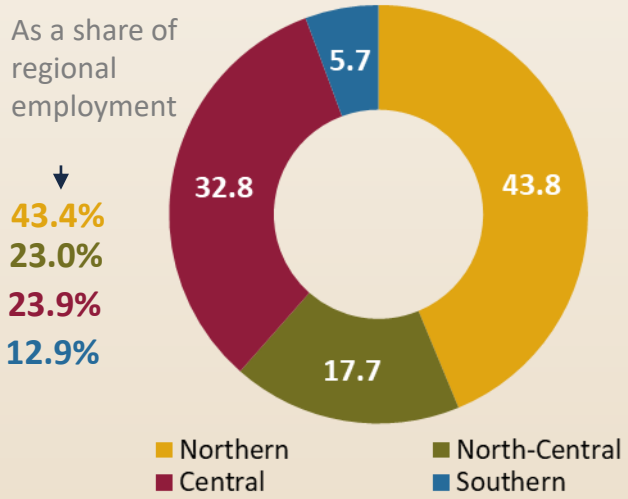
s. a./ Seasonally adjusted figures.
Source: Prepared by Banco de México with information from ENOE, INEGI.

Private formal employment in firms exporting to the U.S. and its distribution across local labor markets in Mexico

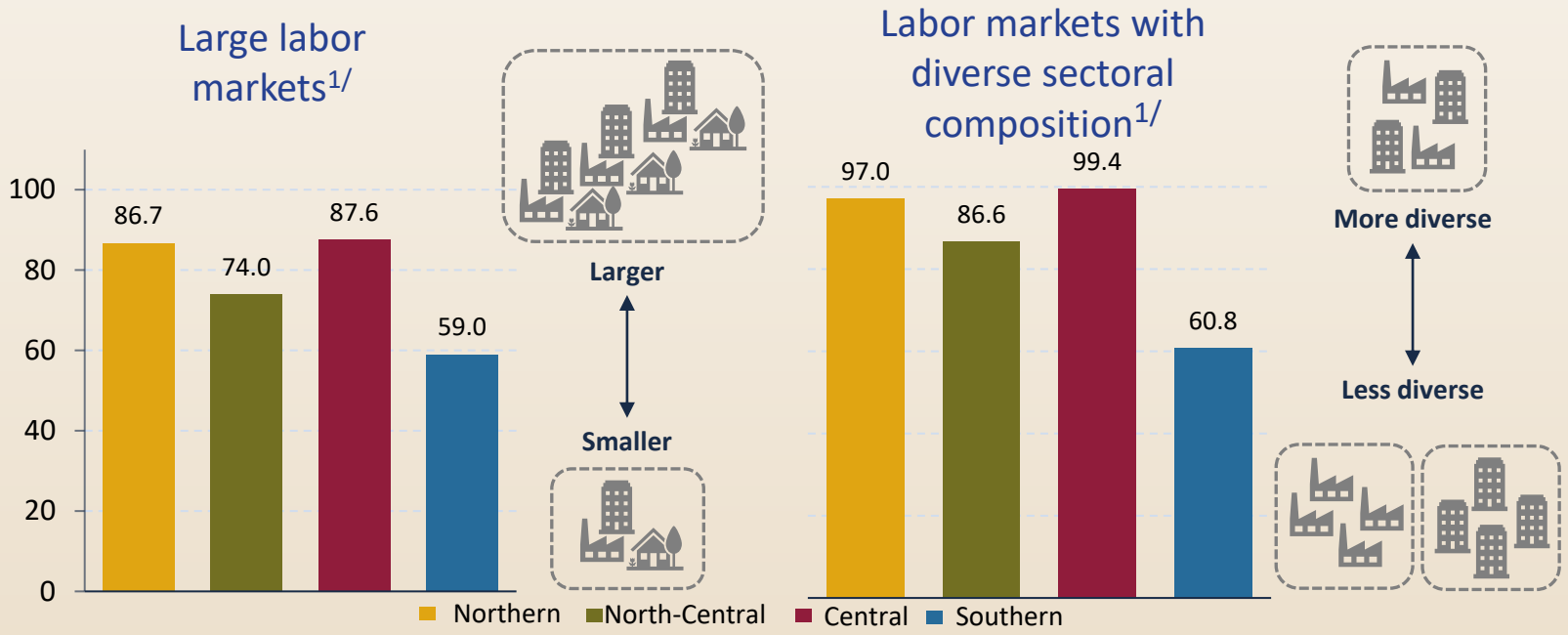
- **Employment in firms that export to the U.S.** is especially relevant in the Northern region, but is **distributed widely across the country.**
- Most of these jobs are in **large labor markets with diversified non-exporting industries.**
- Both features are associated with a **greater capacity of local labor markets to adjust** to changing economic conditions.

Formal employment in firms exporting to the U.S., by region

Percent of total formal employment in exporting firms



Share of employment in U.S.-exporting firms in:



Note: A local labor market is defined as a group of municipalities that share job opportunities and a labor force. These markets are constructed using commuting data from the 2010 Census of Population and Housing and can be accessed in English here: Databases (SIDIE Datasets, Banco de México). 1/ Large labor markets are those with over 100,000 registered jobs. To classify labor markets as diverse, the Herfindahl-Hirschman index (HHI) is calculated based on the share of each IMSS three-digit activity within non-export employment, for each local labor market. Markets with a HHI below the average are classified as having diverse sectoral composition.
Source: Prepared by Banco de México with data from IMSS and SAT.

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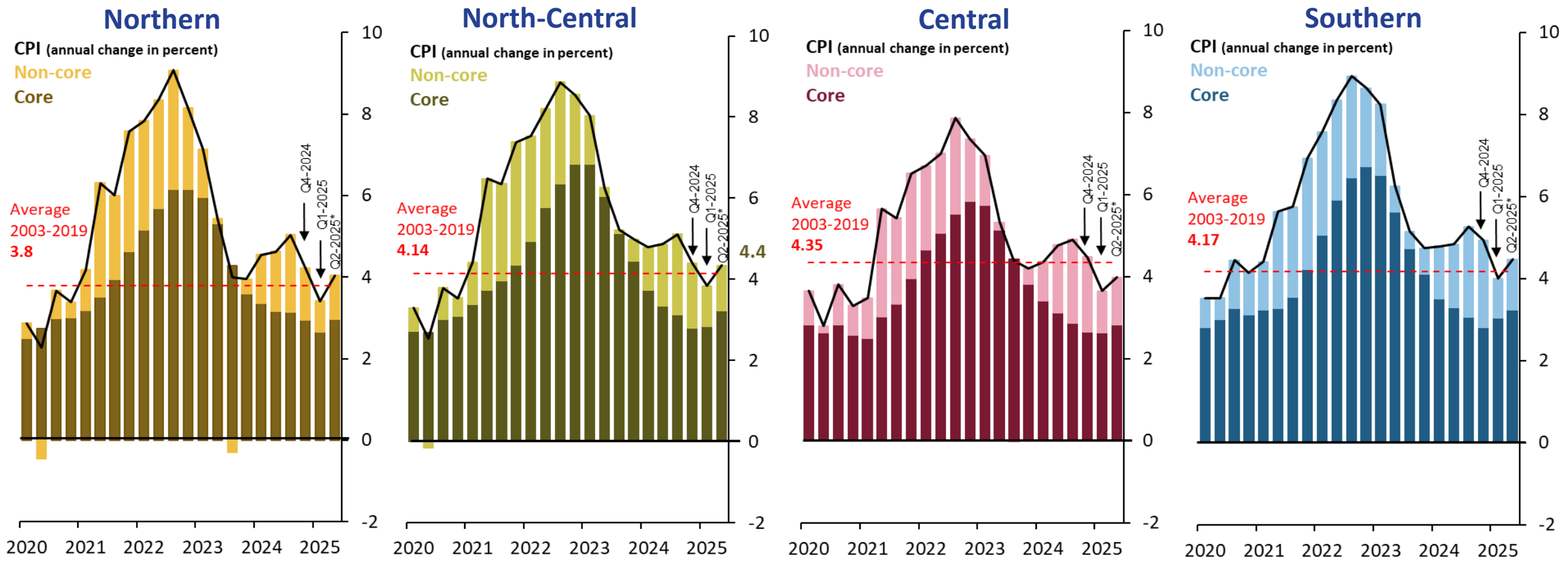
(based on data collected between March 26 and April 24, 2025)

III. Final remarks

Annual headline inflation decreased in all regions between Q4-2024 and Q1-2025. This result was driven by lower non-core inflation in all regions and a reduction in core inflation in the Northern region. So far in 2025, the Southern region has registered the highest annual inflation levels.

Incidence on annual headline inflation by region

Figures in percent



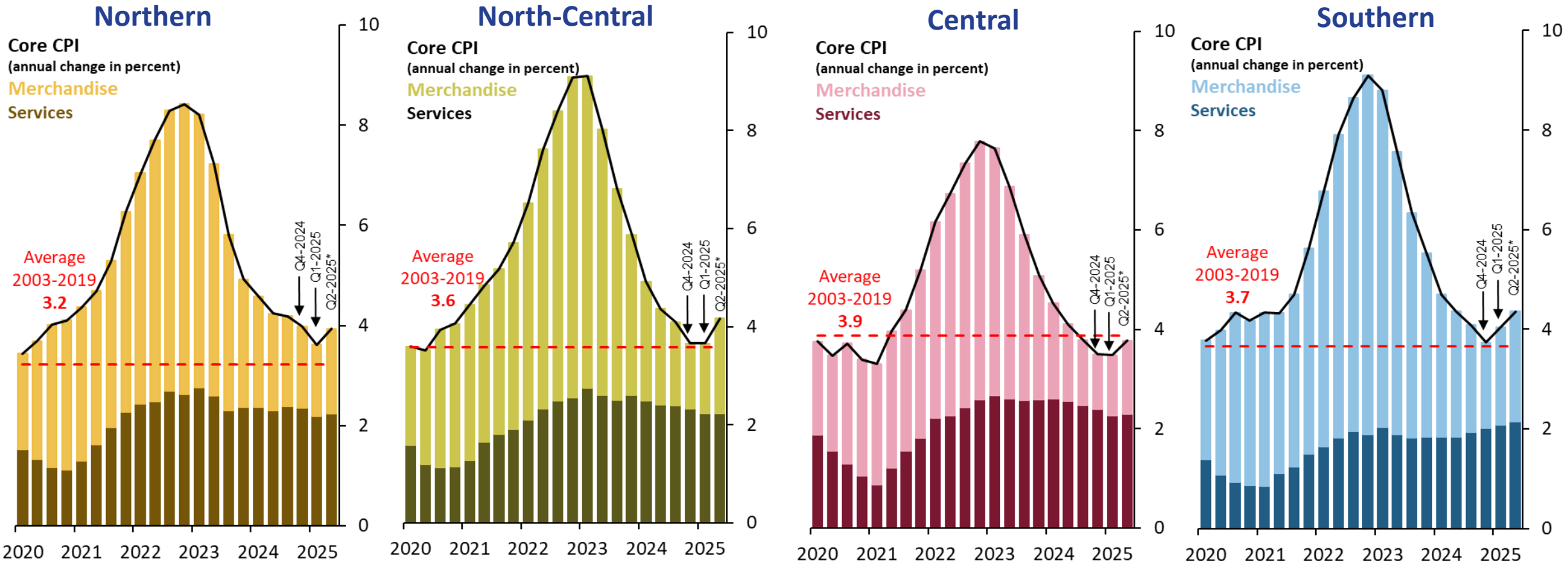
*/Figures as of May.

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

Core inflation continued decreasing in the Northern region between Q4-2024 and Q1-2025, while in the central regions it remained at similar levels and in the Southern region it increased. To date in 2025, merchandise inflation trended upwards, whereas services inflation continued trending downwards.

Incidence on annual core inflation by region

Figures in percent



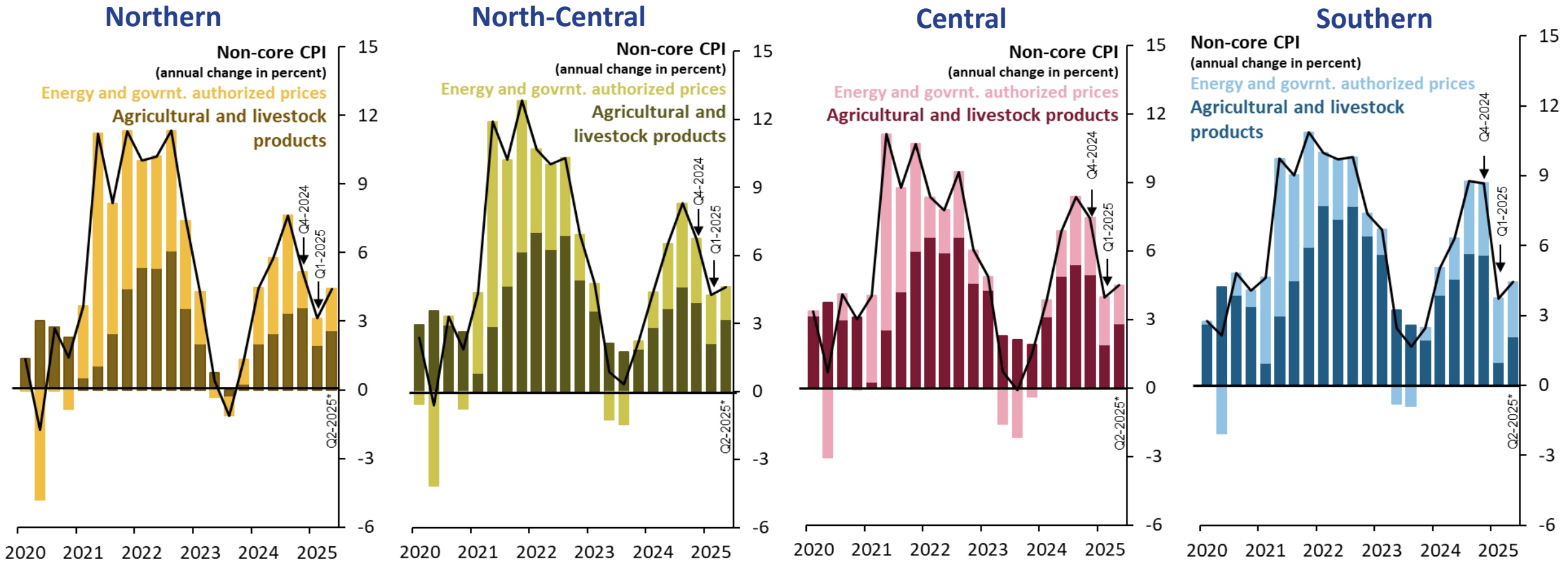
*/Figures as of May.

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

Between Q4-2024 and Q1-2025, annual non-core inflation decreased in all regions. In 2025, it has gradually trended upwards in all regions, mainly driven by higher annual changes in livestock product prices.

Incidence on annual non-core inflation by region

Figures in percent



*/Figures as of May.

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

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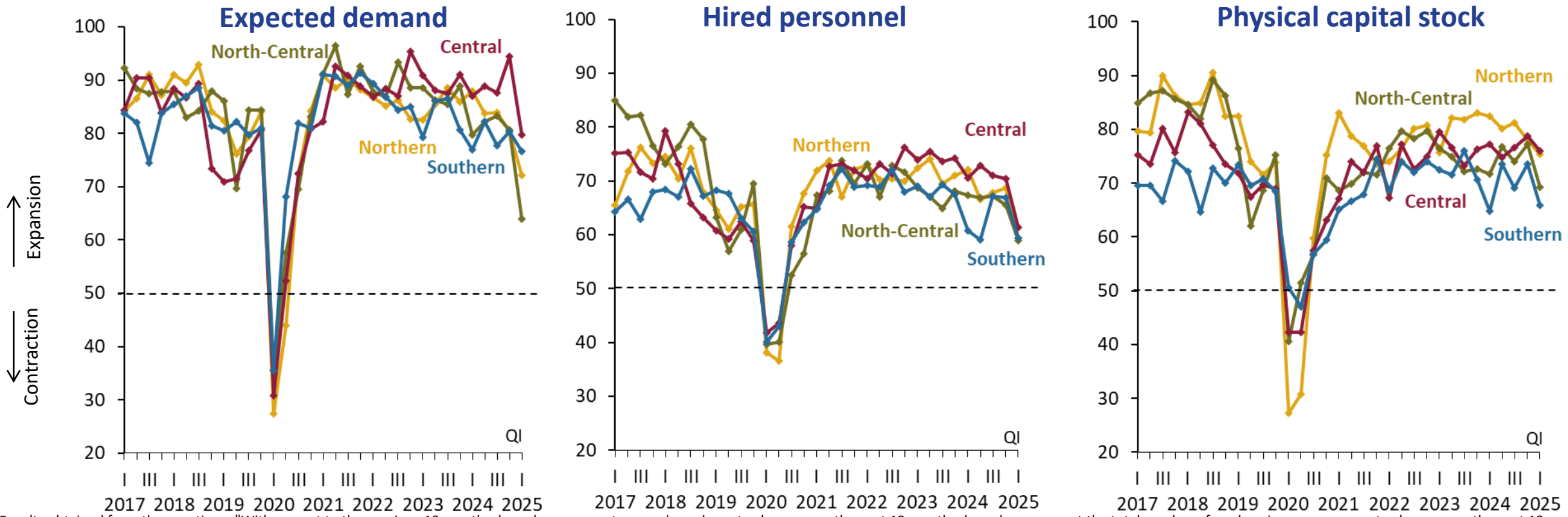
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III. Final remarks

Business agents continued anticipating an increase in demand, employment, and investment in the next twelve months. However, during the reported quarter, the indices registered generalized reductions, significant in some cases, compared to the previous quarter.

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

Diffusion indices

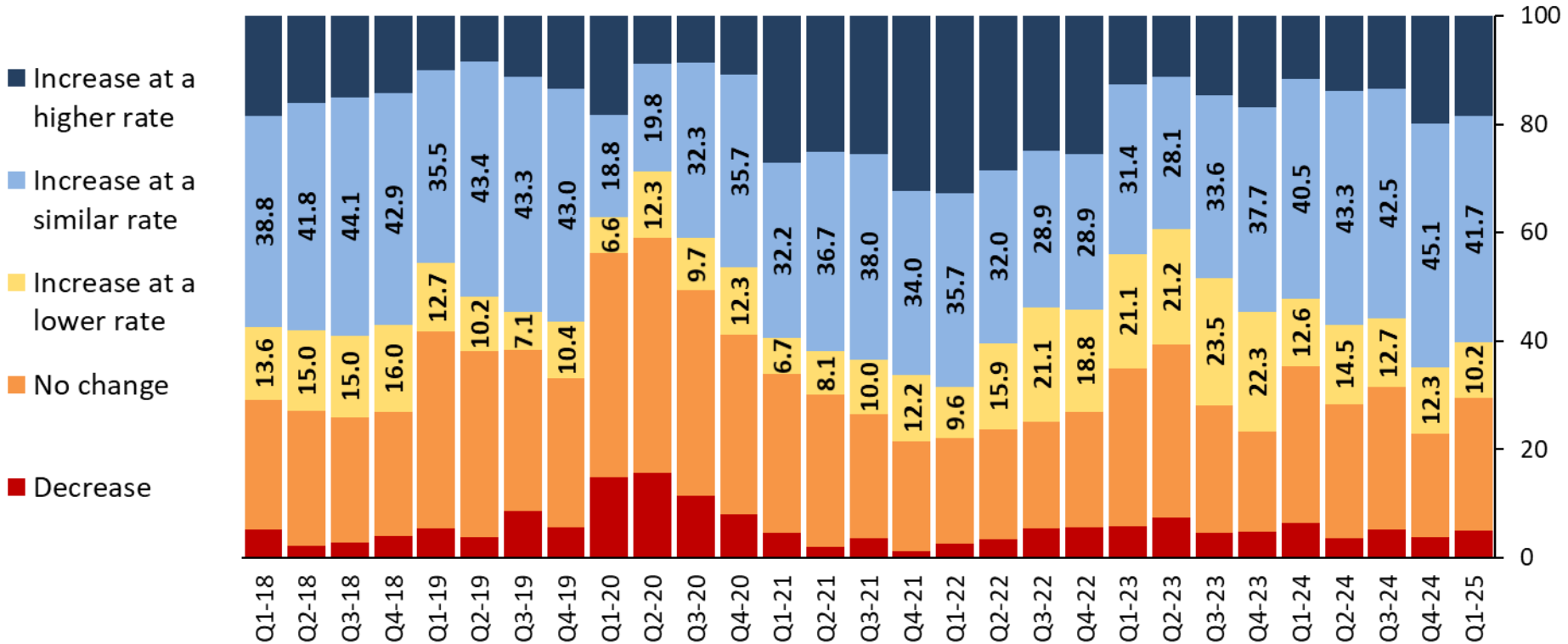


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you expect your sales volume to change over the next 12 months, how do you expect the total number of workers in your company to change over the next 12 months?" and "With respect to the investment in fixed assets made by your company during the previous 12 months, how do you expect the level of investment to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q1-2025, they were obtained between March 26 and April 24, 2025.

In Q1-2025, most interviewed business agents continued anticipating their sales prices to increase at a similar or lower rate over the next twelve months, compared to the previous twelve months.

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

Percentage of responses

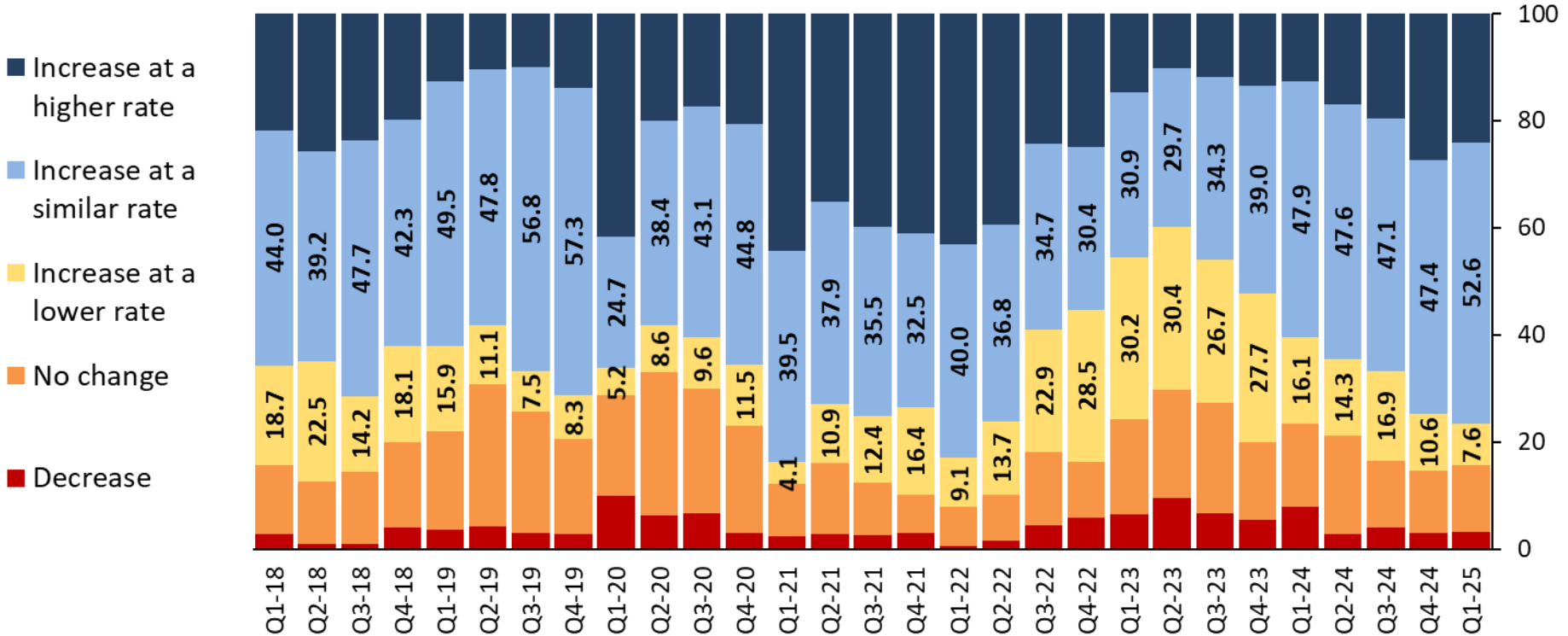


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate sales prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q1-2025, they were obtained between March 26 and April 24, 2025.

Most interviewed business agents continue expecting input prices to increase at a similar or lower rate in the next twelve months compared to the previous twelve months.

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

Percentage of responses

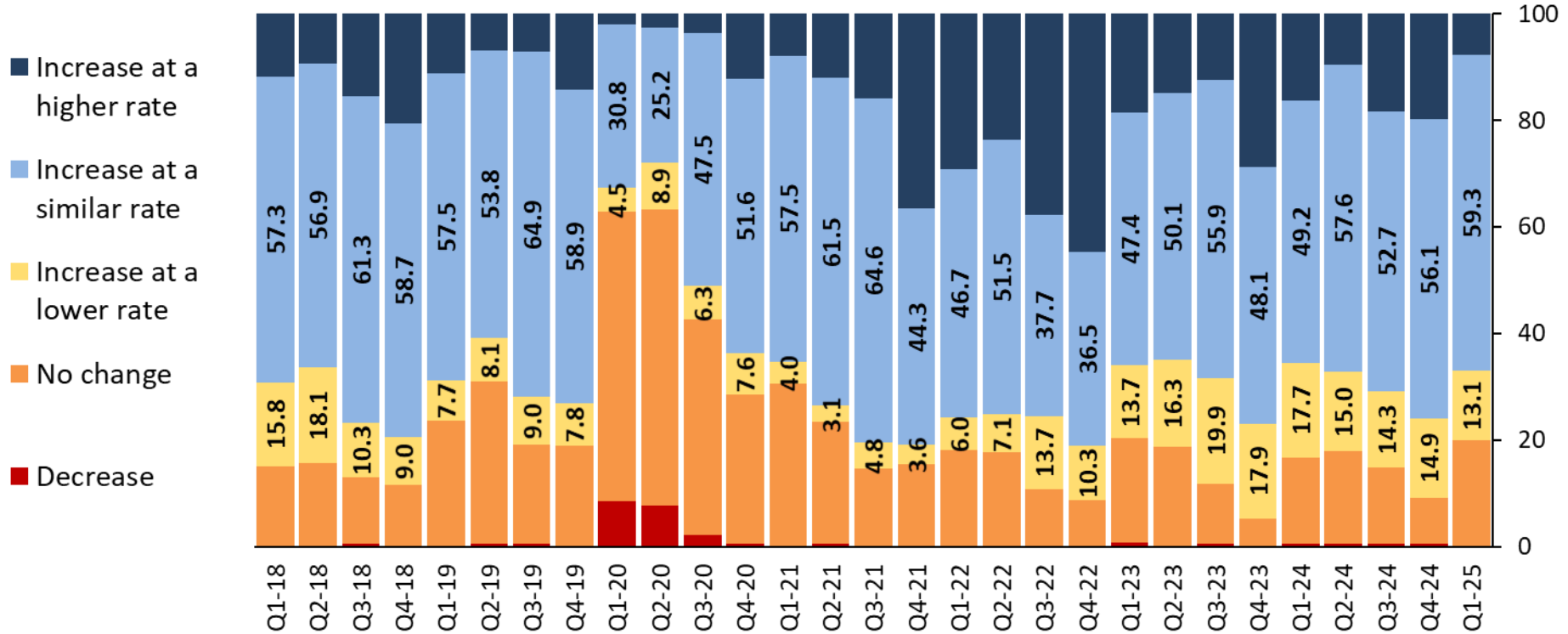


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate input prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q1-2025, they were obtained between March 26 and April 24, 2025.

In Q1-2025, most interviewed business agents continued anticipating wage costs to increase at a similar or lower rate in the next twelve months compared to the previous twelve months.

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

Percentage of responses

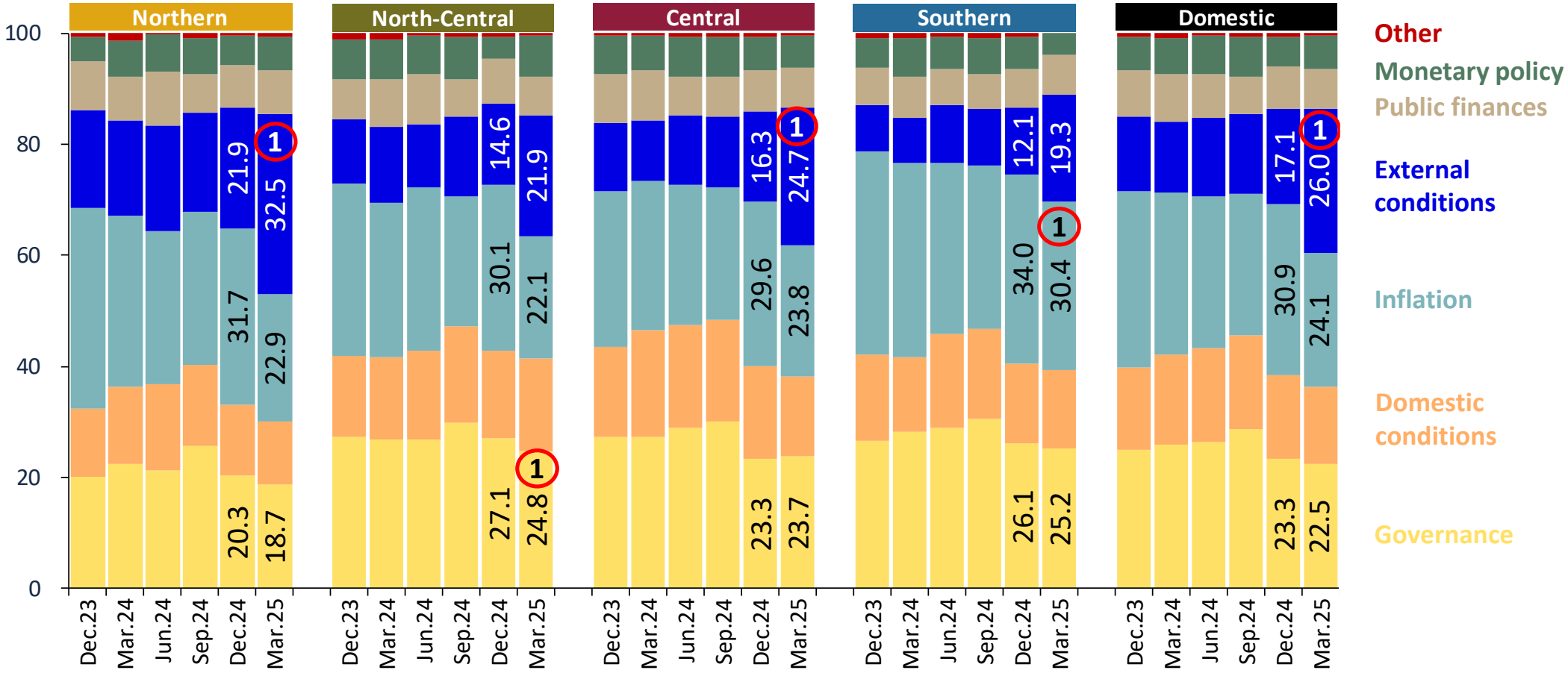


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate wage costs in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q1-2025, they were obtained between March 26 and April 24, 2025.

Business agents' response distribution when asked about the top three factors that could hinder growth of economic activity in their states over the next six months

Percentage of responses

Based on data collected between March 3 and 31, 2025[1/]



1/ Question: What do you consider to be the three main factors limiting the growth of economic activity in your state over the next six months? This question is similar to the one included in the questionnaire of the Survey on Expectations of Private Sector Economic Specialists.

Source: Banco de México.

Business agents' opinion on risks to regional economic activity (based on data collected between March 26 and April 24, 2025)[1/]

Downward risks

- That public safety indicators deteriorate.
- That uncertainty related to US trade policy persists.
- That public investment in infrastructure at both state and federal levels is lower than expected.

Upward risks

- That public spending, particularly investment in infrastructure projects, is higher than expected.
- That the uncertainty associated with the implementation of various tariff measures by the US government dissipates.
- That more favorable conditions are observed, both domestically and internationally, to promote private investment.

1/ Results obtained from the questions: "What are the 2 main events/situations/facts that if they were to occur would boost economic development in your state over the next 12 months?" and "What are the 2 main events/situations/facts that if they were to occur would limit economic development in your state over the next 12 months?", included in the interviews conducted by Banco de México between March 26 and April 24, 2025.

Outlook

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Final remarks

- In an environment of **high uncertainty and various challenges ahead**, the outlook suggests that **regional economies may continue to exhibit weakness**.

- To address these challenges, it is essential to **foster the appropriate conditions to promote investment flows to all regions. To this end, the following steps are necessary:**

  - **Strengthen the rule of law and public safety.** In the opinion of the business executives consulted, these measures support the development of productive activity and contribute to lowering operating costs.

  - **Continue developing infrastructure projects.** These are key to improving regional connectivity and ensuring efficient and sustainable access to energy sources.

  - **Promote human capital development.** One particular dimension of this measure is improving the population's health, which contributes to a more productive workforce.

- **These actions will not only help address the current challenges but also capitalize on the existing opportunities,** aiming to build a **more prosperous future for the regional economies and improving the well-being of the Mexican population.**

Regional Economic Report

BANCO DE MÉXICO®

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June 2025

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