

Regional Economic Report
October – December 2024

BANCO DE MÉXICO®

Outline

I. Regional Economic Report

II. Results October – December 2024

A. Economic activity

B. Inflation

C. Economic outlook

(based on data collected between January 2 and 23, 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 Q4-2024 and the prospects of business agents surveyed between January 2 and 23, 2025 on regional economic activity and prices over the following twelve months are analyzed herein.

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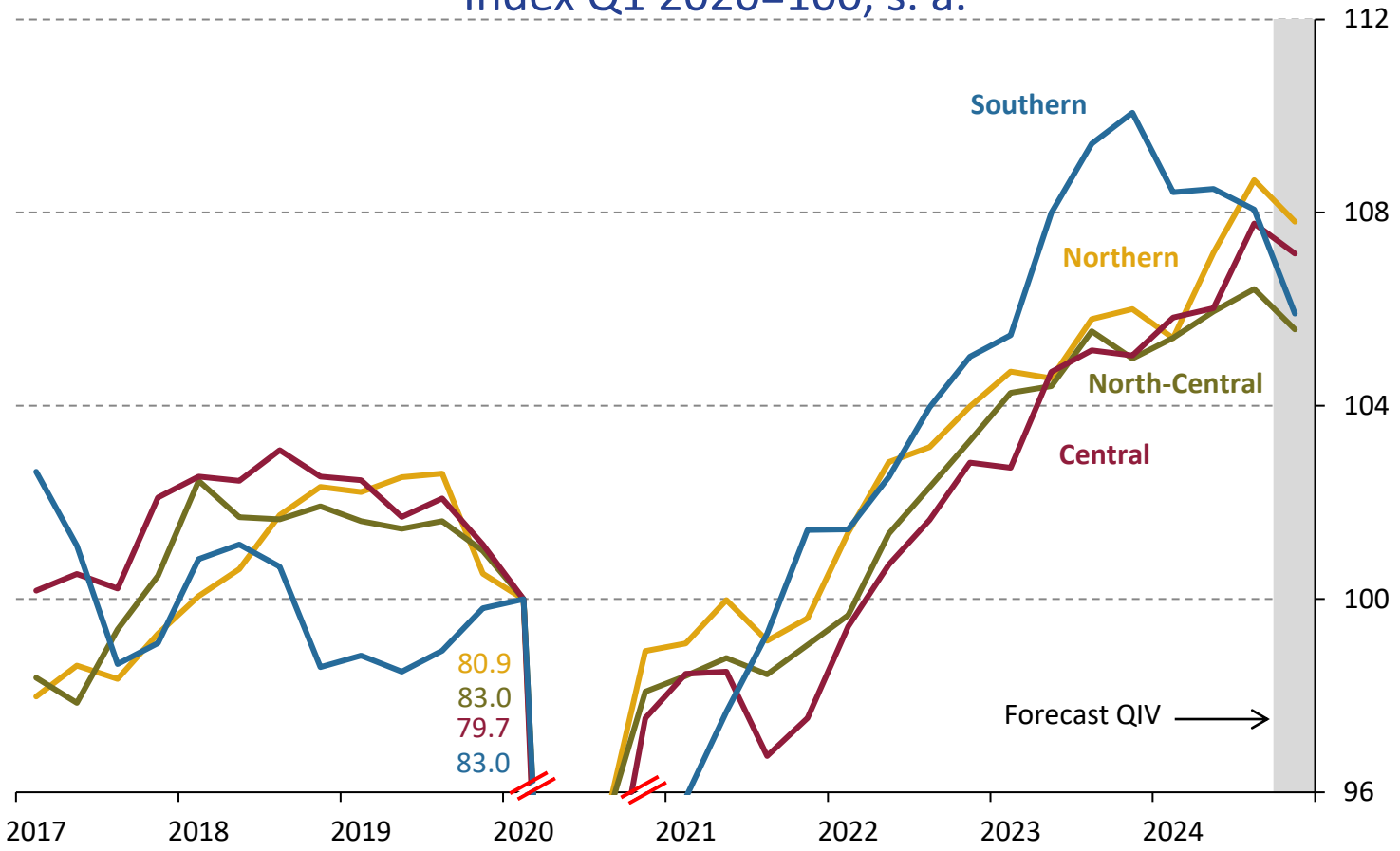
(based on data collected between January 2 and 23, 2025)

III. Final remarks

Economic activity is estimated to have contracted in all regions during Q4-2024.

Quarterly Indicator of Regional Economic Activity

Index Q1 2020=100, s. a.



s. a. / Seasonally adjusted data.

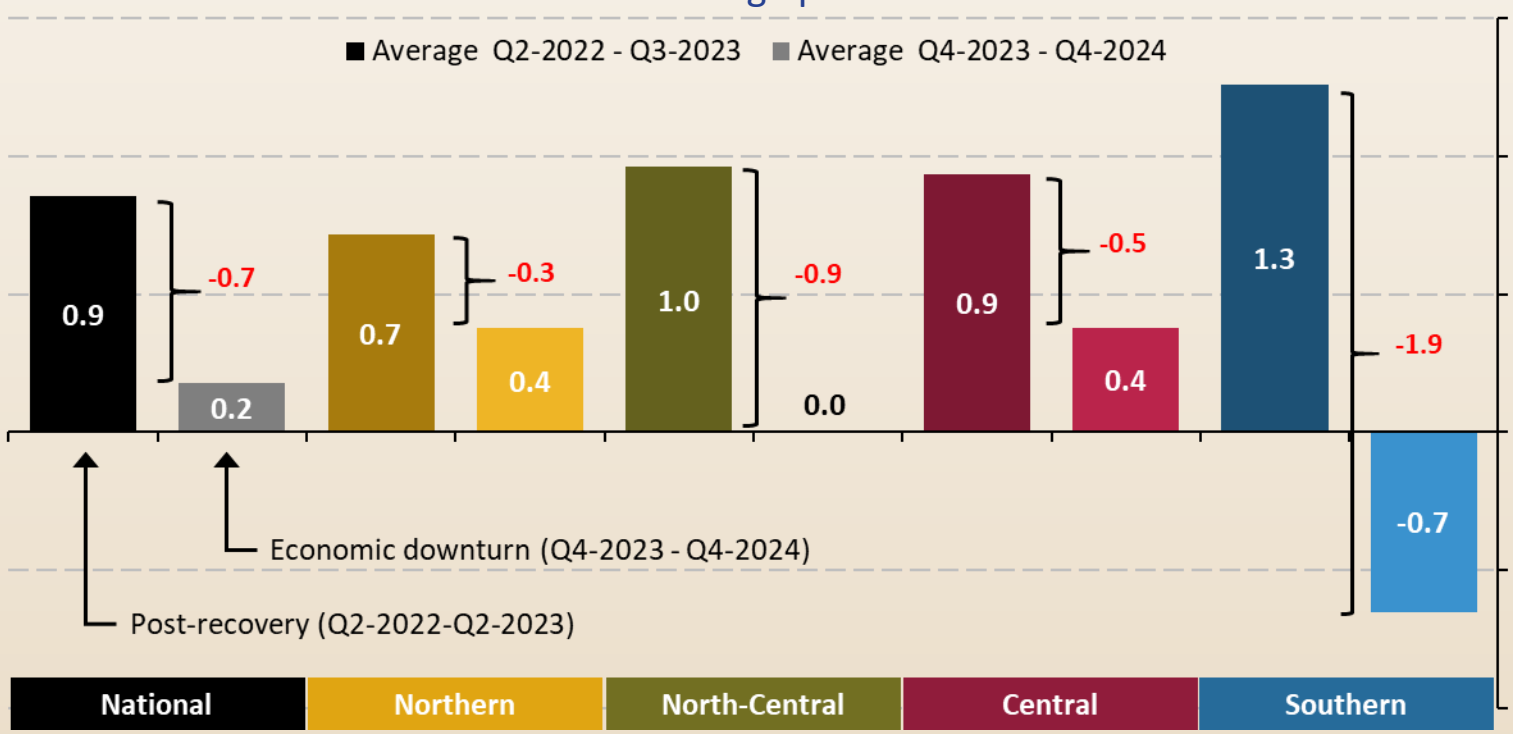
Source: Estimated by Banco de México with seasonally adjusted series of the Quarterly Indicator of State Economic Activity by INEGI.

Contribution of common and regional factors to the economic downturn

- Since Q4-2023 economic activity has weakened in a generalized manner, although with differences across regions. The slowdown was less pronounced in the north and more marked in the south, mainly due to factors specific to each region.

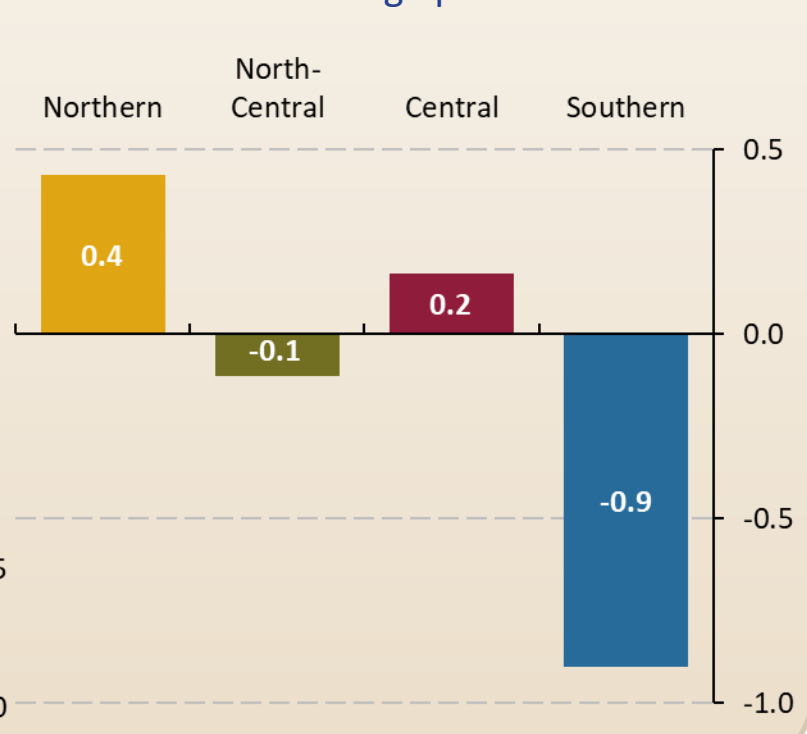
Average quarterly growth rate during the post-recovery period (Q2-2022 - Q3-2023) and during the period of economic downturn (Q4-2023 – Q4-2024)

Percentage points



Contribution of the regional effect to the average quarterly growth rate of the regions

Percentage points

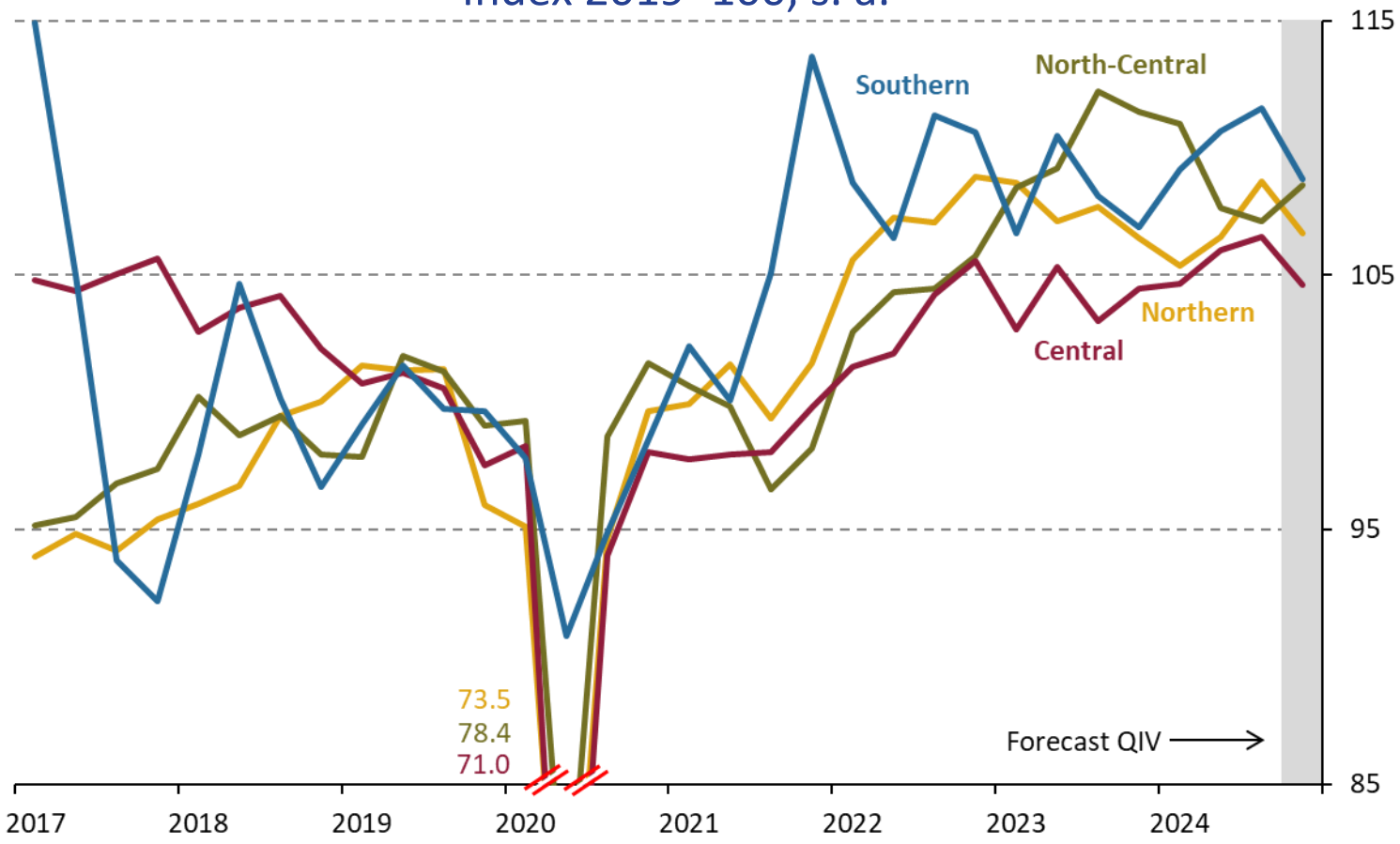


Source: Prepared by Banco de México with seasonally adjusted data from INEGI.

In Q4-2024, manufacturing production is expected to have contracted in the Northern, Central, and Southern regions, thereby interrupting the upward trend observed during the previous two quarters. In contrast, manufacturing in the North-Central region is estimated to have improved after having declined for four consecutive quarters.

Regional Manufacturing Indicator

Index 2019=100, s. a.



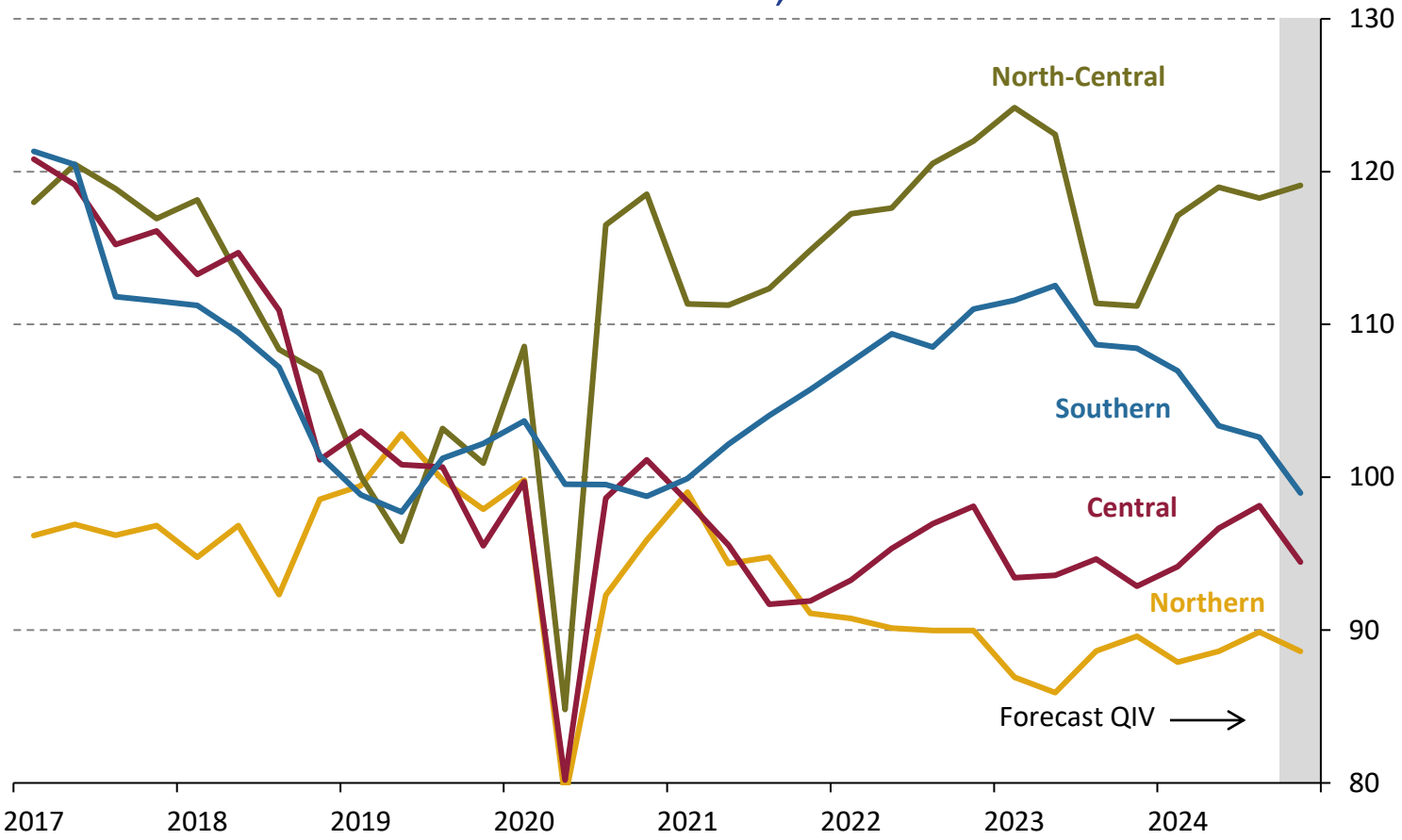
s. a. / Seasonally adjusted data.

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

Mining activity is estimated to have trended further downwards in the Southern region. The Northern and Central regions have also experienced a decline. In contrast, the North-Central region is expected to have recovered slightly.

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

Index 2019=100, s. a.



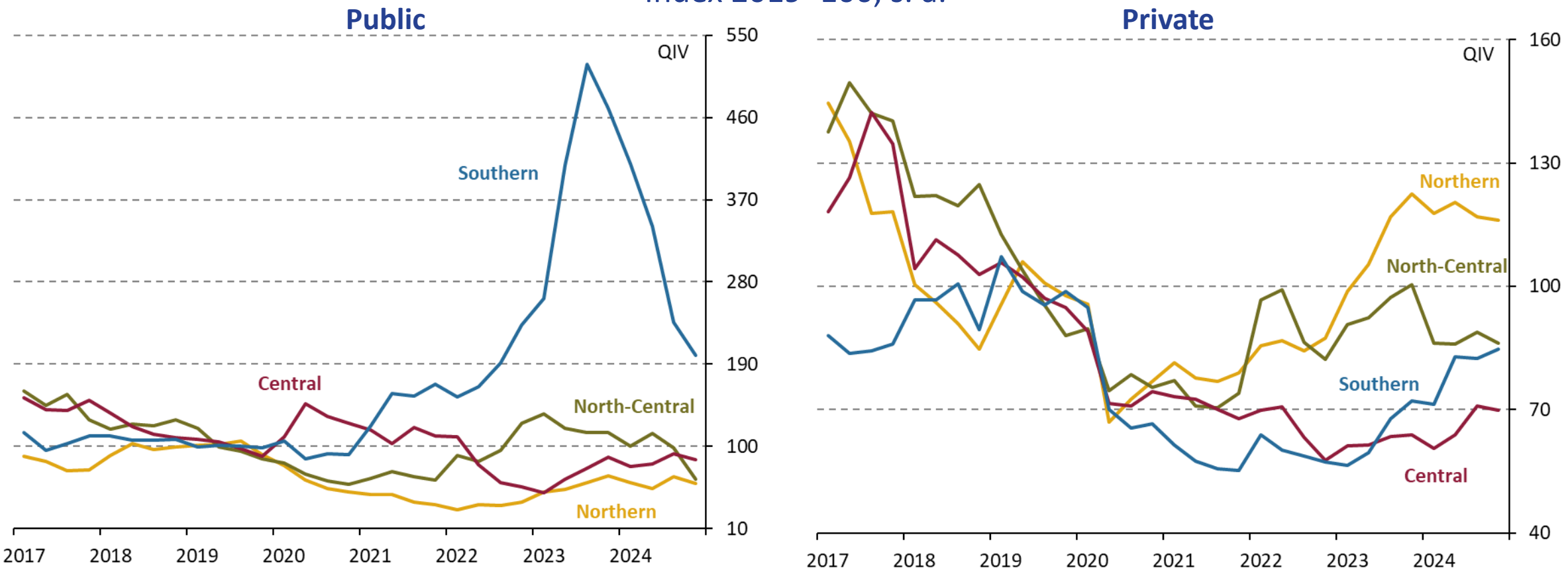
s. a. / Seasonally adjusted data.

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

Public construction continued declining in the south in Q4-2024, after having reached particularly high levels. Private construction remains at high levels in the north, although it has stopped increasing; it decreased in the central regions and expanded in the south.

Real value of production in the construction industry

Index 2019=100, s. a.



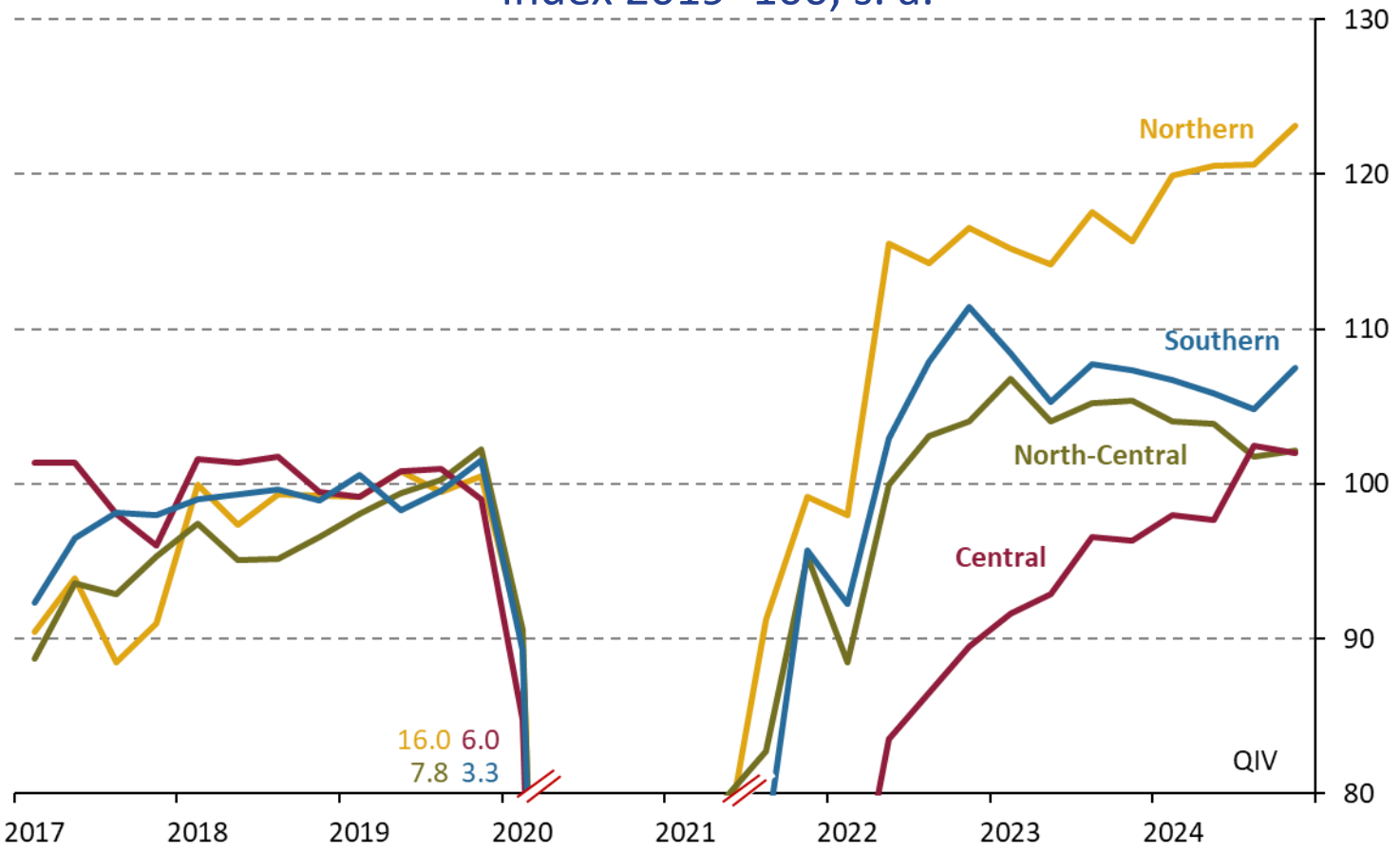
s. a. / Seasonally adjusted data.

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

In Q4-2024, tourism activity, measured by indicators of hotel occupancy, increased in all regions, except for the Central one. Tourism levels remain relatively higher in the north, compared to other regions.

Regional Indicator of Hotel Occupancy

Index 2019=100, s. a.



s. a. / Seasonally adjusted data.

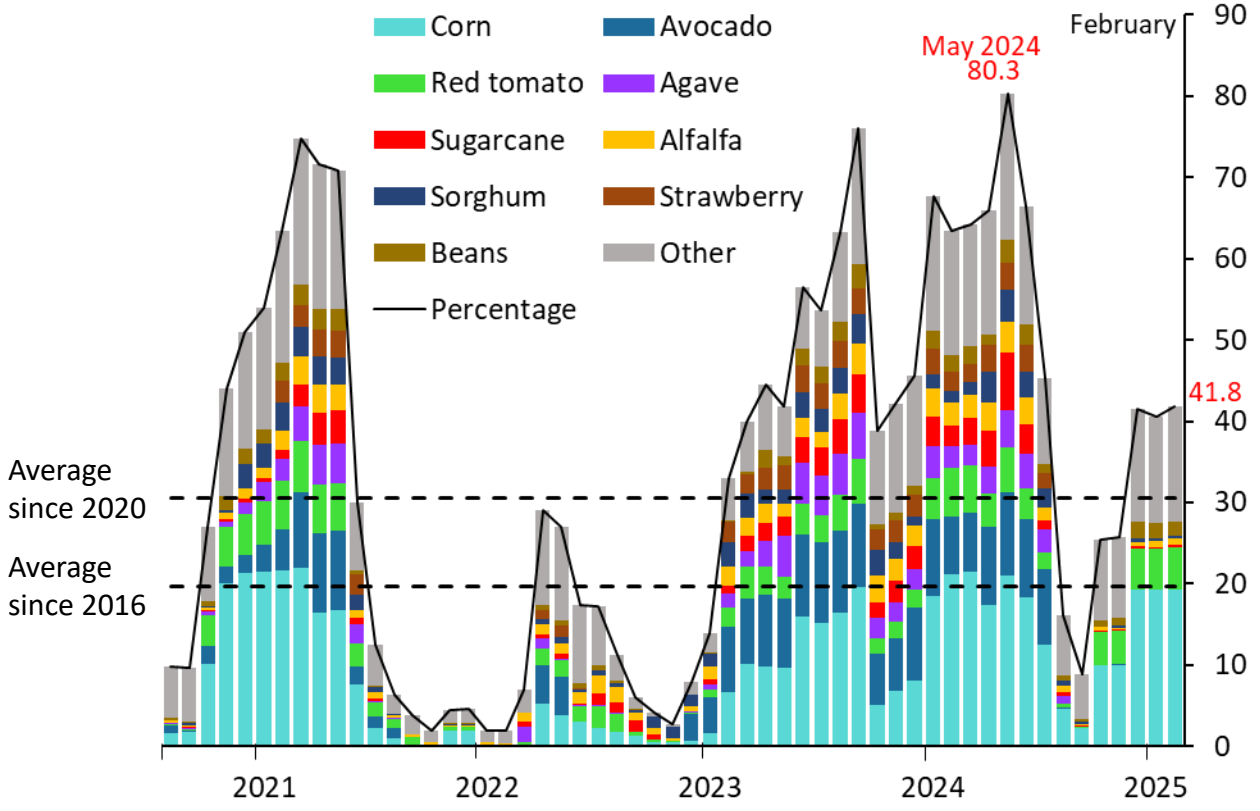
Source: Prepared and seasonally adjusted by Banco de México with data from the Mexican Ministry of Tourism.

In Q4-2024 aggregate drought exposure resumed an upward trend and stabilized in early 2025.

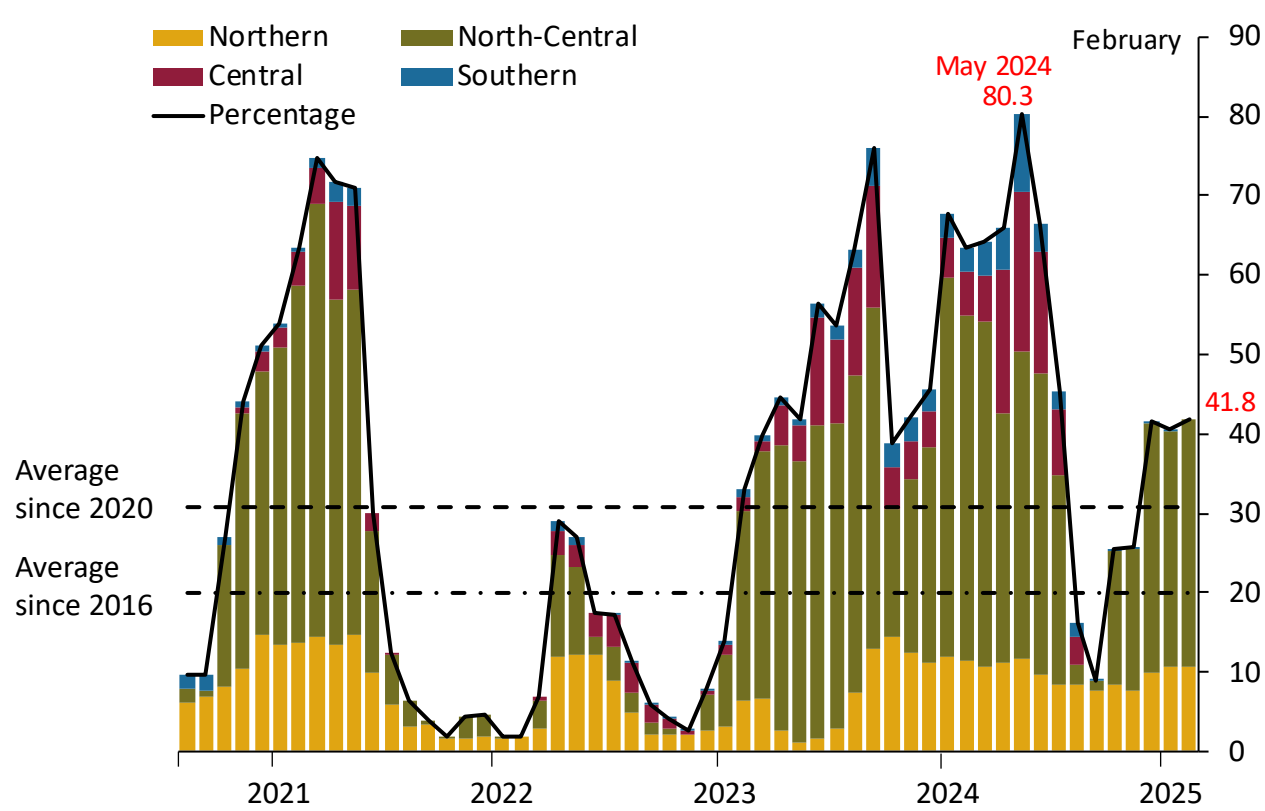
Percentage of Mexican agricultural production exposed to drought

Data in percent

a) By product



b) By region

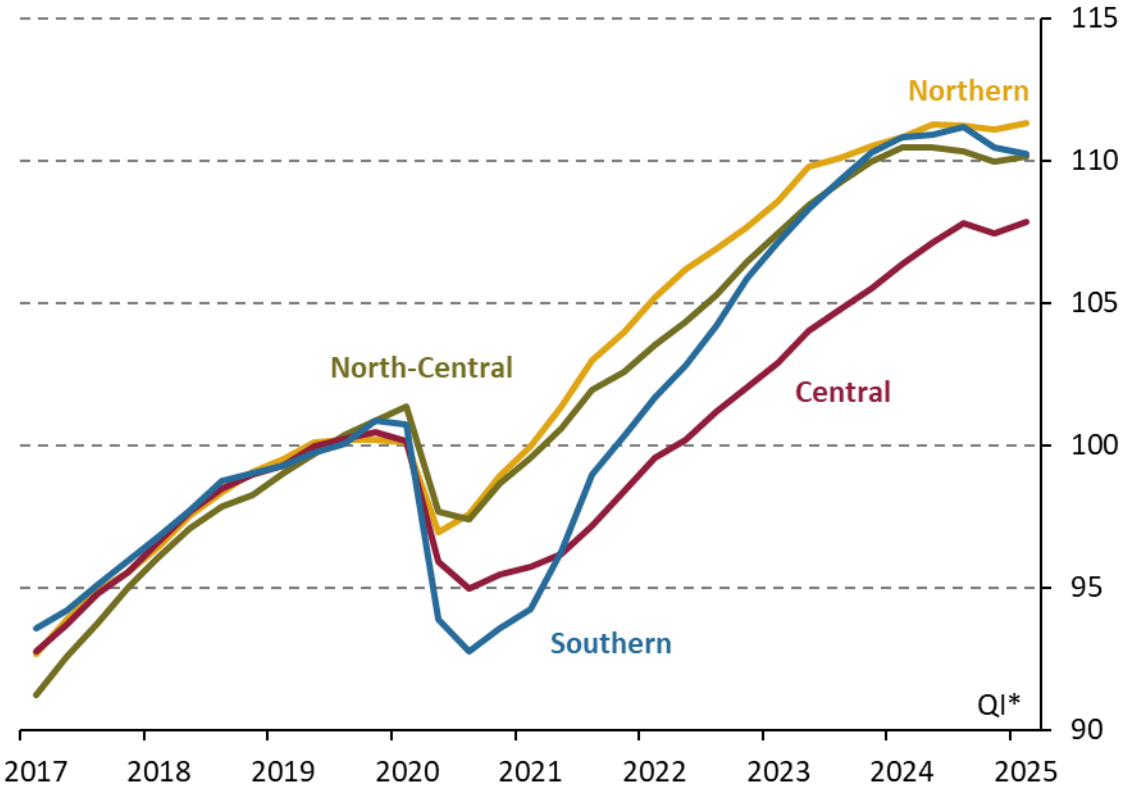


Note: The percentage shown in both charts in the weighted sum of the drought exposure index of 16 agricultural products, with each product weighted according to its share in the total production of the goods considered.
Source: Prepared by Banco de México based on data from SIAP (*Servicio de Información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

During Q4-2024, formal job creation contracted in all regions, although it increased in early 2025 in the north and in central regions. The unemployment rate remained at low levels across all regions.

Number of IMSS-insured workers

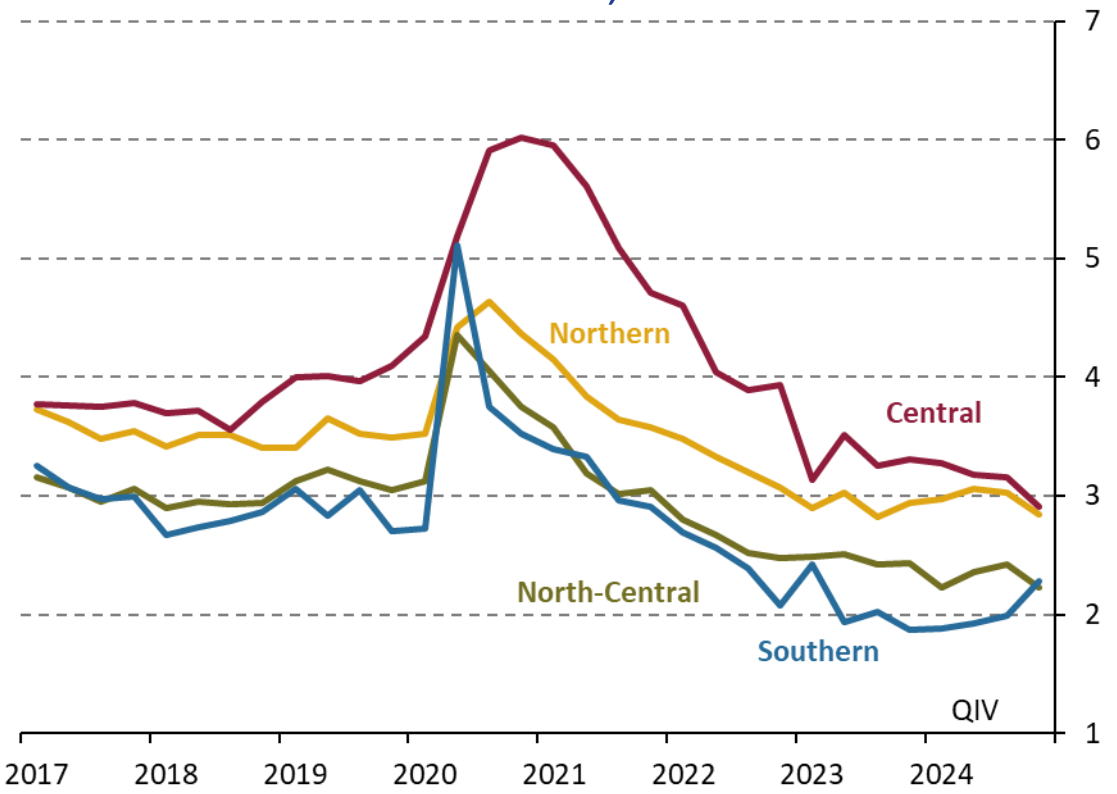
Index 2019=100, s. a.[1/]



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

Unemployment rate

Percent, s. a.



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

Extreme temperatures and their impact on the number of hours worked by individuals

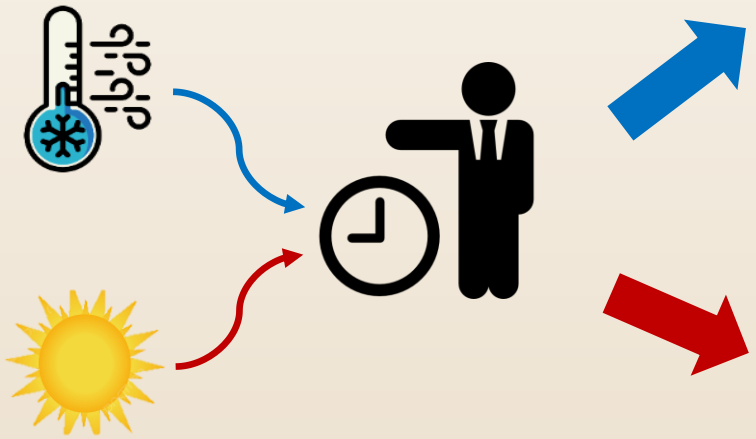
Extreme temperatures are defined in the Box as those **below 10°C** or **above 35°C**.

From 2005 to 2023:

Exposure to temperatures **below 10°C** decreased in all regions.

Exposure to temperatures **above 35°C** increased in the **North**, **North-Central** and **Southern** regions.

An econometric model is used to estimate how extreme temperatures affect the number of hours worked.



Employment formality

Economic activity

Main results:

Temperatures **below 10°C** reduce the number of hours worked in the informal sector of:

- **Construction**
- **Manufacturing**

Temperatures **above 35°C** reduce the number of hours worked in the informal sector of:

- **Retailing**
- **Food and beverage preparation**

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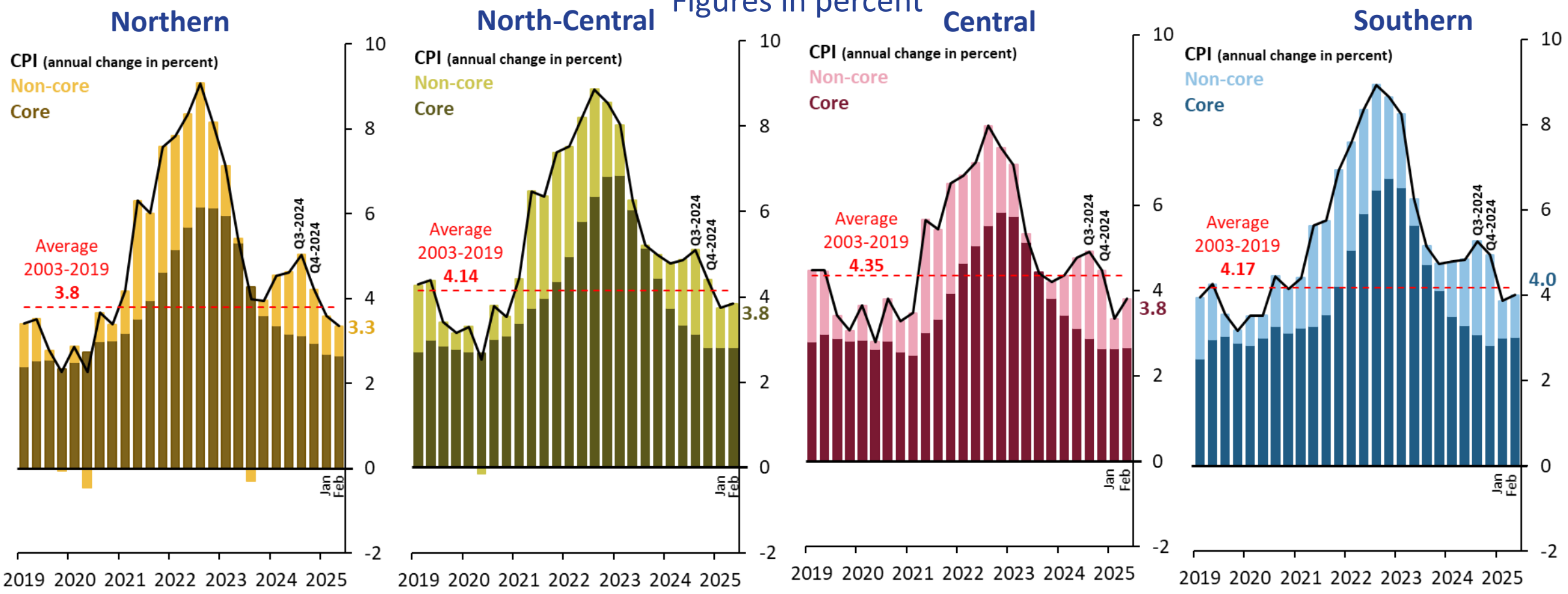
(based on data collected between January 2 and 23, 2025)

III. Final remarks

Annual headline inflation decreased between Q3 and Q4-2024. This result reflected the decline in both core and non-core inflation. In February 2025, annual headline inflation continued trending downwards and was below its 2003-2019 average in all regions.

Incidence on annual headline inflation by region

Figures in percent

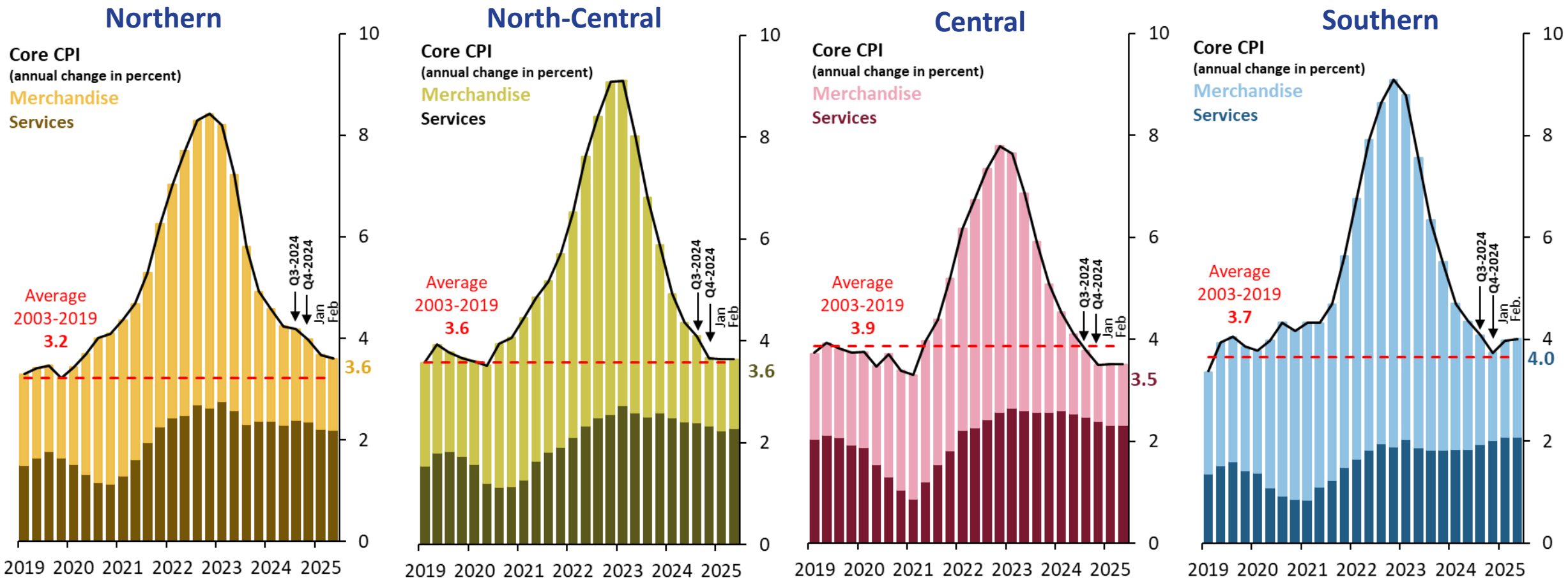


Source: Prepared by Banco de México with data from INEGI.

The decline in core inflation in all regions between Q3 and Q4-2024 was driven by the downward trend in merchandise inflation. Services inflation decreased in all regions, except for the Southern one.

Incidence on annual core inflation by region

Figures in percent

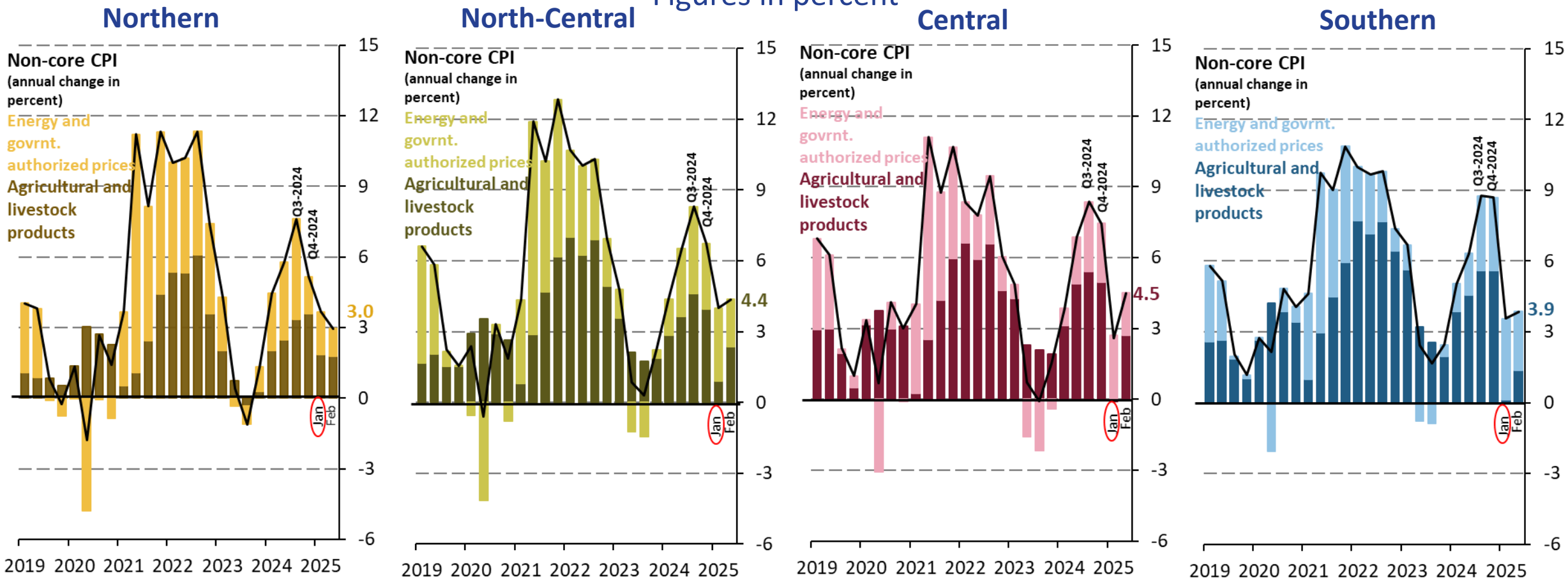


Source: Prepared by Banco de México with data from INEGI.

The decline in non-core inflation between Q3 and Q4-2024 reflected the reduction in energy prices and, to a lesser extent, the prices of agricultural and livestock products, except in the north. Agricultural and livestock products prices decreased notably in all regions in January 2025.

Incidence on annual non-core inflation by region

Figures in percent



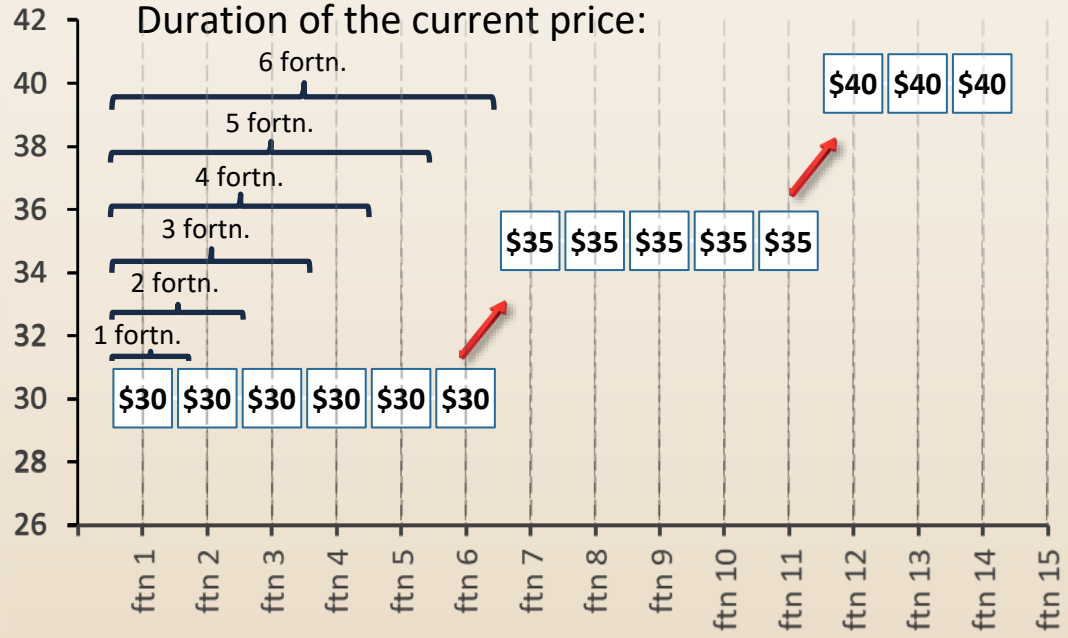
Source: Prepared by Banco de México with data from INEGI.

Duration over which prices of some services in the CPI remain unchanged

- The Box shows how the frequency at which prices change for some services has changed.[1/] By early 2025, the time between price adjustments has increased, reaching levels similar to those at the beginning of 2019 in the four regions.

Illustrative example of price trajectories for a hypothetical service

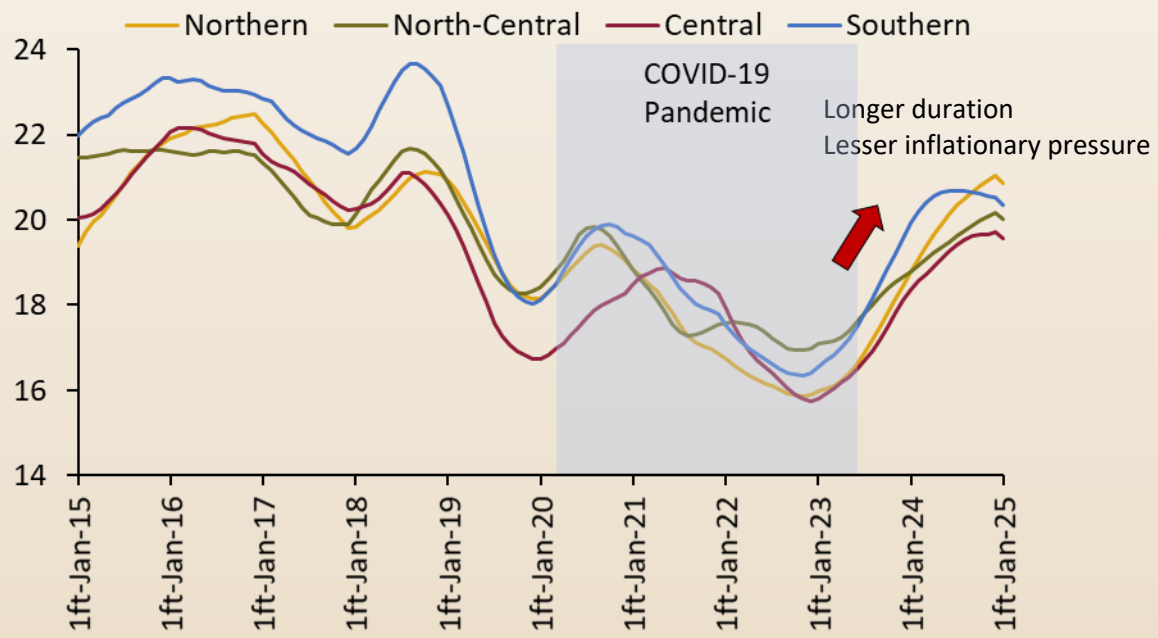
Fortnightly price trajectory in pesos



Source: Prepared by Banco de México.

Duration of current service prices in food, health, leisure, and other services in the CPI

Annual moving average in fortnights



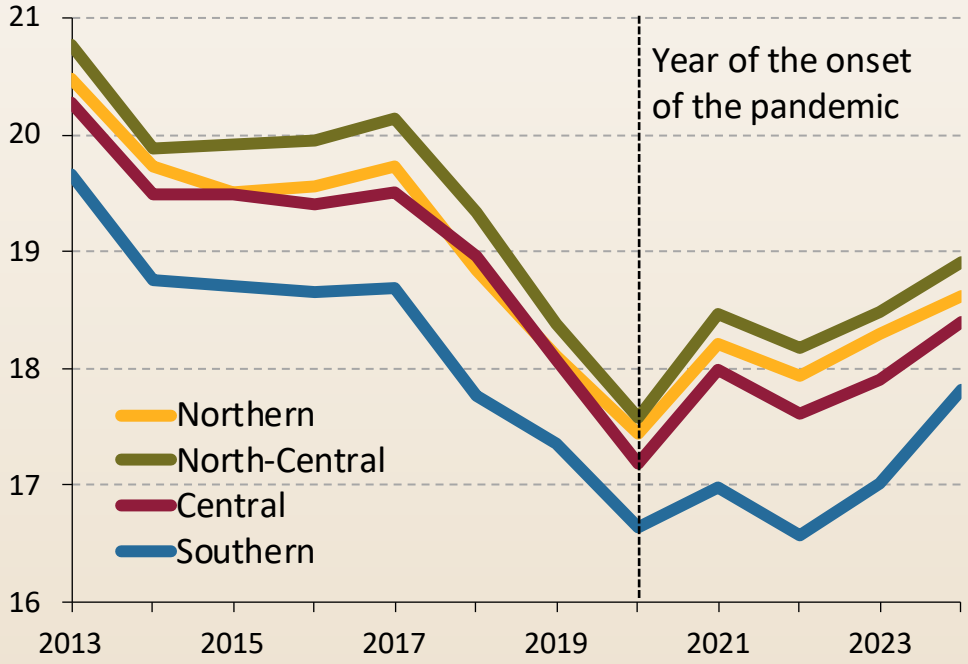
Source: Prepared by Banco de México with microdata from INEGI.

1/ The analysis includes service prices in food, health and leisure, as well as prices in other services such as car washing and greasing, car maintenance, other household services, car repair, laundry, dry cleaning, domestic services, funeral services, pet services, professional services, and student transportation.

Air pollution in Mexican cities and prices of some health-related goods and services

Average PM2.5 levels in Mexican regions

Average PM2.5 for each year from 2013 to 2024, by region



Note: Average levels in µg/m3 in the geographic areas with human settlements.
Source: Prepared by Banco de México with data from INEGI, NASA, and Copernicus-ERA5.

Effects of air pollution on the prices of health-related products

Increase in pollution (PM2.5) → Impacts on individuals' health → Increased demand for health-related goods and services

The estimates were made using a panel data econometric model that incorporates fixed effects by city and time

The results indicate moderate increases in the prices of **anti-inflammatory drugs** and **medical consultations**.

The impact was also analyzed for three other products, although these did not show statistical significance.

Note: The other three products analyzed were antiviral medications, analgesics, and allergy medicines.
Source: Prepared by Banco de México with data from the CPI index published by INEGI and data from NASA-MODIS-MAIAC, SINAICA, Copernicus-ERA5.

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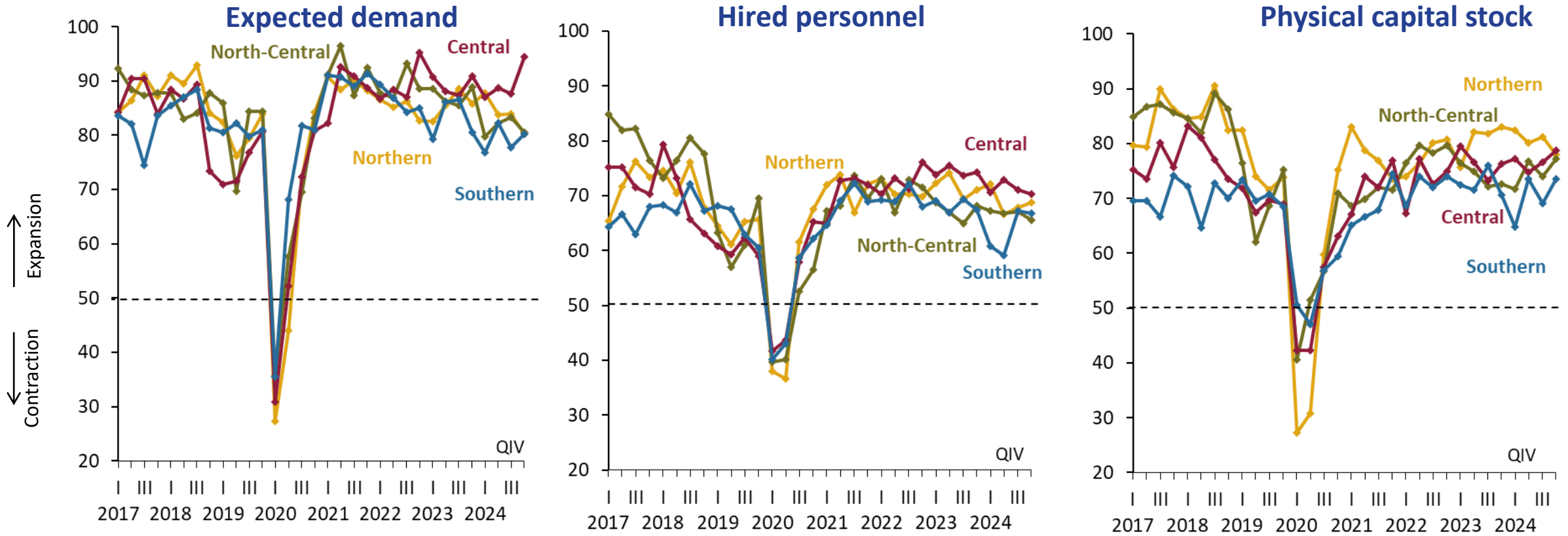
(based on data collected between January 2 and 23, 2025)

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Business agents interviewed regarding demand for their products, personnel hired, and investment in fixed assets for the next twelve months continued anticipating growth in said variables.

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

Diffusion indices

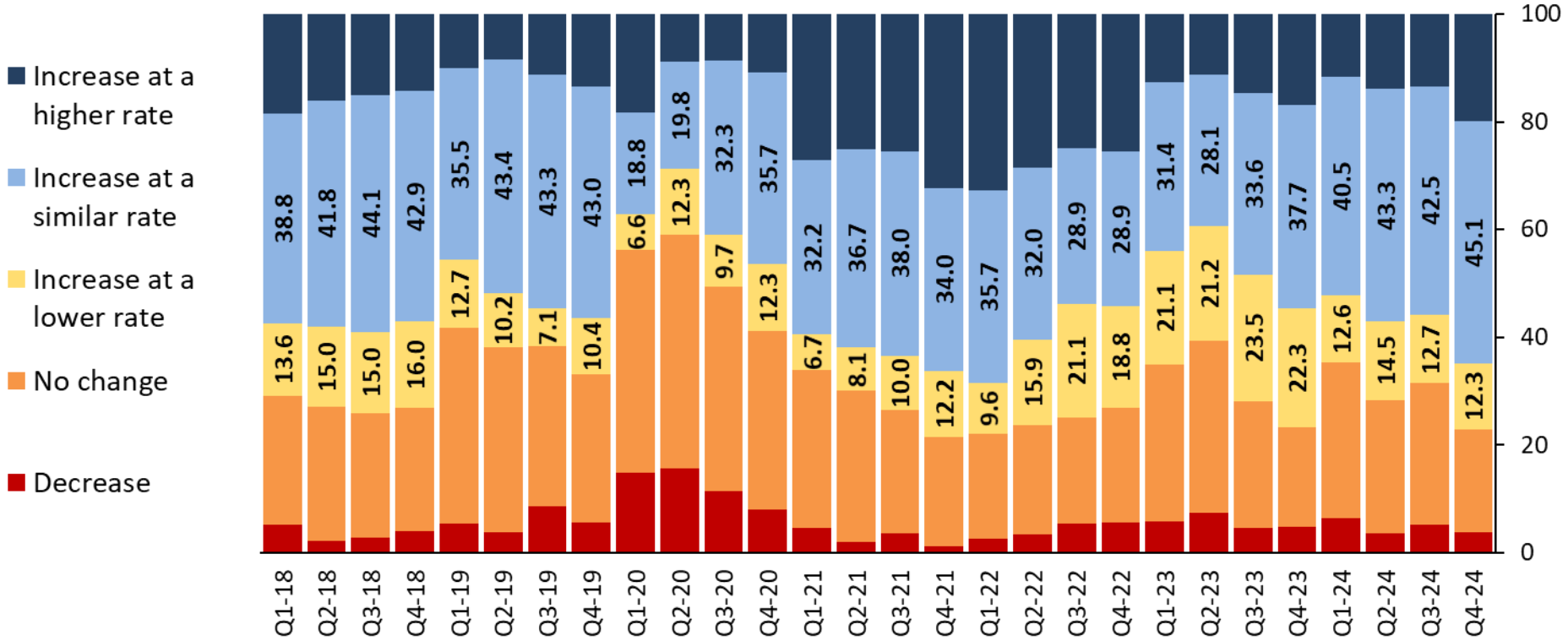


1/ Results obtained from the questions: "With respect to the previous 12 months, how do you expect your sales volume to change over the next 12 months, how do you expect the total number of workers in your company to change over the next 12 months?" and "With respect to the investment in fixed assets 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 Q4-2024, they were obtained between January 2 and 23, 2025.

In Q4-2024, most interviewed business agents continued anticipating their sales prices to increase at a similar or lower rate over the next twelve months, compared to the previous twelve months.

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

Percentage of responses

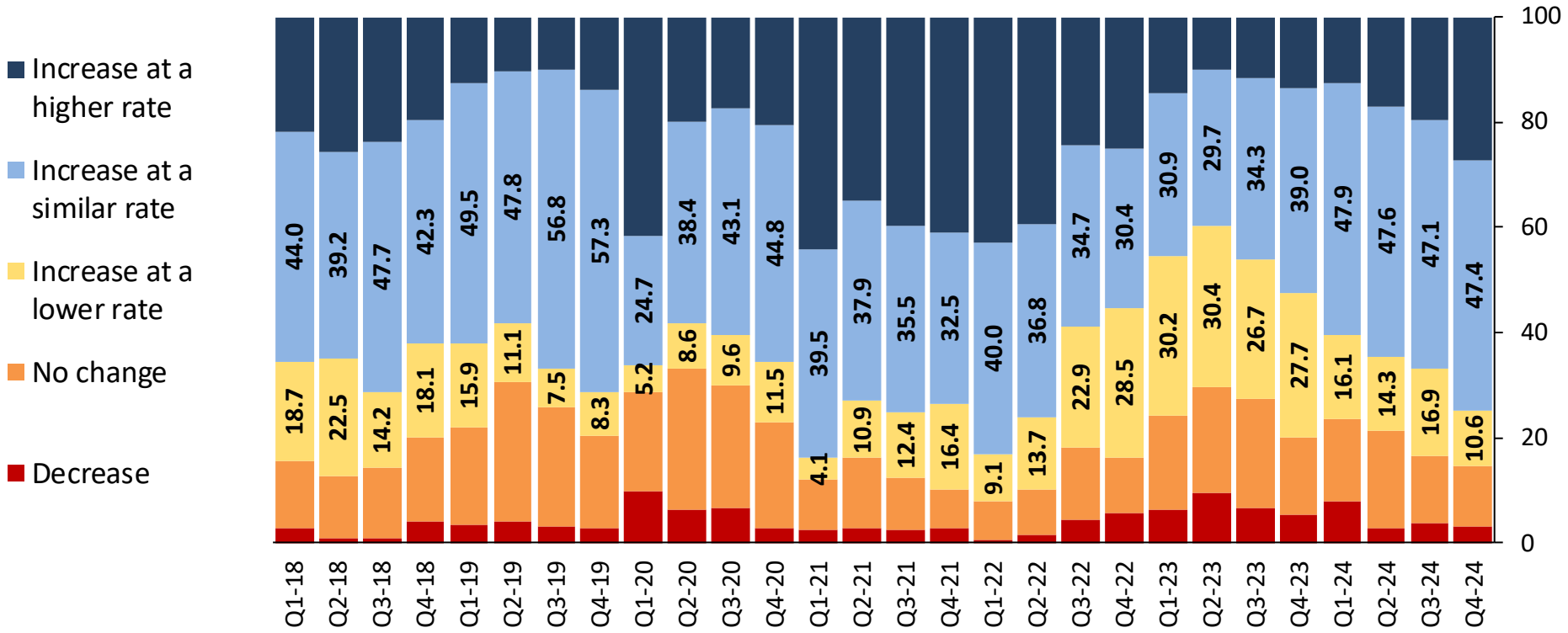


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate sales prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q4-2024, they were obtained between January 2 and 23, 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. However, the percentage of business agents expecting a higher rate of increase also continued to rise.

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

Percentage of responses

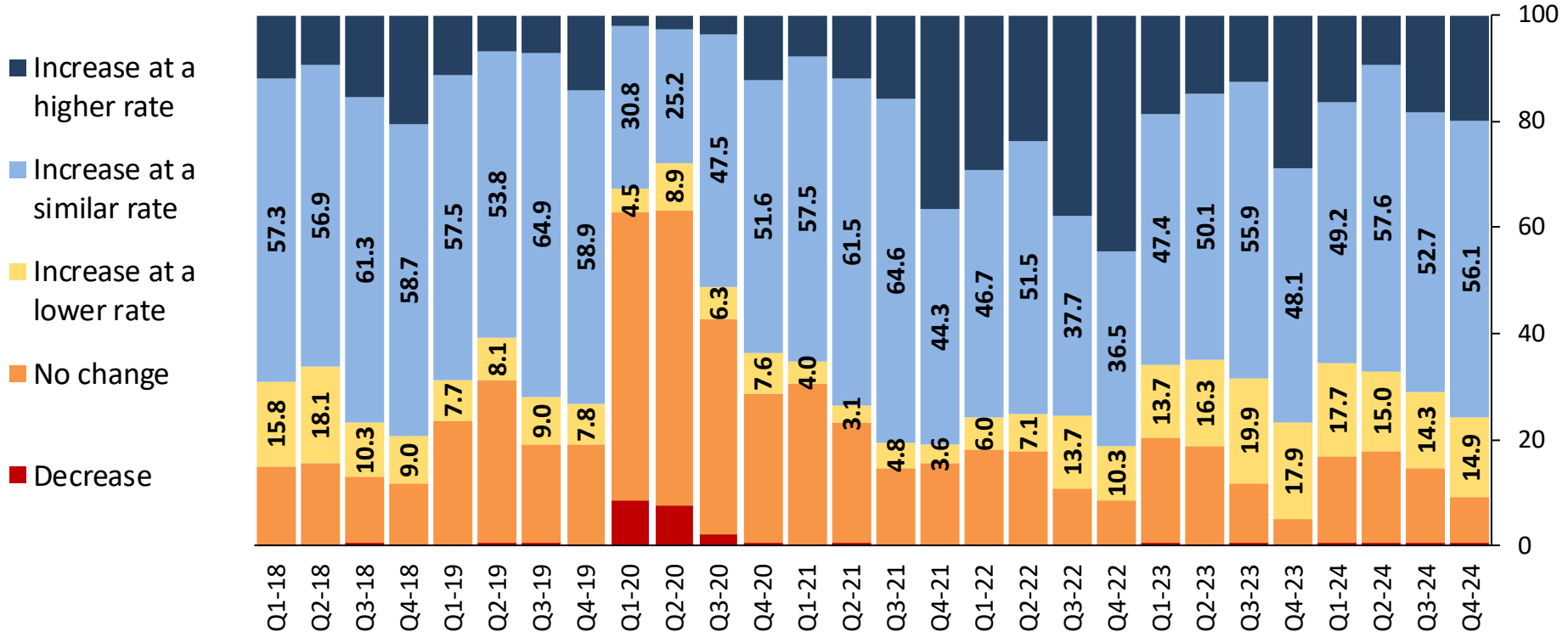


1/ Results obtained from the question: "With respect to the previous 12 months, how do you anticipate input prices in your sector to change over the next 12 months?", included in the interviews conducted by Banco de México. Expectations corresponding to each Report were collected during the four weeks following the end of the reported quarter. In the case of Q4-2024, they were obtained between January 2 and 23, 2025.

In Q4-2024, 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 Q3-2024, they were obtained between January 2 and 23, 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 December 2 and 31, 2014[1/]

	Northern		North-Central		Central		Southern	
	Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses	Factor	Percentage of responses
1	Inflation	**31.7%**	Inflation	**30.1%**	Inflation	**29.6%**	Inflation	**34.0%**
2	External conditions	**21.9%**	Governance	**27.1%**	Governance	**23.3%**	Governance	**26.1%**
3	Governance	**20.3%**	Domestic economic conditions	**15.6%**	Domestic economic conditions	**16.7%**	Domestic economic conditions	**14.4%**

1/ Question: What do you consider to be the three main factors limiting the growth of economic activity in your state over the next six months? This question is similar to the one included in the questionnaire of the Survey on Expectations of Private Sector Economic Specialists. Figures for December 2024 were obtained based on information collected between December 2 and 31, 2024.

Source: Banco de México.

Business agents' opinion on risks to regional economic activity (based on data collected between January 2 and 23, 2025)[1/]

Downward risks

- That public safety indicators deteriorate.
- That policies that could be implemented in the United States affect regional economic performance.
- That levels of public investment in infrastructure at both state and federal levels are lower than expected.

Upward risks

- That public spending, particularly investment in infrastructure projects, is higher than expected.
- That more favorable conditions are observed, both domestically and internationally, thus promoting higher levels of private investment.

1/ Results obtained from the questions: "What are the 2 main events/situations/facts that if they were to occur would boost economic development in your state over the next 12 months?" and "What are the 2 main events/situations/facts that if they were to occur would limit economic development in your state over the next 12 months?", included in the interviews conducted by Banco de México between January 2 and 23, 2025.

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Final remarks

- In an environment of **high uncertainty and various challenges ahead**, the outlook points to a **moderate expansion of the regional economies**.

- To address these challenges, it is essential to **create the right conditions to encourage the flow of investment to all regions. To achieve this, the following steps are necessary:**

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

  - **Continue the construction of infrastructure projects** to improve regional connectivity and facilitate efficient and sustainable access to energy sources.

  - **Promote human capital development.** It is crucial to take actions to reduce environmental pollution and adopt strategies for mitigating and adapting to climate change in order to improve public health, creating a more productive workforce.

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

Regional Economic Report

BANCO DE MÉXICO®

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March 2025

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