Regional Economic Report
October – December 2023
Summary

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During the fourth quarter of 2023, economic activity grew at a low rate. Despite these developments, for 2023 as a whole, Gross Domestic Product (GDP) registered robust growth of 3.2%, in a context in which some of the effects of the pandemic continued fading, the US economy remained resilient, and various public infrastructure projects advanced. The significant slowdown at the end of 2023 with respect to the dynamism observed in the first three quarters of the year reflected a marginal decline in industrial production and low growth in tertiary activities, after the high growth rates that both sectors had registered in the previous two quarters. Looking ahead, the Mexican economy is expected to resume growing at a higher rate, supported by the resilience of domestic spending and the announced fiscal policy stance.

At the regional level, during the reported quarter economic activity is expected to have weakened in all regions, especially in the Southern one. This performance is expected to have been due to lower or even negative growth rates in some industrial activities. Specifically, it is anticipated to have been attributed to the continued sluggishness of manufacturing in all regions, the performance of mining in the Central and Southern regions, as well as of construction in the Southern one, where, nevertheless, public construction remains at historically high levels. Additionally, certain tertiary activities, such as tourism and commerce, weakened in all regions. On the other hand, agricultural and livestock goods' production contracted significantly in the North-Central region, partly due to the droughts that affected some of the country's main producing states of primary goods.

To complement the analysis about regional economic activity exhibited in this Report, Box 1 shows business opinion data that suggests that nearshoring is benefiting both firms that declare themselves to be 100% Mexican and those that do not, although the proportion of the latter that have perceived positive impacts is higher. Box 2 proposes a calculation of market concentration indicators in groceries and food retail trade. The results suggest a high market concentration in supercenter stores and medium sized stores in all regions, although they are distributed heterogeneously. In the Northern region, the percentage of population living in municipalities with a high market concentration in both categories of establishments is lower than in other regions. In the case of convenience stores, the Southern region exhibits the highest proportion of people living in municipalities with low levels of market concentration compared to other regions. Box 3 analyzes the gender wage gap at the regional level, breaking it down into a part attributed to differences in the individual characteristics of men and women, and another part associated with differences across the companies in which they work. In all regions, both factors are found to contribute to the gender wage gap. In the Northern, North-Central and Central regions, a significant part of the gap is explained by different wages within the same company for men and women with similar characteristics.

Between the third and fourth quarters of 2023, annual headline inflation decreased in all regions. This result reflected the continued decline in core inflation in all of them, which more than offset the increase observed in their respective non-core inflation rates. However, at the end of the year, annual headline inflation in all regions began to rebound due to the spike in non-core inflation. Part of the increase reversed in February 2024, as non-core inflation declined somewhat.

Regarding the core component in all regions, annual merchandise inflation kept trending downwards, while services inflation continued without showing a clear downward tendency.

To further analyze consumer prices, Box 4 shows that the disruptions caused by tropical cyclones have the potential to create upward pressures on food prices in the short term. The Box´s results suggest that, following the impact of a tropical cyclone, the price of food merchandise and of fruits and vegetables increases temporarily. The greatest risks of upward pressures on the price of these goods concentrate in the North-Central and Southern regions because they receive the direct impact of tropical cyclones more frequently.

Based on information collected during the program of interviews with business agents, in all regions the diffusion indices of expectations for the 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 the reported quarter, demand expectations strengthened in the Central region, just as employment expectations did in the Northern and North-Central regions, while those for investment improved in the Northern and Central regions.

The interviewed business agents highlighted the following risks to regional economic growth. On the downside: i) that public safety indicators deteriorate; ii) that uncertainty generated by the 2024 elections, common in these types of processes, is higher than expected; iii) that inflation persists at high levels, and iv) that severe weather phenomena adversely impact regional economic activity. Among upside risks, they mentioned: i) that public spending, particularly investment in infrastructure projects, is higher than expected; ii) that public safety conditions improve, and iii) that more favorable conditions are observed, both domestically and internationally, thus promoting higher levels of private investment.

The percentage of interviewed business agents who anticipate the selling prices of the goods and services they offer, as well as in their input prices, to grow at a higher or similar rate in the next twelve months compared to the previous twelve months, increased in all regions, except for input prices in the Central region. There was an increase in the proportion of interviewed business agents in all regions who anticipate wage costs will increase at a higher rate in the next twelve months compared to the previous twelve months.

Looking ahead, regional economies are anticipated to continue expanding, despite facing a complex and uncertain environment that poses significant challenges to their growth. Among these challenges, the possibility of an economic slowdown in the United States is considered, which could particularly affect states in the Northern and Central regions that are clearly export-oriented or those with the highest inflow of remittances. Likewise, adverse weather events may influence the performance of those Mexican states that are most vulnerable to such phenomena, as recently evidenced by the impact of Hurricane Otis in Acapulco, Guerrero, or by the droughts that have affected various agricultural areas of the country, particularly in Jalisco, Sinaloa, and Michoacán. In addition, public safety problems, which have been reported by companies as a factor affecting their operations in certain areas of the country, could persist.

To address these challenges, as well as to confront other obstacles to achieving greater long-term growth in the regions, it is crucial to encourage the continued strengthening of the rule of law. It is also relevant to increase competition in the markets of goods and services in order to foster innovation and improve the efficiency with which productive units operate. It is also essential to continue promoting the construction of transportation, water and energy infrastructure projects to stimulate investment not only in regions that have historically received most of these flows, but also in the Southern region. At the same time, it is a priority to continue supporting human capital formation and equity in the labor market in all regions. Given the challenges posed by climate change to regional economies, mitigation and adaptation policies to this phenomenon need to be implemented, particularly in the most vulnerable areas. All of these actions would not only support the regions in successfully facing the current challenges, but would also help to boost greater sustainable long-term growth and improve the living conditions of their population.