Regional Economic Report
April – June 2024
Summary

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The notorious weakness of Mexico's economic activity exhibited since the end of 2023 continued in the second quarter of 2024. This behavior reflected primarily the sluggishness of industrial activity and the loss of dynamism in services. In addition, so far this year, primary sector activities have contracted significantly in some months.

At the regional level, economic activity is estimated to have been sluggish in all regions during the second quarter of 2024.[1] Nevertheless, the Southern region would continue to be at relatively higher levels than those observed before the pandemic, compared to other regional economies. From a sectoral perspective, the contraction of manufacturing production in the Northern and North-Central regions is anticipated to have contributed to the weak performance estimated for the analyzed quarter. It would also have responded to a decline in construction in the Northern and Southern regions, although public infrastructure projects remain active in the Southern region. The decline in mining is also expected to have contributed to the sluggishness of the Southern region. Certain tertiary activities, such as tourism, weakened in all regions, while trade stagnated in the north. Finally, agricultural and livestock production declined in the central regions.

To complement the analysis of regional economic activity, Box 1 presents an estimate of regional and sectoral impacts on employment derived from the increase in public construction investment in the Southern region between 2021 and 2023, using INEGI's 2018 Multi-State Input-Output Matrix. Estimates indicate that this increase would not only have benefitted employment in the Southern region, but also in the rest of the regions, due to the indirect effects on industries that supply inputs and services to the construction sector. Box 2 estimates the effect of exposure to droughts on beef production levels and beef prices. Estimates suggest that droughts cause a temporary decrease in cattle weight at the time of slaughter and a delayed transitory increase in the price per kilogram of beef paid to producers, although both effects are relatively limited.

Headline inflation increased in all regions between the first and second quarters of 2024 and continued rising in July. This behavior was exclusively attributed to the increase in non-core inflation. In August, headline inflation declined in all regions due to the moderation of non-core inflation. Core inflation in all regions continued decreasing in the second quarter and so far in the third quarter.

Regarding the progress of disinflation in the cities where CPI prices are measured, Box 3 describes the generalized nature of the decline in core inflation at such level of geographic disaggregation. Additionally, the dispersion of core inflation among cities has declined during this process, following the increase registered in the years after the onset of the pandemic. Box 4 analyzes the relation between market concentration in self-service stores and price levels and inflation of processed food and beverages between 2015 and 2023. The main results suggest that higher concentration levels of self-service stores in Mexican cities are associated with higher food and

[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.

beverage prices, but not necessarily with a higher inflation in these products.

The diffusion indices, which measure the interviewed business agents' expectations regarding the demand for products they offer, for personnel hired, and for investment in fixed assets for the next twelve months continued anticipating growth in these variables. In the reported quarter, regarding demand expectations, the indicators increased in the Central and Southern regions, although they remained at levels similar or lower than those observed at the end of 2023. In contrast, in the Northern region these indicators weakened. Regarding hired personnel expectations, the indices declined in all regions except for the Central one, where they increased slightly. Regarding expectations for investment in fixed assets for the next twelve months, the indicators for the Northern and Central regions decreased. In contrast, the North-Central and Southern regions reported an increase, after the decrease observed in the previous quarter.

The interviewed business agents pointed out 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 inflation and interest rates persist at high levels; and iii) that severe weather events adversely affect regional economic activity. Among upside risks, they mentioned: i) that public spending, particularly investment in infrastructure projects, is higher than expected, and ii) that more favorable conditions are observed, both domestically and internationally, thus promoting higher levels of private investment.

In the Northern and Central regions, the highest percentage of responses from interviewed business contacts indicated that the selling prices of goods and services they offer will grow at a similar rate in the next twelve months compared to the previous twelve months. Moreover, this percentage increased in the Northern and Central regions and remained at a similar level in the North-Central one. In the Southern region, the largest proportion of respondents anticipates selling prices to increase at a lower rate, and said proportion also grew in the reported quarter. Regarding input prices, the proportion of business agents expecting them to grow at a similar or higher rate continued increasing in all regions. The majority of interviewed agents in all regions continues to expect wage costs to increase at a similar or lower rate in the next twelve months compared to the previous twelve months.

Regional economies are anticipated to continue expanding despite facing a complex and uncertain environment that poses significant challenges to their growth. One of these challenges is the possibility of a decline in external demand, especially from the United States, in the event that the US economy registers lower-than-expected growth. Additionally, the electoral process in that country could generate greater uncertainty in the short term and possibly lead to the implementation of policies that affect global trade, as well as the flow of investment and remittances. Depending on how these phenomena materialize, states in the Northern and Central regions, which are highly dependent on exports, could be particularly affected, as could those that receive considerable inflows of remittances or tourists from the United States, as observed in some states of the North-Central and Southern regions. Another challenge is associated with public insecurity issues, as business contacts continue noting their effects on their business operations in certain areas of the country. In addition, the occurrence of adverse climate-related events, such as droughts and floods, poses a risk to the well-being of the population and to regional activity.

Given these challenges faced by regional economies, it is important to continue strengthening domestic sources of growth, generate conditions that foster investment, and leverage the opportunities offered by nearshoring. Indeed, according to the business opinions outlined in Box 5, nearshoring is expected to yield its greatest benefits in the future. However, business contacts also underscore the need to implement actions to capitalize on this growth opportunity. Specifically, it is necessary to continue promoting the construction of transportation, water, and energy infrastructure, as well as human capital formation. It is also necessary to strengthen public safety and the rule of law. Considering the risks posed by climate change to regional economies, it is essential to implement mitigation and adaptation policies in the most vulnerable areas. These measures

would not only help the regions to address current challenges effectively but would also promote more inclusive and sustainable growth in the long term, thus improving the living conditions of the population.