Regional Economic Report
January – March 2025
Summary

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In the first quarter of 2025, Mexico's economic activity showed weakness once again. This occurred in a complex environment, where uncertainty generated by the tariff measures announced by the United States could have affected the economic agents' behavior. From a sectoral perspective, both secondary and tertiary activities contracted, indicating that the low growth registered during the period was attributed to primary activities' expansion.

At the regional level, economic activity is expected to have continued contracting in the Northern, Central, and, more notably, in the Southern region during the first quarter of 2025.[1] The North-Central region is expected to have registered an increase, following the fall observed in the previous quarter. The contraction in the Northern region could be attributed to a generalized weakening in all sectors, except for commercial activity. The fall in the Central and Southern regions is explained by a decrease in mining and construction. Meanwhile, the expansion in the North-Central region was driven by growth in primary activities, manufacturing, and mining, along with an increase in certain tertiary activities, such as tourism and trade.

To complement the analysis of regional economic activity, Box 1 estimates the origin of the value added embedded in national manufacturing exports and exports by region. The main findings show that the production processes of these exports are highly integrated with North America, in particular with the United States. Although exports from the Northern and Central regions account for a higher share of the national value added, the value added content originating from the USMCA per dollar exported is lower than that observed in the Southern region. This is due to the fact that the former are more oriented to sectors linked to global value chains, while exports in the Southern region incorporate a higher share of local inputs.

The Report also includes two boxes that provide a more in-depth analysis of regional labor markets. Box 2 analyzes the performance of the regional employed population in the post-pandemic period. The results show a generalized slowdown in employment, although less notable in the Central region. However, significant differences are observed by gender and formality status. Among the different categories considered, formal employment among women has registered the slowest deceleration, highlighting the resilience of formal female workers in the country's Northern and Central regions. Box 3 analyzes the geographic distribution of IMSS-registered employment in exporting firms. Even though this type of employment is particularly relevant in the Northern region, it is also widely distributed among the country's local labor markets. Furthermore, it tends to concentrate in markets with a high level of total employment and high sectoral diversity, both characteristics that suggest a greater capacity to adjust to changes in external demand.

[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.

Between the fourth quarter of 2024 and the first quarter of 2025, headline inflation decreased in all regions, although it has slightly increased so far this year. Core inflation exhibited certain heterogeneity across regions. During that quarter, it decreased in the Northern region, remained relatively stable in the Central regions, and increased in the Southern region. So far in 2025, inflation has increased slightly in all regions. Regarding its components, so far this year, merchandise inflation has trended upwards, while services inflation continued trending downwards. Between the fourth quarter of 2024 and the first quarter of 2025, non-core inflation decreased in all regions. However, in 2025, it has gradually trended upwards, mainly driven by the higher annual variation in livestock product prices.

The diffusion indices of business executives' expectations regarding 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 all regions. However, during the reported quarter, the indices registered generalized reductions, some of them significant, compared to the previous quarter.

Expectations for sales prices, wage costs, and input costs over the next twelve months suggest that, in all regions, inflationary pressures remained below the peak levels observed in the years following the onset of the pandemic. Also, in all regions, the vast majority of business executives continued anticipating that these variables would register growth rates equal to or lower than those observed in 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 persists; and iii) that public investment levels in infrastructure at both state and federal levels are lower than expected. On the upside: i) that public spending, particularly investment in 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 promote private investment.

Regional economies continue facing a complex and uncertain environment that poses significant challenges to their 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, which in itself could be influencing the decisions of economic agents, even before such measures are implemented. This could particularly impact the 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 for which remittances represent a relatively important source of income relative to the size of their economies, such as some states in the North-Central and Southern regions, could also be affected. On the domestic front, public insecurity continues representing a challenge, as the interviewed business executives continue reporting its negative impact on their firms' operations across different regions of the country. In addition, they highlight the possible occurrence of extreme weather events, such as droughts, floods, and frosts, which have a differentiated impact on regional economic activity. Additionally, the interviewed business contacts identify the risk of a lower flow of public resources to the regions. Nevertheless, such consolidation would contribute to preserve solid macroeconomic fundamentals, strengthening the capacity of regional economies to face global risks and external shocks.

Given these challenges, it is essential to continue strengthening the domestic sources of growth, generating favorable conditions for investment, and leveraging the opportunities offered by the current juncture. In this regard, trade under the USMCA framework grants preferential treatment that represents an opportunity to strengthen North America's value chains and expand the regions' participation in them. Thus, continuing to promote the construction of infrastructure is a priority, given its key role in improving regional connectivity and competitiveness. It is also necessary to foster human capital formation and the adoption of new technologies to strengthen the productive capacity of the regions and provide greater value added to the North American production platform. Since this Report was first released, interviewed business executives have pointed out, among other factors, the importance of strengthening public safety and the rule of law as elements necessary to attract investment and promote economic development. Additionally, given the risks associated with climate change, it is key to advance the implementation of mitigation and adaptation policies in the most vulnerable areas and sectors. These actions would not only enable the regions to address the current challenges, but would also contribute to more inclusive and sustainable long-term growth, thereby improving the population's living conditions.