Regional Economic Report
July – September 2025
Summary

FOREWARNING: This document is provided for the reader's convenience only. The translation from the official Spanish version was made by Banco de México's staff. Discrepancies may arise between the original document in Spanish and its English translation. For this reason, the original Spanish version is the only official document.

During the third quarter of 2025, GDP contracted compared to the previous quarter. From a sectoral perspective, this performance was attributed to a decline in industrial production, which was partially offset by an expansion in primary sector activities and a slight increase in tertiary activities.

At the regional level, economic activity in Mexico is estimated to have contracted in all regions except the North-Central one during the third quarter of 2025.[1] The contraction in the north, center, and south was mainly due to a weakness in construction and manufacturing—except for manufacturing in the south—as well as to a decline in some services, especially those related to tourism. In contrast, economic growth in the North-Central region was sustained by the expansion of mining, primary sector activities, and certain tertiary activities, such as trade and tourism.

To complement the analysis of economic activity, this Report includes five boxes. Based on business opinion data, Box 1 reports that artificial intelligence and even more so its automation tools are being adopted in a significant segment of companies with over 100 employees across all regions. However, in a substantial number of companies, this adoption is still at its early stages and remains largely exploratory, particularly in the case of artificial intelligence. According to the companies surveyed, these technologies have contributed to reduce costs, optimize processes, and improve the quality of goods and services. However, various challenges persist, such as a lack of resources, of skilled personnel, and of expertise, which continue to limit their broader adoption.

Regarding agricultural and livestock production, particularly production of certain crops like corn, burning is a common practice, especially before the start of the planting season. Box 2 examines the impact of this practice on environmental pollution in different regions of Mexico. Burning releases pollutants that, in some cases, exceed the maximum exposure limit recommended by the World Health Organization, posing a potential health risk to the population. The greatest impact is observed in some municipalities in the south and, to a lesser extent, in those in the central regions. In the north, the effects are considerably less pronounced, due to the use of different production practices.

In addition, this Report includes three boxes that explore different aspects of the evolution of labor income. Box 3 analyzes regional and sectoral differences in the distribution of wage revisions, defined as the annual percentage change in the IMSS-insured workers' base salary. In all regions and sectors, adjustments tend to concentrate around benchmarks related to increases in the minimum wage or past inflation. This pattern of concentration varies by sector and, to a lesser extent, by region. Likewise, a higher rate of sectoral and regional unionization is associated with a larger proportion of wage revisions that are equal to or less than the minimum wage increase. Box 4 analyzes the wage gap between exporting and non-exporting firms, as well as the factors that explain it. The results indicate that exporting firms, by being more productive,

[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.

significantly contribute to raising their workers' wages. The impact of this wage premium varies across regions: in the Northern region, it tends to benefit workers in the middle and lower segments of the wage distribution to a greater extent, thereby reducing wage dispersion; while in the Central, North-Central, and Southern regions, it is mainly concentrated among higher-income workers, which increases wage dispersion. Lastly, Box 5 analyzes the factors that explain the reduction in extreme income poverty between 2018 and 2024. The results indicate that, across all regions, this reduction was primarily driven by the real growth in current household income, particularly among lower-income households. This growth was mainly fueled by an increase in labor income and, to a lesser extent, by a greater flow of transfers, which helped offset the adverse effect of the rising cost of the basic food basket. This decline was particularly notable in the Southern region, despite the significantly high levels of extreme poverty persisting in this region.

In all regions, annual headline inflation decreased between the second and third quarters of 2025. This downward trend was the result of a reduction in non-core inflation. Such reduction was determined by the decrease in agricultural and livestock products prices, particularly fruits and vegetables, as well as by lower energy inflation. During the second and third quarters of 2025, core inflation rose across all regions, driven by higher merchandise inflation, which more than offset the decline generally observed in services inflation. In all regions, except for the Northern one, headline inflation rebounded in November, in response to an increase in core inflation. In the center, such rebound was also associated with a rise in public transportation fares in some cities. During the same month, headline inflation stood at 3.41, 3.81, 4.07, and 3.67% in the Northern, North-Central, Central, and Southern regions, respectively.

The diffusion indices of business executives' expectations regarding demand for their products, for personnel hired, and for investment in fixed assets for the next twelve months continue pointing to an expansion across all regions. In particular, the demand index remained stable in the Central region, while it increased in the other regions. The growth outlook on personnel hired weakened across all regions, especially in the south. As for expectations regarding the future evolution of fixed capital stock, these improved in the North-Central and Southern regions; in the north they remained similar to the previous quarter, while in the center they slightly deteriorated.

Business executives were also asked about their expectations for the next twelve months regarding sales prices, input costs, and wage costs. In all regions, most executives anticipate that these variables will 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 global uncertainty, mainly related to changes in US trade policies, persists, and iii) that public investment in infrastructure at both state and federal levels is lower than expected. On the upside: i) that public spending, particularly on infrastructure projects, is higher than expected; ii) that more favorable conditions at both domestic and international levels encourage private investment, and iii) that public security levels improve.

Regional economies continue facing a complex and uncertain environment characterized by significant challenges to their growth. However, looking ahead, they are expected to perform better than in 2025. On the external front, uncertainty persists regarding the policies that Mexico’s main trading partner could implement and the upcoming review of the USMCA, which could particularly affect the states in the Northern and Central regions, given their high level of integration with international markets. In addition, those states that historically have been migrant-sending could also be directly affected. This is especially relevant in certain states in the North-Central and Southern regions, where remittances represent a relatively significant proportion of household income. On the domestic front, public insecurity remains a challenge, as business executives continue reporting disruptions to their business operations in different regions of Mexico. In addition, there is the threat of extreme weather events, which

could have a differentiated impact on productive sectors and states.

Given these challenges, it is crucial to continue strengthening domestic sources of growth, fostering favorable conditions for investment, and capitalizing on the opportunities offered by the current juncture. In this context, Mexican exports under the USMCA have received preferential treatment compared to those of other countries, representing an opportunity to strengthen North America's productive structure and take advantage of the export sector as an engine of regional development.

It is therefore a priority to continue promoting the construction of transport, energy, and water infrastructure, given its strategic importance in reducing costs and enabling access to domestic and international markets. This would not only increase competitiveness but also enable each region to fully leverage its comparative advantages. It is also essential to foster human capital formation and the adoption of new technologies to strengthen regional productive capacity and provide greater value to the North American production platform. Since this Report was first released, interviewed business executives have emphasized, among other factors, the need to strengthen public safety and the rule of law, which are key elements in creating a favorable investment environment and generating better conditions for economic development. It is also essential to advance in the implementation of climate change mitigation and adaptation policies in the country's most vulnerable areas and sectors. These actions would not only enable regions to face the current challenges, but would also contribute to more inclusive and sustainable long-term growth, thereby promoting the economic and social well-being of the Mexican population.