Regional Economic Report
January – March 2026
Summary

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During the first quarter of 2026, GDP contracted significantly, after having registered an improvement in the fourth quarter of 2025. This performance was mainly driven by a reversal in the moderate recovery of industrial activity at the end of 2025, as well as by a contraction in services. Meanwhile, primary activities offset part of the progress observed in the second half of 2025.

In line with this performance, economic activity is estimated to have declined in all regions during the analyzed quarter.[1] In the Northern, North-Central, and Central regions, the decline is expected to have been associated with weakness in certain tertiary activities, including tourism. The decline in manufacturing and construction is estimated to have influenced the economy of the Northern and North-Central regions, while the decline in mining activity is also estimated to have impacted the Central regions. In the Southern region, the decline is expected to have reflected the contraction in manufacturing, mining, and in agricultural and livestock production.

This report includes three boxes that explore issues with implications for the performance of the regional economies, covering areas such as tourism, weather conditions, and the labor market. Box 1 examines the relationship between tourism demand and accommodation services, comparing traditional hotel supply with that offered through digital accommodation platforms. The results indicate that temporary increases in demand are associated with higher hotel occupancy rates, as well as with increases in the number of bookings and accommodation prices on these platforms, particularly in beach destinations and in the World Cup host cities. This suggests that the expansion of this type of supply could help to partially mitigate pressure on accommodation prices. Box 2 examines the effects of the *El Niño*-Southern Oscillation phenomenon on Mexico's weather. The results indicate that its different phases produce differentiated weather patterns across regions and seasons. During *El Niño*, temperatures rise in the Central and Southern regions of the country, while precipitation decreases in spring and summer. In contrast, during *La Niña*, temperatures rise in the Northern and North-central regions, as does precipitation during those same seasons. This weather variability has significant implications for economic activity, particularly for the agricultural and livestock sector. Finally, Box 3 analyzes the coverage of the *Pensiones para el Bienestar* (Pensions for Well-being) program and its effects on the number of jobs registered with the IMSS from a regional perspective. The results indicate that the program's coverage among the elderly population is higher in the Northern and North-Central regions. The estimates also suggest that, in these regions, the program has opposing effects across age groups, stimulating employment among individuals under 65 and reducing the number of IMSS-insured workers among those eligible for this benefit, with no aggregate effect.

Annual headline inflation rose in all regions except for the Northern one between the fourth quarter of 2025 and the first quarter of 2026. Specifically, it changed from 3.43, 3.75, 3.84, and 3.58% to 3.37, 4.25, 4.38,

[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.

and 4.37 in the Northern, North-Central, Central, and Southern regions, respectively. The upward trend of inflation in the North-Central, Central, and Southern regions was mainly due to the increase in non-core inflation, which in turn was driven by the rise in the annual change in fruit and vegetable prices. To a lesser extent, the quarter-on-quarter rise in headline inflation in these regions was also driven by higher core inflation, mainly affected by adjustments to the Special Tax on Production and Services (IEPS, for its acronym in Spanish) implemented in early 2026. In the Northern region, while core inflation also increased between quarters, this growth was more than offset by the decline in non-core inflation. Overall, inflation has been trending downwards in all regions since April. This has been the result of a decrease in non-core inflation across all regions, combined with the decline in core inflation registered since January. In May, inflation in the Northern, North-Central, Central, and Southern regions stood at 3.38, 4.27, 3.94, and 4.20%, respectively.

To further examine the factors that influence price formation, Box 4 analyzes how managers of small service businesses set and adjust their prices based on focus groups conducted in five cities across the country. In particular, it describes the factors that influence price-setting, as well as the frequency, magnitude, and manner in which price adjustments are implemented. The results suggest that, while price dynamics differ by service type, price increases are largely driven by rising production and living costs, whereas competitive pressure is the main factor that contains them.

The diffusion indices of business executives' expectations regarding demand for their products, employment, and their investment in fixed assets for the next twelve months continue suggesting an expansion in all regions. The demand indicator rose in the Central and Southern regions, while it declined in the Northern and North-Central ones. As for expectations regarding the number of hired personnel, these moderated in the Northern and North-Central regions, remained stable in the Southern region, and strengthened in the Central one. Meanwhile, the fixed asset investment index increased in the Northern and Central regions and declined in the North-Central and Southern ones.

Business executives were also asked about their expectations for the next twelve months regarding sales prices, input costs, and wage costs. Across all regions, most executives continued anticipating increases equal to or lower than those observed over the previous twelve months.

The interviewed business executives identified the following risks that could affect regional economic growth in the next twelve months. Among downward risks, they highlighted: (i) that public safety indicators deteriorate; (ii) that geopolitical conflicts persist or escalate, particularly in the Middle East; and (iii) that public investment in infrastructure at both state and federal levels is lower than expected. In contrast, among upside risks, they mentioned: (i) that public spending, particularly on infrastructure projects, is higher than expected; (ii) that the impact of the World Cup on regional tourism activity turns out greater than anticipated; and (iii) that more favorable conditions at both domestic and international levels encourage private investment.

Regarding one of the factors that business executives identify as potentially beneficial for regional economic activity, Box 5 analyzes business perceptions of the impact of the 2026 World Cup. The results indicate that positive expectations prevail, although said expectations and firms' strategies vary by geographic location and economic sector. Non-manufacturing firms anticipate greater benefits than manufacturing firms, with the expected effects concentrated mainly in the period preceding and during the tournament. Finally, the opinions collected suggest that the economic effects could extend beyond the host cities, benefiting other tourist destinations in the country as well.

Looking ahead, regional economies are expected to continue expanding, albeit in a complex and uncertain environment that will continue posing challenges to growth.

On the external front, uncertainty persists regarding potential policy changes by Mexico's main trading partner and the upcoming review of the USMCA. This could particularly affect states in the Northern and Central regions of Mexico, given their close economic integration with the United States. Likewise, states with a record of high emigration rates to the United

States could be affected by shifts in remittance flows, especially in some states of the North-Central and Southern regions where remittances constitute a significant share of household income. In addition, the international environment is characterized by heightened geopolitical tensions and the reconfiguration of global supply chains, generating both risks and opportunities for the country's regions.

On the domestic front, public insecurity remains a challenge, as business executives continue reporting disruptions to their business operations across various regions of the country. In addition, the growing exposure to extreme weather events and constraints on the availability of water and energy supplies pose significant challenges for various economic activities and states.

Given this outlook, strengthening domestic sources of growth and consolidating conditions favorable for investment is of strategic importance, in a context where uncertainty could affect the implementation of investment projects in certain sectors and regions. In addition, the current international environment also creates opportunities that can be capitalized on. In particular, the preferential treatment granted to Mexican exports under the USMCA compared to that of other countries opens opportunities to deepen North America's production integration and to consolidate the export sector as a driver of regional development.

To attain this potential, it should be a priority to move forward with the construction and modernization of transportation, digital, energy, and water infrastructure, given their importance in reducing costs, improving connectivity, expanding access to markets, and enhancing regional competitiveness. It is also essential to strengthen human capital formation and expand digital inclusion in order to accelerate technology adoption in the regions. This will contribute to expanding productive capacity and raising regional potential growth. In addition, business executives continue emphasizing the importance of reinforcing public safety and the rule of law as necessary conditions to unlock investment and foster growth. Likewise, advancing climate change mitigation and adaptation policies in the most vulnerable regions and sectors will help contain structural risks and preserve long-term productive viability.

Altogether, these actions are key for regions to address the current challenges and to consolidate a more solid, resilient, and inclusive growth path for the benefit of Mexico's population.