Regional Economic Report
October – December 2024
Summary

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The weakness of Mexico's economic activity intensified in the fourth quarter of 2024, as it registered a significant contraction with respect to the previous quarter. This performance reflected declines in primary and secondary activities, as well as a lesser dynamism in tertiary activities. Thus, the Mexican economy as a whole was sluggish in 2024.

At the regional level, economic activity is estimated to have contracted in all regions.[1] From a sectoral perspective, the contraction in all regions during the reported quarter is expected to have responded to the fall in agricultural and livestock production and industrial activities, except for mining and manufacturing in the North-Central region. Similarly, the decline in the Central region would have reflected the weakening of some services, particularly tourism and, as in the Northern region, trade.

To complement the analysis of regional economic activity at the current conjuncture, Box 1 explores the differences in the performance of regions during the slowdown in Mexico's economic activity observed since the end of 2023. All regions experienced a weakening of economic activity during this period. However, the intensity of the weakening varied according to each region's sectoral performance and production structure. While the central regions performed more similarly to the national level, the economic slowdown was less pronounced in the Northern region and more noticeable in the Southern region, mainly due to region-specific factors that influence their performance beyond their sectoral composition. In the context of climate change, Box 2 analyzes the impact of exposure to extreme temperatures on the working hours of individuals. The results indicate that greater exposure to temperatures below 10°C or above 35°C reduces the hours worked, especially among informal sector workers. The Northern region showed the largest decreases associated with temperatures above 35°C, while the Central region registered the largest declines associated with temperatures below 10°C.

In all regions, annual headline inflation decreased between the third and fourth quarters of 2024. This result reflected declines in both core and non-core inflation. During the reference quarter, the decrease in core inflation in all regions was influenced by the downward trajectory of merchandise inflation, whose levels were below those observed at the beginning of the pandemic and even below their historical averages. Meanwhile, services inflation declined gradually in all regions, except for the Southern region, where it remained relatively stable between quarters. The decline in non-core inflation reflected the reduction in energy inflation and, to a more moderate extent, in agricultural and livestock products inflation, except in the Northern region. However, agricultural and livestock products inflation declined more significantly in all regions in December 2024 and particularly in January 2025, as some of the supply shocks that had contributed to the rise in the prices of some fruits and vegetables faded. In February 2025, annual headline inflation in all regions was lower than its average between 2003 and 2019, thus indicating that the inflationary episode derived from global shocks has been resolving.

Regarding the evolution of prices in some final goods and services markets, Box 3 provides evidence that, since 2023, in all regions, firms offering certain

[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.

consumer services have reduced, on average, the frequency with which they update their prices, following the increase in price adjustments observed in the years following the onset of the pandemic. By January 2025, the average time between price changes is similar to that registered at the beginning of 2019. Box 4 analyzes the possible effects of air pollution on the prices of some health-related goods and services. Estimates suggest that air pollution could have an impact, although in a limited way, on the prices of products such as anti-inflammatory prescriptions and medical consultations.

The diffusion indices, which reflect the interviewed business executives' 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 the referred variables. In the Central region, demand and hiring expectations continued to be higher than those observed in the rest of regions. Regarding expectations for fixed asset investment for the next twelve months, the strongest sign of expansion was registered in the Northern and central regions.

Expectations for sales prices, wage costs and input costs over the next twelve months suggest that, in all regions, inflationary pressures remained lower than at the peak of the pandemic and the war in Ukraine. Most business executives continued reporting that they expect these variables to increase at a similar or lower rate over the next twelve months, compared to the previous twelve months.

The interviewed business executives 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 the policies that could be implemented in the United States could affect regional economic performance; and iii) that public investment levels in infrastructure at both state and federal levels are lower than expected. Among upside risks, they emphasized: 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.

Regional economies continue facing a complex and uncertain environment that poses significant challenges to their growth. While they are anticipated to continue expanding, it would be at a moderate pace. On the external front, one of the main challenges is the uncertainty derived from commercial tensions with our main trading partner and the type of public policies it could implement. Based on how these factors evolve, the northern states and central regions, which are the most closely linked to international markets, could be particularly affected, as well as those that have historically been historically high out-migration regions. On the domestic front, another challenge is public insecurity, as business executives in some sectors continue mentioning that it affects the operation of their businesses in certain areas of Mexico. The interviewed business executives also perceive the possible occurrence of extreme weather events, such as droughts, floods and frosts, which have a differentiated impact on regional economic activity. All this takes place in a context in which business contacts identify the risk of a lower flow of public resources to the regions in light of the fiscal consolidation announced for 2025. Nevertheless, such consolidation contributes to maintaining solid macroeconomic fundamentals that allow regional economies to be resilient to global risks and shocks that may arise.

Given these challenges, it is essential to continue strengthening domestic sources of growth and generating favorable conditions for investment. In particular, it is crucial to continue promoting the construction of infrastructure. Also, promoting human capital formation strengthens the competitiveness of the regions by increasing the availability of qualified personnel. Since this Report was first released, interviewed business executives have pointed out that it is essential to strengthen public safety and the rule of law. In addition, given the risk that climate change poses to regional economies, it is imperative to implement mitigation and adaptation policies in the most vulnerable areas and sectors. These measures would not only enable the regions to face current challenges, but also foster more inclusive and sustainable growth in the long term, improving the population’s living conditions.