

# Regional Economic Report

## July - September 2012

### Summary

During the third quarter of 2012 the regional economies in Mexico remained on an expansionary phase. However, in some regions and sectors growth of economic activity decelerated. This was more evident in the north, which distinguishes itself from the rest of the regions for its close link to the global economic cycle, particularly that of the U.S., reason for which the referred region is more exposed to the deterioration in the world economic environment. In the south, the economic growth also decelerated, especially in the domestic demand-related sectors. In turn, central regions still have not presented clear signs of a slowdown in the economic growth.<sup>1</sup>

During the period analyzed in this Report, annual headline inflation increased in the four regions and located above the upper bound of the variability interval around the inflation target in Mexico. In all regions this upward adjustment of headline inflation was primarily due to price increases in agricultural products' prices. Considering the nature of the shocks on some food prices, the referred increase in annual headline inflation during the third quarter of 2012 is regarded as transitory. This was confirmed by the change in the trend of inflation registered in all regions from September onwards, being noteworthy that in the north annual headline inflation returned to a level below 4 percent in the first fortnight of November.

Most business agents interviewed in all regions by Banco de México during September and October 2012 estimated that demand for their goods and services will continue growing during the following six and twelve months, although it is expected to occur in an environment of weaker economic growth. The growth prospects for regional economies, in the opinion of these business contacts, face both external and domestic risks. Among the former stands out the evolution of the world economy, given that, in accordance to the referred business agents, its further weakening would produce two effects: i) on the stability of international financial markets with the consequent impact on the

volatility of the national currency; and, ii) on the external demand, which would directly influence the manufacturing industry and tourism. Among the domestic risks, the interviewed business contacts more frequently indicated the situation of public finances at the state and municipal level as an element of concern, for its potential impact on infrastructure works in the corresponding region.

Most business agents interviewed by Banco de México in September and October of 2012 pointed out that they expect a reduction in the annual rate of change of commodity prices, labor costs and own product and services prices over the following six and twelve months. Nonetheless, they indicated as an element of concern the fact that annual headline inflation remained at a relatively high level during the third quarter of 2012, although this concern has been so far concentrated among those interviewed in central and southern regions.

The boxes in the previous issues of this Report have primarily focused on the analysis of factors triggering regional economic growth in Mexico. Thus, the relevance of the following factors for the performance of productive sectors has been analyzed: public safety, structural reforms, public infrastructure, credit, as well as costs and norms regulating business set-ups. The present Report further analyzes the role of financing for economic growth, with a particular focus on the nature of credit granted by suppliers. In this regard, the analyzed information suggests that this type of credit represents an important source of funding to firms and, thus, by complementing credit granted by commercial banks, it also supports economic activity.

<sup>1</sup> Regionalization: Northern: Baja California, Sonora, Chihuahua, Coahuila, Nuevo León and Tamaulipas; North-Central: Aguascalientes, Baja California Sur, Colima, Durango, Jalisco, Michoacán, Nayarit, San Luis Potosí, Sinaloa and Zacatecas; Central: Distrito Federal, Estado de México, Guanajuato, Hidalgo, Morelos, Puebla, Querétaro and Tlaxcala; and Southern: Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.