

# Regional Economic Report

## January – March 2013

### Summary

During the first quarter of 2013 economic growth continued to be moderate in all regional economies. In particular, in the Northern, Central and Southern regions the economic growth rate was even lower than in the fourth quarter of 2012. Thus, in both referred periods, the annual percentage change in the regional economic activity indicators was lower than the one observed on average during 2012. During the reference quarter the slowdown was more accentuated in the south, which was reflected in the indicators of economic activity in different sectors, employment and consumer confidence.<sup>1</sup>

According to business agents interviewed by Banco de México in April and at the beginning of May 2013, in the Central, North-Central and Northern regions the slowdown of the economic growth is primarily associated to the recent trend in manufacturing exports and the pace of world economic growth, especially in the U.S. Furthermore, reportedly, the Southern region was also adversely affected by the impact of different factors on domestic demand.

Average annual headline inflation in the four regions of Mexico dropped during the first quarter of 2013 with respect to the previous quarter. In turn, annual core inflation persisted at levels close to 3 percent in the North-Central, Central and Southern regions, and around 2 percent in the Northern one. However, by the end of the reference quarter and the beginning of the second quarter of 2013, annual headline inflation increased due to a considerable uptick in non-core inflation. This was brought about by different shocks –some of them related to regional factors, which affected inflation nationwide. The following stand out among them: the crop losses derived from the frosts in the Northern, North-Central and Central regions in March; a new outbreak of avian flu in some states of central Mexico, which affected chicken and egg prices; as well as the increase in public transport fares in different entities of the country, among which the Federal District is noteworthy due to its weight in the CPI.

The present Report includes a Box with the analysis of the relation between the frost episodes and annual inflation of different food baskets, both at the national level and

in the four regions of Mexico. According to this analysis, in all regions a positive and statistically significant relation is found between the number of frosts and annual inflation of agricultural products. The degree of association between the two variables does not differ statistically across regions, which seems to indicate that regional markets of these products are not segmented geographically. Finally, no statistically significant evidence was found regarding the relation between the number of frosts and annual inflation of processed foods.

The business agents interviewed by Banco de México for this Report expect economic activity to continue growing in all regions over the next six and twelve months, this expansion being stronger in the twelve-month horizon. Regarding the factors triggering regional economic activity during the rest of the year, in the Northern, North-Central and Central regions the external demand is anticipated to continue growing at a moderate pace, while the Southern region presents a slightly more optimistic outlook. Nonetheless, in the four regions the referred business agents indicated various external and domestic risk factors. With respect to external risks, they expressed concern over the world economic growth rate. Thus, most of them considered that the regional economic dynamism over the next twelve months will mainly depend on domestic demand. With respect to domestic risks, weakness in local public finances and the perception of public safety were emphasized by the interviewed business agents.

Regarding inflation forecasts, most business agents interviewed by Banco de México anticipate a lower growth rate of commodity prices and labor costs over the following twelve months. Accordingly, they also expect own products and services' prices to grow at a slower pace with respect to 2012. Furthermore, lower financial costs and intensified competition were considered by the referred business agents as factors that would contribute to lower pressure on production costs. However, they mentioned the risk that supply shocks might continue affecting relative prices in some sectors and regions. In particular, in the Northern and North-Central regions they reported concern over the possibility of renewed adverse weather and sanitary conditions, which would impact some agricultural products' prices.

<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.