

Regional Economic Report

January – March 2015

Summary

In general, the growth rate in regional economies moderated during the first quarter of 2015.¹ This was mainly attributed to stagnation of industrial activity, which, in turn, was related to a lower dynamism of manufacturing production, the decrease in the expansion rate of construction and weakness that was still registered in oil mining. Nonetheless, the indicators of trade activity and of the services' sector expanded during the reference quarter.

Business contacts interviewed for this Report in all regional economies manifested, in general, that demand for their goods and services increased during the first quarter of 2015. It should be pointed out that the referred business agents attributed the growth in demand mainly to the impulse of domestic demand, and, to a lower degree, of external demand.

Annual headline inflation went down considerably in early 2015 in all regional economies of Mexico. This reduction was consequent on the conduction of the monetary policy, which anticipated the fading out of the effects of fiscal modifications of 2014 onto inflation. Furthermore, the monetary authority remained alert so that inflation expectations were not affected to avoid second round effects on the price formation process of the economy. Additionally, lower prices of the telecommunications services and lower energy prices contributed, both directly and indirectly, to the reduction in annual headline inflation in all regional economies, even when the exchange rate depreciation of the national currency was considered.

Most interviewed business agents expect demand for their goods and services to continue growing over the following twelve months, although the sign of expansion weakened with respect to the previous quarter. According to the referred business contacts, this prospect of expansion is subject to both upward and downward risks. Among upward risks, business agents in all regions mentioned the possibility of a greater flow of private investment, mainly in automobile and energy sectors (pipelines and power generation projects), as well as a greater dynamism of the U.S. economic activity. In this regard, Box 1 of this Report addresses the construction of the North-West Gas Pipeline project and the Los Ramones Pipeline Phase II project, indicating the manufacturing branches that could benefit the most from the completion of these two projects. Regarding downward risks, business agents in all regional economies noted the possibility of a further deterioration in the perception of public safety. Moreover, they stated the possibility of new episodes of exchange rate volatility, a further decrease in international oil prices with a consequent effect on public finances and government investment, as well as a likely slowdown of the U.S. economic activity.

As regards inflation expectations for the next twelve months, most interviewed contacts in four regions anticipate annual adjustments in sales prices of own goods and services, in input prices and in wage costs lower than in the previous year.

¹ 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. The term “central regions” used in this Report refers to North-Central and Central regions.