

Regional Economic Report

October – December 2014

Summary

Regional economies continued recovering moderately in the fourth quarter of 2014. Industrial activity in the Northern, North-Central and Central regions kept presenting an upward trend principally driven by manufacturing production and private construction. In turn, in the Southern region industrial activity kept weakening, mainly as a reflection of the performance of oil mining, even though manufacturing and private construction performed favorably in this region. As regards the service sector, in the reference quarter the dynamism in tourism was notable in most regions. On the other hand, agricultural production observed positive annual changes in the fourth quarter of 2014 in most cases, although at lower rates as compared to the previous quarter. Finally, in the analyzed quarter, the number of IMSS-insured workers kept accelerating in the Northern, North-Central and Central regions.¹

Business contacts interviewed for this Report in all regional economies manifested, in general, that demand for their goods and services increased in the fourth quarter of 2014. In most cases, it was stated that the dynamism of this demand was greater than in the previous quarter. Business agents attributed this performance mainly to the impulse of external demand and to a gradual improvement in domestic demand. As regards the latter, they highlighted the recovery of private construction in the residential segment. Indeed, as shown in Box 1 of this Report, construction in this segment was one of the factors that boosted demand across all regional economies.

Annual headline inflation reached its recent maximum level in most regions of Mexico in October 2014. This derived from the effects of the fiscal adjustments in force since the beginning of the year and from the transitory shocks that affected the non-core component. Subsequently, from November onwards, annual headline inflation started to show a downward trend in four regions, which intensified following a further considerable decrease in January 2015. This reduction resulted from the fact that increments in prices generated last year by fiscal modifications did not present again, as well as from lower prices in telecommunication services and from smaller increments in energy prices. Additionally, higher prices of merchandise and services were, in general, smaller than observed last year. In February 2015, annual headline inflation remained stable and close to 3 percent in all regional economies.

Business contacts' expectations are, in general, moderately optimistic and indicate that the economic recovery in their regions will continue during the following twelve months. According to the referred business agents, the growth expectation is subject to both upward and downward risks. Among upward risks, the performance of external demand, especially in the U.S., was mentioned across all regions. It was also stated that the dynamism of domestic demand, particularly of private investment, could be better than anticipated. This refers to investment in automobile and energy sectors. Moreover, in some regions it was stressed that the implementation of structural reforms could invigorate regional economies, and the tourism activity during 2015 could turn out more vigorous than previously estimated.

On the other hand, among downward risks to the regional economic activity the interviewed contacts in all regions referred to the possibility that a further deterioration in the perception of public safety could take place. In turn, in the Southern region an eventual exacerbation of social conflicts was also mentioned as a risk factor. In this regard, some business contacts interviewed for previous Reports emphasized the importance of administering justice and the rule of law, in general, for the economic development of the regions. In this context, Box 2 of this Report analyzes the statistical relation between the economic growth in the regions and an indicator of administering justice. In particular, the information concerning the time taken for court decisions of commercial disputes is used and its relation to the regional economic growth is analyzed. In accordance with the results, shorter resolution times are associated to higher economic growth rates. Finally, greater increments in some input prices as a result of the recent exchange rate depreciation were also mentioned as a downward risk to the economic activity in most regions.

With regard to the inflation outlook for the next twelve months, most interviewed contacts in four regions of Mexico anticipate that the sales prices for own goods and services will register lower annual percentage changes as compared to last year. Furthermore, their expectations for the annual growth rate of input prices and of their wage costs locate them below the levels registered last year, although increasingly closer to them.

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.