

Regional Economic Report

January – March 2014

Summary

The slowdown of economic activity observed in most regional economies in late 2013 persisted at the beginning of 2014. As a consequence, regional economies expanded at a low growth rate in the first quarter of the year. Business contacts interviewed by Banco de México attributed this performance to transitory factors that affected domestic demand, and, to a lesser extent, external demand. Despite this, it should be pointed out that by the end of the first quarter of 2014 some indicators of regional economic activity improved slightly.¹

During the first quarter of 2014 annual headline inflation decreased in all regions to levels well below 4 percent, after reaching a high level in the first fortnight of January. In this regard, it should be pointed out that the impact of fiscal measures on prices at the beginning of the year was concentrated in the group of goods directly affected by the referred adjustments and that no second round effects were generated on the price formation process of the economy. Annual core inflation recorded around 3 percent in the four regions during the period covered by this Report, despite the rebound in the first fortnight of January. On the other hand, the downward trend of annual headline inflation was significantly supported by the favorable trajectory of its non-core component; particularly, by the decreasing annual change of the agricultural price subindex in all regions.

The interviewed business agents generally stated that they expect demand for their goods and services to expand over the following six and twelve months. In particular, they emphasized the impulse expected from the exports, derived from the U.S. economic recovery. With respect to this, Box 1 of this Report analyzes the potential some regions of the country have to exploit the anticipated greater dynamism of the U.S. economy. The analysis shows that the referred potential is related to the presence of regional industrial clusters with greater weight in the manufacturing exports, which allows the regions to benefit from productivity gains derived from agglomeration and scale economies, and, therefore, to become more competitive in the international market. In addition to the expected expansion of external demand, the interviewed business agents in all regions indicated that they also expect a strong boost for the

economic activity in their respective regions, as a result of greater dynamism of public expenditure on the infrastructure.

Even though the interviewed business contacts anticipate a recovery of the economic activity in their respective regions, they also commented on the main risks anticipated in the following six and twelve months. Among upward risks, business agents highlighted a more vigorous than anticipated recovery of the U.S. economic activity, as well as a greater dynamism of public expenditure on infrastructure and a shift in expectations that would result in a larger impulse to private investment. Among downward risks, they pointed out that the recovery in consumption may be slower than anticipated and that the perception on public safety may deteriorate. It should be added that in all regions business agents stressed the importance of structural reforms being implemented in such a way that would propitiate productivity gains, which would allow enhancing the competitiveness of regional economies.

With respect to inflation expectations, the business contacts in all regions stated that no inflationary pressures on salary costs are anticipated over the next six and twelve months, due to the slack conditions expected to prevail in regional job markets. As regards input prices, lower annual growth rates are expected, as compared to the same period of last year. In accordance with this, the referred business agents indicated that they also anticipate lower annual growth rates of their sales prices in the reference horizon.

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.