

Regional Economic Report

April – June 2015

Summary

Economic activity continued to grow at a low pace in all regional economies during the second quarter of 2015. This result was driven mainly by a weakening in industrial activity, notwithstanding the good performance of the trade activity and services' sector. In the Northern and Central regions economic activity maintained its growth, although at a lower rate than the previous quarter. This deceleration was associated to the evolution of manufacturing production, and to the weakness in the construction sector. It is worth mentioning, however, the solid growth in the transportation equipment industry, particularly in the automobile and aerospace segments. The contraction in the economic activity of the Southern region, on the other hand, was associated to the evolution of oil mining.¹

The sustained efforts of Bank of Mexico to abate inflation have allowed the convergence of the annual headline inflation rate to its 3 percent permanent target this year, as well as the attainment of historical minimum levels in that indicator during the quarter of reference, as it posted values below the mentioned target. In a context of no price pressures on the demand side, the performance of headline inflation has been influenced by several favorable direct and indirect effects, derived from the low prices of inputs of generalized use such as commodities, telecommunications services, and energy. As a result, despite the substantial depreciation that the national currency has experienced against the US dollar, the pass-through effect of such a depreciation on domestic prices has been limited, confined mainly to the prices of durable goods, and without causing second round effects. The behavior of the annual headline inflation rate, taking values below 3 per cent, has been observed in all regions of the country.

Business contacts interviewed for this Report expect, in general, that the demand for their goods and services keep growing over the following twelve months. On this regard, they outlined the relevance of counting with the adequate human capital that would allow them to capitalize future growth opportunities. Using the opinions of the consulted business agents, Box 1 deepens in this matter by analyzing the gap between the demand and the supply of skills and knowledge in regional labor markets, as well as the implications of such gap on the firms that confront it.

Interviewed business agents also commented on the upside and downside risks for economic growth in their respective regions for the next months. Among the upside risks, the interviewed contacts outlined an improvement in the growth rate of the United States economy; the possibility that the automobile and the aerospace sectors sustain their favorable performance; and an increase in the investment flows associated to the Energy Reform and to infrastructure projects. Concerning the downside risks for economic activity, the interviewed agents mentioned more episodes of exchange rate volatility; lower economic activity in the United States; and the possibility of a decline in public security perception.

Regarding inflation expectations for the next twelve months, most interviewed contacts in all regions, anticipate 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.