

Regional Economic Report

October – December 2015

Summary

In the fourth quarter of 2015, Mexican economic activity continued expanding, although at a slower pace than in the previous quarter. This is attributed to the low dynamism of the manufacturing production, in light of the weak external demand, the negative trajectory in the mining and construction sectors, and a less favorable performance in the agricultural sector as compared to the third quarter of 2015. In this context, the boost to productive activity essentially came from a relatively higher dynamism in commerce and the services sector. Nonetheless, the performance of productive activity was noticeably heterogeneous across different regions.¹ Indeed, the lower growth rate of the national economy in the fourth quarter of 2015, largely, resulted from the deceleration in the Northern and North-Central regions, as well as from the stagnation registered in the Southern region. In particular, the expansion rate of the Northern and North-Central regions decelerated fundamentally as a consequence of the weak manufacturing production, which is relatively more related to the external market. In turn, the performance of the economy in the Southern region is associated to the persisting downward trend in the crude oil mining, which led to a weak performance of certain sectors in this region, as is the case of the manufacturing and construction sectors. In contrast, the Central region presented a greater dynamism as compared to that registered in the previous quarter, as a reflection of a higher growth rate of some activities that are more closely related to domestic demand, for example some manufacturing activities aimed to supply the domestic consumption, commerce and the services sector. As a complement to the current analysis of the regional economic activity presented in this Report, Box 1 also analyzes the behavior of individuals working in a municipality different from the one they reside in (inter-municipal commuters), in view of the shocks to productivity across the country's municipalities. The information displayed in Box 1 seeks to illustrate how spatial work mobility allows mitigating the possible effect generated by falls in productivity on the income of the workforce.

In the reference quarter, headline inflation maintained a downward trend, at the end of 2015 attaining a level of 2.13 percent in annual terms, the lowest figure on record since the

CPI is measured. This result was associated both to the adequate monetary policy stance, in a framework of slack conditions in the economy and the absence of demand-related pressures on prices, and the reductions in the prices of widely-used inputs, such as energy products and telecommunication services, which, in a number of cases, resulted from the implementation of structural reforms. It should be pointed out that the above took place in a context in which the pass-through of the exchange rate depreciation on prices has been limited and has been manifested mainly in the merchandise prices, without any evidence of second round effects on the price setting process of the economy. It is noteworthy that in the reported period no important differences in inflation levels were registered at the regional level, as the main factors affecting it were of generalized nature across the country.

In all regional economies, most surveyed business contacts expect demand for own goods and services to expand over the following twelve months. Congruent with the above, the consulted business agents generally anticipate an expansion of the hired personnel and the physical capital stock across different regions. The interviewed business agents also highlighted the importance of investment in innovation, aimed at increasing productivity and competitiveness of their businesses. In this regard, Box 2 delves into the most important characteristics of innovation in its different aspects, as well as the main obstacles faced by business contacts while developing them.

Business contacts also commented on the main upward and downward risks to the regional economic growth. Among upward risks, the following were mentioned: i) a greater than expected growth of the U.S. economy; and ii) a greater than estimated expansion in the levels of private investment in the energy and manufacturing sectors, as well as tourism. By contrast, among downward risks, the next were highlighted: i) a deceleration of the U.S. economy; ii) higher volatility in international financial markets; and iii) a further deterioration in the perception of public safety.

With respect to inflation expectations for the next twelve months, business contacts generally anticipate lower annual growth rates of wage costs and sales prices, as compared to the previous year. In turn, in most regions, business agents expect a lower annual change in their input prices for the following twelve months, with respect to last 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**: Ciudad de México, Estado de México, Guanajuato, Hidalgo, Morelos, Puebla, Querétaro and Tlaxcala; and **Southern**: Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.