

Regional Economic Report

April - June 2012

Summary

During the second quarter of 2012 the regional economies in Mexico remained on an expansionary phase despite the weakening of the global economy. The dynamism shown by public construction and credit to firms contributed to economic growth in all regions of the country.¹ The performance of other economic sectors was heterogeneous at the regional level. On the one hand, the growth rate of agricultural production, manufacturing activity and retail sales is estimated to have been higher in the northern region than the rest of the country. Likewise, private construction expanded in the north and in the south, while it lagged in the central regions. On the other hand, the growth rate of activity in the tourism sector strengthened in all regions, with the exception of the north.

During the period analyzed in this Report, annual headline inflation rebounded in all regions. From June onwards it has been above the upper bound of the variability interval of plus/minus one percentage point around the 3 percent target. In the four regions this resulted from price shocks to food items in the CPI non-core component. This rebound is considered to be transitory and does not represent a widespread price increase. In turn, annual core inflation remained lower than annual headline inflation in all regions.

Regional economies are expected to keep expanding in the second half of 2012 and in the first half of 2013 according to business agents interviewed by Banco de México. In the opinion of these business contacts

the domestic market will continue strengthening as a result of the expansion of credit to firms and consumers and employment growth. Likewise, manufacturing exports, particularly automobile industry exports, are anticipated to remain strong. Nonetheless, business agents expressed concern about domestic and external risks that could possibly affect the expected growth in production. Among the former, uncertainty regarding the implementation of structural reforms stands out, while among the latter, global economic performance, especially that of Europe, has been highlighted.

This Report discusses the norms regulating business set-ups in Mexico. The analyzed information, which was obtained from business sources at the municipal level in the four regions of the country, points to a high degree of heterogeneity in the regulation. In particular, it suggests that there is room to significantly reduce the costs of opening new businesses in all regions, and, therefore, to facilitate employment creation.

Regarding inflation prospects for the second half of 2012 and the first of 2013, business agents interviewed by Banco de México expect own product and services prices to grow at lower rates than in the previous year. This is in line with the lower growth rate of commodity prices and labor costs anticipated for the same period.

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.