

Macroeconomic Research
Macro Scenario – Mexico
December 2024

Mexico: upside for growth despite lingering uncertainty

Growth supported by domestic and external consumption, amid a weaker currency and uncertainty ahead

1. We now expect GDP to increase by 1.5% in 2025 (from 1.0%) and 1.7% in 2026

- Growth to be supported by strong consumption fundamentals, as investment keeps losing strength, but to remain below what we expect for the economy's regional peers.

2. Weaker currency amid high uncertainty/volatility

- High domestic risk-premium and uncertainty regarding tariffs and trade limit room for currency appreciation.

3. Fundamentals of the external accounts remain solid

- Current account close to zero, comfortable international reserves and remittances benefiting from a weaker Peso.

4. Goods disinflation and some signs of relief for services

- Space for Banxico to continue easing. We expect a 50bps cut in Dec (eop 25 8.5%).

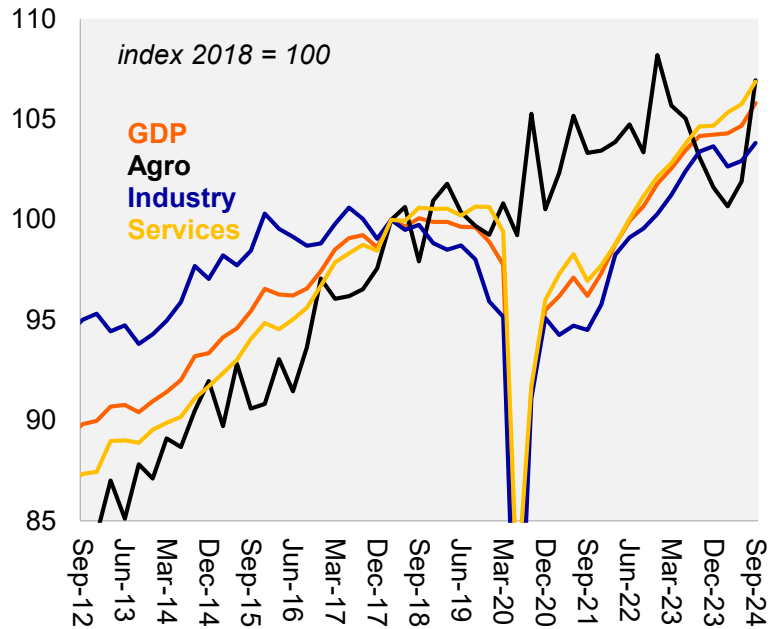
5. A challenging fiscal consolidation in 2025 and 2026

- Some room to increase revenues in 2025 by reducing tax evasion and elusion, but more measures be needed in 2026.

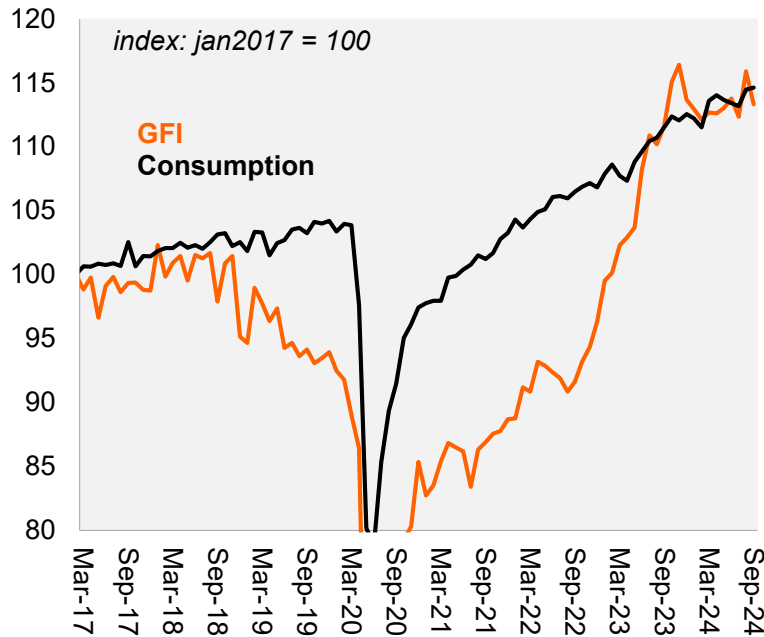
1. We now expect GDP to increase by 1.5% in 2025 (from 1.0%)

Growth to be supported by strong consumption fundamentals, while investment keeps losing strength
Imports of goods to feel the bite from expected taxation and the depreciation of the currency.

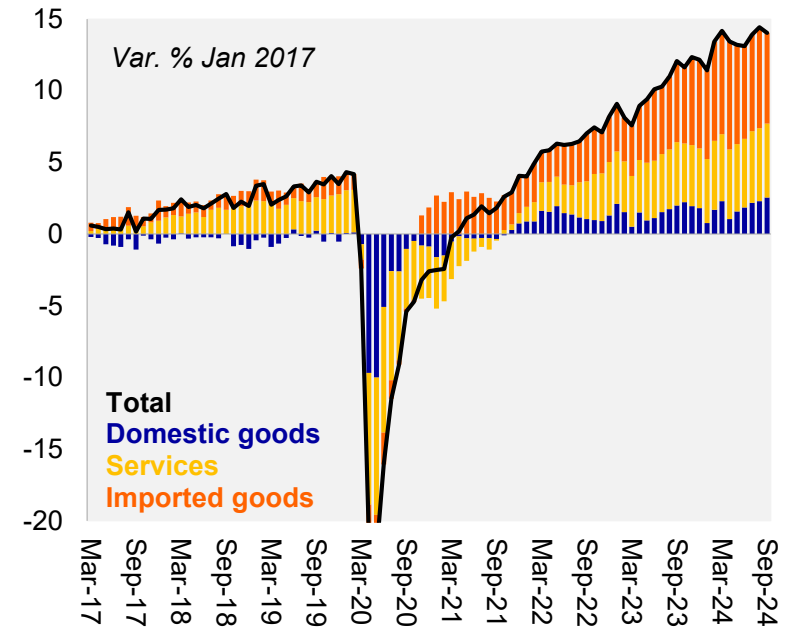
GDP - sectors



Private consumption and GFI



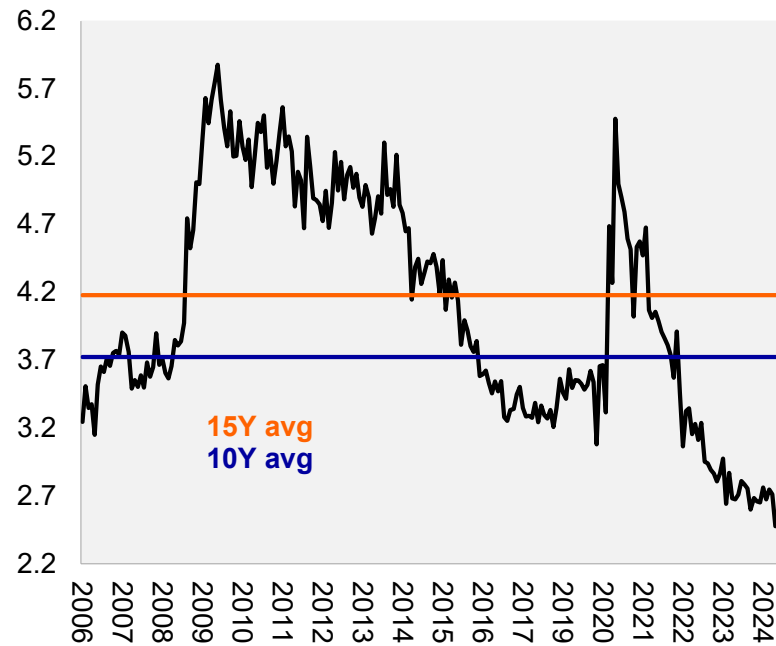
Private consumption breakdown



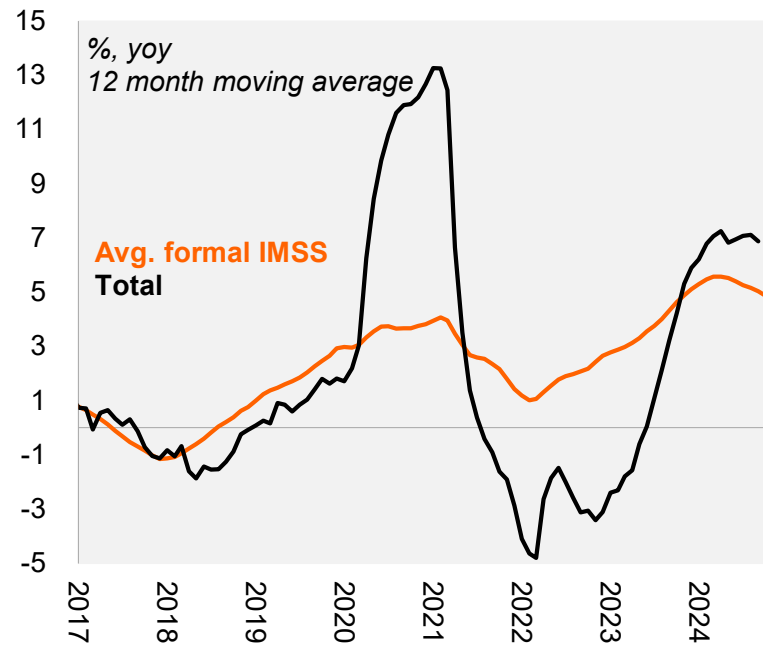
1. We now expect GDP to increase by 1.5% in 2025 (from 1.0%)

Domestic consumption fundamentals remain solid: tight labor market and robust consumer confidence

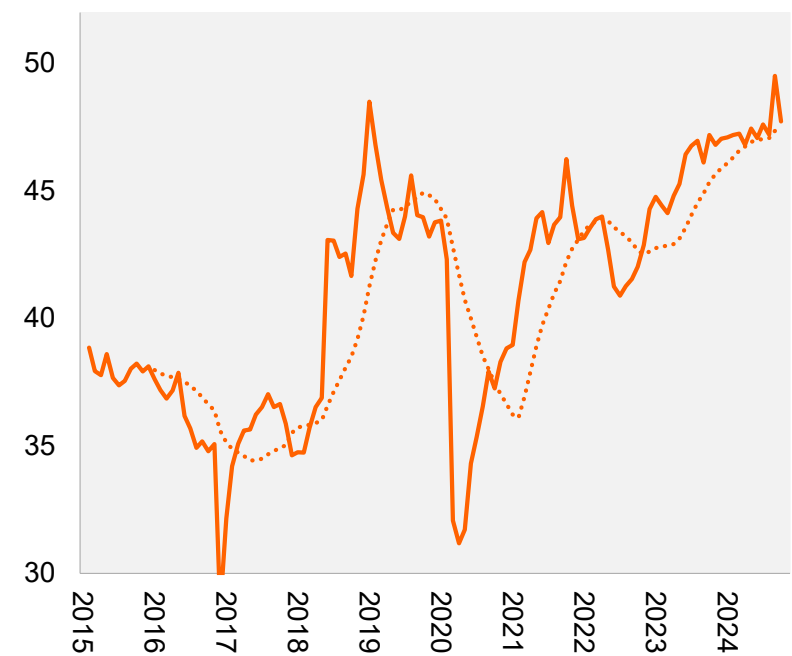
Unemployment rate at historical lows...



...Real wages growing 5-7%...



... and consumer confidence at historical highs

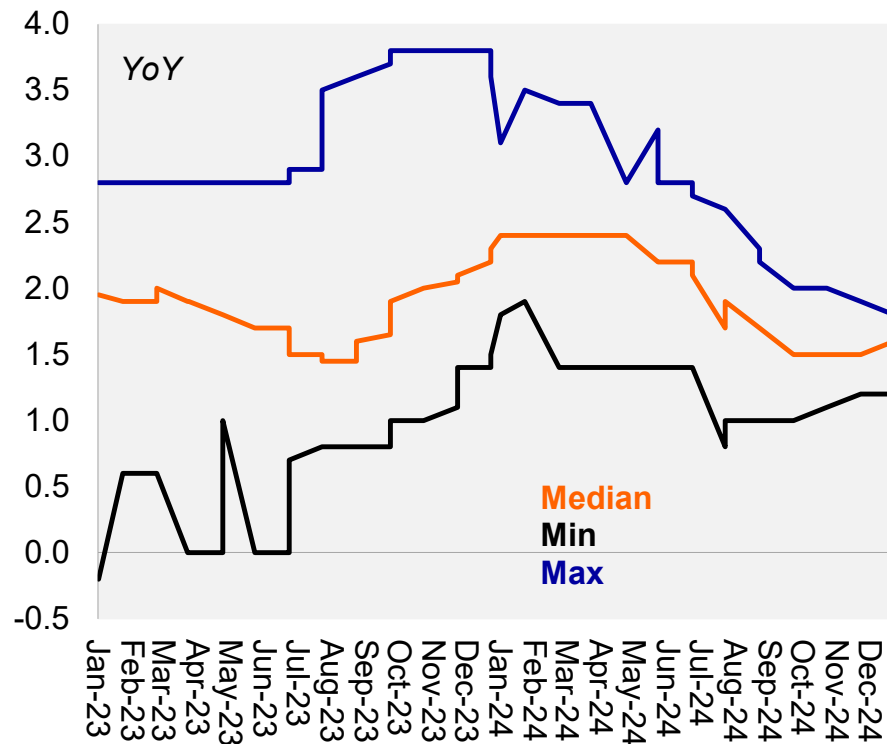


1. We now expect GDP to increase by 1.5% in 2025 (from 1.0%)

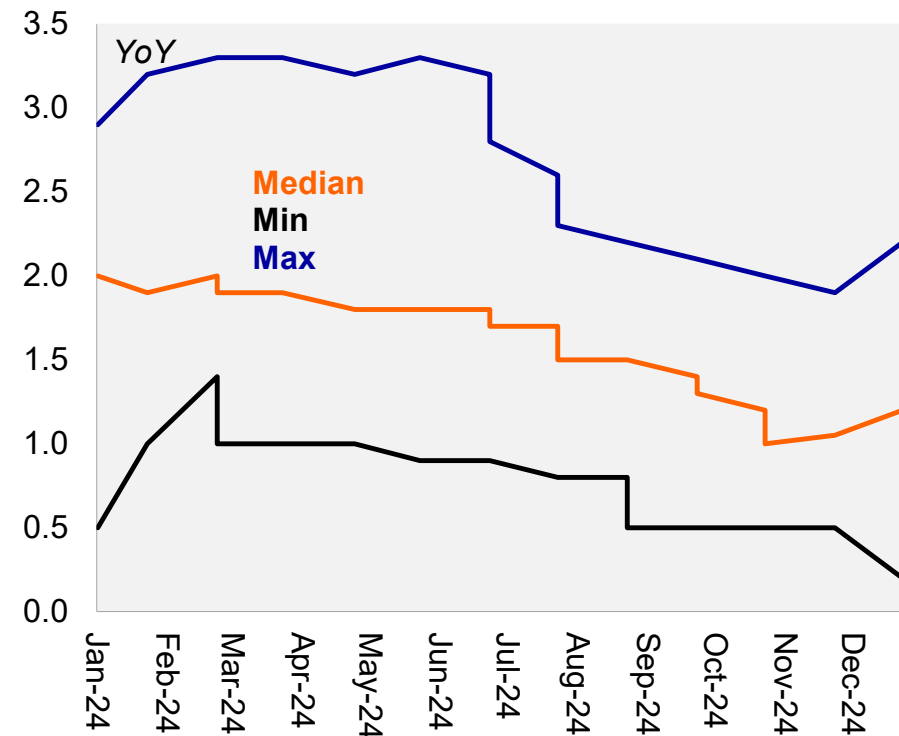
Revising GDP up, as domestic demand drivers shift.

- GDP 2024: 1.7% (from 1.4%) carry-over from 3Q24 already at 1.5% (+1.4% YoY 4Q24);
- GDP 2025: 1.5% (from 1.0%, with different sources of growth/rebalancing, with some upside bias);
- GDP 2026: 1.7% better than 2025 with the impact of the current administration's projects (eg trains, wire and water infrastructure, highways, etc)

GDP Forecast 2024



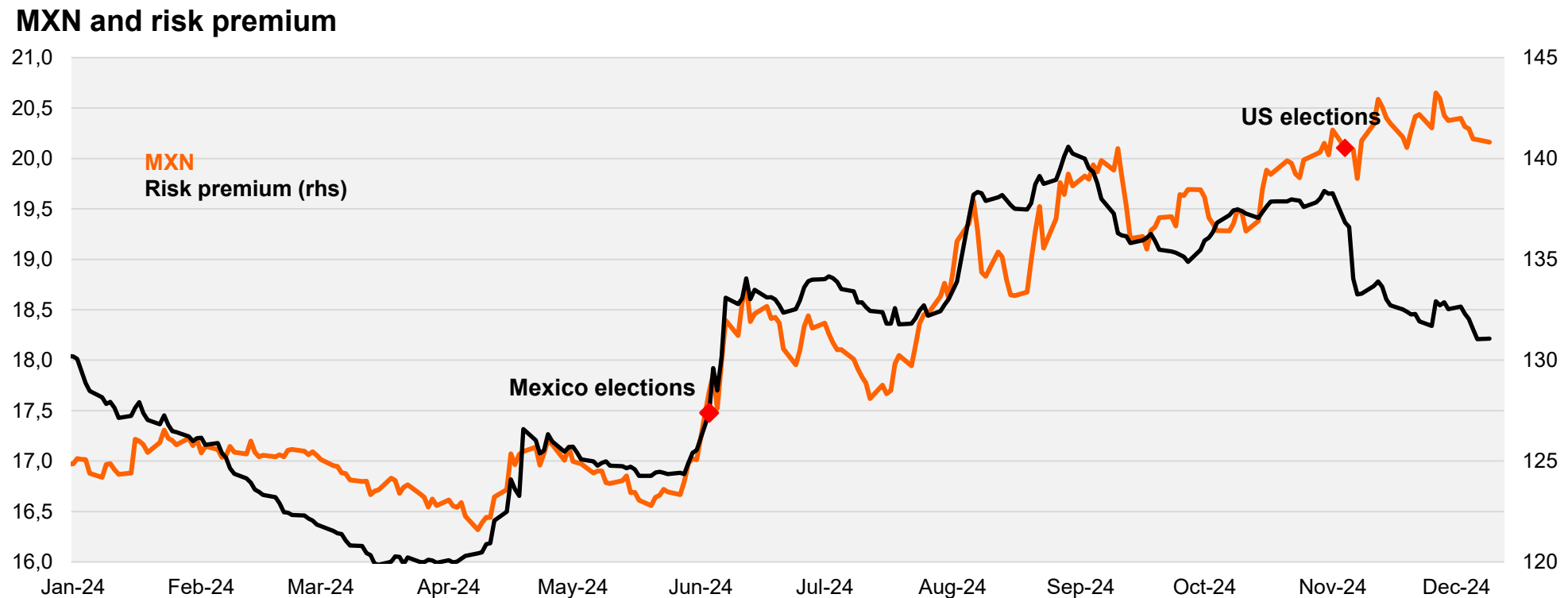
GDP Forecast 2025



2. Weaker currency amid high uncertainty/volatility

Higher domestic risk-premium after the elections. At the margin USD/MXN slightly decoupled from our measure of risk-premium after the US election and tariffs threats:

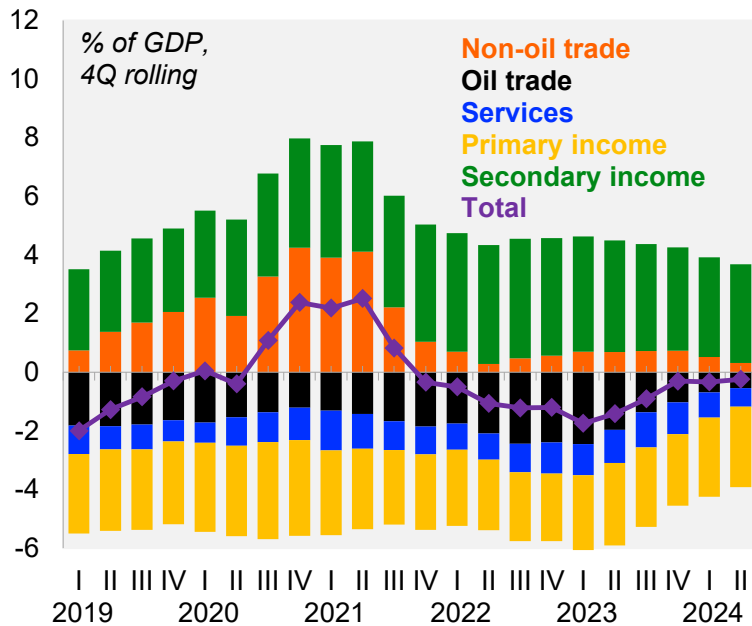
- Constitutional reforms (judicial overhaul, autonomous entities, energy reform), deteriorating debt affordability and further government spending rigidity make fiscal consolidation challenging;
- Trump administration and USMCA revision in 2026;



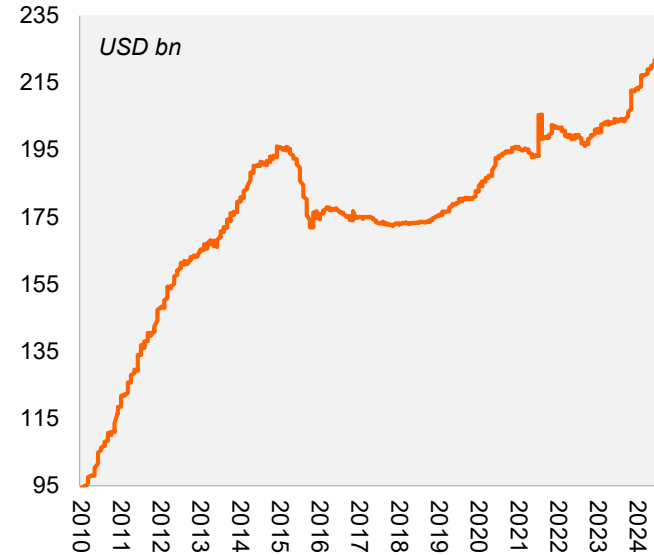
3. Fundamentals of the external accounts remain solid

Current account close to zero, comfortable international reserves and remittances benefiting from a weaker Peso

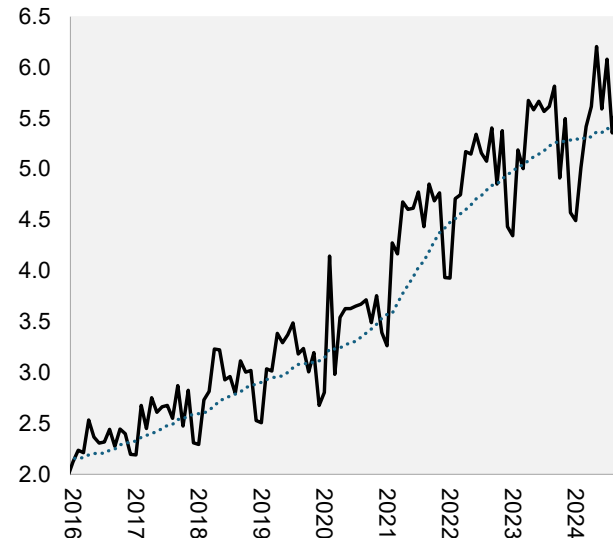
Current Account Balance



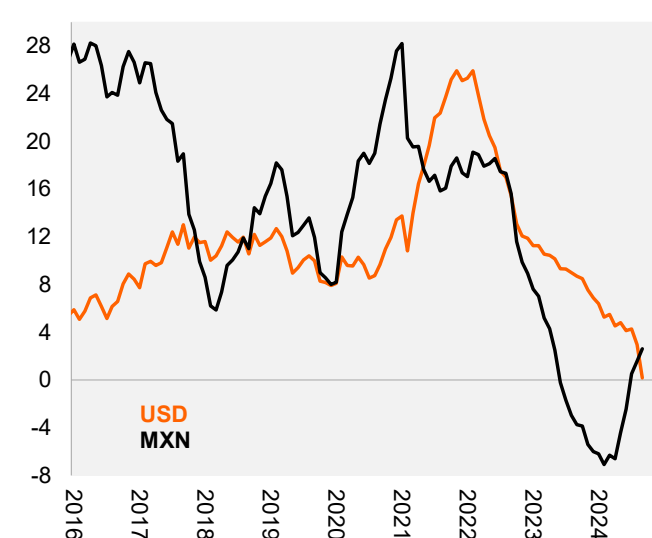
Mexico international reserves



Mexican remittances - USD bn



Mexican remittances - 12m%

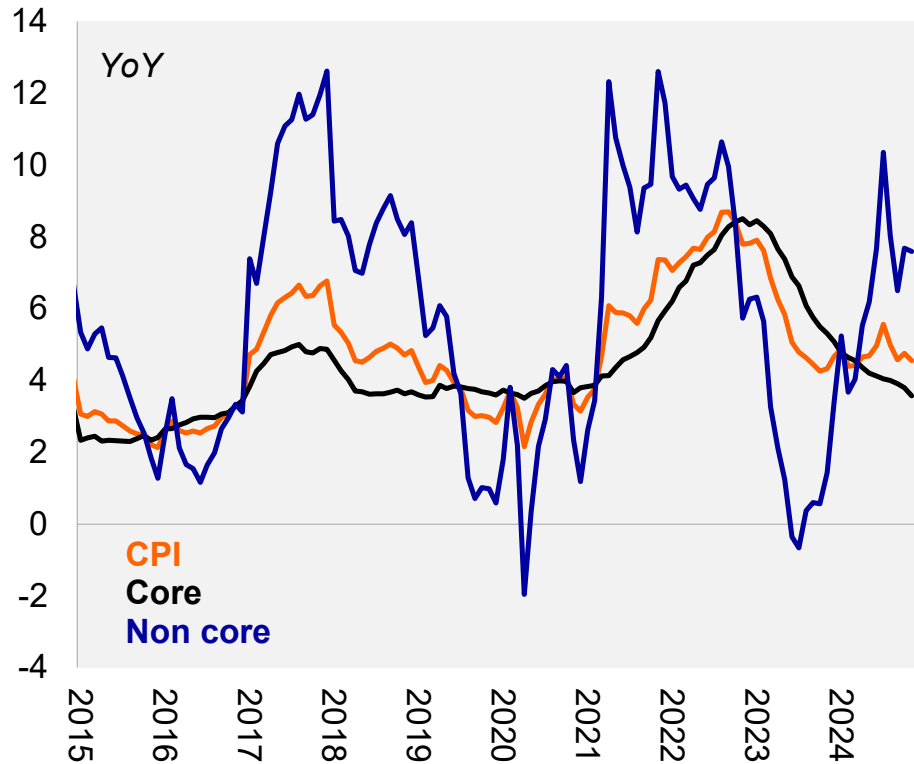


Source: INEGI, Banco de México, Itaú

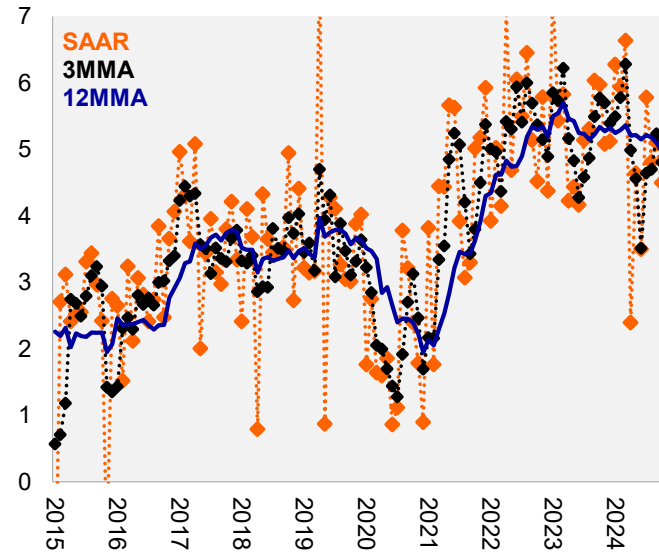
4. Goods disinflation and some signs of relief for services

Still muted pass-through in goods, while services inflation is now running below 4% at the margin, allowing Banxico to ease policy. We now expect a 50bps cut in Dec (eop 25 8.5%)

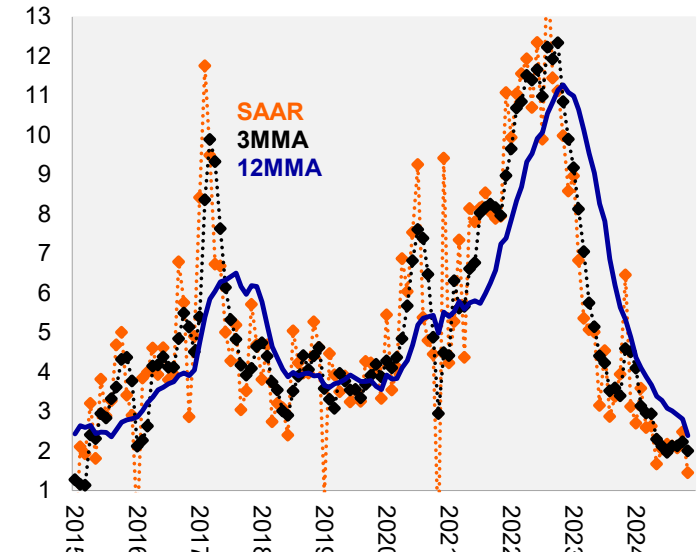
CPI Mexico



CPI - core services



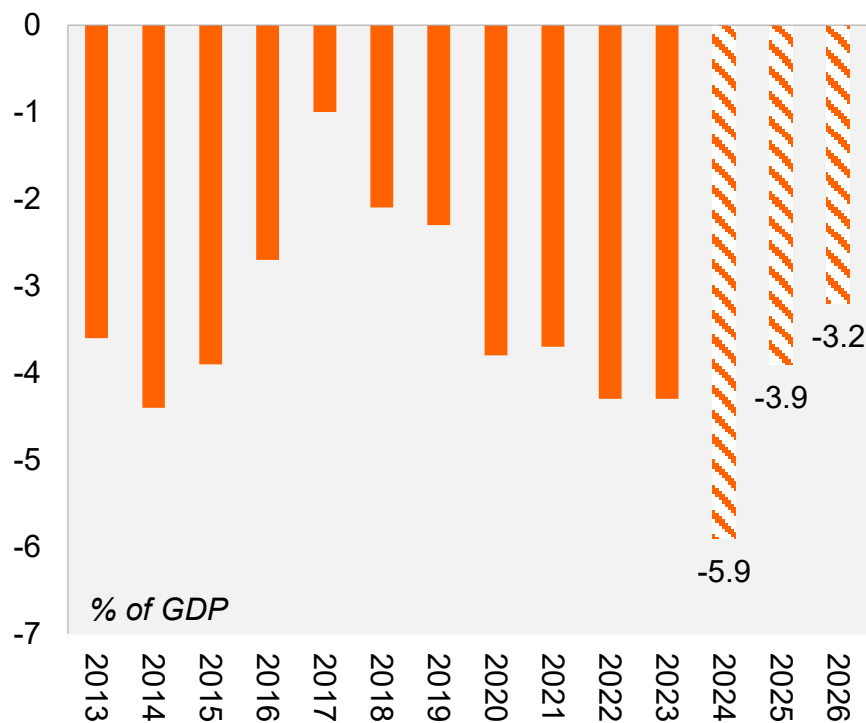
CPI - core tradables



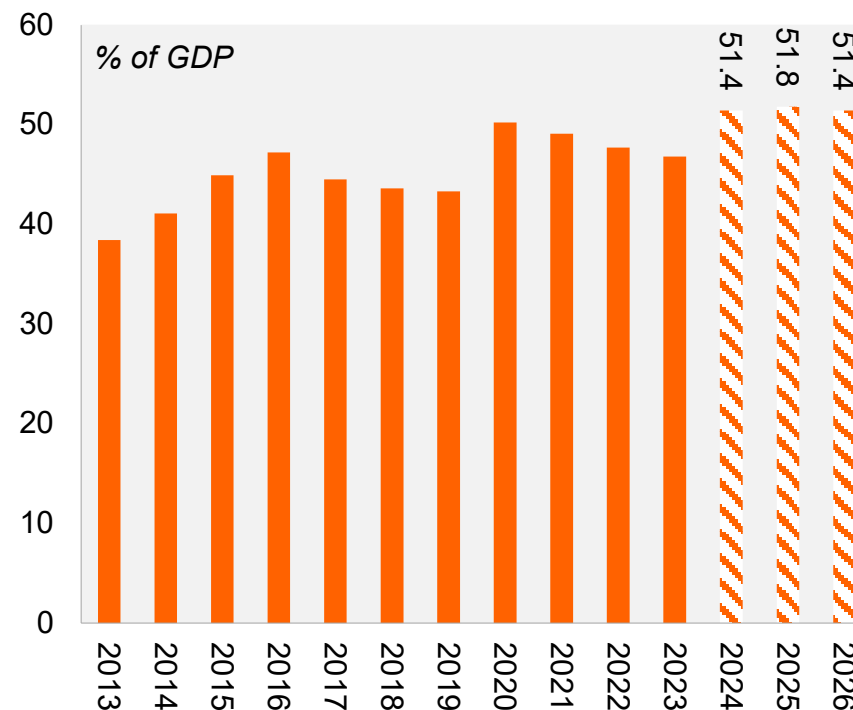
5. A challenging fiscal consolidation in 2025 and 2026

Some room to increase revenues in 2025 by reducing tax evasion and elusion, but more measures would be needed in 2026

Budget balance



Government debt-to-GDP ratio



Mexico | Forecast

	2019	2020	2021	2022	2023	2024F		2025F		2026F
						Current	Previous	Current	Previous	Current
Economic Activity										
Real GDP growth - %	-0.4	-8.4	6.0	3.7	3.2	1.7	1.4	1.5	1.0	1.7
Nominal GDP - USD bn	1,298	1,129	1,318	1,463	1,796	1,909	1,931	2,039	1,877	1,975
Population (millions)	125.6	127.7	129.0	130.1	131.2	132.3	132.3	133.4	133.4	134.4
Per Capita GDP - USD	10,335	8,844	10,218	11,241	13,688	14,429	14,593	15,290	14,075	14,696
Unemployment Rate - year avg	3.5	4.4	4.1	3.3	2.8	2.7	2.7	2.8	3.0	2.9
Inflation										
CPI - %	2.8	3.2	7.4	7.8	4.7	4.3	4.3	3.9	3.9	3.6
Interest Rate										
Monetary Policy Rate - eop - %	7.25	4.25	5.50	10.50	11.25	9.75	10.00	8.50	9.00	8.00
Balance of Payments										
MXN / USD - eop	18.9	19.9	20.5	19.5	17.0	20.0	20.0	21.0	21.0	21.3
Trade Balance - USD bn	5.4	34.2	-10.8	-26.9	-5.5	-10.0	-10.0	-15.0	-15.0	-15.0
Current Account - % GDP	-0.3	2.4	-0.3	-1.2	-0.3	-0.4	-0.4	-0.6	-0.6	-0.6
Foreign Direct Investment - % GDP	2.3	2.8	2.7	2.7	1.7	3.0	3.0	3.5	3.5	3.5
International Reserves - USD bn	180.9	195.7	202.4	199.1	212.8	229.0	225.0	230.1	225.0	230.6
Public Finances										
Nominal Balance - % GDP	-1.6	-2.8	-2.8	-3.2	-3.3	-5.9	-5.9	-3.9	-3.9	-3.4
Primary Balance - % GDP	1.1	0.1	-0.3	-0.4	-0.1	-1.4	-1.4	0.6	0.6	0.5
Net Public Debt - % GDP	43.9	49.9	48.9	47.6	46.8	51.4	51.4	51.8	51.8	51.4

Source: IMF, Bloomberg, INEGI, Banxico, Haver and Itaú

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