# Macro scenario - Mexico

August 15, 2025

## A drizzle, not a thunderstorm

- On July 31, President Trump announced another 90-day extension of the current tariffs on Mexican exports. The existing tariffs remain in place, including a 25% tariff on Fentanyl (excluding USMCA goods), a 25% tariff on cars (also excluding USMCA), and a 50% tariff on steel, aluminum, and copper.
- Activity data continues to show resilience. Following a strong performance in 2Q25, we raised our GDP forecast to 0.6% for this year, up from a modest 0.2%, and to 1.2% for next year, up from 1.0% previously. We anticipate some support for Mexico's growth from international sources, primarily in manufacturing exports, which still benefit from some frontloading effects, and growth in the tourism sector. The outlook for domestically related sectors is mixed, with a moderation in local services and a contraction in investment.
- We forecast inflation ending this year at 4.1% and 3.7% next. The inflation scenario remains far from comfortable, particularly for core inflation. Core tradables have peaked, while services are experiencing some modest acceleration/gradual disinflation.
- We maintain our FX forecast for the MXN at 19.0/USD for this year and 19.5/USD for next year. We expect the USD to remain weaker at the margin, which will continue to support the peso throughout the year, amid Banxico's easing cycles and trade uncertainties.
- Banxico cut the policy rate by 25-bp in August, slowing its pace from the previous 50-basis-point moves. We believe the Central Bank will opt for another 25-bp cut in September, and beyond that, all options are on the table. Currently, our global scenario considers only one 25-bp cut by the Fed in December, which we believe is consistent with our 7.5% endpoint. If the FOMC starts easing in September, Banxico may bring forward some of the cuts we were expecting only in 2026.

### 90-days extension on current tariffs

**On July 31, President Trump announced another 90-day extension of the current tariffs on Mexican exports.** The existing tariffs remain in place, including a 25% tariff on fentanyl (excluding USMCA goods), a 25% tariff on cars (also excluding USMCA), and a 50% tariff on steel, aluminum, and copper. The renewed truce followed the threat of an increase from 25% to 30% earlier in July, and demonstrates the willingness of both sides to negotiate. Mexican assets price reaction remains relatively muted by these announcements, reflecting, in our view, Mexico's comparatively better position in US trade. We believe that Mexican authorities will continue to engage constructively with their US counterparts.

**Negotiations are ongoing and are expected to continue until at least the end of next year, with a USMCA renegotiation likely to occur afterward.** As the US is currently managing several trade deals, a USMCA renegotiation is likely to take place only at the end of 2026 or the beginning of 2027. Stricter local content laws should be the focus of all negotiations.

### Recession, who?

**Activity data continues to show resilience.** Following a better-than-expected performance in 2Q25, we raised our 2025 GDP forecast again, to 0.6%, up from a modest 0.2%, and to 1.2% for 2026, up from 1.0% previously.

**Using seasonally adjusted figures, 2Q25 GDP rose by 0.7% QoQ, slightly above consensus and higher than 1Q25 (+0.2% QoQ).** The main drivers were services (+0.7%) and industrial production (+0.8%),

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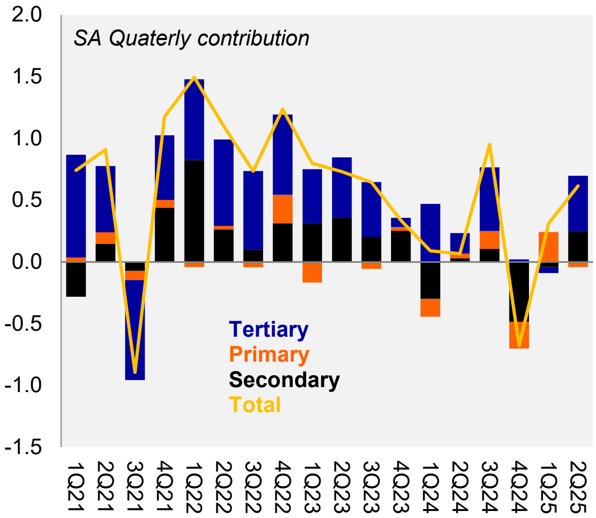
despite a contraction in agriculture of 1.3%. With these seasonally adjusted results, 1H25 GDP grew by 0.9% compared to 1H24. Looking ahead, we anticipate some support for Mexico's growth from international sources, primarily in manufacturing exports, which still benefit from some frontloading effects, and growth in the tourism sector. The outlook for domestically related sectors is mixed, however, with a moderation in local services and a contraction in investment. The government is focused on strengthening the domestic market amid changes in the global outlook, which might be a modest driver for growth going forward.

**2Q25 GDP supported by services and industrial production**

**GDP breakdown**




Source: INEGI, Itaú

Our upward revisions to the 2025 growth forecast take place after the economy narrowly avoided a technical recession earlier in the year, and growth dynamics appear to defy the historical pattern of a recession during the first year of a new administration, even in the context of a significant narrowing of the fiscal deficit.

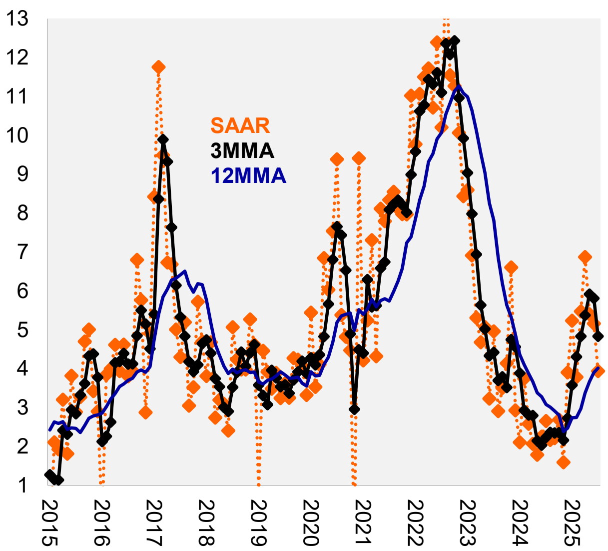
## The elephant in the room … core inflation

**The inflation scenario remains far from comfortable, particularly for core inflation.** The disinflationary trend has halted, and inflation is now fluctuating well above target, driven by several fundamental factors. These include the USDMXN pass-through (lagged from last year's depreciation), normalization of goods inflation from previously low levels, persistent service inflation, a slowdown in economic activity amid a somewhat resilient job market, and inflation expectations anchored around 4%, the ceiling of Banxico's 3% (+/-1%) inflation target.

**Core tradables have peaked, and services are experiencing modest acceleration/gradual disinflation.** Core inflation is running above the 4% threshold, so we maintain a cautious stance. The appreciation of the USDMXN this year should aid inflation dynamics moving forward, but secondary/spillover effects from the current acceleration in core goods and the more persistent component of service prices could hinder smooth disinflation next year.

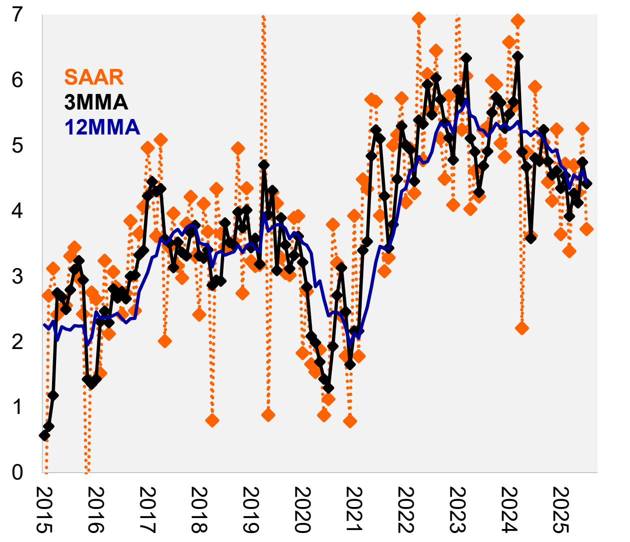
**We forecast headline inflation ending the year at 4.1% and 3.7% next year.**

**Core tradables have peaked**




Source: INEGI, Itaú

**Services are experiencing some modest acceleration/gradual disinflation**

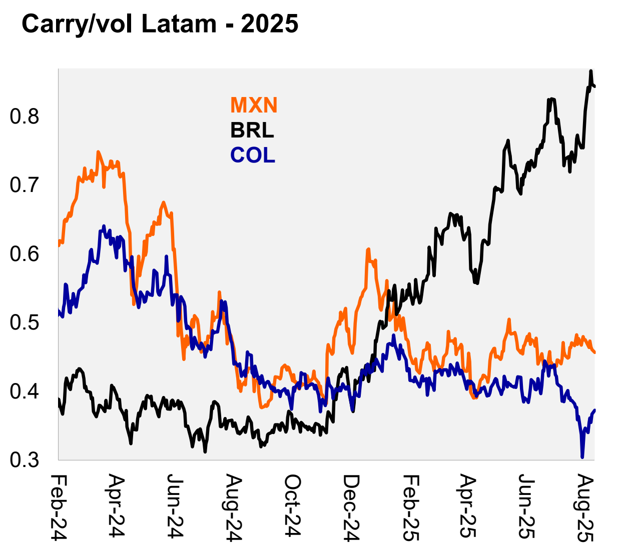



Source: INEGI, Itaú

## For the USDMXN, so far so good

**We maintain our FX forecast for the MXN at 19.0/USD for this year and 19.5/USD for next year.** We expect the USD to remain weaker at the margin, which will continue to support the peso throughout the year, amid Banxico's easing cycles and trade uncertainties.

**Well-behaved USDMXN to continue**




Source: BBG, Itaú

## Banxico is now mostly FOMC-dependent

**Banxico cut the policy rate by 25-bp in August, slowing its pace from the previous 50-basis-point moves.** The policy rate now stands at 7.75%, still in contractionary territory. Although the Central Bank maintains the forward guidance that "the board will assess further adjustments to the reference rate", it should adopt a meeting-by-meeting approach. This approach will involve calibrating the year-end rate by considering the FOMC policy path, the behavior of the peso, and incoming macroeconomic data, particularly core inflation dynamics.

**We believe Banxico will opt for another 25-bp cut in September, and beyond that, all options are on the table.** Our global scenario considers only one 25-bp cut by the Fed in December, which we believe aligns with our 7.5% endpoint. If the FOMC restarts easing in September, Banxico may advance some of the cuts we were expecting only in 2026, ending the year at 7.0%, with two additional 25-bp cuts at the beginning of the next year, also consistent with our current FOMC scenario.

**Andrés Pérez M.**
**Julia Passabom**
**Mariana Ramirez**

## Mexico | Forecast

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F | | 2026F | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Current* | *Previous* | *Current* | *Previous* |
| **Economic Activity** | | | | | | | | | |
| Real GDP growth - % | -8.4 | 6.0 | 3.7 | 3.4 | 1.4 | **0.6** | 0.2 | **1.2** | 1.0 |
| Nominal GDP - USD bn | 1,121 | 1,316 | 1,467 | 1,798 | 1,857 | **1,943** | 1,935 | **2,035** | 2,023 |
| Population (millions) | 127.7 | 129.0 | 130.1 | 131.2 | 132.3 | **133.4** | 133.4 | **134.4** | 134.4 |
| Per Capita GDP - USD | 8,844 | 10,218 | 11,241 | 13,688 | 14,033 | **14,572** | 14,514 | **15,140** | 15,050 |
| Unemployment Rate - year avg | 4.4 | 4.1 | 3.3 | 2.8 | 2.7 | **2.7** | 2.9 | **2.7** | 2.8 |
| **Inflation** | | | | | | | | | |
| CPI - % | 3.2 | 7.4 | 7.8 | 4.7 | 4.2 | **4.1** | 4.1 | **3.7** | 3.7 |
| **Interest Rate** | | | | | | | | | |
| Monetary Policy Rate - eop - % | 4.25 | 5.50 | 10.50 | 11.25 | 10.00 | **7.50** | 7.50 | **7.00** | 7.00 |
| **Balance of Payments** | | | | | | | | | |
| MXN / USD - eop | 19.9 | 20.5 | 19.5 | 17.0 | 20.8 | **19.0** | 19.0 | **19.5** | 19.5 |
| Trade Balance - USD bn | 34.2 | -10.8 | -28.1 | -12.3 | -18.5 | **-10.0** | -10.0 | **-10.0** | -10.0 |
| Current Account - % GDP | 2.4 | -0.3 | -1.2 | -0.3 | -0.3 | **-0.6** | -0.6 | **-0.6** | -0.6 |
| Foreign Direct Investment - % GDP | 2.5 | 2.5 | 2.5 | 2.0 | 2.0 | **2.0** | 2.0 | **2.0** | 2.0 |
| International Reserves - USD bn | 195.7 | 202.4 | 199.1 | 212.8 | 229.0 | **230.1** | 230.1 | **230.6** | 230.6 |
| **Public Finances** | | | | | | | | | |
| Nominal Balance - % GDP | -2.8 | -2.8 | -3.2 | -3.3 | -5.7 | **-4.0** | -4.0 | **-3.5** | -3.5 |
| Primary Balance - % GDP | 0.1 | -0.3 | -0.4 | -0.1 | -1.5 | **0.6** | 0.6 | **0.5** | 0.5 |
| Net Public Debt - % GDP | 49.9 | 48.9 | 47.6 | 46.8 | 51.4 | **52.3** | 52.3 | **52.3** | 52.3 |

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

Macro Research – Itaú
**Mario Mesquita – Chief Economist**

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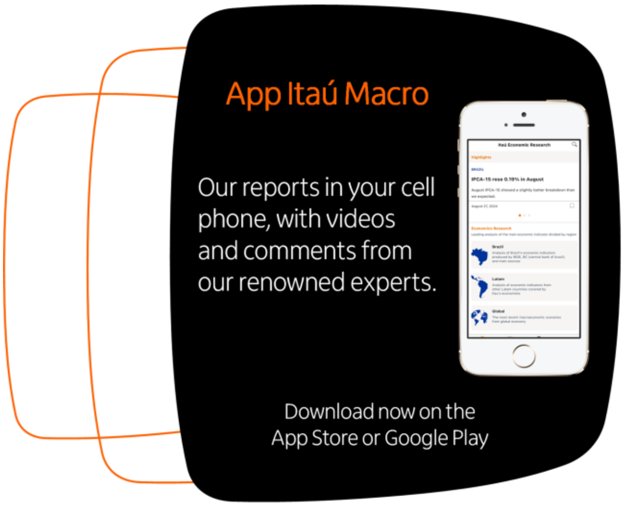

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