Macro scenario - Mexico

November 13, 2025

One meeting at a time

- Mexico and the US have agreed on another extension of the 30% tariffs on goods not covered by the USMCA. We have observed coordination and a solid working relationship between the US and Mexico so far, in the context of tariff pressures and US demands regarding security, migration, and trade. Achieving additional relief seems feasible, and we expect recurring tariff exemptions to become an enduring part of the trilateral framework.
- Banxico cut the policy rate by 25-bp to 7.25% in the last meeting and shifted the forward guidance to a meeting-by-meeting approach. Our reading is that Banxico´s reaction function has become FOMC dependent. We anticipate an additional 25-bp cut in December. However, we now expect only one 25-bps cut in February next year, in line with our new FOMC scenario (end of the US cycle in December). Thus, our Banxico terminal rate is now 6.75% in 2026 (up from 6.5%). A pause in early 2026 is possible, reflecting the currently lower ex-ante real rate, short-term inflation risks in both core services and non-core components, and greater uncertainty surrounding the Fed’s trajectory.
- We revised our year-end projection for headline inflation down to 3.8% from 4.1% in 2025 due to a relief in core inflation and muted pressure on non-core items as this year comes to an end. We remain cautious about the inflation landscape in 2026, as non-core items could return to their higher historical average; thus, we maintain our forecast at 3.7%.
- We maintained our GDP forecasts at 0.6% for 2025 and 1.5% for 2026. However, our GDP forecast for 2025 is somewhat skewed to the downside due to the recent weaker performance of the industrial sector in 3Q25.
- Our FX outlook remains anchored at MXN 19.0 per USD for this year and 19.5 per USD for 2026. We now expect a slightly stronger global dollar moving forward. We remain cautious, as the upcoming USMCA renegotiations could drive increased hedging demand as the talks progress.

Extension from 30% tariffs for USMCA noncompliant goods

Mexico and the US have agreed on another extension of the 30% tariffs on goods not covered by the USMCA. Bilateral negotiations are ongoing following the 90-day extension announced in July by the US. We have observed coordination and a solid working relationship between the US and Mexico so far, in the context of tariff pressures and US demands regarding security, migration, and trade. Achieving additional relief seems feasible, and we expect recurring tariff exemptions to become an enduring part of the trilateral framework.

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.

Meanwhile, in Mexico, public consultations regarding the USMCA have been conducted across the country. So far, the most frequently mentioned topics in Mexico include US agricultural subsidies, the labor mechanism - which applies only to Mexico - and the tariffs imposed under Section 232 (steel and aluminum). In January, Mexico will compile a final document with the participants' proposals and concerns.

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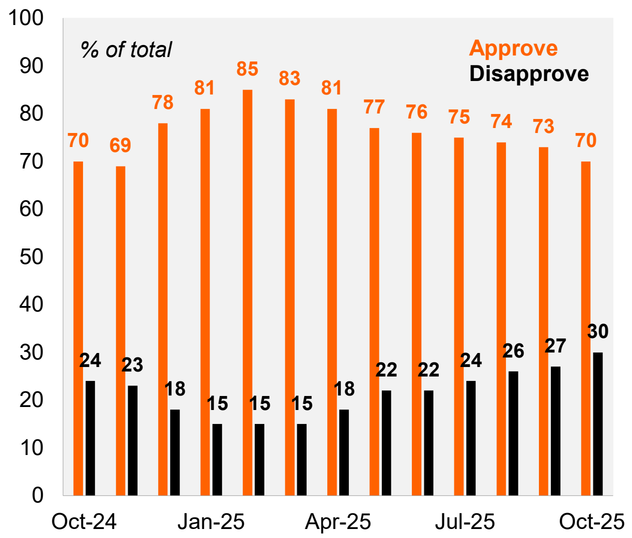
President Sheinbaum's approval is decreasing but remains historically high, reaching 70% in October[1], amid security and organized crime concerns. Despite some improvement under Sheinbaum's security agenda, persistent violence related to organized crime could hinder better diplomatic ties with Washington and complicate the USMCA review process, as well as affect her domestic popularity.

President Sheinbaum's approval



Source: El financiero newspaper, Itaú.

Banxico changed its reaction function to be more FOMC dependent

Banxico cut the policy rate by 25-bp to 7.25% in the last meeting, as expected. The decision was divided for the fourth consecutive time, with a 4-1 vote and a dissent from board member Jonathan Heath, who favored leaving the base rate unchanged. Contrary to our expectations, the forward guidance shifted to a meeting-by-meeting approach, now stating that "looking ahead, the Board will evaluate reducing the reference rate". Following the decision, the one-year real ex-ante rate fell to 3.21%, crossing Banxico's upper bound of the estimated neutral range for the first time since 2022[2].

We continue to anticipate an additional 25-bp cut in December, leading to a year-end monetary policy rate of 7.0%. However, we now expect only one 25-bps cut in February next year, with the terminal rate at 6.75% in 2026 (up from 6.5%), following our view for one fewer cut by the Fed, as well as the most recent communication from Banxico. A pause in early 2026 is possible, reflecting the currently lower ex-ante real rate, short-term inflation risks in both core services and non-core components, and greater uncertainty surrounding the Fed's rate trajectory.

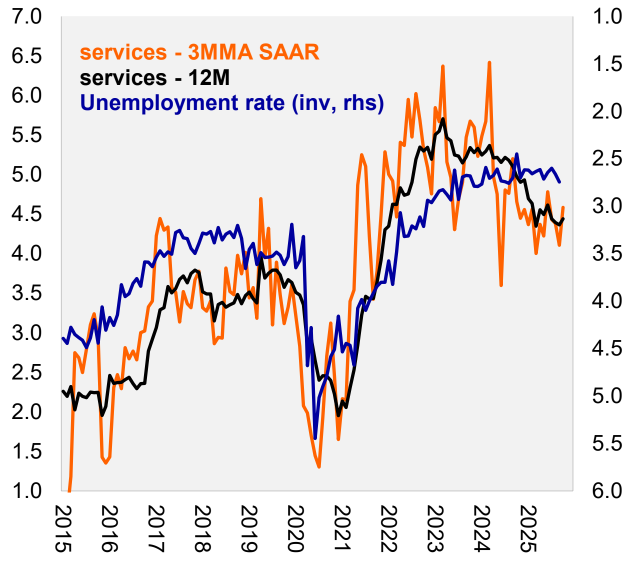
A welcome surprise in CPI for 2025

We have adjusted our year-end projection for headline inflation in 2025 to 3.8% from 4.1%, due to relief in core inflation and muted pressure on non-core items as the year ends. Core inflation has been relatively stable, slightly above the 4.0% annual ceiling. However, in seasonally adjusted annualized terms, it showed significant relief, dropping from above 4.0% to below this threshold in October. This change was mainly due to tradables and some services, in the context of peso appreciation, a weak economy, and a decelerating labor market.

We remain cautious about the inflation landscape in 2026, as non-core items could return to their higher historical average. Therefore, we maintain our forecast at 3.7%. Core inflation will be pressured by some base effects, while non-core inflation is unusually low, making a reversion to the historical average likely. This could exert upward pressure on headline inflation in 2026.

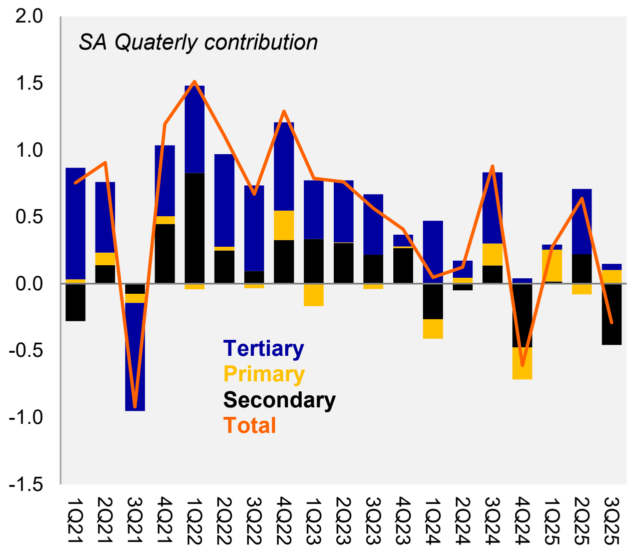
[1] According to the El Financiero most recent poll (published on November 3).
[2] Interval: 1.8% - 3.6%, with a midpoint at 2.7%, according to the last Banxico Quarterly report available at https://www.banxico.org.mx/publicaciones-y-prensa/informes-trimestrales/%7BDB98E1CD-2C65-4AB2-461B-B9B0E3ECEA10%7D.pdf

Core services close to fundamentals



Source: INEGI, Itaú

Industry as the main drag for economic activity



Source: INEGI, Itaú.

Activity data expectedly decelerated in 3Q25

We maintained our GDP forecasts at 0.6% for 2025 and 1.5% for 2026. However, our GDP forecast for 2025 is somewhat skewed to the downside. As of 3Q25, the economy has risen by 0.2% YoY, explained by a contraction in industry, despite positive performance in the agricultural and services sectors. The statistical carry-over for 2025 stands at 0.6%. Considering this figure, activity would need to increase to 1.6% YoY in 4Q25 to meet our 0.6% YoY forecast for 2025. This is difficult to achieve since, on average, from 2011 to 2019, 4Q growth has been 0.4% YoY.

Two factors explain why we are maintaining our current forecast. First, at the end of November, INEGI will revise the historical data for economic activity, followed by the inclusion of the National Accounts revision. Second, October's leading indicators show some progress, and infrastructure projects are scheduled to start at the end of the year.

Looking ahead, we expect Mexico's growth to continue receiving some support from external factors, though these will become less significant compared to the first quarter of 2025. The outlook for domestically driven sectors will remain mixed, with a slowdown in local services and a contraction in investment. However, investment could continue to show signs of improvement due to the start of public projects, such as railways construction and road maintenance. We also anticipate a positive, albeit small, impact from the 2026 World Cup on both consumption and investment.

USDMXN good performance continues

Our FX outlook remains anchored at MXN 19.0 per USD for this year and 19.5 per USD for 2026. We now expect a slightly stronger global dollar moving forward. We remain cautious, as the upcoming USMCA renegotiations could drive increased hedging demand as the talks progress.

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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**	0.6	**1.5**	1.5
Nominal GDP - USD bn	1,121	1,316	1,467	1,798	1,857	**1,943**	1,943	**2,041**	2,041
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**	14,572	**15,185**	15,185
Unemployment Rate - year avg	4.4	4.1	3.3	2.8	2.7	**2.7**	2.7	**2.7**	2.7
Inflation									
CPI - %	3.2	7.4	7.8	4.7	4.2	**3.8**	4.1	**3.7**	3.7
Interest Rate									
Monetary Policy Rate - eop - %	4.25	5.50	10.50	11.25	10.00	**7.00**	7.00	**6.75**	6.50
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	**-0.5**	-0.5	**-5.0**	-5.0
Current Account - % GDP	2.4	-0.3	-1.2	-0.3	-0.3	**0.1**	0.1	**-0.4**	-0.4
Foreign Direct Investment - % GDP	2.5	2.5	2.5	2.0	2.0	**2.0**	2.0	**1.9**	1.9
International Reserves - USD bn	195.7	202.4	199.1	212.8	229.0	**255.0**	255.0	**263.0**	263.0
Public Finances									
Nominal Balance - % GDP	-2.8	-2.8	-3.2	-3.3	-5.7	**-4.3**	-4.3	**-4.1**	-4.1
Primary Balance - % GDP	0.1	-0.3	-0.4	-0.1	-1.5	**0.3**	0.3	**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

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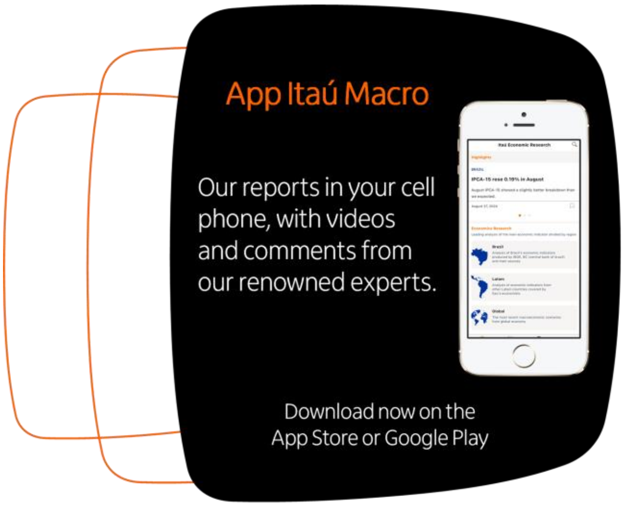

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