Macro scenario - Mexico

March 17, 2025

Not a recession, *yet*

- Another delay in U.S. tariffs, as of this writing. President Trump exempted all imports from Mexico that are covered by the USMCA (which we estimate to be around 80% of total U.S. imports) from tariffs until April 2, the same deadline that he set for the broader reciprocal tariffs.
- Our 2025 GDP growth forecast has been revised downward again, this time to 0.0% (from 0.9%), mainly due to a more challenging external backdrop, while domestic-related activity has shown mixed signs. We have left our 2026 GDP growth forecast unchanged at 1.4%, albeit with unusually elevated uncertainty on the outlook.
- We project that inflation will end this year at 3.9%, and 2026 at 3.6%. While a disinflationary trend is in motion, also supported by a deceleration in economic activity, the inflation scenario remains challenging, with the peso's depreciation and the tight labor market still posing risks.
- Our base case remains for the central bank to continue easing in 2025, cutting the policy rate by 50-bp in March and then, as the end of the cycle approaches, shifting to a more moderate pace of 25-bp cuts (to 8.5% at YE25). The scenario for further easing, although currently biased to an additional 50-bp cut in May, remains challenging given elevated policy uncertainty in the U.S., domestic CPI dynamics, and the lack of easing on the FOMC side in the short term.

Tariffs delayed, once again

Déjà vu … tariffs on Mexican exports to the U.S. have been postponed again – as of this writing. President Trump exempted all imports from Mexico covered by the USMCA (which we estimate to be around 80% of total U.S. imports) from tariffs until April 2, the same deadline that he set for the broader, reciprocal tariffs.

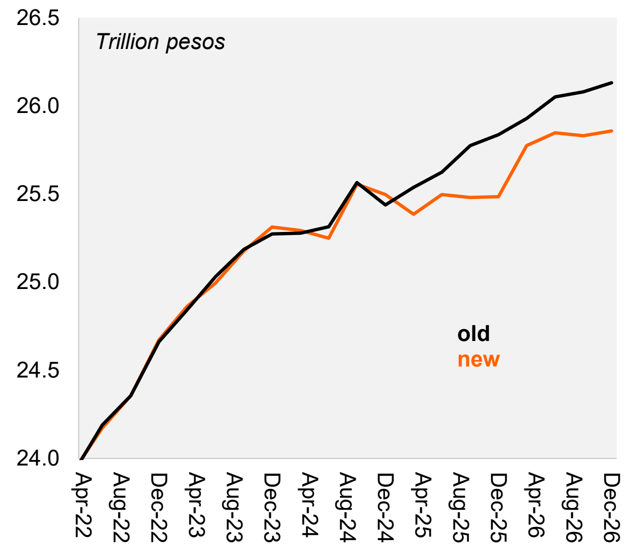
A renegotiation of the USMCA free trade deal has virtually already started. We maintain our view that the US administration's tariff threats are a mechanism to gain leverage in advance of the free-trade renegotiation process, as well as to push Mexico to meet other demands on border security/control, flows of fentanyl, immigration, and possible inflows of inputs originating from China to the United States. We believe that Mexico is inclined to concede to U.S. demands to maintain the USMCA agreement and is demonstrating coordination between government and private entities towards this goal. Risks remain, however, which will likely lead to significant volatility in Mexican assets, especially the peso.

Activity outlook deteriorates

We have revised our 2025 GDP growth forecast downward to zero (from 0.9%), mainly due to the more challenging external backdrop. We foresee weaker performance for the international sources of Mexico's growth, mainly manufacturing exports and some services such as freights and wholesale trade. Domestic-related sectors have a mixed outlook, with moderation in local services and a contraction in construction/investments.

We have left our 2026 GDP growth forecast unchanged at 1.4% in the context of unusually high uncertainty.

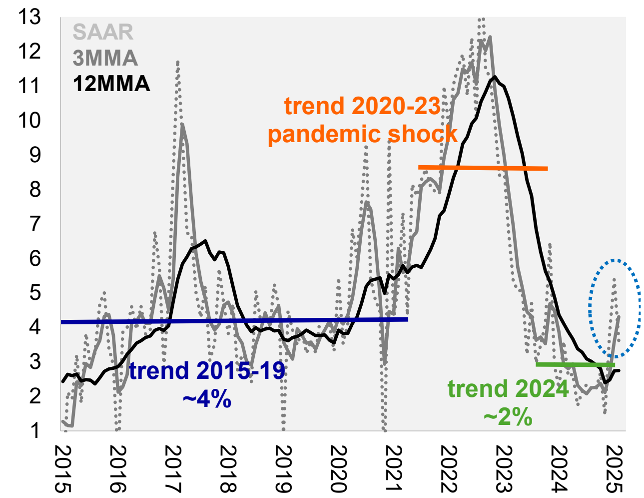
Uncertainty and trade shock to GDP



Source: INEGI, Itaú.

Tradables inflation will likely return to the pre pandemic trend (approximately 4% YoY)

CPI - core tradables



Source: INEGI, Itaú

Inflation: Can tradables return to pre-pandemic levels with services slowing down?

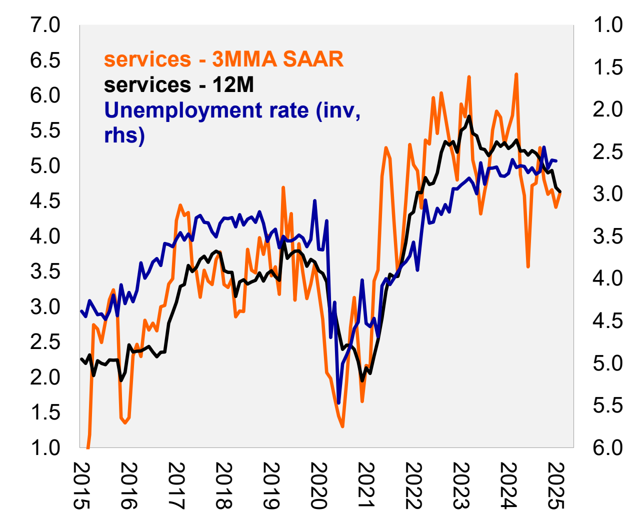
While a disinflationary trend is in motion, supported by a deceleration in economic activity, the inflation scenario remains challenging, with USDMXN depreciation and the tight labor market still posing risks. For non-core inflation, global volatility could lead to higher oil and gas prices, while pressures on agricultural prices may come from adverse climate events.

Even with a muted FX pass-through, tradables inflation is likely to normalize and return to the pre-pandemic trend (~4% YoY).

A tight labor market prevents significant services disinflation. Although we are lowering our 2025 GDP forecast, the effects on the labor market are likely to take place at a lag; historically, in years with significant GDP decelerations, such as 2008, 2013, 2016 and 2019, we have witnessed only modest unemployment rate increases at first, showing the lagging response of the labor market to economic activity.

While a tight labor market prevents significant services disinflation

CPI - core services and unemployment



Source: INEGI, Itaú

We currently forecast CPI 2025 at 3.9% and CPI 2026 at 3.6%.

Banxico to deliver another 50-bp cut in March (YE25 8.5%)

Our base case remains for the central bank to continue easing in 2025, cutting the monetary policy rate by 50-bp in March and then, as the end of the cycle approaches, slowing the pace of cutting to 25-bp (reaching 8.5% at YE25).
The scenario for further easing, although currently biased to an additional 50-bp cut in May, remains challenging given elevated policy uncertainty in the U.S., domestic CPI dynamics, and lack of easing by the FOMC in the short term. A lower terminal rate than the one considered in our scenario depends also on the response of the USD/MXN to narrower interest rate differentials.

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	3.3	1.5	**0.0**	0.9	**1.4**	1.4
Nominal GDP - USD bn	1,129	1,318	1,463	1,796	1,853	**1,928**	2,016	**2,115**	2,115
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	14,005	**14,457**	15,028	**15,736**	15,736
Unemployment Rate - year avg	4.4	4.1	3.3	2.8	2.7	**2.9**	2.8	**2.9**	2.9
Inflation									
CPI - %	3.2	7.4	7.8	4.7	4.2	**3.9**	3.9	**3.6**	3.6
Interest Rate									
Monetary Policy Rate - eop - %	4.25	5.50	10.50	11.25	10.00	**8.50**	8.50	**8.00**	8.00
Balance of Payments									
MXN / USD - eop	19.9	20.5	19.5	17.0	20.8	**21.0**	21.0	**21.3**	21.3
Trade Balance - USD bn	34.2	-10.8	-26.9	-5.5	8.2	**-10.0**	-15.0	**-15.0**	-15.0
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	2.8	2.7	2.7	1.7	2.0	**2.0**	3.5	**3.5**	3.5
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	**-3.9**	-3.9	**-3.4**	-3.4
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	**51.8**	51.8	**51.4**	51.4

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

Macro Research – Itaú
Mario Mesquita – Chief Economist

To access our reports and forecast visit our website:
https://www.itau.com.br/itaubba-pt/macroeconomic-analysis

Relevant Information

1. This report has been prepared and released by the Macro Research Department of Itaú Unibanco S.A. ("Itaú Unibanco"). This report is not a product of the Equity Research Department of Itaú Unibanco or Itaú Corretora de Valores S.A. and shall not be construed as a research report ("relatório de análise") for the purposes of Article 1 of the CVM Instruction NR. 20, dated 2021.

2. The exclusive purpose of this report is to provide macroeconomics information and it does not constitute and shall not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial product, or to participate in any particular trading strategy in any jurisdiction. The information herein is believed to be reliable as of the date on which this report was released and it has been obtained from public sources believed to be reliable. However, Itaú Unibanco does not make any explicit or implied representation or warranty as to the completeness, reliability or accuracy of such information, nor does this report intend to be a complete statement or summary of the markets or developments referred to herein. Itaú Unibanco has no obligation whatsoever to update, modify or amend this report and inform the reader accordingly.

3. The opinions contained herein reflect exclusively the personal views of the analyst responsible for this report and were prepared independently and autonomously, including in relation to Itaú Unibanco, Itaú Corretora de Valores S.A. and any other companies within their economic group.

4. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Itaú Unibanco. Additional information on the financial products mentioned in this report may be available upon request. Itaú Unibanco and/or any other company within its economic group is not and shall not be liable for any investment decisions (or otherwise) based on the information provided herein.

Additional Note: This material does not take into consideration the objectives, financial situation or specific needs of any particular client. Clients must obtain financial, tax, legal, accounting, economic, credit and market advice on an individual basis, based on their personal characteristics and objectives, prior to making any decision based on the information contained herein. By accessing the material, you represent and confirm that you understand the risks related to the financial instruments described in this material and the laws in your jurisdiction relating to the provision and sale of financial service products. You acknowledge that this material contains proprietary information and you agree to keep this information confidential for your exclusive use.

For inquiries, suggestions, complaints, criticisms and compliments, talk to Itaú's CSCC: 0800 728 0728. Or contact us through our portal https://www.itau.com.br/atenda-itau/para-voce/. If you are not satisfied with the proposed solution, please contact the Itaú Corporate Ombudsman: 0800 570 0011 (on weekdays from 9 AM to 6 PM) or our PO Box 67.600, São Paulo-SP, Zip Code 03162-971. Hearing impaired, every day, 24h, 0800 722 1722.