BBVA Research

Mexico Economic Outlook

November 2024

Creating Opportunities

Main messages

Recent developments

Inflation has eased further, partly due to lower oil prices (despite escalating geopolitical tensions) and excess supply in China (despite rising stimuli), but growth and core inflation remain resilient. The latter, together with expectations that Trump policies will spur inflation and raise fiscal risk, has boosted US sovereign yields and the USD.

Growth outlook

Assuming that the new US administration will raise import tariffs, mainly on China, growth is forecast to slow from 2.7% (+0.2pp) in 2024 to 2.1% (-0.1pp) in 2025 in the US, and from 4.8% (+0.2pp) to 4.1% (-0.1pp) in China, where more policy measures will provide some cushion. In the Eurozone, protectionism will add to other challenges and keep growth low, around 0.8% (+0.1pp) in 2024 and 1.0% (-0.4pp) in 2025.

Inflation and rates outlook

Inflation will accelerate in the US but remain subdued in the Eurozone and China, where the effects of weaker demand and lower oil prices will prevail. There will be less room for monetary easing in the US (with rates forecast at 4.0% by end-2025 and 3.0% by end-2026) but greater scope for lower rates in the Eurozone and in China.

Risks

The balance of risks for the global economy has deteriorated. Uncertainty is large, but trade and migration policies by the new Trump government in the US, and escalating geopolitical tensions, may create negative supply shocks. More expansionary fiscal policies may add to the ongoing upward pressures on inflation and interest rates.

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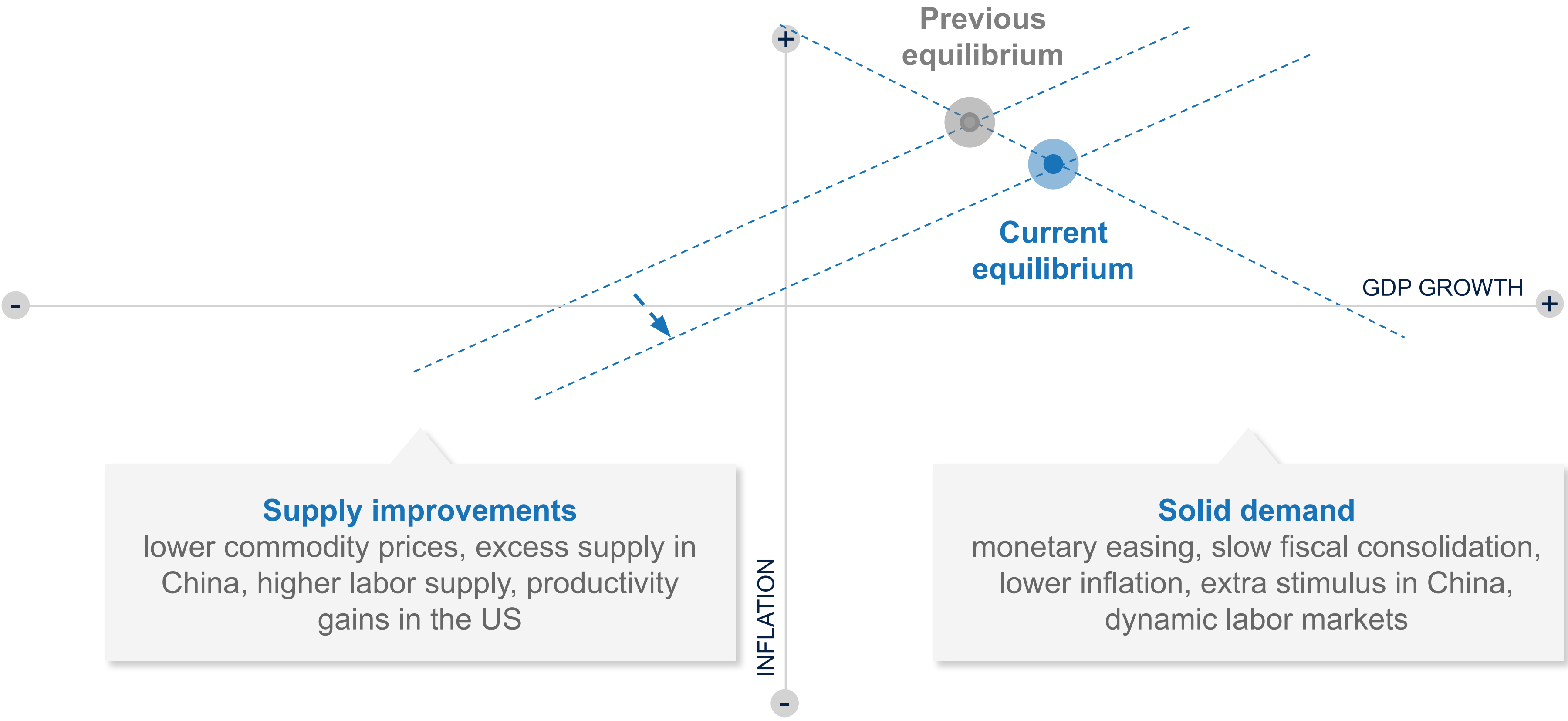
Global Economic Outlook 4Q24

Creating Opportunities

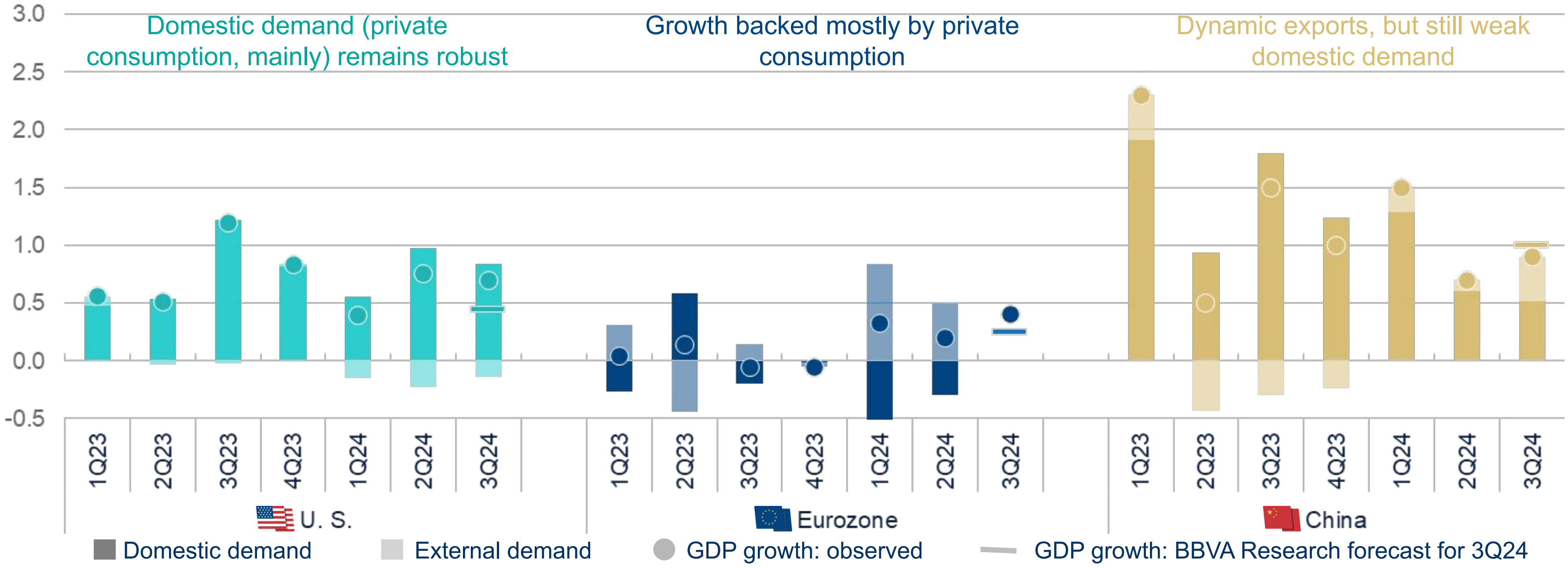
Recent supply improvements have allowed further declines in headline inflation and supported growth ahead of a new Trump government in the US



Growth has surprised upwards in 3Q24, mainly in the US but also in the EZ; in China it has recovered somewhat amid increasing counter-cyclical policies

GDP: CONTRIBUTION OF DOMESTIC AND EXTERNAL DEMANDS TO GDP GROWTH

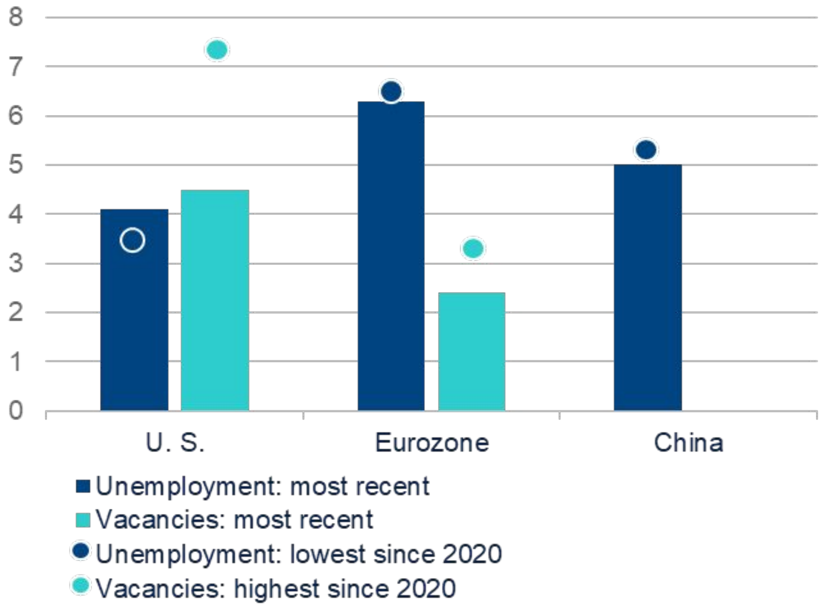
(GDP GROWTH: Q/Q%; CONTRIBUTIONS TO GDP GROWTH: PERCENTAGE POINTS)



Source: BBVA Research based on data from Haver and China's NBS.

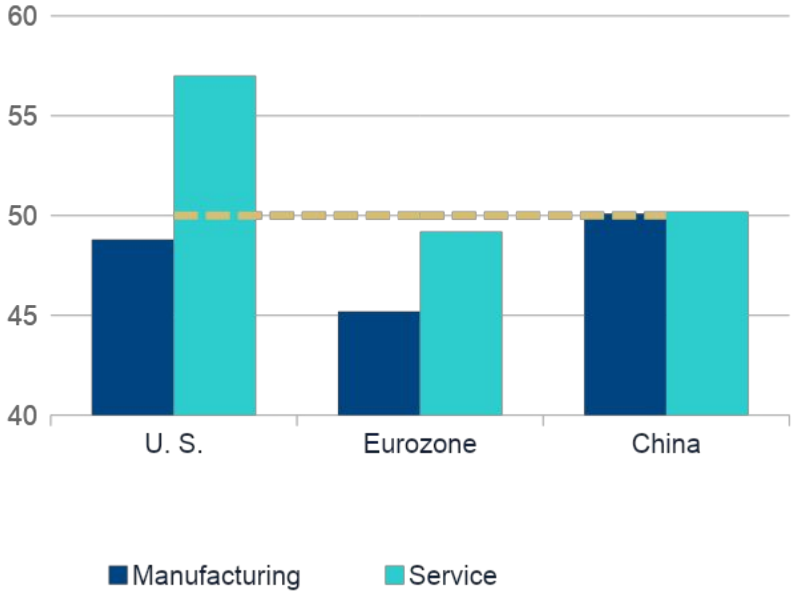
Labor markets remain robust, after easing somewhat lately; solid services continue to contrast with weak manufacturing (despite recent improvements)

UNEMPLOYMENT AND VACANCY RATES (*)
(%)



(*) Unemployment rate: unemployment as share of the labor force. Vacancy rate: job vacancies as share of the sum of total employment and job vacancies. Vacancies data not available for China.
Source: BBVA Research based on data from BLS , Eurostat and Haver.

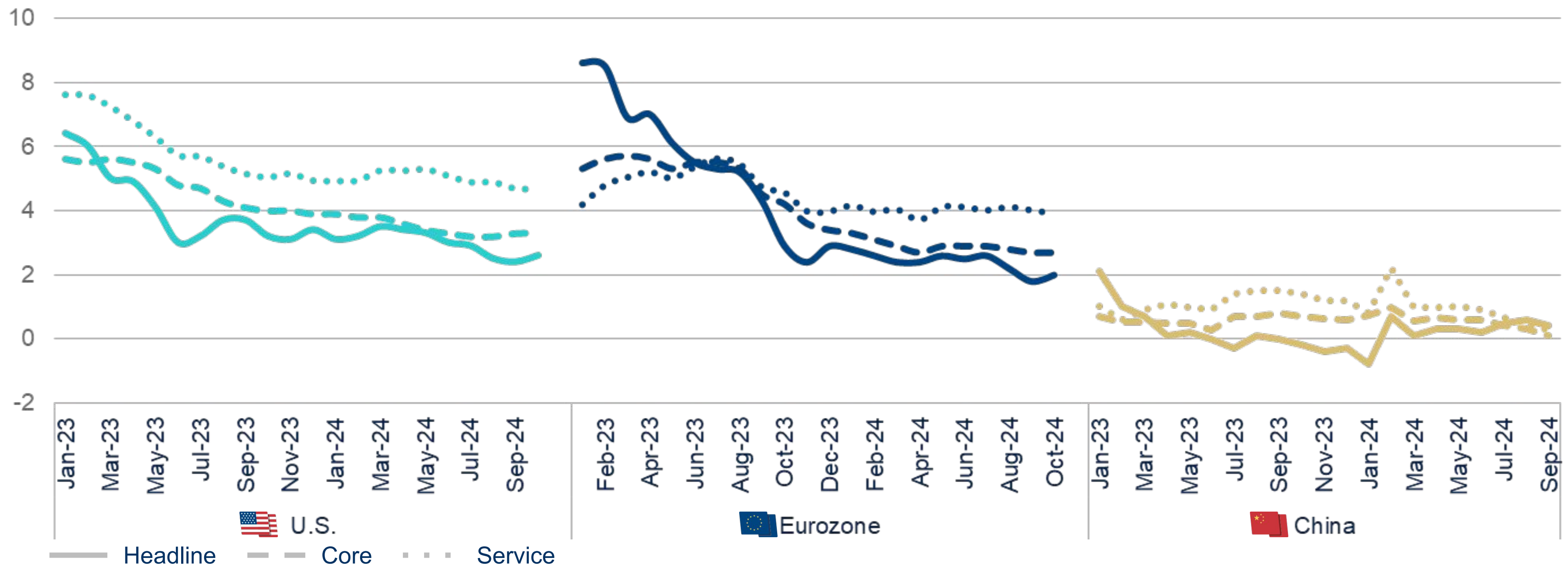
PMI INDICATORS: MOST RECENT DATA (*)
(MORE THAN 50: EXPANSION; LESS THAN 50: CONTRACTION)



(*) US and China: October 2024; Eurozone and the US: November 2024.
Source: BBVA Research based on data from Haver.

Inflation continues to ease and is now close to the targets, but service and core measures remain stickier, amid resilient demand and still pressured wages

CPI INFLATION: HEADLINE, CORE AND SERVICE
(Y/Y %)

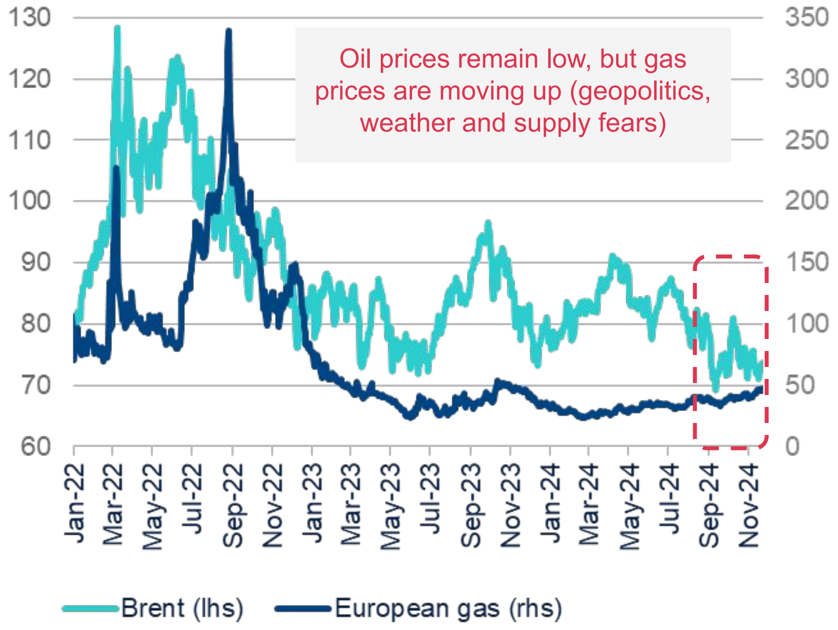


Source: BBVA Research based on data from Haver.

Low oil prices and abundant Chinese supply, particularly of manufactured goods, have helped to lower inflation and keep growth relatively robust

OIL AND GAS PRICES (*)

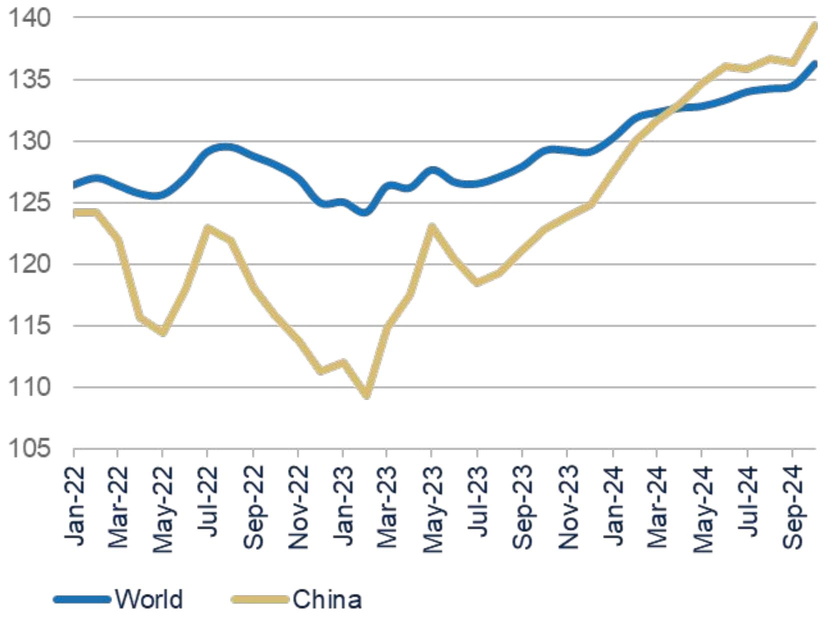
(OIL: USD PER BRENT BARREL; GAS: EURO /MWH)



(*) Last available data: November 21st, 2024.
Source: BBVA Research based on data from Haver.

BBVA RESEARCH TRADE INDICATOR (*)

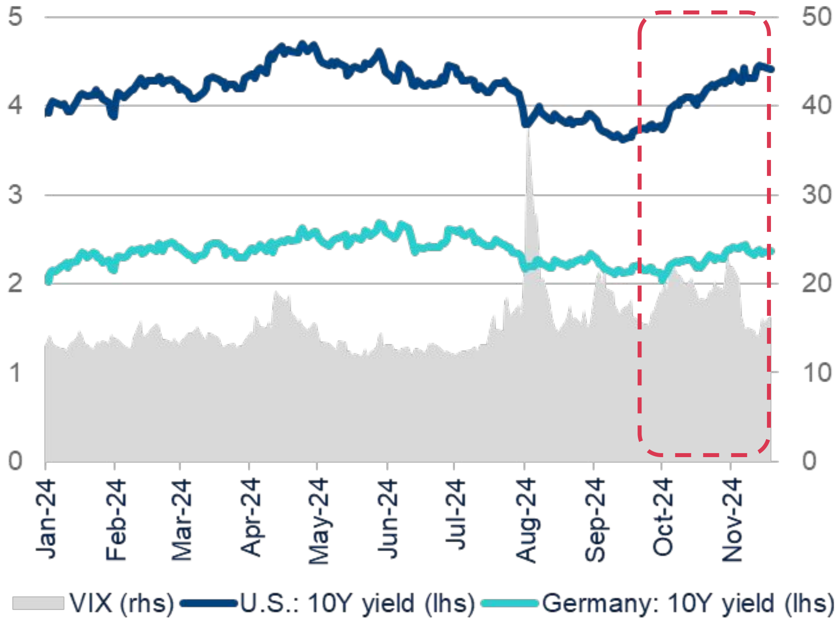
(INDEX: 2019 AVERAGE =100; IN REAL TERMS)



(*) The indicator is a three-month moving average of goods exports, from a sample of 25 countries (in the case of the World indicator). It is deflated using export price indexes.
Source: BBVA Research based on Haver data

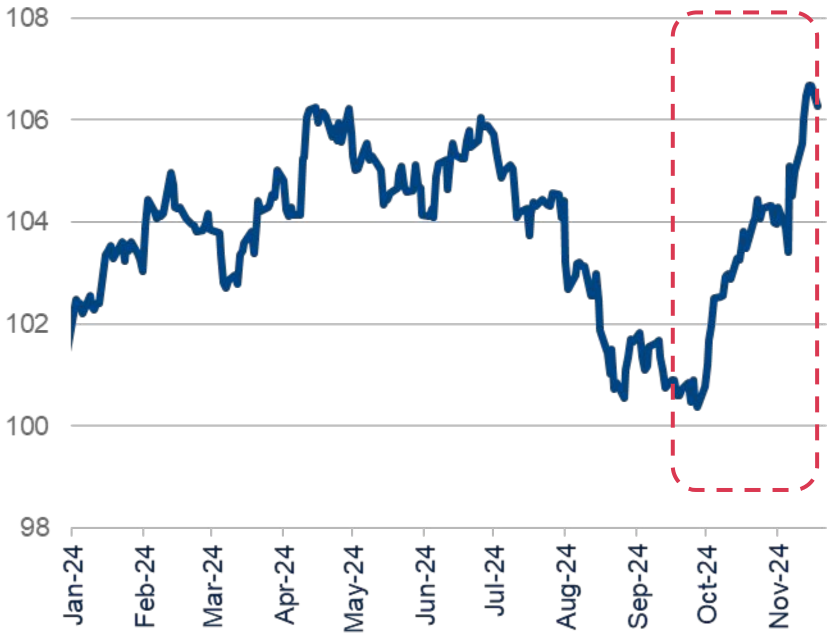
US sovereign yields have increased, reflecting the view of larger fiscal risks and inflationary pressures under Trump, which has backed the US dollar

SOVEREIGN YIELDS AND VOLATILITY (VIX) (*)
(%)



(*) Last available data: November 21st, 2024.
Source: BBVA Research based on data from Haver.

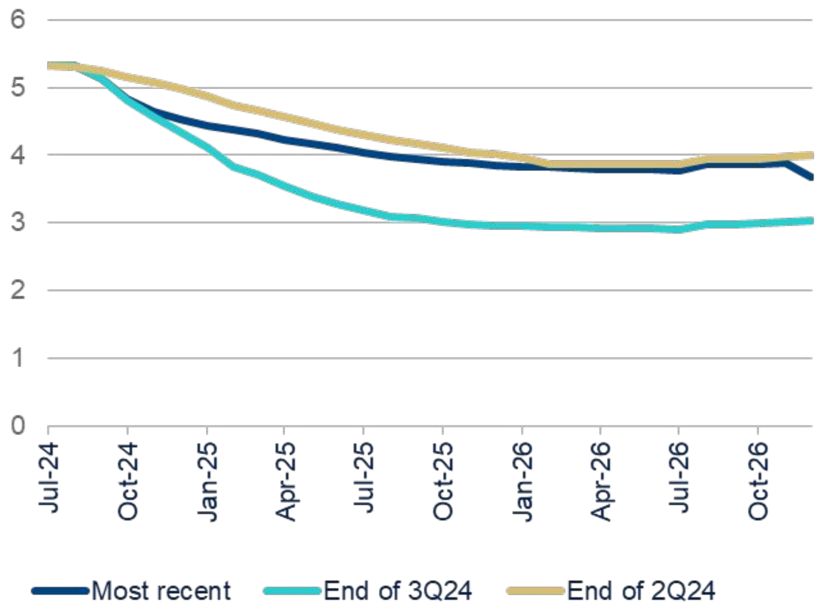
US DOLLAR: DXY (*)
(INDEX)



(*) A lower DXY index represents a weaker US dollar. November 21st, 2024.
Source: BBVA Research based on data from Haver

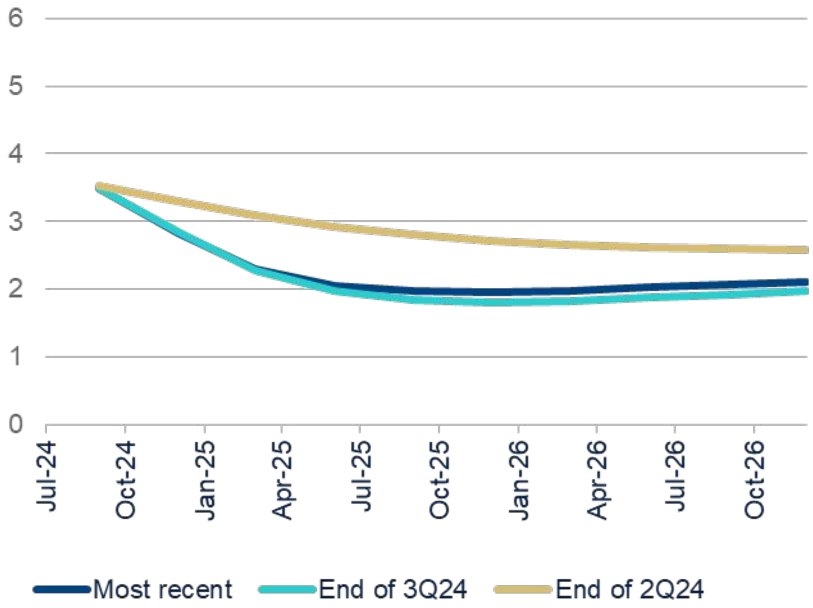
Markets see less room for further monetary easing, and higher terminal rates, in the U.S. than in the Eurozone, due to likely impact of Trump's policies

US: IMPLICIT RATE IN FED FUND FUTURES (*) (%)



(*) Last available data:November 21st, 2024.
Source: BBVA Research based on data from Haver.

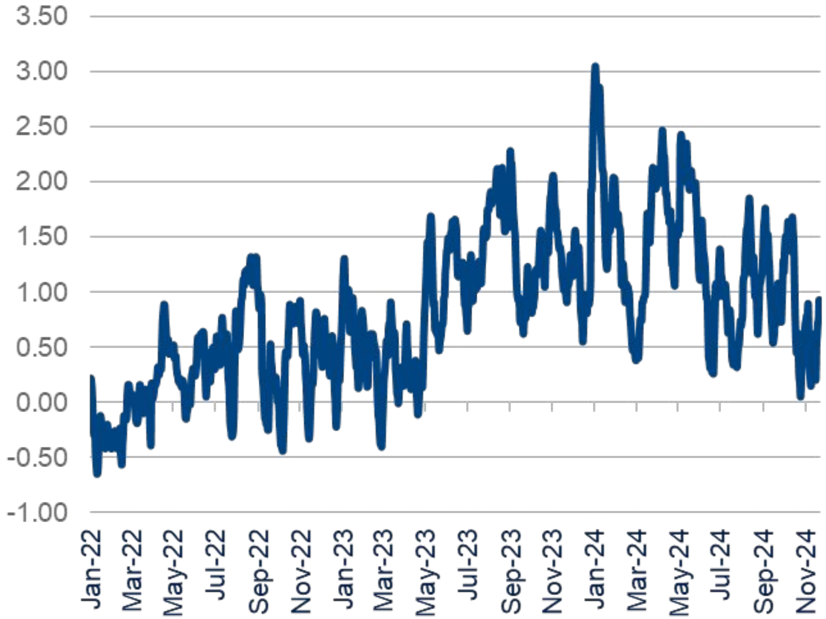
EZ: IMPLICIT RATE IN 3-MONTH EURIBOR FUTURES (*) (%)



(*) Depo interest rates. Last available data: November 21st, 2024.
Source: BBVA Research based on data from Haver.

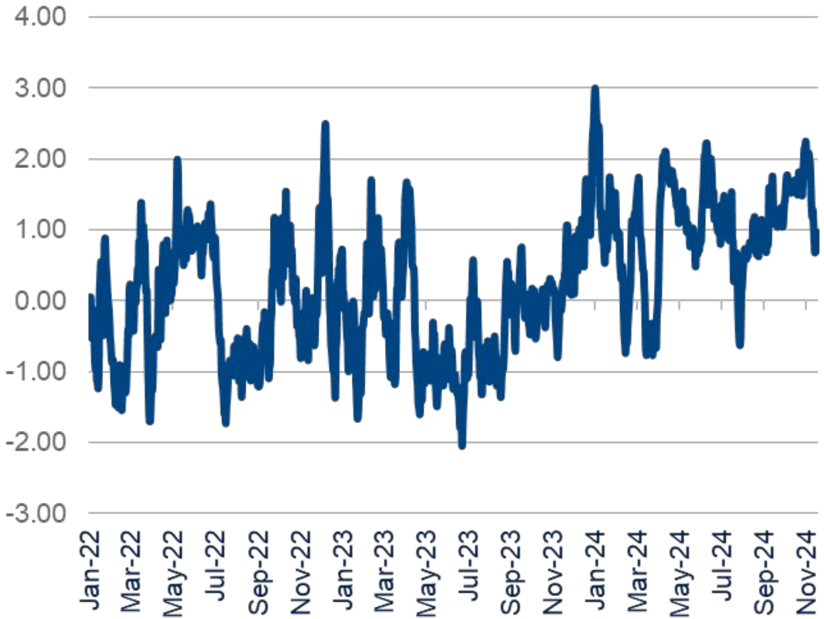
Conflicts in the Middle-East and in Ukraine continue to have a relatively limited impact on financial markets and macro data despite recent escalations

BILATERAL TENSIONS INDEX: UKRAINE-RUSSIA (*)
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



(*) Last available data: November 21st, 2024.
Source: BBVA Research Geopolitics Monitor.

BILATERAL TENSIONS INDEX: ISRAEL-IRAN
(AVERAGE SINCE 2017 EQUALS TO 0; 28-DAY MOVING AVERAGE)



(*) Last available data: November 21st, 2024.
Source: BBVA Research Geopolitics Monitor.

What to expect from a new Trump government in the US?

BBVA Research base scenario

Higher import tariffs:
60% US tariffs on China, 10% US tariffs on all other countries; retaliation by China (60% tariffs on targeted US goods), but not by others

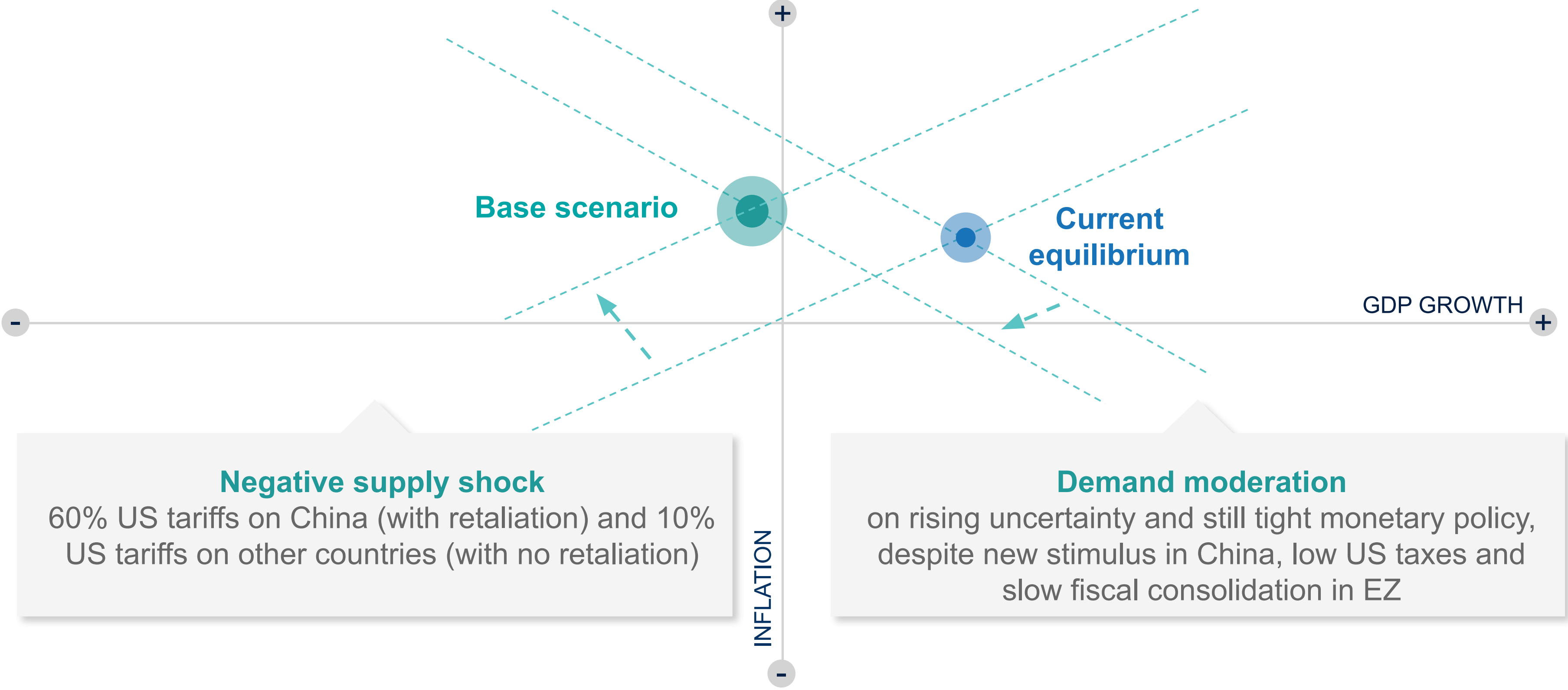
Low taxes:
tax cuts remain in place (i.e the 2017 Tax Cut and Job Act is renewed).

Uncertainty on various fronts:
extra shocks (on immigration, deregulation, pro-oil agenda, Fed's autonomy, foreign policy...) are possible, but are not assumed.

Overall impact will depend on cyclical position (better in the US) and margin for response (higher in China and in the US)

	US	CHINA	EUROZONE
GDP	Slightly lower	Slightly lower	Much lower (no recession)
INFLATION	Higher (one-off impact)	Much lower	Lower
RATES	Higher	Lower	Lower
CURRENCY	USD: stronger	RMB: weaker	EUR: weaker

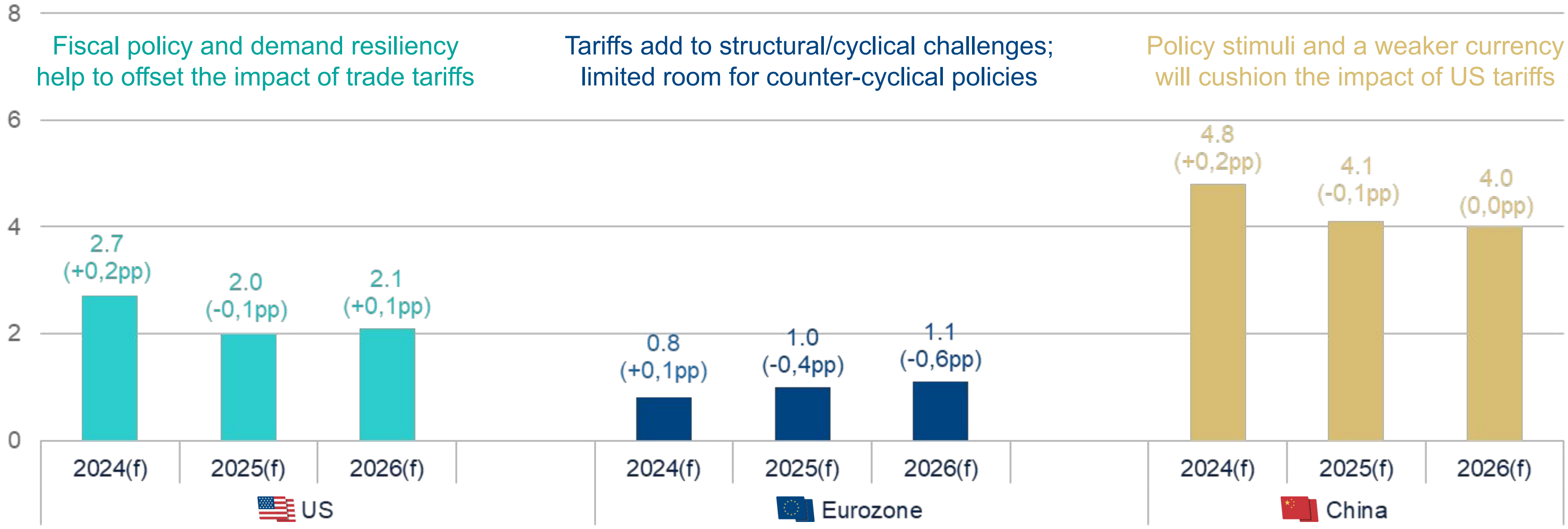
Base scenario: protectionism will fuel uncertainty, pressure global growth downwards and inflation upwards, with important differences across countries



Slower growth ahead, despite both stronger GDP expansion in 2024 and likely measures to mitigate the impact of higher trade tariffs (mainly in China)

GDP GROWTH (*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

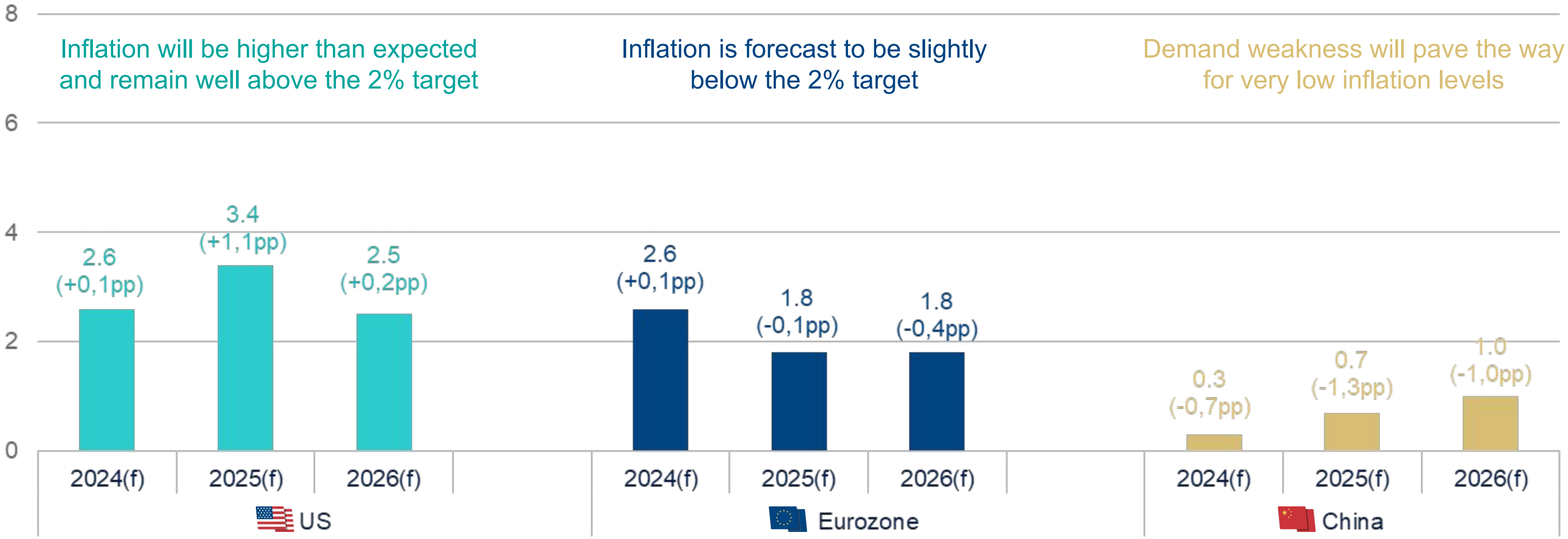


(*) Global GDP growth: 3.2% (+0.1pp) in 2024, 3.1% (-0.2pp) in 2025 and 3.3% (+0.1pp) in 2026.
(f): forecast.
Source: BBVA Research.

Trump policies will pressure inflation, mainly in the US; in other regions, it will likely ease due to weaker growth, lower oil prices and excess supply in China

HEADLINE CPI INFLATION

(Y/Y %, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



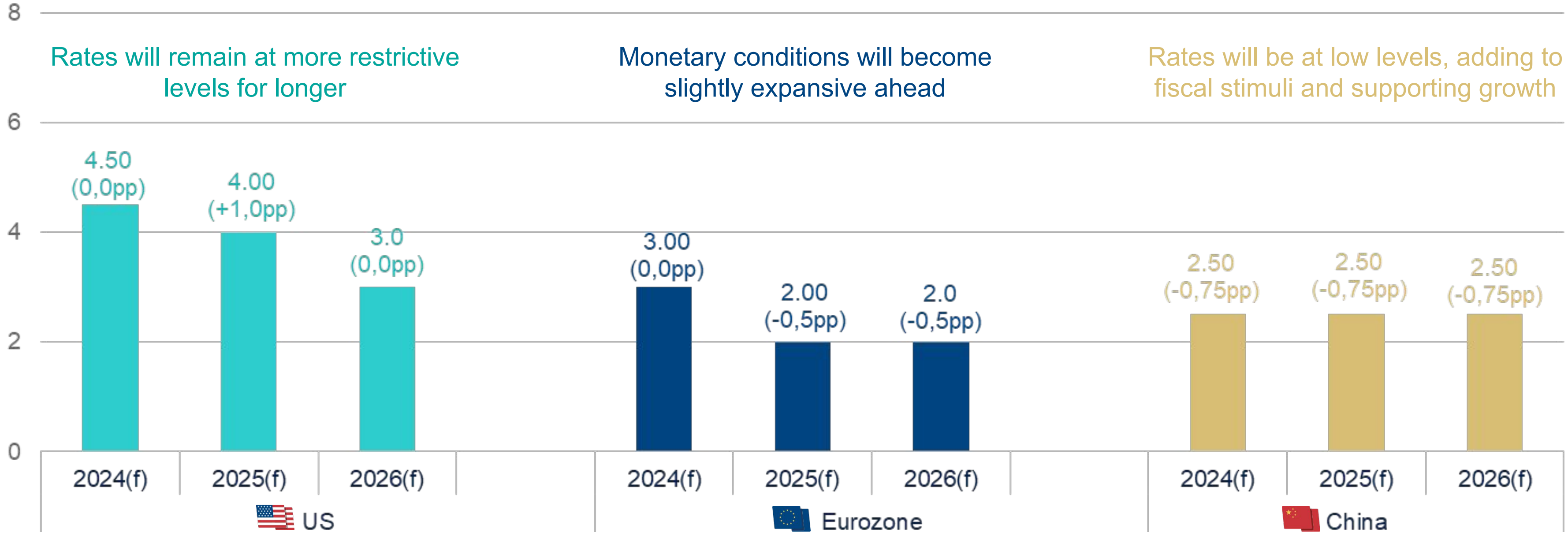
(f): forecast.

Source: BBVA Research.

The Fed will have less room to ease monetary conditions, while more rate cuts than previously forecast are likely in the EZ and in China

POLICY INTEREST RATES (*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)

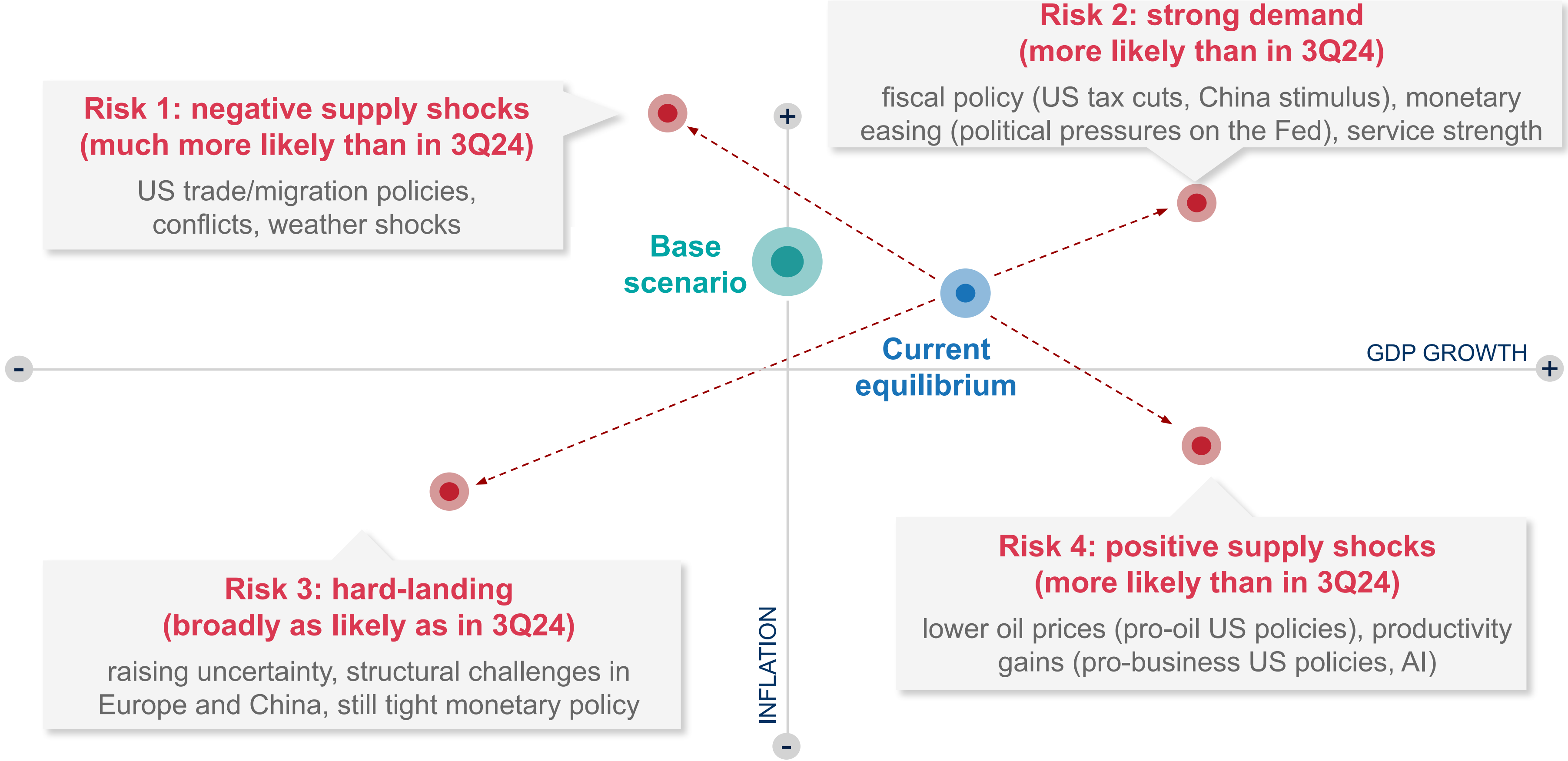


(f): forecast.

(*) In the case of the Eurozone, interest rates of the deposit facility.

Source: BBVA Research.

Risks: policies by the new US administration, and geopolitical events, may lead to more negative global macro scenarios



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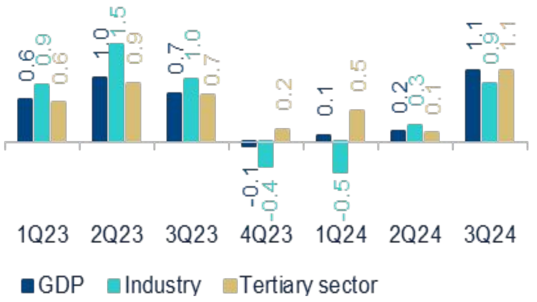
02

Economy beats expectations in 2H24; headwinds in 2025

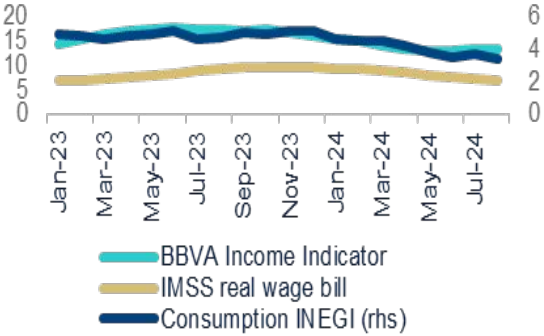
Creating Opportunities

GDP
(Q/Q%, REAL, SA)

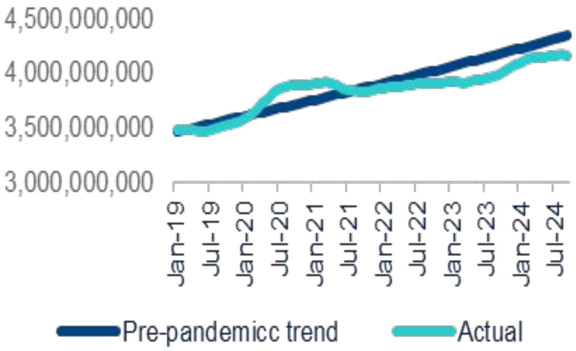


PRIVATE CONSUMPTION INEGI
(M/M%, REAL, SA)

CONSUMPTION, PERSONAL INCOME & REAL WAGE BILL
(Y/Y%, REAL, SA, 6-MONTH MOVING AVERAGE)



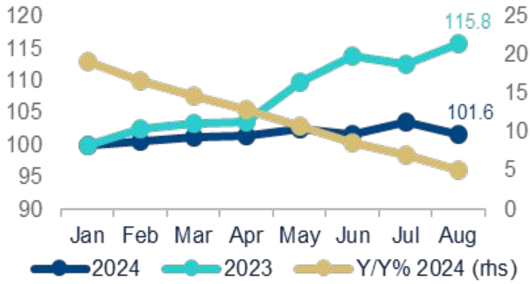
HOUSEHOLDS: BALANCE IN DEPOSIT ACCOUNTS
(MILLIONS OF PESOS, REAL, AE, 6M MA)



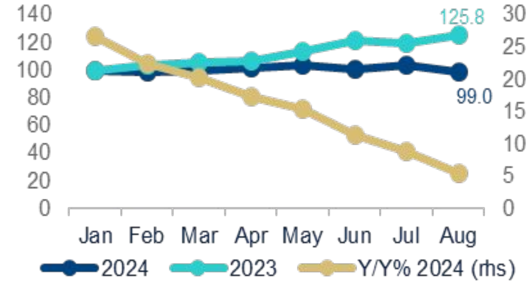
Source: BBVA Research, INEGI.

- Economic activity surprises on the upside with a growth of 1.1% q/q in 3Q24; 2Q24 is revised upward to 0.4% (INEGI).
- The industry and tertiary sector grew 0.9% and 1.1% q/q, respectively.
- Higher spending in the retail segment, possibly driven by lower savings, is not sustainable in the short term.
- Real wage bill is growing at a slower pace: Other indicators suggest that the slowdown in personal income may have bottomed out (BBVA).

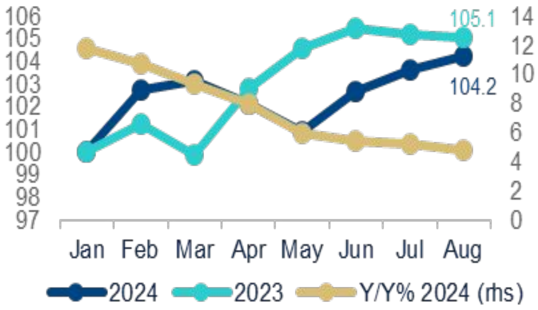
TOTAL INVESTMENT
(INDEX JAN=100)



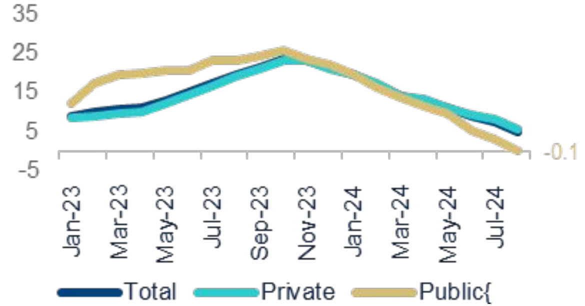
CONSTRUCTION
(INDEX JAN=100)



MACHINERY AND EQUIPMENT
(INDEX JAN=100)



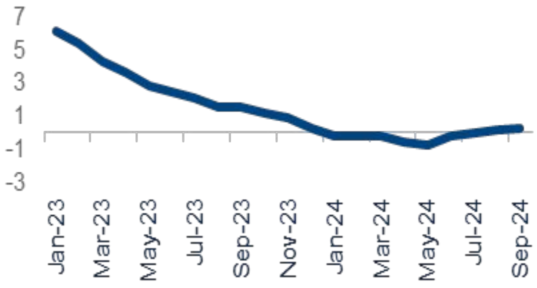
INVESTMENT: PUBLIC AND PRIVATE
(Y/Y%, 6-MONTH MOVING AVERAGE)



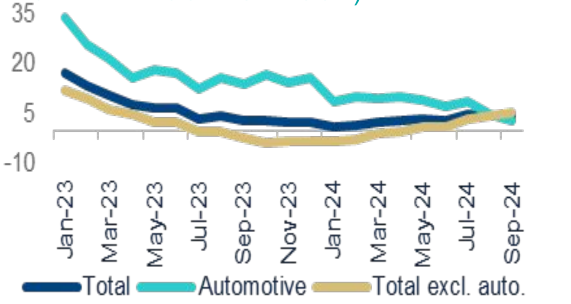
- Investment is the weakest component of domestic demand.
- Construction is 1.0% below its January 2024 level (vs. +26% in 2023 over the same period), as spending on flagship projects fades.
- The machinery and equipment segment has shown resilience, likely driven by nearshoring.
- Public investment spending has shown negative variations since May (y/y%), bringing the 6-month moving average to (-)0.1% in August (due to the completion of flagship projects).

Source: BBVA Research, INEGI.

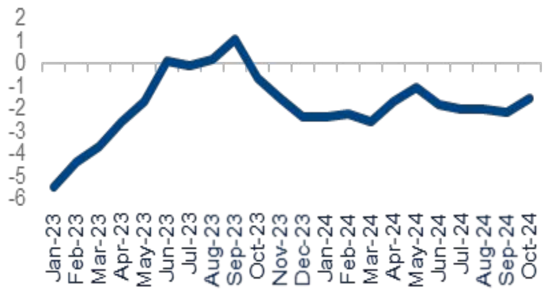
MANUFACTURING OUTPUT
(Y/Y%, 6-MONTH MOVING AVERAGE)



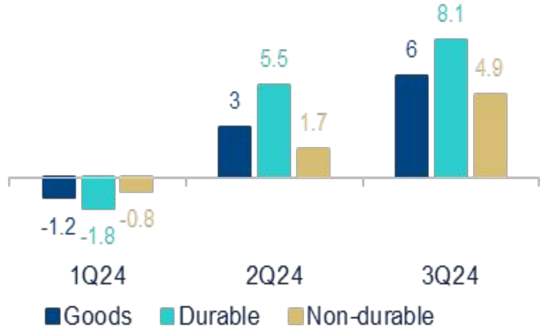
NON-OIL EXPORTS
(Y/Y%, 6-MONTH MOVING AVERAGE, FROM NOMINAL FIGURES IN USD)



NEW MANUFACTURING ORDERS
(Y/Y%, 6-MONTH MOVING AVERAGE)



U.S. GOODS CONSUMPTION
(Q/Q%, ANNUALIZED, REAL, SA)



- 3Q24 data suggests the manufacturing slowdown may have bottomed out.
- U.S. consumer data points to a rebound in spending on durable goods in 3Q24, given households' sound financial position.
- Gradual recovery ahead as spending patterns normalize amid lower U.S. interest rates; tariffs would hamper improvements in output growth.

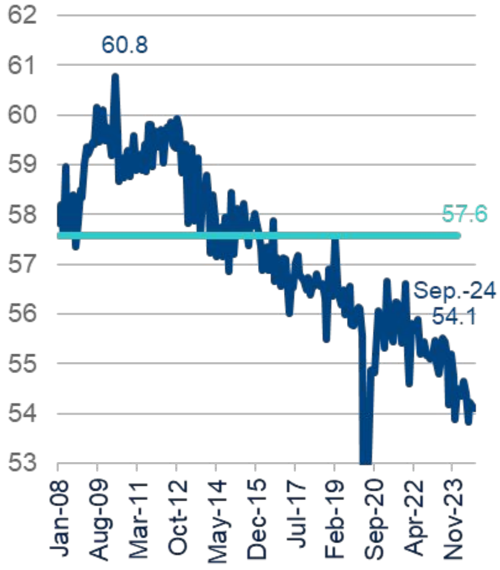
Source: BBVA Research, INEGI.

The weakness in formal employment worsens, while unemployment and informal employment remain resilient …

UNEMPLOYMENT RATE (% OF EAP, SA)

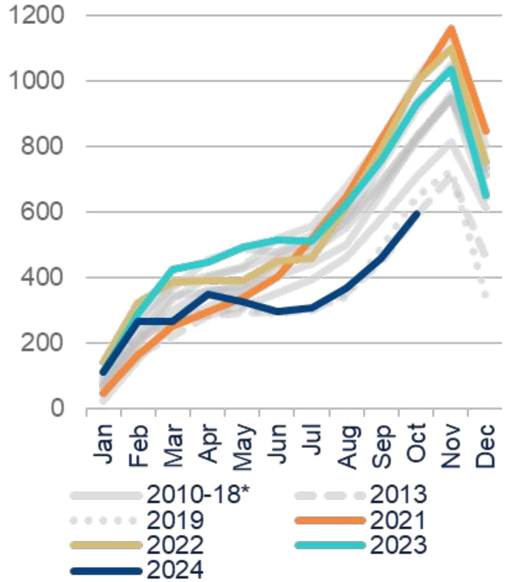
Average from 2005 to 2023.

LABOR INFORMALITY RATE (% EMPLOYED, SA)



Average from 2005 to 2023.

JOBS AFFILIATED WITH THE IMSS (ANNUAL MONTHLY ACCUM. JAN-AUG, THOUSANDS)

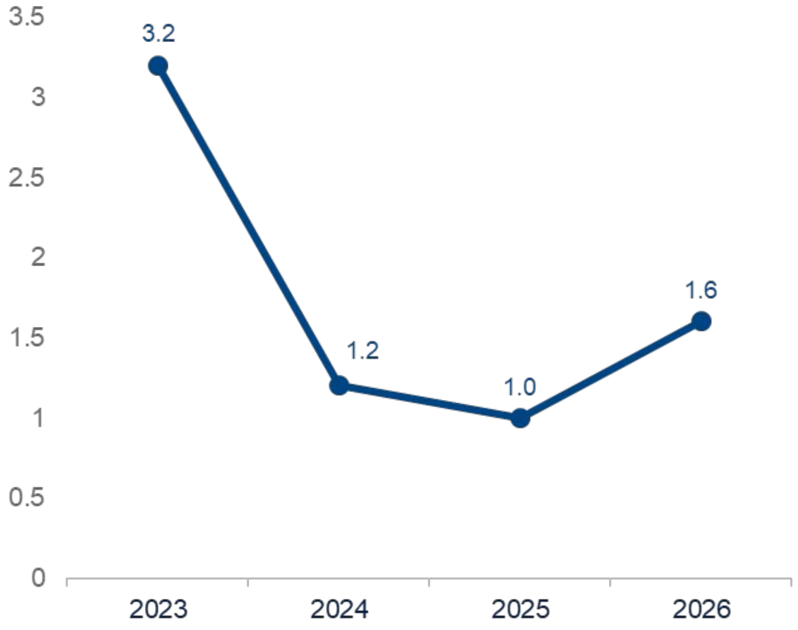


* Year 2020 is omitted due to the pandemic

Source: BBVA Research based on data from INEGI and IMSS.

We maintain our GDP growth estimate at 1.2% for this year and 1.0% for 2025

GDP
(ANNUAL % ANNUAL, SA)



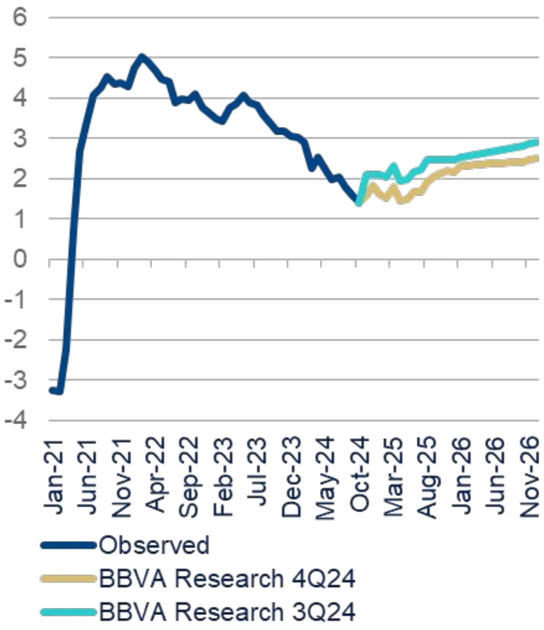
Source: BBVA Research, INEGI.

The positive surprise in growth in 3Q24 is offset by the negative effect of potential tariffs (Trump 2.0) in 2025:

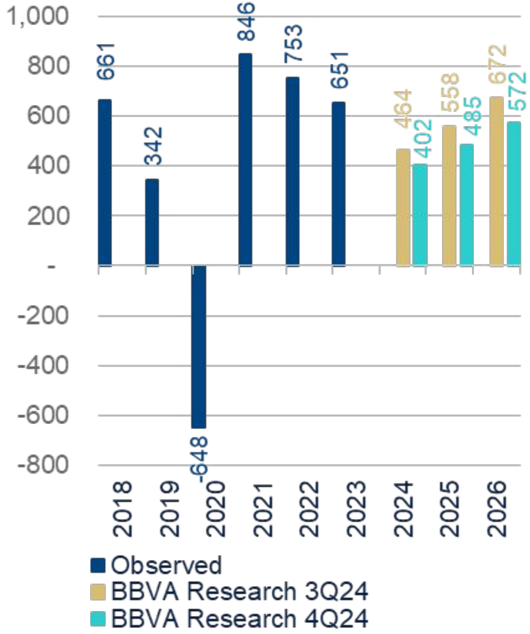
- **(+) 0.3 pp** over 2025 growth due to positive carryover effect from 3Q24 (driven by resilience of consumption and recovery of the external sector).
- **(+) 0.1 pp** due to higher public deficit in 2025.
- **(-) 0.4 pp** due to the negative effect of tariffs on exports and lower investment due to high uncertainty regarding U.S. trade policy.

Given the expected growth and the greater slowdown in formal employment, we are reducing our short- and medium-term growth expectations.

JOBS AFFILIATED WITH THE IMSS
(ANNUAL CHG., %)



OUTLOOK FOR FORMAL EMPLOYMENT



Forecast	2024	2025	2026	2027	2028
Thousands, EoP					
BBVA Research 4Q24	**402**	**485**	**572**	**603**	**629**
BBVA Research 3Q24	464	558	672	708	708
Annual Change, % EoP					
BBVA Research 4Q24	**1.8**	**2.2**	**2.5**	**2.6**	**2.6**
BBVA Research 3Q24	2.1	2.5	2.9	3.0	3.0

Source: BBVA Research, IMSS.

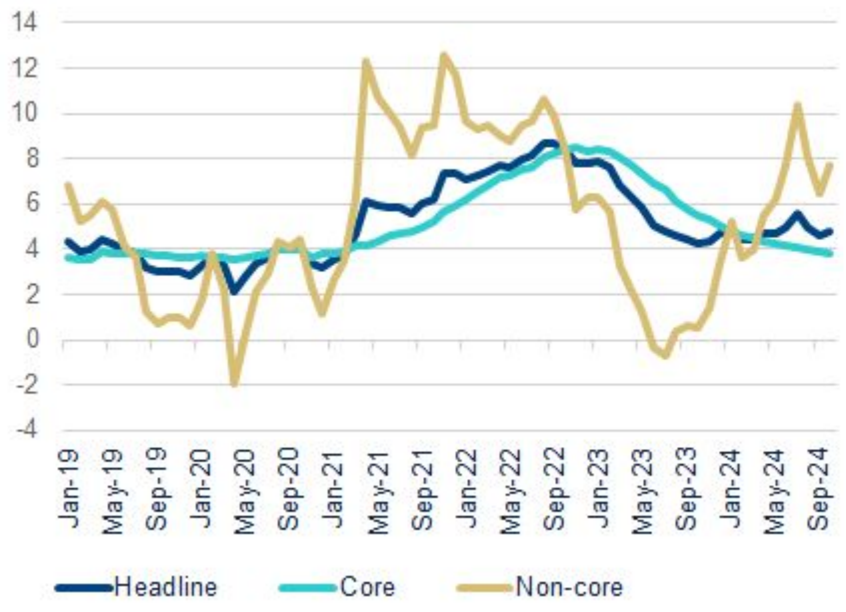
BBVA Research

03

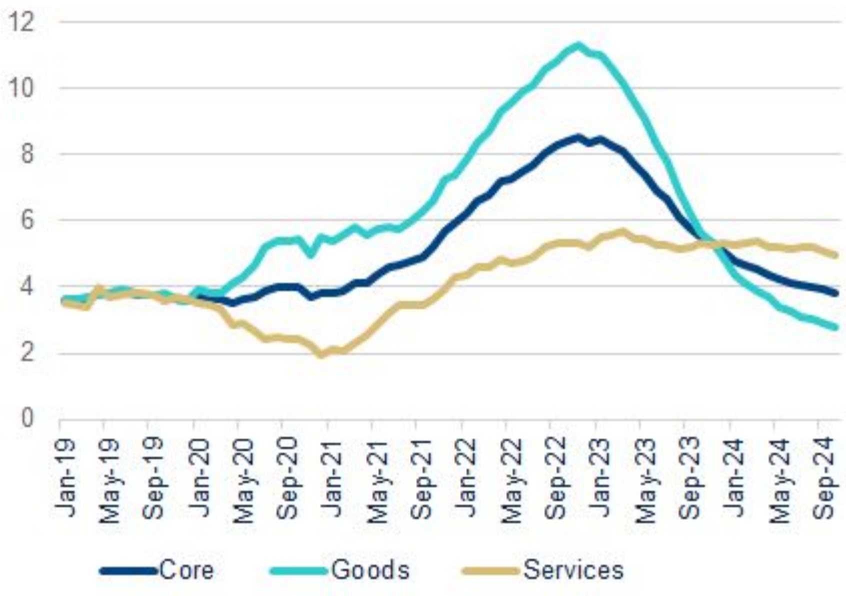
Banxico has ample room to cut rates but could be somewhat more cautious next year if the Fed pauses its easing cycle

Core inflation slowed for the 21st consecutive month in October, services inflation for the fourth consecutive month

HEADLINE INFLATION AND COMPONENTS
(ANNUAL % CHG.)



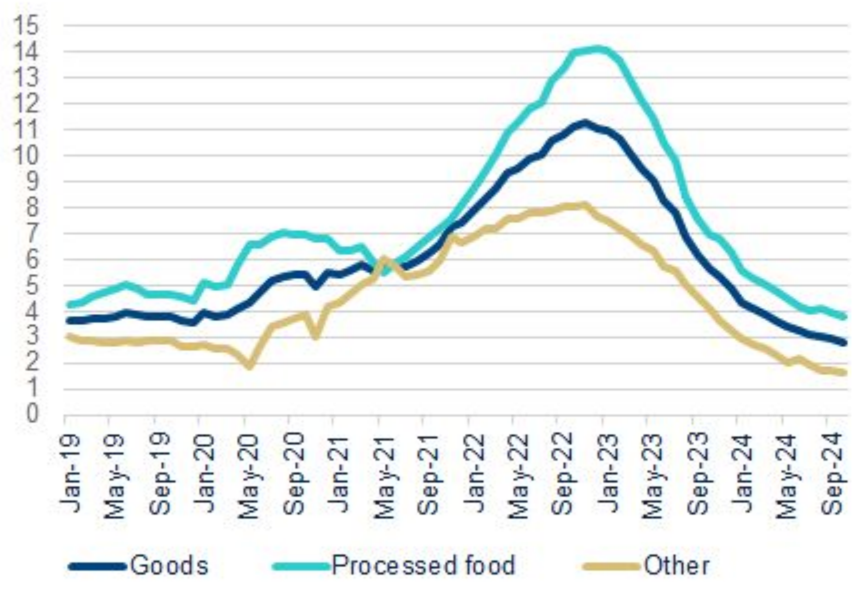
CORE INFLATION AND COMPONENTS
(ANNUAL % CHG.)



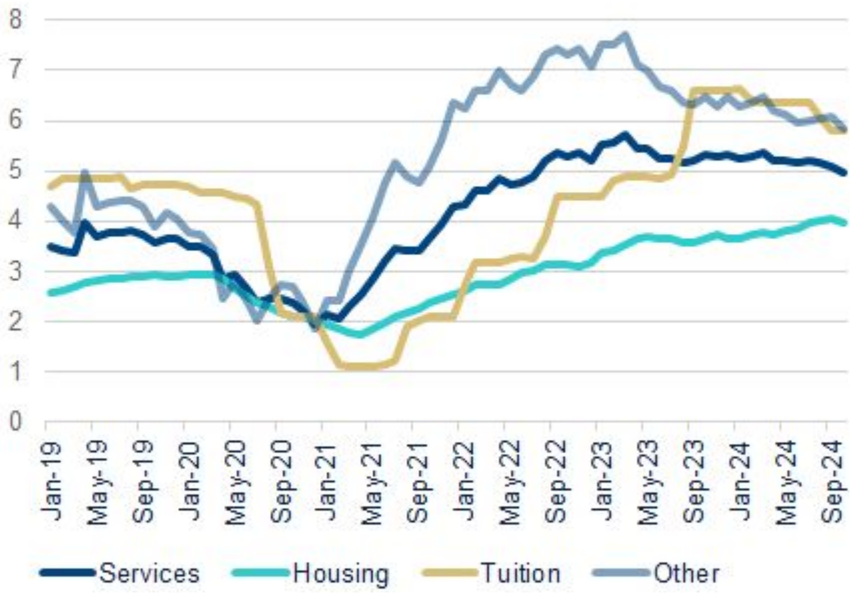
Source: BBVA Research, INEGI.

Goods inflation continues to show a very favorable trend, while services inflation is beginning to show signs of moderation

CORE GOODS INFLATION BREAKDOWN
(ANNUAL % CHG.)



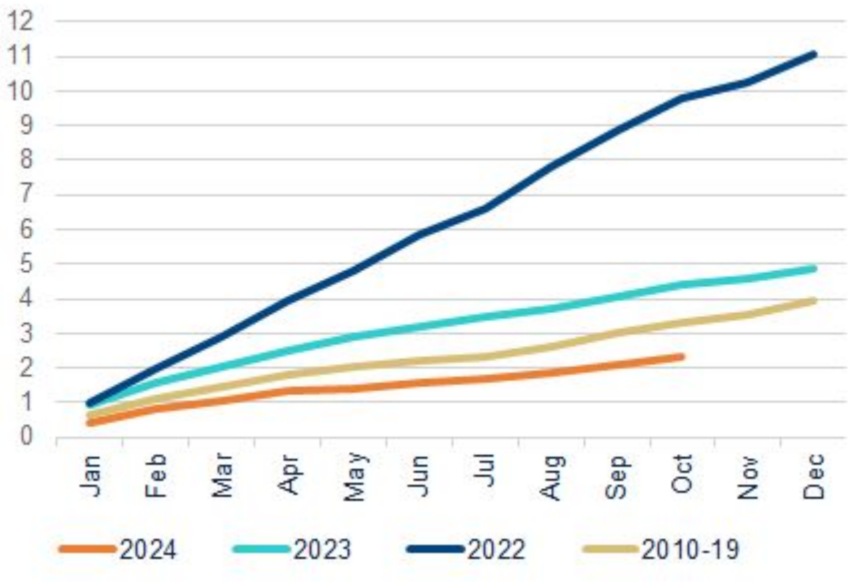
CORE SERVICES INFLATION BREAKDOWN
(ANNUAL % CHG.)



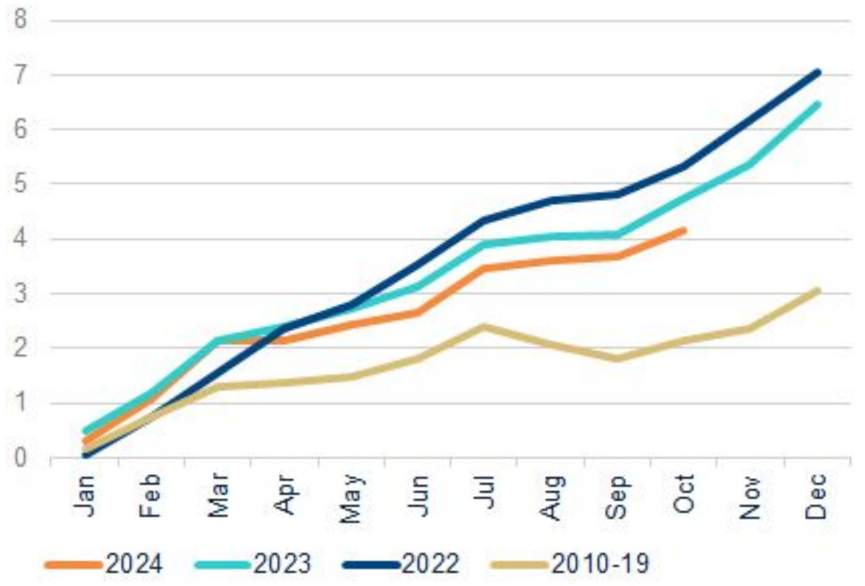
Source: BBVA Research, INEGI.

Inflation for services other than housing and tuition could start to cool soon along with weakening demand

GOODS INFLATION: ACCUMULATED BY YEAR
(%)



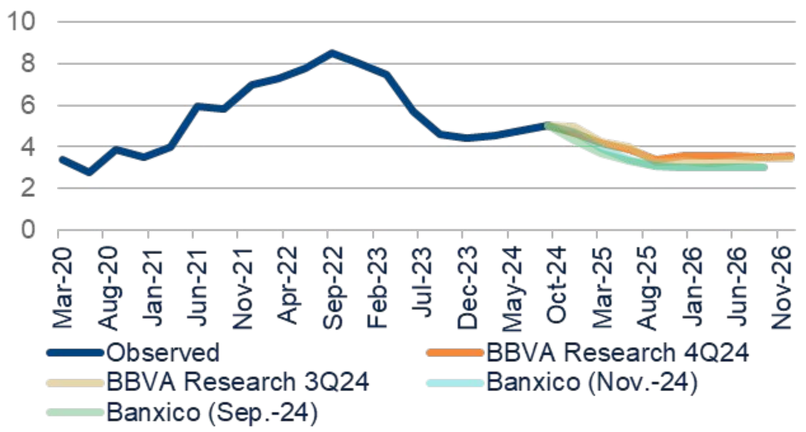
SERVICES INFLATION EXCL. HOUSING AND TUITION: ACCUMULATED BY YEAR
(%)



Source: BBVA Research, INEGI.

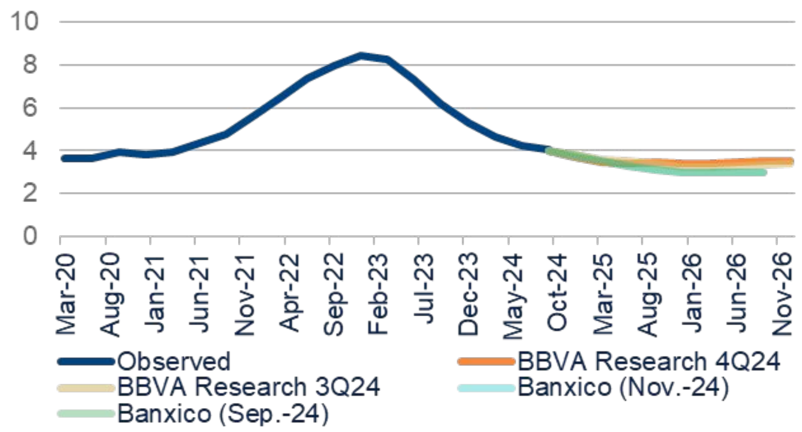
Core inflation will remain consistently below 4.0% in the future, while headline inflation will be around 3.5% by the end of 2025

HEADLINE INFLATION FORECASTS
(QUARTERLY AVERAGE OF ANNUAL % CHG.)



Forecast	2024Q4	2025Q4	2026Q4	2027Q4	2028Q4
BBVA Research 4Q24	**4.7**	**3.6**	**3.5**	**3.5**	**3.5**
BBVA Research 3Q24	5.0	3.3	3.5	3.6	3.6
Banxico (Nov.)	4.7	3.0			
Banxico (Sep.)	4.3	3.0			

CORE INFLATION FORECASTS
(QUARTERLY AVERAGE OF ANNUAL % CHG.)

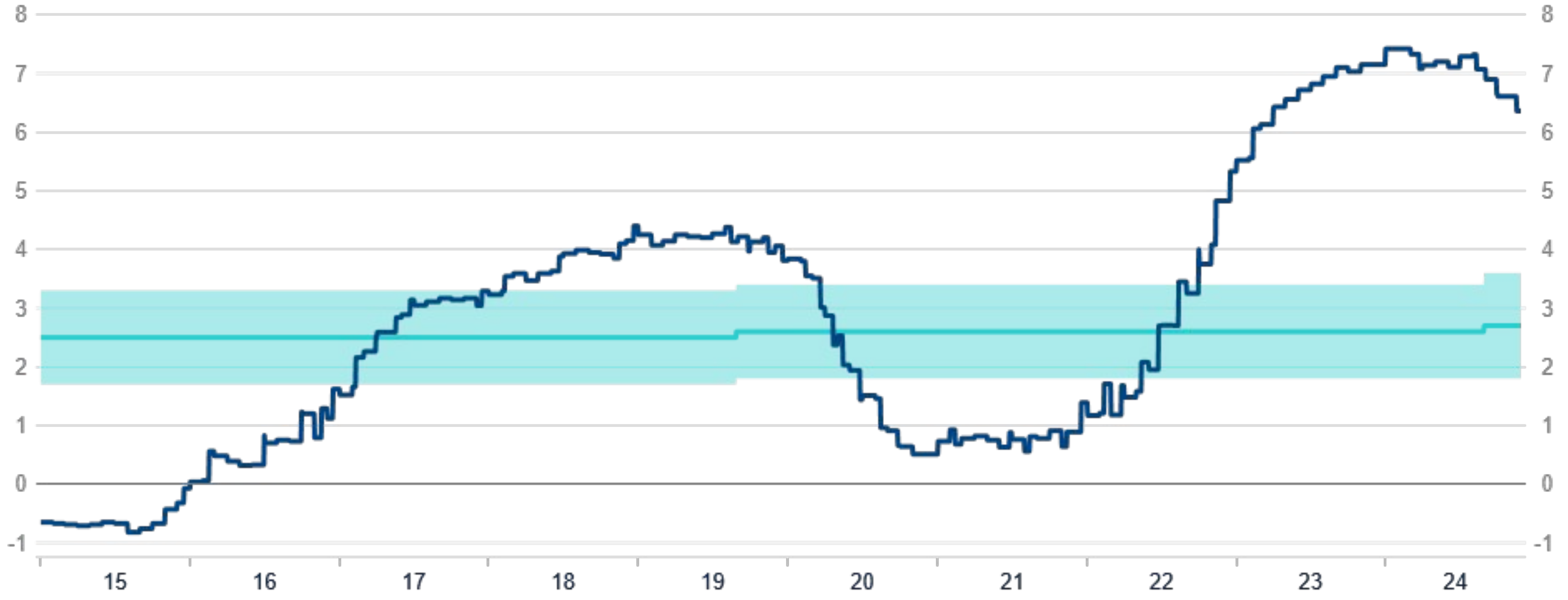


Forecast	2024Q4	2025Q4	2026Q4	2027Q4	2028Q4
BBVA Research 4Q24	**3.7**	**3.5**	**3.5**	**3.5**	**3.6**
BBVA Research 3Q24	3.8	3.2	3.4	3.5	3.5
Banxico (Nov.)	3.7	3.0			
Banxico (Sep.)	3.8	3.0			

Source: BBVA Research, INEGI, BANXICO.

The result of the U.S. elections did not prevent Banxico from continuing to lower the policy rate amid a still very restrictive monetary policy stance

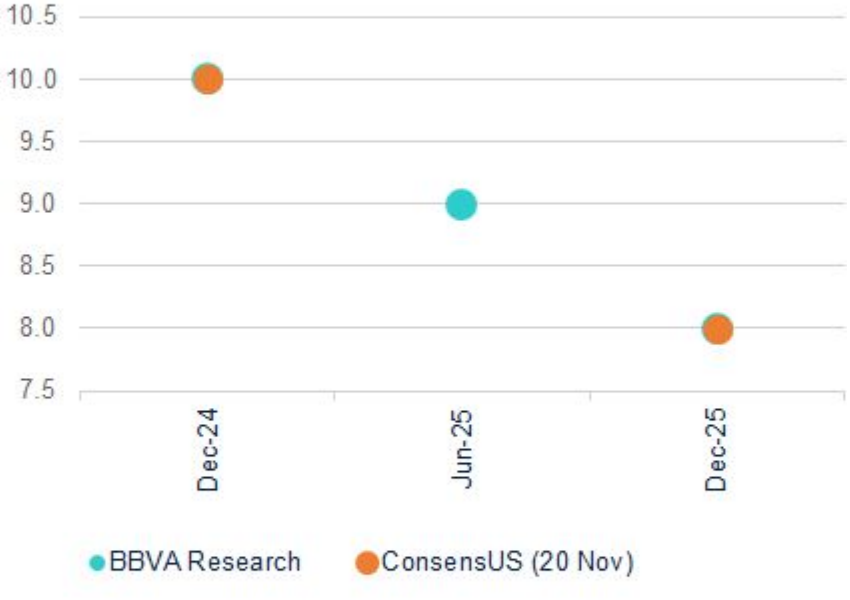
EX-ANTE REAL POLICY RATE
(%)



The shaded area indicates Banxico's estimated interval for the short-term neutral rate in the long term; the solid aqua line indicates the midpoint estimation.
Source: BBVA Research, Banxico, INEGI.

Banxico will continue its rate cut cycle without pauses next year but with the Fed likely pausing its easing cycle after March, it may not accelerate the pace of cuts

MONETARY RATE OUTLOOK: BBVA RESEARCH VS. CONSENSUS (%)



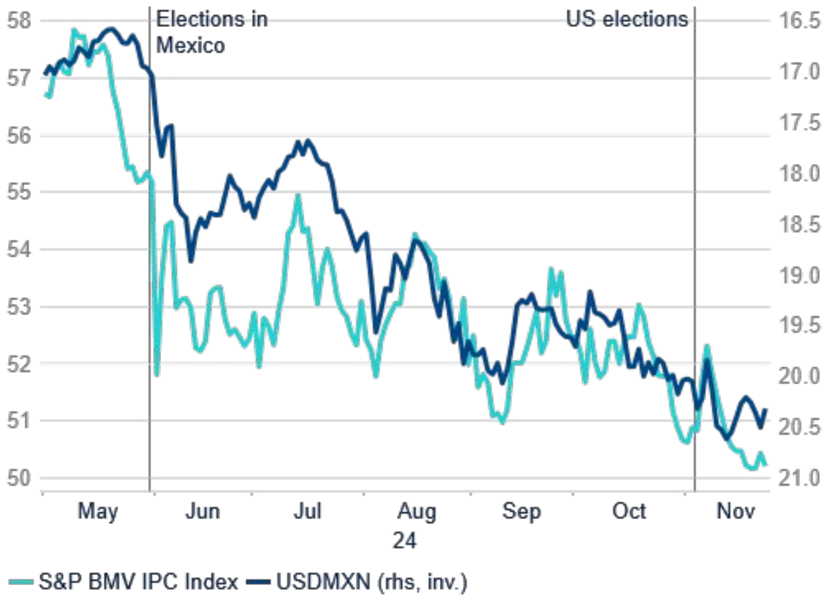
Source: BBVA Research and Banamex surveys.

OUTLOOK FOR THE EX-ANTE REAL RATE (%)

Source: BBVA Research, Banxico and INEGI.

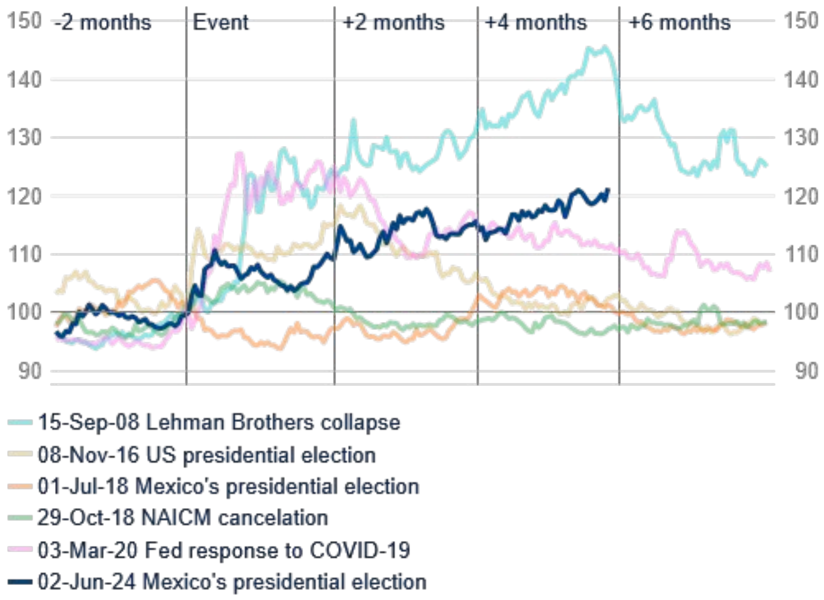
The depreciation of the peso that began after the elections in Mexico deepened further following the elections in the United States

S&P BMV IPC INDEX AND USDMXN
(THOUSANDS AND PPD)



Source: BBVA Research, BMV, Macrobond.

USDMXN EVOLUTION AROUND SELECTED EVENTS
(INDEX, EVENT DATE=100)



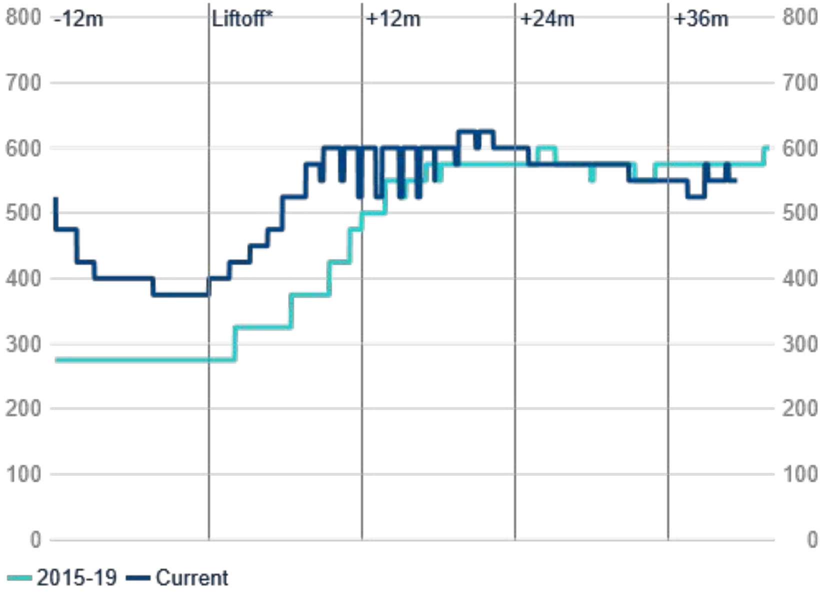
Source: BBVA Research, Macrobond.

Despite volatility, markets have behaved in a relatively orderly manner amid a still-high interest rate spread

IIMA* EXCHANGE RATE VOLATILITY INDEX FOR EMERGING ECONOMIES EX-CHINA

* IIMA: Institute for International Monetary Affairs.
Source: BBVA Research, Macrobond.

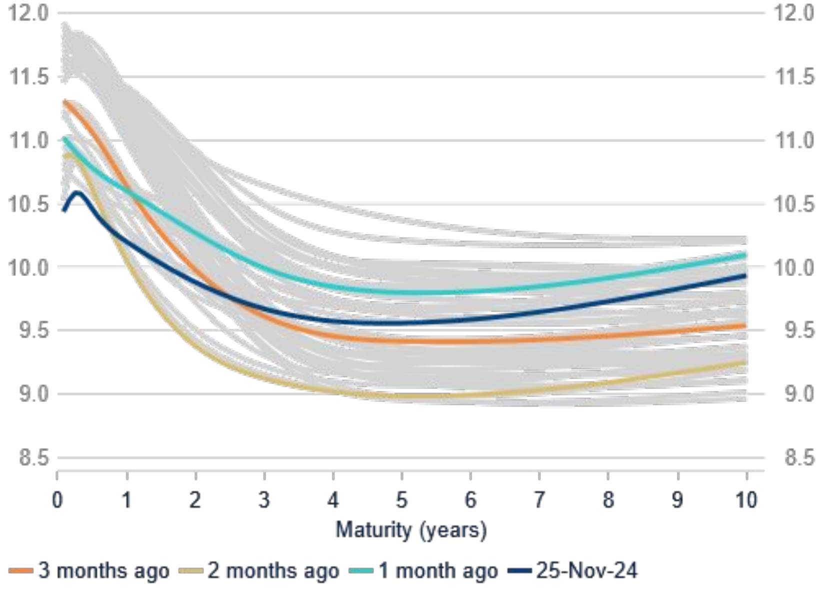
MEXICO-US POLICY RATE SPREAD IN TIGHTENING CYCLES (BPS)



* Of Banxico in each cycle.
Source: BBVA Research, Banxico, Fed.

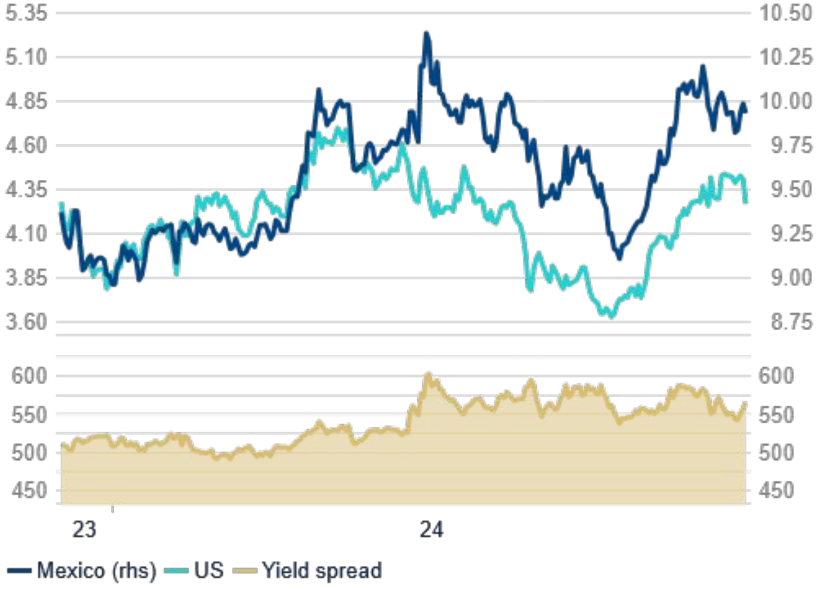
This should give Banxico confidence to continue cutting rates, especially with long-term rates supporting monetary restriction

GOVERNMENT YIELD CURVE
(%)



The gray lines indicate weekly curves over the past year; intermediate rates calculated with natural cubic spline interpolation. Source: BBVA Research, Banxico, Macrobond.

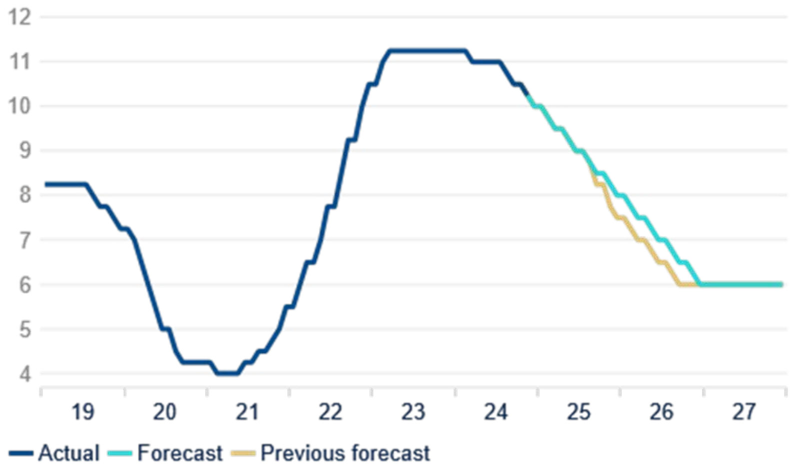
10-YEAR GOVERNMENT YIELDS AND YIELD SPREAD
(% AND BPS)



Source: BBVA Research, Macrobond, Treasury Department.

Updated forecasts in response to the Fed's slower rate cut cycle and increased risk premia due to Trump's potential protectionist measures

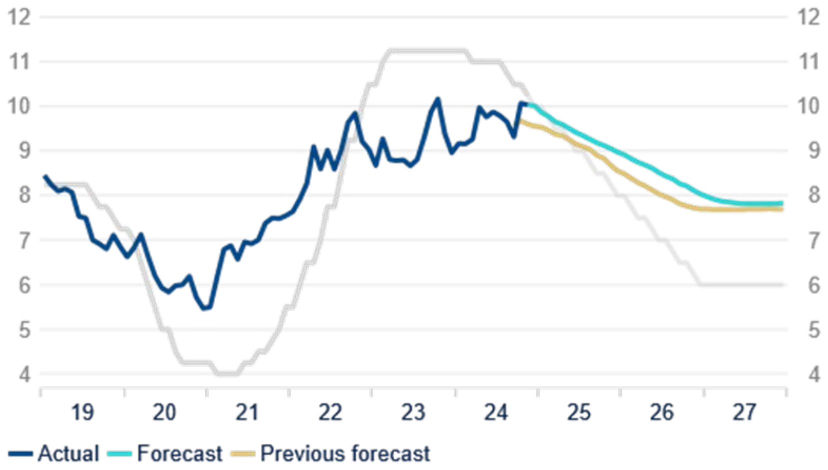
BANXICO POLICY RATE
(%)



	2024	2025	2026
Forecast	10.00	8.00	6.00
Previous forecast	10.00	7.50	6.00

Source: BBVA Research, Banxico.

10-YEAR GOVERNMENT YIELD
(%)

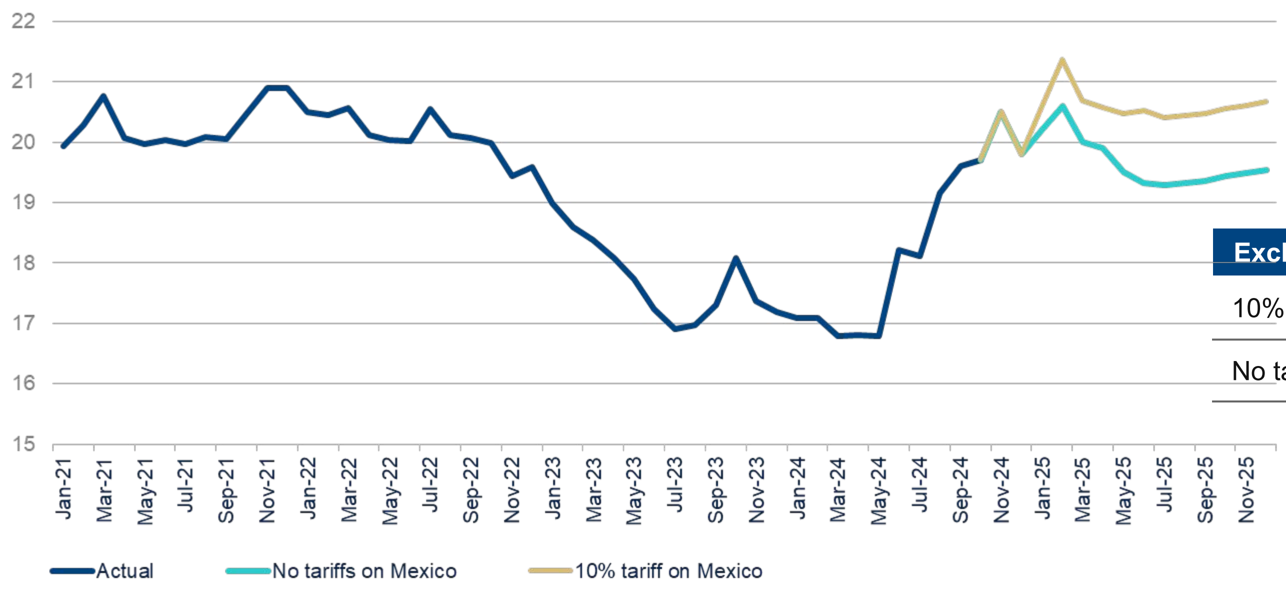


	2024	2025	2026
Forecast	10.0	9.0	8.0
Previous forecast	9.6	8.6	7.7

The gray line indicates Banxico's policy rate.
Source: BBVA Research, Banxico.

Risks to the exchange rate remain upwardly biased due to the possible imposition of a 10% tariff on Mexico

EXCHANGE RATE OUTLOOK WITH AND WITHOUT TARIFFS
(PPD)



Exchange rate (EoP)	2024	2025
10% tariff	19.80	20.66
No tariffs	19.80	19.53

Source: BBVA Research, with data from Banxico.

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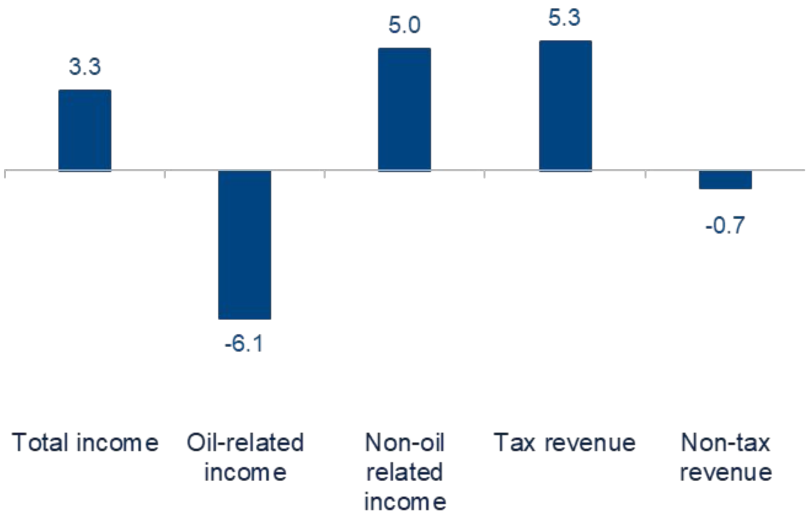
04

Fiscal consolidation

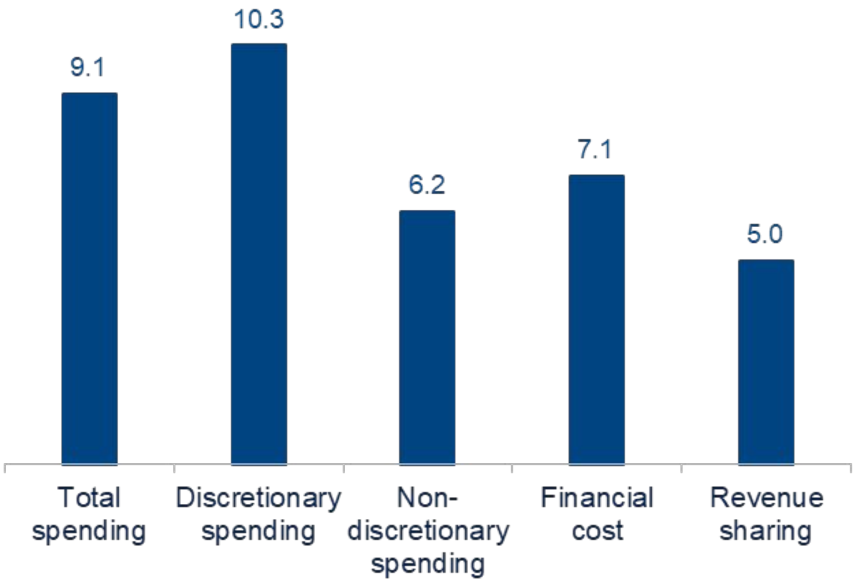
promised by the federal government for 2025 is two percentage points

Tax revenues boosted total revenue growth; higher spending on capital, subsidies and transfers boosted public spending

PUBLIC REVENUE AND MAIN COMPONENTS IN JANUARY-SEPTEMBER 2024
(Y/Y % REAL)



PUBLIC SPENDING AND MAIN COMPONENTS IN JANUARY-SEPTEMBER 2024
(Y/Y % REAL)

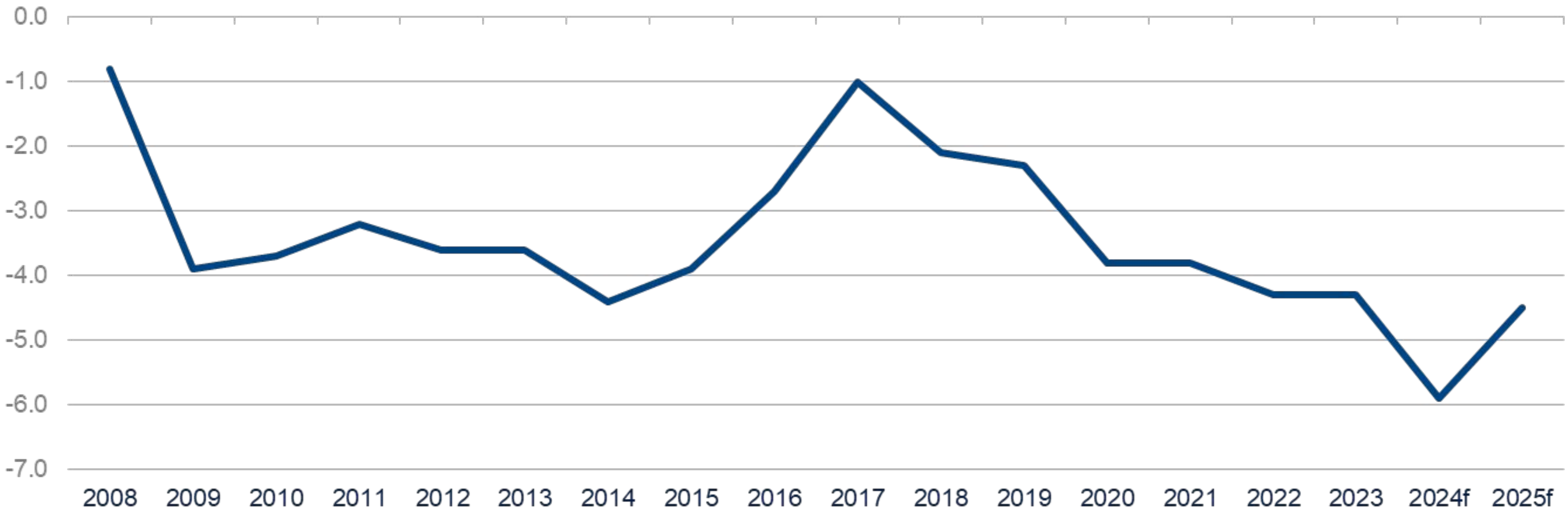


Source: BBVA Research, SHCP.

We anticipate the public sector borrowing requirements (PSBR) to be -4.5% in 2025 vs. -5.9% of GDP in 2024; the government has promised that the PSBR will be -3.9% of GDP in 2025

PUBLIC SECTOR BORROWING REQUIREMENTS

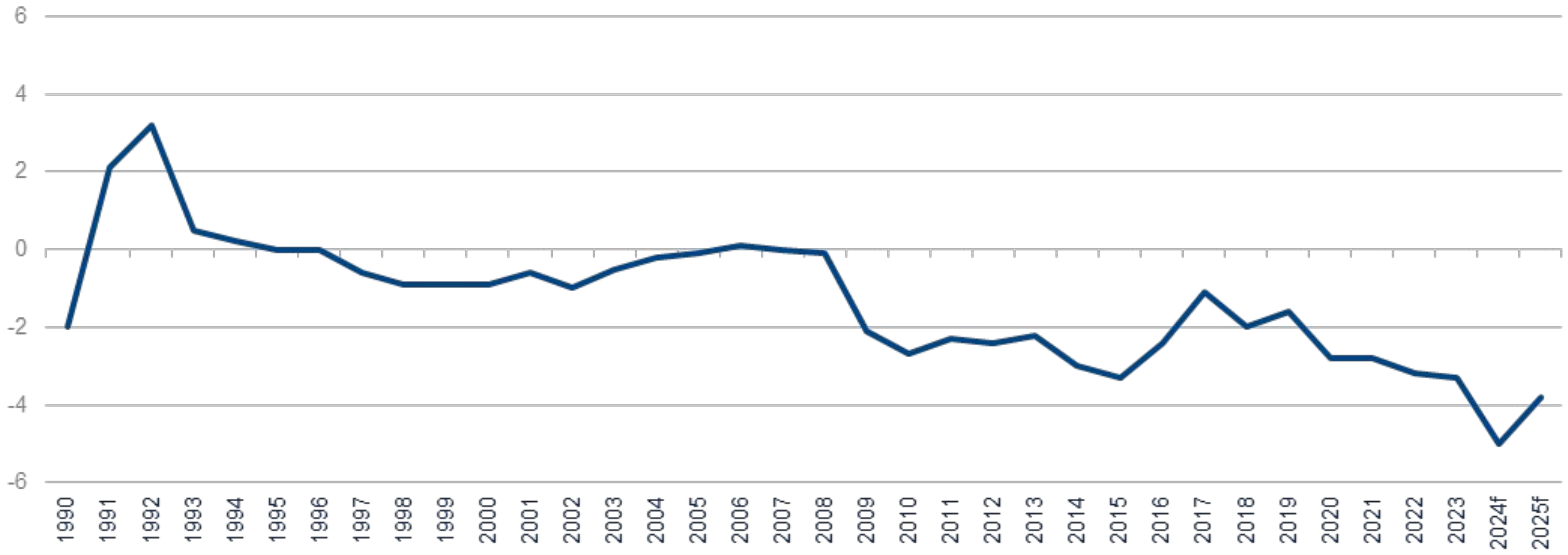
(% OF GDP)



Source: BBVA Research, SHCP.

We expect the public deficit to be 3.8% of GDP in 2025; the government has promised to reduce it from 5.0% of GDP in 2024 to 3.2% of GDP.

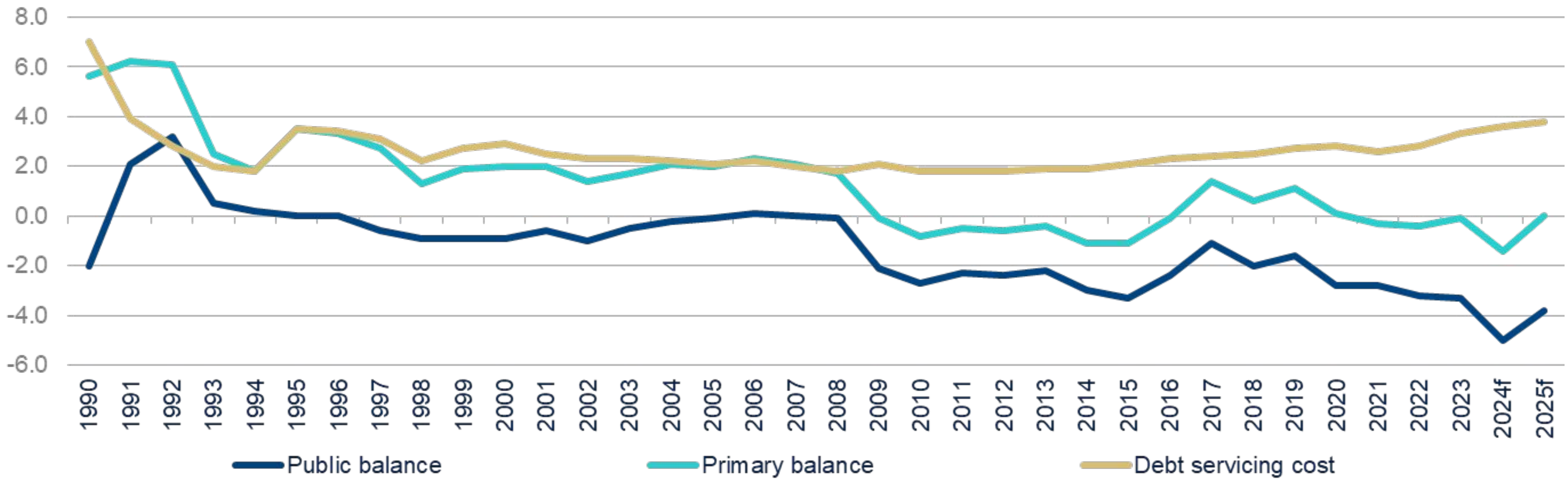
TRADITIONAL PUBLIC BALANCE
(% OF GDP)



Source: BBVA Research, SHCP.

We expect the reduction in the public deficit to 3.8% of GDP in 2025 to be mainly due to the primary balance being 0.0% of GDP.

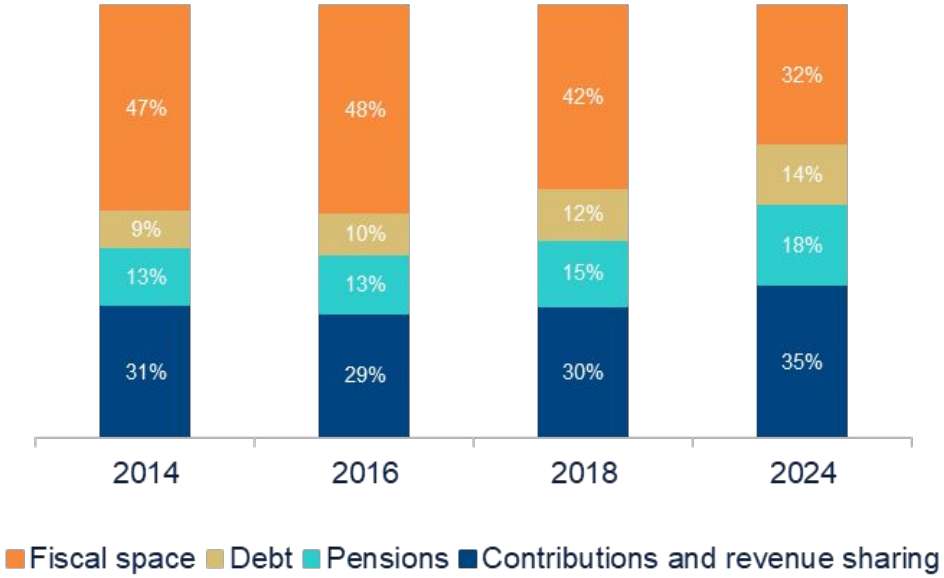
PUBLIC BALANCE, PRIMARY BALANCE AND FINANCIAL COST
(% OF GDP)



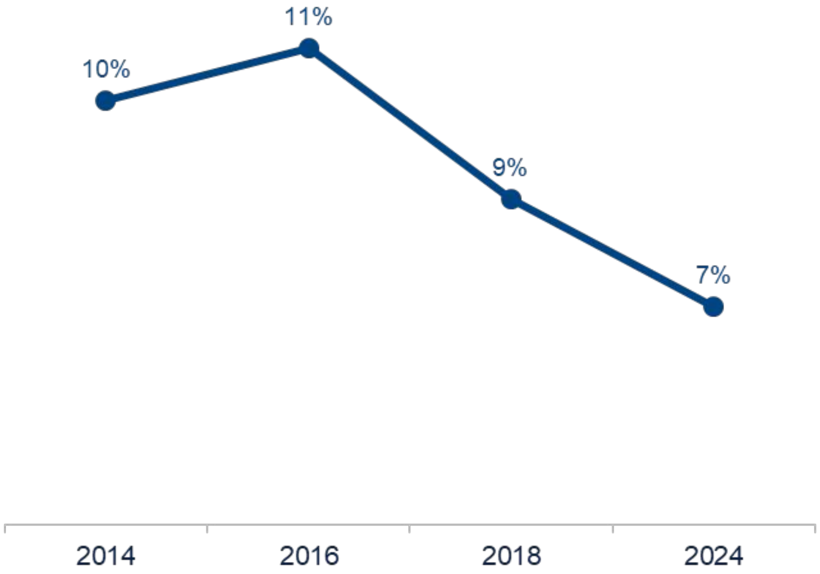
Source: BBVA Research, SHCP.

Fiscal space has shrunk over the past 10 years

INEVITABLE EXPENSES VS. FISCAL SPACE
(% OF BUDGET REVENUE)



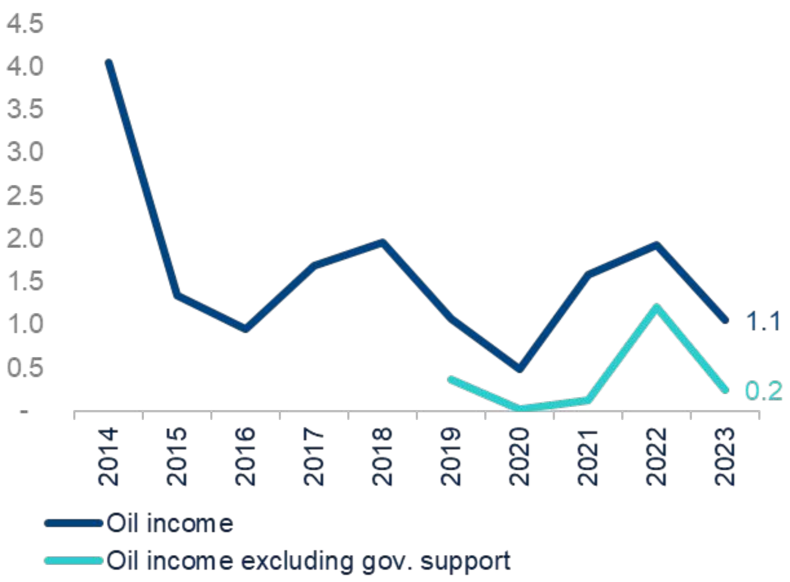
FISCAL SPACE
(% OF GDP)



Source: BBVA Research, SHCP.

Pemex will continue to reduce fiscal capacity in the coming years

OIL REVENUE
(% OF GDP)



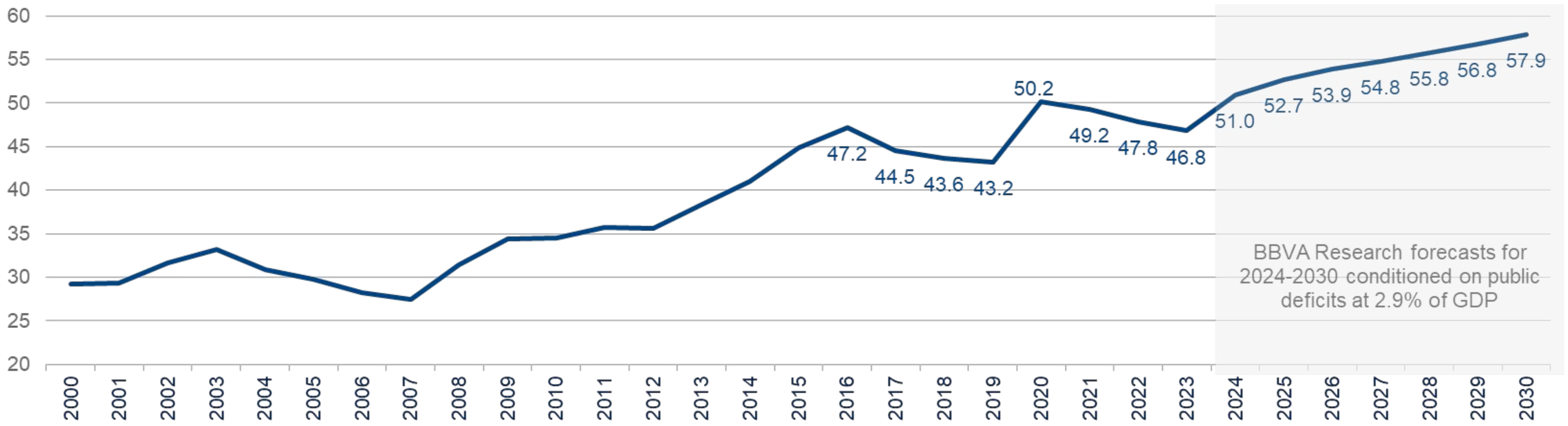
OIL REVENUE
(INDEX 2014=100, NOMINAL)

Source: BBVA Research, SHCP.

Public debt could reach 58% of GDP by the end of 2030

and the country would most likely lose its credit rating without a significant fiscal adjustment

HISTORICAL BALANCE OF PUBLIC SECTOR BORROWING REQUIREMENTS
(% OF GDP)



Source: BBVA Research, SHCP.

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05

Key points and forecast summary

Key points

Recent behavior

Growth and inflation are moderating; a continuous cycle of rate reductions has begun. Weakening domestic demand and slowing pace of job creation. **Lower inflation** as the supply shocks that had an impact are dissipating, and continued decline in core inflation. With inflation "improving" and growth prospects worsening, **Banxico has significant leeway to reduce the monetary policy rate.**

Growth estimate

We maintain our growth estimate at 1.2% for this year and 1.0% for 2025.

- **Consumption shows momentum,** with a share of spending driven by lower savings; we anticipate a gradual slowdown ahead due to slower growth in real wage income.
- **Investment is losing ground due to lower public and private spending**; the slowdown will become more pronounced in 2025 in an environment of greater uncertainty due to the recently approved judicial reform and the anticipated changes in U.S. trade policy.
- The favorable effect of higher growth in 3Q24 (and higher public deficit in 2025) will be offset by the negative shock from the new tariffs; the effects offset each other and we maintain our growth estimate for 2025, unchanged.

Formal employment slowdown intensifies: We have revised our short- and medium-term growth outlook downward.

Key points

Inflation and Monetary Policy

Headline inflation will have fallen only marginally by the end of this year (from 4.7% y/y to 4.5% y/y) due to supply shocks; **but core inflation will have fallen substantially, from 5.1% y/y to 3.6% y/y**

- **We expect headline inflation to decline substantially next year (to 3.5% y/y)** as supply shocks fade, **and core inflation to slow further to 3.4% y/y**

Banxico has ample room to accelerate the pace of rate cuts, but we expect it will not do so, and although it will cut rates at all meetings in 2025, we now expect the monetary rate to close 2025 at 8.00%.

- **There is room for lower interest rates across all maturities,** but persistent higher risk premia could limit the potential downside at the long end of the yield curve.

Exchange rate and public finances

We forecast the exchange rate to close 2024 and 2025 at 19.8 and 20.7 ppd, respectively.

Public debt will be around 52.7% of GDP in 2025 vs. 51.0% in 2024. To keep this ratio constant from 2026 onward, it will be necessary to reduce the public deficit to levels close to 2.0% of GDP.

Forecast summary

		2020	2021	2022	2023	2024	2025	2026
GDP (Annual chg. %)	new	-8.8	6.0	3.9	3.2	**1.2**	**1.0**	**1.6**
	Previous					1.2	1.0	1.6
Employment (%, at close)	new	-3.2	4.3	3.7	3.0	**1.8**	**2.2**	**2.5**
	previous					2.1	2.5	2.9
Inflation (%, at close)	new	3.2	7.4	7.8	4.7	**4.5**	**3.5**	**3.6**
	previous					4.6	3.5	3.6
Monetary policy rate (%, at close)	new	4.25	5.50	10.50	11.25	**10.00**	**8.00**	**6.00**
	previous					10.00	7.50	6.00
Exchange rate (ppd, at close)	new	20.0	20.9	19.6	17.2	**19.8**	**20.7**	**20.9**
	previous					18.2	19.2	19.5
M10 (%, at close)	new	5.5	7.6	9.0	9.0	**10.0**	**9.0**	**8.0**
	previous					9.6	8.6	7.7
Fiscal balance (% of GDP)	new	-2.8	-2.8	-3.2	-3.3	**-5.1**	**-3.8**	**-3.2**
	previous					-4.9	-3.5	-3.5
Current account (% of GDP)	new	1.9	-0.7	-1.3	-0.5	**-0.9**	**-0.7**	**-0.8**
	previous					-0.5	-1.4	-1.3

Source: BBVA Research.

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Mexico Economic Outlook

November 2024

Creating Opportunities