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Mexican Economic Outlook
Executive summary

October 2023

Econosignal

The Mexican Economic Outlook of Econosignal is a quarterly publication that covers a detailed assessment of the national economy, each of Mexico's states, and all the industries. In addition, it presents economic forecasts to help you enhance your financial and strategic planning.

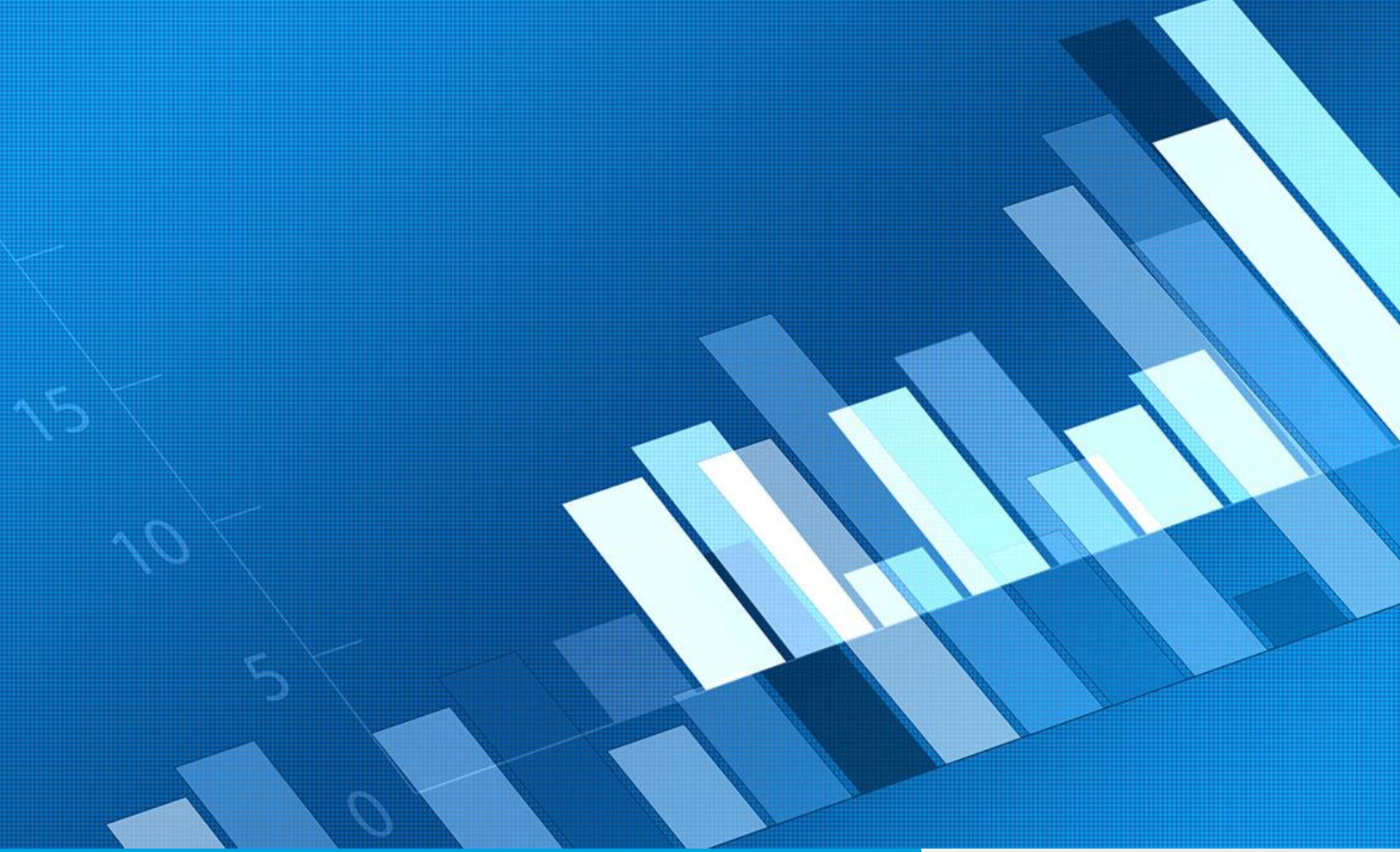
This is the executive summary. If you would like the complete version, which includes more than 1,000 forecasts for more than 300 economic variables, contact us at: econosignal@deloittemx.com.

The complete version is only in Spanish. But if you were interested in the forecasts, they are also in English.



This is a five-minute read.





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Summary

An encouraging resilience

Nearshoring, public spending in a pre-electoral year, resilience of the US economy, and the strength of private consumption, have all caused an unexpected very good performance of the Mexican economy this year. Therefore, we have revised upwards

our 2023 GDP forecast to 3.5%, from 2.8%. By 2024, we expect that those factors will lead to an expansion of 2.5%. We have also increased our state and industry GDP forecasts. Quintana Roo and Tabasco have the highest improvements in projections,

while, on the weaker side, are Campeche and Tamaulipas. As regards economic sectors, the telecommunication industry and construction are performing very well, while the food industry and mining sectors are lagging behind.

Macro overview



The **GDP** forecast for **2023** has been raised to **3.5%** from 2.8%.



Headline inflation would end the year at **4.7%**, while the **core** would be at **5.2%**.

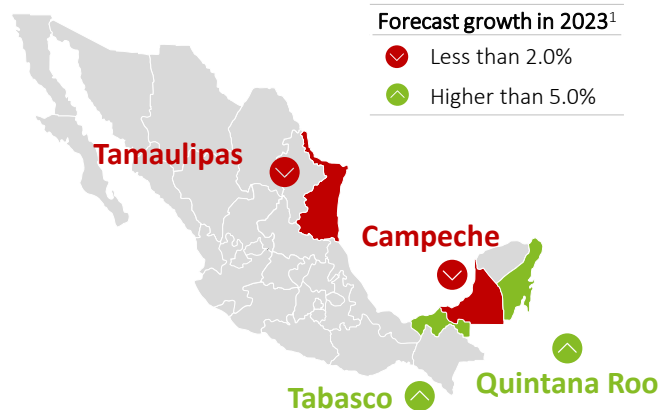


The **exchange rate** is expected to reach **\$17.9** towards the end of the year.



The Bank of Mexico would begin **cutting interest rates** until February 2024.

States¹



Industries

Forecasts for 2023¹

Fastest growth



Construction
+11.0%



Telecom
+7.6%



Tourism
+7.2%

Slowest growth



Services²
+2.7%



Mining
+0.6%



Food ind.
+0.5%

1. The states and the industries with the best and worst expected performance for 2023 are shown. | 2. It includes services related to transportation, professional services, real estate, among others; for more details, please refer to the [appendix](#). | * With the change in the base year for the National Accounts of the INEGI, the GDP growth figures have been adjusted. As a result, our forecasts have seen more significant changes than expected. | Sources: National Institute of Statistics and Geography (INEGI) and the Central Bank of Mexico.

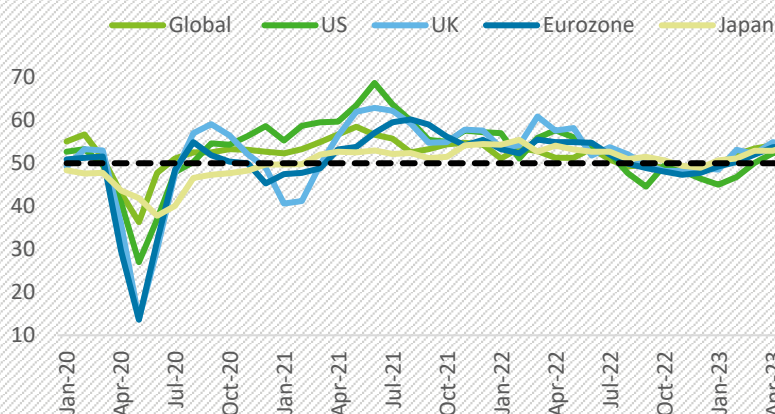


Macro overview

Global outlook

Figure 1. The global economy is losing momentum

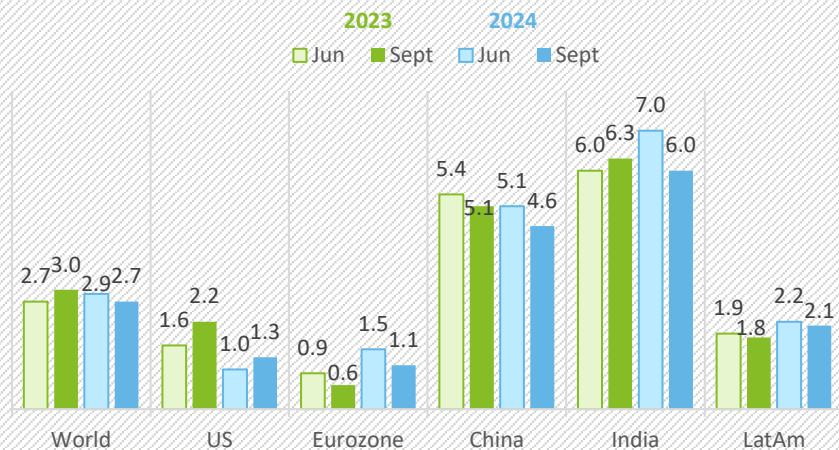
Global composite PMI output index¹



1. It is a survey-based economic indicator designed to provide a timely insight into business conditions. A reading over 50 indicates expansion and vice versa. | **Source:** Investing.

Figure 2. Growth forecasts for 2023 and 2024

GDP real, annual percentage variation



Source: OECD, June and September report.

The global composite PMI index¹ fell to 50.6 points in August, from 51.6 in July. By countries, the United Kingdom (48.6) joined the Eurozone (48.6) in the contraction territory (below 50 points), while the United States stagnated (50.2) and Japan continued to remain positive (52.6). The three leading economies share the same characteristics of high inflation, elevated interest rates, and tight labor markets.

The disinflationary process will be more difficult in the fourth quarter, due to a base effect and the upturn in oil prices. Also, inflation forecasts for 2024 have been revised upwards.

As a result, the Federal Reserve (FED) is expecting to increase its target rate by 25 basis points before the year-end, while the central banks of Europe and of the UK, signaled they might have reached the end of the cycle. However, none of these countries are forecasted to cut their rates at least until mid-2024. On the other hand, some emerging markets have shown encouraging resilience, and certain countries are already cutting rates. But given their strong trade relationship with developed nations, they too will lose momentum.

Global monetary conditions may need to remain tight for a longer period, which will hinder growth.



Mexican outlook

Domestic demand is the main driver of growth in Mexico. On one hand, **private consumption** remains solid, thanks to tight labor markets, higher real wages, and strong remittances. On the other hand, **fixed investment** has rebounded after several years of weakness, helped by administration's priority projects and the nearshoring-driven demand for machinery and construction. On the contrary, net exports weighed down on growth, as imports increased due to strong domestic demand, while exports decreased marginally.

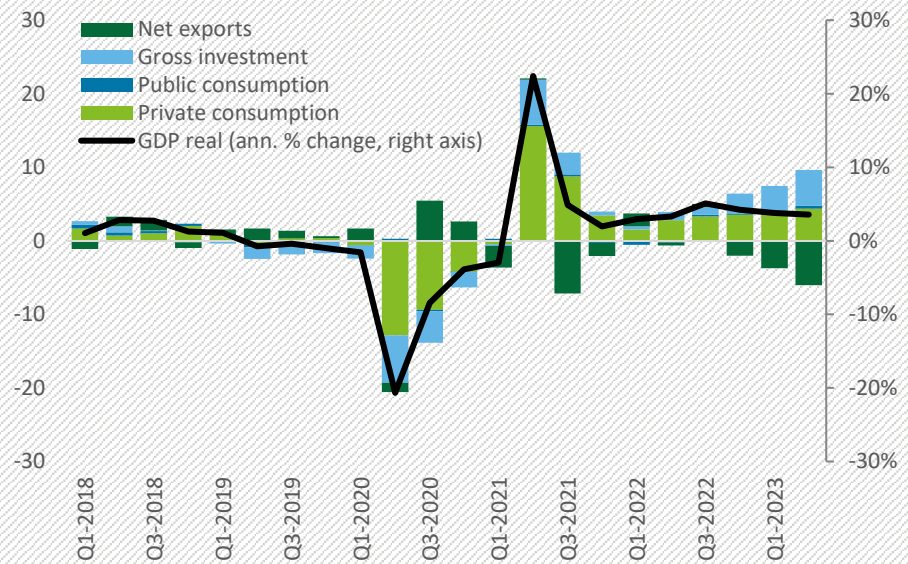
Given all these factors, Econosignal's growth forecast for Mexico increased to 3.5% for 2023 (2.8% before), and to 2.5% for 2024 (2.4% earlier).

Inflation continued to decrease in September to 4.45% annually, from 4.64% in August, despite economic resilience and the recent uptick in oil prices. However, we expect the downward trend to reverse in October due to a rebound in energy prices. We forecast headline inflation to be at 4.7% by year-end 2023 and at 4.0% by year-end 2024; while core inflation will be higher at 5.2% by year-end 2023.

Since inflationary pressures will continue and take longer to dissipate, we have delayed the start of the normalization cycle at least to February 2024, from November 2023.

Figure 3. Domestic demand is the bright spot

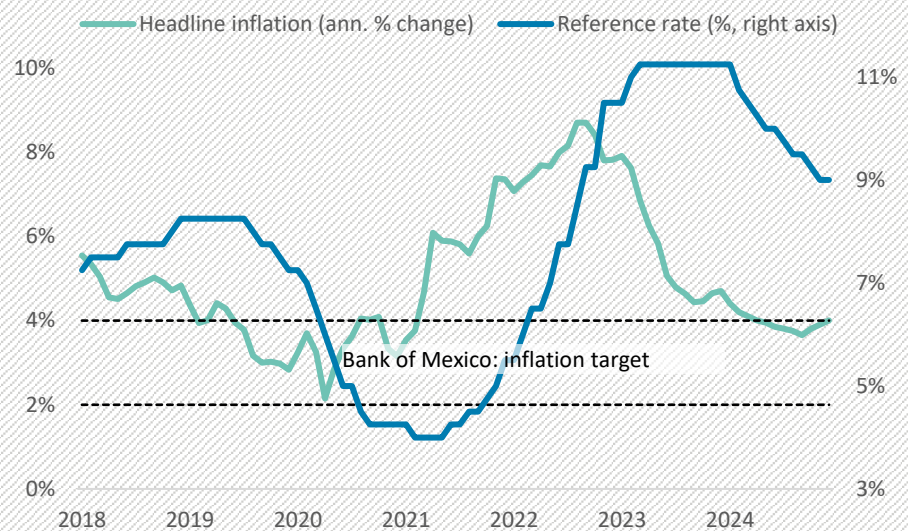
Contribution to real GDP



Source: INEGI.

Figure 4. The Bank of Mexico would begin cutting rates until February 2024

Inflation and policy rate in Mexico

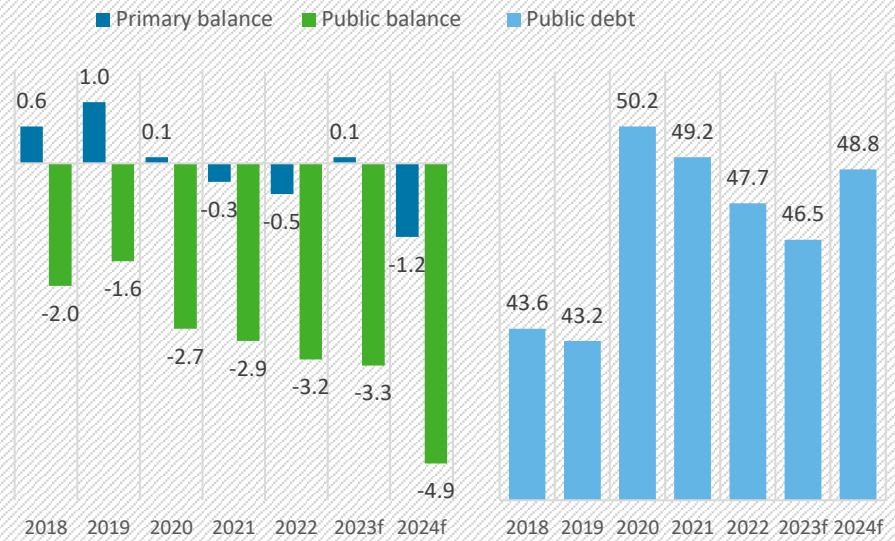


Source: INEGI.



For 2024, the government plans to loosen its purse strings as it ramps up spending ahead of next year's presidential elections. The fiscal budget proposal for 2024 intends to achieve a public deficit of 4.9% of GDP -the largest since 1990- driven by a significant increase in spending (+7.8% YoY real), while public revenues will rise marginally (+0.8%). Within the former, spending on pensions and subsidies will increase significantly (7.3% and 12.2% YoY in real terms, respectively). However, fixed investment will decline by 23%. This would have positive effects on consumption but negative impacts on investment. Finally, public debt is set to rise to 48.8% of GDP, primarily due to a 12% annual increase in debt-service cost.

Figure 5. Mexico's fiscal guidelines will likely deteriorate in 2024
As a percentage of GDP







Sources: Mexico's Ministry of Finance.





Key macroeconomic forecasts

Table 1. Forecast macroeconomic

	2023	2024
 Real GDP (ann. var. %)	3.5%	2.5%
 Inflation (CPI, ann. var. %, eop)	4.7%	4.0%
 Exchange rate (MXN per USD, eop)	\$17.9	\$19.0
 Target rate (% , eop)	11.25%	9.00%

We count with many other macroeconomic forecasts that are essential for good financial planning.

Would you like to know more?





States' performance

According to the ITAEE¹, the states with the most significant economic progress in the first quarter of 2023 were **Tabasco** (+10.3% yoy), **Oaxaca** (8.4% yoy) and **Quintana Roo** (+7.9% yoy), as depicted in the Map 1. Tabasco advanced primarily due to increased construction activity related to the completion of Dos Bocas refinery and a rise in oil production. The other two states were driven primarily by

tourism-related activities.

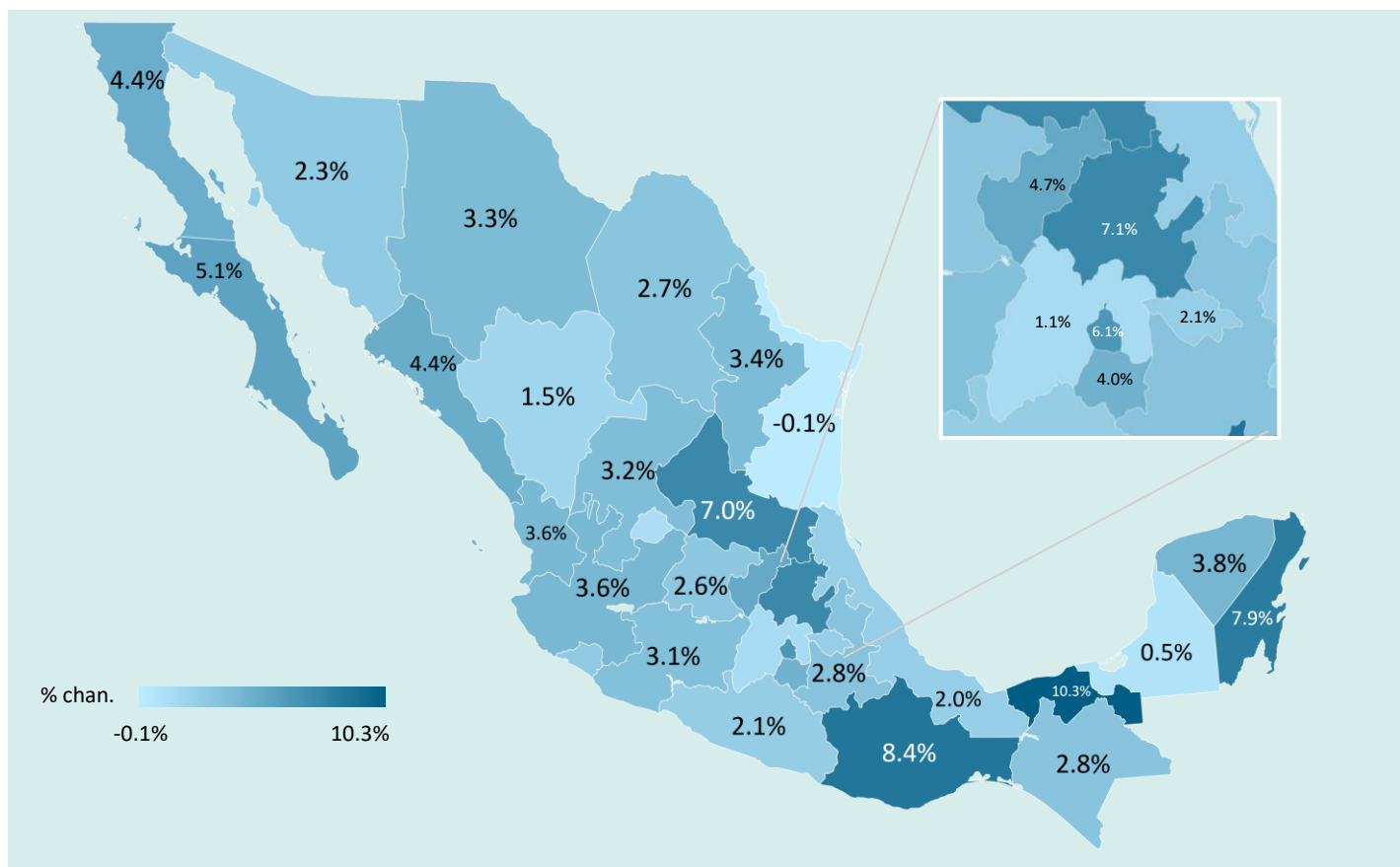
On the other hand, the **State of Mexico** experienced annual growth of 1.1%, hindered by a decline in construction and manufacturing; **Campeche** saw a minimal improvement at 0.5%, mainly due to the lag in crude oil production, an activity that constitutes nearly 80% of its GDP. Meanwhile, **Tamaulipas**

contracted by 0.1%, due to setback in its manufacturing sector and a reduction in external demand.

Based on these figures, it is projected that by the end of this year, Tabasco will be the state with the highest growth, followed by Quintana Roo. On the other hand, Tamaulipas and Campeche are expected to have the poorest economic performances.

Map 1. Evolution of states' economic activity

Annual percentage change in Q1 2023¹

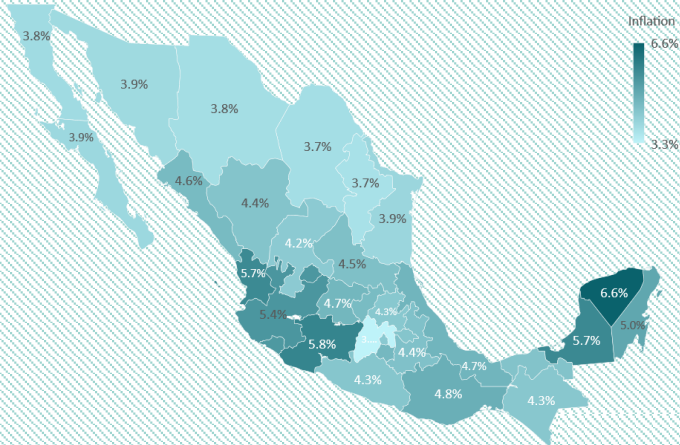


1. Based on the Quarterly State Economic Activity Indicator (ITAEE) in constant values at 2018 prices . Latest available information. | Source: INEGI.



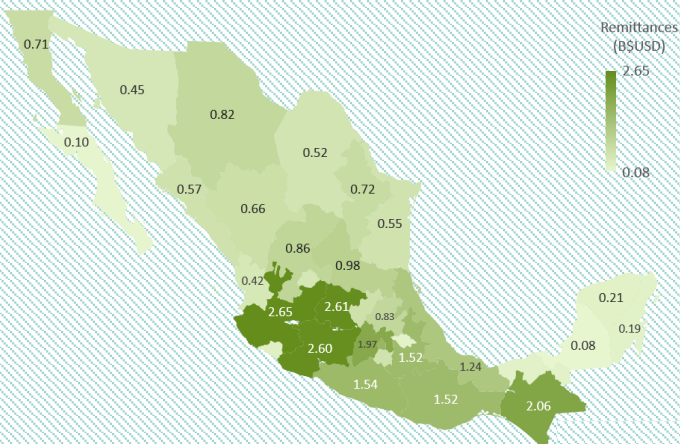
Map 2. Inflation

CPI, annual percentage change, September 2023



Map 3. Remittances

Billions dollars, accum. Q2 2023



Map 4. Informal employment

% of employment, Q2 2023

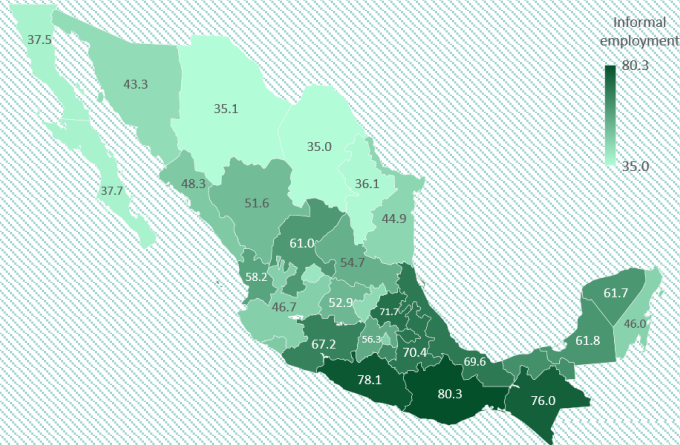


Figure 6. Exports, accum. Q2 2023

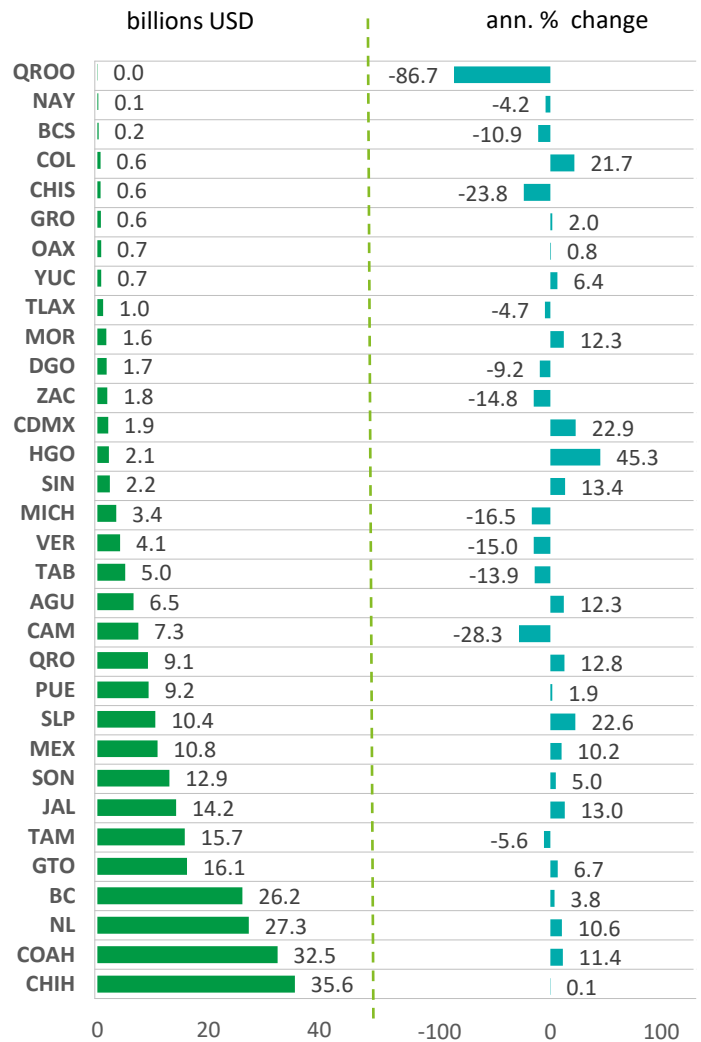
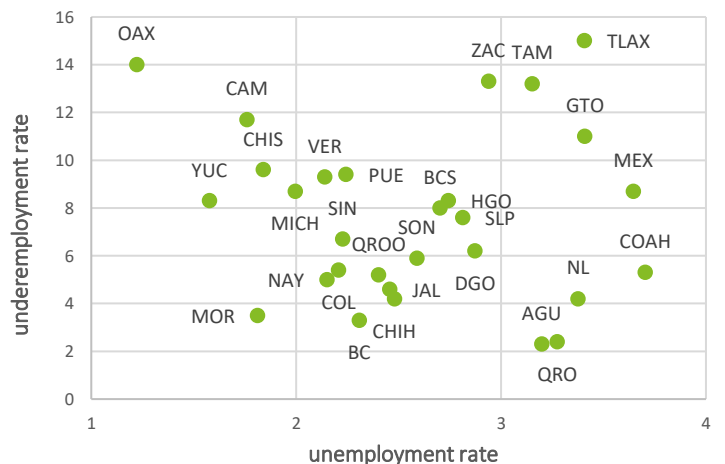


Figure 7. Unemployment rate and underemployment rate
% of economically active population and % of employment, Q2 2023



Sources: INEGI, Economy Ministry of Mexico and The Central Bank of Mexico.



Figure 8. Foreign Direct Investment¹

Annual percentage change and percentage share of FDI, accum. Q2 2023

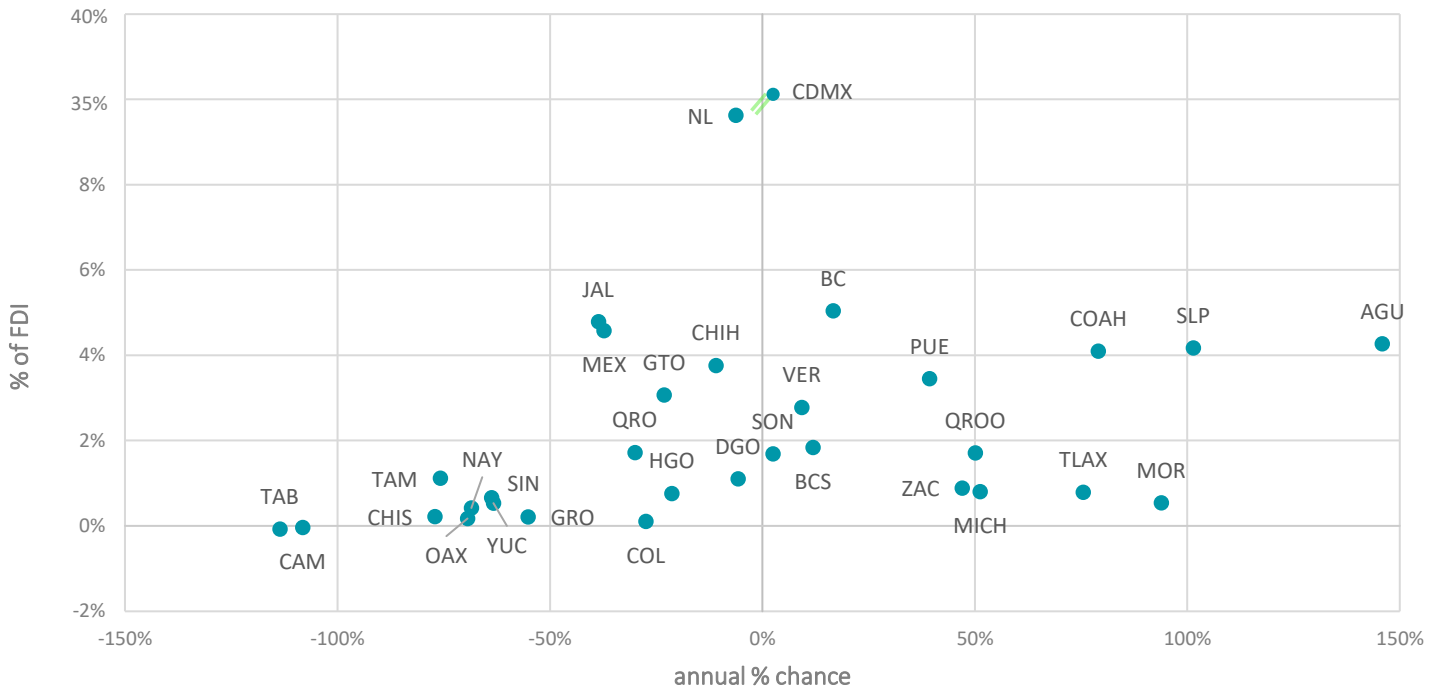


Table 2. Industries with the highest FDI in each state, accum. Q2 2023

Millions dollars

Industries / states	M\$USD	Industries / states	mdd
Transportation equipment manufacturing	6,587	Credit intermediation and related activities	7,023
Aguascalientes	1,184	Ciudad de México	4,859
San Luis Potosí	1,106	Tamaulipas	64
Baja California	787	Yucatán	59
Guanajuato	630	Sinaloa	59
Coahuila	570	Hidalgo	47
Puebla	356	Chiapas	47
Chihuahua	327	Tabasco	40
México	311	Guerrero	35
Tlaxcala	31	Oaxaca	32
Beverage and tobacco product manufacturing	2,384	Durango	25
Jalisco	482	Campeche	16
Primary metal manufacturing	2,491	Colima	16
Nuevo León	1,399	Chemical manufacturing	1,401
Veracruz	552	Querétaro	118
Sonora	184	Morelos	100
Accommodation	1,343	Mining, except Oil and Gas	479
Baja California Sur	507	Zacatecas	216
Quintana Roo	429	Support Activities for Transportation	413
Nayarit	79	Michoacán	95

Source: Economy Ministry of Mexico.



Forecasts and assumptions

Map 5. Growth forecast of gross state product in 2023

Annual percent change



National GDP growth in 2023

3.5%

Forecast range

Less than 2.0%

From 2.0 % to 3.5%

From 3.5% to 5.0%

Higher than 5.0%



Tabasco is expected to maintain one of the highest growth rates in 2023, thanks to the increase in oil production and the urgency for the Dos Bocas refinery to commence operations.



The states with a significant share on tourism, particularly international tourism, are projected to experience the highest growth.



The progress of each of the exporting states will continue with positive trend but with less dynamism.



Nearshoring will continue to be a growth opportunity of some industrial states in the northern and Bajío regions of the country.

Considering moving or expanding your business?

We have five-year growth forecasts for each Mexican state.





Industry outlook

With the publication of the new base year of INEGI (2018=100), we have new adjusted figures for the country's industries.

In the second quarter of the year, **construction** stood out with a year-on-year growth of 14.4%, a sign of progress in government's flagship projects and the nearshoring effect. In second place was the **telecommunications** sector, which advanced by 8.9%, driven by increased

revenue of services operators. Additionally, **tourism activities** continued to grow significantly in the second quarter (5.3% YoY), driven by the arrival of international tourists, even though it has slightly slowed down.

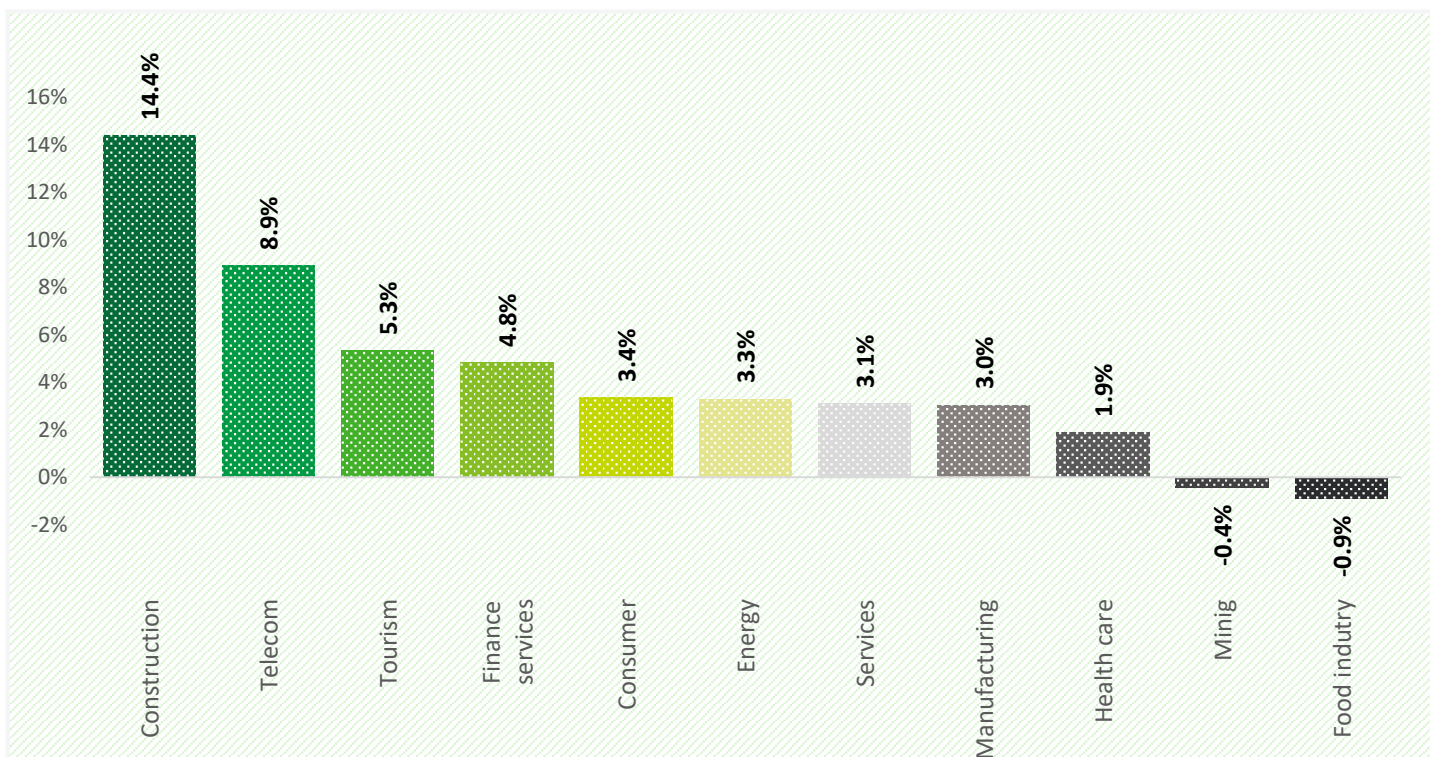
In contrast, the **food industry** experienced a 0.9% annual decline, despite its strength in exports, primarily due to inflation and environmental factors.

Similarly, the **mining sector** saw a setback (-0.4% YoY), due to a drop in production and the uncertainty generated by the mining reform for the development of new projects.

Finally, the **manufacturing industry** decelerating, although it remains a driver of the national economy. The automotive industry stands out, as it has made a significant progress this year.

Figure 9. GDP by industry, Q2 2023¹

Annual percentage change



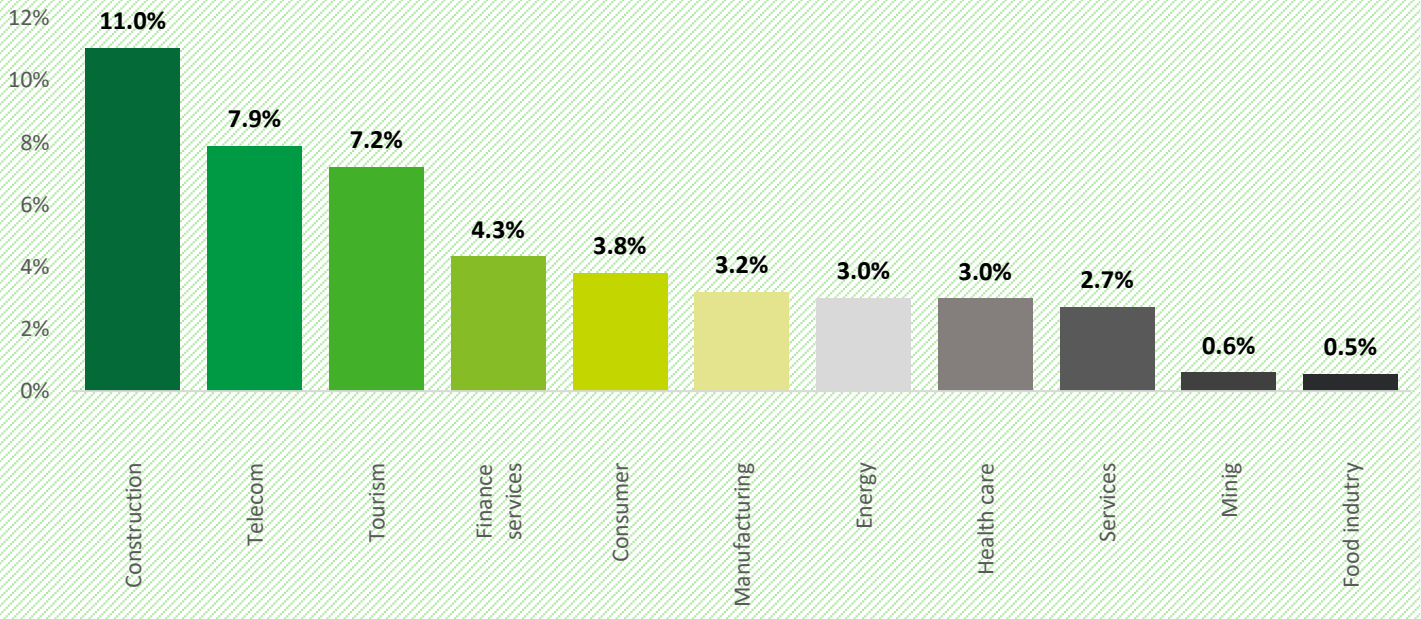
1. Due to the level of disaggregation employed in this report, non-seasonally adjusted series in constant values at 2018 prices should be used to measure the GDP variation of each industry. Please, refer to the [appendix](#) for the sector classification. | Source: INEGI.



Forecasts







Figure 10. Output growth by industry in 2023

Annual percent change



Source: Econsignal.

Opportunities and challenges for industries

Challenges	Opportunities
 <p>Mining <i>Regulatory and legal certainty.</i></p>	 <p>Construction <i>Drive for flagship projects and nearshoring.</i></p>
 <p>Food industry <i>Controlling food inflation.</i></p>	 <p>Tourism <i>Advertising campaigns.</i></p>
 <p>Health care <i>Expanding access to healthcare services.</i></p>	 <p>Manufacturing <i>Company relocation.</i></p>

Would you like to know our five-year forecasts for all the industries in more disaggregated terms?

We can also forecast your industry growth rate and its impact on your financial statements.





Opinion of our lead partners

Food industry

“The national food industry is constantly evolving and facing challenges, but it remains a key sector within the economy. The demand for food has driven companies to adapt to evolving consumer preferences, as well as to confront challenges related to sustainability and food security. This has, in turn, spurred greater interest in organic production and technological innovation in the food sector.”



Salvador Sanchez

Master Program, IMOS and Agribusiness Industry Lead Partner

Financial services

“The financial sector in Mexico is adapting to a sustainability-related agenda, recognizing its influence on the economy and playing an active role in decarbonizing its investment portfolio. This has led to the reassessment of business models and the integration of environmental, social, and governance risk management. On the other hand, high-interest rates have had a positive impact on the bank’s income statements with significant components of low-cost deposits on the balances sheet and stable non-performing loan portfolio, resulting in historic revenues and a ROE (Return on Equity) close to 19%.”



Gustavo Mendez

Financial Services Lead Partner

Energy

“Despite the fact that the CRE (Energy Regulatory Commission) resumed its activities at the beginning of the year and removed shift restrictions for new applications, there are still areas of improvement to avoid entry barriers to new investments. Such as simplifying and eliminating unnecessary procedures, reducing response times, among others. Therefore, it is essential to pay attention to the Commission, as it will play a crucial role in approving projects needed for economic reactivation and nearshoring.”



Valeria Vazquez Maulen

Energy and Natural Resources Industry Lead Partner

Telecommunications

“Mexican digitization sets opportunities to develop new technological applications in areas such as the financial sector, healthcare, and manufacturing, which, in turn, can contribute to the country’s growth. However, challenges related to service quality and infrastructure investment, especially in remote areas, still persist. The government has implemented policies to address these issues. Therefore, now, public and private sector collaboration will play a key role in fostering innovation and competition in the telecommunications sector.”



Germán Ortiz

TMT Lead Partner (Technology, Media and Telecommunications)

Construction

“The construction industry in Mexico rebounded significantly in the first half of the year, largely due to government expenditure as it is pushing to complete its big infrastructure projects; a trend that will continue in the coming months. Additionally, the nearshoring phenomenon is increasing the demand for industrial parks and logistics infrastructure. Though this is an opportunity for the economy to transform, it also poses challenges in terms of capacity and resources”.



Manuel Nieblas

Industrial Products, Construction and Manufacturing Lead Partner



Consumer

“The climate change issue is becoming increasingly urgent. Hence, business efforts to reduce their ecological footprint are crucial. Retailers and Consumer Packaged Goods companies are already promoting sustainability initiatives such as the use of green energy, electric transportation fleets, and circular economy practices, among others. Those actions not only help to enhance their reputation among consumers but also to improve profitability. However, there is still a need to improve regulation and measurement to prevent greenwashing.”



Manuel Ostos
Consumption Industry
Lead Partner

Health care

“The increase in the number of people without access to healthcare services in Mexico over the past years underscores the importance of improving the healthcare system. To achieve it, it is essential to place the patient at the center of care and public policy by promoting efficient resource allocation. This includes investment in infrastructure and technology with interoperability and fostering collaboration between the public and private sectors. Additionally, there is a need for increased research into innovative technologies.”



Alexandro Arias
Life Sciences and Health care
Lead Partner

Tourism

“Mexico remains an attractive destination for international travelers. Despite the challenges posed by persistent inflation and currency appreciation, tourism continues to be an important source of income, employment, and investment. The outlook for 2023 remains positive, albeit at a slower pace. Therefore, it is now essential to boost the sector by capitalizing on the country's competitive advantages.”



Claribel Sanchez
Hospitality Industry Lead Partner



Teresa Solis
Expert in the Tourism sector

Manufacturing

“The nearshoring revolution is attracting investments and creating jobs as manufacturing companies relocate their operations within the country. While this juncture presents opportunities, it also demands an effective response to issues such as security, political stability, and logistical efficiency improvement to ensure that Mexico continues to be an attractive destination for long-term investment and solidifies its role as a key player in the USMCA and global supply chain.”



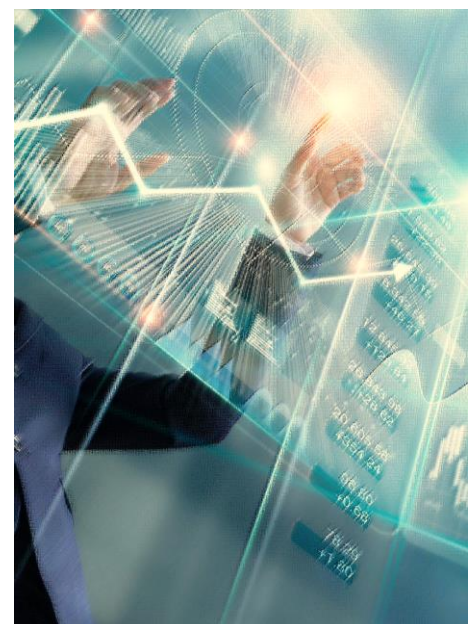
Manuel Nieblas
Industrial Products, Construction and
Manufacturing Lead Partner

Mining

“The mining sector is facing important challenges. It has been more than a year since the creation of LitoMX, a state-owned company, and it still does not have its own budget nor agreements with firms for lithium exploitation. Additionally, there is a policy that has delayed some projects and a limited budget destined to exploration, creating an uncertain outlook. The sector needs better conditions to grow and take advantage of the nearshoring that will require minerals as inputs.”



Valeria Vazquez Maulen
Energy and Natural Resources
Industry Lead Partner





Appendix

Industries	North American Industry Classification System (NAICS)
Food industry	11 Agriculture, Forestry, Fishing and Hunting, except 113 Forestry and Logging; 311 Food Manufacturing; 3121 Beverage Manufacturing.
Finance services	52 Finance and Insurance.
Energy	211 Oil and Gas Extraction; 221 Electric Power Generation, Transmission and Distribution, Natural Gas Distribution and Water, Sewage and Other Systems; 324 Petroleum and Coal Products Manufacturing.
Telecommunications	515 Radio and Television Broadcasting Stations; 517 Telecommunications; 518 Computing Infrastructure Providers, Data Processing, Web Hosting, and Related Services.
Consumer	43 Wholesale Trade; 44 Retail Trade.
Construction	23 Construction.
Mining	212 Mining (except Oil and Gas); 213 Support Activities for Mining.
Health care	3254 Pharmaceutical and Medicine Manufacturing; 62 Health Care and Social Assistance.
Tourism	481 Air Transportation; 482 Rail Transportation (10.7%); 483 Water Transportation (43.4%); 485 Transit and Ground Passenger Transportation (49.0%); 487 Scenic and Sightseeing Transportation; 488 Support Activities for Transportation (19.2%); 71 Arts, Entertainment, and Recreation (53.1%); 72 Accommodation and Food Services; 56 Administrative and Support and Waste Management and Remediation Services (4.7%).
Manufacturing	31-33 Manufacturing; except 311, 3121, 324, 3254.
Services	482 Rail Transportation (89.3%); 483 Water Transportation (56.6%); 484 Truck Transportation; 486 Pipeline Transportation; 488 Support Activities for Transportation (89.8%); 491 Postal Service; 492 Couriers and Messengers; 493 Warehousing and Storage; 53 Real Estate and Rental and Leasing; 54 Professional, Scientific, and Technical Services; 55 Management of Companies and Enterprises; 56 Administrative and Support and Waste Management and Remediation Services (95.6%); 61 Educational Services, 71 Arts, Entertainment, and Recreation (46.9%); 81 Other Services (except Public Administration).

Fuente: North American Industry Classification System (NAICS).



Our publications

The complete version of this report provides forecasts for Mexico for the next five years of:



61



Macroeconomic variables



175



Industrial variables



96



State variables

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Specific industry



Economic outlook
(executive summary)



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