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Mexican Economic Outlook
Executive summary

July 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 nearly 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

Mexico's growth expectations are improving

As we reach midyear, the outlook has improved significantly for Mexico, and now it is expected an annual growth around 3.0% this year. While this is positive for the economy, it also increases the challenges for

inflation and the course of monetary policy. Regarding the industries, tourism and telecommunications will have the most outstanding performances, thanks to the rise of international tourists; as well as

technological developments, respectively. As for the state analysis, the highest advances will be in Tabasco, due to the production of hydrocarbons; and Quintana Roo, due to the tourist influx.

Macro overview



The **GDP** forecast for **2023 has been raised to 2.8%** from 2.2%.



Headline inflation would end the year at **4.5%**, while the **core** would be at **5.3%**.

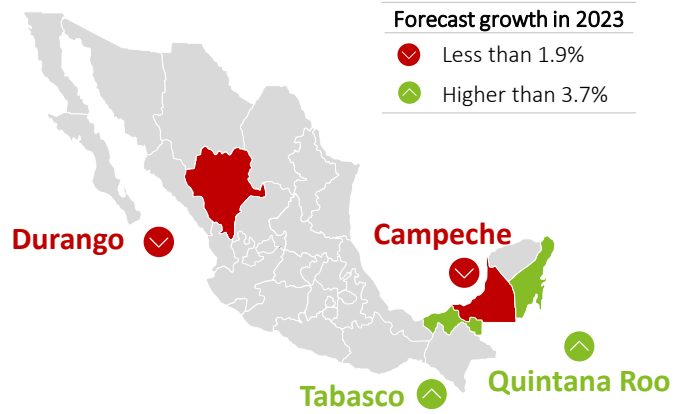


The **exchange rate** is expected to reach **\$18.30** towards the end of the year.



The Bank of Mexico would begin **cutting interest rates** in Q4 2023.

States¹



Industries

Forecasts for 2023²

Fastest growth



Tourism
+7.2%



Telecom
+5.1%



Finan. ser.
+4.0%

Slowest growth



Food ind.
+1.4%



Energy
+1.2%



Health care
+1.1%

1. The states with the best and worst expected performance for 2023 are shown. | 2. The industries with the fastest and slowest expected performance for 2023 are shown. | Sources: National Institute of Statistics and Geography (INEGI) and The Central Bank of Mexico.

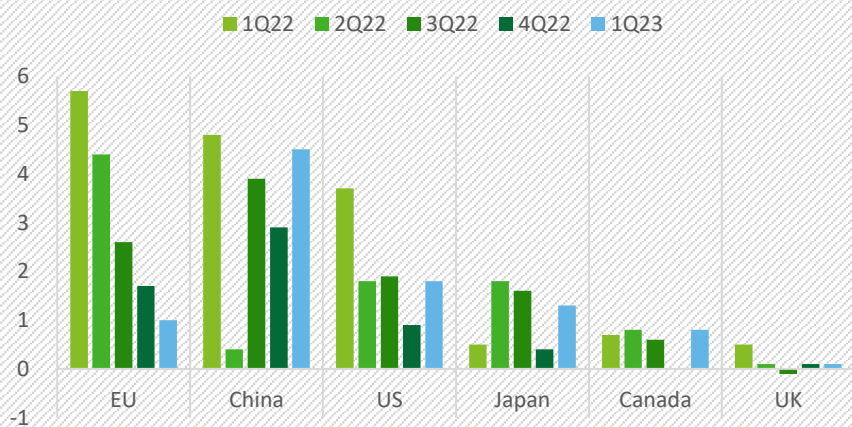


Macro overview

Global outlook

Figure 1. The global economy is performing better than expected

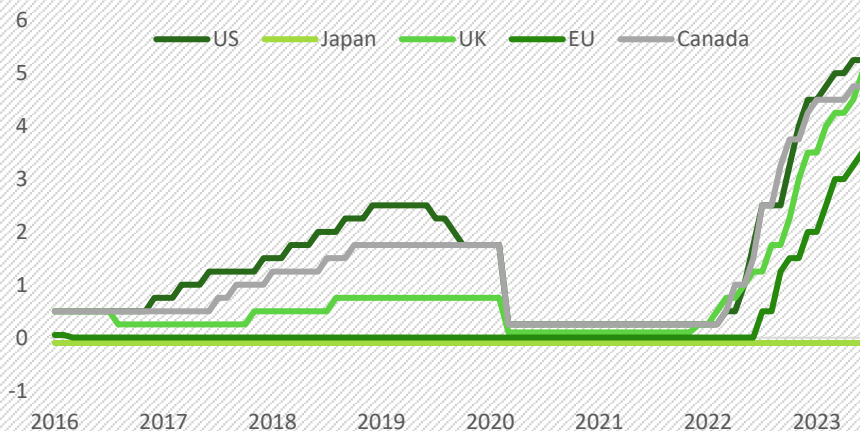
Real GDP, annual percent change



Source: Trading Economics.

Figure 2. Interest rate increases are not over yet

Interest rates, %



Source: Bloomberg.

After the events that took place in 2022, it was widely anticipated that a global recession was imminent in 2023. However, economic growth continued in North America and Europe, and revived in China and Japan. As a result, job markets remain tight, which creates the risk that rising **wage pressures** will sustain high inflation.

Headline inflation has declined due to a reversal of the factors that drove inflation in the first place. But now, higher labor costs are pushing the core inflation.

Central bankers are concerned that, despite significant tightening on interest rates, economies have not slowed enough to extinguish inflationary pressures. Although **headline inflation has receded, core inflation has been more persistent**. The leaders of the Federal Reserve, the Bank of England, and the European Central Bank seem to be aligned in thinking that inflation has not been defeated and, therefore, further interest rate increases will be needed. Meanwhile, tightening cycles are over in Latin America, and markets are now expecting rate cuts.

Fears are growing that further monetary policy tightening might lead to a financial crisis.



Mexican outlook

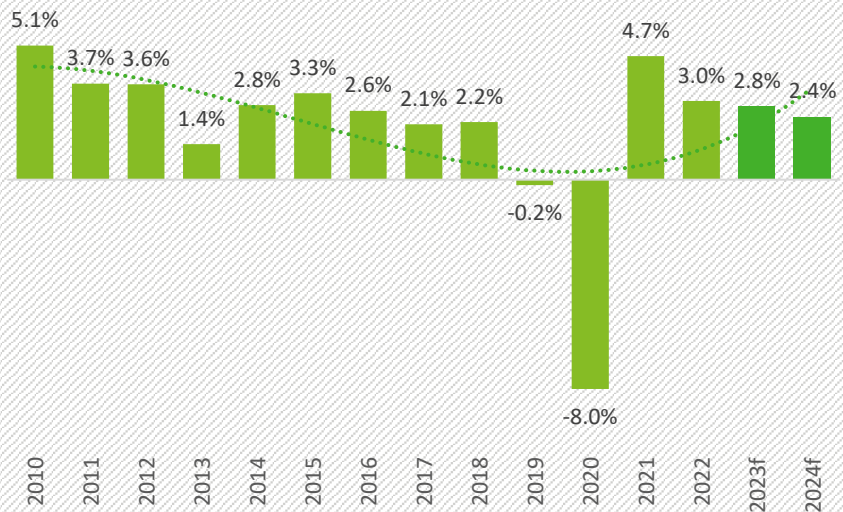
At the beginning of this year, it was widely expected that the Mexican economy would grow more slowly in 2023 (consensus estimates pointed to 1.5% GDP growth). However, as we reach midyear, the **outlook has improved significantly for Mexico**, and both, external and domestic demand are driving economic growth.

The resilience of the Mexican economy has extended into the second quarter, leading us to revise the 2023 GDP forecast to 2.8%, up from the previous estimate of 2.2%.

The **nearshoring** phenomenon, shorter delivery times, the unlogging of supply chains, and a still-strong US demand, have boosted manufacturing production in the country. This has created a positive spiral that includes higher imports of capital goods, a bounce in investment (especially in machinery and equipment), and a rebound in exports, among other things. Furthermore, **business confidence has improved**, aligning closely with the more upbeat outlook from **consumers**.

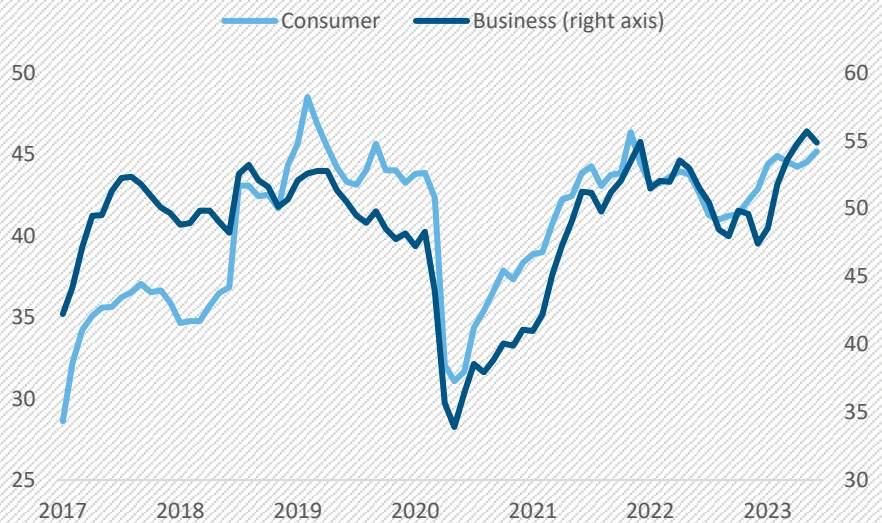
Growth will moderate towards the second half of 2023, but it is expected to recover in the first half of 2024, because of higher public spending, as presidential elections will take place in June.

Figure 3. The economy will expand 2.8% this year
GDP real, annual percent change



Source: INEGI.

Figure 4. Business and consumer confidence
Index



Source: INEGI.

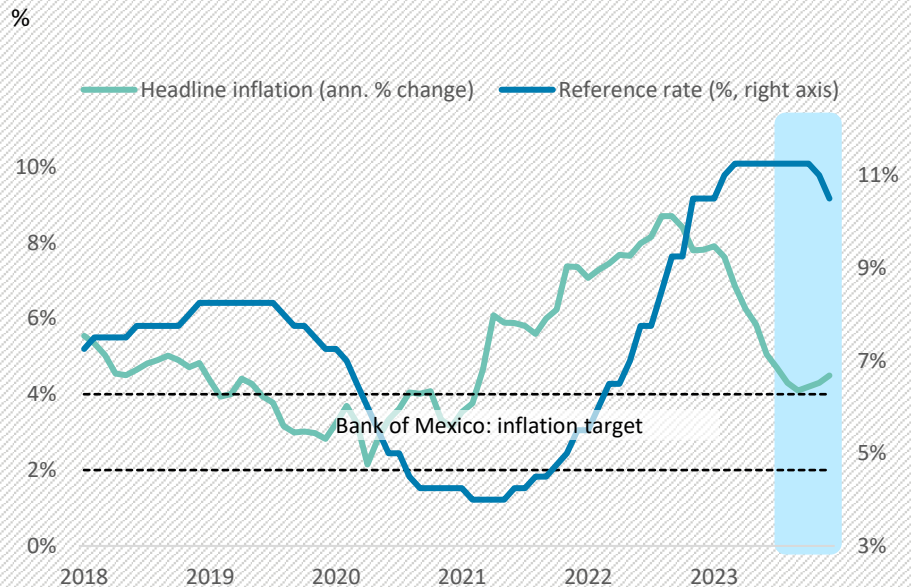


Real wage incomes have increased considerably, which, along with steady remittances, low unemployment, and credit expansion, have driven **consumption and services on a favorable growth path.**

These robust macro fundamentals, coupled with the significant interest rate differential between Mexico and the U.S., have led the **exchange rate to its lowest level since 2015**, helping to alleviate inflationary pressures, but posing a burden on exporters.

Although we see the current inflation trend aligns with the start of a **rate-cutting cycle later this year**, the pace may be gradual, because the strength of the economy has led to tight labor markets and wage pressures, potentially impacting inflation.

Figure 5. Inflation CPI and the reference rate in Mexico







Sources: INEGI, the Bank of Mexico, and forecasts are from Econosignal.





Key macroeconomic forecasts

	2023	2024
 Real GDP (ann. var. %)	2.8%	2.4%
 Inflation (CPI, ann. var. %, eop)	4.5%	4.0%
 Exchange rate (MXN per USD, eop)	\$18.3	\$19.2
 Target rate (% , eop)	10.50%	8.50%

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

Would you like to learn more?





States' performance

According to ITAEE¹, the states with the **highest growth in 2022 were Quintana Roo (+10.8%) and Tabasco (+10.6%)**, as it can be seen in the map.

Considering these results and an improved growth outlook for this year, we have revised our forecasts upward for the country's states. Among the entities for which we have raised more our projections are those with a strong tourism industry, such as Baja

California Sur and Quintana Roo. Nuevo León is expected to experience significant progress due to nearshoring.

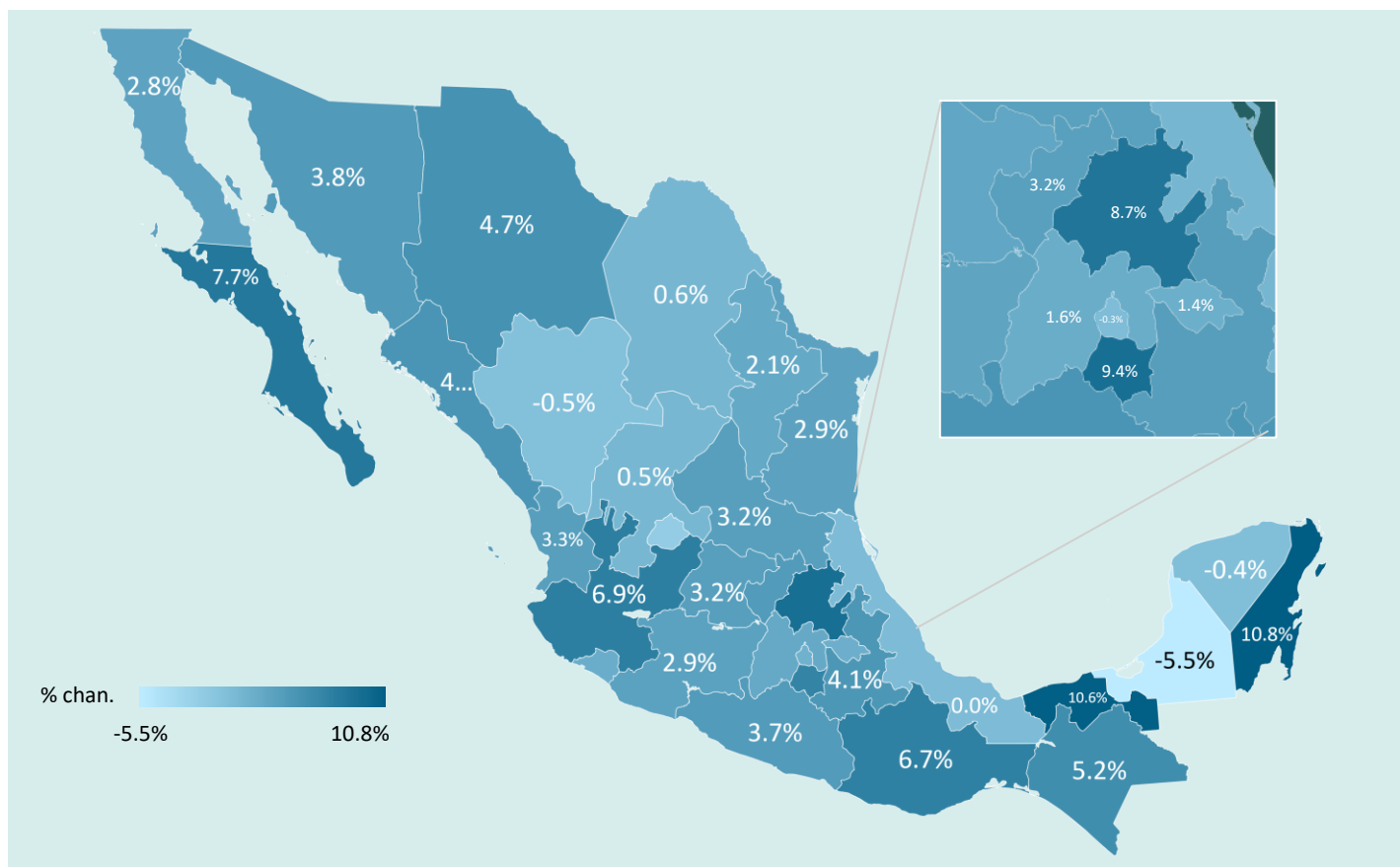
Leading the growth ranking is **Tabasco**, which would expand due to advancements in crude oil production and the Dos Bocas refinery. It would be followed by **Quintana Roo** and **Baja California Sur**, both of which have experience a high influx of

international tourism, despite the prevalence of high inflation.

On the other side of the ranking, we find **Veracruz** and **Durango**, which would experience a downturn, due to lower external demand; and **Campeche** that would have a slowdown in its economy due to the setback in hydrocarbon production, which accounts for almost 80% of its GDP.

Evolution of states' economic activity

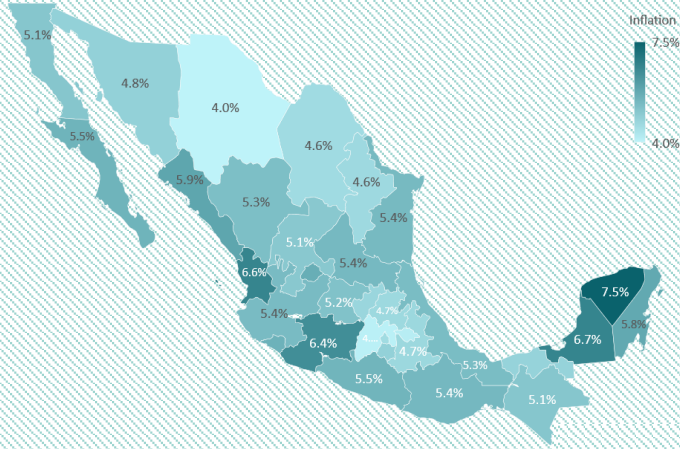
Annual percentage change in 2022¹



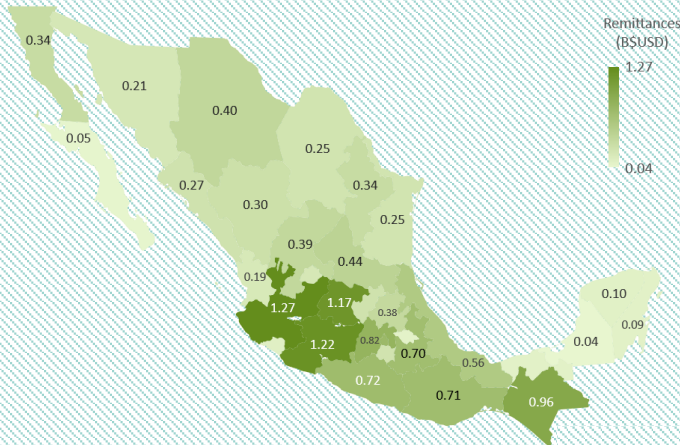
1. Based on the Quarterly State Economic Activity Indicator (ITAEE). Latest available information. | Source: INEGI.



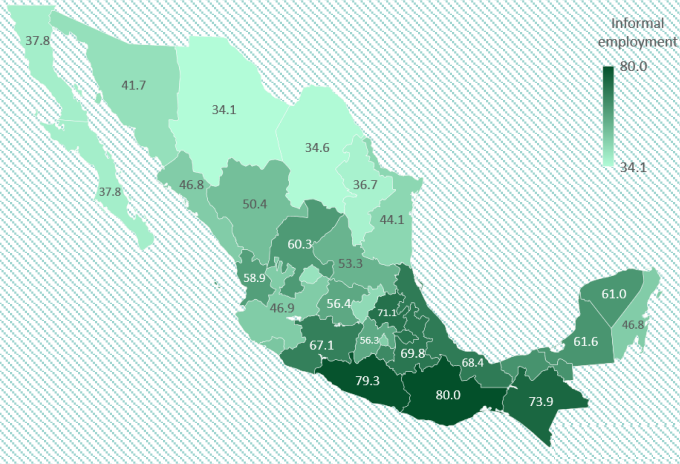
Inflation CPI, annual percentage change, June 2023



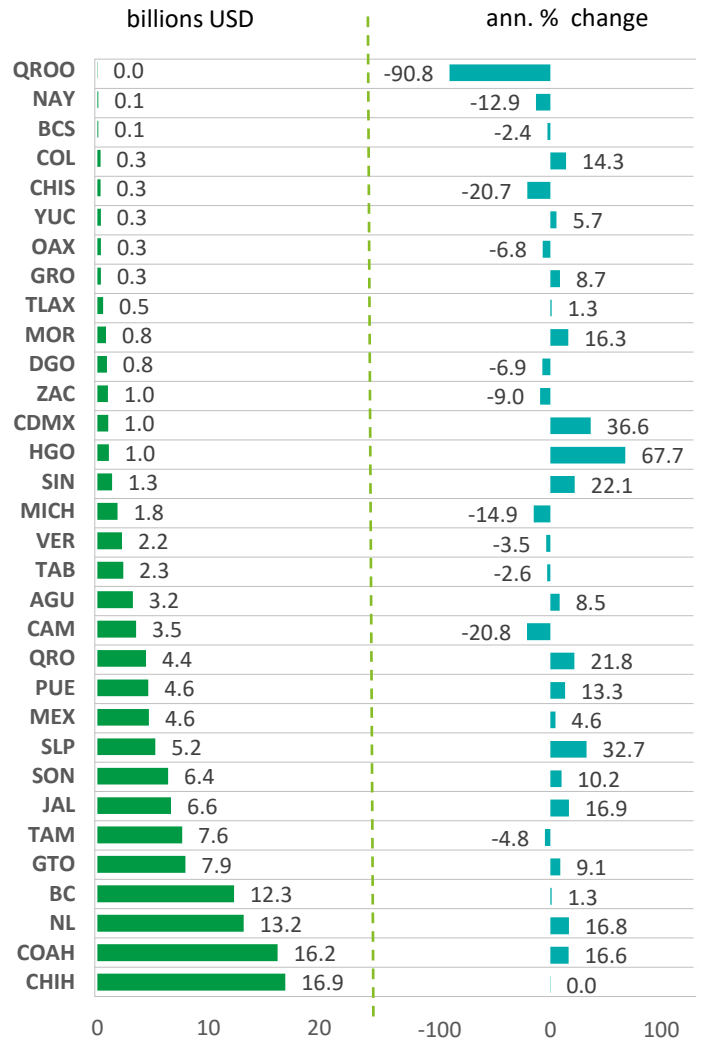
Remittances Billions dollars, Q1 2023



Informal employment % of employment, Q1 2023



Exports, Q1 2023



Unemployment rate and underemployment rate

% of economically active population and % of employment, Q1 2023

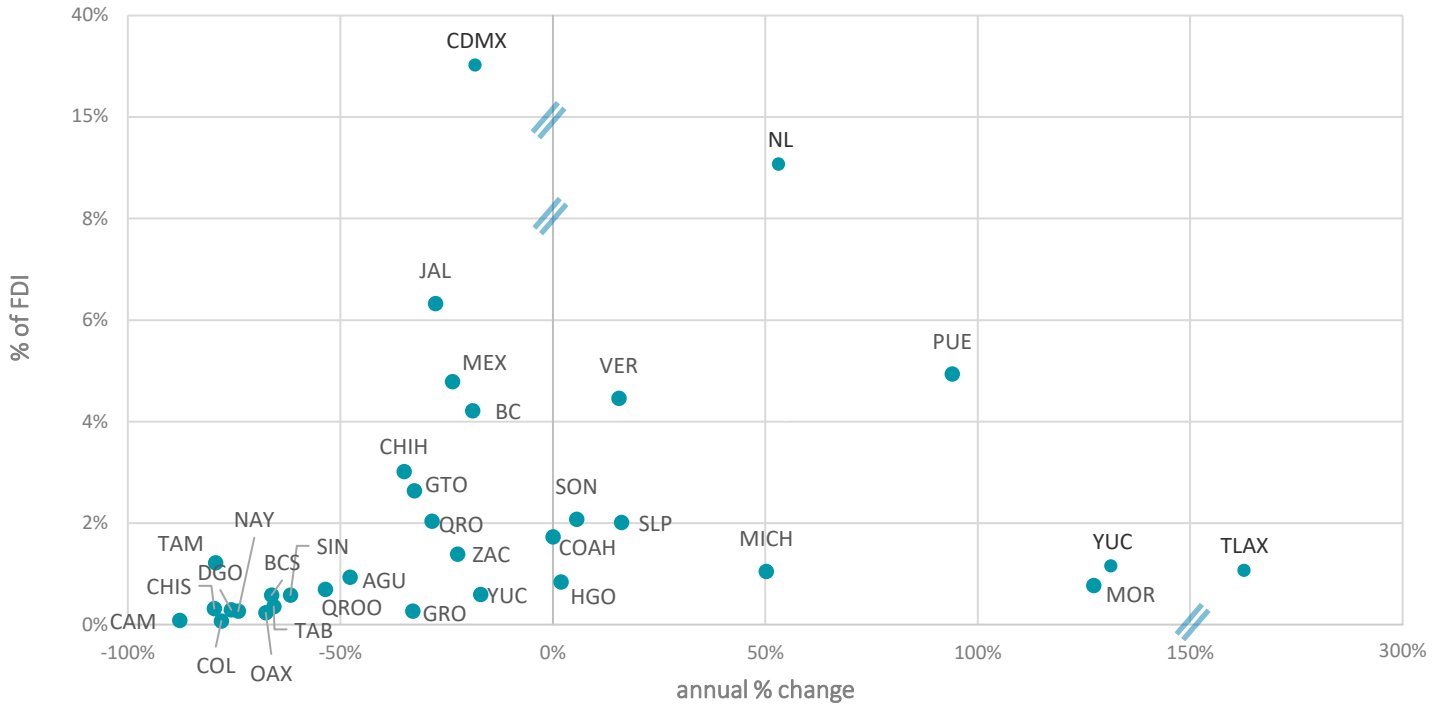


Sources: INEGI, Economy Ministry of Mexico and The Central Bank of Mexico.



Foreign Direct Investment¹

Annual percentage change and percentage share of FDI, Q1 2023



Industries with the highest FDI in each state, Q1 2023

Millions dollars

Industries / states	M\$USD	Industries / states	M\$USD
Transportation equipment manufacturing		Credit intermediation and related activities	
Aguascalientes	102	Campeche	16
Baja California	311	Colima	15
Coahuila	133	Chiapas	46
Chihuahua	140	Ciudad de Mexico	3,265
Guanajuato	210	Durango	25
San Luis Potosi	267	Guerrero	35
		Hidalgo	47
Accommodation		Mexico	277
Baja California Sur	82	Michoacan	89
Nayarit	22	Oaxaca	32
Quintana Roo	69	Sinaloa	64
		Sonora	63
Chemical manufacturing		Tabasco	40
Morelos	99	Tamaulipas	55
Puebla	395	Tlaxcala	13
Queretaro	123	Yucatan	57
		Zacatecas	24
Primary metal manufacturing		Beverage and tobacco product manufacturing	
Nuevo Leon	955	Jalisco	488
Veracruz	550		

Source: Economy Ministry of Mexico.



Forecasts and assumptions

Forecast growth in gross state product in 2023

Annual percent change



National GDP growth in 2023

2.8%

Forecast range

Less than 1.9%

From 1.9% to 2.8%

From 2.8% to 3.7%

Higher than 3.7%



States with a strong focus on tourism, particularly those attracting international tourists, would experience the highest growth rates.



Tabasco is projected to have one of the highest growth rates in 2023, thanks to increased oil production and the likely opening of the *Dos Bocas* refinery.



The progress of export-leading states and/or those with a high-tech industry would be tempered by the US economic slowdown.



Nearshoring will continue to be a growth opportunity for some industrial states in the northern region and in *Bajío*.

Considering moving or expanding your business?

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





Industry outlook

During the first quarter of the year, the economy has performed better than expected.

The **tourism sector** experienced the highest growth (+11.4% ann.) in this period, largely driven by the influx of foreign currency from international tourists. **Telecommunications** followed closely with an annual growth rate of 8.1%, attributed to increased revenue for service providers.

On the contrary, the **food industry** exhibited one of the lowest rates of progress (+1.5% ann.), influenced by inflation and environmental factors. Additionally, the **health care** sector showed an economic slowdown (+0.9% annually), due to a decline in pharmaceutical manufacturing.

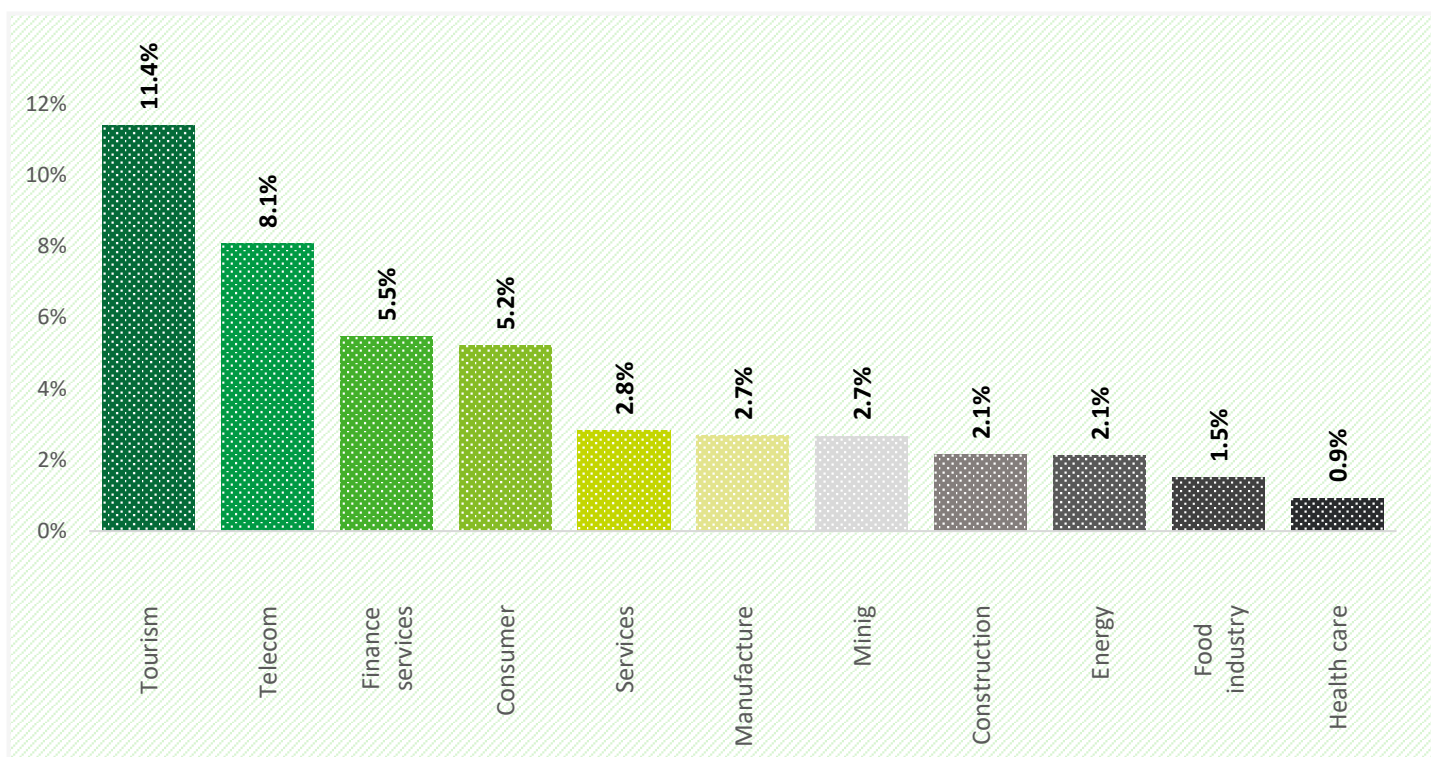
Notably **financial services** presented growth above 5% annually, thanks to the banking sector's favorable financial margins, resulting from

higher interest rates and the positive performance of the loan portfolio. Consumer sector remained positive, despite inflation and uncertainty.

On the other hand, the **manufacturing sector** showed slower progress compared to previous quarters, especially in export-oriented sectors. However, the **automotive industry** exhibited a significant growth.

GDP by industry, Q1 2023¹

Annual percentage change



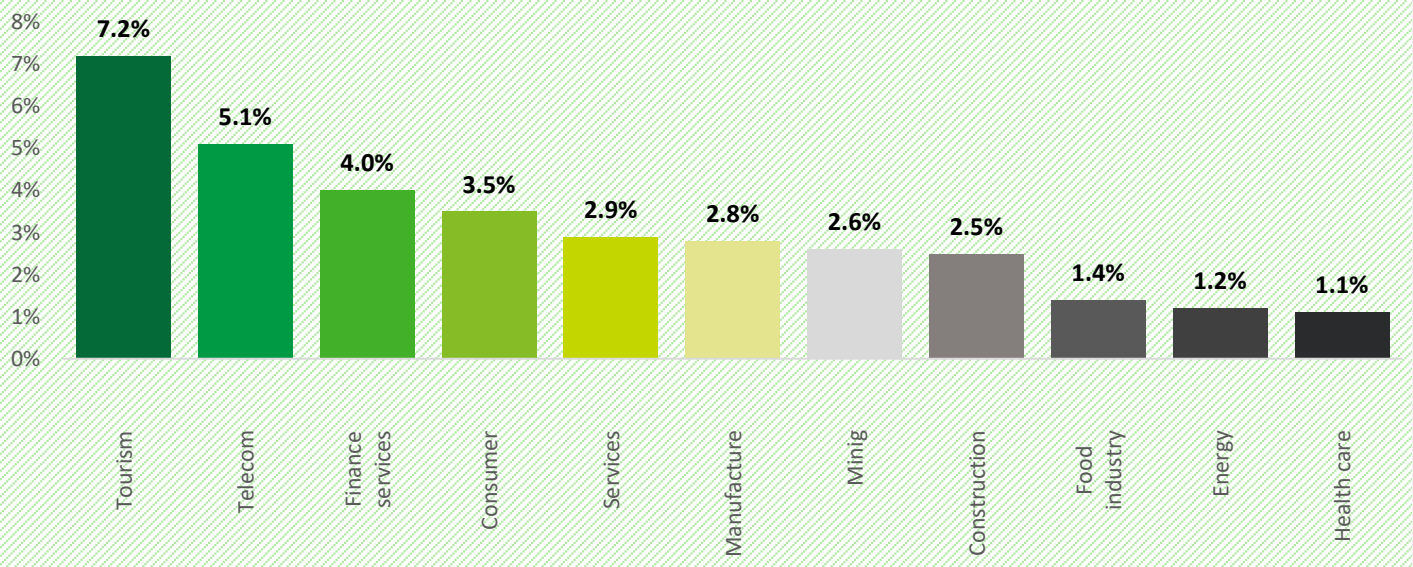
1. Due to the level of disaggregation employed in this report, non-seasonally adjusted series in constant values at 2013 prices should be used to measure the GDP variation of each industry. Please, refer to the [appendix](#) for the sector classification. | Source: INEGI.



Forecasts







Output growth by industry in 2023

Annual percent change



Source: Econosignal.

Opportunities and challenges for industries

Challenges	Opportunities
 Mining <i>Regulatory and legal certainty.</i>	 Tourism <i>Continuing with advertising campaigns.</i>
 Food industry <i>Controlling food inflation.</i>	 Telecommunications <i>Artificial intelligence adoption.</i>
 Energy <i>Increasing the share of renewable energies.</i>	 Manufacture <i>Company relocation.</i>

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 food industry is an important generator of greenhouse gases - from the production to the distribution of its products-. Given the necessity to reduce the emission of these gases, it is essential to promote collaboration along the value chain in order to be more efficient in the long term. Also, to develop responsible and clear metrics as part of the production process, and incentive research and development of green technologies and skills”.



Salvador Sanchez

Master Program, IMOS and Agribusiness Industry Lead Partner

Financial services

“Mexican banks have remained resilient despite the harsh impact of the pandemic. Since 2022, the increase in interest rates has amplified their financial margin. A good performance is expected for this year too, thanks to the increase in the credit portfolio and efforts to integrate digital technologies to make processes more efficient. However, credit costs could reduce profitability. The significant opportunity lies in financing for nearshoring and the possibility of driving the necessary Infrastructure development around it.



Gustavo Mendez

Financial Services Lead Partner

Energy

“The volatility of oil prices, especially during uptrends periods, has benefited hydrocarbon producers, which brings different challenges to the energy transition. In the coming decades, the utilization of fossil fuels will still be present in the global energy matrix. This pushes the big oil companies to continue investing in clean energies, in order to achieve the objectives of carbon emission reductions, without affecting the oil-producing nations”.



Valeria Vazquez Maulen

Energy and Natural Resources Industry Lead Partner

Telecommunications

“Artificial intelligence is transforming the economy by processing incredible amounts of information and data to boost productivity. However, there are still some challenges to address, such as the quality and integration of data, the development of algorithms adapted locally, and enforced cybersecurity to protect companies. Hence, the human factor remains important for decision-making and bias reduction”.



Germán Ortiz

TMT Lead Partner (Technology, Media and Telecommunications)

Construction

“The construction industry has lagged behind in recent years, a fact that was exacerbated by the pandemic and its side effects, such as inflation. For the following years, the nearshoring phenomenon is presented as an opportunity and a challenge for the sector. On the one hand, it will favor FDI for new industrial facilities, but on the other hand, Mexico will need to rapidly improve its infrastructure to support the investments.”



Manuel Nieblas

Industrial Products, Construction and Manufacture Lead Partner



Consumer

“The price hike that has taken place since last year has tested consumers, who have changed their consumption patterns, and also producers, who have had to absorb some of cost increases. However, private consumption has shown resilience due to high employment, the increase in wages, and strong remittances. Therefore, private consumption will remain robust in the following months, also supported by the gradual reduction of inflation”.



Manuel Ostos
Consumption Industry
Lead Partner

Health care

“Creating health ecosystems will enable more comprehensive and dynamic functioning that will expand capacities and improve care services. To integrate these ecosystems, it is important to reinforce the participation of all the involved agents, such as insurers, government, patient associations, technological companies, service providers, schools, and research centers. Also, technology and artificial intelligence will play an important role in the generation of information, diagnoses, and follow-ups”.



Alejandro Arias
Life Sciences and Health care
Lead Partner

Tourism

“The hospitality industry in Mexico, which had a relatively fast recovery after the Covid-19 pandemic, allowed the country to maintain its leading global position in international tourist arrivals. Mexico’s competitive advantages support our forecast for a positive performance in 2023, above the average of the Mexican economy. However, this industry also has important challenges; i.e. an environment of persistent inflation and the appreciation of the Mexico’s currency, plus severe restrictions in public agencies’ promotion budgets.”



Claribel Salazar
Hospitality Industry Lead Partner



Tere Torres
Expert in the Tourism sector

Manufacture

“The manufacturing industry is a very dynamic sector that has been forced to transform after the pandemic and the shortage problems. Therefore, businesses have detected the opportunities and the course of action they should take in the coming years, such as promoting R&D and technological investments, as well as developing specialized talent, promoting smart manufacturing, and nearshoring. All types of activities to make supply chains more efficient”.



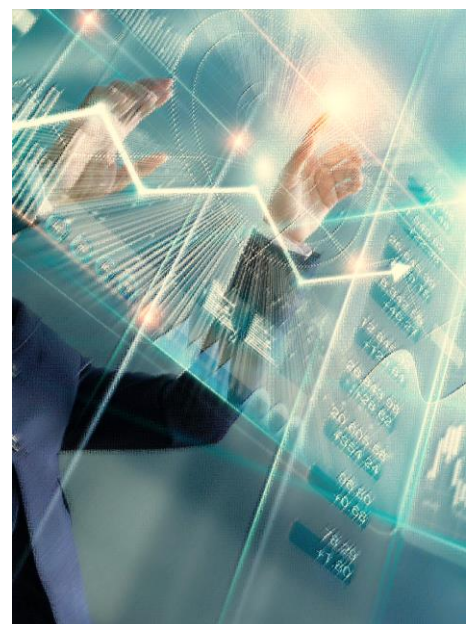
Manuel Nieblas
Industrial Products, Construction and
Manufacture Lead Partner

Mining

“The Mining Law Reform implies important changes in terms of environmental compliance, protection of indigenous communities, and water resources. Also, it regulates and shortens concessions in the mining sector, among others. However, these changes have dismayed industry representatives, as they could dampen future investments. Now it is important to see how the government defines the applicable regulations and its willingness to provide more regulatory and legal certainty”.



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,; 311 Food Manufacturing; 312 Beverage and Tobacco Product Manufacturing.
Finance services	52 Finance and Insurance.
Energy	211 Oil and Gas Extraction; 221 Utilities; 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; 485 Transit and Ground Passenger Transportation; 486-488 Pipeline Transportation. Scenic and Sightseeing Transportation. Support Activities for Transportation; 71 Arts, Entertainment, and Recreation; 72 Accommodation and Food Services.
Manufacture	31-33 Manufacturing
Services	48-49 Transportation and Warehousing (except 481 Air Transportation; 485 Transit and Ground Passenger Transportation; 486-488 Pipeline Transportation. Scenic and Sightseeing Transportation. Support Activities for Transportation); 54 Professional, Scientific, and Technical Services; 55 Management of Companies and Enterprises; 56 Administrative and Support and Waste Management and Remediation Services; 61 Educational Services, y 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:



22



Macroeconomic variables



166



Industrial variables



96



State variables

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Specific industry



Economic outlook
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