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Mexican Economic Outlook
Executive summary

January 2024

Econosignal

This quarterly report from Econosignal analyzes the Mexican economy from a macroeconomic, industrial and regional perspective. Additionally, it provides forecasts for a wide range of variables, which will assist you in enhancing the financial and strategic planning of your business. This version is the executive summary.

If you are trying to reduce uncertainty for improved planning and budgeting, we offer the extended version of this report, which covers 5-year forecasts for over 300 economic variables. Please, contact us: 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

Fiscal expansion to drive growth in 2024

We estimate that the Mexican economy will expand by 3.4% in 2023, marking its third consecutive year of growing above 3.0%. For 2024, we anticipate the pace will slow down to 2.5%. With presidential,

state, and both chamber elections on the horizon, we anticipate that the robust public spending approved for this year will fuel growth, albeit with potential impacts on inflation. Hence, monetary policy is expected to remain

restrictive for longer. At the industrial level, we expect telecom and construction to experience the most significant growth, whereas mining and the food industry are anticipated to be on the weaker side.

Macro overview



Mexico's **GDP** is projected to grow by **3.4% in 2023** and **2.5% in 2024**.



Headline inflation would end 2024 at **4.0%**, while the **core** would be at **4.4%**.

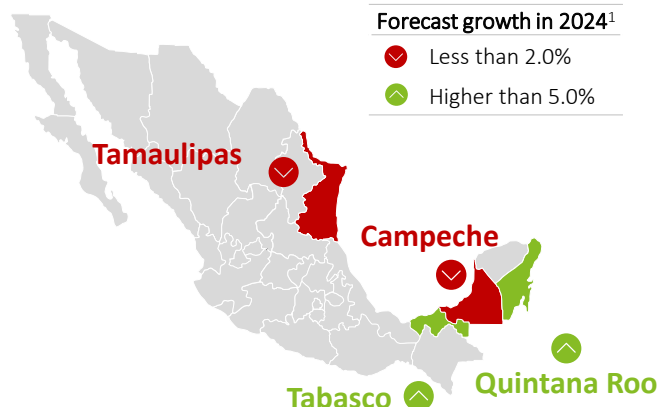


The **exchange rate** is expected to reach **\$18.5** towards the end of the year.



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

States¹



Industries

Forecasts for 2024¹

Fastest growth



Telecom
+4.7%



Construction
+4.1%



Tourism
+3.5%

Slowest growth



Health care
+1.3%



Mining
+0.8%



Food ind.
+0.5%

1. The states and the industries with the best and worst expected performance for 2024 are shown; to see details about the forecasts for 2023, please refer to each corresponding section. | Sources: National Institute of Statistics and Geography (INEGI) and the Central Bank of Mexico.



Macro overview

Global outlook

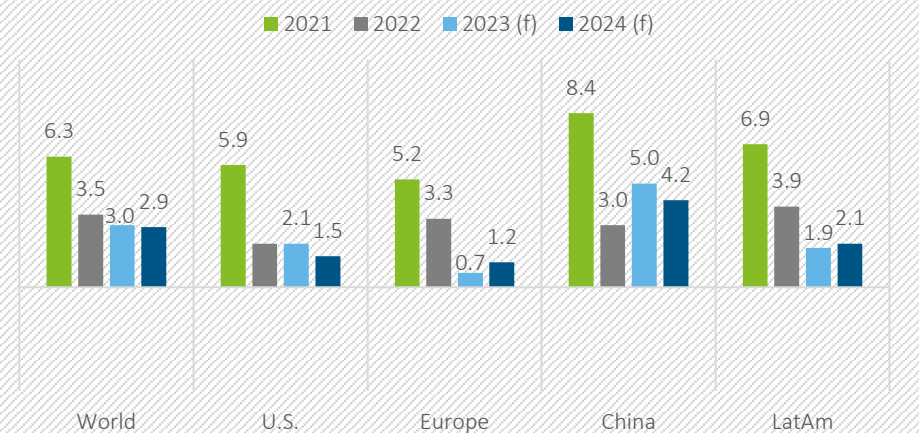
Global GDP growth turned out stronger than expected in 2023, but it is anticipated to slow down in 2024, primarily due to high interest rates and weaker international trade.

Global CPI, as calculated by Bloomberg, fell sharply, from 10.4% a year ago to around 5.5% at last November. This has occurred for several reasons including a decline in oil prices, the end of supply chain disruption, and a weakening of demand due to monetary policy tightening. With the inflation going down, it is clear that the world's major central banks are done tightening. The only remaining question is when they will start to ease policy. Central bankers suggest it will take a while before this happens. Financial markets, however, are pricing in the possibility that some developed countries will begin cutting interest rates as early as March, with the Federal Reserve leading the bet. Anyway, it is considerably likely that interest rates will be lower in the next 12 months compared to their current levels, barring unexpected events, such as a surge in oil prices.

This could lead various economies to experience weaker growth this year, but it would be only a moderate slowdown (not a recession). This is not the case for China, which is encountering numerous obstacles that are likely to constrain growth this year.

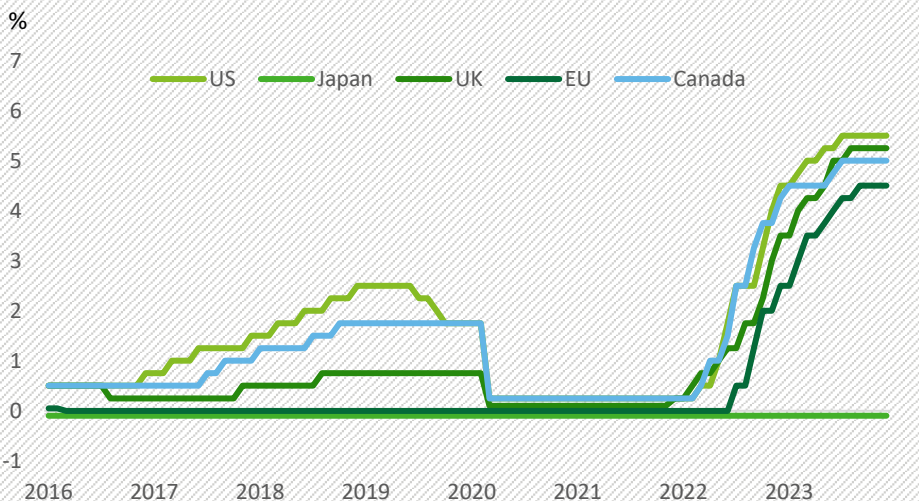
Figure 1. Global growth will slow down in 2024

GDP real, annual percentage variation



Source: IMF.

Figure 2. Interest rates in developed countries



Source: Bloomberg.



Mexican outlook

After the publication of October data, in which the economy showed a contraction of 0.1% compared to September and a 3.5% annual expansion, we perceived a loss of momentum in the economy towards the end of last year. Consequently, the Mexican economy will likely conclude 2023 with a slightly lower expansion than our previous estimate of 3.5% (at 3.4%).

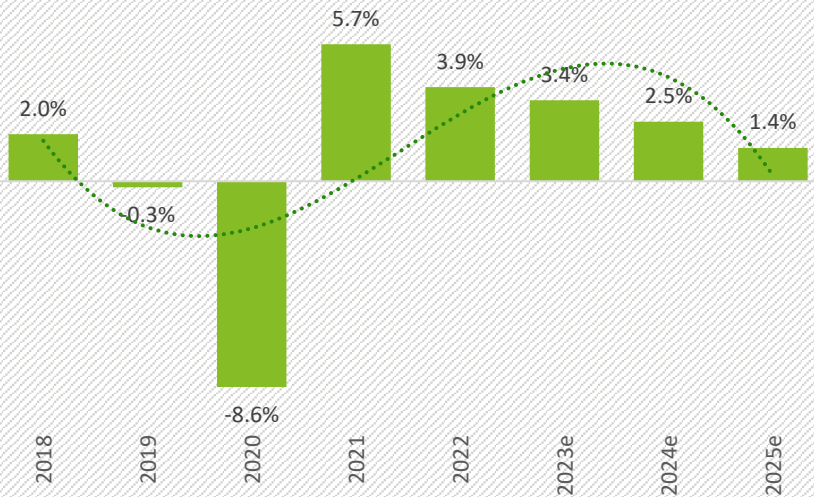
The Mexican economy is projected to grow by 2.5% in 2024 but is expected to decelerate to 1.4% in 2025.

The main driver of 2024 growth will be the expansive fiscal policy approved in the 2024 Economic Package, which includes higher pension payments and subsidies, positively impacting private consumption. Additionally, nearshoring investments are expected to continue, mitigating the anticipated decrease in public investment in the second half of 2024. On the other hand, we anticipate exports and imports to remain weak, in line with diminished global optimism.

With the ongoing strong growth of the economy that will last until 2024, inflation would partly remain under pressure, posing challenges to the Bank of Mexico's cutting cycle.

While the price index maintains its downward trend, the pace at which it is decreasing is slowing down.

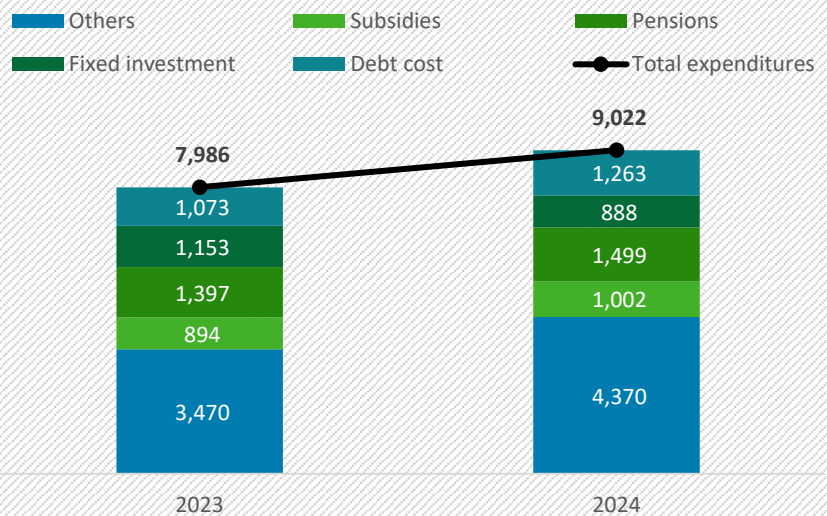
Figure 3. We expect 2024 growth at 2.5%
GDP real, annual percentage variation



Source: INEGI.

Figure 4. Distribution of public spending in 2024

Billions of pesos of 2024



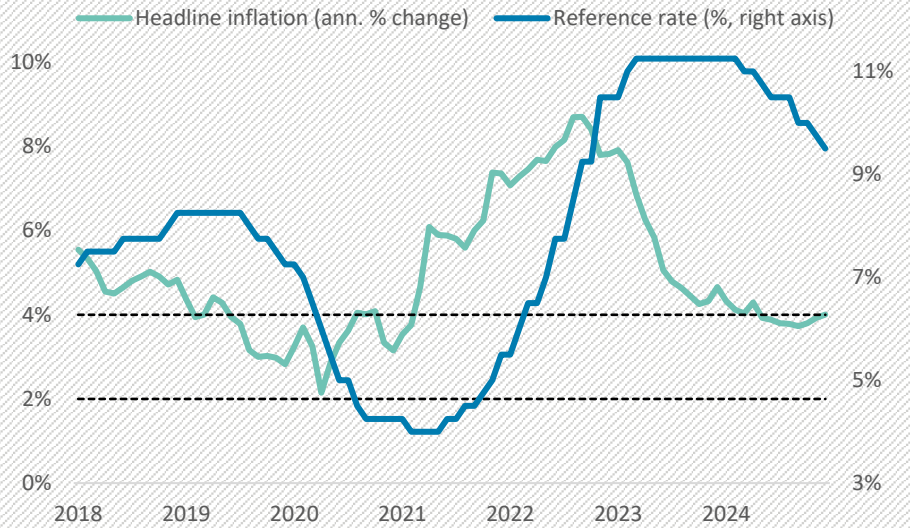
Source: General Economic Policy Guidelines 2024, Ministry of Finance.



In fact, inflation rebounded again in December at 4.66%, from 4.32% in November and surpassing expectations that predicted an annual expansion of 4.5%. In this context, the Bank of Mexico (Banxico) adopted a more aggressive tone in its December meeting while the short-term path for inflation was revised up (both headline and core). Consequently, we now anticipate that Banxico will wait for January inflation results (to be published on February 8), as well as to observe the impact of the minimum wage increase for 2024, to decide. We expect that the first 25 basis points rate cut will be announced from the March meeting on. As a result, we have adjusted our interest rate estimate to 9.5%, up from 9.0%, by year-end 2024.

Figure 5. Bank of Mexico will maintain a restrictive policy stance

Inflation and policy rate in Mexico







Sources: INEGI and Bank of Mexico.





Key macroeconomic forecasts

Table 1. Forecast macroeconomic

	2024	2025
 Real GDP (ann. var. %)	2.5%	1.4%
 Inflation (CPI, ann. var. %, eop)	4.0%	3.7%
 Exchange rate (MXN per USD, eop)	\$18.5	\$19.2
 Target rate (% , eop)	9.50%	7.00%

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

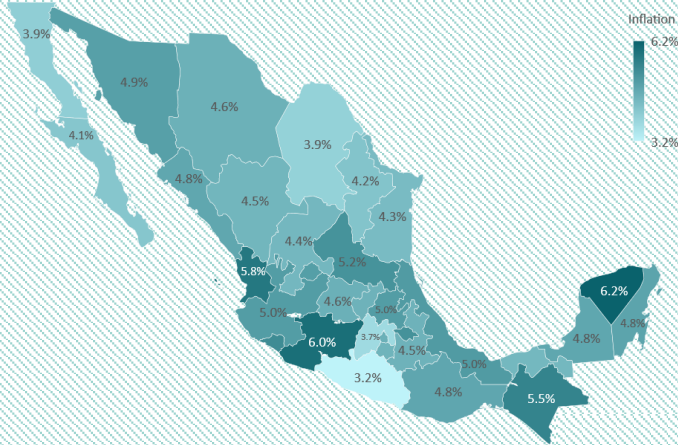
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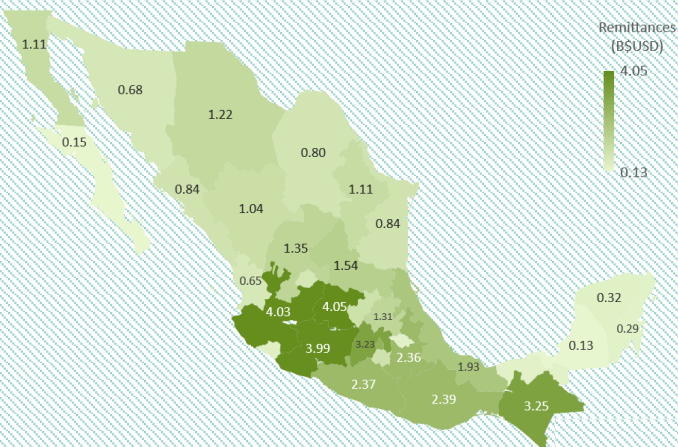
Map 2. Inflation

CPI, annual percentage change, January 2024



Map 3. Remittances

Billions dollars, accum. Q3 2023



Map 4. Informal employment

% of employment, Q2 2023

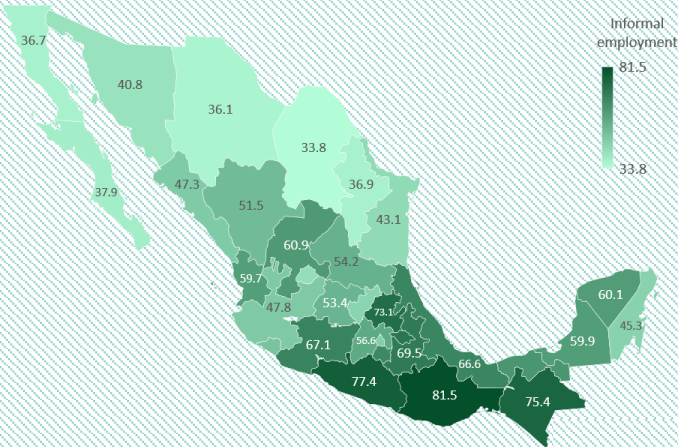


Figure 6. Exports, accum. Q3 2023

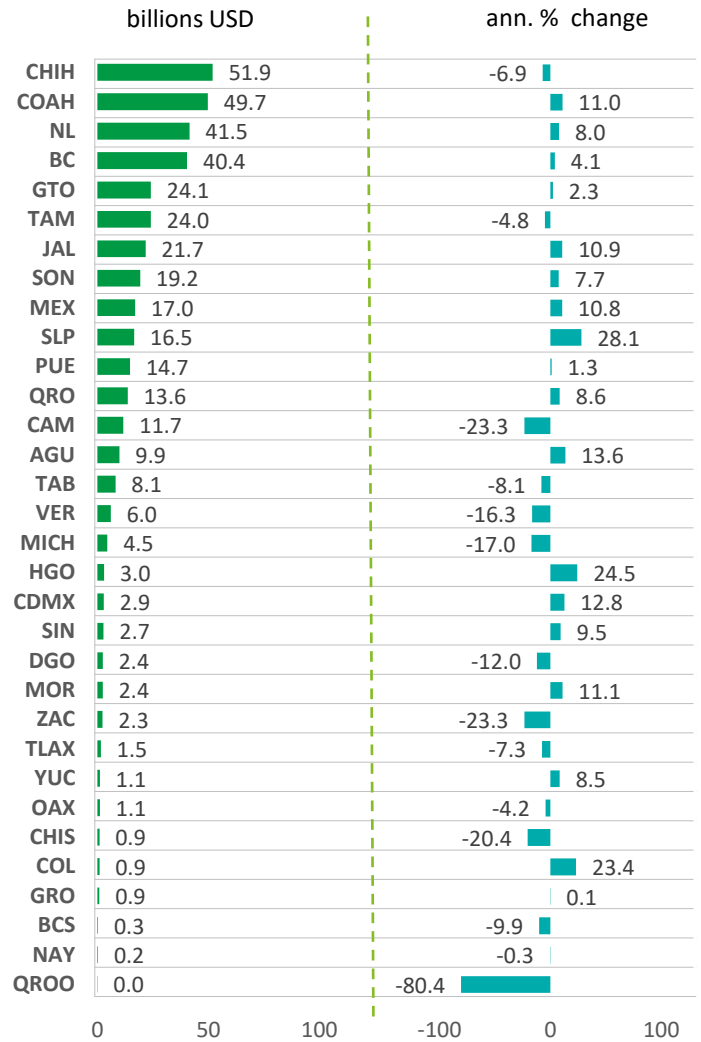
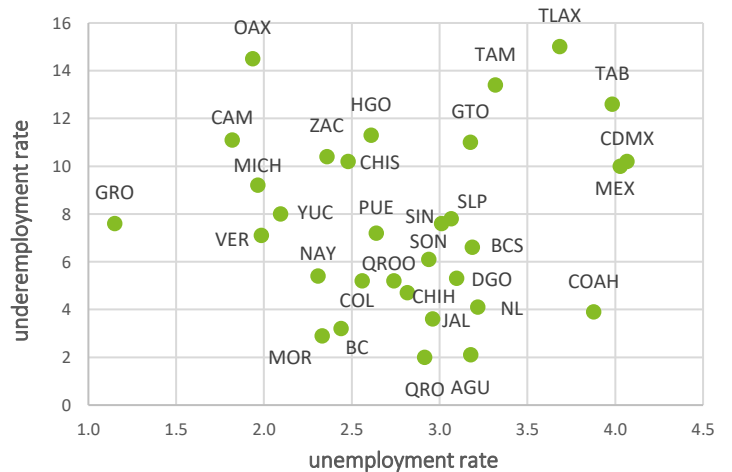


Figure 7. Unemployment rate and underemployment rate
% of economically active population and % of employment, Q3 2023



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. Q3 2023

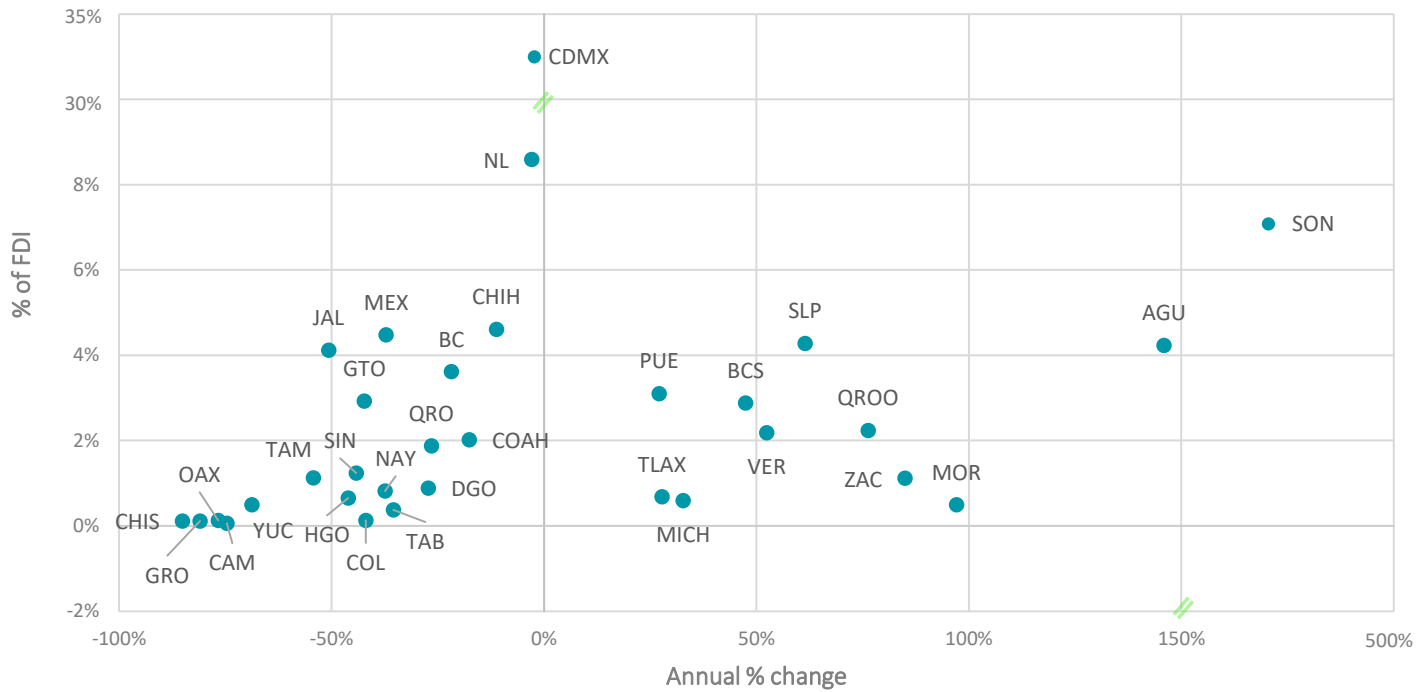


Table 2. Industries with the highest FDI in each state, accum. Q3 2023

Millions dollars

Industries / states	M\$USD	Industries / states	M\$USD
Transportation equipment manufacturing	7,640	Credit intermediation and related activities	6,106
Aguascalientes	1,349	Ciudad de Mexico	4,466
San Luis Potosi	1,143	Hidalgo	35
Mexico	698	Chiapas	32
Guanajuato	657	Tabasco	30
Chihuahua	640	Guerrero	26
Coahuila	538	Oaxaca	25
Baja California	492	Durango	18
Puebla	396	Colima	13
Tamaulipas	98	Campeche	12
Beverage and tobacco product manufacturing	2,253	TLaxcala	11
Jalisco	465	Chemical manufacturing	1,402
Accommodation	2,187	Queretaro	137
Baja California Sur	835	Morelos	105
Quintana Roo	676	Primary metal manufacturing	2,554
Nayarit	231	Nuevo Leon	1,403
Sinaloa	66	Veracruz	552
Yucatán	61	Mining, except Oil and Gas	2,164
Support Activities for Transportation	319	Sonora	1,984
Michoacan	71	Zacatecas	283

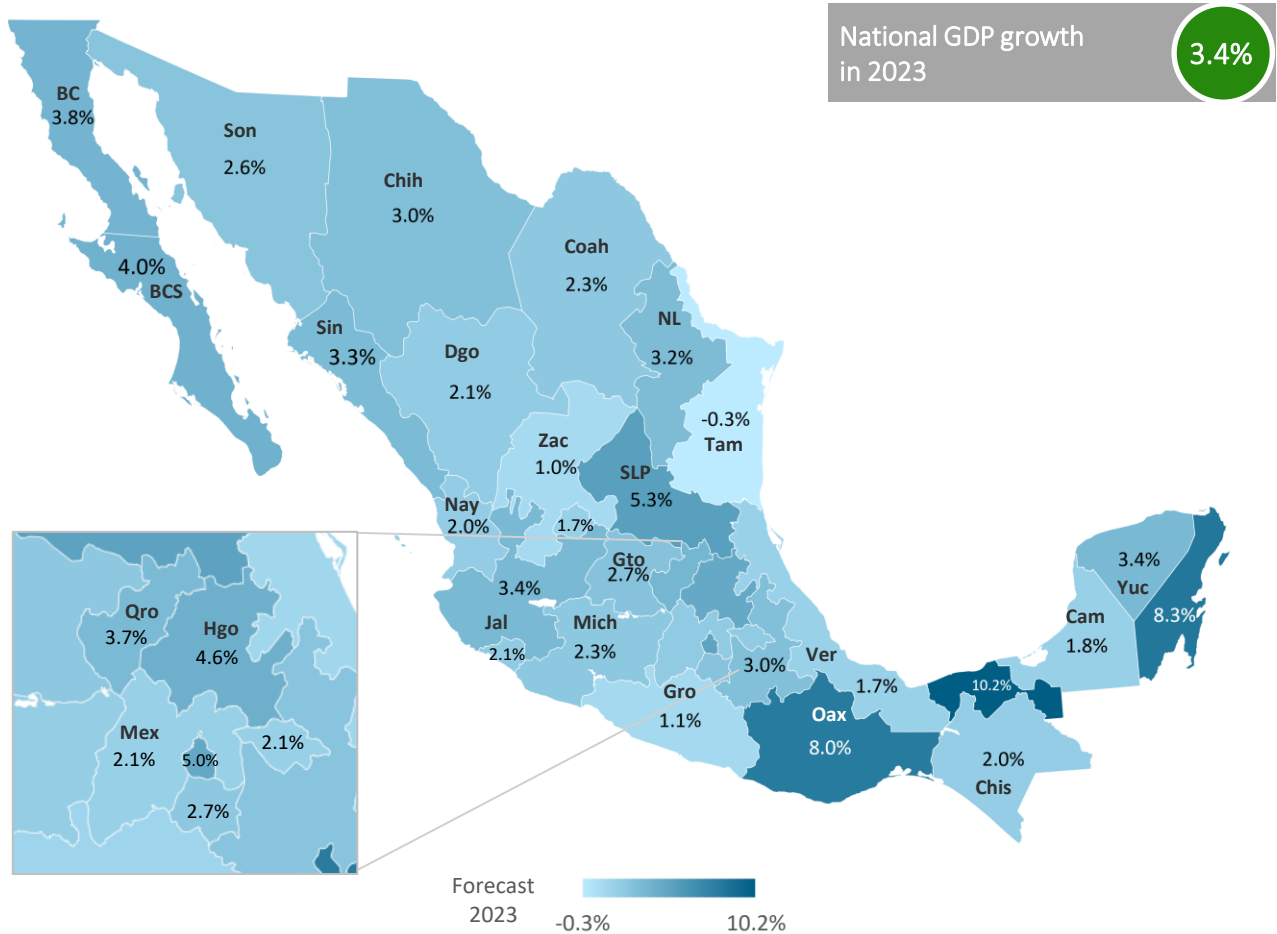
Source: Economy Ministry of Mexico.



Forecasts and assumptions

Map 5. Growth forecast of gross state product in 2023

Annual percent change



Tabasco is expected to have one of the highest growth rates in 2023, thanks to the increase in oil production and the construction of the Dos Bocas refinery.



The states with a significant participation in tourism, particularly with international tourists, are likely to experience the most substantial growth.



The construction of the Tren Maya will boost the economic performance of the states in the southeastern region of the country.



The progress of the export-oriented states will remain positive, albeit less dynamic.



Nearshoring represents a growth opportunity for some industrial states in the Bajío and the northern region of the country.



Forecasts and assumptions

Map 6. Growth forecast of gross state product in 2024

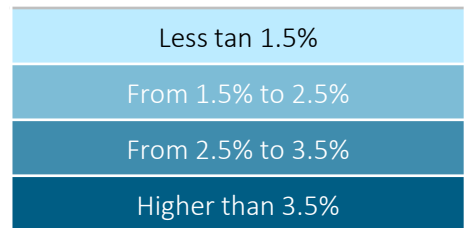
Annual percent change



National GDP growth in 2024

2.5%

Forecast range



Nearshoring will continue to be an economic driver for industrial states, in the Bajío and the northern region of the country, and Mexico City.



Elections for governors will take place in nine states: Mexico City, Chiapas, Guanajuato, Jalisco, Morelos, Puebla, Tabasco, Veracruz, and Yucatan.



The export-oriented states might be affected by the global economic slowdown, specifically from the United States.



The southeastern region of Mexico will continue to experience robust growth due to construction projects, the inauguration of the Tren Maya, and the reconstruction efforts following the disaster caused by the OTIS Hurricane (Guerrero).

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Industry outlook

In the third quarter of 2023, the **construction sector** stood out with an annual increase of 24.4%, driven by the nearshoring effect and the progress of government flagship projects. As a result, we anticipate it would be the fastest-growing sector by the year-end; however, in 2024, it is expected to decelerate due to a reduction in public investment.

Other noteworthy activities in 2023 include **telecommunications**, which

advanced by 10.1% YoY, driven by increased income for service operators; and **consumption**, which improved by 3.8% YoY, primarily boosted by retail sales.

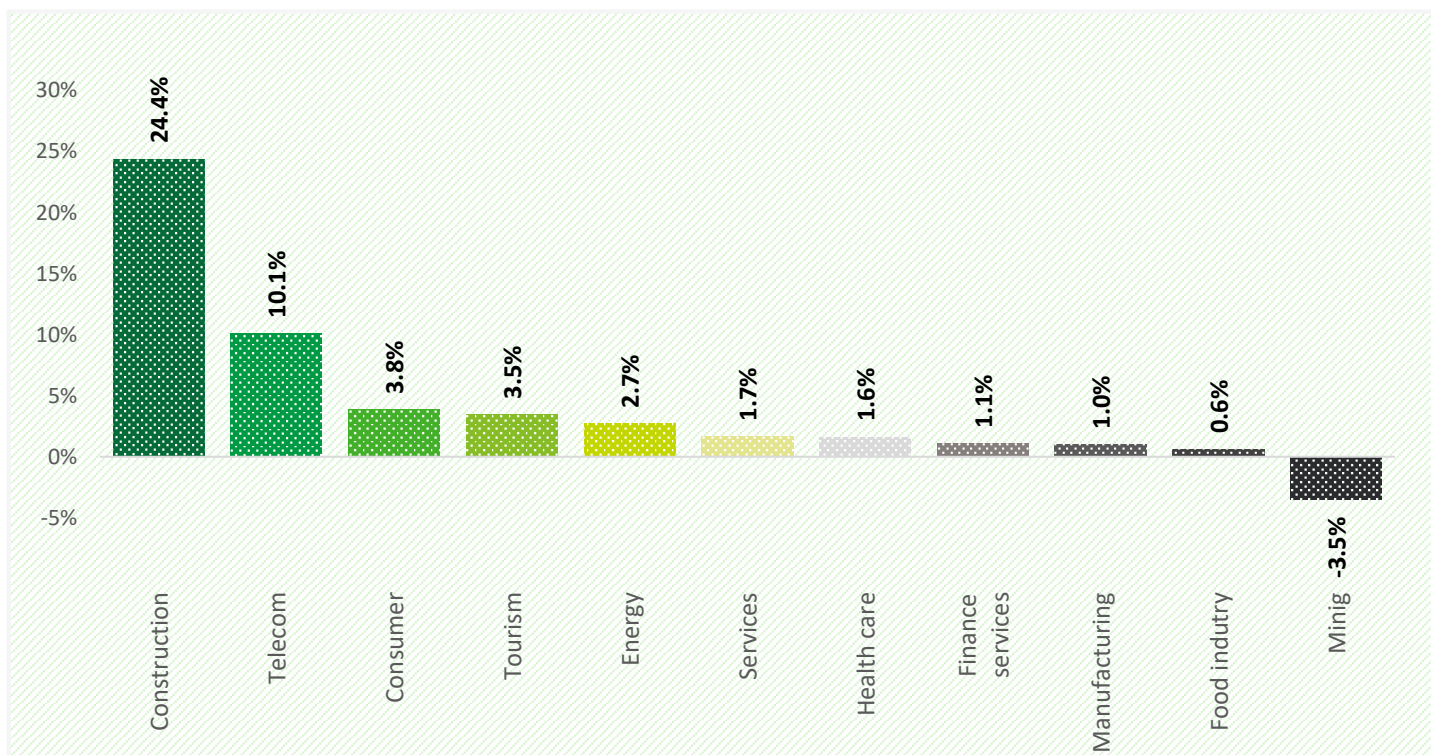
In contrast, the **manufacturing sector** continues to experience a slowdown in growth (1.0% YoY), and we project it to advance by 2.1% in 2023. For the following year, we expect continued progress due to nearshoring, although the deceleration in the U.S. may

impact exports.

The **food industry** progressed by 0.6% YoY in Q3, driven by strength in exports but negatively impacted by inflation and environmental factors such as droughts. The **mining industry** was the only one to retreat (3.5% YoY), experiencing a decline in production and a reduction in new projects due to uncertainty caused by mining reform.

Figure 9. GDP by industry, Q3 2023¹

Annual percentage change



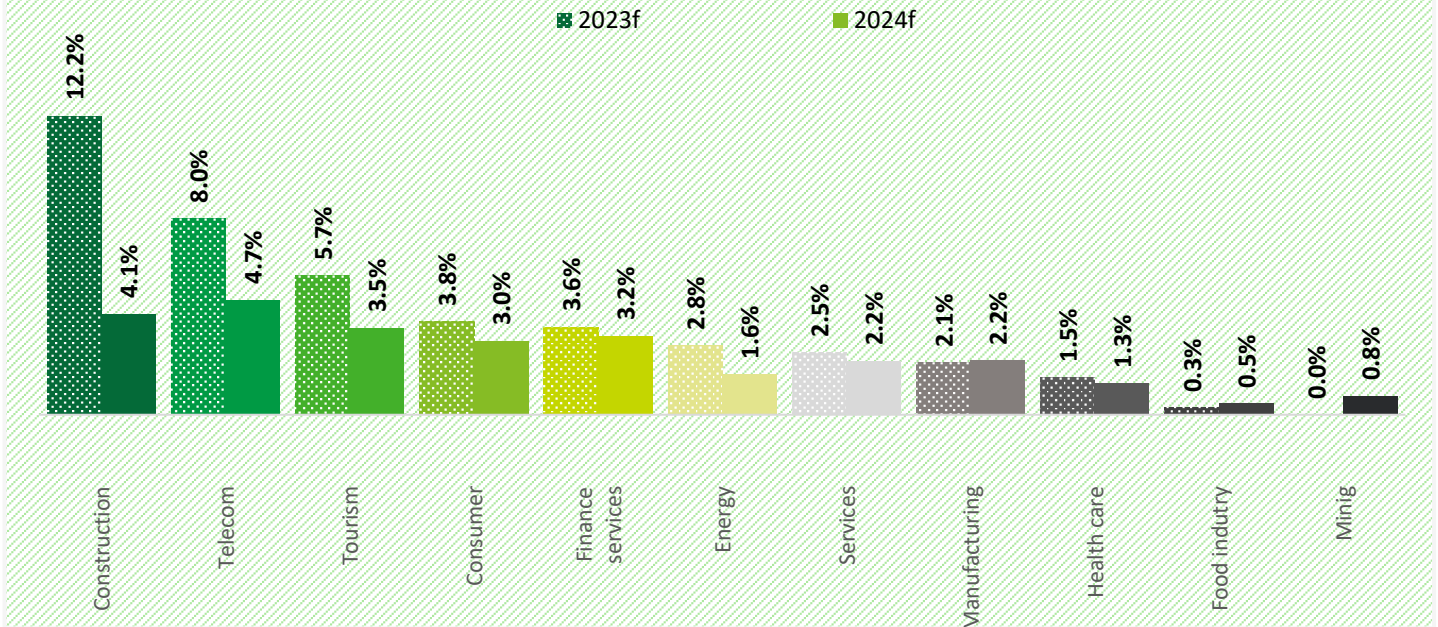
1. Due to the level of disaggregation employed in this report, non-seasonally adjusted series in constant values at 2018 prices should be used to measure the GDP variation of each industry. Please, refer to the [appendix](#) for the sector classification. | Source: INEGI.



Forecasts







Figure 10. Estimated output growth by industry in 2023 and 2024

Annual percent change



Source: Econosignal.

Opportunities and challenges for industries

Challenges	Opportunities
 <p>Mining Regulatory and legal certainty.</p>	 <p>Manufacturing Leveraging nearshoring opportunities.</p>
 <p>Food industry Controlling food inflation.</p>	 <p>Energy Refined oil products production and RE.</p>
 <p>Health care Expanding access to healthcare services.</p>	 <p>Construction Conclusion of flagship projects</p>

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

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Opinion of our lead partners

Food industry

"The growth outlook for the food industry in 2024 is positive, as it is anticipated that internal dynamics will be sustained due to government programs and investment projects, along with a strong performance in foreign trade. However, the industry is confronted by environmental challenges, climate change, high input costs, and insecurity. Therefore, additional investment is still required to enhance the quality and productivity of food production."



Salvador Sanchez

Master Program, IMOS and Agribusiness Industry Lead Partner

Financial services

"The Mexican financial system has demonstrated resilience despite uncertainty and the global conflicts in recent years, achieving record profits and substantial margins due to high-interest rates. The banking sector stands out, maintaining stable levels of capital, liquidity, and credit losses, allowing for strong profit margins in 2023. The beginning of 2024 may see reduced margins with the decrease in interest rates, making domestic consumption and nearshoring, crucial levers for continued growth. Challenges may arise in the second half, considering the potential decline in interest rates and exchange rate volatility, influenced by the outcome of U.S. elections and the price competition. Fintechs are introducing in deposit markets."



Gustavo Mendez

Financial Services Lead Partner

Energy

"In 2023, the energy sector faced several challenges. Hydrocarbon production fell short of expectations, as new projects failed to offset the decline in large oil wells. Complications in project bidding processes have also impeded the hydrocarbon exploration and production. Additionally, the debt level of PEMEX could restrict future investments by the state-owned company. Hence, the infrastructure for hydrocarbons and electric power and the incentive for nearshoring could potentially offer an opportunity to boost the sector."



Valeria Vazquez Maulen

Energy and Natural Resources Industry Lead Partner

Telecommunications

"Telecommunications have maintained a steady progress, even during the pandemic, thanks to the increase in the number of users and the expansion of infrastructure, such as optical fiber, 5G connectivity, among others. This year, the outlook remains positive, since there are still areas of opportunity that the sector can leverage as drivers for improving service quality and increasing coverage in remote areas. The government will play a significant role as a catalyst for competition."



Germán Ortiz

TMT Lead Partner (Technology, Media and Telecommunications)

Construction

"The numbers have shown us that the construction industry made significant progress in 2023, largely driven by public investment dedicated to the development of flagship government projects in Mexico. In this context, it is expected that these projects will be completed in the early months of this year, leading to a deceleration in the sector's growth in 2024. Therefore, the construction of industrial infrastructure resulting from nearshoring investments and other related projects will serve as the driving factors"



Manuel Nieblas

Industrial Products, Construction and Manufacturing Lead Partner



Consumer

"In 2023, retail companies faced moments of turbulence due to disruptions in the supply chain and climate changes that have impacted inflation. As a result, they have had to develop new action plans to make their processes more efficient, and prioritize social, environmental, and governance issues to adapt to changing consumer trends. It is through these best practices that the retail industry can continue to build trust and transparency, demonstrating an interest in consumer well-being."



Manuel Ostos
Consumption Industry
Lead Partner

Health care

"In the latest report on the health sector published by the OECD, it highlights various areas of opportunity within the public healthcare system in Mexico. These include low health investment, insufficient medication inventories, lack of planning, objectives, and monitoring of key indicators. The government's reform project aims to consolidate the operation of a unified healthcare system. The challenges are significant, and the upcoming months will be crucial in establishing the foundations for improving the healthcare sector."



Alexandro Arias
Life Sciences and Health care
Lead Partner

Tourism

"In 2023, the entry of international tourists to Mexico is expected to experience modest growth compared to 2022. This growth is primarily driven by the flows and expenditures of travelers arriving by air, as border tourism has struggled to recover from the 2020 decline. Additionally, sun and beach destinations show the best performance in attracting international tourism and foreign direct investment. However, the strength of the exchange rate poses a challenge for the industry, increasing costs in an environment of inflation and talent scarcity."



Claribel Sanchez
Hospitality Industry Lead Partner



Teresa Solis
Expert in the Tourism sector

Manufacturing

"In 2023, we experienced a deceleration in the manufacturing industry due to persistent inflation and disruptions from international conflicts. However, the outlook for 2024 is positive, as it is expected that Mexican exports will maintain leadership despite the slowdown in the U.S. economy and the strengthening of the Mexican peso. Additionally, investments from nearshoring are anticipated to continue flowing into the country. The challenges the sector currently faces include developing instruments and planning strategies that enable process improvement and logistics enhancement with greater visibility of suppliers. This is aimed at reducing risks in the supply chains."



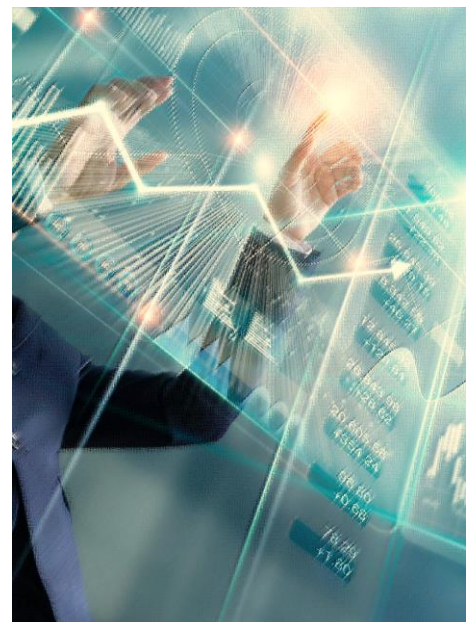
Manuel Nieblas
Industrial Products, Construction and
Manufacturing Lead Partner

Mining

"For the past couple of years, the mining sector has faced several challenges arising from the nationalization of lithium, the reform of the mining law that led to the delay of some projects last year, the moderate budget allocated to exploration, and the decline in metal prices. In 2024, it is anticipated that the growth of this industry will improve with the initiation of various projects in gold, silver, and zinc. However, better conditions of certainty and investment are still needed for the competitiveness of the mining sector to enhance."



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).



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



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184 ▶ **Industrial variables**



128 ▶ **State variables**

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econosignal@deloittemx.com





Contact us

Authors

Daniel Zaga
Chief Economist
Deloitte Spanish Latin America
dzaga@deloittemx.com

Alessandra Ortiz
Senior economist
Macroeconomic analyst
alesortiz@deloittemx.com


Dulce Gonzalez
Senior economist
Regional and industry analyst
dugonzalez@deloittemx.com

Cesar Alcala
Economist
Econometric analyst
calcala@deloittemx.com





Partners

Erick Calvillo
Growth lead partner
Deloitte Spanish Latin America
ecalvillo@deloittemx.com

Miguel Angel del Barrio
Growth lead partner
Marketplace Mexico Central America
Deloitte Spanish Latin America
midelbarrio@deloittemx.com



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