Scotiabank

GLOBAL ECONOMICS

LATAM INSIGHTS

December 18, 2024

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Mexican Economic Outlook: No End to Uncertainty in 2025

- **Section 1: Main Factors Determining Markets and the Economy in 2024**
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INTRODUCTION

Uncertainty has been the main factor influencing the development of the Mexican economy during 2024. This uncertainty, stemming from events such as the presidential elections in both Mexico and the United States, as well as constitutional reforms and the 2025 fiscal package, has determined the course of the economy over the past twelve months. This impact has been noticeable on several fronts, particularly in terms of consumption and investment. Despite this, we haven't yet experienced a contraction in these areas, we have observed slower growth in private consumption, due to the postponement of durable goods purchases (which went from a 23% y/y increase in April 2024 to 0.8% in September), even as remittances remain at peak levels, job creation continues (although it has moderated), and both the minimum and median wages present real gains. On the other hand, we have seen a decline in public investment (-14% y/y as of September 2024), as a result of the completion of the previous administration's flagship projects, while private investment has cooled (-1.8% y/y as of September 2024) due to greater uncertainty and volatility, as well as a monetary policy that remains very restrictive. All of this, despite external demand continuing to show strength. Therefore, we anticipate that conditions of uncertainty and volatility will persist during 2025, awaiting events such as President-elect Trump's return to the White House and the implementation of the 2025 economic package, among other factors.

Consequently, we will now present a summary of the main events that affected economic activity in Mexico in 2024, as well as a section where we will highlight the most important events that will shape the course of the coming year.

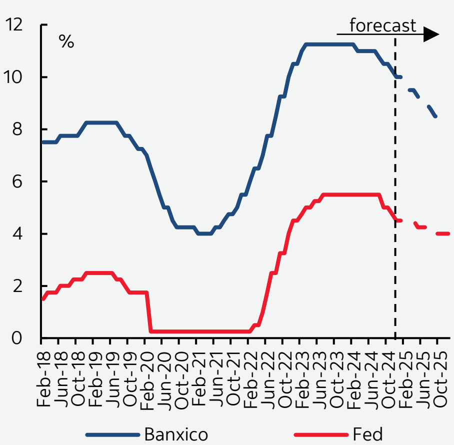
EVENTS THAT IMPACTED 2024

1. Banco de México (Banxico) Begins Monetary Policy Easing Cycle

After nearly twelve months of keeping the target interest rate unchanged, on March 21st, 2024, the Governing Board of Banco de México cut its target rate for the first time, from 11.25% to 11.0%, in line with market and analyst expectations (chart 1). However, it continuously revised the headline inflation expectation upwards throughout the year for the following quarters, anticipating that it would reach the target in 2025. This first cut was delivered in a context where inflation had dropped from 8.70% y/y at its peak in September 2022 to 4.40% y/y a year later. However, given an unexpected rebound in inflation to 5.57% in July (chart 2), the Board decided to pause the rate-cutting cycle until the meeting on August 8th, delivering consecutive cuts in the meetings of the second half of 2024.

Chart 1

Monetary Policy Rates: Banxico vs Fed



Sources: Scotiabank Economics, Banxico.

2. Sheinbaum vs. Xóchitl

The presidential campaign officially kicked off after nearly nine months of various stages of internal elections and pre-campaigns. March 1st marked the official start of the electoral race, and with it, we had the first official poll (in this case, from El Financiero), with the incumbent party candidate Claudia Sheinbaum starting with 50% of the vote intentions, the opposition candidate Xóchitl Gálvez with 33% support, the MC candidate Álvarez Máynez with 8%, and 9% were undecided voters. At that time, the polling trends showed that Sheinbaum remained stable in a range of 46–52%, Xóchitl had been slowly rising in approval from around 28% to 33%, Álvarez Máynez had remained stable in a range of 8–9%, and the undecided voters steadily decreased from around 18% to 9% (chart 3).

3. Sheinbaum Wins by a Landslide

The June 2nd elections were a turning point in investors' perception of uncertainty. Although, as mentioned earlier, President Claudia Sheinbaum was favoured from the start of the race (so her victory was not a surprise), the wide margin by which Morena and its allies won in Congress and state candidacies demonstrated the ruling party's broad popularity, driven in turn by the popularity of former President López Obrador, who ended his administration with around 70% voter approval. Thus, in addition to the victory in the presidential election, the ruling party (Morena) won seven of the nine governorships at stake, as well as the majority in Congress. Initially, the results pointed to a simple majority in both chambers by the ruling coalition; however, an interpretation of the electoral law regarding the allocation of proportional representation seats allowed the coalition to achieve an absolute majority (more than two-thirds) in the Chamber of Deputies (chart 4), and to be just one seat short of it in the Senate (chart 5). Nevertheless, as the legislative period progressed, Morena managed to convince some opposition members, achieving total control of Congress—a constitutional majority in both chambers.

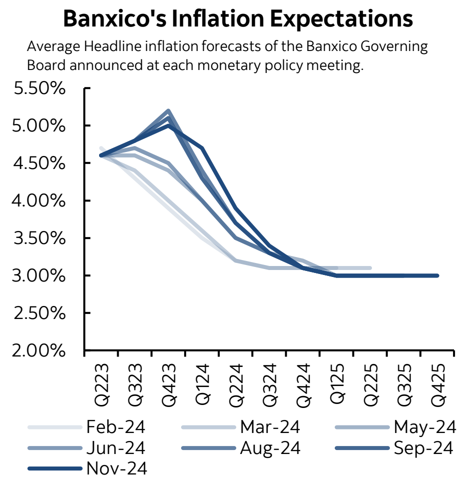
4. Bank of Japan and U.S. Non-Farm Payrolls Create Chaos in Financial Markets

On July 29th, the Bank of Japan (BoJ) surprised the market with an increase in its benchmark interest rates, which had been in negative territory since 2016, raising them in two meetings to 0.25%. This measure was accompanied by reductions in its asset purchase program, whose pace seemed unsustainable amid market pressures, to control inflation, which had reached between 2.8% and 3.0% (compared to the 2.0% target), with the intention of stabilizing the economy. These changes in Japan were contrasted by a significantly lower-than-expected reading in the U.S. non-farm payrolls, with 114,000 new jobs created in July (compared to the 175,000 expected), which led to a significant increase in fears of recession. Consequently, on Monday, August 5th, markets reacted negatively, seeking refuge in safer assets, creating a highly volatile environment in international financial markets. Japanese stock markets fell by up to -12.4%, bond yields rose, and the yen appreciated. Carry trade operations with the Japanese yen brought significant losses to institutions that had benefited from low interest rates and currency depreciation (chart 6).

5. Constitutional Reforms

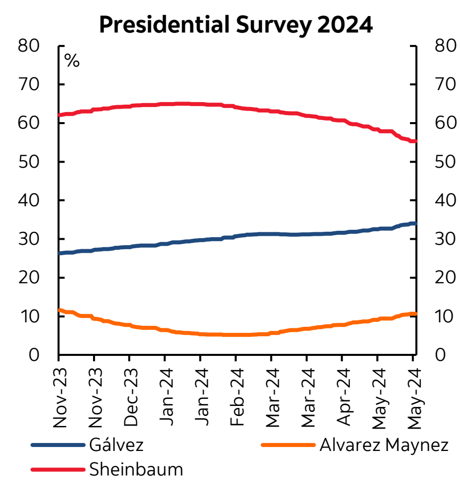
In February, then-President López Obrador announced a series of constitutional reforms with structural changes and significant repercussions for the business environment and Mexican competitiveness. Among these reforms, the following were especially relevant for investors: the pension reform was the first approved, ensuring a minimum pension equivalent to the average IMSS contribution salary, creating a Pension for Well-being fund; however, the sustainability of this fund remains unclear given

Chart 2



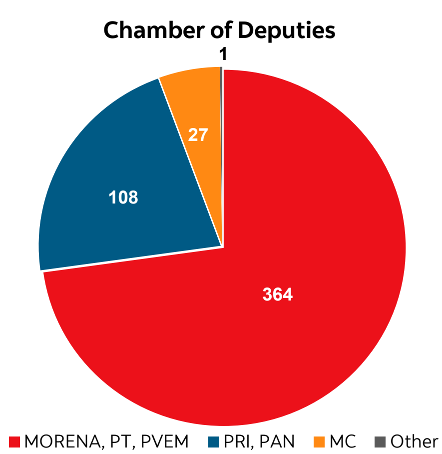
Sources: Scotiabank Economics, Banxico.

Chart 3



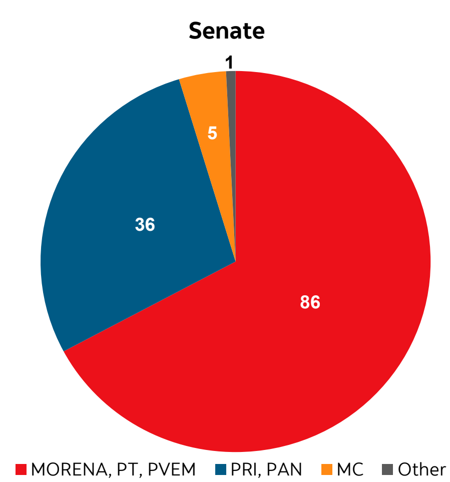
Sources: Scotiabank Economics, Bloomberg.

Chart 4



Sources: Scotiabank Economics, Chamber of Deputies.

Chart 5



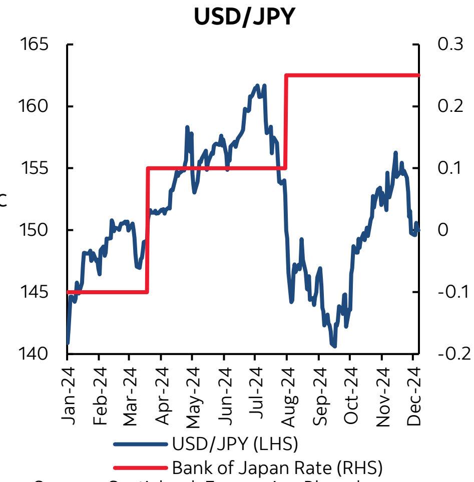
Sources: Scotiabank Economics, Senate.

aging population projections. Initially, the fund's resources would come from accounts inactive for more than five years of people of retirement age.

After the elections and with the ruling coalition's absolute majority in Congress, the approved reforms shifted investor sentiment regarding Mexico's competitiveness: the judicial reform, which subjects the positions of federal judges, magistrates, and ministers to elections; the reform that eliminates the possibility for judges to invalidate constitutional changes; the energy reform, which changed the status of PEMEX and CFE from state productive enterprises to public companies; the energy reform also reversed many elements that opened spaces for the private sector in the electricity sector; and the reform that eliminates autonomous institutions related to transparency, accountability, policy evaluation, and market regulation, whose functions will be absorbed by government ministries.

The elimination of several of these bodies could conflict with specific points of the USMCA that seek the independence of bodies related to regulation and market openness in the energy sector. Given the rapid approval of the reforms, it is unclear whether their implementation process in the first months of 2025 can proceed without setbacks and without generating uncertainty in the business environment of the economy.

Chart 6

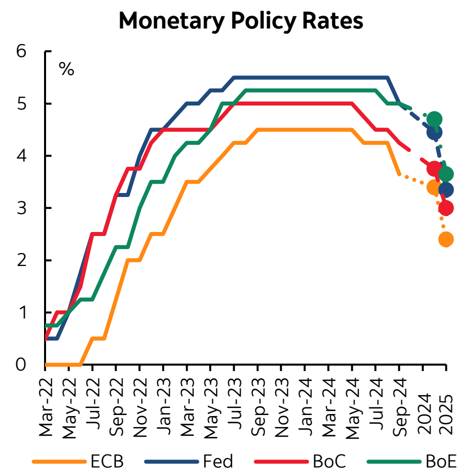


Sources: Scotiabank Economics, Bloomberg.

6. Fed Begins Rate-Cutting Cycle, Joins Other Developed Countries' Central Banks

On September 18th, the Federal Reserve decided to cut its target interest rate range by 50 basis points to 5%–4.75% due to signs of weakness in the labour market and a marked slowdown in inflation, which was approaching the 2% inflation target. This decision was surprising because, despite the weakening labour market and inflation, many analysts anticipated a smaller cut or no change at all. After this, the Federal Reserve decided to reduce the target interest rate range by only 25 basis points at the November meeting, in line with market expectations, given a strong labour market and inflation that remained stagnant around 2.5%. Central banks in advanced economies, such as Bank of England, the European Central Bank, and the Bank of Canada also started their cutting cycle in their benchmark interest rates (chart 7).

Chart 7



Sources: Scotiabank Economics, Bloomberg.

7. U.S. Elections

On Wednesday, November 6th, a day after the U.S. presidential election and earlier than anticipated, Donald Trump was declared the winner for the second time. The Republican candidate secured 277 electoral votes versus 224 for the Democratic candidate, Kamala Harris. A decisive part of Trump's victory was his win in the swing states of Pennsylvania, Georgia, and North Carolina. Additionally, the Republican Party took the Senate, obtaining a majority with 52 seats compared to the Democratic Party's 48 seats. In line with this, the Republican Party also gained control of the House of Representatives, securing a majority with 222 seats, while the Democratic Party obtained 213 seats. Although there appears to be no clear consensus among Republicans, it is expected that Trump will quickly push through his campaign promises, including corporate tax cuts, reductions in clean energy subsidies, the imposition of tariffs on imports, and the mass deportation of undocumented migrants, which could exert strong inflationary pressures (discussed here).

8. 2025 Economic Package

On Friday, November 15th, Secretary of Finance Rogelio Ramírez de la O delivered the 2025 Economic Package to the Chamber of Deputies. Notably, within the General Economic Policy Criteria, the projections related to economic growth are more optimistic than those of analysts, which calls into question the levels of revenue collection, Public Sector Financial Requirements in relation to GDP (3.9%), and the debt/GDP ratio (51.4%) for 2025 (table 1).

Table 1: Mexico—Macroeconomic Projections 2025

2025	CGPE	GPE pre-criteria	Scotiabank / market
GDP	(2.0 - 3.0)	(2.0 - 3.0)	1.0
Inflation	3.50	3.30	3.8
End of period exchange rate (MXN/USD)	18.50	18.00	21.3
End of period interest rate (CETES 28d)	8.00	7.00	8.09*
Price of the Mexican mix ($/b)	57.80	58.40	64.07**
Oil production (million barrels of oil)	1891.00	1877.00	1749***

Sources: SHCP; Scotiabank, Banxico, Bloomberg
* Estimated by Banxico
**Current price of the mix
***Figures as of September 2024
Data as of November 15

Government revenues expected in 2025 are estimated at 8,056 billion pesos, of which 1,142 billion pesos correspond to oil revenues and 6,914 billion pesos to tax revenues. Meanwhile, total net government expenditures expected in 2025 are set at 9,226 billion pesos, representing a real increase of 0.54% compared to the estimated amount in 2024. Among the expenditures, cuts in 21 of the 27 ministries stand out, particularly those related to security, health, and the environment, which are strategic areas that cannot be neglected (mentioned **here**) (charts 8 and 9).

9. Banco de México and Monetary Policy

As a result of the downward trend in core inflation, which fell below the headline trend starting in March 2024, Banxico began to lay the foundation to start the rate-cutting cycle. This cycle began in March, as mentioned earlier, but it was not until August 8th that the Governing Board, in a split decision, cut the target interest rate for the second time in 2024 by 25 basis points to 10.75%. On that occasion, Deputy Governors Irene Espinosa and Jonathan Heath voted to keep the target interest rate unchanged at 11.00%. When the Board opted for this cut, core inflation was already below headline inflation, and non-core inflation had reached its peak and was expected to decline (chart 10).

In line with better inflation prints and the Fed's surprising 50 basis point cut, on September 26th, the Governing Board decided, by majority, to cut the benchmark interest rate by 25 basis points to 10.50%. On this occasion, Jonathan Heath voted to keep the target rate unchanged at 10.75%, arguing that inflation expectations were not converging to the target, so it was necessary to maintain monetary conditions at that level. Afterwards, on November 14th, the Board unanimously decided to cut the benchmark interest rate by 25 basis points for the fourth time in 2024 and the third consecutive time, leaving the benchmark interest rate at 10.25%. On that occasion, the discussion focused on the fact that core inflation had decreased for almost two years. However, there was no consensus regarding the balance of risks going forward. Evidence of this was that two members of the Board mentioned that if the disinflationary process continued, this would open the door to increasing the magnitude of the cuts. Meanwhile, the rest of the board was more cautious about inflationary risks. Despite the minutes and the November inflation reading, which was below consensus, we expect Banxico to cut the target interest rate by 25 basis points at the last meeting of the year, bringing it to 10%.

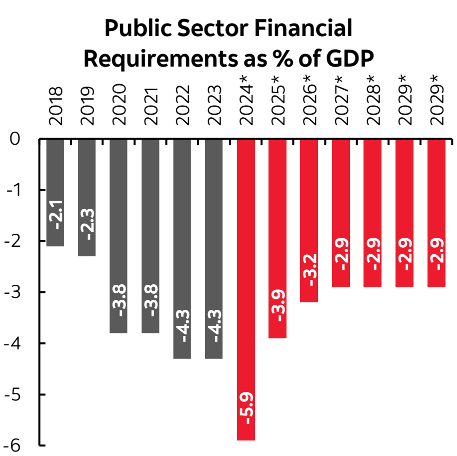
10. Which Sectors in Mexico Won and Which Lost (GDP)

So far in 2024, Mexico's GDP has lost momentum due to the significant uncertainty stemming from risk events, which, in most cases, materialized in some form, affecting a large percentage of economic sectors. Thus, GDP growth slowed from 3.2% in 2023 to an expected 1.4% for the whole of 2024, although some volatility has been observed throughout the quarters, from 1.45% year-on-year in Q1-2024 to 2.25% y/y in Q2-2024, settling at 1.65% y/y in Q3-2024. Below is a description of the dynamics of the main economic sectors:

Agricultural

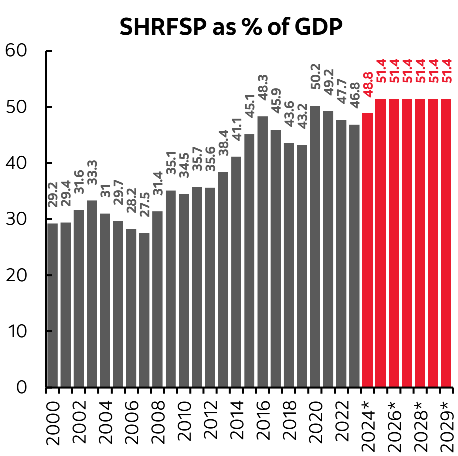
The agricultural sector experienced significant declines during the first and second quarters, with annual decreases of -5.0% and -3.4%, respectively. This was mainly due to a weakening in agriculture and services related to the agricultural and forestry sectors. This sector was affected by adverse climatic phenomena during the first half of the year, including droughts and floods in different parts of the country. However, in the third quarter, the sector showed a notable recovery of 4.1% annually, leading to an upward revision in the total growth for the period.

Chart 8



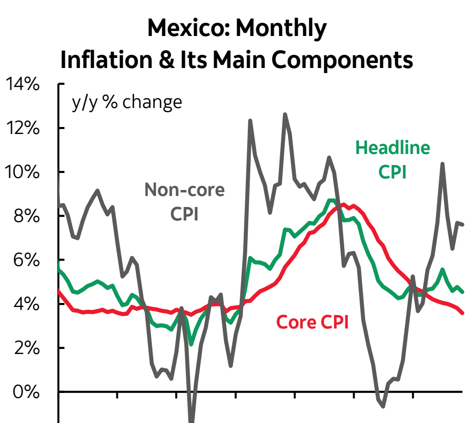
Years after 2023 representing SHCP estimates.
Sources: Scotiabank Economics, SHCP.

Chart 9



Years after 2023 representing SHCP estimates.
Sources: Scotiabank Economics, SHCP.

Chart 10



Sources: Scotiabank Economics, INEGI.

Industrial

The industrial sector showed a notable slowdown compared to the previous year, registering only 1.0% y/y growth in 2024 (vs. 3.4% in 2023). This sector was affected by the decline in investment in machinery and equipment, as well as in construction. Specifically, mining recorded its fifth consecutive quarter of declines, averaging a -3.9% YTD drop in 2024, due to reduced oil and gas extraction, with an average decline of -5.3% so far this year. Meanwhile, public utilities maintained good growth, averaging 2.0% YTD in 2024, although they face significant challenges, being far from the peak seen in 2019 and not fully recovering from the pandemic setbacks.

Construction started the year strong, showing growth in the first and second quarters of 9.9% and 9.0% annually, respectively, driven by flagship projects of the López Obrador administration. However, as these projects were completed, a slowdown to 0.6% y/y was observed in the third quarter. Building construction grew by 8.3% in the first nine months of the year, civil engineering works by 7.5%, and specialized works by 0.9%. On the other hand, the manufacturing industry remained weak throughout the year, a phenomenon that had already been occurring since 2023, albeit with some subsectors with positive numbers. This was partly explained by Banxico's restrictive monetary policy, which raised financing costs, as well as lowered investments related to increased uncertainty from political events that could change the business climate in Mexico. So far in 2024, this industry registered growth of only 0.3% YTD (vs. 1.3% in 2023).

Services

The services sector was the main driver of the Mexican economy during the year, with growth of 2.4% YTD so far this year (vs. 3.4% annually in 2023), despite the marked economic slowdown. Notable increases were seen in professional, scientific, and technical services, which grew by 16.6% YTD in the first nine months of the year, followed by transportation at 4.0%, financial and insurance services at 3.8%, and to a lesser extent, wholesale trade at 2.4% and retail trade at 2.2%. The worst performing sectors were business support services, with a decline of -5.5%, corporate services at -2.3%, and hospitality at -1.7%, among others. This sector is expected to keep leading the GDP numbers considering lower economic activity in 2025.

11. Financial Markets

Interest Rates

This year, we experienced a reference change concerning the TIIE curves, transitioning from the 28-day TIIE to the TIIE funding rate. Besides the new market reference rate, we observed a significant steepening of the curve due to changes in inflation scenarios, growth, and Banxico's rate cut cycle, as well as the influence of the Fed's changing outlook. Comparing the curve from the end of 2023 with the latest available information, short-term rates up to six months decreased by an average of 132 basis points, to levels between 10.15% and 9.85%. Meanwhile, rates between three and ten years fluctuated between -6 and 110 basis points, with shorter-term rates showing declines and longer-term rates showing increases. Finally, rates for ten years and longer increased by an average of 121 basis points, reflecting higher country risk premium (table 2).

Table 2: Mexico—Main Financial Variables

Instrument	Dec 2023	Dec 2024	Change
Banxico	11.25	10.25	-100.0
TIIE Funding	11.45	10.15	-130.0
TIIE 28	11.50	10.44	-106.4
TIIE 91	11.48	10.13	-135.0
TIIE 182	11.42	9.85	-157.3
M Bond 3Y	9.53	9.47	-6.1
M Bond 5Y	9.06	9.82	75.7
M Bond 10Y	8.94	10.04	110.2
M Bond 30Y	9.06	10.38	132.0
USD/MXN	16.97	20.19	3.2
S&P IPC	57386.25	51348.80	-6037.5

Change in basis points; USD/MXN change in pesos
** Data as of 06/12/2024
Sources: Scotiabank Economics, Banxico, Bloomberg, Valmer.

Exchange Rate

During 2024, the Mexican peso experienced high volatility, affected by significant changes in economic, financial, and political outlooks. At the beginning of the year, the Mexican peso was strong and appreciating, reaching up to $16.30 USDMXN in April. This appreciation affected the export sector and remittances, although it benefited the acquisition of imported goods. Mid-year, the USDMXN began to show greater volatility, partly due to changes in the outlooks of both the Federal Reserve and Banco de México, as well as the presidential election in Mexico. In June, the exchange rate reached $18.97, along with a notable increase in the implied volatility of peso options, mainly owing to the expectation of structural reforms by the new administration. Despite this, the peso appreciated in the following weeks. Towards the end of the year, Donald Trump's victory stood out, although it seemed that the market had already priced in this event a few weeks before the election. There was no significant increase in the value of the peso, beyond the initial reaction of a rise to $20.80, which then stabilized above $20.00.

Stock Markets

During 2024, the Mexican stock market, measured by the S&P/BMV IPC index of the Mexican Stock Exchange, showed a downward trend. At the beginning of the year, it was at stable levels, after this index registered an 18.4% increase in 2023, supported by robust economic activity, with GDP growth of 3.3% annually. At that time, the index was up to 59,000 points. During April and May, the index recovered, although with volatility, and by mid-year, a downward trend started, reaching 51,500 points, affected by policy changes in Mexico and lower economic activity. By the end of the year, the index had fallen by -9.5% YTD. On the one hand, the most benefited sectors were basic consumption, materials, and industry, while the worst-performing sectors were finance, communication services, and health. Leading the gains were GENOMMA LAB (+92% YTD), Peñoles (+36%), Grupo Aeroportuario del Pacífico (+34%), and Chedraui (+34%). On the downside, notable declines included Orbia (-51% YTD), Grupo Carso (-36%), and Bimbo (-31%), among others.

2025: WHAT EVENTS WILL SHAPE THE COURSE?

Mexico's economy clearly slowed down in 2024 as both local and external risks emerged and materialized. These headwinds weakened GDP growth, and the Central Bank's restrictive stance combined with political uncertainty to dampen momentum. From an expansion of over 3% in 2023, Mexico is on track to grow at about half that rate in 2024, and there is not much optimism looking ahead to 2025 (table 3).

Table 3: Mexico—Annual Forecast

	2021	2022	2023	2024f	2025f	2026f
GDP	6.05	3.71	3.3	1.45	0.8	1.79
CPI (eop)	7.36	7.82	4.7	4.58	4.0	3.70
Banxico	5.50	10.50	11.3	10.00	8.5	8.00
USD/MXN	20.53	19.50	17.0	20.50	21.3	21.50
Unemployment rate	4.14	3.27	2.8	2.77	3.4	3.72
CPI (average)	5.68	7.89	5.6	4.76	4.0	3.80

Sources: Scotiabank Economics, Banxico, INEGI and Bloomberg

2024 was a year full of events in Mexico that increased both uncertainty and volatility, slowing down the economy. The economy has lost the driving force of former President López Obrador's flagship infrastructure projects, and although private investment may have strengthened in 2024 as central bank rate cuts continued, the election of Donald Trump in the U.S. impacted business sentiment. Besides this, the presidential election, a series of constitutional reforms, including massive changes to the judicial system and oversight bodies, among others, also affected confidence.

After a turbulent year with elections in Mexico and the U.S. that caused a nearly 20% depreciation in the USDMXN, the new year looks similar in terms of events that will keep uncertainty and volatility high, starting with the inauguration of U.S. President Donald Trump on January 20th and the measures he will take on trade and immigration. All these fronts are relevant to the Mexican economy and markets. Deportations and immigration policy, if enacted, should impact inflation and labour dynamics on both sides of the border, and later, potentially remittances. Internally, with weaker job creation and consumption, likely lower support from remittances, and a relatively cash-strapped government, among other negative aspects, Mexico's economy could grow less than 1% in 2025. If this weak growth rate materializes, it would mark the weakest GDP expansion in the country since virtually zero growth in 2002; in other words, it will only be better than the contractions of 2009, 2019, and 2020 over the past two decades.

Monetary and Fiscal Policy

The depressed growth is a strong justification for Banxico to continue the monetary policy easing cycle. However, a series of external and domestic risks and persistently high inflation, which remains stubbornly above the 3% target, suggest that there may not be much more room for Banxico to cut rates to a level clearly favourable to growth. We believe that from an expected rate of 10.00% at the end of 2024, Banxico will continue the easing policy during 2025, but the 150 basis points in cuts we project for Banxico by the end of 2025 to 8.50% would still leave the real policy rate around a restrictive 4.5%.

In the fiscal realm, the impact of the Mexican economy could manifest in at least two areas: 1) lower-than-expected growth could lead to lower public revenues than the program owing to a relatively modest tax collection, resulting in a larger-than-expected deficit; 2) wider deficits in the U.S. should be reflected in higher U.S. yields, and typically, with a positive relationship between U.S. and Mexican interest rates greater than one, a 100 basis point increase in U.S. Treasury Bonds could drive up Mexican bond rates, and consequently, affect the dynamics of public debt. Therefore, it will be important to pay attention to rumours about the need for a fiscal reform in 2026.

Nearshoring and Its Limitations

Mexico's experience with nearshoring has been uneven. Although the country has consolidated its position as the main trading partner of the U.S., with just over 15% of U.S. imports in recent months, investment, and performance within Mexico by region have been very disparate. The always dynamic Northern and Bajío regions have continued to thrive, while performance in the rest of the country has been uneven and poor in some regions. Among the challenges for the country to capitalize on nearshoring investment opportunities more fully are some bottlenecks and uneven costs.

In the energy sector, we will receive very important signals at the beginning of the summer when the government announces its plans for the electricity sector and details on the opportunities and structures that the private sector will have. Following the reversal of the 2013 energy reform last fall, the key now will be how the government plans to structure Public-Private Partnerships (PPPs) in a way that private actors find attractive enough to participate. As we have pointed out in the past, Mexico now has the lowest available energy generation capacity since the 1980s, and transmission capacity is also very limited.

In the area of security, according to the recent IMF Article IV (page 17), the costs of insecurity in Mexico represent almost 9% of companies' sales, so this issue could increasingly become an obstacle to investment.

USMCA and Tariffs

If implemented, Trump's tariffs would undoubtedly impact the Mexican peso and potentially drive-up domestic inflation while reducing Mexico's competitiveness. The application of widespread tariffs would have a greater impact on the peso, while sector-specific tariffs could be more disruptive to the economy, as they would be harder to fully absorb by the peso. Deportations and immigration policy should impact inflation and labour dynamics on both sides of the border, and later, potentially affect remittances.

As of September 2024, the year-to-date total of U.S. imports from Mexico reached $378.9 billion, representing 15.7% of all U.S. imports. This ranks Mexico as its main trading partner, surpassing Canada, and China. Given President-elect Donald Trump's recent statements about imposing tariffs, it is important to note that the most affected sector would be vehicles and auto parts. This sector has accumulated $102.5 billion this year, representing 35.4% of U.S. imports in this category and 27.1% of Mexico's total exports to the U.S. Therefore, it is a key sector sensitive to any changes in trade conditions. Other sectors that could also be significantly affected include machinery, medical equipment, manufacturing, food, and beverages, among others. These sectors have considerable Mexican participation that could be impacted by the imposition of tariffs.

The USMCA was signed in 2018 under Trump's administration, replacing NAFTA, and establishing stricter guidelines on the percentage of regional content in manufactured products traded in the region. Since then, U.S. efforts to reduce its exposure to Chinese products have intensified, fostering an expectation that Mexico could take advantage of these tensions to increase its share of U.S. imports, leading to optimism about nearshoring. However, the new agreement includes a review clause every six years from its inception, i.e., in July 2026. In this context, securing a consensus to extend the agreement's term will be a priority for the Mexican government. A key challenge will be aligning incentives for the three countries to maintain the treaty trilaterally so that Mexico and Canada increase their participation as U.S. importers. Particularly, with the incoming President Trump's strategy of linking trade policy with migration and security policy between Mexico and the United States, the agreement Mexico reaches on a strategy encompassing all three issues and convincing its counterparts of the benefits of greater integration through the USMCA will be relevant. Although the agreement review will take place in 2026, the uncertainty generated by Trump's protectionist policy could have a negative effect on exports and investment from the early months of 2025 (table 4).

Table 4: Mexico—Top 20 US Imports from Mexico January-September 2024

Sectors	Total Amount	% Share in US imports	% Share in Mexico's exports
All sectors	378.9	15.7	100.0
87 Vehicles, Except Railway Or Tramway, And Parts Etc	102.5	35.4	27.1
84 Nuclear Reactors, Boilers, Machinery Etc.; Parts	77.3	20.0	20.4
85 Electric Machinery Etc; Sound Equip; Tv Equip; Pts	65.3	18.8	17.2
90 Optic, Photo Etc, Medic Or Surgical Instrments Etc	17.3	19.0	4.6
27 Mineral Fuel, Oil Etc.; Bitumin Subst; Mineral Wax	12.6	6.8	3.3
22 Beverages, Spirits And Vinegar	9.9	42.0	2.6
94 Furnit;bedding,mattres;luminaires,light Fix;prefab	9.7	19.4	2.6
08 Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	8.2	46.0	2.2
07 Edible Vegetables & Certain Roots & Tubers	7.5	63.8	2.0
98 Special Classification Provisions, Nesoi	6.8	8.9	1.8
39 Plastics And Articles Thereof	6.1	11.1	1.6
73 Articles Of Iron Or Steel	5.5	14.8	1.5
71 Nat Etc Pearls, Prec Etc Stones, Pr Met Etc; Coin	4.1	7.5	1.1
40 Rubber And Articles Thereof	3.5	13.8	0.9
72 Iron And Steel	2.4	10.0	0.6
19 Prep Cereal, Flour, Starch Or Milk; Bakers Wares	2.2	19.3	0.6
83 Miscellaneous Articles Of Base Metal	2.2	18.7	0.6
99 Special Import Provisions, Nesoi	2.1	11.7	0.6
20 Prep Vegetables, Fruit, Nuts Or Other Plant Parts	1.8	16.8	0.5
02 Meat And Edible Meat Offal	1.5	14.3	0.4
Others	30.2	-	8.0

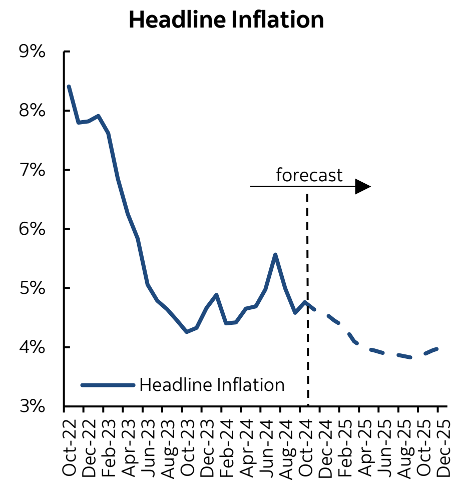
* Data in billions of dollars
** Each sector includes its code
Sources: Scotiabank Economics, US Census Bureau.

Additionally, although the review/ update of the USMCA is not scheduled until 2026, President Trump's trade agenda will keep updating the North American trade framework as a priority issue for all types of investors. Arguments that Mexico serves as a backdoor for China into the U.S. market will likely remain a recurring theme, which could keep uncertainty high. The data on this front is very difficult to interpret, as official numbers suggests that Chinese investment in Mexico remains quite low, but Mexico's imports from China are rapidly increasing. The Mexican government's decision regarding U.S./China trade tensions (taking sides or remaining neutral) should be a key element in determining Mexico's role in strategic supply chains in North America, particularly in sectors related to "national security". Additionally, since Trump coupled migration and combating fentanyl trafficking to trade negotiations, any progress in Mexico on security issues could be interpreted as a positive effort to improve state-to-state relations.

In the second half of the year, it will be important to pay attention to the government's economic package for 2026, especially due to growing speculation about the necessity for fiscal reform in 2026. In recent weeks and months, there have been reports of various forms of taxes that could impact financial markets, including mining taxes, bank profit taxes, and different forms of asset and inheritance taxes.

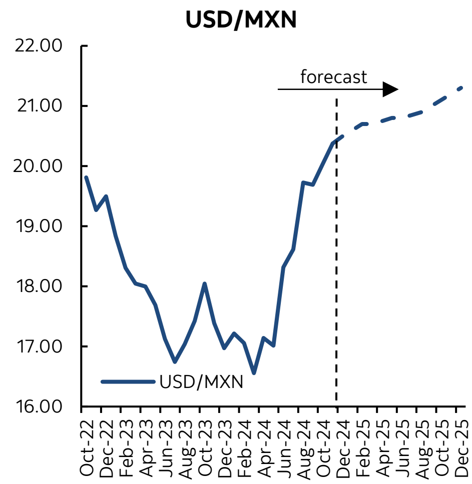
Considering all the risk factors for the coming year, we anticipate that the economic slowdown will continue, with expected growth in 2025 of 0.8%, below the 1.4% of 2024. We also forecast that inflationary pressures will remain around 4%, above Banxico's 3% target, which means the Central Bank will not have much room to continue its rate-cutting cycle despite the strong economic slowdown. In this regard, it is also important to note that we anticipate a decoupling of monetary policies between the U.S. and Mexico, which could significantly impact the exchange rate if their benchmark interest rate spread between these two countries falls below 500 basis points. Finally, we anticipate that the exchange rate will continue to lose ground against the dollar, with an expected year-end rate of 21.30 pesos per dollar (charts 11–14).

Chart 11



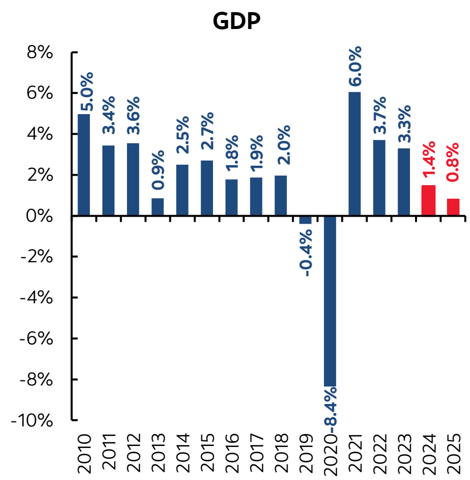
Sources: Scotiabank Economics, INEGI.

Chart 12



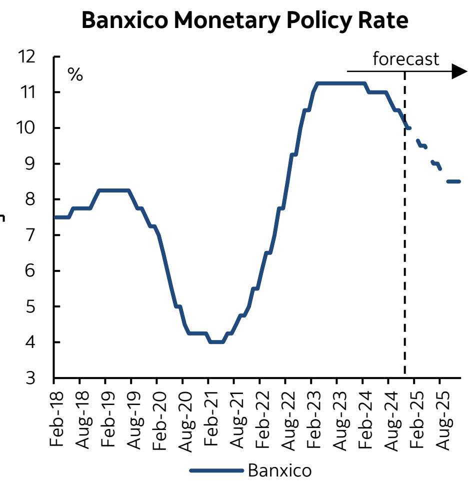
Sources: Scotiabank Economics, INEGI.

Chart 13



Sources: Scotiabank Economics, INEGI.

Chart 14



Sources: Scotiabank Economics, INEGI.