Mexico

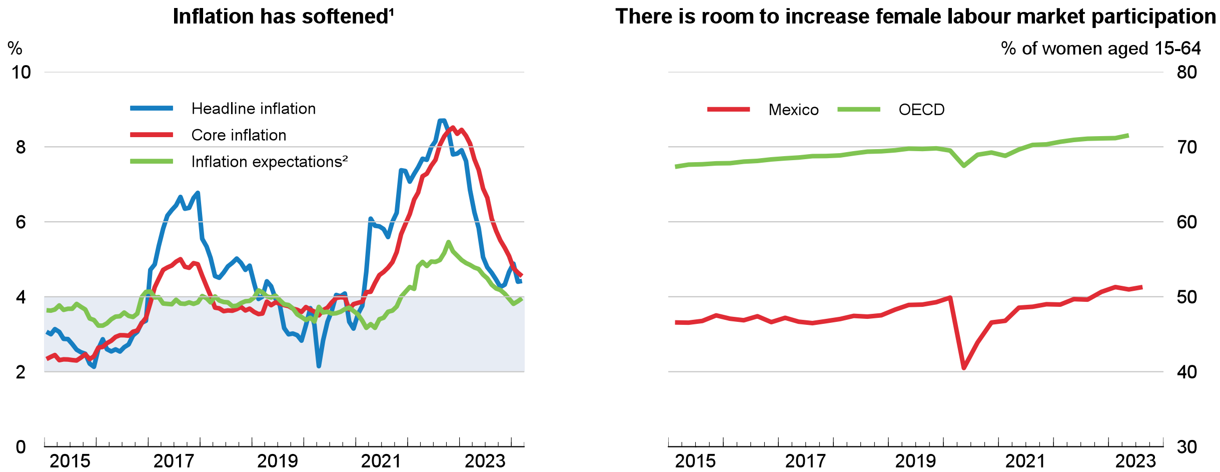
The economy is projected to expand by 2.2% in 2024 and 2.0% in 2025. Consumption will be supported by a strong labour market. Investment will be backed by public infrastructure projects in 2024 and by the gradual nearshoring of manufacturing activities to Mexico. Exports will support growth in 2025, after losing some dynamism in 2024 due to the slowdown in United States. Inflation will continue to gradually edge down to 3.1% in 2025.

Monetary policy should gradually ease but remain restrictive to ensure that inflation decreases durably towards its target. Adopting a multi-year fiscal plan would help to maintain fiscal prudence and create fiscal space to increase productivity-enhancing spending. A comprehensive early childhood education and care system and expanding elderly formal care service would facilitate the participation of women in the labour market.

Domestic demand is resilient

Short-term indicators show consumption remaining robust, particularly in services. Industrial output has recovered after some weakness at end 2023. Non-residential construction has remained strong and manufacturing has rebounded, but activity in mining and utility industries continues to decline. Industrial parks in states close to the border with the United States are nearly at full capacity, and warehouse rental prices and construction of additional industrial spaces are increasing. Headline inflation has declined, reaching 4.4% (year-on-year) in March, with core inflation at 4.6%. Inflationary pressures remain particularly strong in services, reaching 5.4% in March.

Mexico



1. The shaded area represents the central bank's inflation target range.
2. Private sector inflation expectations for the next 12 months.
Source: Bank of Mexico; and OECD Short-term Labour statistics.

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Mexico: Demand, output and prices

Mexico	2020	2021	2022	2023	2024	2025
	Current prices MXN billion	Percentage changes, volume (2018 prices)				
GDP at market prices	24 081.8	5.7	3.9	3.2	2.2	2.0
Private consumption	15 920.6	8.1	5.2	4.3	2.9	2.5
Government consumption	2 937.8	-0.5	1.2	2.1	6.2	1.4
Gross fixed capital formation	4 835.1	9.7	7.7	19.5	5.6	3.2
Final domestic demand	23 693.5	7.4	5.3	7.3	3.8	2.5
Stockbuilding[1]	- 1.0	0.2	-0.1	0.0	0.0	0.0
Total domestic demand	23 692.5	7.6	5.2	7.0	3.7	2.5
Exports of goods and services	9 450.5	7.2	8.7	-6.9	-0.7	4.4
Imports of goods and services	9 061.2	15.0	8.3	5.7	2.5	5.6
Net exports[1]	389.3	-3.0	0.0	-5.5	-1.4	-0.9
Memorandum items						
GDP deflator	_	4.5	6.4	4.5	4.3	2.6
Consumer price index	_	5.7	7.9	5.5	4.5	3.1
Core inflation index[2]	_	4.7	7.6	6.7	4.3	3.1
Unemployment rate[3] (% of labour force)	_	4.1	3.3	2.8	2.9	3.0
Current account balance (% of GDP)	_	-0.5	-1.4	-0.3	-0.2	-0.3

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.

3. Based on National Employment Survey.

Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/b1gvlz

The labour market is strong, with unemployment historically low (2.5% in February). Formal job creation continues to increase, albeit at a slower pace than in 2023, and the informality rate, at 55%, has slightly fallen. There is no information about job vacancies in Mexico, but recent assessments suggest that the labour market is tight, and firms report difficulties finding and retaining workers with the appropriate skills. Female labour market participation has increased but it remains significantly lower than in regional peers and other OECD countries. Domestic and care responsibilities fall disproportionally on Mexican women, hampering their prospects to complete education or be in the labour force.

Monetary policy easing should be gradual and the fiscal deficit is set to be reduced

The central bank has started to decrease interest rates, leaving the rate at 11.0%. With headline inflation still above the upper band of the target range and services inflation proving particularly persistent, monetary policy should remain restrictive, and further cuts in interest rates should be gradual and depending on data outturns. The policy rate is assumed to be gradually reduced to 7.50% by the end of 2025. The public sector targets a fiscal deficit of 5% in 2024, as budget allocations for social spending, mainly universal non-contributory pensions, and flagship infrastructure projects in the South have significantly increased, and borrowing costs have risen. The public deficit is planned to fall to 2.5% in 2025, mainly due to a reduction in public investment, partly linked with the end of some of the infrastructure projects in the south. This implies some tightening of the fiscal stance in 2025. The net public debt-to-GDP ratio is expected to remain at around 50% of GDP at the end of 2025.

Growth will moderate

The economy is projected to expand by 2.2% this year and 2.0% in 2025. Private consumption will be a key growth driver, supported by low unemployment and increasing real household incomes. Private investment will gradually benefit from the relocation of manufacturing activity to Mexico. Exports will continue to benefit from deep integration in manufacturing value chains. Annual headline and core inflation will continue to gradually slow and are projected to return to the 3% target by the third quarter of 2025. However, the inflation outlook remains very uncertain. Inflation may be more persistent than anticipated, particularly in services. Episodes of global financial turmoil may trigger greater risk aversion and increase foreign exchange market volatility and financing costs. On the upside, manufacturing may rebound more strongly if production in industrial parks under construction starts earlier than anticipated.

Boosting productivity and fighting and adapting to climate change are priorities

Efficiency gains in public spending, by making a more systematic use of cost-benefit analysis and means testing, and increasing tax revenues, by broadening the personal income tax base, fostering immovable property tax collection and continuing to fight tax evasion, would help to finance additional spending in areas such as education, digital infrastructure or the fight against climate change. Adopting regulations that promote private sector investment in renewables would help to convert Mexico's large renewables potential into a competitive advantage. Improving water management, by reducing operational risks and costs and promoting environmental sustainability, would make Mexico an even more appealing destination for nearshoring.