



March 29, 2026

Dr. José Gabriel Cuadra García, Deputy Governor of Banco de México *

Macroeconomic Outlook for Mexico

**The opinions expressed are the responsibility of the author and do not necessarily represent the institutional position of Banco de México*

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Índice

1

Economic Activity

a) Current macroeconomic outlook

b) Long-term prospects

2

Inflation Outlook

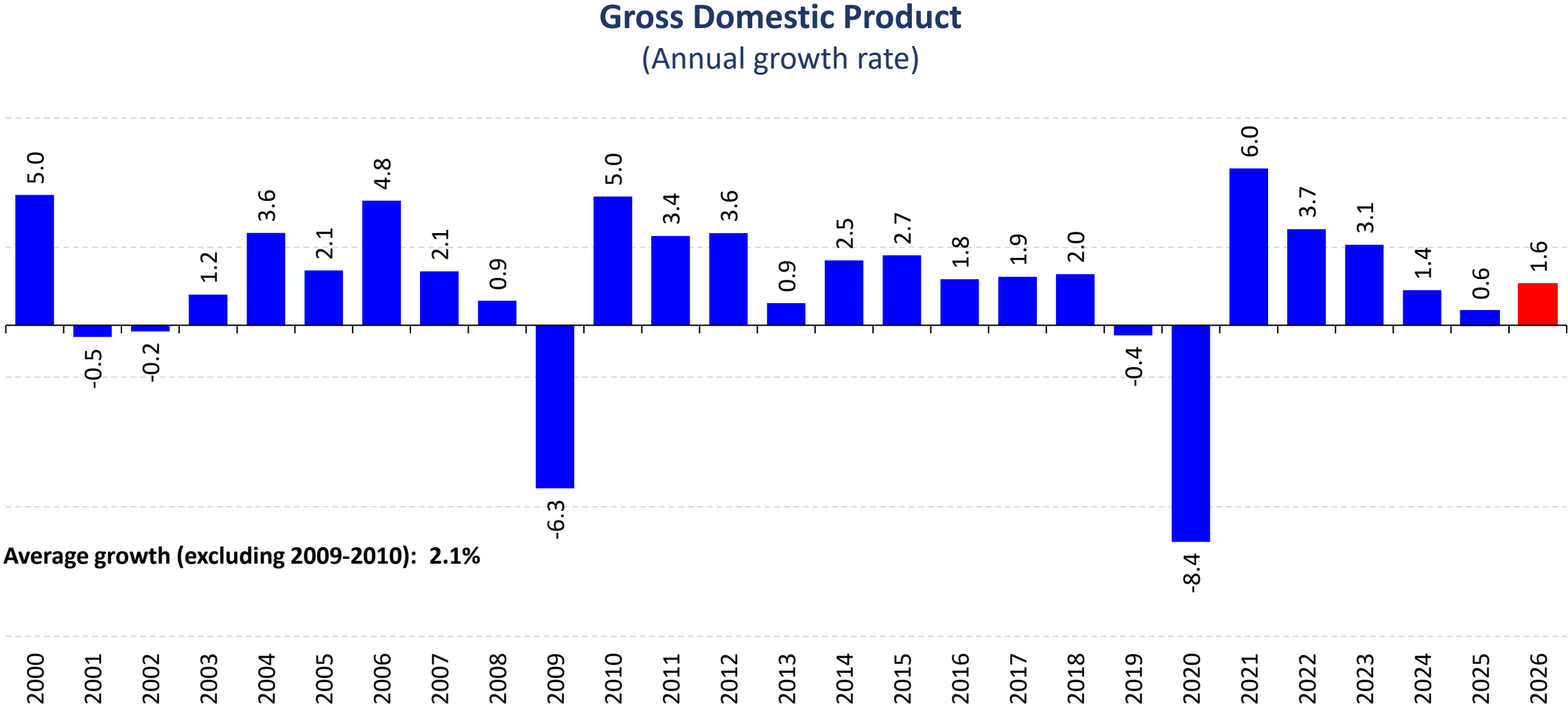
3

Recent geopolitical developments

4

Long-Term inflation expectations

Economic activity, a key driver of services inflation, has moderated

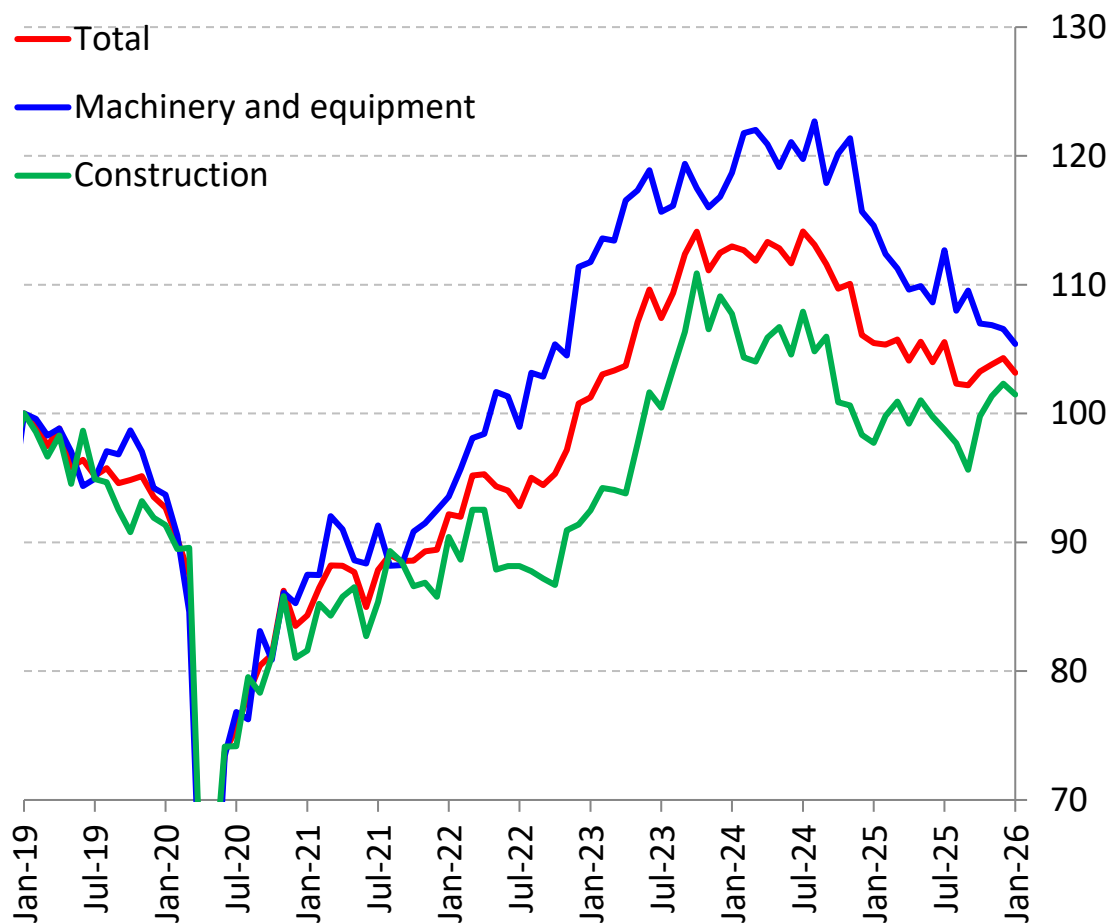


Note: Non-seasonally adjusted data. Values for 2025 and 2026 represent Banco de México’s point estimates, as presented in the October-December 2025 Quarterly Report.
Source: INEGI and Banco de México.

Uncertainty has weighed on investment

Investment and its components

(Index Jan. 2019=100, s.a.)

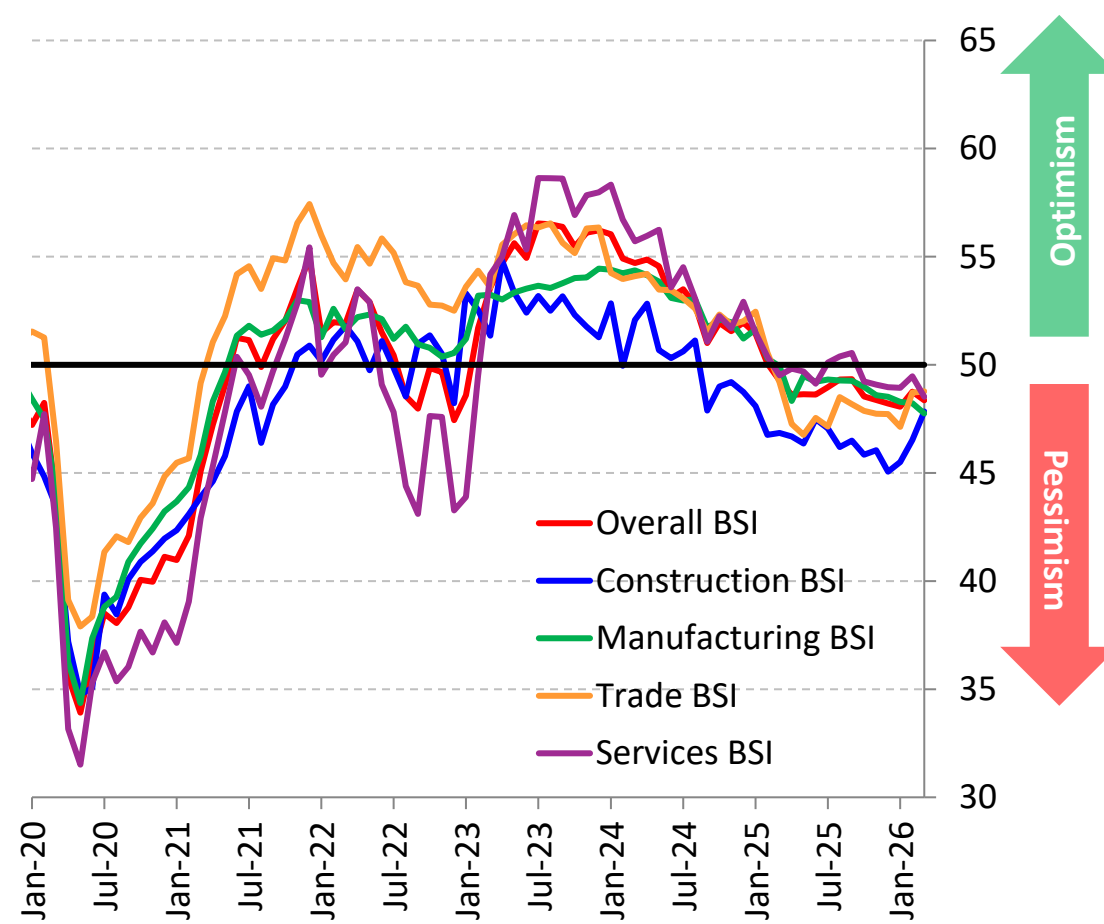


Note: s.a. denotes seasonally adjusted data.

Source: INEGI.

Business Confidence Indices

(Diffusion indices, 50-point threshold, s.a.)



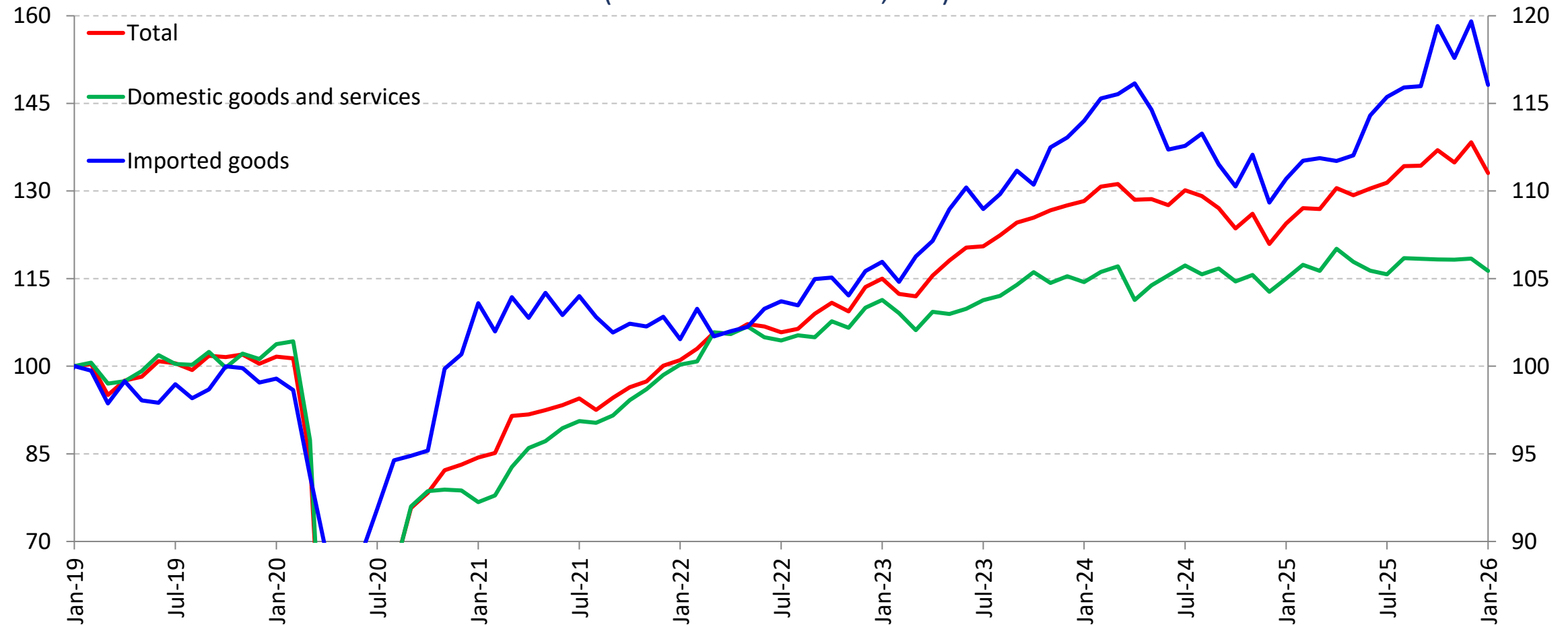
Note: s.a. denotes seasonally adjusted data.

Source: INEGI.

Domestic consumption of goods and services has remained stagnant

Consumption and its components

(Index Jan. 2019=100, s.a.)

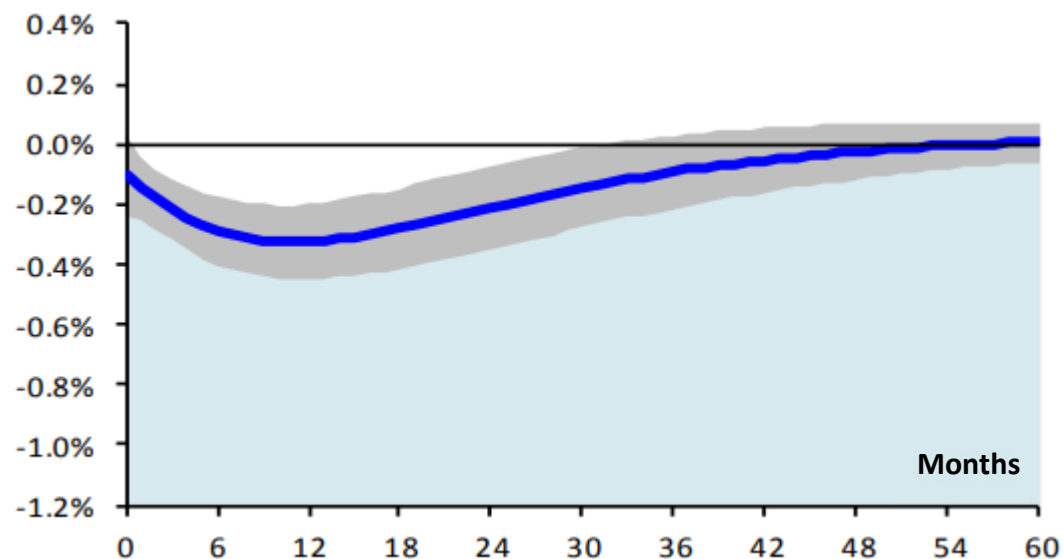


Note: s.a. denotes seasonally adjusted data.

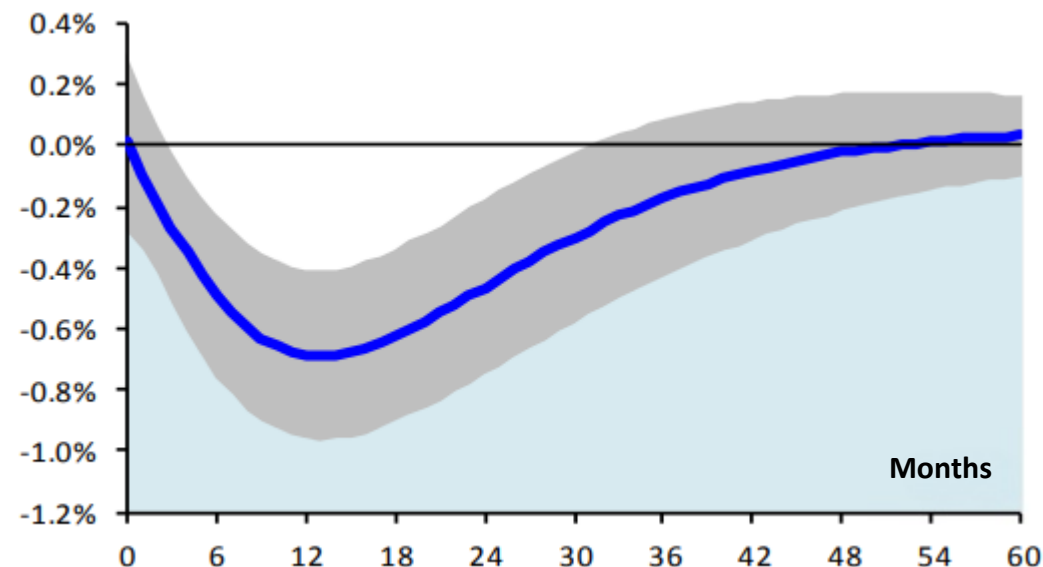
Source: INEGI.

Uncertainty and its impact on consumption and investment

Consumption Response to a Uncertainty Shock
(percent)



Investment Response to a Uncertainty Shock
(percent)



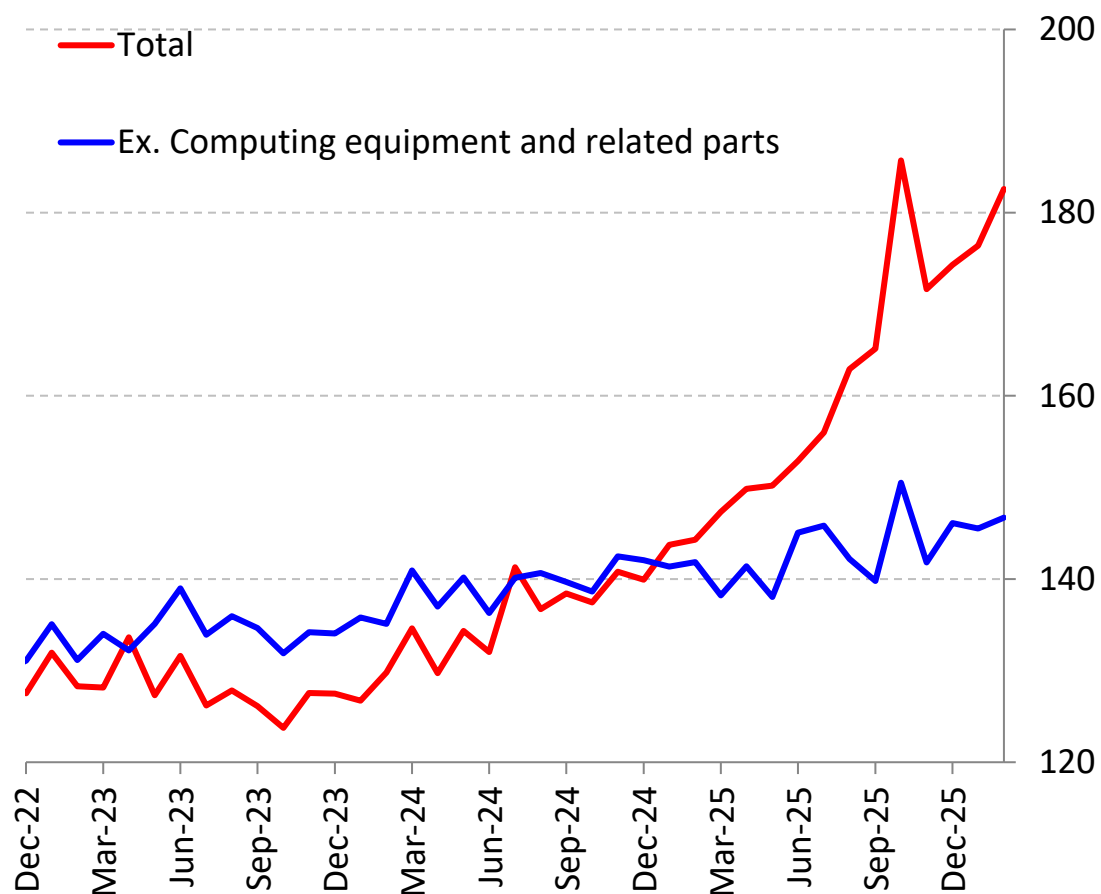
Note: Impulse response functions (IRFs) are obtained from an estimated macroeconomic model and trace the dynamic response of consumption and investment to an uncertainty shock. The shock is defined as a one standard deviation exogenous increase in an uncertainty measure, proxied by forecast error volatility across a broad set of macroeconomic variables. Solid lines show the point estimates, while shaded areas (grey bands) represent confidence intervals around the IRFs.

Source: Banco de México, Informe Trimestral octubre–diciembre 2019, Recuadro 2: “El impacto de la incertidumbre en el consumo y la inversión”.

Exports to the US

Non-auto manufacturing exports

(Index January 2019 = 100)



Source: Banco de México.

US imports of Mexican products

Share by select sectors

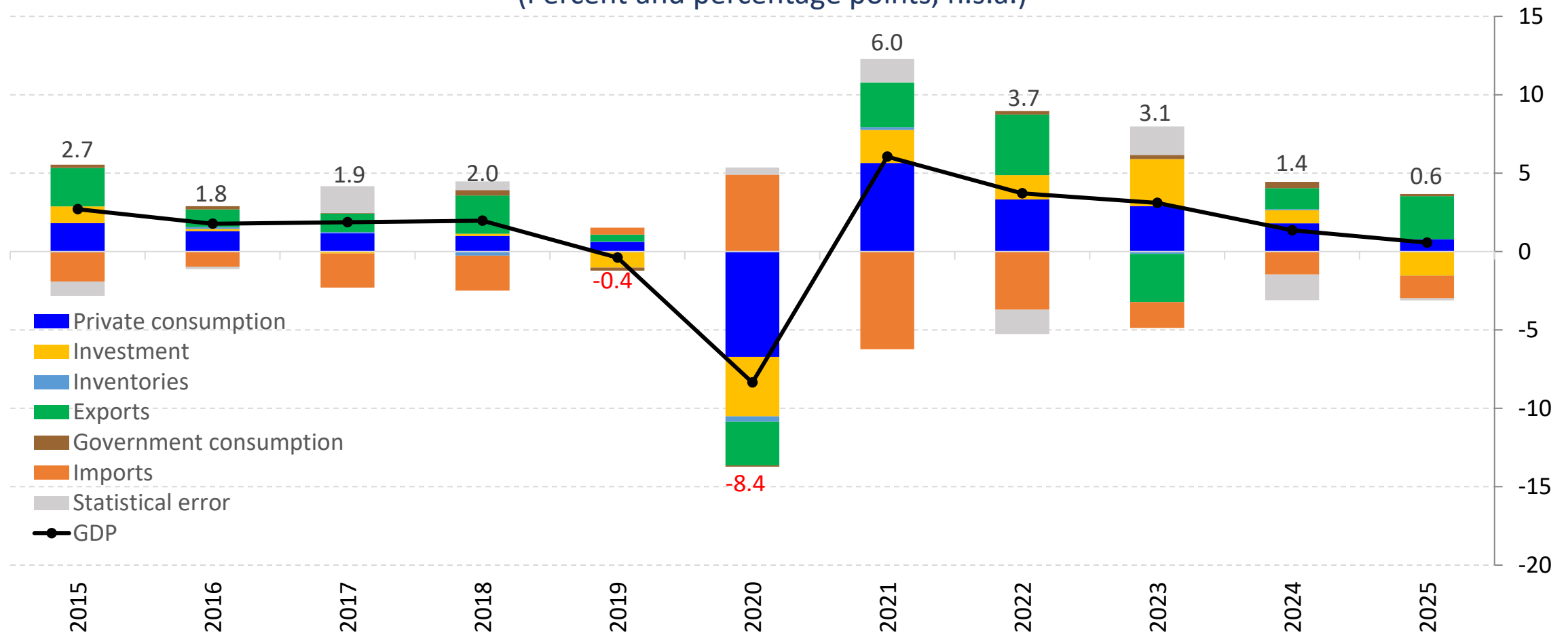
(Percentage points)

Sector	T-MEC 2024	T-MEC jul-2025	Change in p.p.
Computers and telecoms	12.2	88.0	75.8
Furnishings	13.5	86.3	72.8
Base metals industries	21.8	90.5	68.7
Mining	28.0	94.8	66.8
Other manufactures	16.8	68.7	51.9
Machinery and equipment	24.7	73.9	49.2
Chemical industry	49.0	94.3	45.3
Electrical appliances	54.1	90.0	35.9
Oil and gas extraction	33.5	67.5	34.0
Other	46.0	77.8	31.8
Metallic products	56.7	82.9	26.2
Agricultural products	85.5	99.2	13.7
Transportation equipment	75.6	86.5	10.9
Total	48.8	84.8	36.0

Source: Banco de México using data from the US Department of Commerce.

Contributions to annual GDP growth

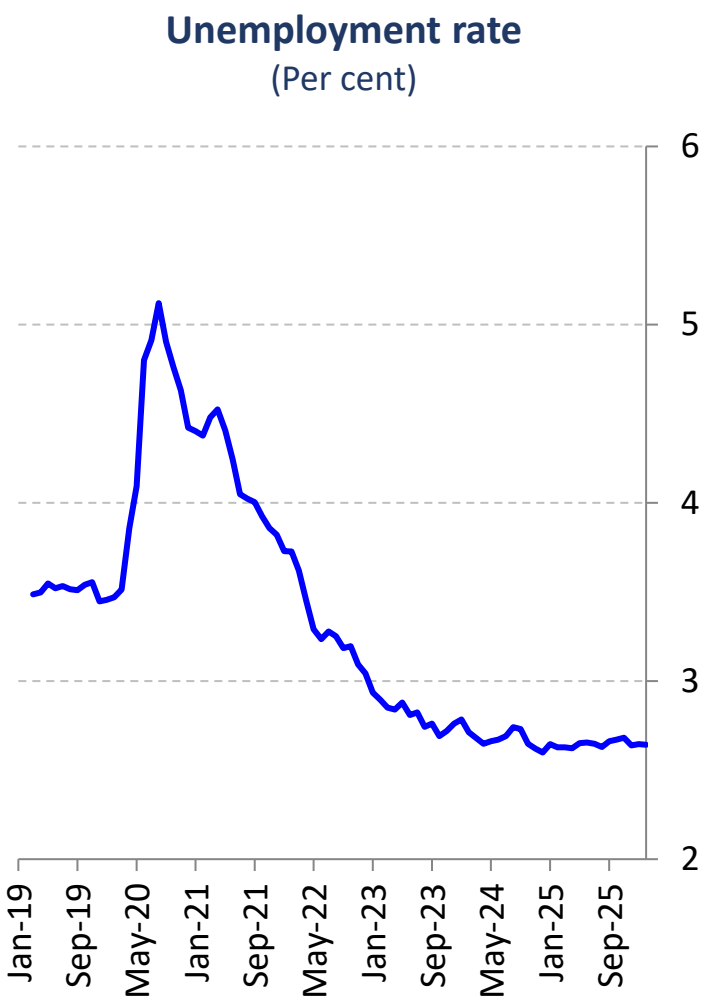
Contributions to annual GDP growth
(Percent and percentage points, n.s.a.)



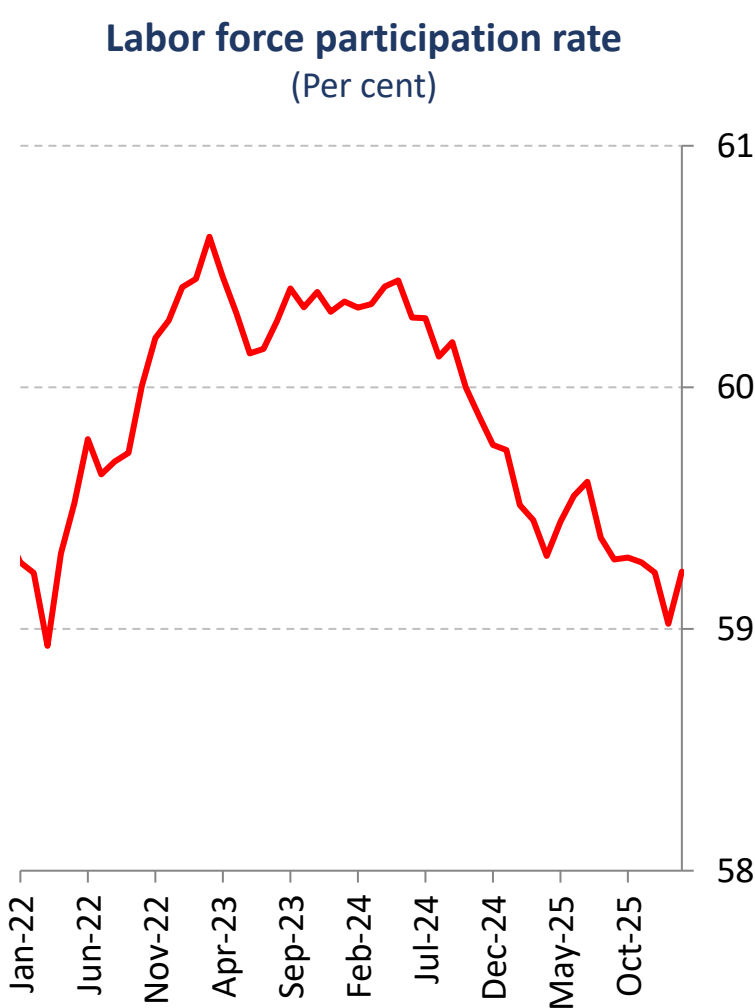
Note: n.s.a. denotes non-seasonally adjusted data. Investment includes both private and public investment.

Source: Banco de México using national accounts data from INEGI.

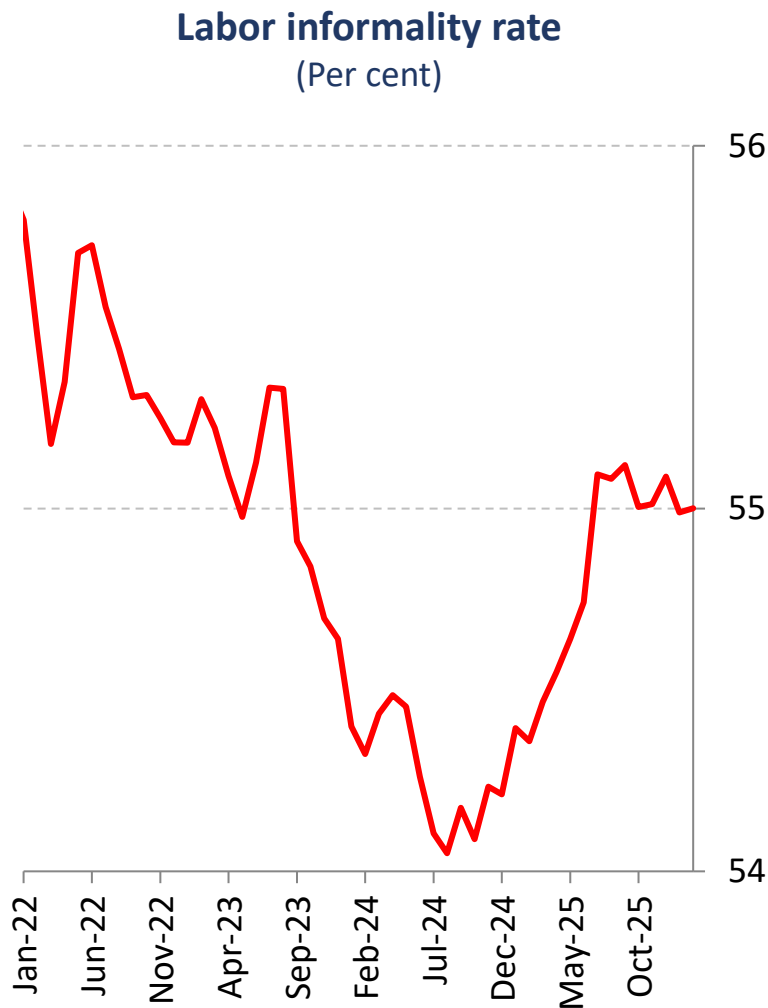
A decline in labor force participation has contributed to low unemployment alongside higher informality



Source: INEGI



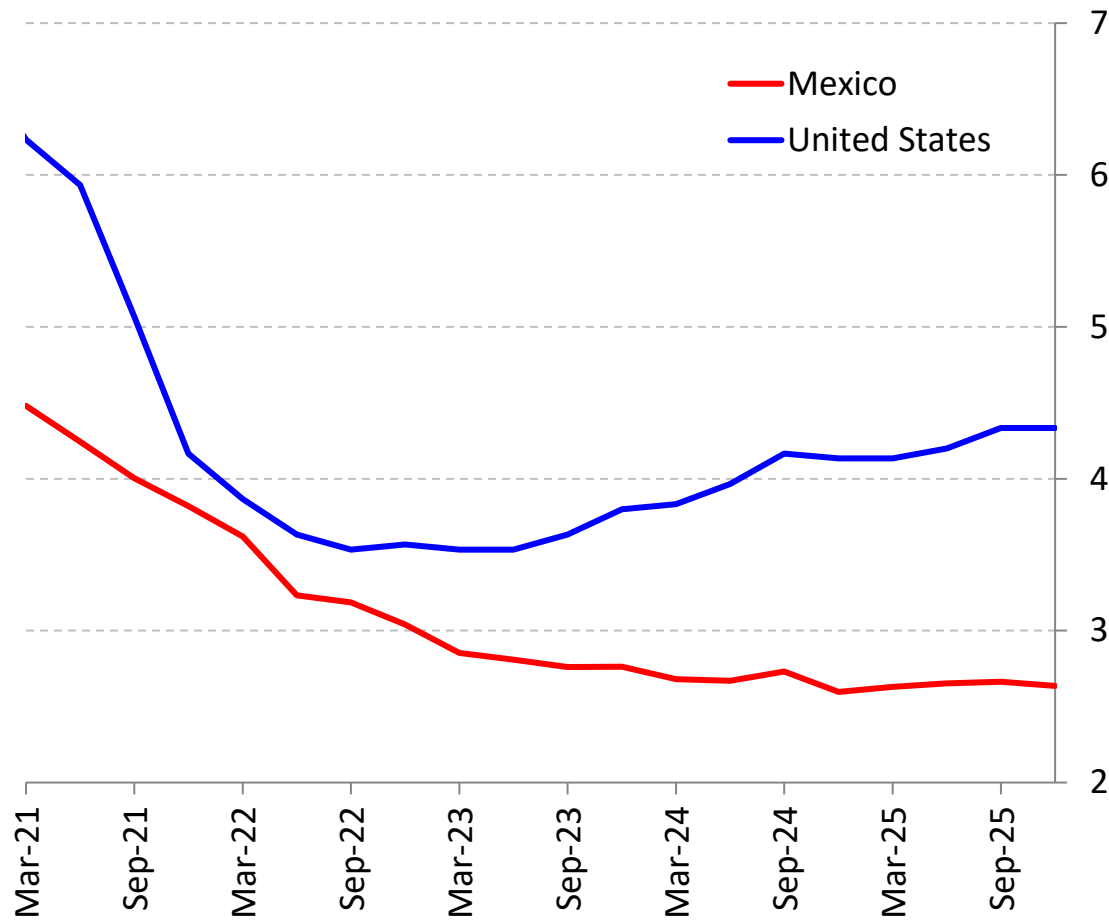
Source: INEGI



Source: INEGI

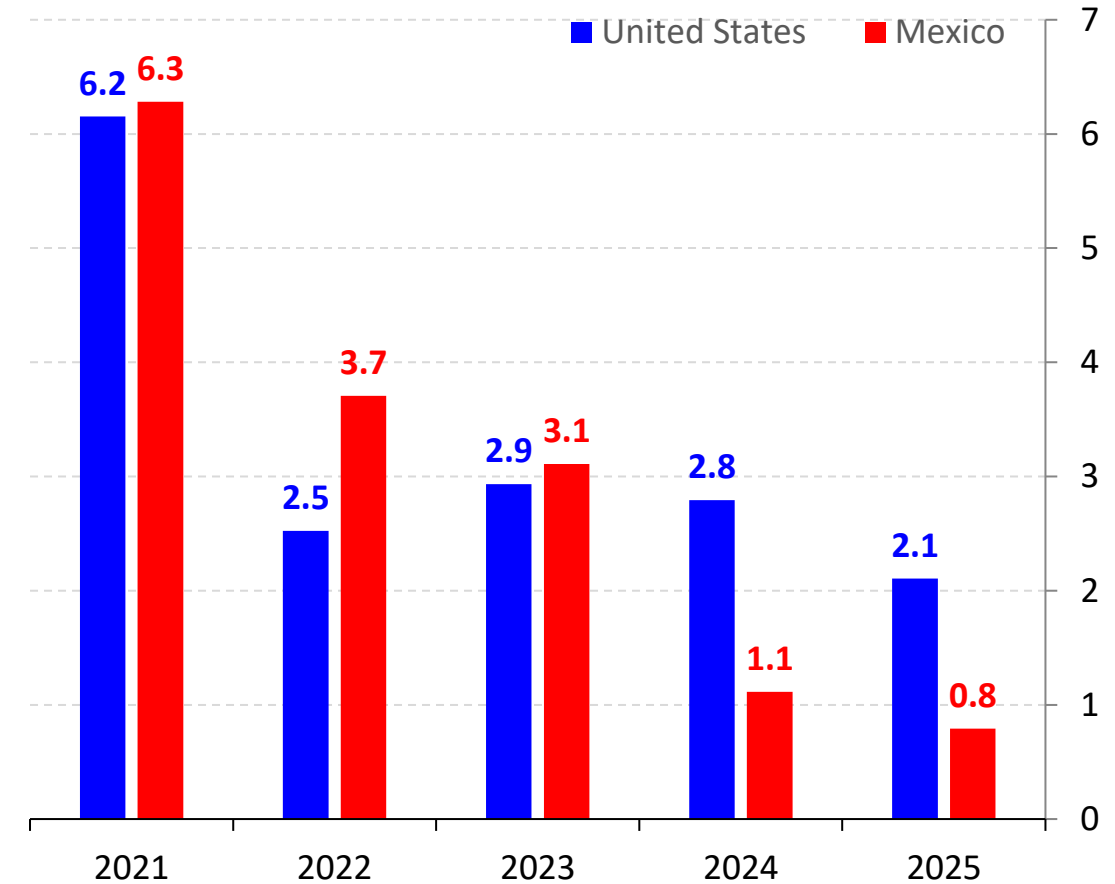
These factors explain Mexico's lower unemployment rate relative to the U.S., despite stronger U.S. growth

Unemployment rate
(Per cent, s.a.)



Source: INEGI, Bureau of Labor Statistics.

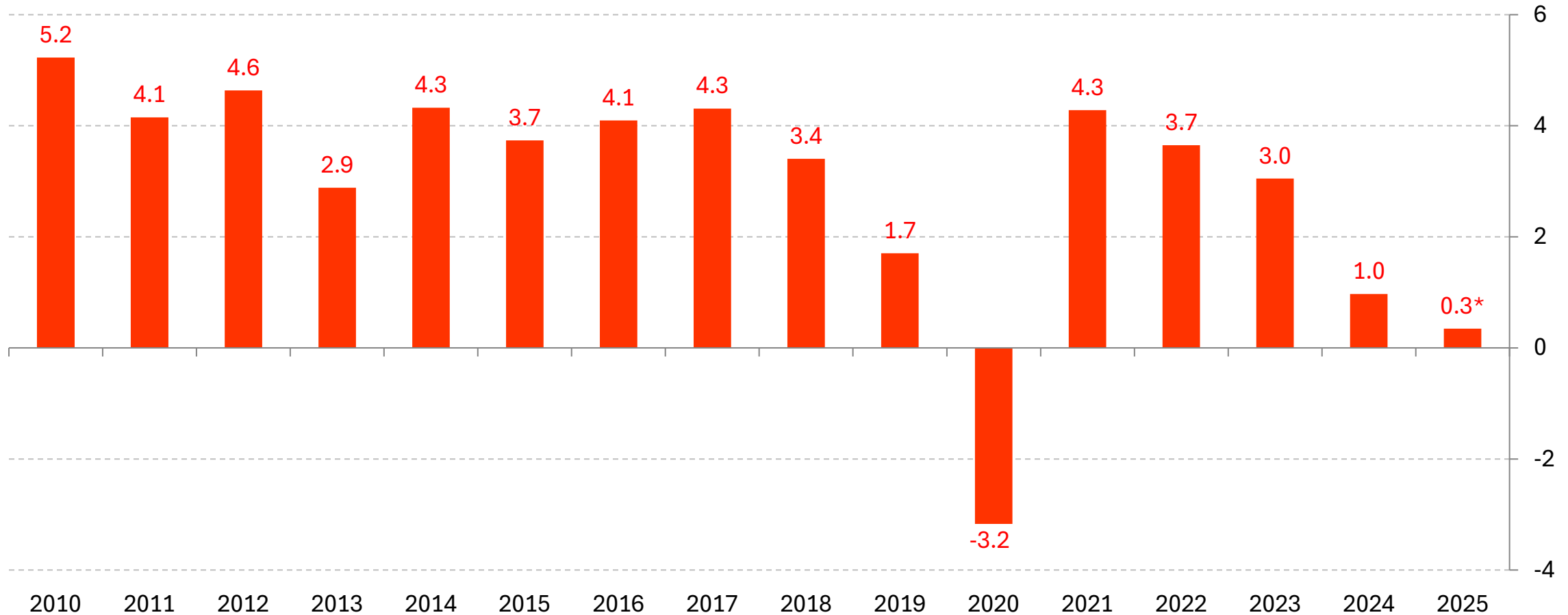
Annual growth
(Per cent, s.a.)



Source: INEGI, Bureau of Economic Analysis.

The growth rate of formal employment has steadily declined in recent years

Employment registered with Mexico's Social Insurance Institute (IMSS) (Annual change, per cent)



Note: for 2025, the data do not include workers recently affiliated with digital platforms.

Source: IMSS

Índice

1

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a) Current macroeconomic outlook

b) Long-term prospects

2

Inflation Outlook

3

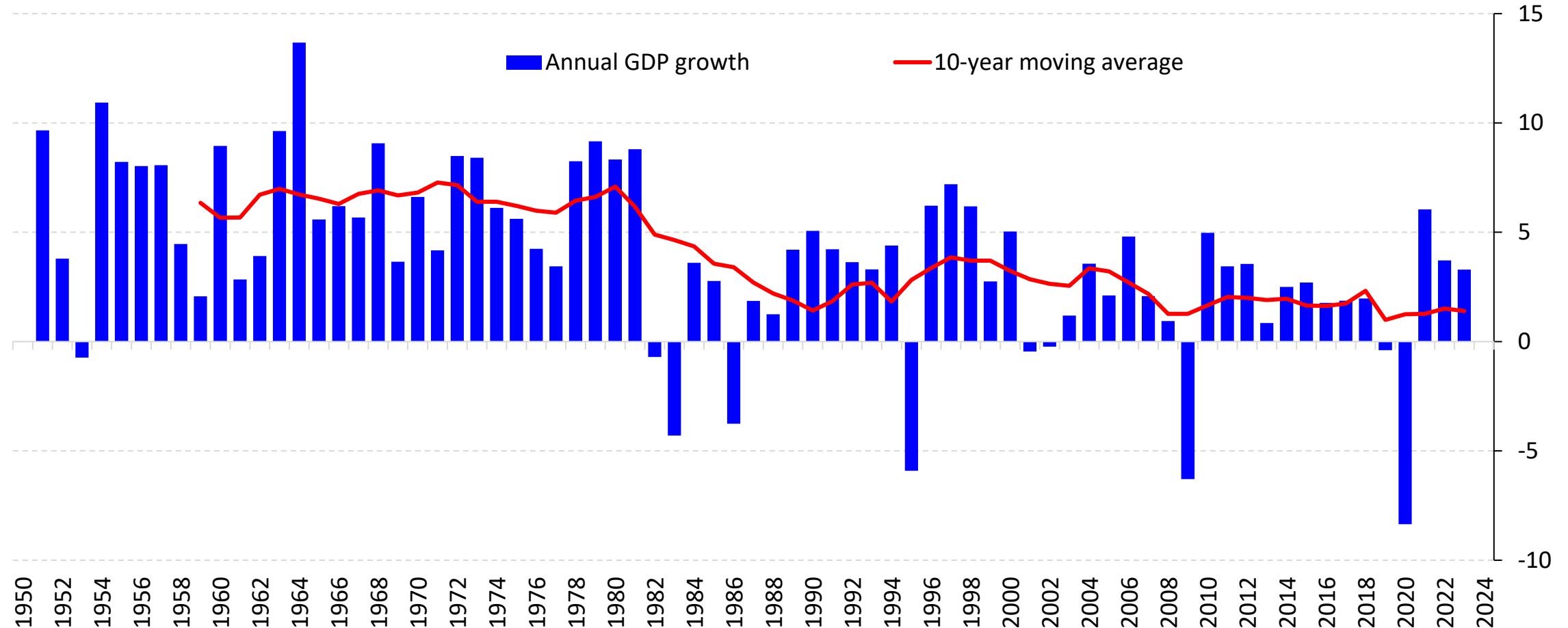
Recent geopolitical developments

4

Long-Term inflation expectations

From a long-term perspective, annual GDP growth has slowed in recent decades

Gross Domestic Product (Annual growth rate)

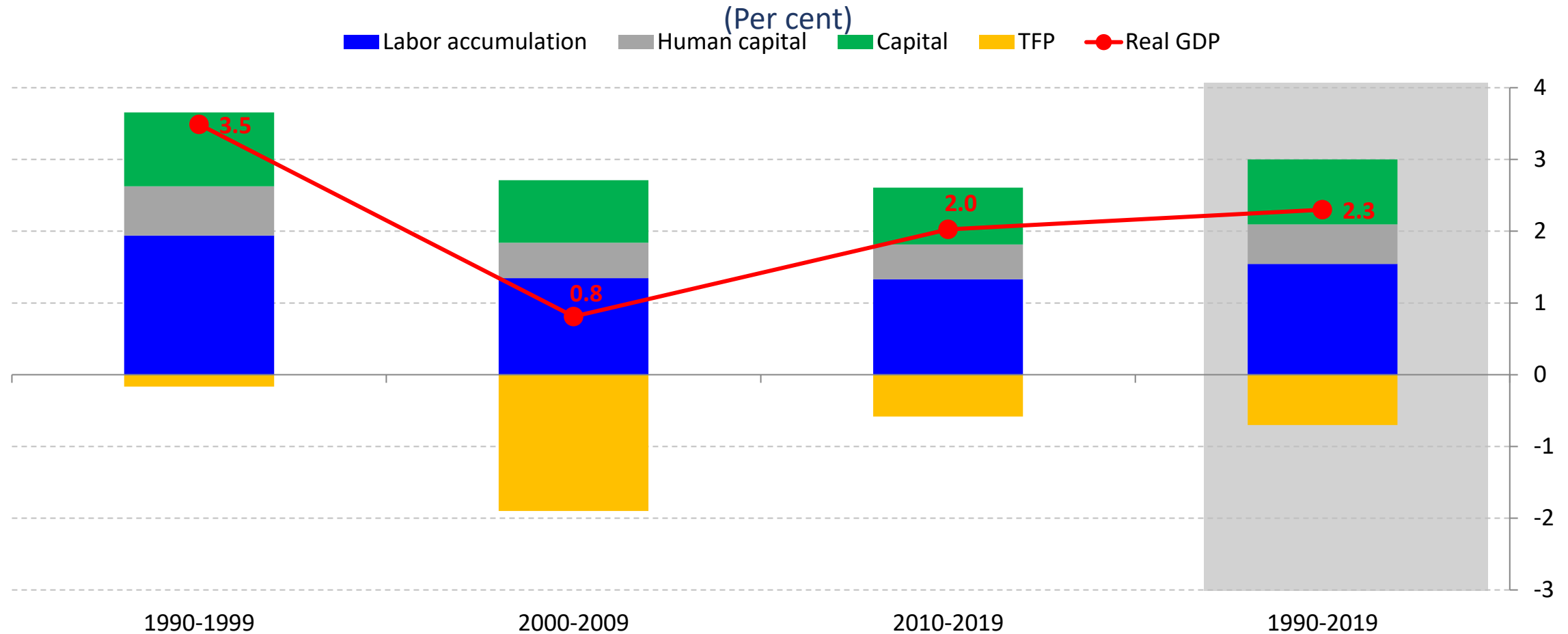


Note: PPP-adjusted variables

Source: Penn World Tables 11.0

GDP growth in Mexico is primarily driven by labor accumulation

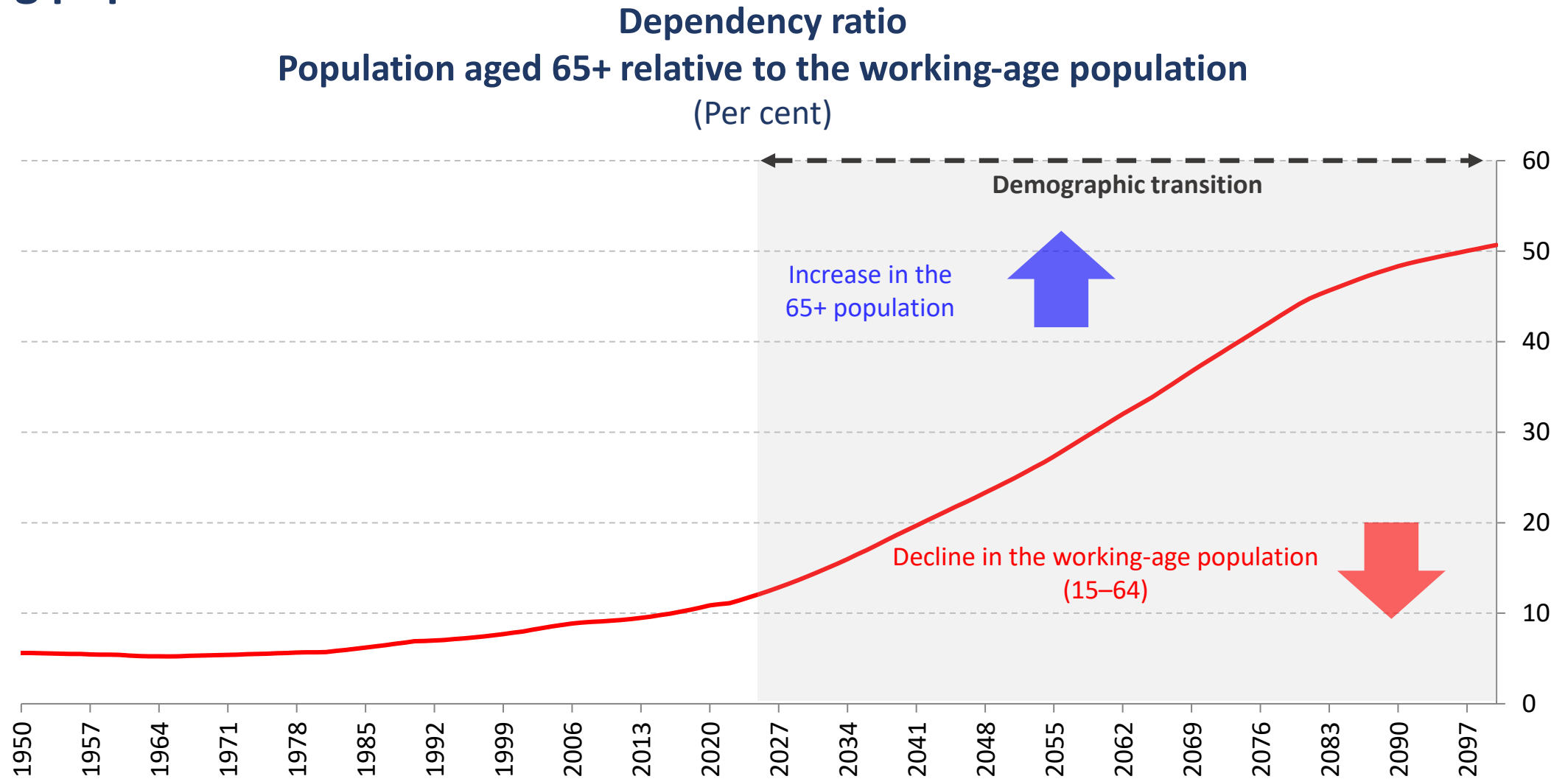
Factor contributions to GDP growth in Mexico



Note: Factor contributions are derived from a standard growth accounting framework.

Source: Penn World Tables 11.0

However, the labor force will decline due to slower population growth and an aging population

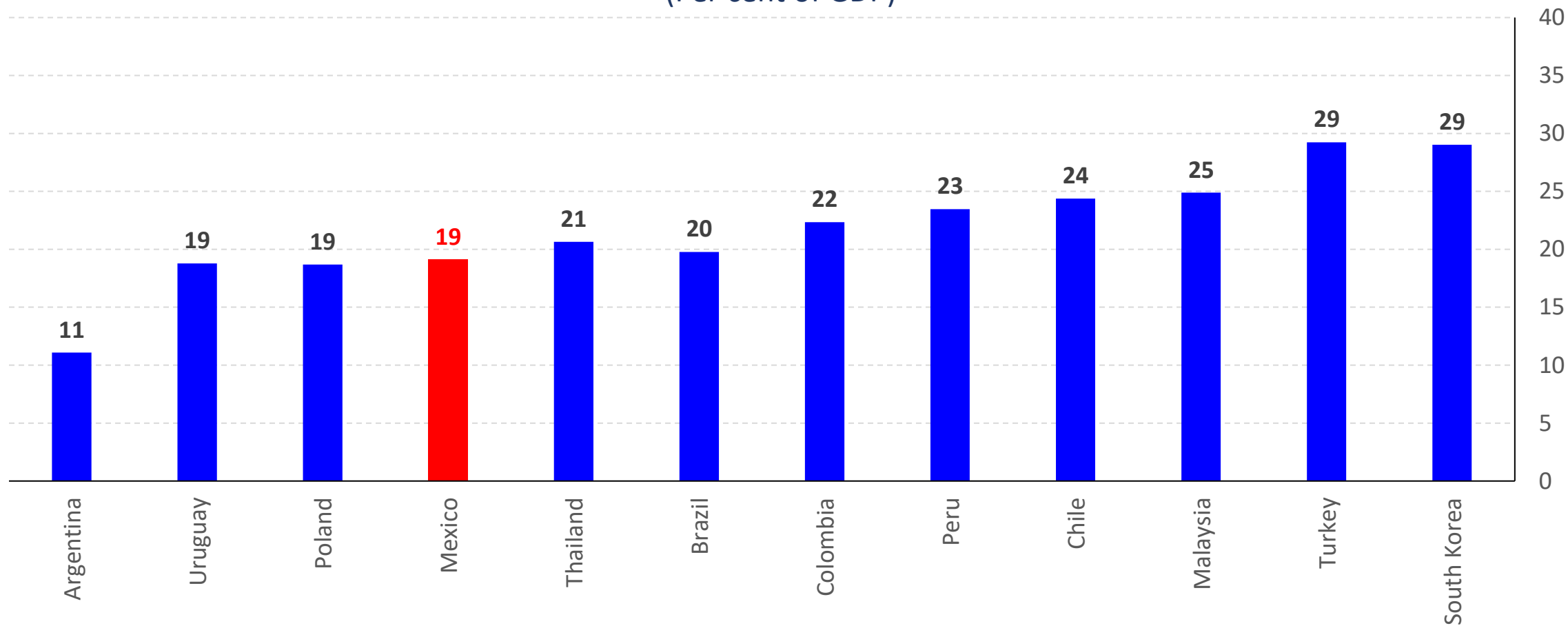


Note: The dependency ratio is defined as the population aged 65 and over relative to the population aged 15–64.

Source: Author's calculations based on ECLAC data.

Low investment constrains capital accumulation in Mexico

Investment
2010-2019 Average
(Per cent of GDP)

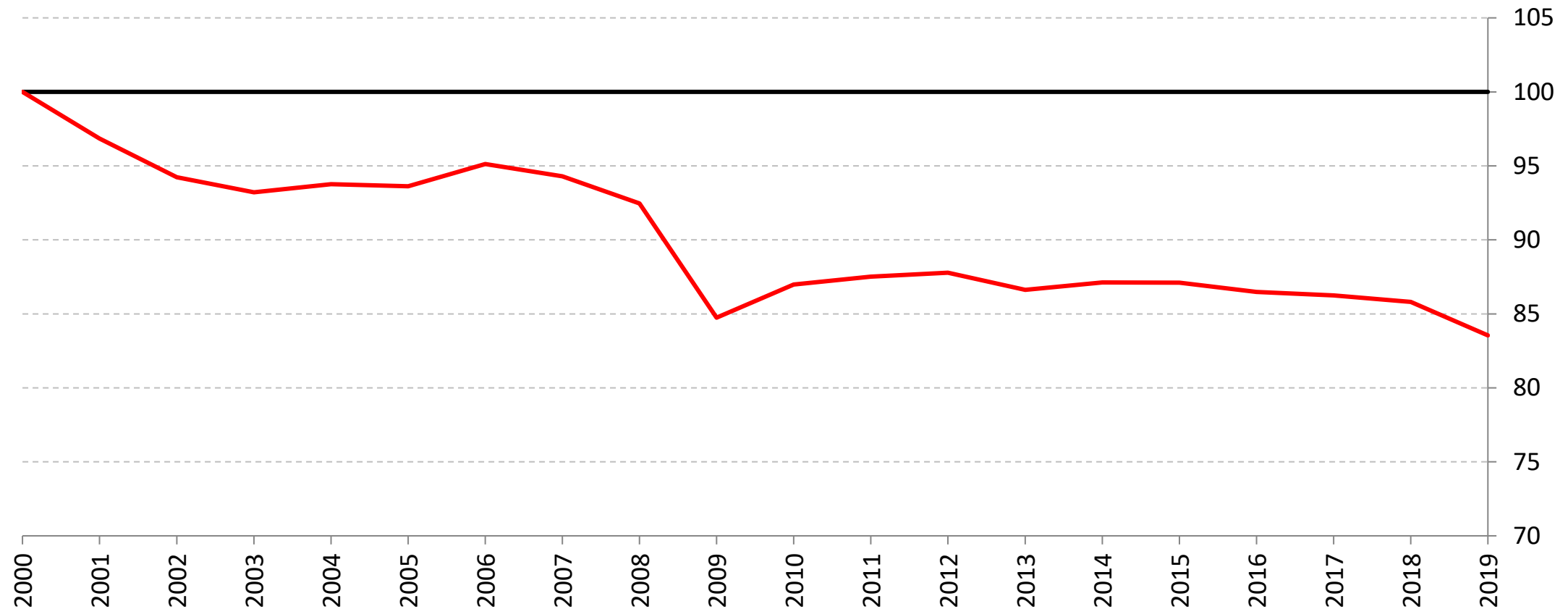


Note: PPP-adjusted variables.

Source: IMF.

Total factor productivity has remained weak on average over the past two decades

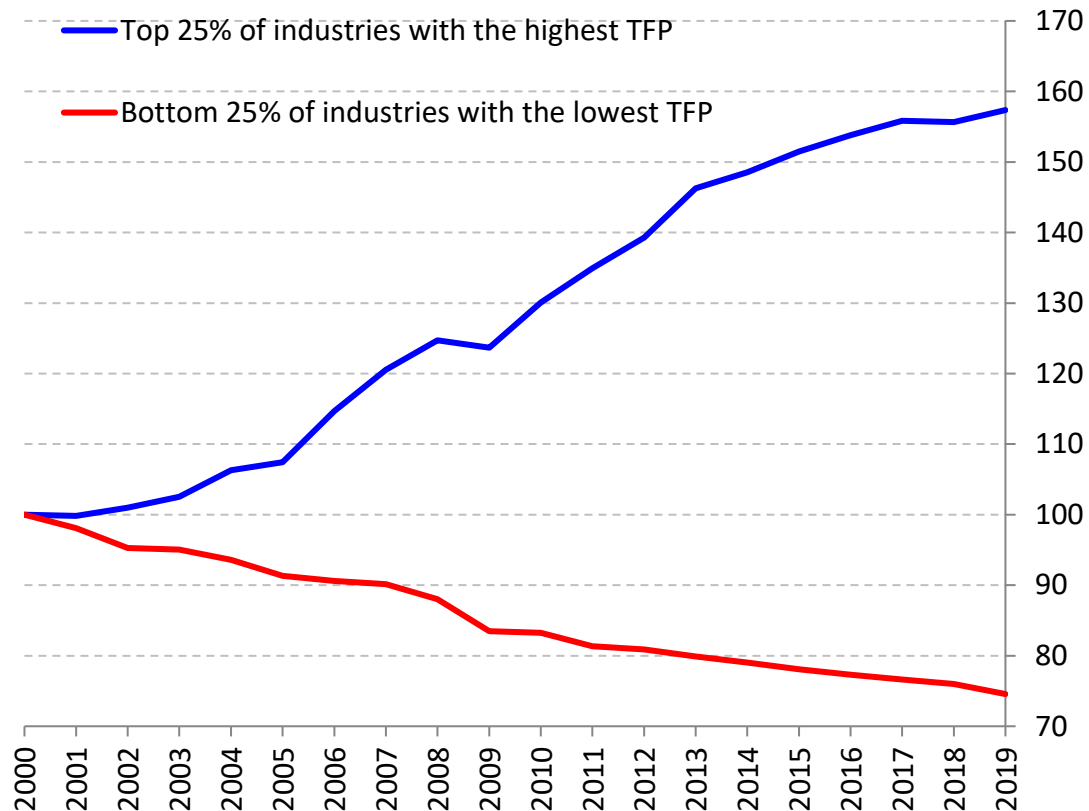
Cumulative Growth of Total Factor Productivity (TFP)
(Per cent)



Source: Penn World Tables 11.0

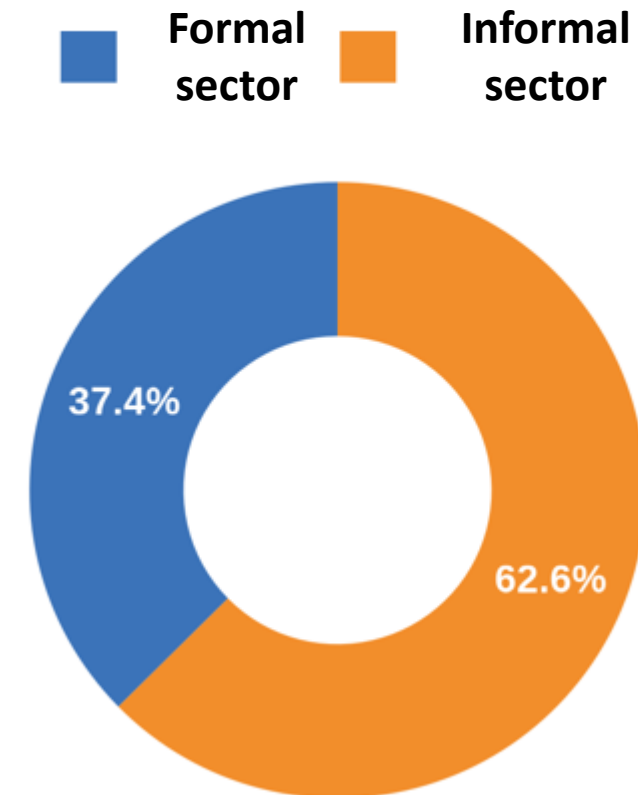
Productive efficiency varies significantly across sectors

**Cumulative Growth of Total Factor Productivity (TFP)
by Industry**
(Index 2000 = 100)



Note: Three-digit subsectors based on the SCIAN classification are used.
Source: INEGI

Breakdown of Firms by Formality Status
(percent)



Source: INEGI

Índice

1

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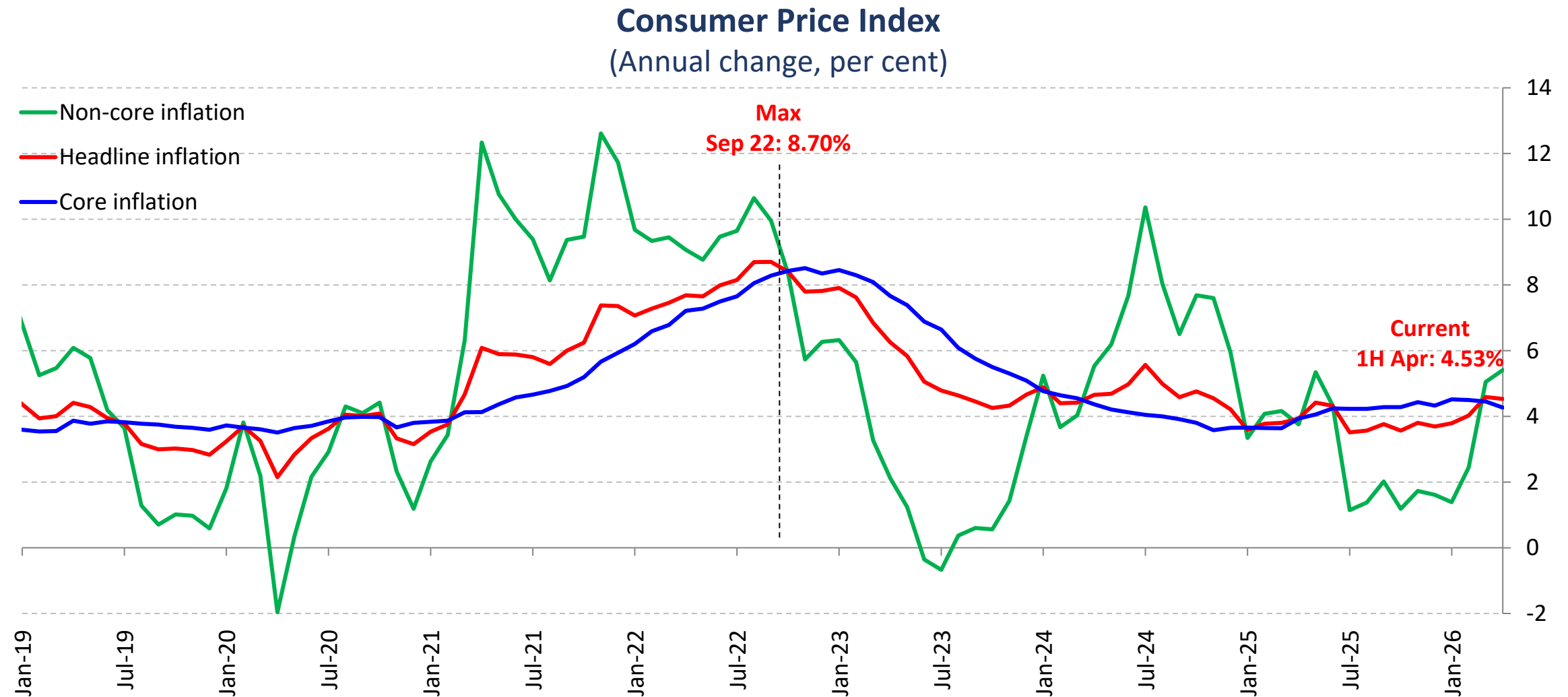
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4

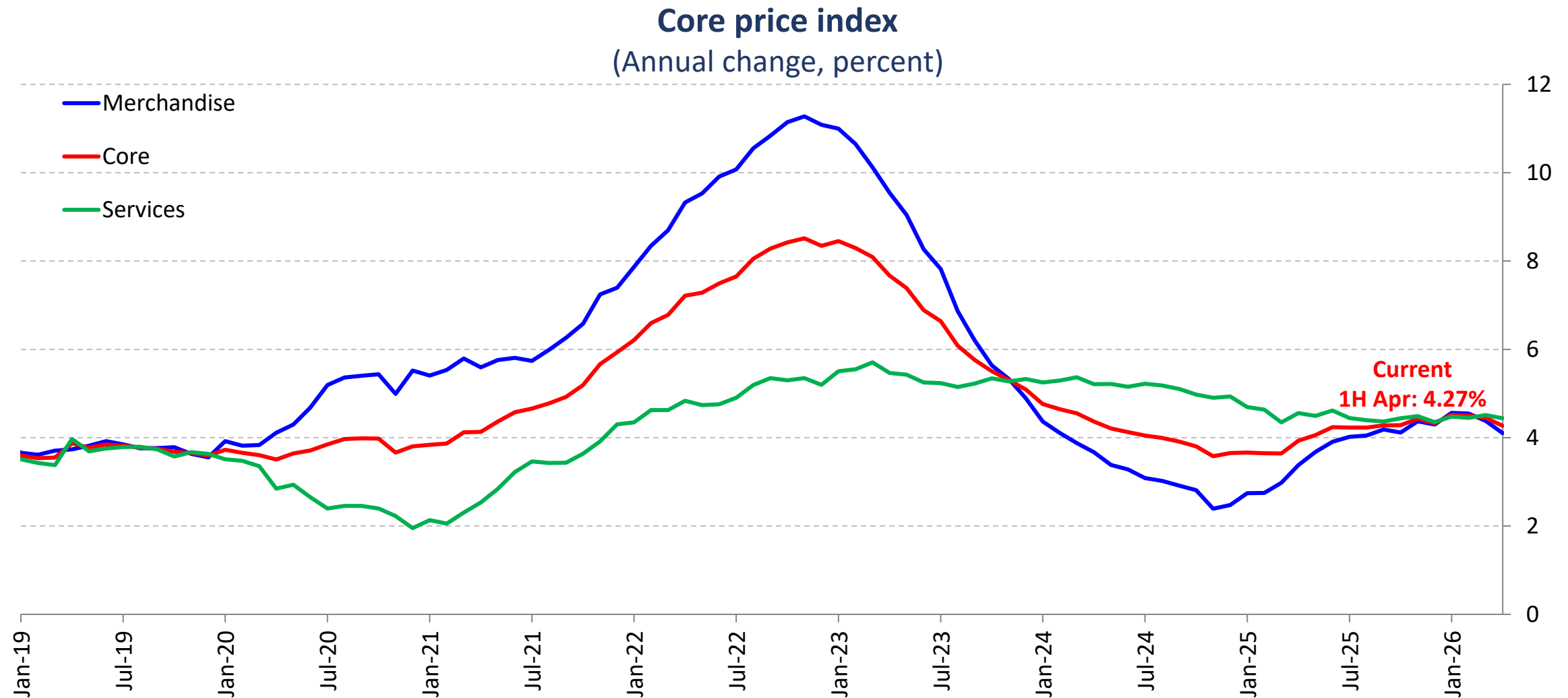
Long-Term inflation expectations

Inflation is currently at levels that are visibly lower than those recorded during the pandemic



Source: INEGI.

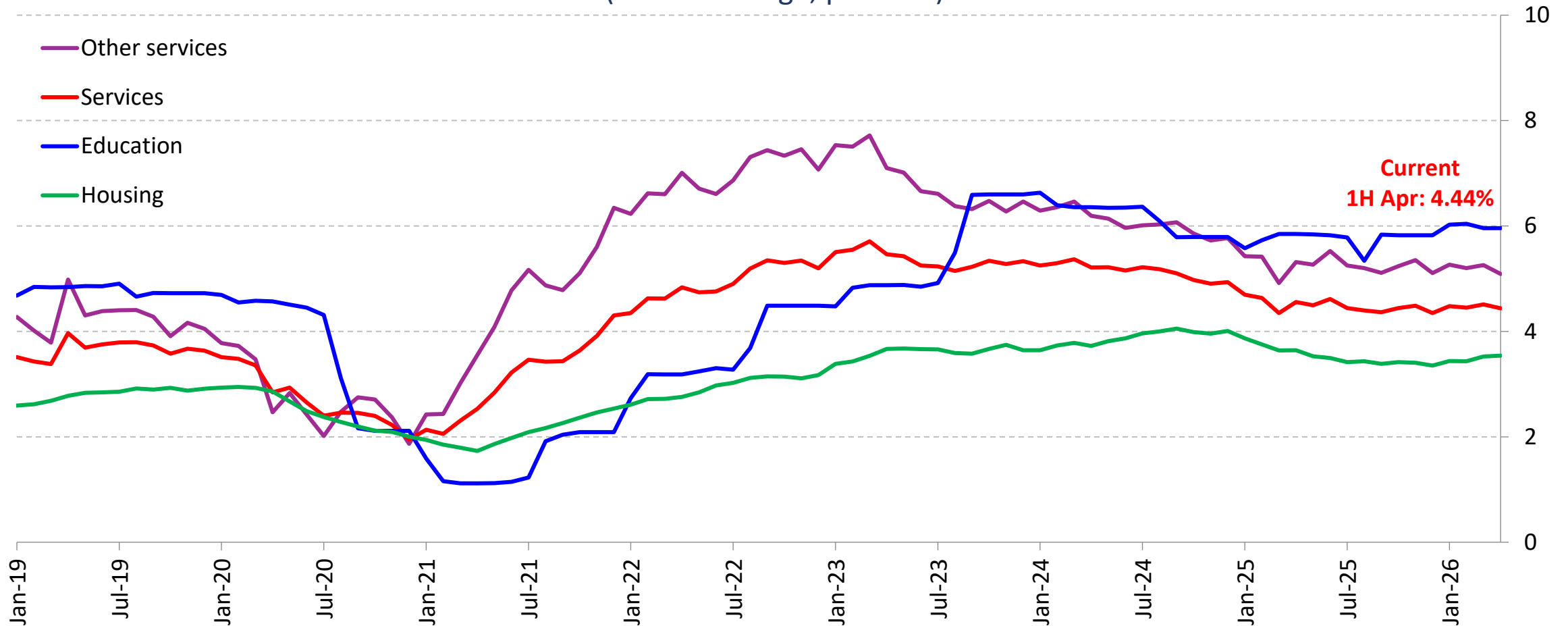
Core inflation increased due to a rebound in merchandise inflation which more than offset the decrease in services inflation



Source: INEGI.

Services inflation has moderated, although gradually

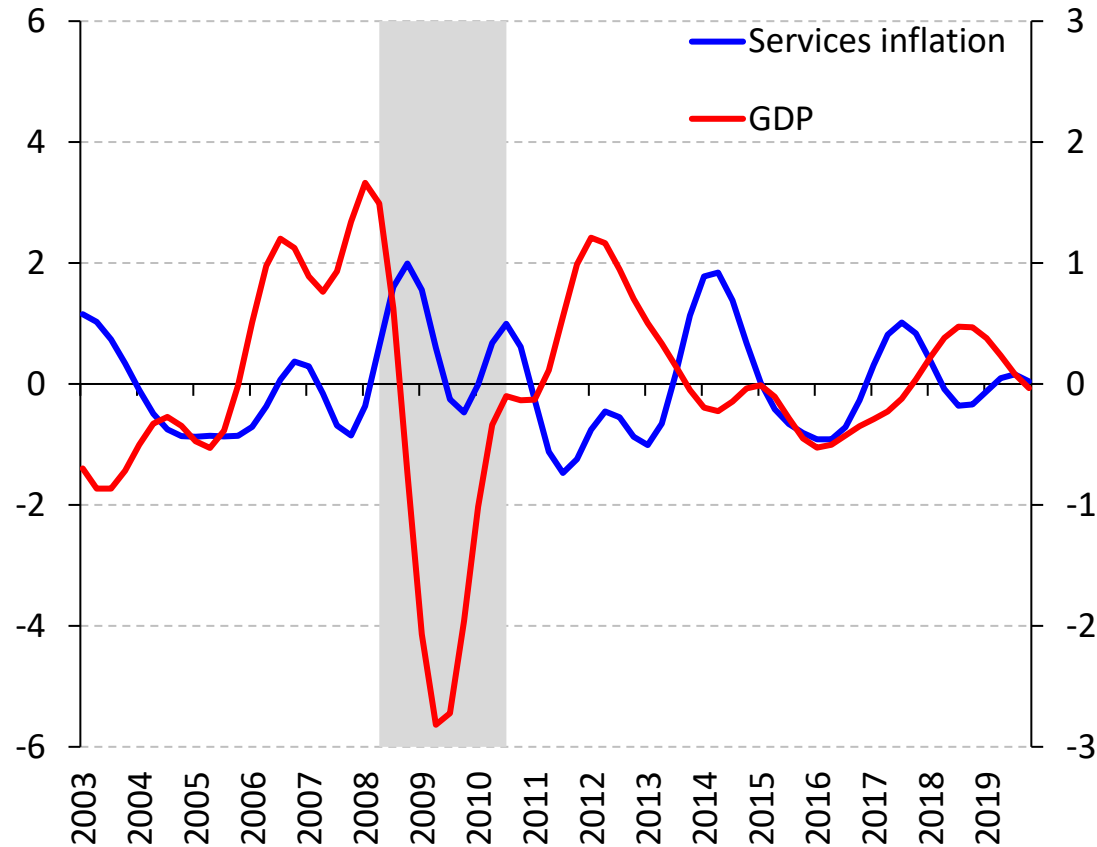
Services price index
(Annual change, per cent)



Source: INEGI.

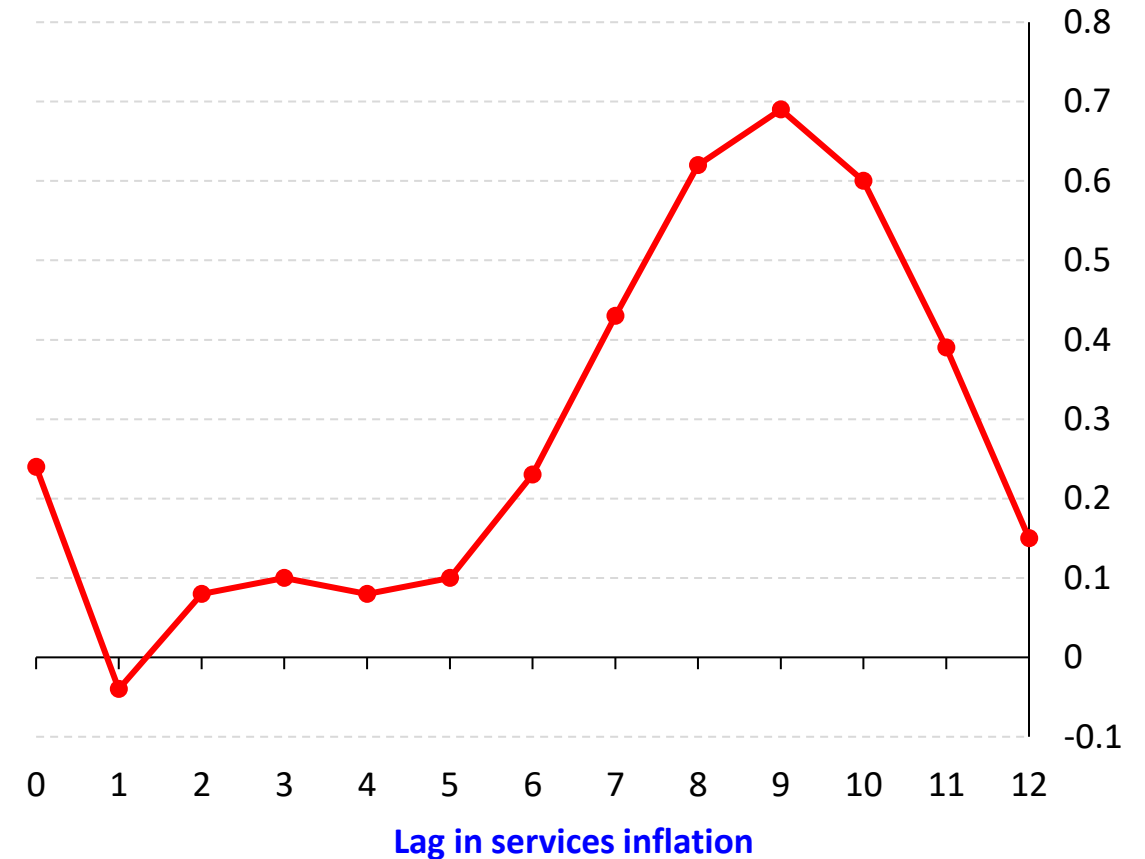
Cyclical co-movement between GDP and services inflation

Cyclical components
(Frequencies from 6-32 quarters)



Source: Authors' calculations using INEGI data. Cyclical components are estimated using the Christiano-Fitzgerald filter for frequencies between 6 and 32 quarters.

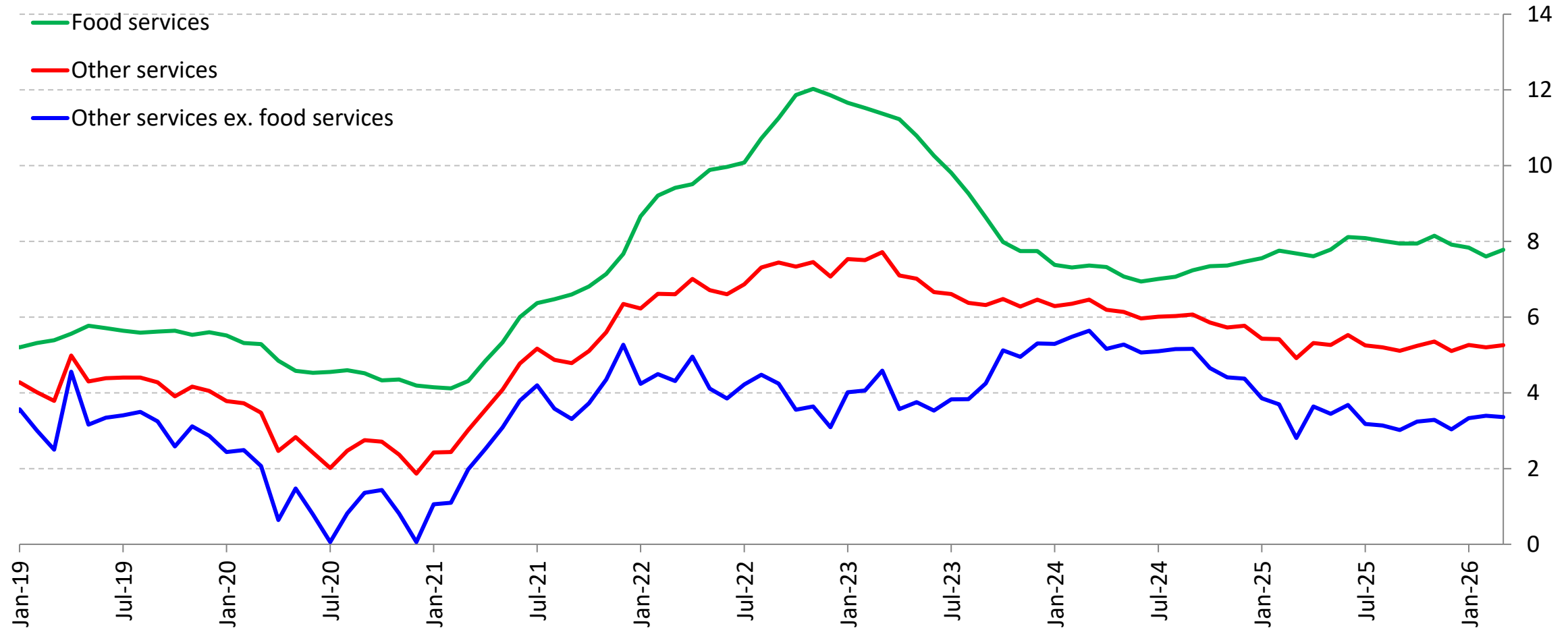
Dynamic correlation between cyclical components



Source: Authors' calculations using INEGI data.

In this regard, other services inflation, excluding food-related services, has moved close to pre-pandemic levels

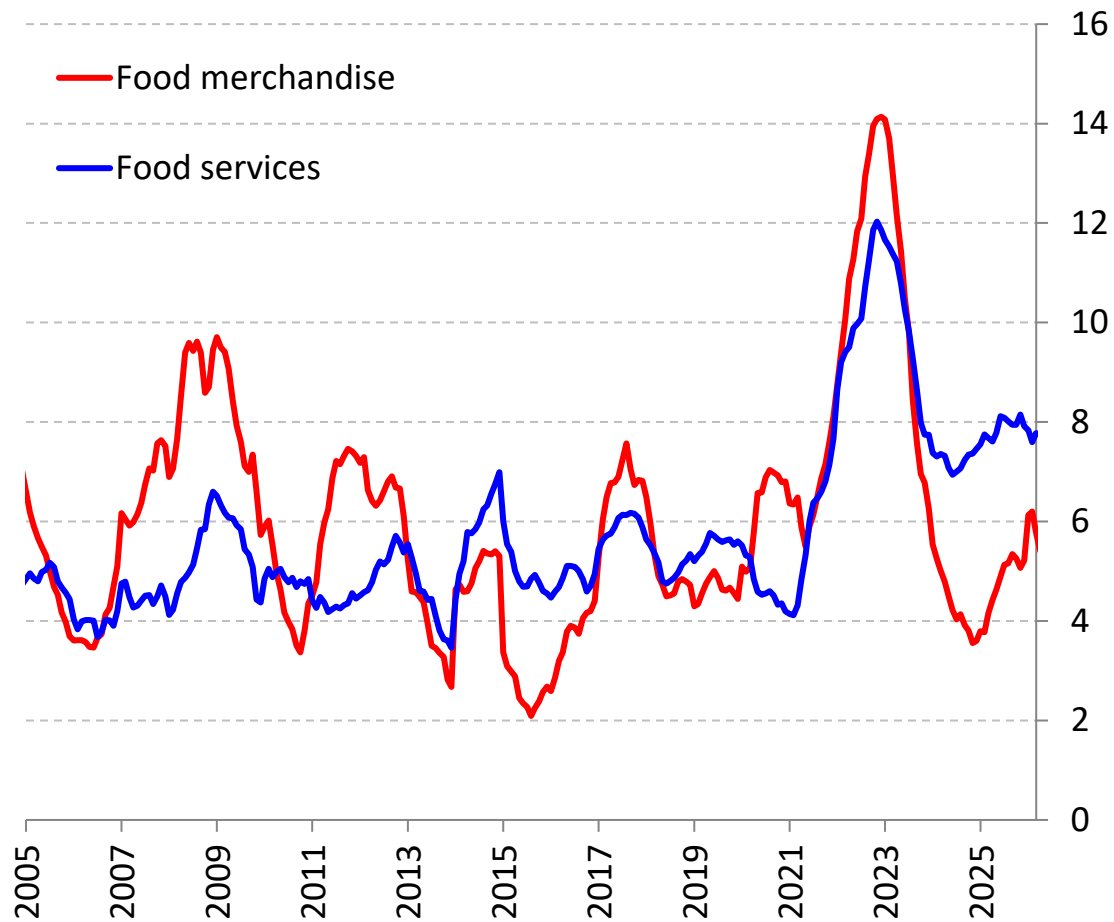
Other services price index
(Annual change, per cent)



Source: Authors' calculations using data from INEGI.

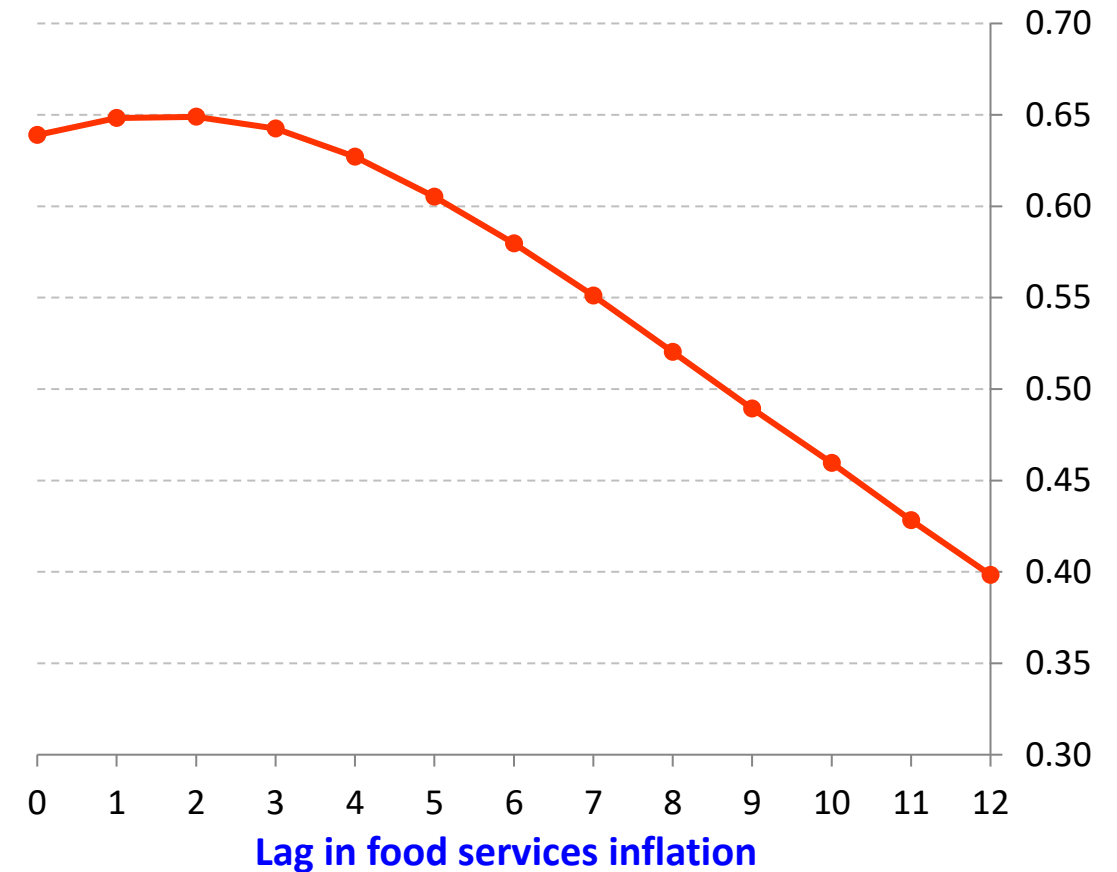
Inflation dynamics in food services and food merchandise

Price index for food merchandise and food services
(Annual change, per cent)



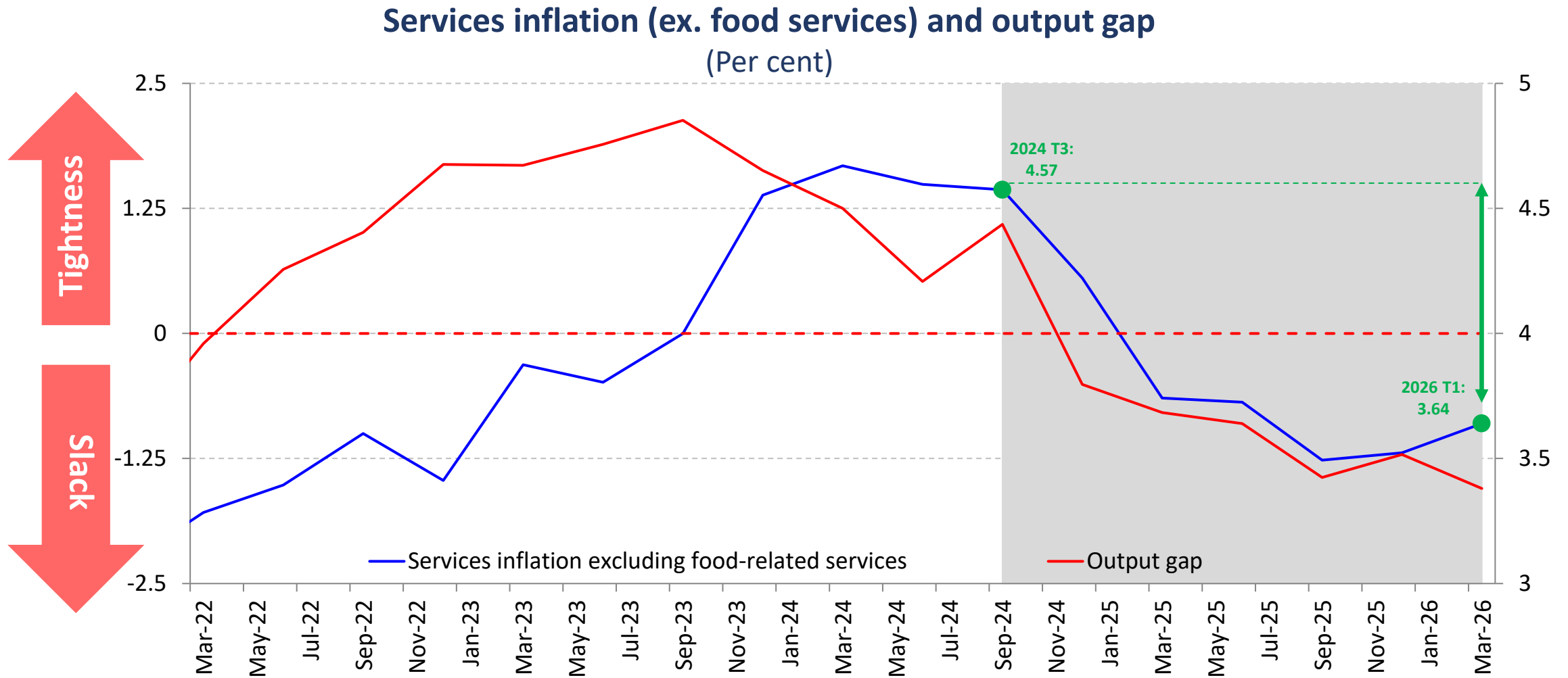
Source: INEGI.

Dynamic correlation between
food merchandise and food services inflation



Source: Authors' calculations using data from INEGI.

Actually, services inflation (excluding food services) has declined following the turn of the output gap into negative territory in Q4 2024

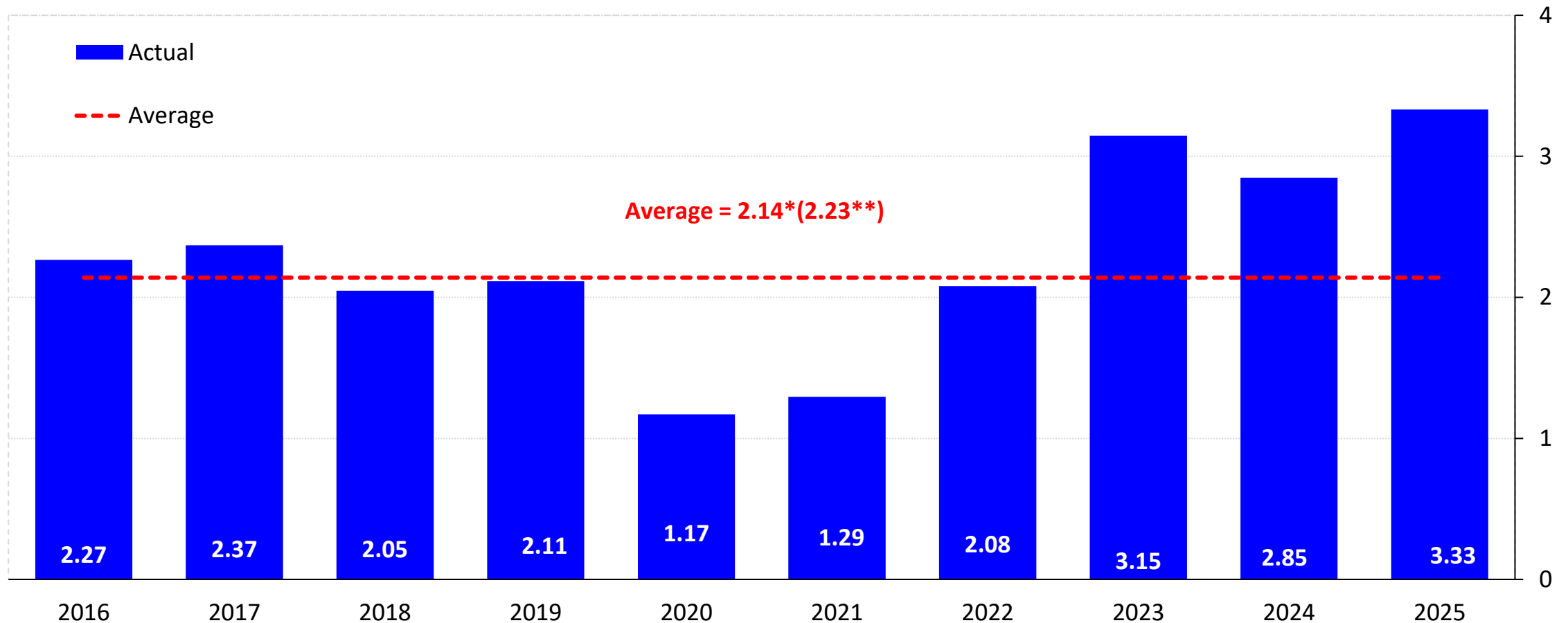


Note: The data for the output gap in Q1 2026 corresponds to the forecast presented in Banco de México's *Informe Trimestral*, octubre–diciembre de 2025.

Source: Banco de México and author's calculations using INEGI's data

Education inflation in September

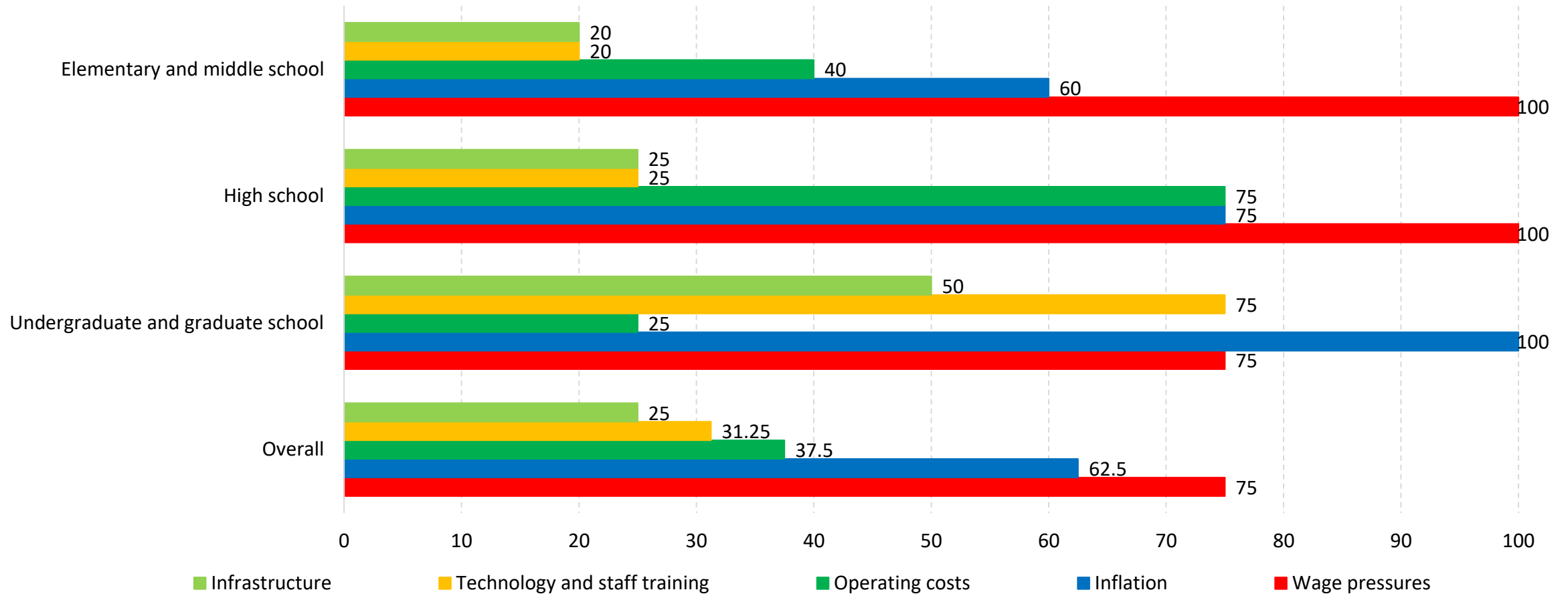
Education price index in September
(Monthly change, percent)



Note: */Red, dashed line represents the average from 2015 to 2024, **/ Average from 2010 to 2019.
Source: INEGI.

Perceived factors behind tuition increases

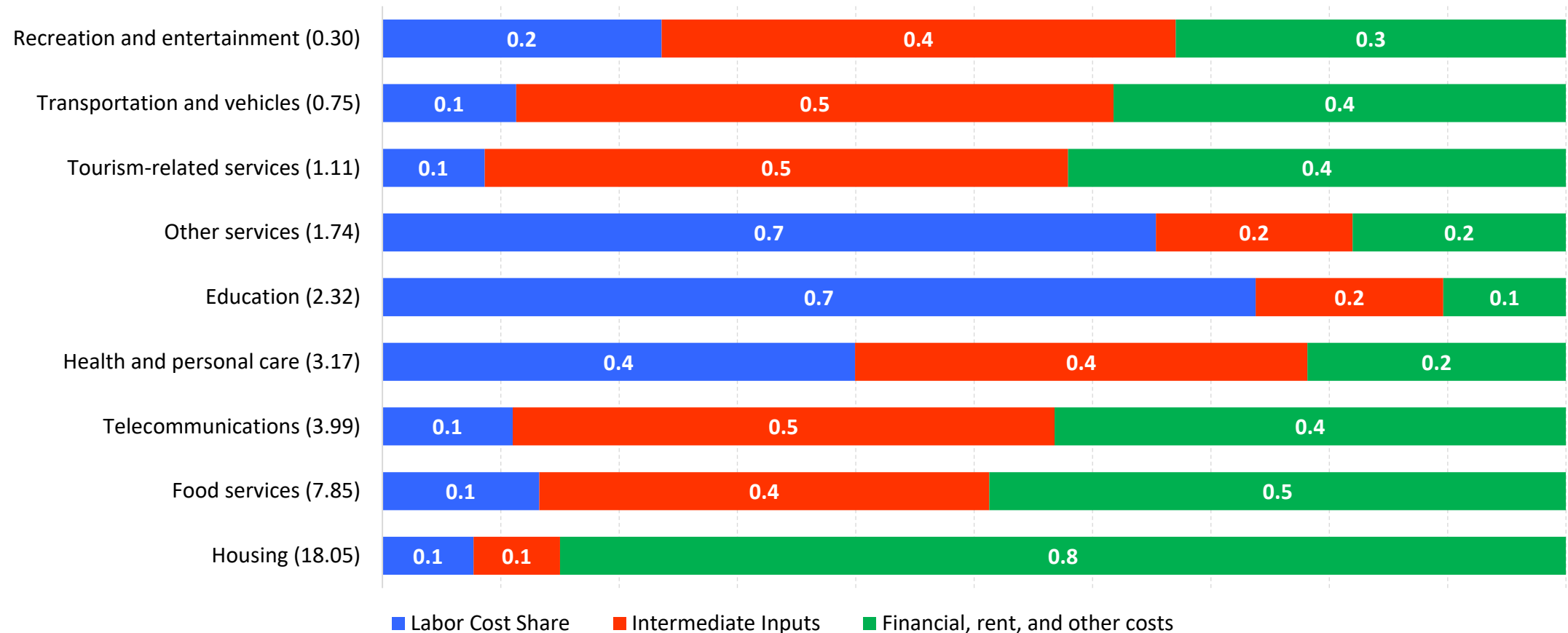
Firms' views on factors behind tuition increases
(Share of firms by response)



Source: Banco de México.

Labor cost shares vary significantly across services

Cost Structure Across Service Categories
(Share of total cost)

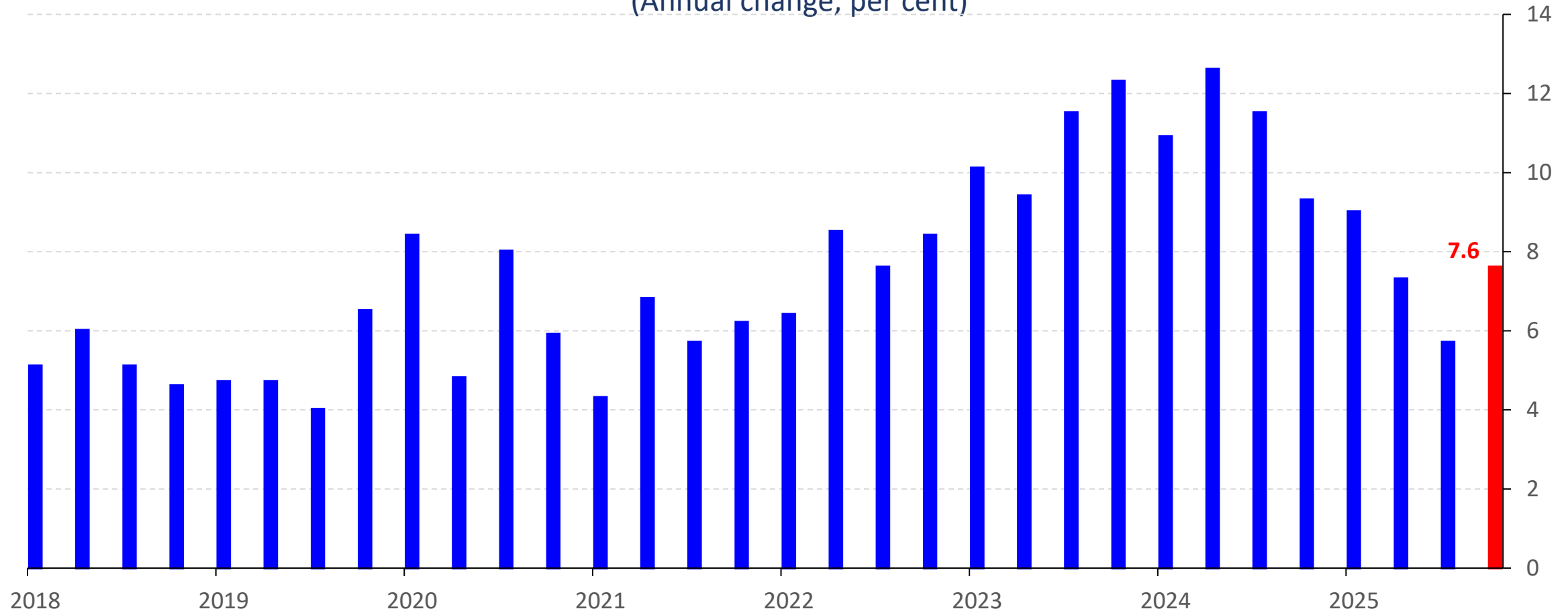


Note: The cost shares are constructed using input–output tables. Economic activity categories are mapped, using an approximation, to the corresponding CPI service components.

Source: Author’s calculations based on INEGI data

Wage growth is relevant for the services sector, which is labor-intensive

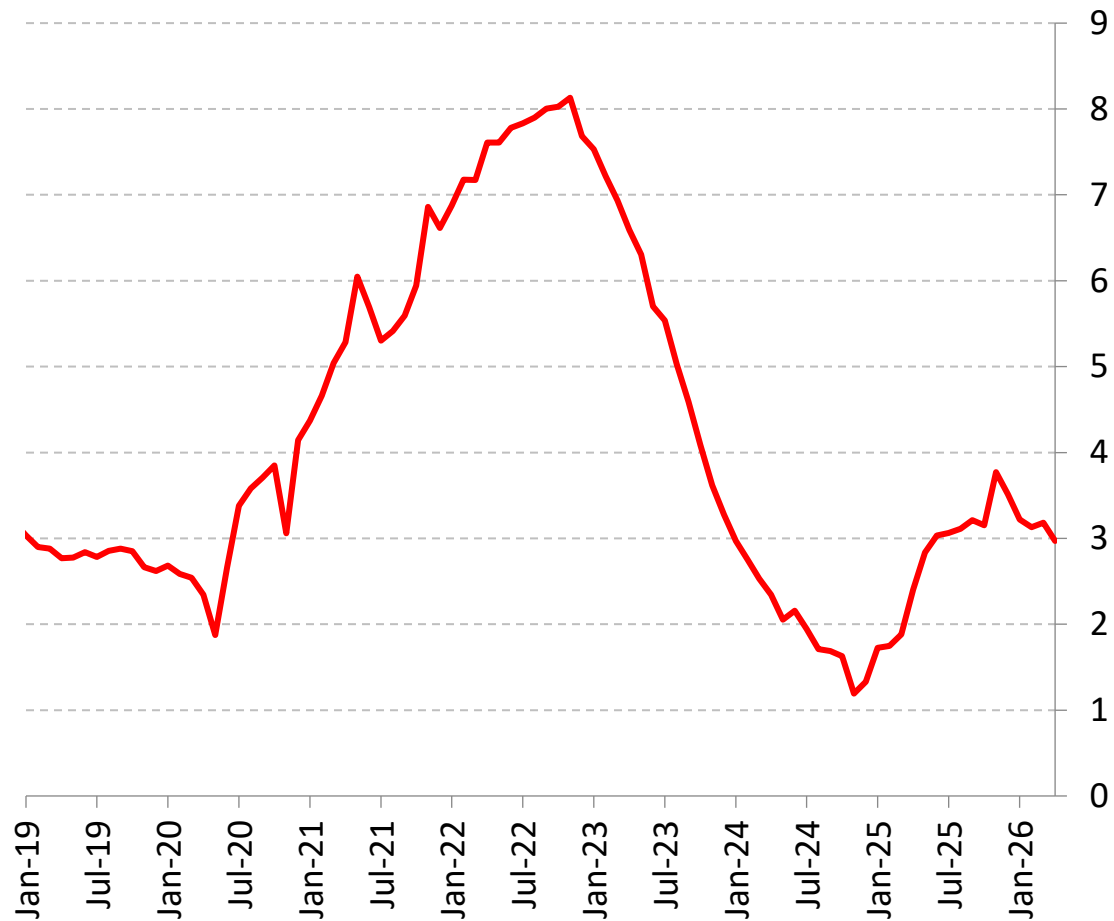
Employees' average wage according to
National Survey of Occupation and Employment
(Annual change, per cent)



Source: INEGI and Banco de México.

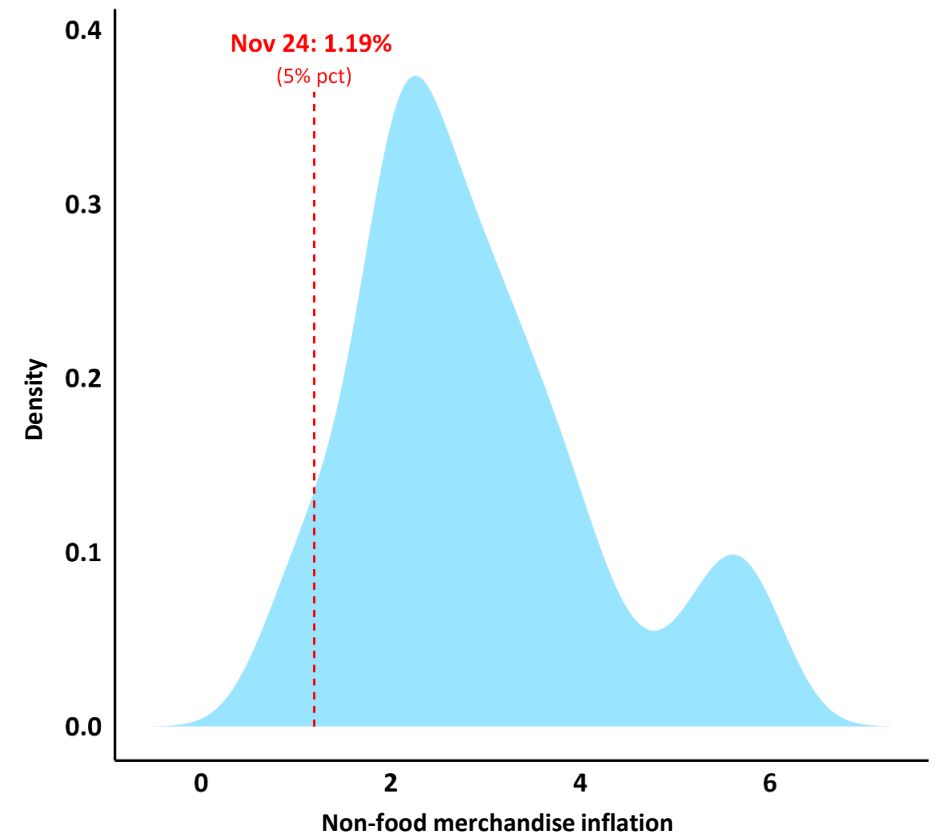
Non-food merchandise inflation

Non-food merchandise price index
(Annual change, percent)



Source: INEGI.

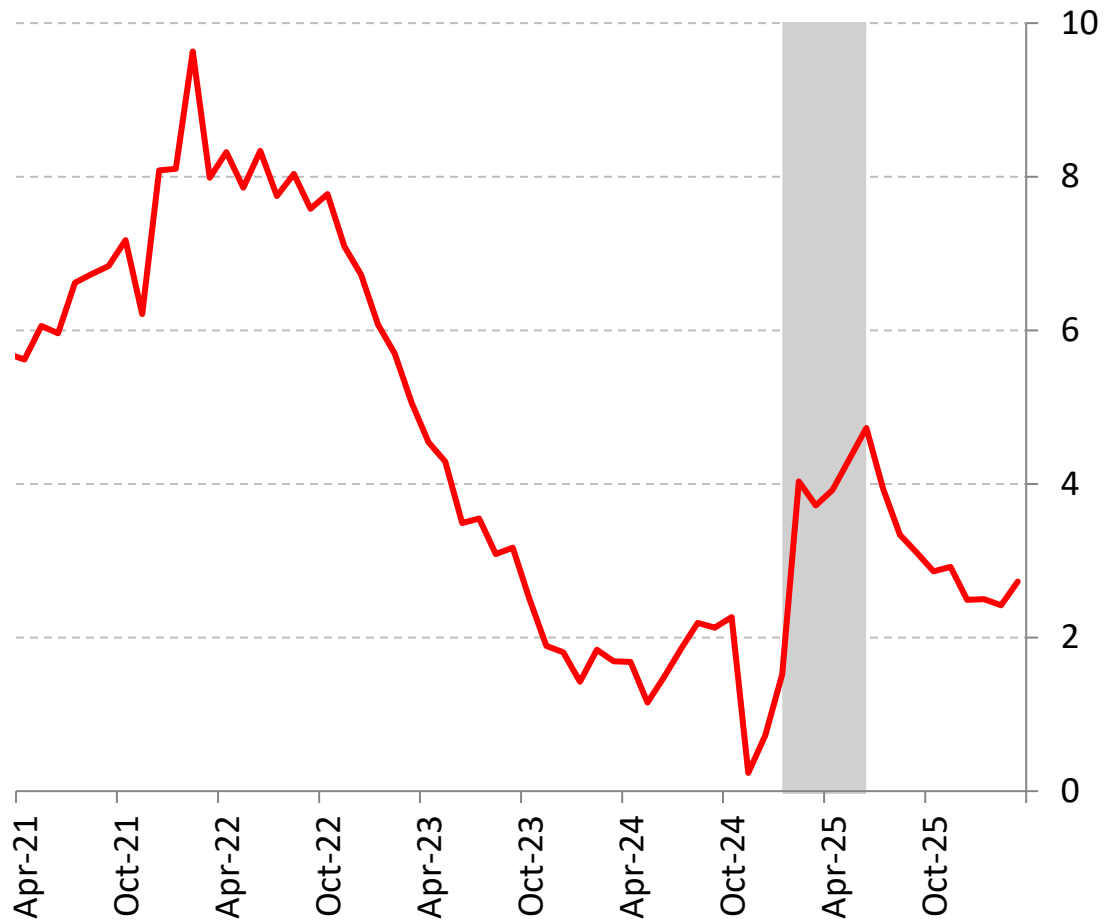
**Historical distribution
non-food merchandise inflation
2003-2019**



Source: Authors' calculations using data from INEGI.

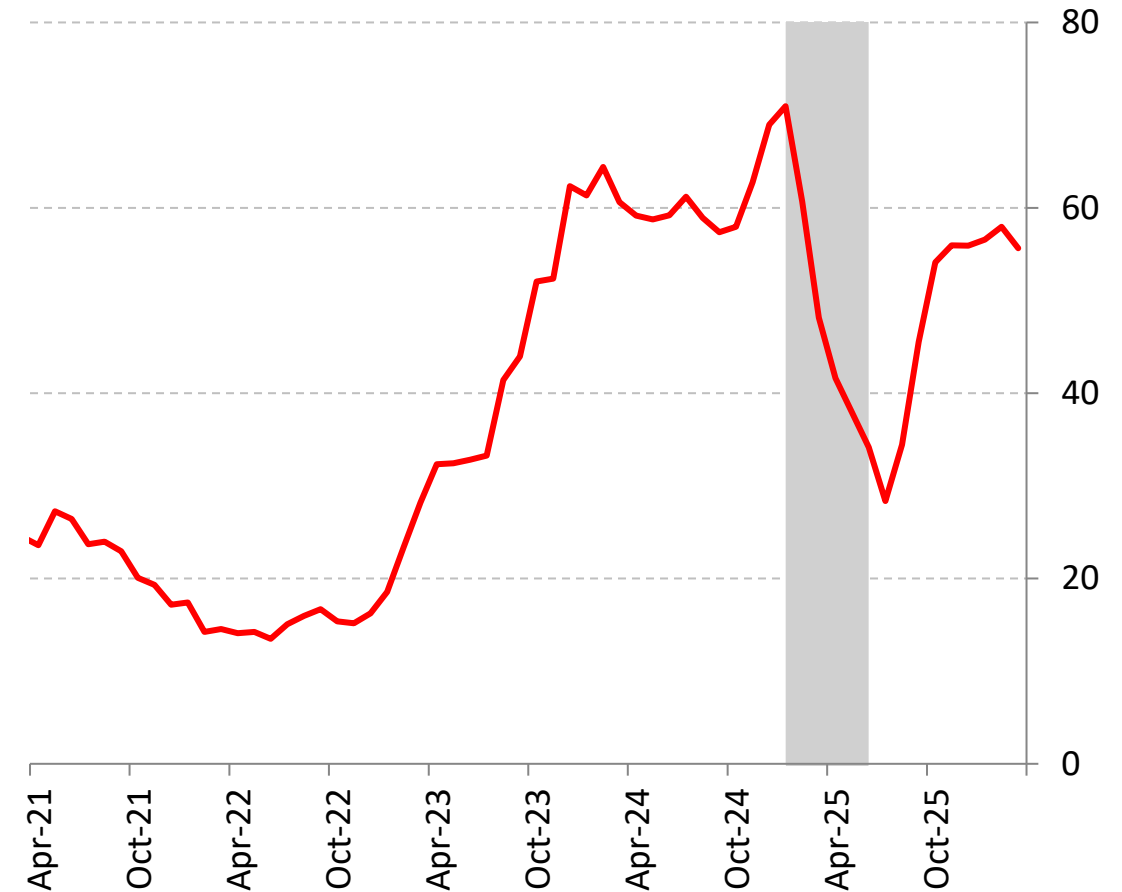
Several metrics, including monthly price changes, suggest that non-food merchandise prices were under pressure during the first half of 2025

Non-food merchandise price index
(Annualized monthly change, per cent)



Note: The three-month moving average over seasonally adjusted data is shown.
Source: Authors' calculations using data from INEGI.

Share of non-food merchandise with monthly inflation less or equal than 3%
(Percent)

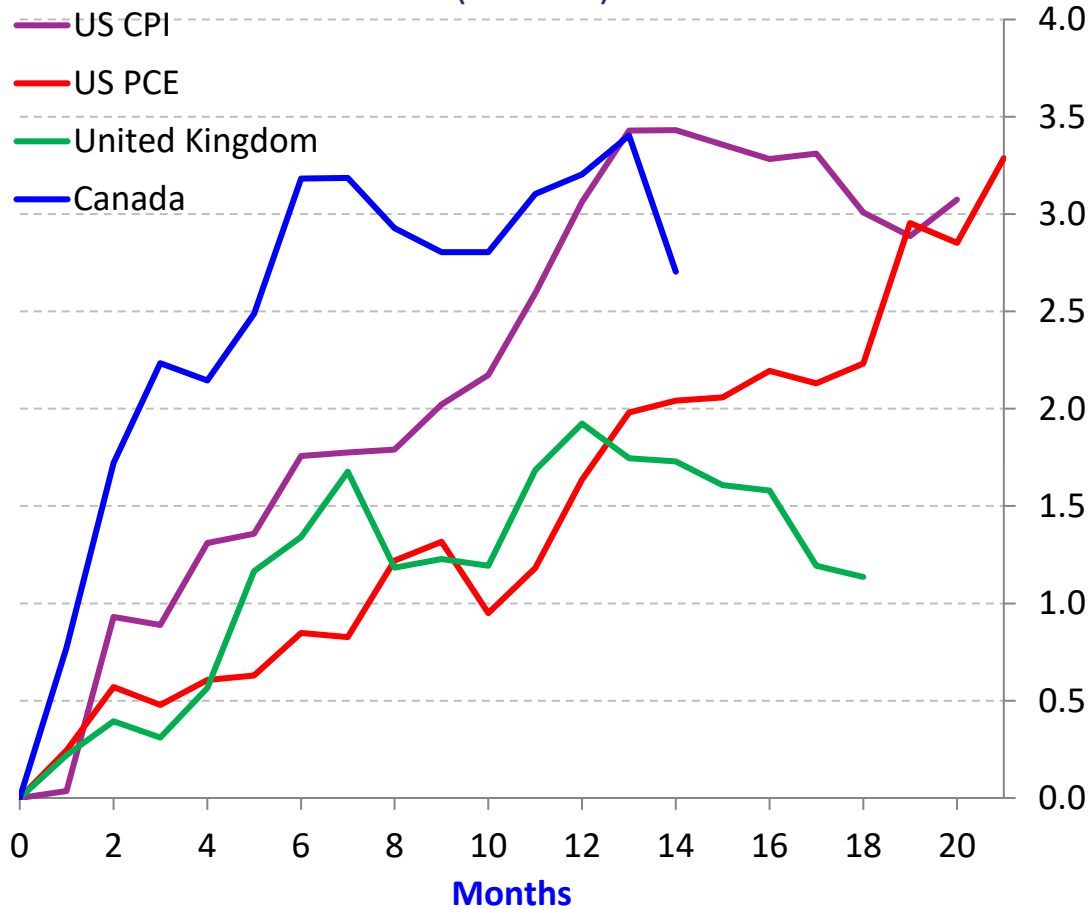


Note: The three-month moving average is shown.
Source: Authors' calculations using data from INEGI.

Core goods inflation has increased in several advanced and emerging economies

Advanced economies

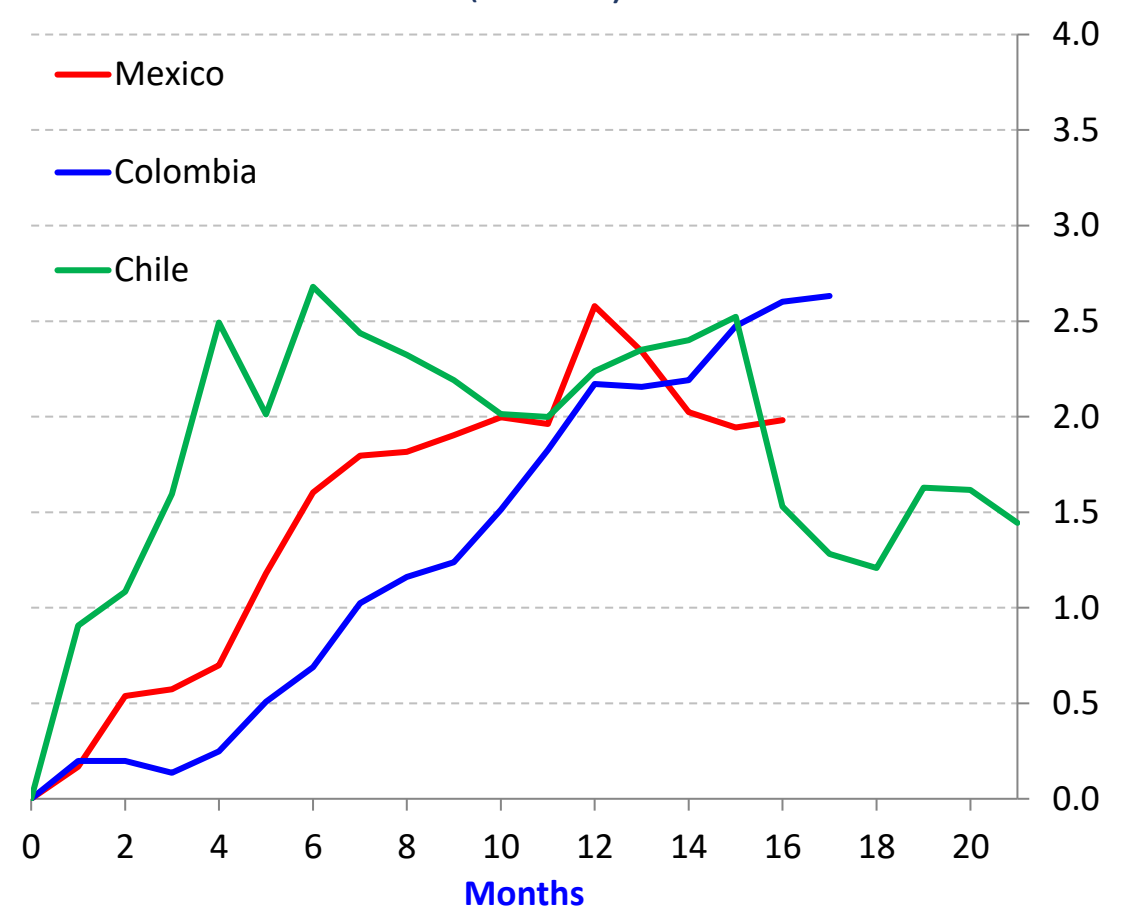
Change with respect to the month with the lowest inflation
Sample beginning in 2023
(Percent)



Source: Authors' calculations using data from the corresponding central banks' monetary policy reports. Core goods inflation data is used. Data for the US CPI October print is an interpolation between the September and November data.

Emerging economies

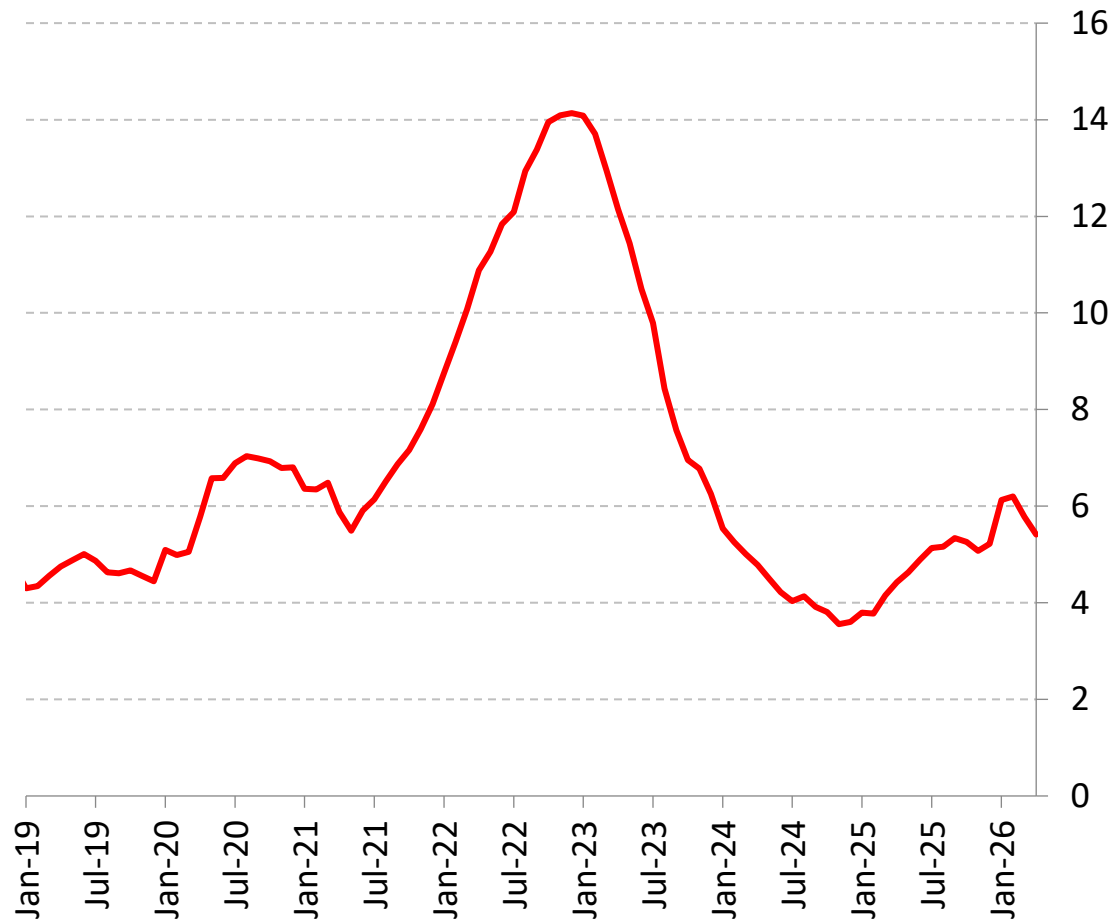
Change with respect to the month with the lowest inflation
Sample beginning in 2023
(Percent)



Source: Authors' calculations using data from the corresponding central banks' monetary policy reports. Core goods inflation data is used. In the case of Mexico, core non-food merchandise inflation is used.

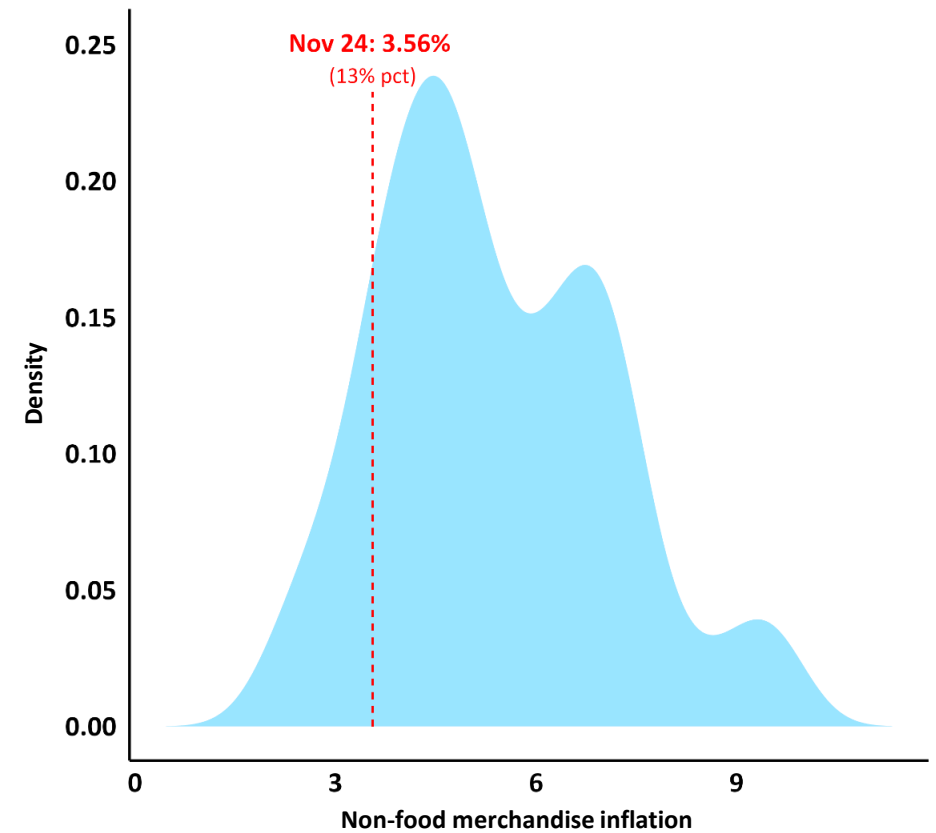
Food merchandise inflation

Food merchandise price index
(Annual change, per cent)



Source: INEGI.

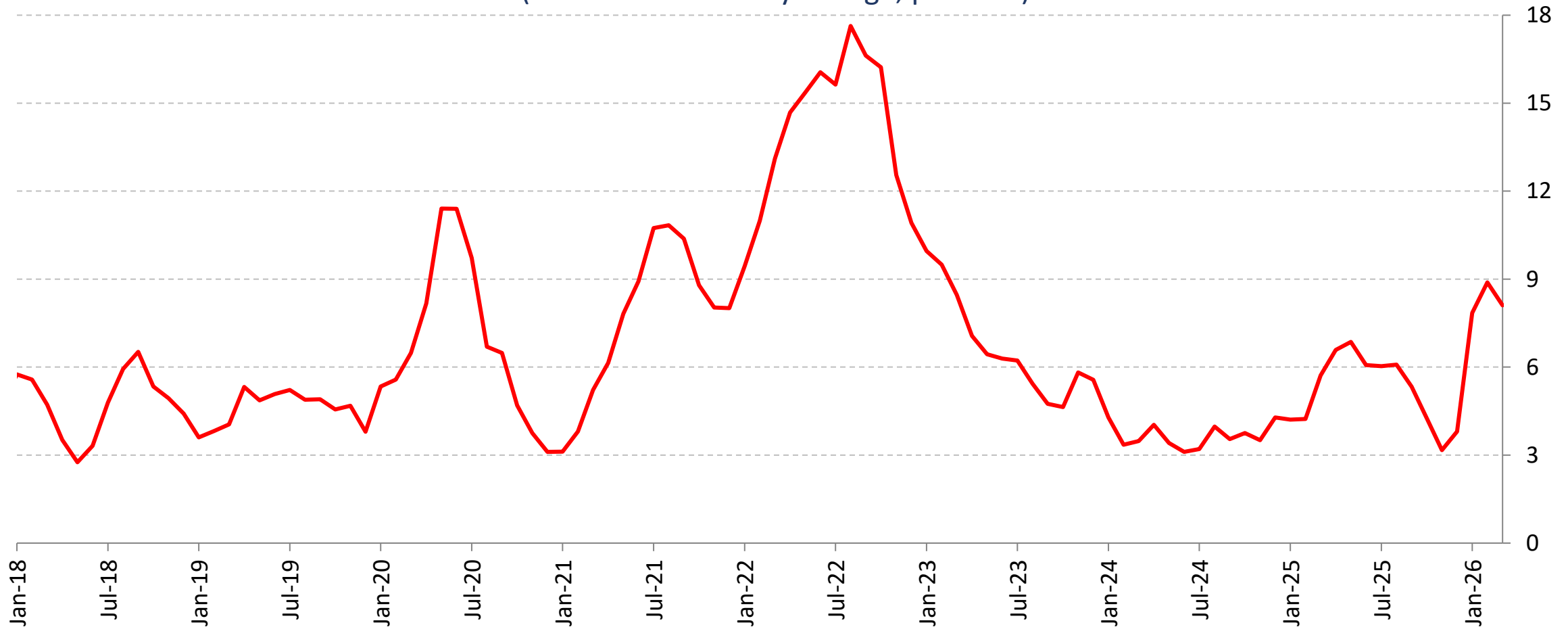
**Historical distribution of
food merchandise inflation
2003-2019**



Source: Authors' calculations using data from INEGI.

Monthly inflation dynamics for food merchandise also showed a moderation in the second half of 2025. It increased again at the beginning of 2026.

Food merchandise price index
(Annualized monthly change, per cent)

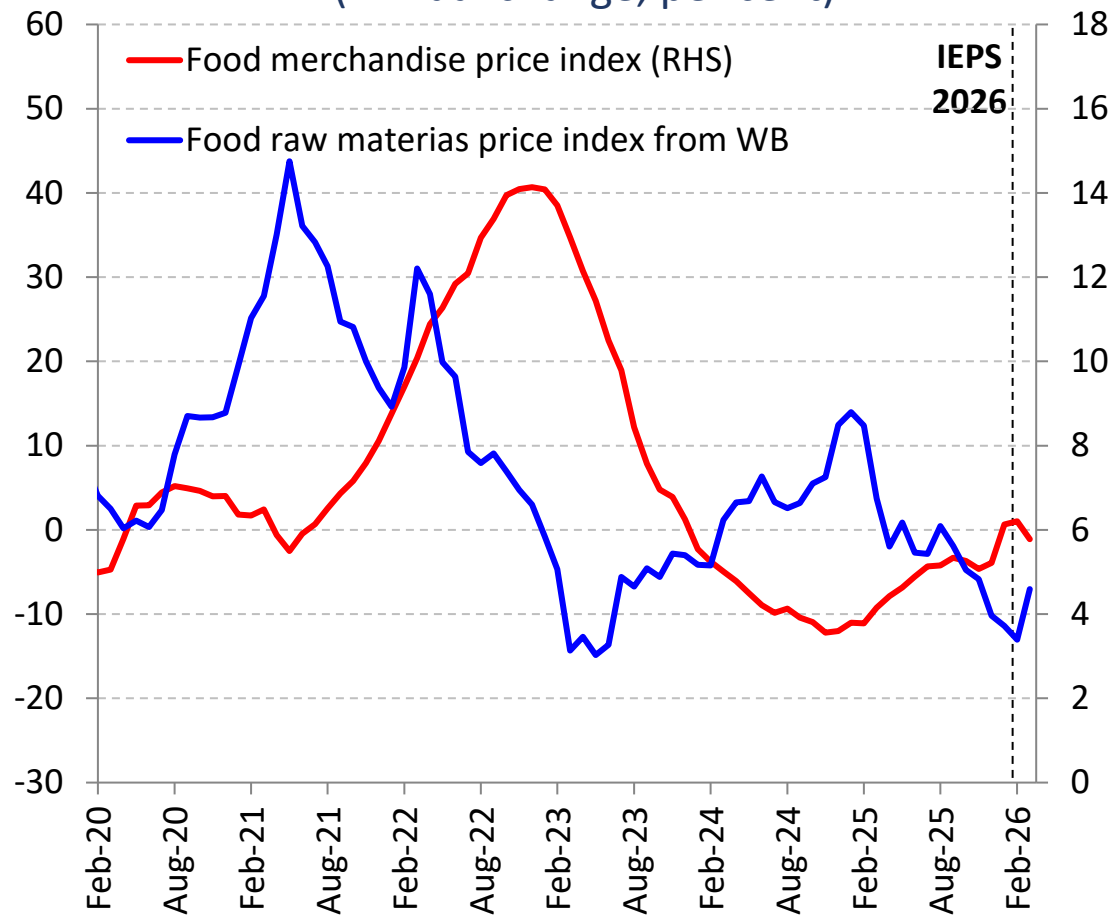


Note: The three-month moving average over seasonally adjusted data is shown.

Source: Authors' calculations using data from INEGI.

Food merchandise inflation dynamics

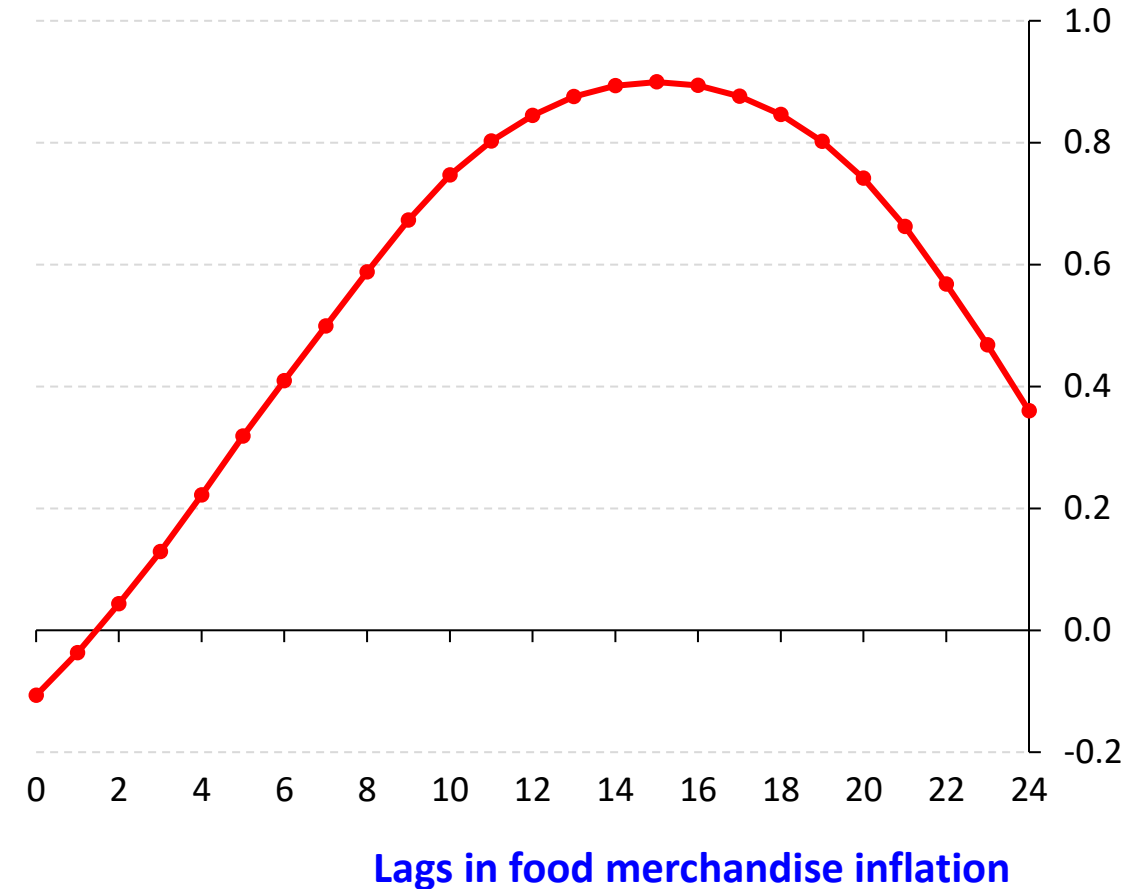
Price indices for food merchandise and food commodities
(Annual change, per cent)



Note: The food merchandise index is made by INEGI whereas the food commodities index is made by the World Bank.

Source: INEGI and World Bank.

Dynamic correlation between food merchandise inflation and food commodities inflation



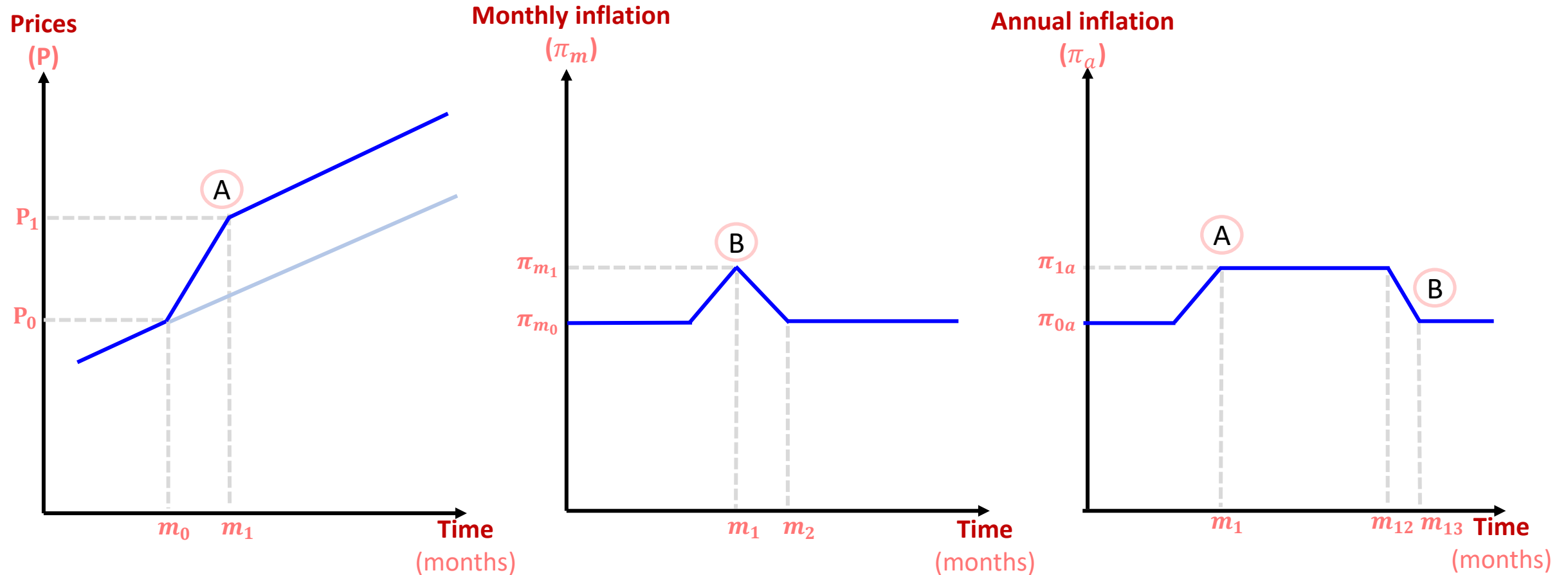
Source: Authors' calculations using data from INEGI.

Changes in excise taxes (IEPS) and tariffs: implications for inflation

- ***In October 2025, changes to the Special Tax on Production and Services (IEPS) Act were approved.***
 - *The IEPS act includes tax increases on groups of items associated with flavored beverages and tobacco.*
- ***Regarding changes in tariffs, pass-through will depend on the specific conditions of the exposed sectors and the degree of slack in the economy.***
 - 1 *The pass-through will depend on the specific conditions of the exposed sectors and the degree of slack in the economy.*
 - 2 *Imports directly affected by tariffs account for 6.3% of total imports.*

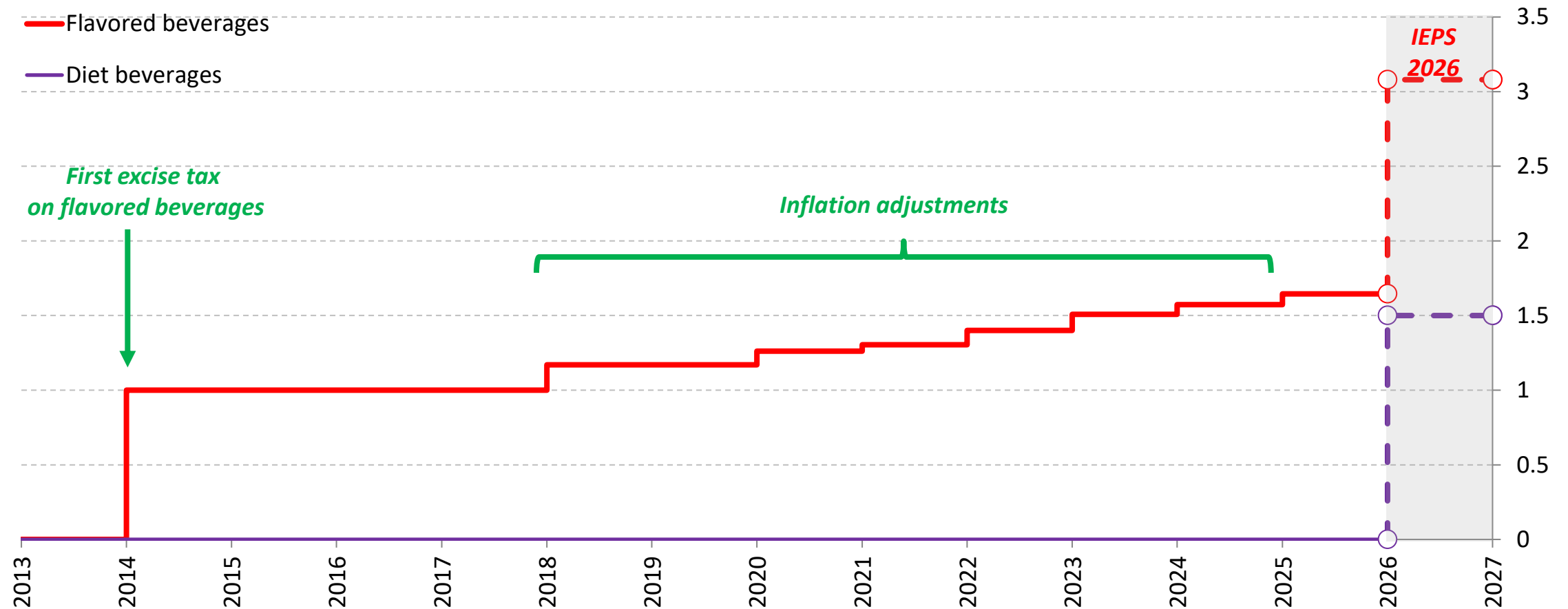
Effect of one-time price increase on inflation

Effect of a change in relative prices



The IEPS tax on flavored beverages will see its first significant upward adjustment since its implementation in 2014

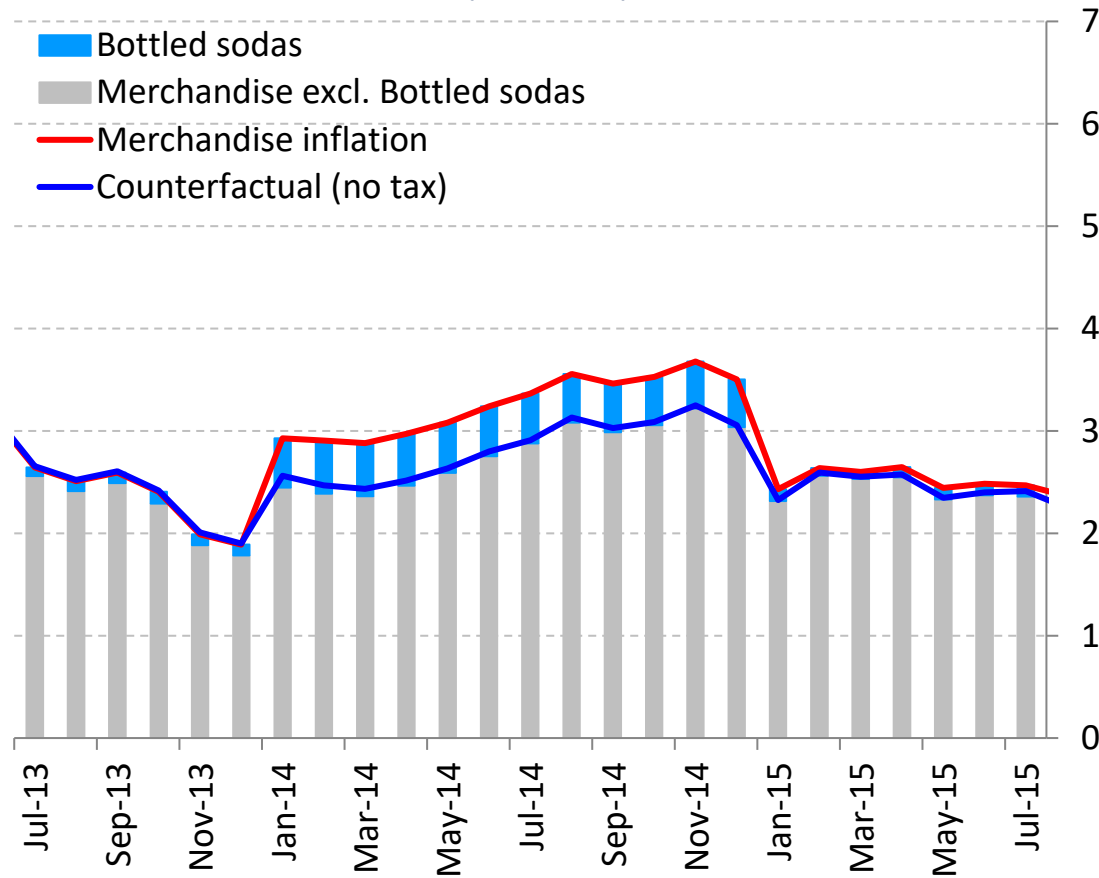
Evolution of the IEPS excise tax on flavored beverages
(Pesos per liter)



Source: Diario Oficial de la Federación

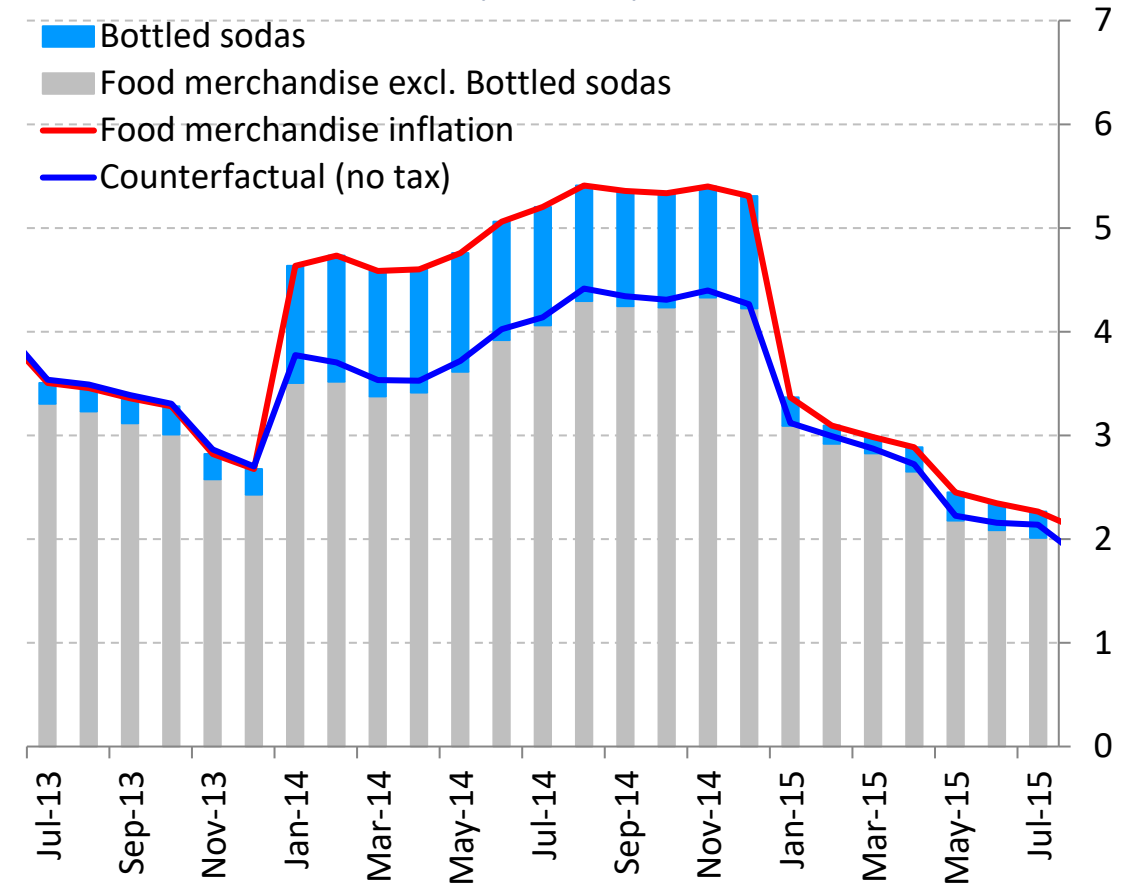
The tax on flavored beverages influenced the dynamics of merchandise inflation through the food merchandise component

Bottled sodas' contribution to merchandise inflation
(Per cent)



Source: Authors' calculations using data from INEGI.

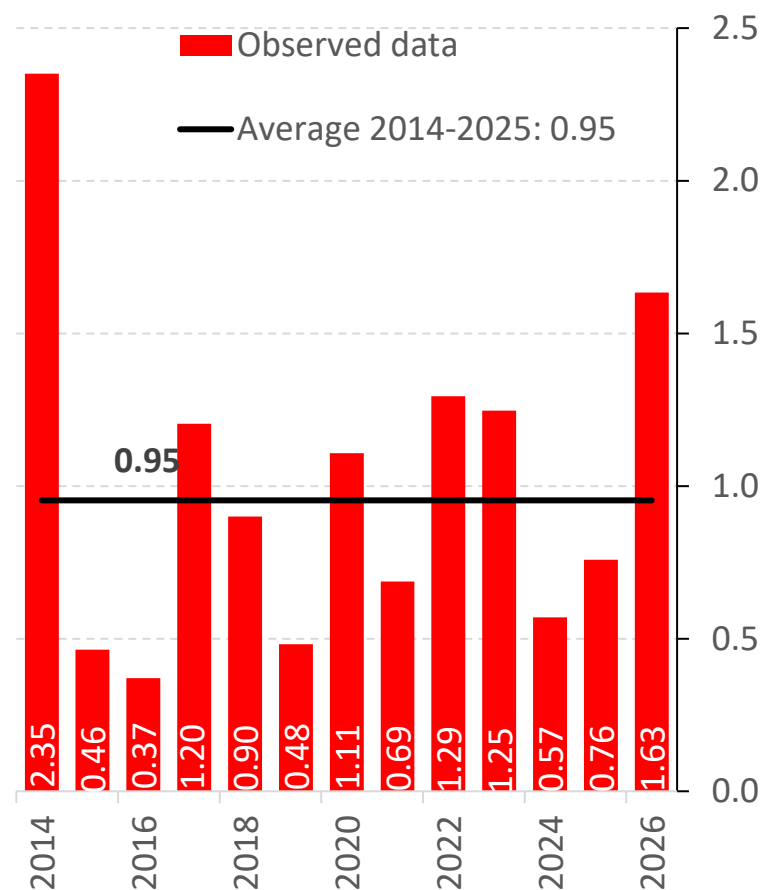
Bottled sodas' contribution to food merchandise inflation
(Per cent)



Source: Authors' calculations using data from INEGI.

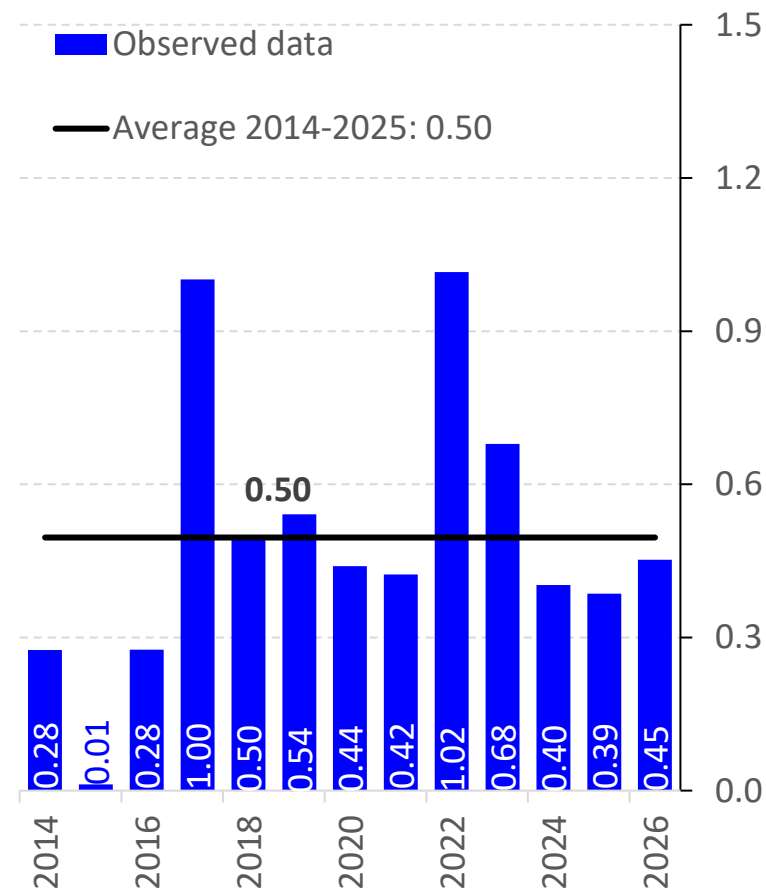
Historical food merchandise inflation

January
(Monthly change, per cent)



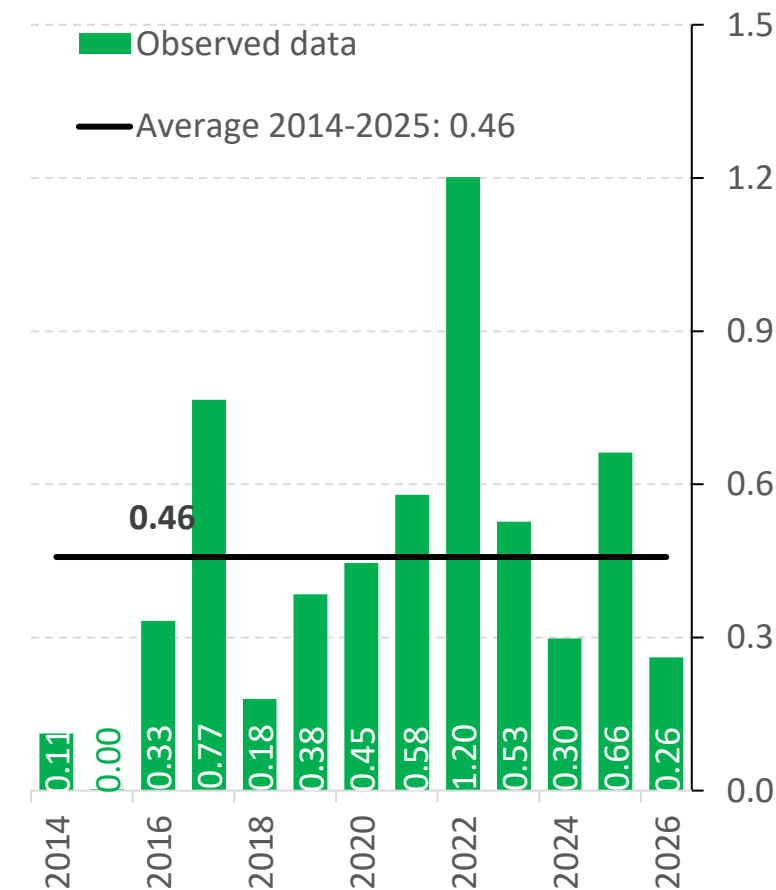
Source: INEGI.

February
(Monthly change, per cent)



Source: INEGI.

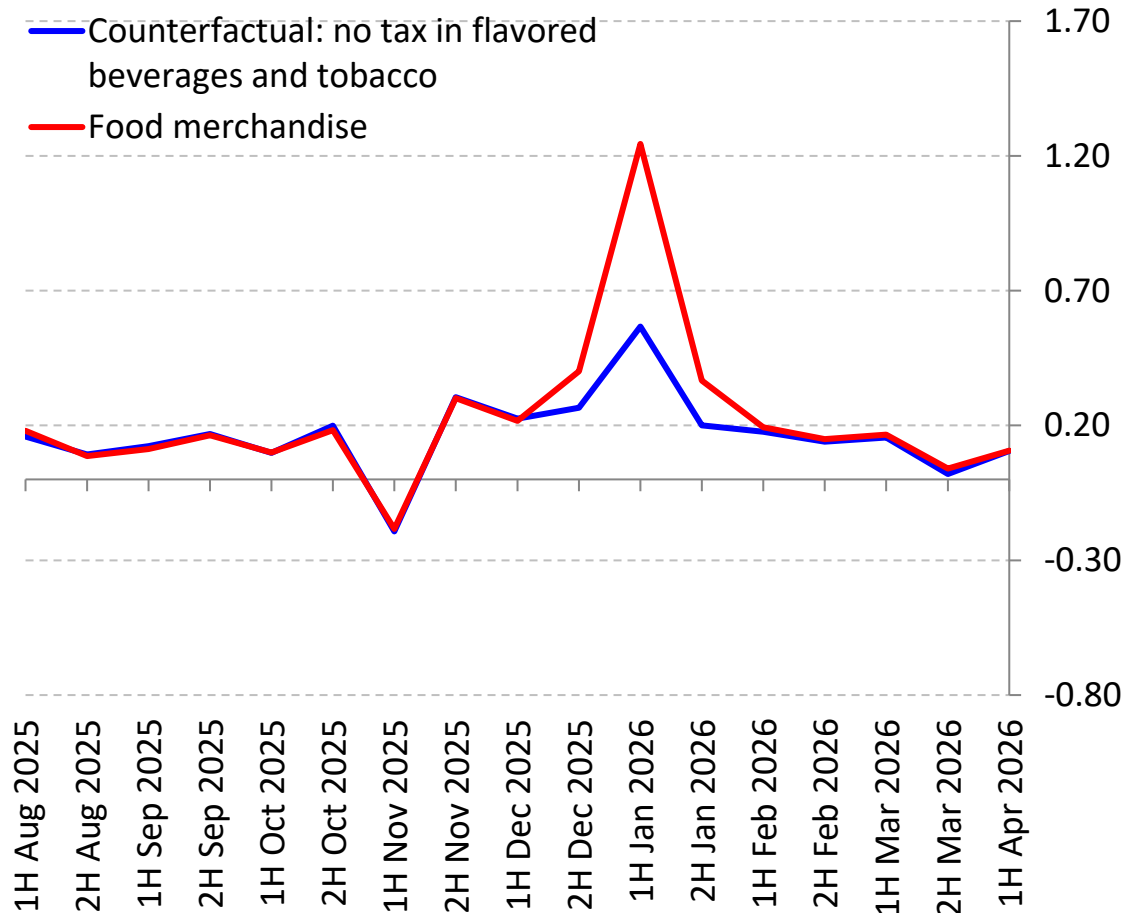
March
(Monthly change, per cent)



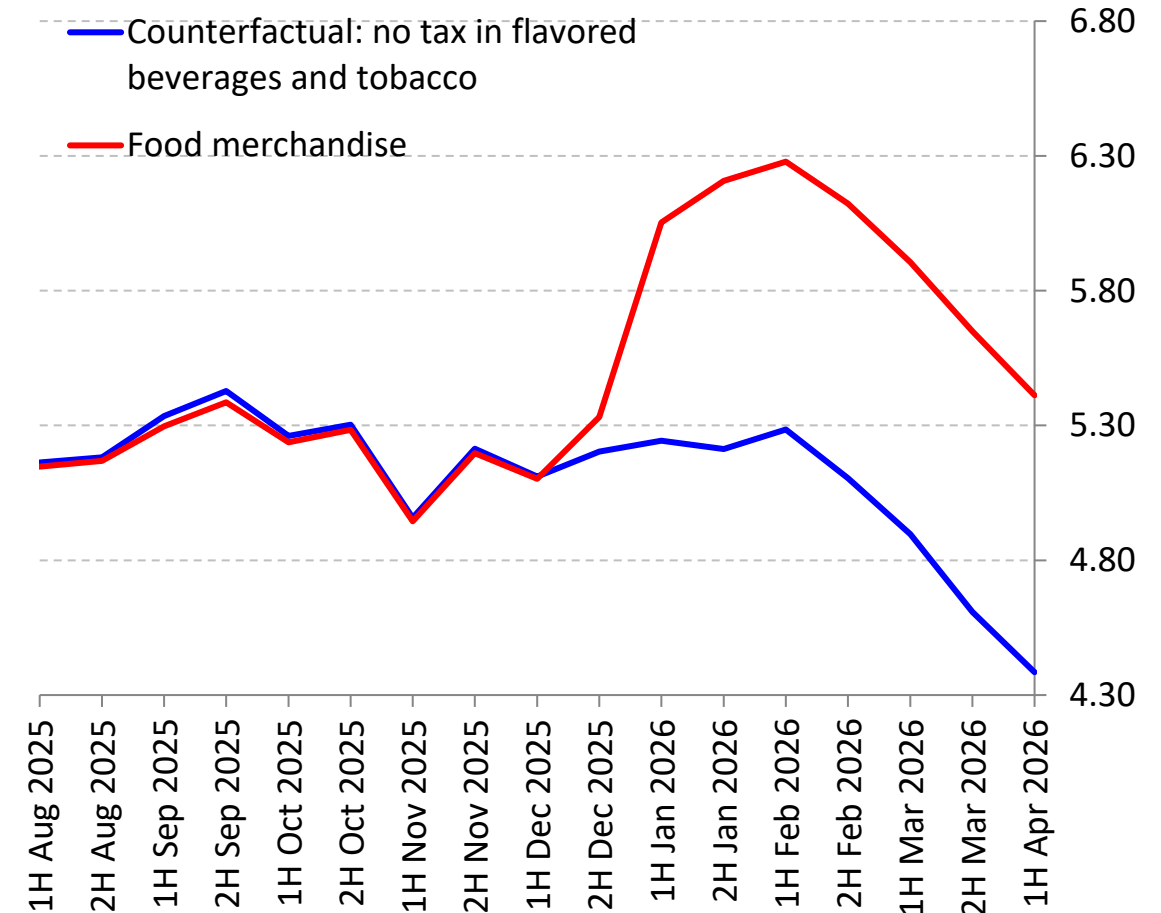
Source: INEGI.

As expected, recent bi-weekly readings are consistent with a transitory shock

Food merchandise annual inflation
(Bi-weekly change, per cent)



Food merchandise annual inflation
(Annual change, per cent)

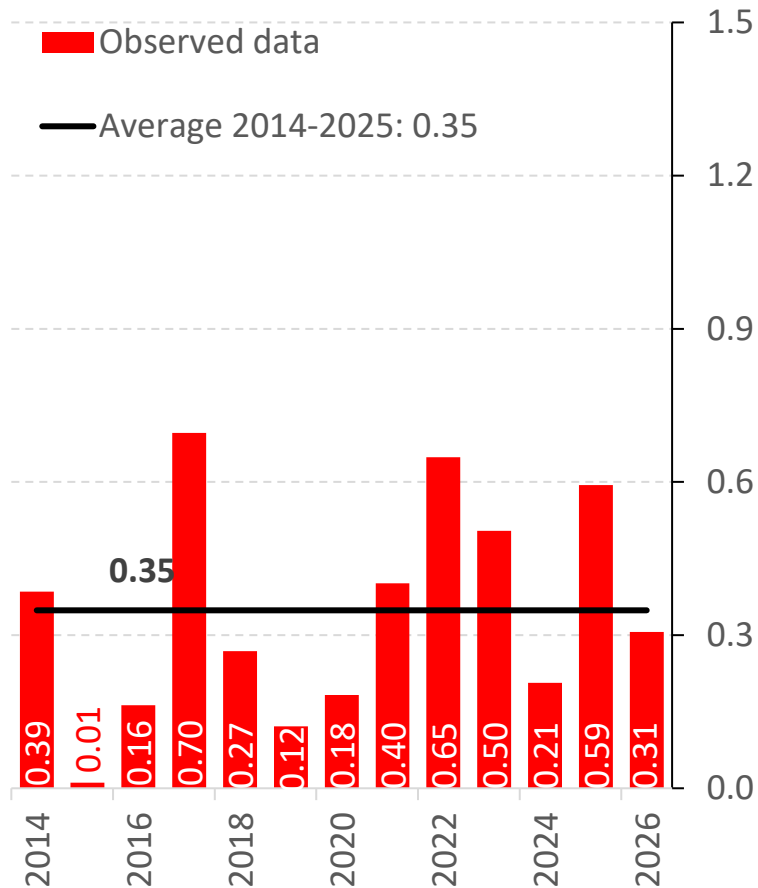


Note: Counterfactual price paths are constructed using synthetic control price indices for energy drinks, soda syrup, bottled juices, bottled sodas, and cigarettes, each estimated separately.

Source: Authors' calculations using data from INEGI, following the methodology in Grogger (2017), *Soda Taxes and the Prices of Sodas and Other Drinks: Evidence from Mexico*, American Journal of Agricultural Economics, 99(2), 481–498.

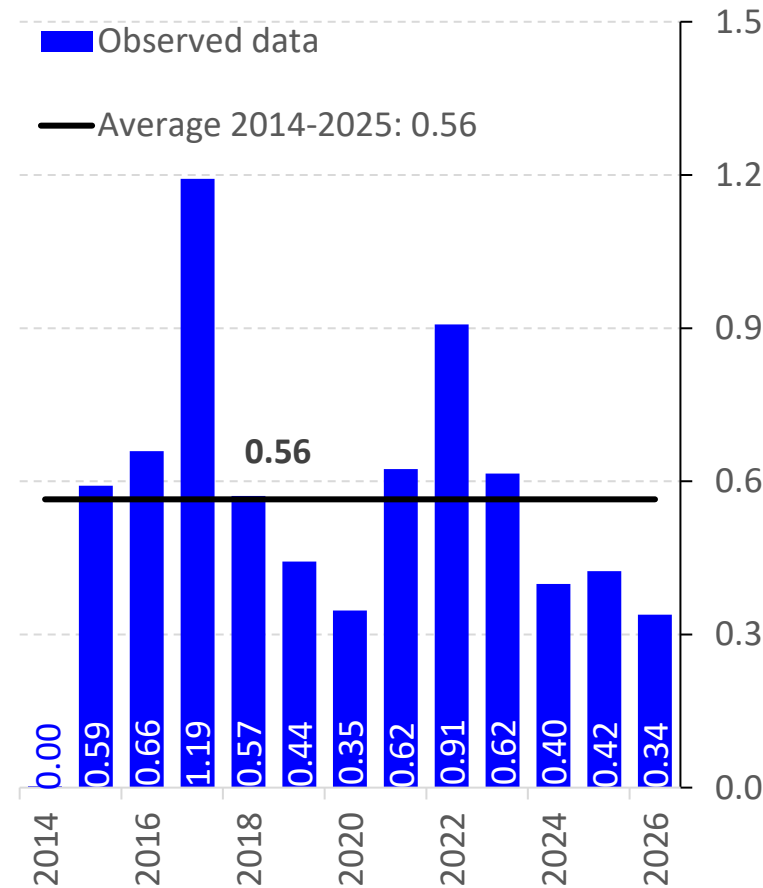
Historical non-food merchandise inflation

January
(Monthly change, per cent)



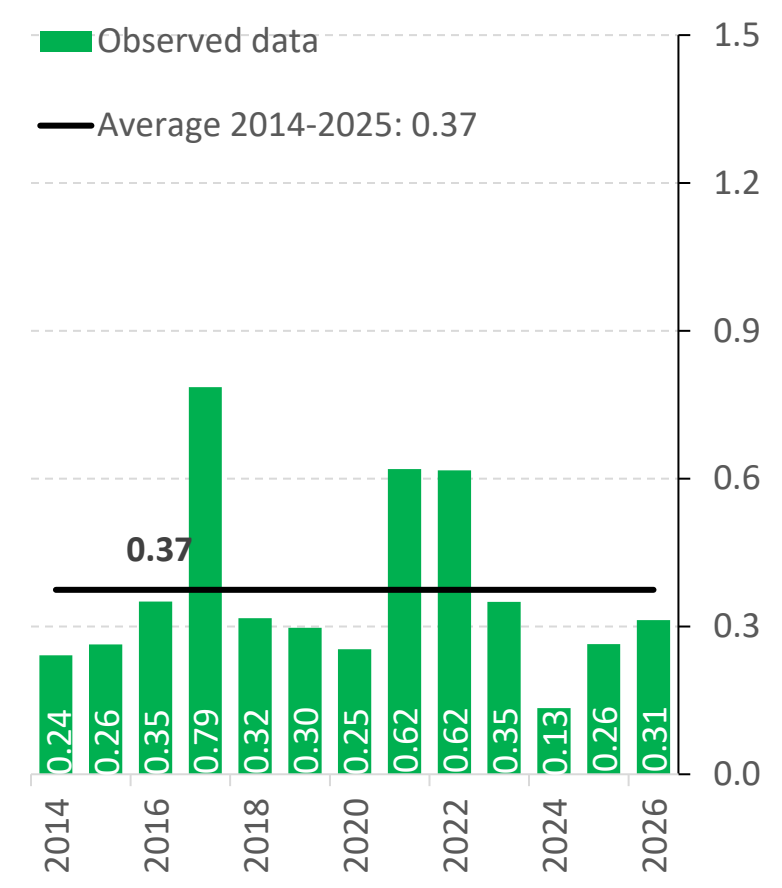
Source: INEGI.

February
(Monthly change, per cent)



Source: INEGI.

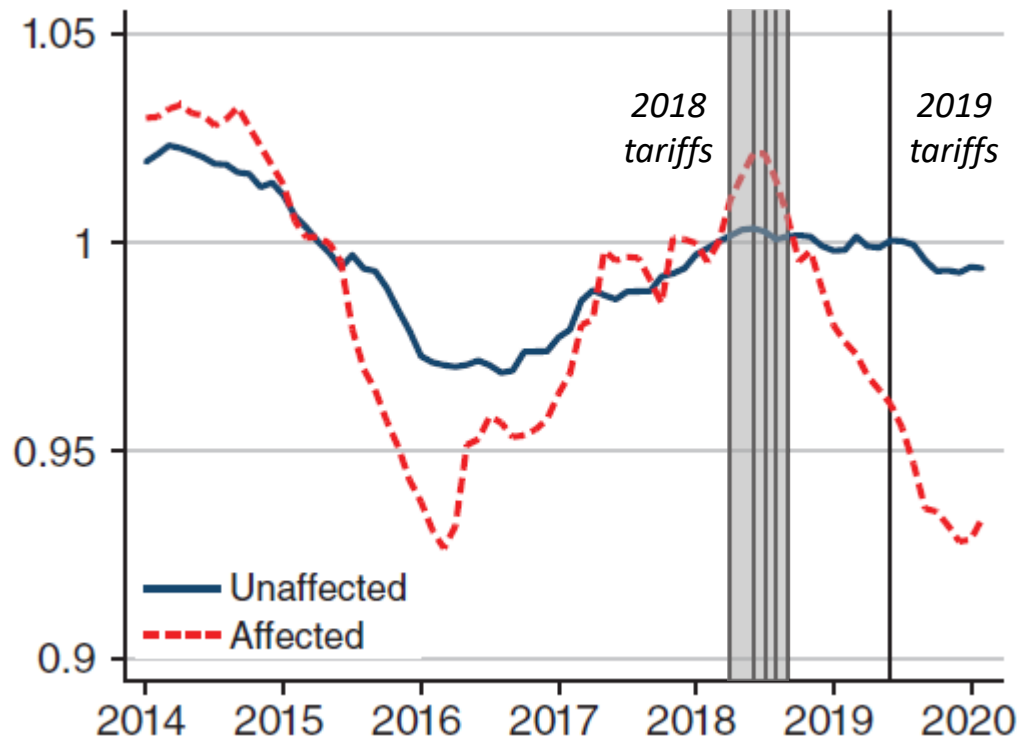
March
(Monthly change, per cent)



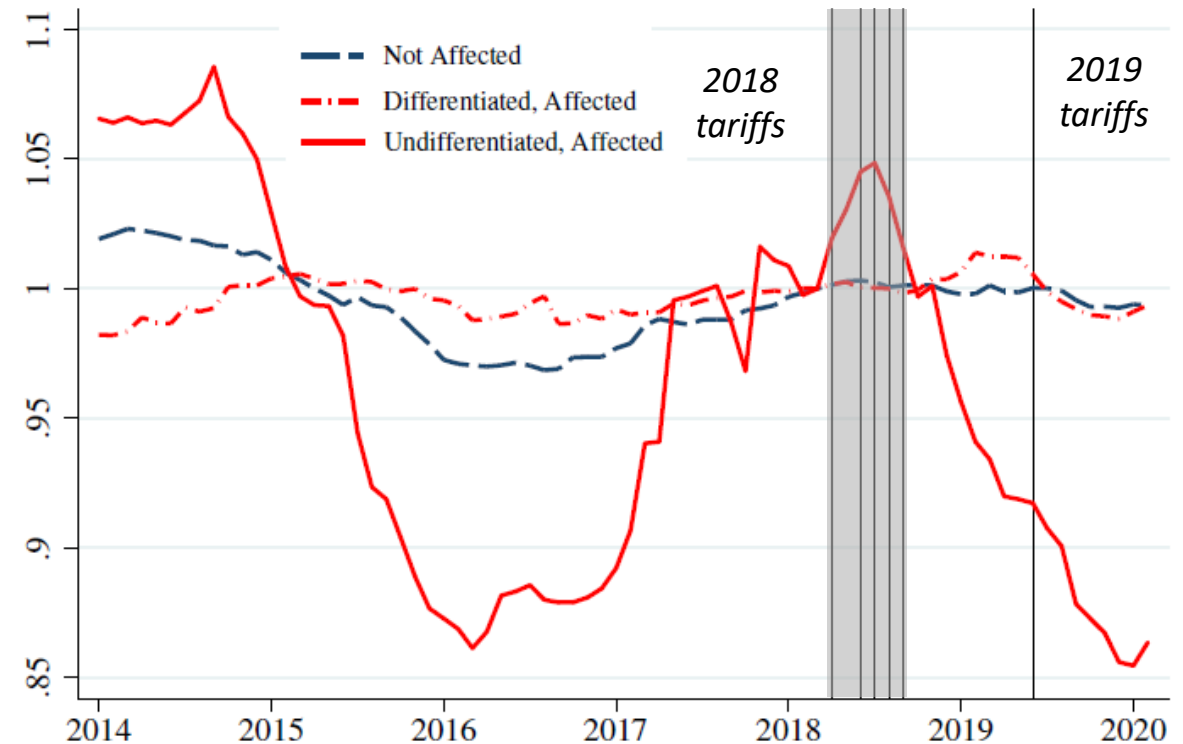
Source: INEGI.

Export Price and Tariff Incidence: evidence from the 2018–2019 trade tensions

Export prices
(Index June 2018 = 100)



Export prices by product type:
Differentiated and Non-Differentiated goods
(Index June 2018 = 100)



Note: The chart on export prices corresponds to Figure 1, panel B, in the article, while export prices by product correspond to Figure A3, panel A. Figures are adapted from the original study, which relies on administrative data that are not publicly available.

Source: Cavallo, Alberto, Gita Gopinath, Brent Neiman, and Jenny Tang (2021), *Tariff Pass-Through at the Border and at the Store: Evidence from U.S. Trade Policy*. *American Economic Review: Insights* 3(1), 19–34. Export prices

Índice

1

Economic Activity

a) Current macroeconomic outlook

b) Long-term prospects

2

Inflation Outlook

3

Recent geopolitical developments

4

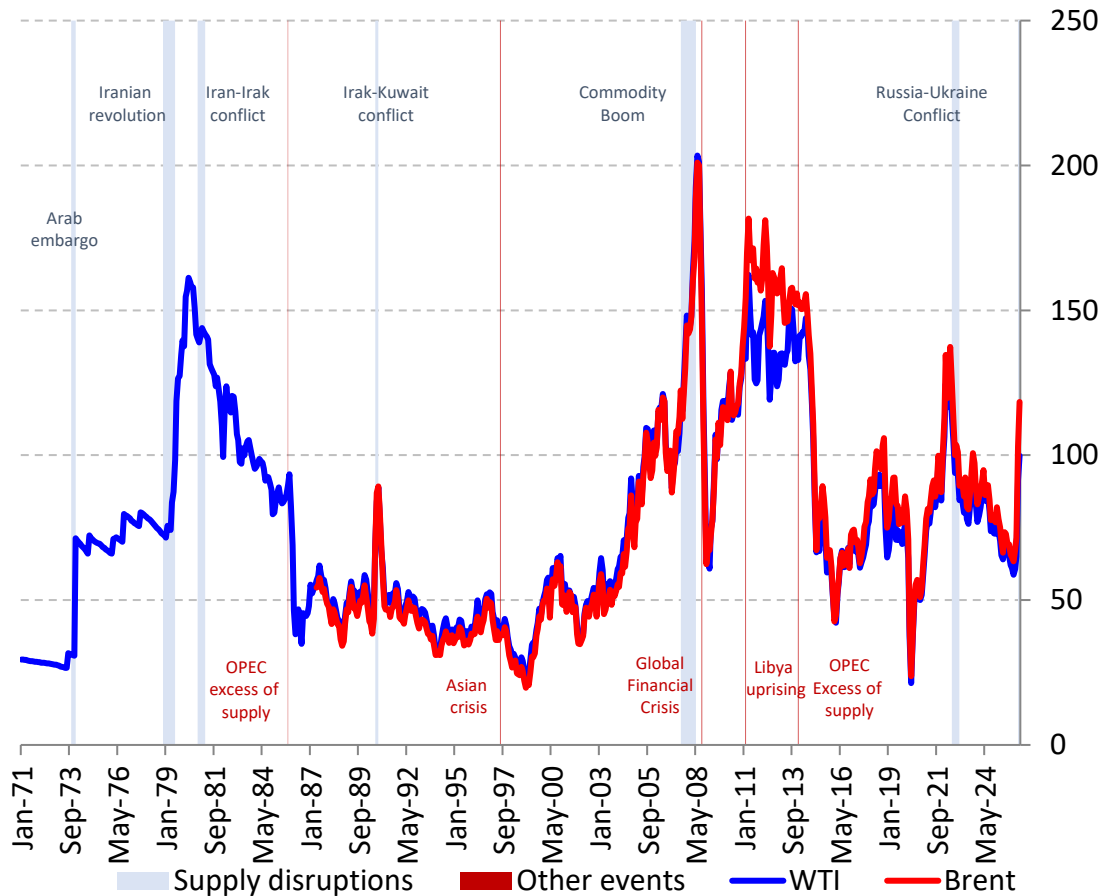
Long-Term inflation expectations

Strait of Hormuz



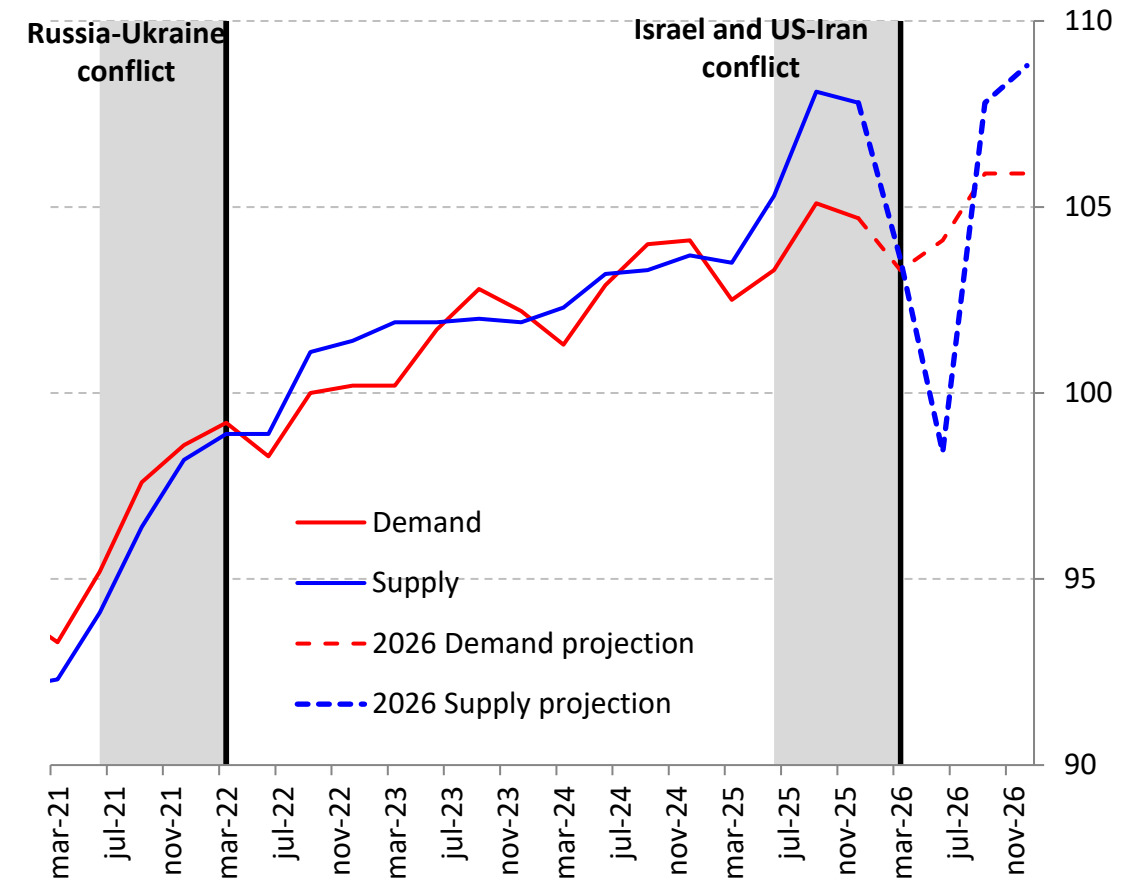
Global oil prices have risen following the supply disruption, but remain below past crisis levels as pre-existing oversupply has cushioned the impact

Real oil prices
(dollars per barrel)



Source: FRED

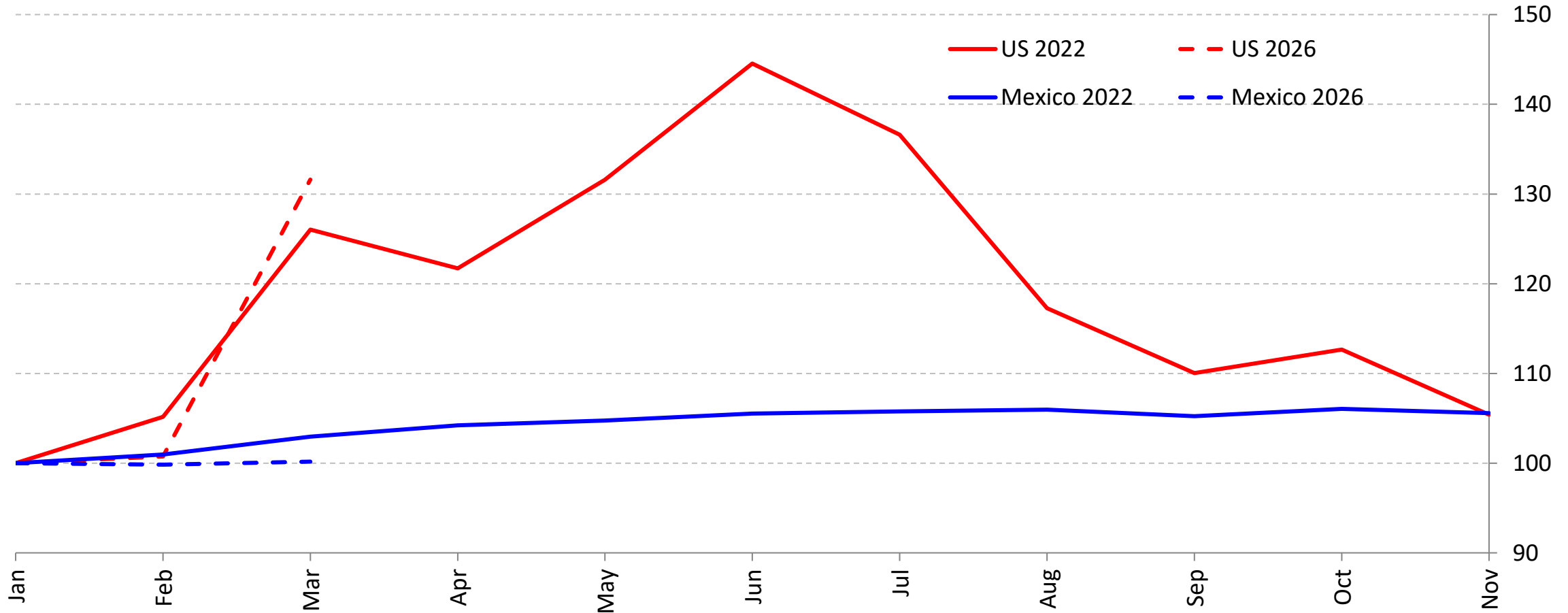
World Oil Demand and Supply
(millions of barrels per day, mbd)



Source: International Energy Agency

Gasoline prices are buffered by flexible excise tax policies that absorb global price shocks, a mechanism that proved effective during the 2022 Ukraine war

Gasoline prices in the US and Mexico
(index Jan=100)

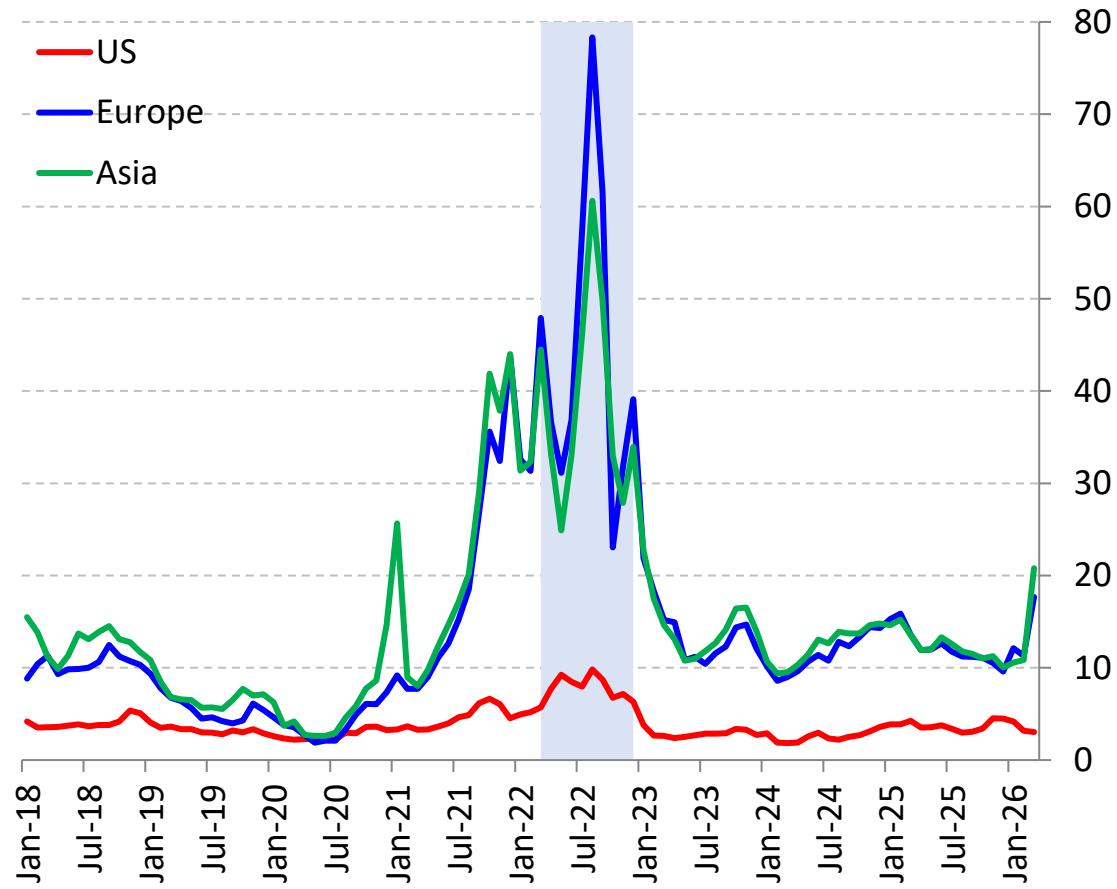


Source: Bloomberg

Although natural gas markets are becoming more global, they remain regionally segmented, with the U.S. benefiting from abundant shale supply

Real natural gas prices

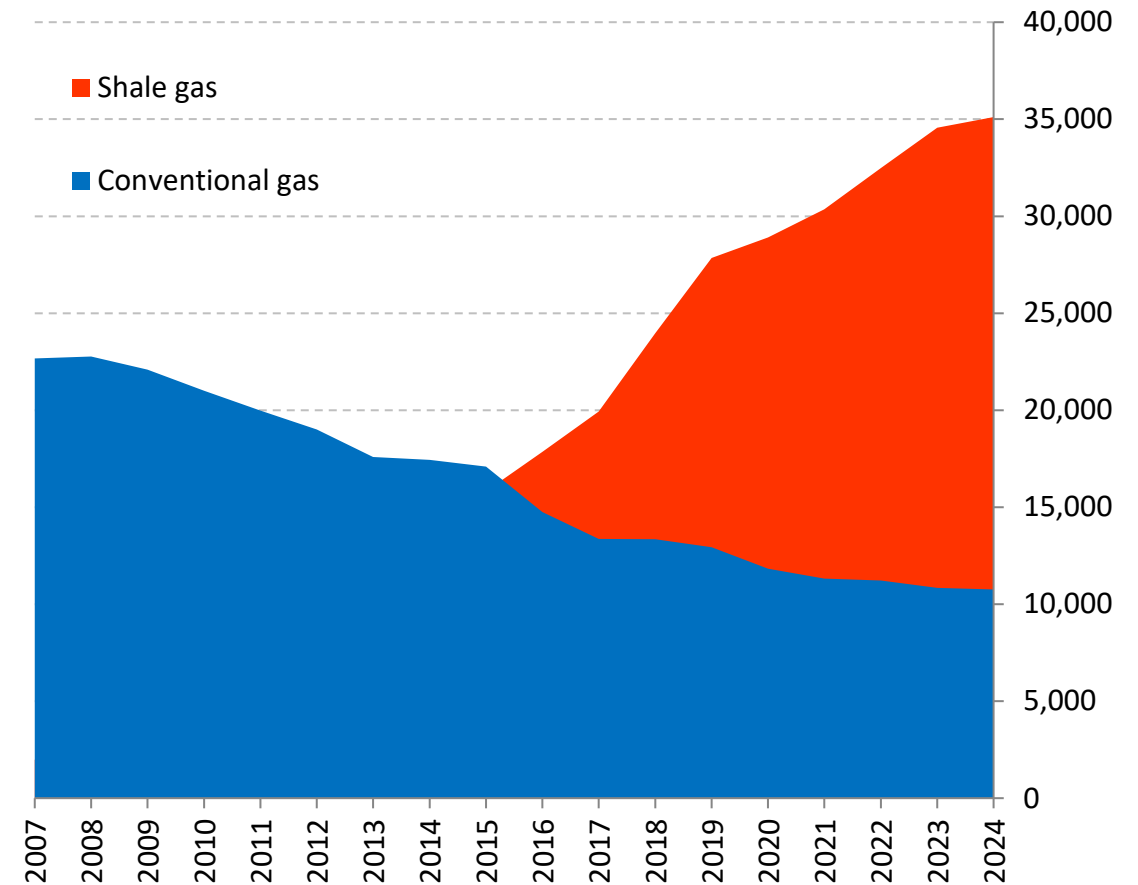
(USD per million British thermal units, base march 2026)



Source: Bloomberg

U.S. Natural gas production

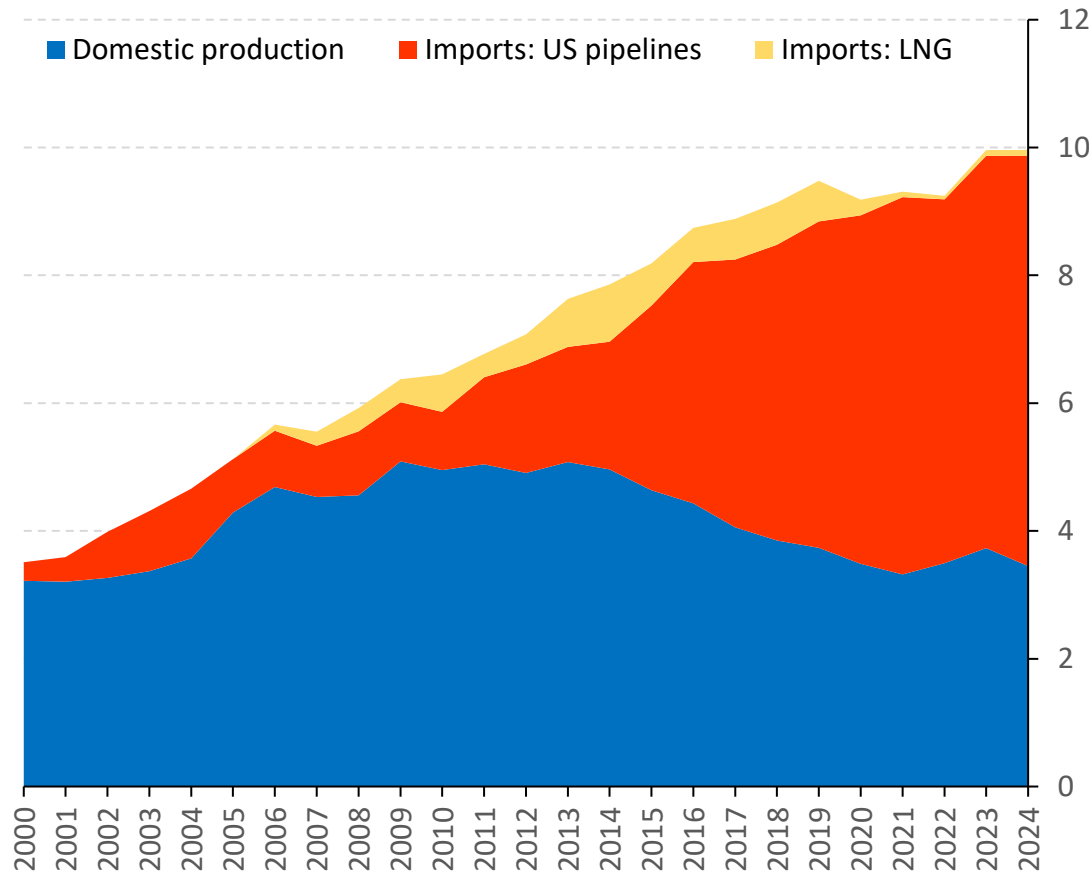
(billion of cubic feet, bcf)



Source: U.S. Energy information administration

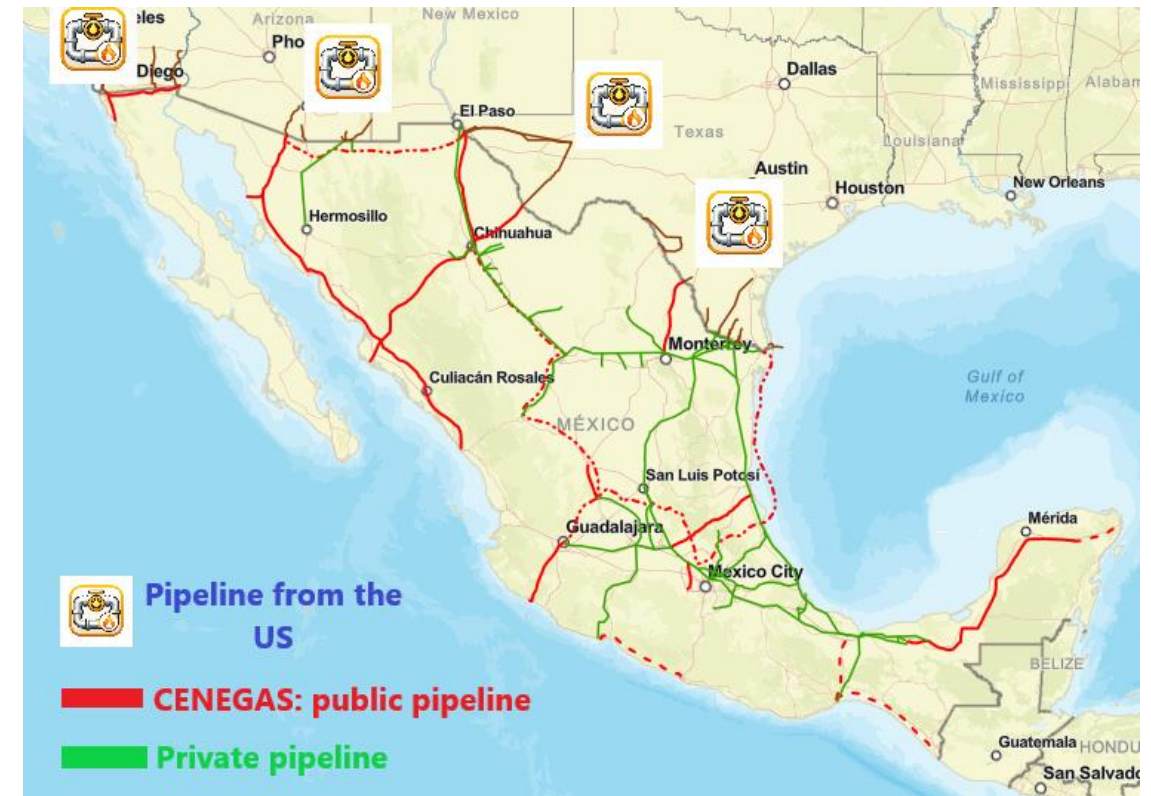
U.S. natural gas has become Mexico's primary supply source, driven by pipeline infrastructure largely connected to Texas and New Mexico

Sources of Natural Gas Supply in Mexico
(Billion cubic feet, bcf)



Source: U.S. Energy information administration

Map of U.S.-Mexico Natural Gas Pipeline Network



Source: Author's calculations using Hydrocarbon Maps from the Mexican Ministry of Energy

Índice

1

Economic Activity

a) Current macroeconomic outlook

b) Long-term prospects

2

Inflation Outlook

3

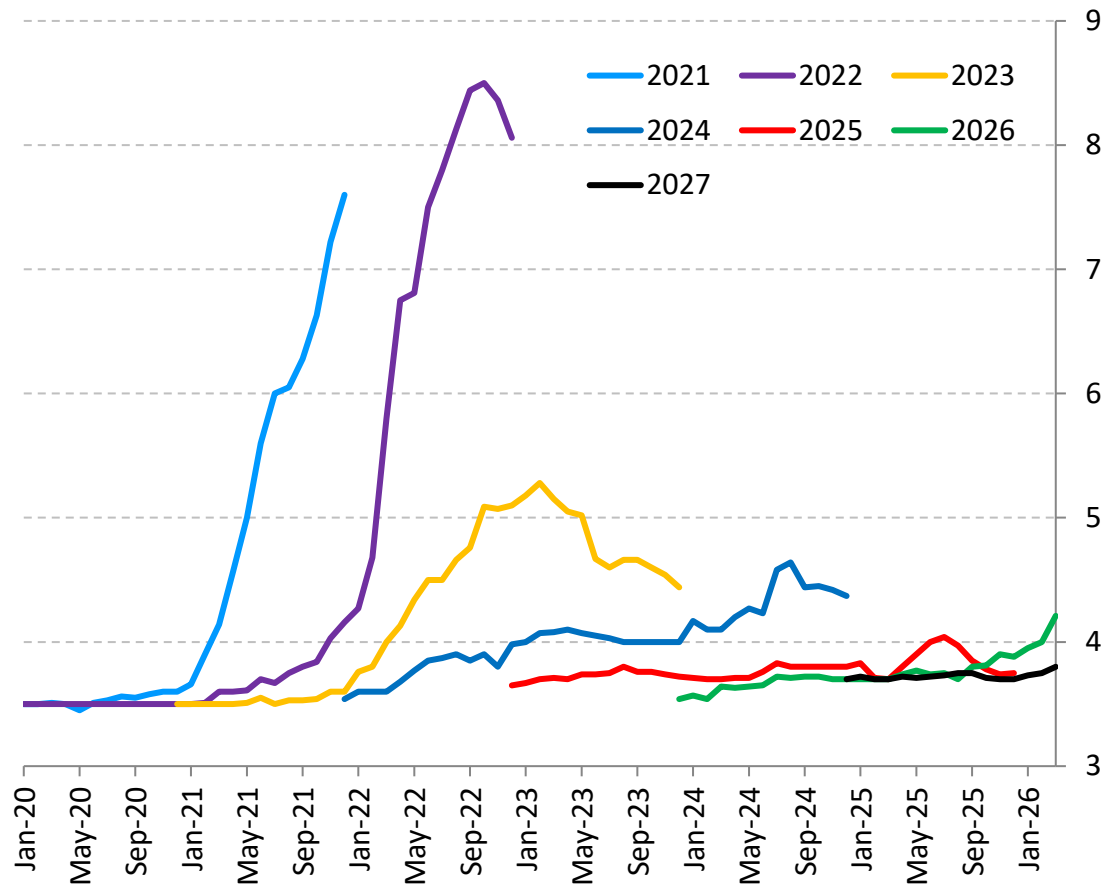
Recent geopolitical developments

4

Long-Term inflation expectations

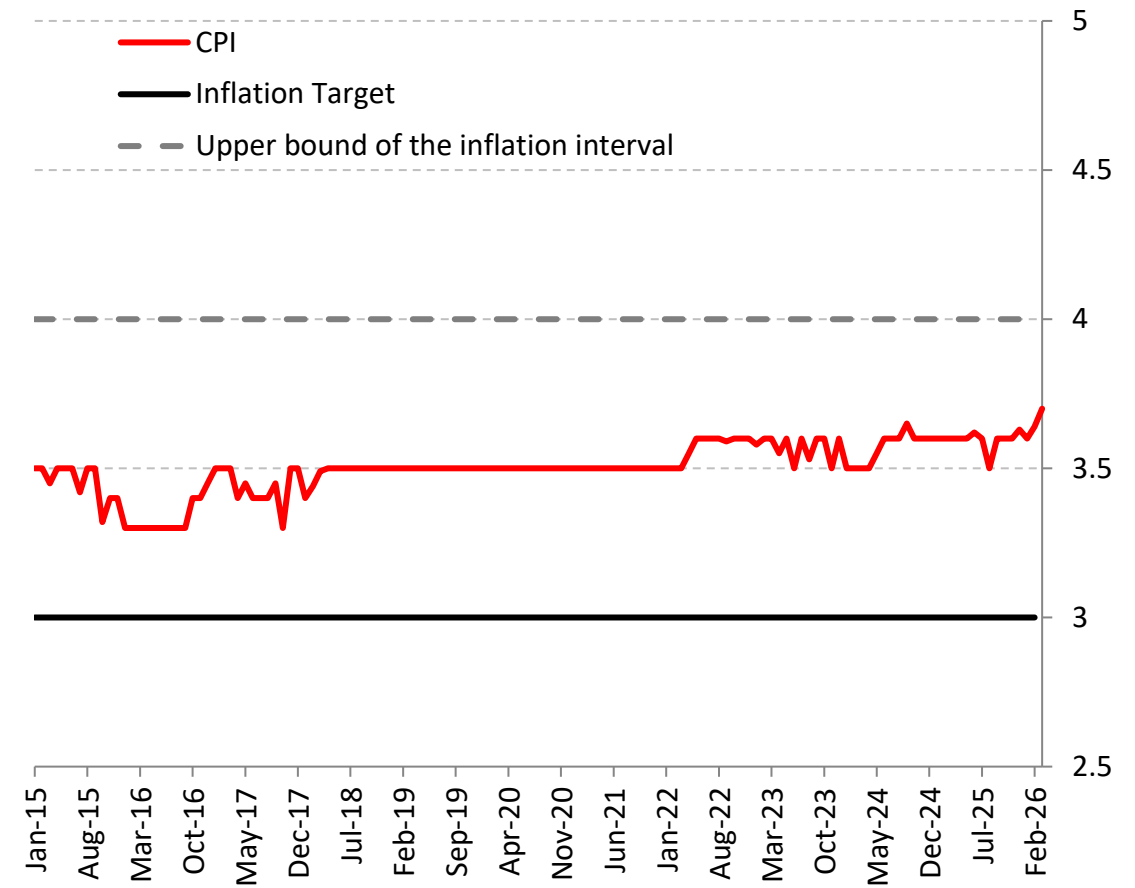
Longer-term inflation expectations remain anchored

Median expectations of headline inflation
at the end of the year
(percent)



Source: Banco de México

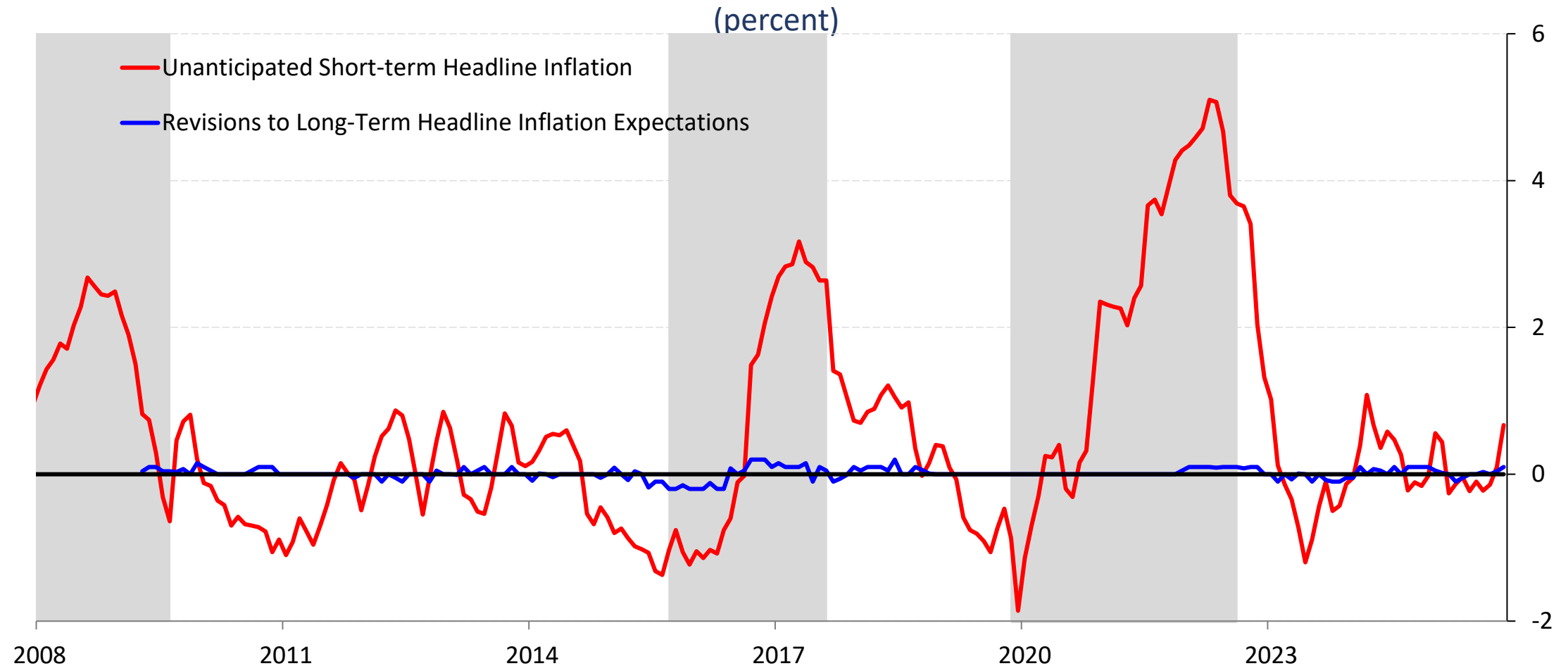
Median expectations for long-term inflation
(percent)



Source: Banco de México

Long-term inflation expectations remain largely unresponsive to unanticipated inflation

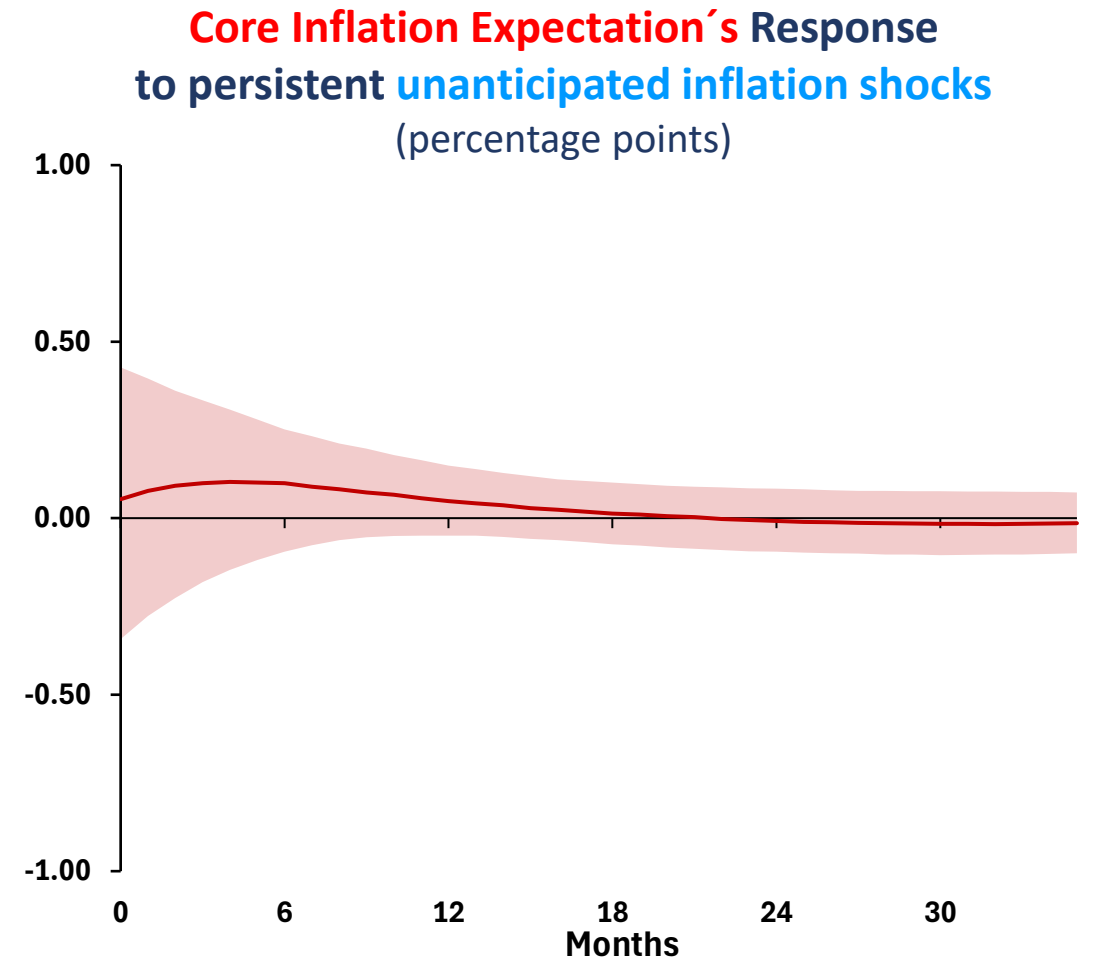
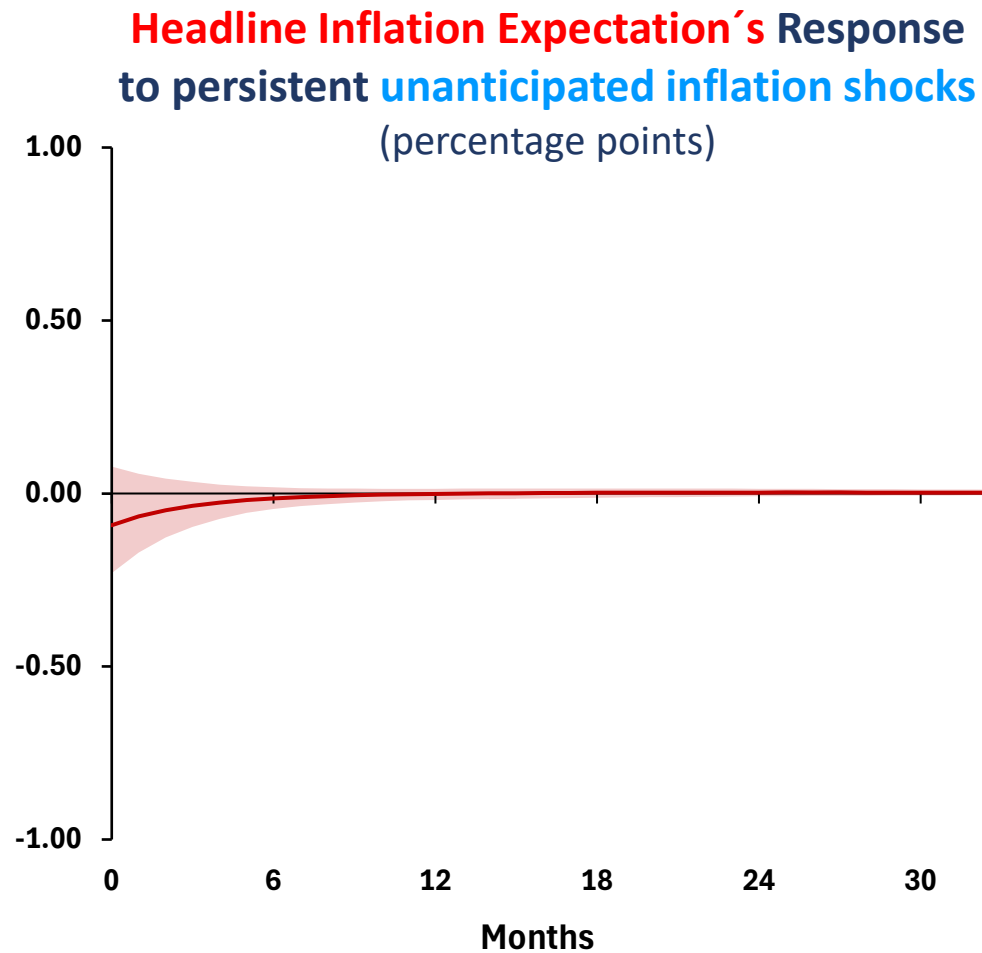
Unanticipated short-term inflation and revisions to long-term inflation expectations



Note: Unanticipated inflation is calculated as the difference between observed inflation in month t and the median of inflation expectations for the next 12 months in month $t-1$. Revisions are defined as the change in 5–8 year-ahead long-term expectations relative to those observed one year earlier.

Source: Author's calculations based on data from Banco de México

Unanticipated inflation (deviations from expected inflation) does not affect long-term expectations

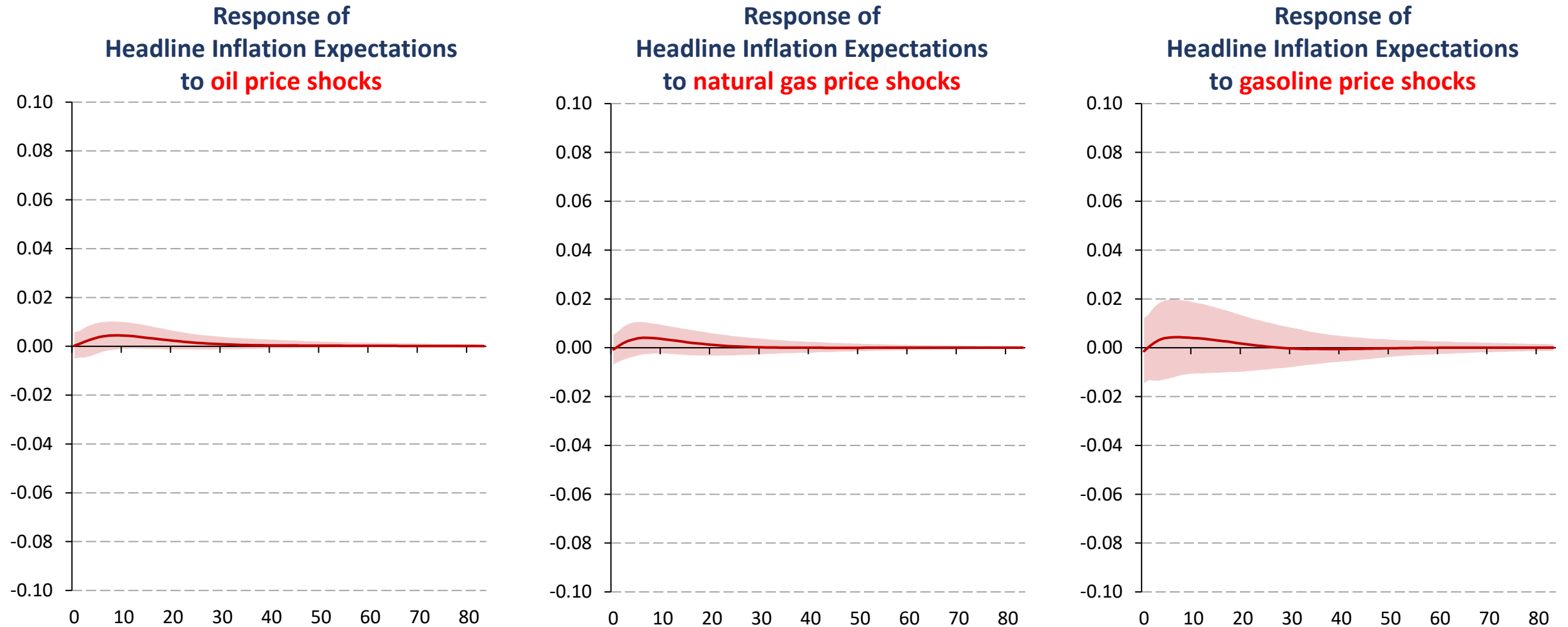


Note: The charts show the response of long-term expectations for headline and core inflation to a shock that increases unexpected inflation by 1 percentage point. Solid lines correspond to the median response, while the shaded areas represent the uncertainty bands covering 68% of the distribution. The estimation period spans from August 2008 to January 2026 for headline inflation, and from July 2013 to January 2026 for core inflation.

The estimation follows the procedure in Banco de México (2022), *Informe Trimestral Octubre–Diciembre 2022*, Recuadro 5: “Comportamiento de las Expectativas de Inflación de Largo Plazo en el Contexto de Presiones inflacionarias.” The estimates corresponds to the case of persistent unanticipated inflation shocks.

Source: Author's calculations based on data from Banco de México, the International Monetary Fund, the Federal Reserve Bank of St. Louis, and INEGI

Long-term inflation expectations show no response to energy shocks



Note: The charts show the response of long-term expectations for headline to a shock that increases price of each commodity by 10%. The model follows the VAR specification in Kilian and Zhou (2025, Handbook of Inflation) and Kilian and Zhou (2023, Energy Journal), “A Broader Perspective on the Inflationary Impact of Energy Price Shock.”

Source: Author’s calculations based on data from Banco de México, the International Monetary Fund, the Federal Reserve Bank of St. Louis, and INEGI