Mexico

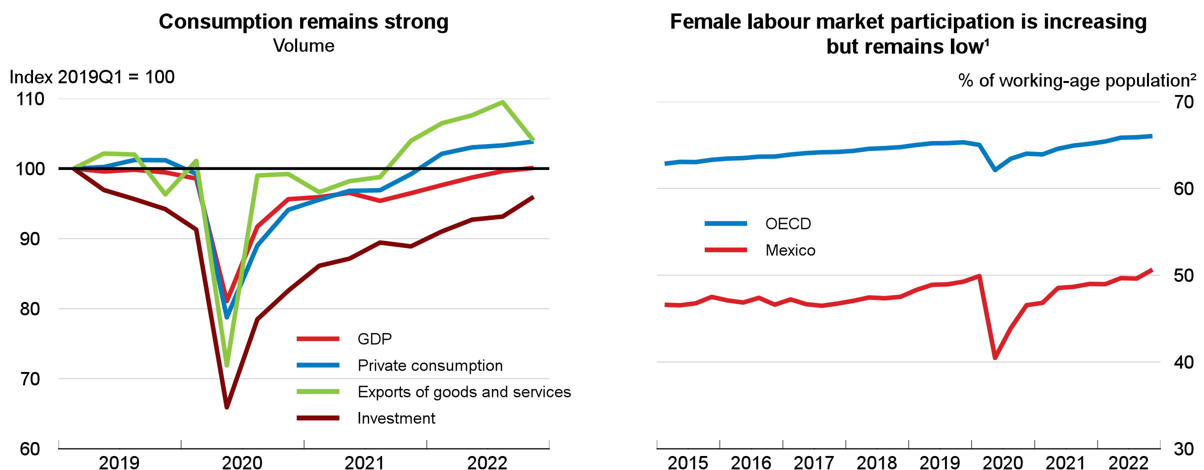
Real GDP growth is projected to reach 2.6% in 2023 and edge down to 2.1% in 2024. Consumption will be supported by the improvement in the labour market but will be dampened by high inflation. Investment will benefit from the easing of bottlenecks in global value chains and the relocation of manufacturing activity to Mexico. Export growth will be held back by the United States economic slowdown. Inflation will decline to 5.9% in 2023 and 3.7% in 2024.

As inflation recedes, ending the fiscal support to mitigate the impact of high energy prices would create fiscal space to increase spending in education and infrastructure. Monetary policy should remain restrictive to ensure that inflation decreases durably towards target. Higher regulatory certainty, including in the energy sector, would help to make the most of the ongoing near-shoring of production processes to Mexico.

The domestic economy remains resilient despite inflationary pressures

Activity increased by 1.1% in the first quarter of 2023. Consumption remains resilient, supported by increases in formal employment and real wages. Remittances are high and consumer credit is gradually recovering, although it remains below its pre-covid level. Manufacturing has started to soften, as external demand from the United States has weakened. Investment in machinery and equipment is strengthening, favoured by near-shoring. Conversely, construction remains more than 10% below its pre-pandemic level. The unemployment rate is historically low and labour market participation continues to increase. Headline inflation has started to decline, reaching 6.2% (year-to-year) in April, while core inflation remains stickier, at 7.7%, with inflation in food-related services trending up.

Mexico



1. Seasonally adjusted quarterly rates.
2. All women aged 15-64.
Source: OECD Economic Outlook 113 database; and OECD Short-term Labour Statistics.

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Mexico: Demand, output and prices

Mexico	2019	2020	2021	2022	2023	2024
	Current prices MXN billion	Percentage changes, volume (2013 prices)				
GDP at market prices	24 445.7	-8.0	4.7	3.1	2.6	2.1
Private consumption	15 866.4	-10.3	7.6	6.1	2.0	2.2
Government consumption	2 785.2	-0.3	-0.6	1.0	1.3	1.2
Gross fixed capital formation	5 037.8	-17.7	10.5	6.0	5.4	3.8
Final domestic demand	23 689.4	-10.7	7.1	5.5	2.6	2.4
Stockbuilding[1]	818.6	-0.7	0.7	-0.1	0.0	0.0
Total domestic demand	24 508.0	-11.5	8.3	5.3	2.7	2.4
Exports of goods and services	9 490.1	-7.3	7.1	7.5	0.3	4.7
Imports of goods and services	9 552.4	-13.7	15.6	8.9	2.5	5.3
Net exports[1]	- 62.3	2.4	-2.8	-0.5	-0.9	-0.3
Memorandum items						
GDP deflator	_	4.2	5.2	7.0	5.3	3.7
Consumer price index	_	3.4	5.7	7.9	5.9	3.7
Core inflation index[2]	_	3.8	4.7	7.6	7.0	3.7
Unemployment rate[3] (% of labour force)	_	4.4	4.1	3.3	3.1	3.2
Current account balance (% of GDP)	_	2.0	-0.6	-1.0	-0.7	-0.6

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 113 database.

https://stat.link/o2cjl8

A retail fuel price stabilisation mechanism, put in place to reduce cost pressures and support household purchasing power, has contained headline inflation, at a budgetary cost of 1.4% of GDP in 2022. It is assumed that this mechanism remains in place during 2023 and 2024. Higher oil revenues covered the cost of the stabilisation mechanism in 2022 but allowing the passthrough of global fuel price changes to domestic retail prices would provide better incentives for energy savings and create some fiscal space to strengthen social programmes or education spending. Mexican banks exceed regulatory liquidity and capitalisation requirements, helping them to navigate recent episodes of financial turmoil in the global banking system. Risks associated with tighter global financial conditions are mitigated by ample international reserves, active public debt management, low private sector debt and contingent credit lines.

Monetary policy will need to remain restrictive

To respond to mounting inflationary pressures and anchor inflation expectations, the central bank has gradually increased the policy rate, to 11.25%. Headline inflation has started to soften, but with core inflation proving persistent and inflation expectations still above target, monetary policy should remain restrictive. The policy rate is assumed to remain unchanged until the end of 2023, when it would start to be gradually reduced. Fiscal policy remains prudent and continues to prioritise some social programmes, particularly non-contributory pensions, and priority infrastructure projects in the South. The budget deficit is expected to increase to 3.7% of GDP in 2023, from 3.4% of GDP in 2022, with the official measure of public debt expected to stabilise around 50% of GDP.

Growth will moderate

The economy is projected to expand by 2.6% this year and 2.1% in 2024. Private consumption will be a key driver of growth, supported by low unemployment. Exports will suffer from slower growth in the main trading partners but will continue to benefit from deep integration in manufacturing value chains. Inflation will gradually slow in 2023 and 2024, as the impact of higher interest rates takes effect and external pressures abate. However, the inflation outlook remains very uncertain. Inflation may be more persistent than anticipated, if for example a wage-price spiral materialises. Episodes of global financial turmoil may trigger greater risk aversion and increase financing costs and foreign exchange market volatility. On the upside, a swifter reconfiguration of global value chains could boost investment more than anticipated.

Boosting productivity and female labour market participation are key priorities

Broadening tax bases would help to respond to increasing spending needs in education, health and infrastructure, and boost productivity and growth, while safeguarding the commitment to debt sustainability. Improving access and the quality of early childhood education and care would support female labour force participation and reduce educational inequalities. Reducing the regulatory cost of formalising a business, particularly at subnational level, and continuing to improve labour dispute resolution mechanisms, would support stronger formal employment. Promoting renewables energy and public urban and interurban transport would reduce emissions and the use of fossil fuels.