

September 2026

Economic Outlook Mexico

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Mexico: Sluggish domestic demand weighs on recovery

Temporary bounce in economic activity in 2Q26

Sluggish domestic demand expected to persist through 2H26

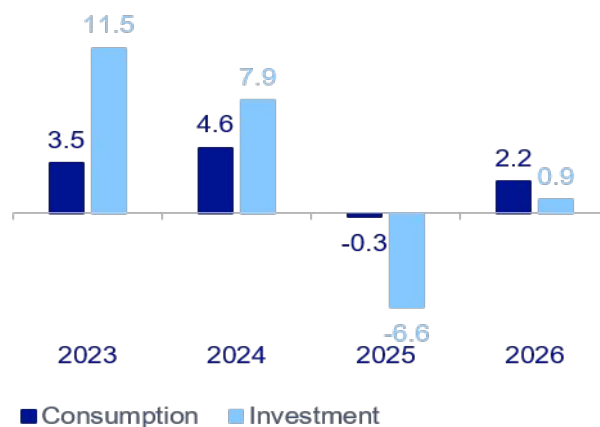
GDP

(Q/Q%, REAL, SA)



INVESTMENT AND CONSUMPTION

(Y/Y%, CUM. JAN-JUN, REAL, SA)



Source: BBVA Research, Haver Analytics, Macrobond

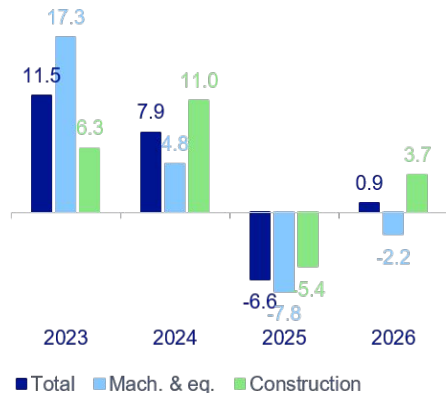
Investment contributed positively to growth for the first time since 3Q24

Investment remains weak

Machinery and equipment investment remains weak—pointing to limited evidence of a broader expansion in productive capacity

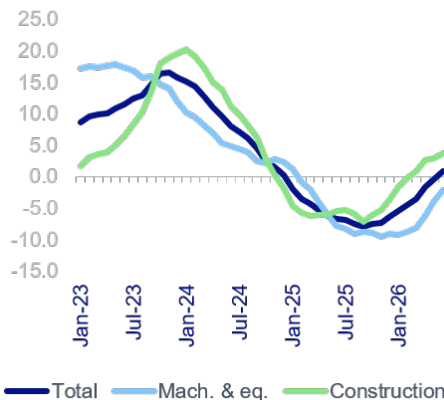
INVESTMENT

(Y/Y%, REAL, SA, CUM. JAN-JUN)



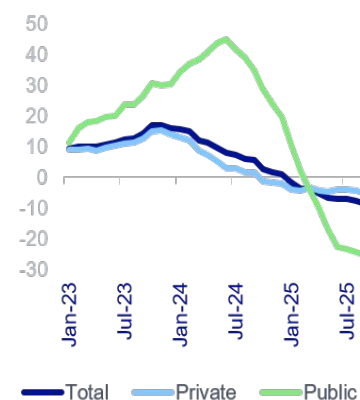
INVESTMENT

(Y/Y%, REAL, SA, MOVING AVG. 6M)



INVESTMENT

(Y/Y%, REAL, SA, MOVING AVG. 6M)



Source: BBVA Research, Haver Analytics, Macrobond, INEGI.

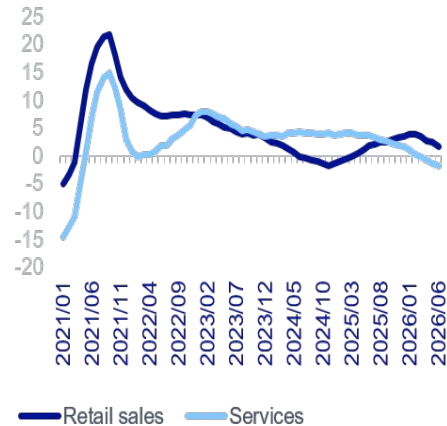
Firms remain hesitant on long-term capex. Even as infrastructure activity improves, policy and trade friction keep productivity-boosting investments on hold

Resilient consumption masks a soft underlying domestic trend

Goods—especially imported—continue to outperform services, boosted by favorable relative prices and broader e-commerce access

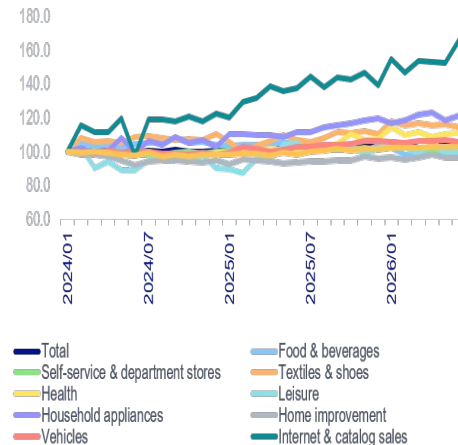
RETAIL SALES & SERVICES

(Q/Q%, REAL, SA)



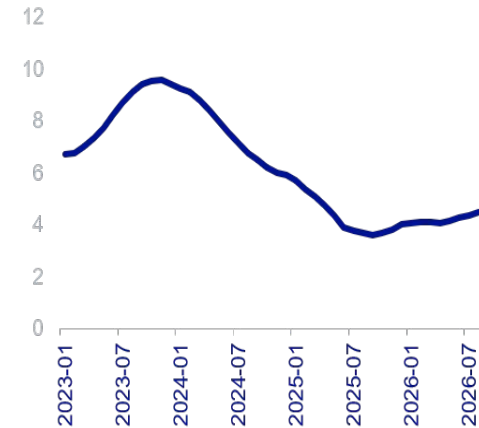
RETAIL SALES COMPONENTS

(INDEX JAN/24=100)



REAL WAGE BILL

(Y/Y%, 6-MONTH MOVING AVERAGE)



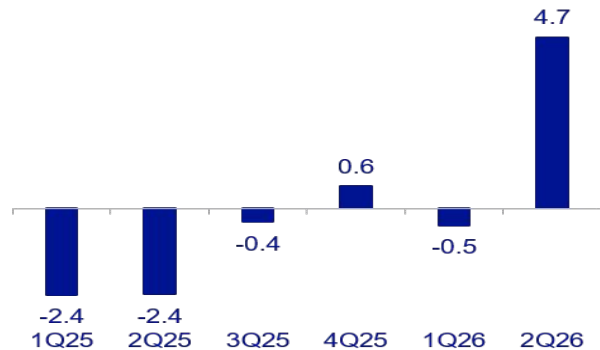
Source: BBVA Research, Haver Analytics, Macrobond

Labor market softness and ongoing uncertainty keep discretionary spending muted, limiting broader economic spillover

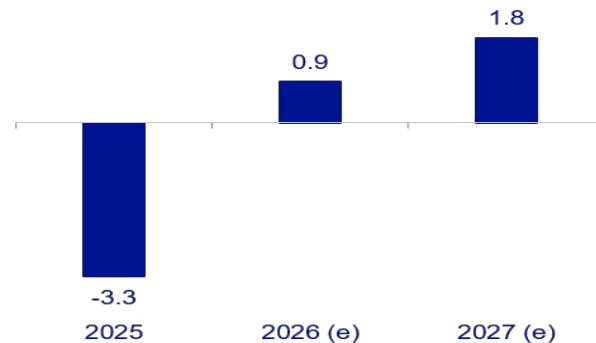
Private capital spending will remain sluggish in 2026, reaching modest 0.8–1.0%

Temporary World Cup-related spending provided just enough uplift to prevent an outright contraction in investment this year

MONTHLY GROSS FIXED INVEST. INDEX
(Q/Q%, REAL, AE)



PRIVATE INVESTMENT
(VAR. % ANUAL, REAL, AE)



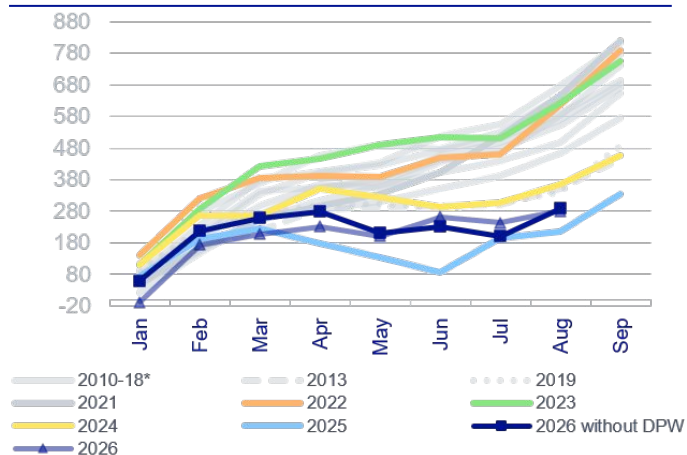
Source: BBVA Research, Haver Analytics, Macrobond, INEGI.

Investment will see a slow rebound in 2027. While lower financing costs and infrastructure spending offer support, persistent domestic and external uncertainty and limited fiscal space will continue to cap a broader capex cycle

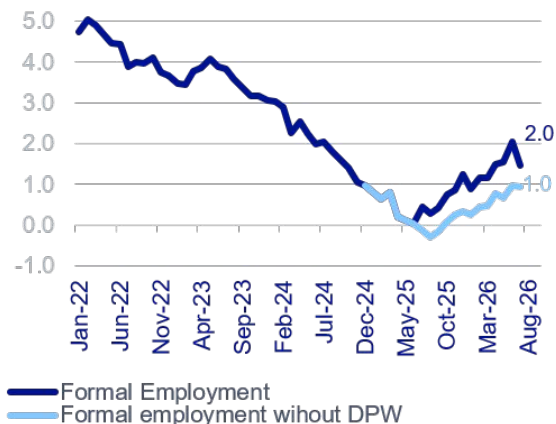
Formal employment recovery remains sluggish

Formal job creation has been virtually flat in recent months, with a total of just 18.7K net jobs added across August and September combined

JOBS AFFILIATED WITH THE IMSS
(ACCUM. M/M CHG. JAN-JUL, THOUSANDS)



JOBS AFFILIATED WITH THE IMSS
(ANNUAL CHG., %)



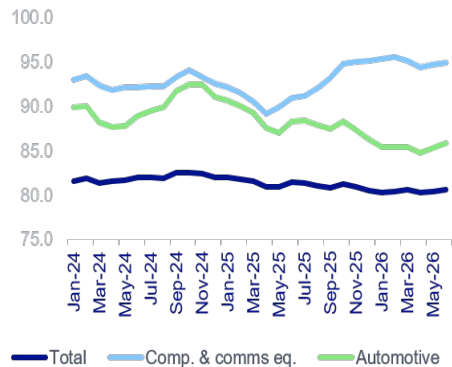
DPW: Digital Platform Workers
Source: BBVA Research, IMSS

Formal job recovery will remain sluggish through year-end, as private investment remains weak

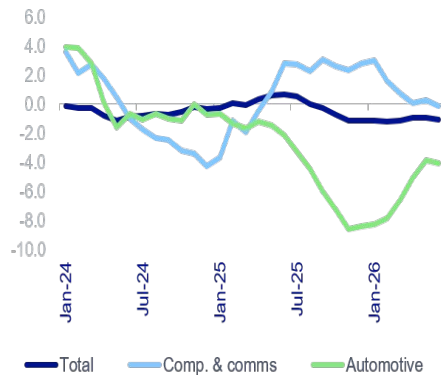
America's AI surge offers Mexican manufacturing a prime opportunity to scale productive capacity

Computer & comms equipment is already operating near full capacity (95.6%), suggesting that sustained U.S. AI hardware demand could trigger a new investment cycle

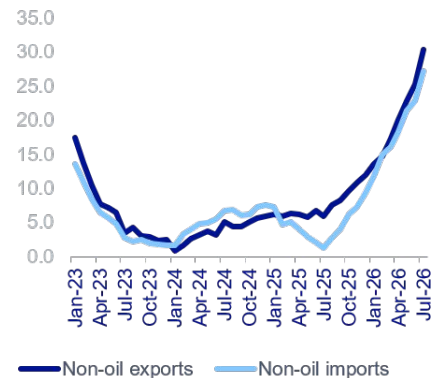
MANUFACTURING CAPACITY UTILIZATION (%)



MANUFACT. PRODUCTION (Y/Y%, REAL, SA, MOVING AVG. 6M)



NON-OIL EXP. & IMPORTS (Y/Y%, USD NOM., MOVING AVG. 6M)



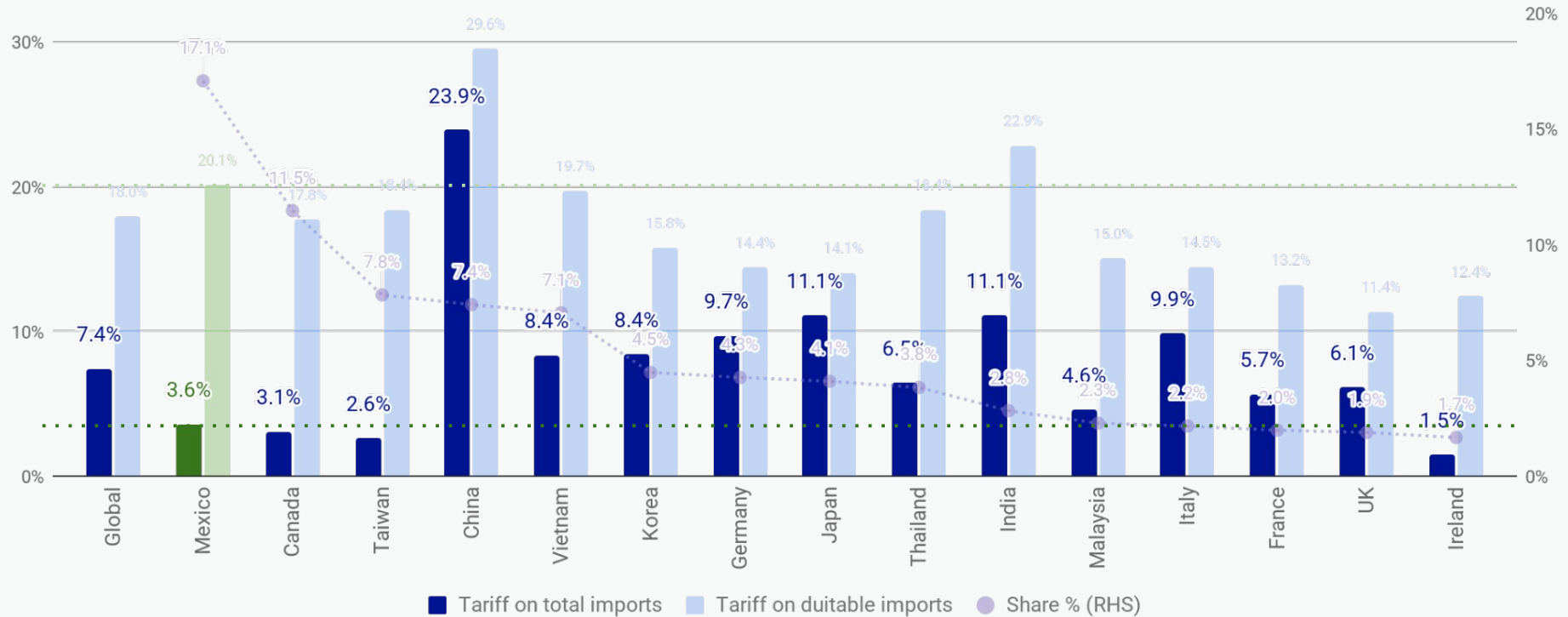
Source: BBVA Research, Haver Analytics, Macrobond, INEGI.

Realizing this potential depends on resolving power and logistics bottlenecks, greater institutional certainty, upskilling labor, and integrating local suppliers into value-added supply chains

Mexico retains a relative advantage following the IEEPA ruling and Section 122

3.6% effective tariff on total Mexican imports; only Taiwan and Canada are lower.

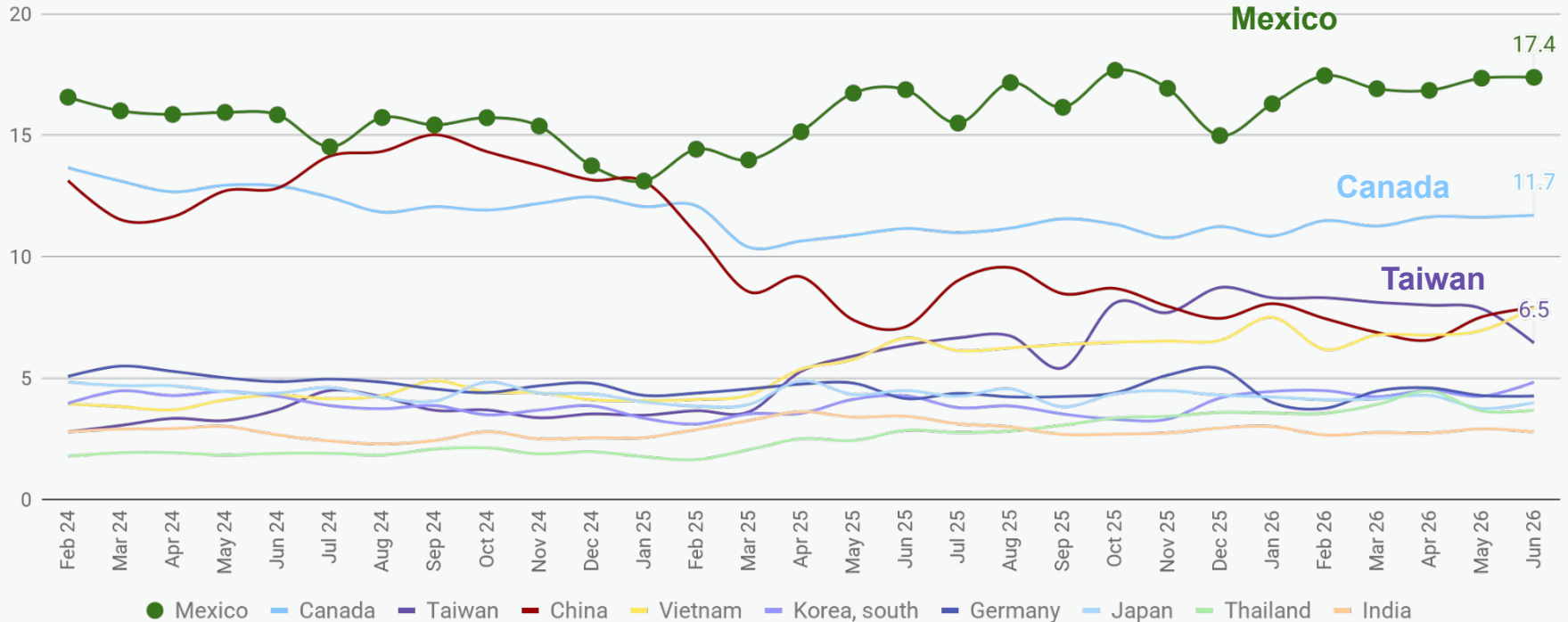
EFFECTIVE TARIFF ON U.S. IMPORTS, 1H26, AND MARKET SHARE (%)



Consolidating Mexico as the leading U.S. supplier

17.4% of U.S. imports came from Mexico as of June 2026, while China's share fell to historical lows.

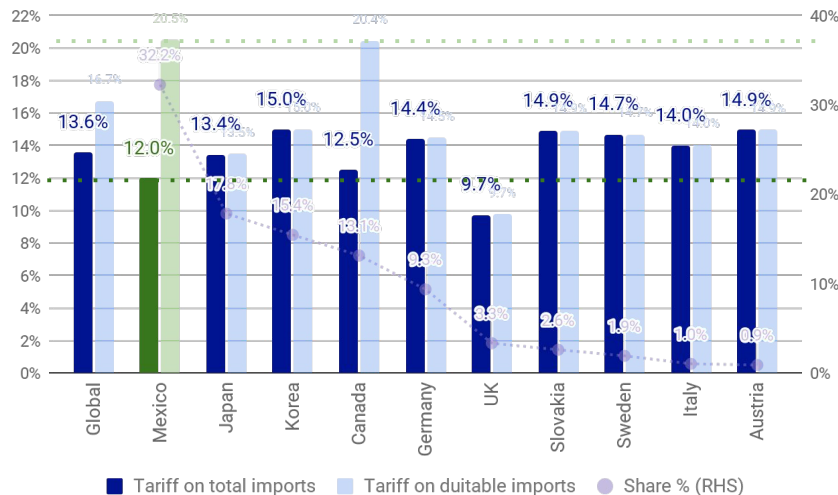
UNITED STATES, TOTAL IMPORTS (% SHARE)



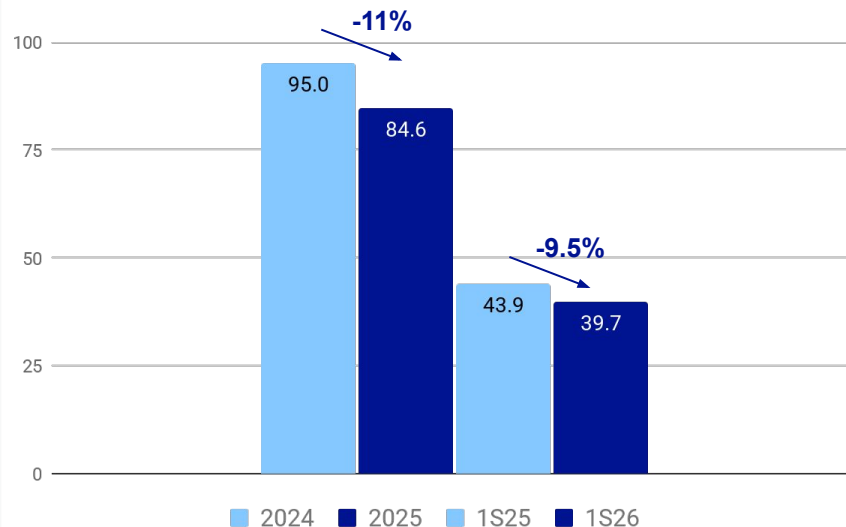
Mexico's relative advantage fades in finished vehicles

U.S. bilateral agreements leave Mexico's automotive industry in a less competitive position

TARIFF ON U.S. VEHICLE IMPORTS (ESTIMATED TARIFF, %)



U.S. IMPORTS OF MEXICAN VEHICLES (USD BILLIONS, YoY % GROWTH)



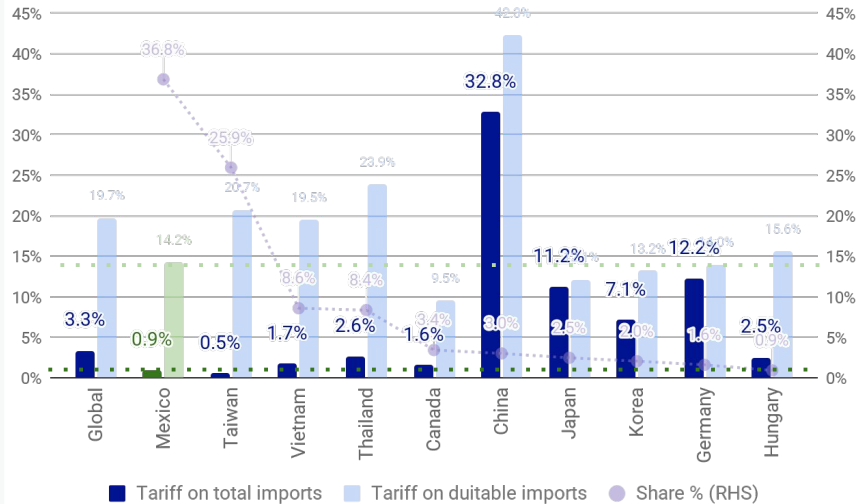
Source: BBVA Research estimates of the tariff rate using U.S. Census Bureau data. Cumulative trade from January to June 2026.

Note: Imports of the 73 finished-vehicle tariff lines subject to Section 232. Selected countries account for 97.7% of total U.S. demand in these tariff lines.

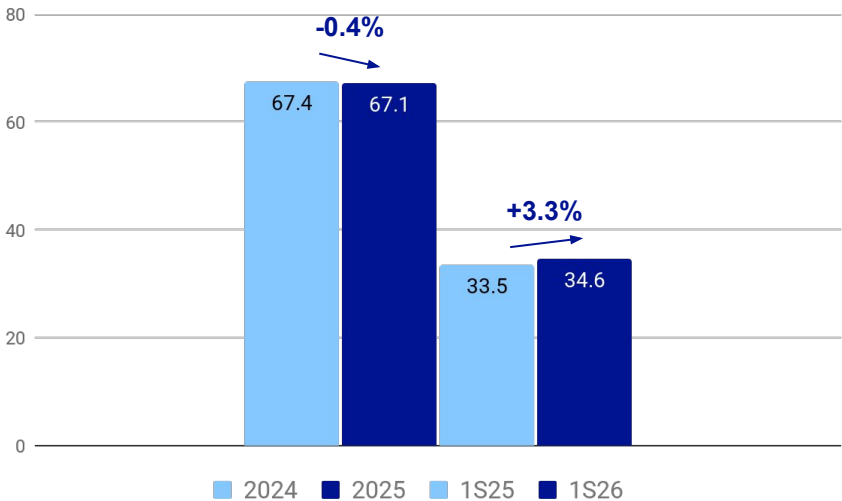
But auto parts remain resilient to tariffs

Benefiting from CBP exemptions and regional manufacturing integration

TARIFF ON U.S. AUTO PARTS IMPORTS
(ESTIMATED TARIFF, %)



U.S. IMPORTS OF MEXICAN AUTO PARTS
(USD BILLIONS AND ANNUAL % CHANGE)



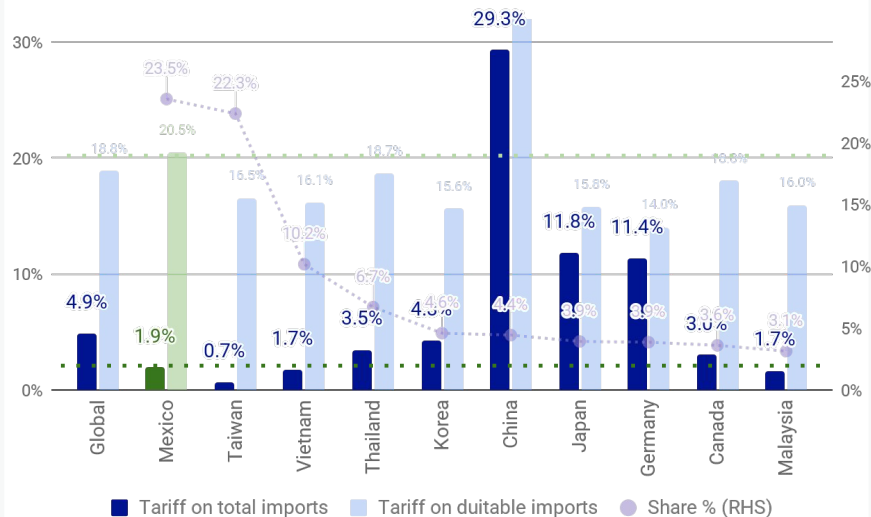
Source: BBVA Research estimates of the tariff rate using U.S. Census Bureau data. Cumulative trade from January to June 2026.

Note: Imports of the 302 auto-parts tariff lines subject to Section 232. Selected countries account for 93.1% of total U.S. demand in these tariff lines

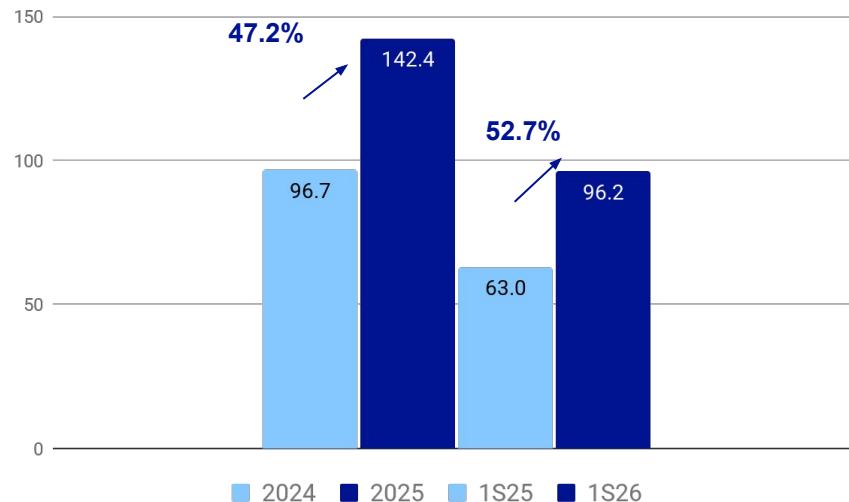
Mexican electronics accelerate alongside the technology cycle

U.S. imports grow 52.7% in 1H26, driven by technology capex and lower tariffs

TARIFF ON U.S. ELECTRONICS IMPORTS
(ESTIMATED TARIFF, %)



U.S. IMPORTS OF MEXICAN ELECTRONICS
(USD BILLIONS , YoY % GROWTH)



Source: BBVA Research estimates of the tariff rate using U.S. Census Bureau data. Cumulative trade from January to June 2026.

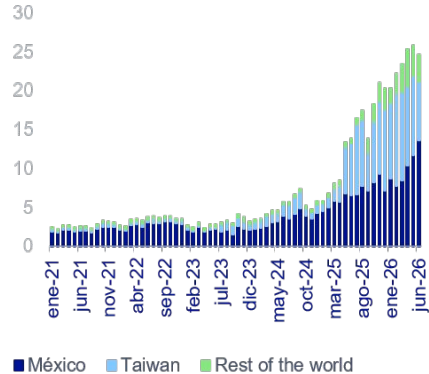
Note: Imports under NAICS 334, Computer and Electronic Products, and HS Chapter 84 for the estimated tariff. Selected countries account for 86.3% of total U.S. demand in these tariff lines.

The U.S. AI boom is boosting Mexican exports, but delivering minimal domestic payoff

AI hardware exports are surging, but heavy reliance on imported components weakens local economic spillover

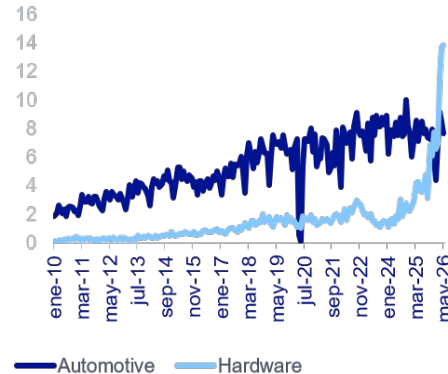
U.S. IMPORTS

(DIGITAL PROCESSING UNITS, USD BN)



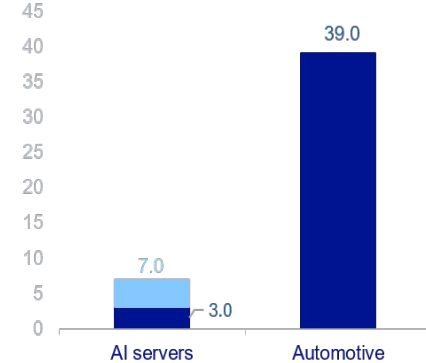
MEXICO EXPORTS

(USD BN)



NATIONAL CONTENT*

(%)



Source: BBVA Research, Haver Analytics, Macrobond, INEGI, Financial Times.

*For AI-servers: min. 3.0%, max. 7.0%.
Source: Alba, F. (Financial Times, July 2026)

Mexico is becoming a major assembly hub for U.S.-bound AI servers, yet domestic content below 10% sharply constrains value-added gains and broader economic spillovers

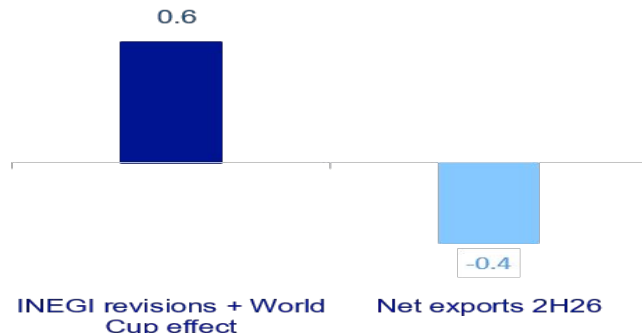
2026 growth upgraded on INEGI revisions and a stronger Q2; 2027 recovery remains gradual

Consumer spending will likely stay resilient but uneven. However, a sluggish industrial recovery poses downside risks if it further slows formal employment and real household income.

GDP (ANNUAL % VAR.)



CONTRIBUTIONS TO 2026 GDP REVISIONS (PP)



Source: BBVA Research, Haver Analytics, Macrobond

Investment will recover only gradually, led by an early rebound in construction; machinery and equipment investment will lag until trade and domestic policy uncertainties clear and mixed contracts move forward

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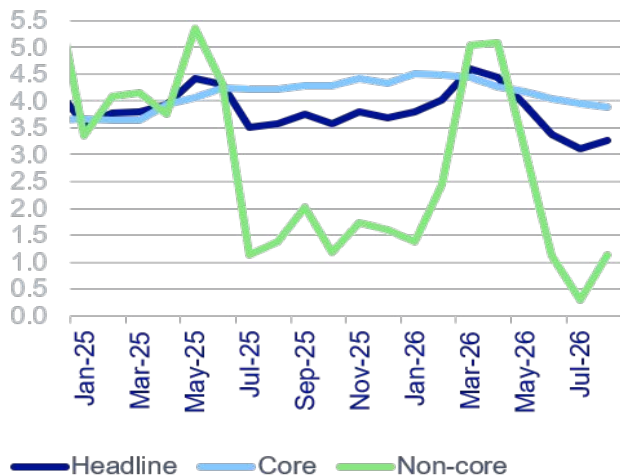
**Steady policy rate and
ER, but higher long-term
rates**

After picking up in Q1, inflation eased over Q2-Q3

Core goods inflation continues to cool, while sticky core services inflation shows initial signs of easing

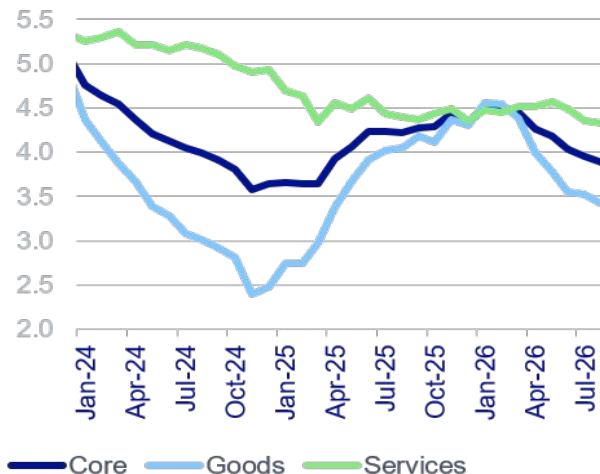
HEADLINE INFLATION

(Y/Y%)



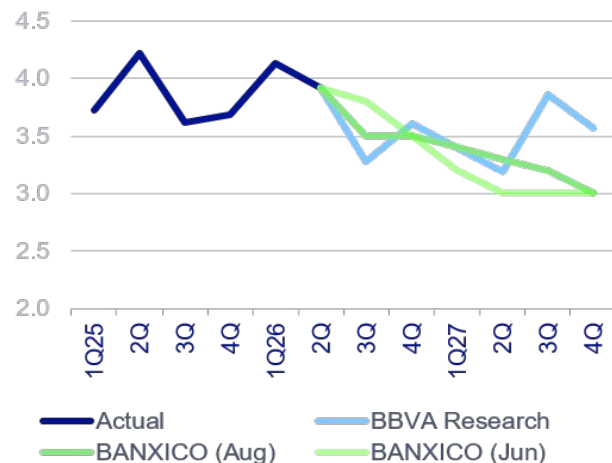
CORE INFLATION

(Y/Y%)



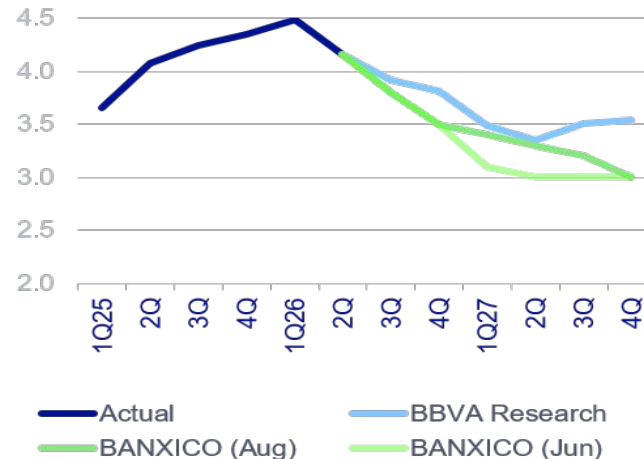
Inflation peaked in March. We expect it to slow further

HEADLINE INFLATION OUTLOOK (YOY % CHANGE, QUARTERLY AVERAGE)



Quarterly average	4Q26	4Q27
3Q26	3.6	3.6
2Q26	4.1	3.5
Banxico Aug	3.5	3.0

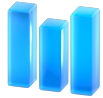
CORE INFLATION OUTLOOK (YOY % CHANGE, QUARTERLY AVERAGE)



Quarterly average	4Q26	4Q27
3Q26	3.8	3.6
2Q26	4.0	3.5
Banxico Aug	3.5	3.0

Banxico is comfortable with the policy rate at 6.50%

It will likely continue to require further evidence of sustained moderation in core services inflation before reconsidering its policy stance, amid still-weak domestic demand



In early August, Banxico kept the policy rate unchanged at 6.50% for the second consecutive month, reiterating that this level remains appropriate

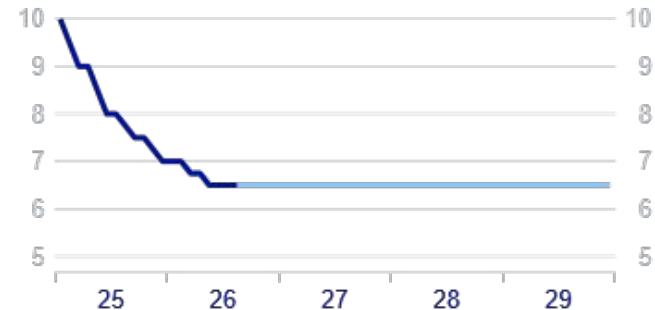
Unchanged forward guidance: “it will be appropriate to maintain the reference rate at its current level”; the stance is “well-suited” to the macro environment



Our view is that Banxico will keep the policy rate unchanged at its current 6.50% level throughout the forecast horizon

BANXICO POLICY RATE

(%)

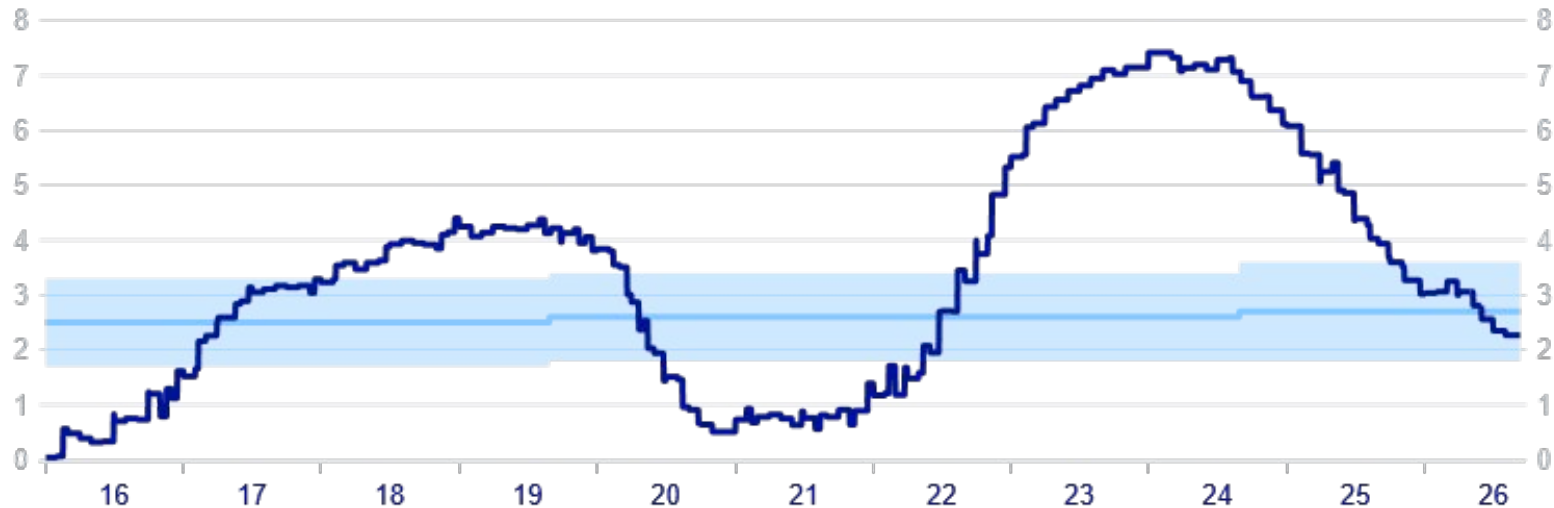


End-of-period forecasts	26	27	28	29
New	6.50	6.50	6.50	6.50
2Q26 QRES	6.50	6.50	6.50	6.50

We expect domestic conditions to matter more this time around

The Board has signaled that it is comfortable with the policy rate at its current level and sees little need to signal a likely adjustment it in either direction

REAL EX-ANTE POLICY RATE (%)



The shaded area indicates Banxico's estimated interval for the short-term neutral rate convergence level in the long term; the solid light blue line indicates the midpoint estimation
Source: BBVA Research, Banxico, INEGI

Banxico would likely look through a Fed hike

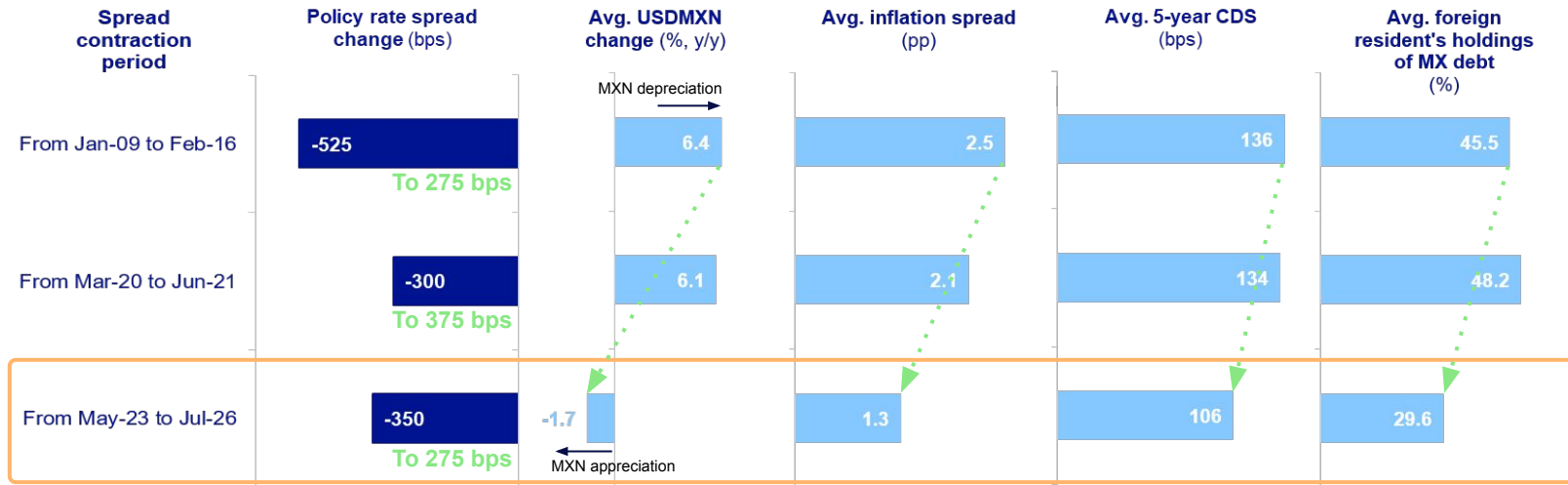
Diverging domestic demand conditions would likely give the Board room to allow the rate spread to narrow further

MEXICO-US POLICY RATES & SPREAD (% AND BPS)



Preemptive Fed hikes should pose little risk to the peso

A favorable evolution of macroeconomic fundamentals suggests that Mexico could sustain a narrower rate differential



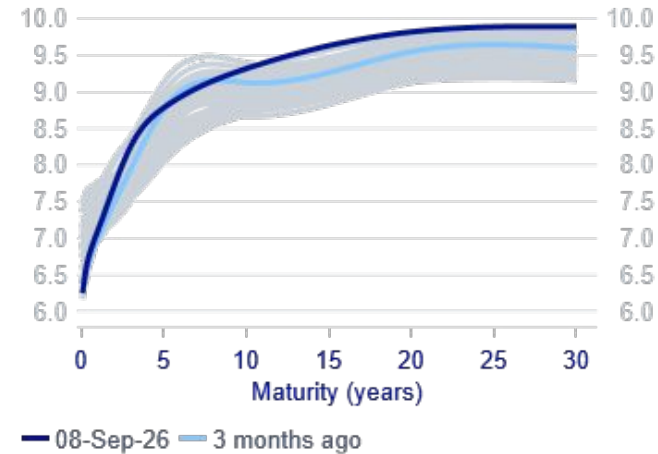
Domestic long-term yields have largely tracked the global selloff

A stable 10-year yield spread suggests that higher local long-term borrowing costs are entirely driven by global factors

10-YEAR GOVERNMENT YIELDS AND YIELD SPREAD (% AND BPS)



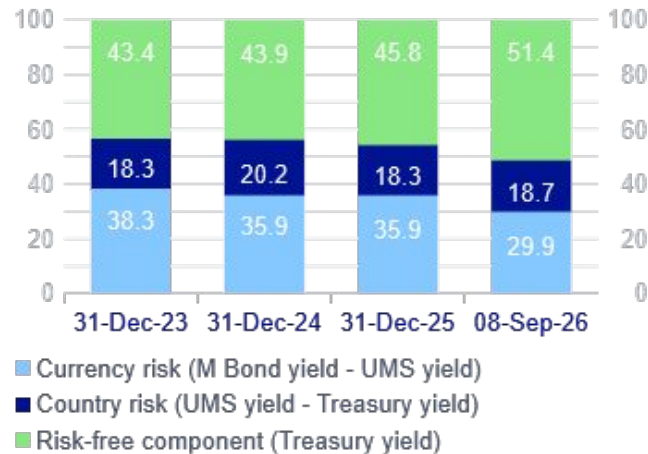
GOVERNMENT YIELD CURVE (%)



Over half of MX's LT yield now reflects the global “risk-free” rate

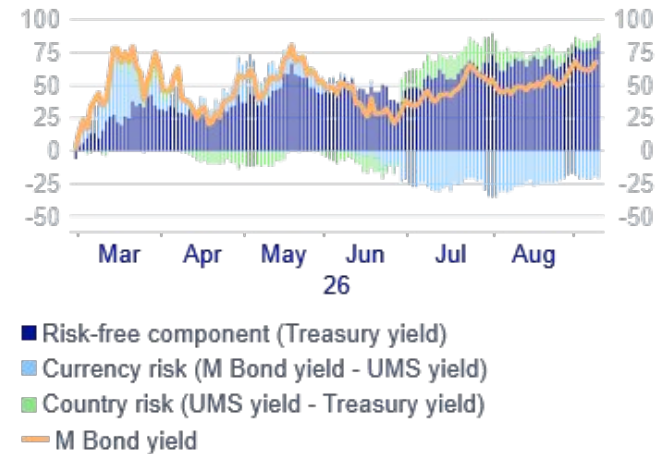
The contribution from changes in country risk perception since the outbreak of the US-Iran war has been negligible

10-YEAR M BOND YIELD BREAKDOWN
(% CONTRIBUTION)



Source: BBVA Research, Bloomberg, Macrobond, Treasury

10-YEAR M BOND YIELD CHANGE
BREAKDOWN (BPS, 28-FEB-26=0)



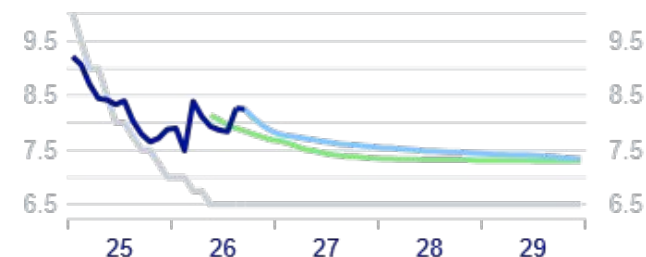
Source: BBVA Research, Bloomberg

Updated sovereign yield outlook

Our updated forecasts incorporate the more gradual decline in Treasury yields embedded in our US baseline

3-YEAR GOVERNMENT YIELD

(%)

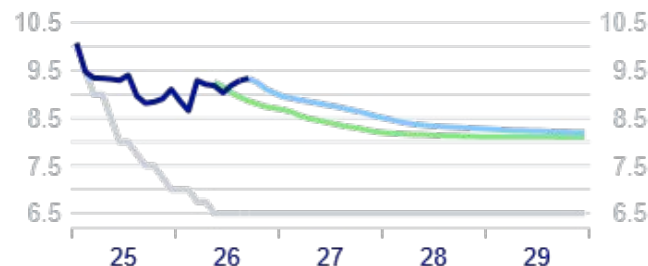


— Actual — Forecast — Previous forecast

End-of-period forecasts	26	27	28	29
New	7.9	7.6	7.4	7.3
2Q26 QRES	7.7	7.4	7.3	7.3

10-YEAR GOVERNMENT YIELD

(%)



— Actual — Forecast — Previous forecast

End-of-period forecasts	26	27	28	29
New	9.0	8.5	8.3	8.2
2Q26 QRES	8.7	8.2	8.1	8.1

The peso has recently outperformed other EM currencies

As is typical during episodes of heightened global volatility, the peso was among the hardest-hit assets when global risk aversion surged in early March

USDMXN VOLATILITY

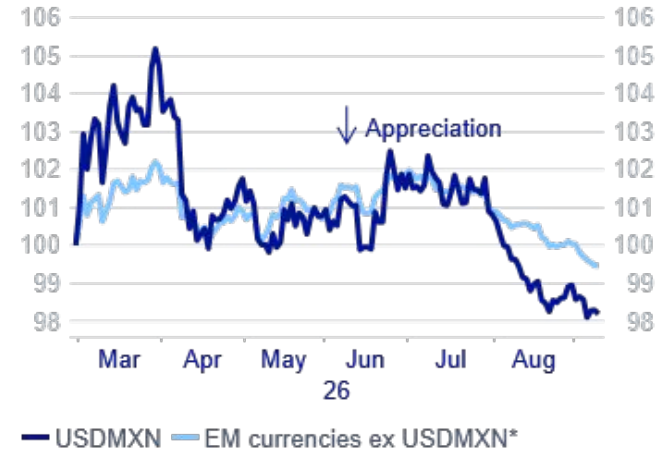
(%)



Implied volatility in 1-month ATM option contracts; the shaded area indicates the deviation from the historical average
Source: BBVA Research, Bloomberg

USDMXN RELATIVE PERFORMANCE

(28-FEB-26=100)



* Reweighted version of the Fed's Emerging Market Economies (EME) Dollar Index
Source: BBVA Research, Fed, Macrobond

Peso risk pricing has enhanced its carry appeal

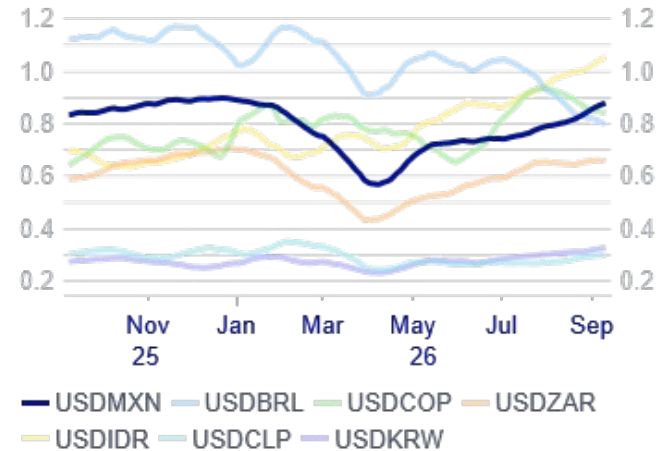
The peso now offers a more attractive risk-reward than the BRL and COP, despite Mexico's policy rate being roughly half as high (6.50% vs 12.00% and 14.00%, respectively)

MXN-USD CARRY AND CARRY-TO-RISK RATIO (% , RATIO)



Source: BBVA Research, Bloomberg

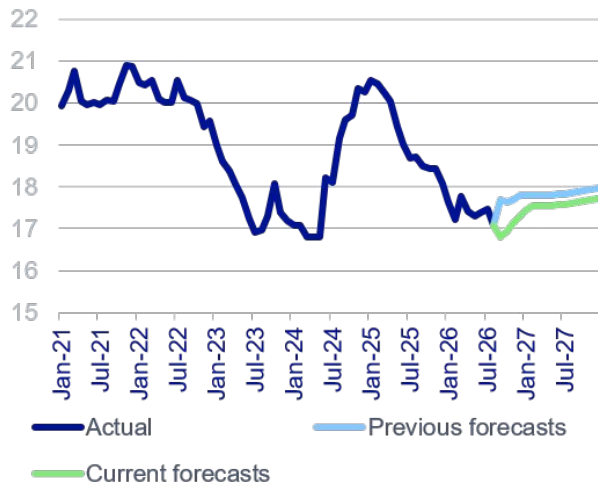
CARRY-TO-RISK RATIO FOR SELECTED CURRENCY PAIRS (RATIO)



Source: BBVA Research, Bloomberg

We anticipate a gradual and moderate depreciation from 4Q26 onwards

OUTLOOK FOR THE EXCHANGE RATE (PPD)



Source: BBVA Research, Banxico

Broad-based dollar weakness, driven by shifts in U.S. economic policy

USMCA remains in effect



What is underlying the MXN strength?

Fiscal consolidation reinforces market confidence in **fiscal discipline**

A still **attractive risk-adjusted carry trade**

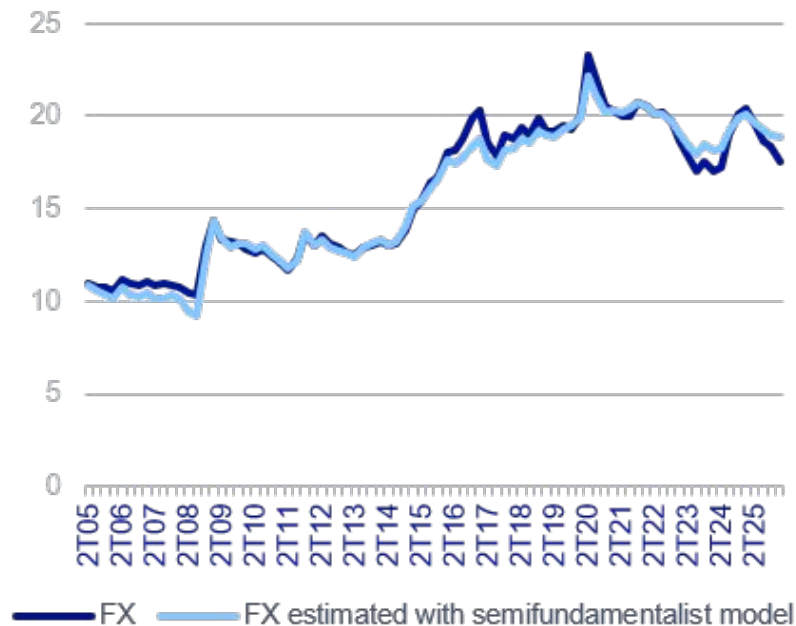
Fair value of the MXN

The MXN has been overvalued for the 2Q25-1Q26 period according to our fair value model.

In 1Q26, the fair value was 18.86 ppd while the actual FX was 17.54 ppd.

ACTUAL FX AND FX ESTIMATED WITH SEMIFUNDAMENTALIST MODEL

(PPD)



3.

Stalled Fiscal Consolidation Progress

Main takeaways from the 2027 economic package

- The Public Sector Borrowing Requirements (PSBR) would stand at -3.9% of GDP in 2027, implying a more gradual consolidation than projected in the Pre-Criteria (-3.5%).
- We do not anticipate problems financing the deficit amid deep and growing domestic savings.
- It is positive that public physical investment is not being sacrificed, but fiscal space will remain limited.
- Low tax revenue requires a comprehensive fiscal reform that also addresses Pemex and informality.

Fiscal consolidation moves forward, but less than expected

-3.9%

PSBR 2027
(% of GDP)

0.6%

Primary surplus
needed in 2027

55.0%

Historical PSBR balance 2027
(% of GDP, SHCP)

55.8%

Historical PSBR balance 2027
(% of GDP, BBVA)

-2.9%

Average PSBR needed
to stabilize debt

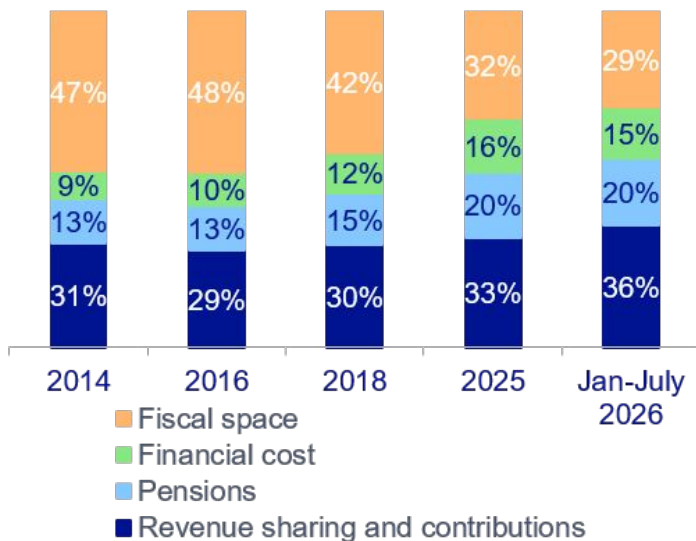
The proposed adjustment implicitly acknowledges social spending rigidities and the push for public physical investment in an environment of limited fiscal space.

- The 2027 PSBR target was revised from -3.5% in the Pre-Criteria to -3.9% of GDP.
- Debt would remain around 55% of GDP, but stabilizing it requires average PSBR close to -2.9% of GDP in coming years.
- Policy room would be smaller if a weaker public revenue scenario materializes.

Fiscal space has shrunk in the last 11 years

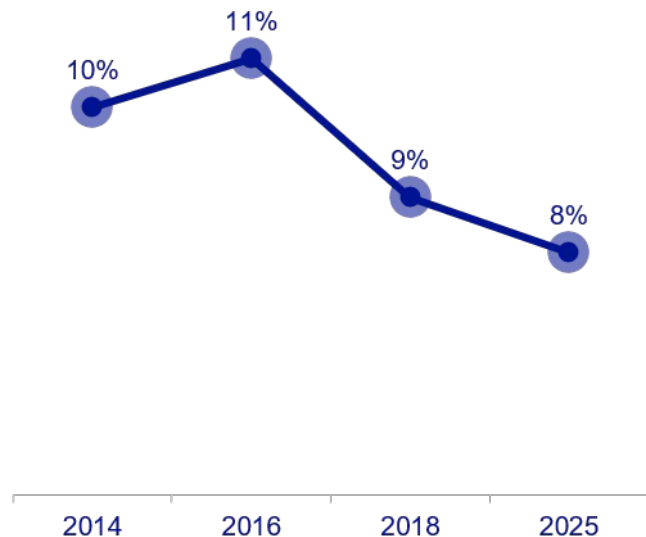
FISCAL SPACE AND UNAVOIDABLE SPENDING

(% OF BUDGETARY INCOME)



FISCAL SPACE

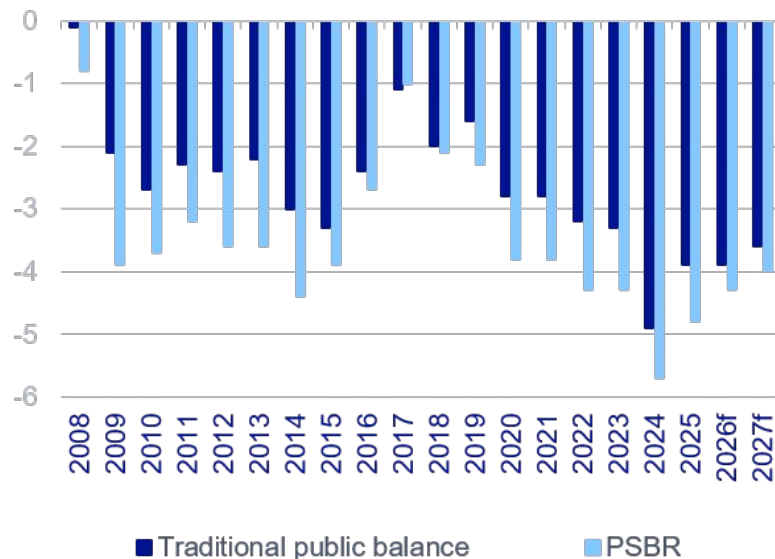
(% OF GDP)



The 2027 General Guidelines project gradual progress in fiscal consolidation by targeting PSBR at -3.9% of GDP

- The government forecast in April was -3.5% of GDP
- Despite fiscal prudence, challenges remain due to low tax collection and spending rigidity. Seeking revenue growth without a comprehensive reform limits fiscal space for more public investment.
- Public physical investment spending is projected not to be sacrificed, reaching 2.6% of GDP in 2027 to support future economic growth.

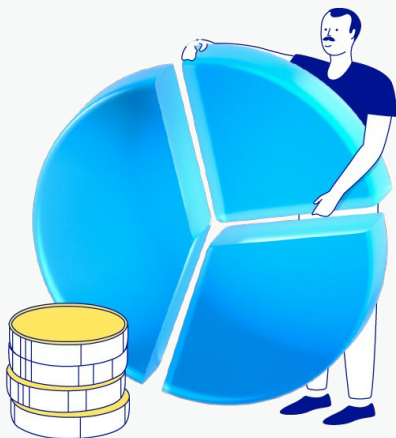
TRADITIONAL PUBLIC BALANCE AND PSBR
(% OF GDP)



Source: BBVA Research, SHCP

Public debt

Public debt would reach 60% of GDP by 2030 and the country could lose the investment grade if significant fiscal adjustments are not made



HISTORICAL BALANCE OF PUBLIC SECTOR BORROWING REQUIREMENTS

(% OF GDP)



Source: BBVA Research, SHCP

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