

Mexico Economic Outlook

We project growth of 1.4% in 2026, amidst a gradual recovery in domestic demand.

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Growth gradual recovery

Core inflation will resume its downward trend in the second quarter of the year following the transitory shock of the first.

	Economic Activity	We have revised our 2026 growth forecast upward to 1.4% (from 1.2% previously) following a stronger 2Q26; going forward, the gradual recovery of domestic demand will sustain the pace of expansion.
	Employment	Formal job creation shows a gradual recovery, while real wage gains support the wage bill; we have revised our employment growth forecasts upward to 1.5% for 2026 and 2.1% for 2027.
	Inflation	Gradual disinflation and downward revision in our forecasts: goods inflation leads the downward trajectory, while services inflation begins to ease; we estimate that headline and core inflation will close 2026 at 3.7% and 3.8%, respectively.
	Monetary Policy	Mexico is better positioned to sustain a narrower policy rate spread, while Banxico's pause prioritizes domestic conditions over the Fed's renewed hiking cycle.
	Interest Rates	The increase in long-term local interest rates primarily reflects higher global yields rather than a deterioration in domestic factors.
	Public Finance	Public Sector Financial Requirements projected by SHCP for 2027 are -3.9% of GDP, which would represent marginal progress in fiscal consolidation.
	Exchange Rate	If the global situation normalizes, we anticipate that the exchange rate will most likely stand around 17.30 and 17.70 pesos per dollar at the end of 2026 and 2027, respectively.

Gradual recovery of the economy

The Mexican economy showed a stronger-than-expected rebound in 2Q26, reinforcing signs of a gradual recovery heading into the second half of the year. Following the weakness observed at the beginning of 2026, GDP grew 1.4% QoQ in 2Q26 (1.9% YoY), with advances in the industrial and tertiary sectors. These figures, along with favorable statistical revisions from INEGI, improve the starting point for the year's growth; looking ahead, domestic demand fundamentals point to a moderate and still heterogeneous expansion. In particular, consumption maintains relative resilience, and investment presents a more favorable evolution, supported mainly by construction, while spending on machinery and equipment is beginning to regain momentum. This pattern is consistent with an economy that has left behind its period of greatest weakness and is advancing towards a broader, albeit still gradual and uneven, growth phase across its components.

Private consumption will continue to support activity, showing relative resilience during the second half of the year. Formal job creation maintains limited progress, while real wage gains continue to support the evolution of the wage bill. At the same time, the composition of spending shows heterogeneous performance: goods consumption—particularly imported goods—retains greater dynamism than services, favored by relative prices and greater access to e-commerce. In June, private consumption decreased 0.4% MoM (1.6% YoY); for July and August, INEGI's Timely Indicator of Private Consumption (IOCP) anticipates monthly advances of 0.2% and 0.1%, respectively. Overall, household spending will maintain a positive contribution during the second half of the year, supported by the favorable evolution of real wages amid a gradual recovery in formal employment.

Investment shows a gradual recovery. Recent data points to an improvement—gross fixed capital formation increased 1.3% MoM in June (5.9% YoY)—with a rebound driven primarily by construction. Although machinery and equipment contracted during the first half of the year, the latest indicators show signs of recovery after companies postponed spending decisions due to persistent uncertainty. The trade relationship with the United States, the USMCA review, and internal institutional factors will continue to condition the pace of some projects. We anticipate that private investment will continue to recover gradually, supported by lower financing costs and a progressive improvement in machinery and equipment.

The main additional boost comes from the export sector. The acceleration of US investment associated with artificial intelligence is generating a new source of demand for Mexican manufacturing, particularly in computer and communications equipment. For now, the domestic multiplier effect remains limited: for AI servers, domestic content is estimated at under 10%, meaning a considerable portion of the export increase simultaneously translates into higher component imports. The opportunity—and potential medium-term catalyst—will be to transform this external momentum into greater local productive investment by expanding energy and logistics capacity, developing suppliers, and strengthening human capital.

Overall, the scenario for 2026 is one of gradual recovery, with signs of greater dynamism moving

forward. In this context, we forecast GDP growth of 1.4% in 2026, followed by a 1.8% expansion in 2027, consistent with a progressive improvement in domestic demand ([Figure 1](#)). Next year, the balance will depend less on the cyclical rebound and more on reduced uncertainty favoring private investment. A favorable resolution of the USMCA review, accompanied by greater domestic certainty, could turn the current export dynamism into a broader cycle of investment, employment, and domestic demand.

Formal employment maintains moderate growth, while real wages support the wage bill

According to figures from the Mexican Social Security Institute (IMSS), formal employment has maintained moderate growth, slightly outpacing the pace recorded a year earlier. Between January and August, IMSS-affiliated employment grew by 1.2%, 0.2 percentage points (pp) above the rate recorded over the same period in 2025. Although growth remains below the stronger rates seen in previous years—3.0% in 2022, 2.9% in 2023, and 1.7% in 2024 over the same period—recent data point to an improvement following the slowdown that began in 2022. In August, formal employment increased by 1.5% year-on-year; excluding digital platform workers, growth stood at 1.2%. Over the past two months, a net 18.7 thousand jobs were created, while cumulative job creation so far this year remains above the level recorded a year earlier. Overall, these figures point to a gradual recovery in employment amid improving economic activity and early signs of a rebound in investment.

In contrast, real wages have shown stronger performance and remain the main driver of wage bill growth. Despite heightened inflationary pressures at the beginning of the year, real wages have maintained average annual growth of around 3.0% in 2026, reaching 3.3% in August. Against a backdrop of more moderate job creation, wage gains have therefore accounted for a larger share of wage bill growth. In August, the real wage bill grew by 4.9% year-on-year for all IMSS-affiliated workers and by 4.6% excluding digital platform workers, helping to sustain household labor income.

Meanwhile, data from the National Survey of Occupation and Employment (ENOE) for the second quarter of 2026 point to significant changes in the composition of employers. Compared with the fourth quarter of 2023, the number of formal employers has declined by 8.8%, while the number of informal employers has increased by 17.9%. Similarly, the number of employers registered with IMSS¹ has fallen by 5.9% over the same period. Although these indicators should be interpreted with caution, their evolution may reflect a less favorable environment for formal job creation and a shift toward informal economic activity.

¹ While IMSS has noted that employer registrations correspond to administrative units and do not necessarily represent unique firms or establishments, meaning that part of the decline could reflect administrative updates or data-cleaning processes, the persistence of this trend for more than two years makes it difficult to attribute the decline solely to these factors.

Labor market indicators also point to increased informality. In August, the seasonally adjusted unemployment rate stood at 2.7%, broadly unchanged from a year earlier. By contrast, the share of workers employed in the informal sector increased by 0.7 pp to 30.7%. This suggests that part of the labor market adjustment may be taking place through greater absorption of workers into informal activities rather than through higher unemployment. Against this backdrop, a stronger recovery in investment could help strengthen the formal business sector and create more favorable conditions for formal job creation.

Looking ahead, in line with the upward revision to our 2026 economic growth forecast, we have raised our formal employment growth forecasts to 1.5% in 2026 and 2.1% in 2027, from 1.4% and 2.0%, respectively, in our previous forecast. We expect the recovery in formal employment to remain gradual through the end of the year. However, a faster recovery in economic activity, accompanied by stronger investment and a more favorable environment for formal businesses, could support stronger formal job creation going forward ([Figure 2](#)).

Gradual disinflation and downward revision to our forecasts: goods inflation is leading the downward trajectory, while services inflation is starting to ease

Headline inflation fell during the second quarter, driven by the continued deceleration of the core component and a significant drop in non-core inflation. Between March and June, annual headline inflation decreased from 4.6% to 3.4%, core inflation fell from 4.4% to 4.0%, and non-core inflation dropped from 5.0% to 1.1%. Between June and August, core inflation maintained its downward trend. On an annual basis, the rate decreased from 4.0% to 3.9%, supported by the ongoing slowdown in goods inflation (which moderated from 3.6% to 3.4%) and initial signs of moderation in services inflation (which eased from 4.5% to 4.3%). In the first half of September, core inflation fell further, reaching 3.8% annually, boosted by the deceleration in goods inflation, which moderated to 3.2%.

Thus, after declining 0.4 percentage points (pp) between the close of the first and second quarters, annual core inflation is on track for an additional 0.2 pp drop in the third quarter to reach 3.8%. As a result, the quarterly average will continue to fall, moving from 4.5% in January–March and 4.2% in the second quarter to 3.9% in the third. This slowdown has been driven mainly by goods, whose inflation rate dropped from 4.4% in March to 3.6% in June, reaching 3.2% in the first half of September. During this period, processed food inflation moderated from 5.8% to 4.6%, while inflation for other goods decreased by 1.2 pp to 2.0%. Meanwhile, annual services inflation—which showed stickiness during the second quarter by holding at the same 4.5% average as the first—began to show signs of moderation in the third, standing at 4.3% in the first half of September.

Consequently, cumulative goods inflation through the first half of September reflects a rate of

increase of 2.7%, lower than the average recorded for a similar period between 2010 and 2019 (3.0%), a period characterized by price stability. In contrast, despite recent slight moderation, cumulative growth in services remains high at 3.0%, compared to the 2.2% observed during the low-inflation period. Looking ahead, in the absence of demand-side pressures, we expect services inflation to decelerate gradually.

In light of recent favorable developments, we are revising our year-end inflation forecasts downward. We now project that headline inflation will stand at 3.7% at the end of the year and core inflation at 3.8%. For 2027, we maintain our forecast that both will converge toward 3.5% by year-end. Although modest demand dynamics continue to represent a downside risk to inflation, several factors pose upside risks. Key among these are the persistence of services inflation—despite its recent slight moderation—rising global costs (particularly energy), and the potential for further depreciation of the peso. Even with these risks, we believe inflation peaked in March and that disinflation will progress gradually. However, this process could experience temporary volatility due to potential supply shocks or base effects ([Figures 3 and 4](#)).

Mexico is better positioned to sustain a narrower policy rate spread, while Banxico's pause prioritizes domestic conditions over the Fed's renewed hiking cycle

Two weeks ago, the Fed unanimously raised the fed funds rate by 25 bps to a 3.75–4.00% target range, reinforcing its commitment to a more timely return of inflation to target. Although it continued to avoid any explicit forward guidance, the statement struck a more hawkish tone by highlighting the resilience of domestic spending and no longer attributing inflationary pressures solely to supply-side factors. While the Summary of Economic Projections (SEP) showed few changes to the broad economic outlook, it did include a significant shift in the dot plot: 16 of the 18 participants now anticipate at least one additional hike this year, although the median projection implies only one more followed by a pause throughout 2027.

At the press conference, Warsh refrained from signaling a specific policy-rate path, but made clear that the Fed's predominant focus is now price stability. His comment that the hike “starts to show we're serious about this,” together with his emphasis on the Fed's commitment to meeting its inflation target, suggests a willingness to raise rates again if core inflation remains sticky. A key question going forward is whether the policy-rate path currently priced in by financial markets proves too aggressive or not: markets anticipate three to four additional hikes, compared with only one additional increase in the FOMC median projection.

In our baseline scenario, we anticipate an additional 25 bps hike in December, followed by a pause throughout 2027. Subsequently, a faster moderation in inflation than projected by the median FOMC participant would allow the monetary policy normalization to begin in 2028. Thus, we expect a less pronounced hiking cycle than currently priced in by markets, while rate

cuts would begin earlier than implied by the FOMC projections.

In Mexico, Banxico unanimously maintained the policy rate at 6.50% for the third consecutive meeting, although it adopted a more cautious forward guidance by removing the explicit reference to maintaining it “at its current level.” At the same time, the policy statement underscored twice that the macroeconomic conditions of Mexico and the United States are different and that Banxico would not have to react mechanically to Fed hikes.

Despite the new outlook for the Fed, Banxico’s attention will likely remain concentrated on core inflation, particularly services inflation, whose moderation continues to be very gradual. At the same time, there are few domestic arguments to preemptively accompany Fed hikes: Banxico continues to anticipate economic slack ahead, and the recovery of formal employment shows gradualism. These conditions justify maintaining the pause while the disinflationary process in the core component consolidates.

Furthermore, although the rate spread with the Fed narrowed to 250 bps—its lowest level since Banxico adopted the funding rate as its monetary policy instrument—this does not necessarily imply it is too narrow. Mexico appears better positioned than in previous episodes to absorb a smaller spread, thanks to a lower inflation differential with the United States and deeper domestic financial markets. Consistent with this, the 375 bps compression in the policy-rate differential since May 2023 has so far occurred alongside an average appreciation of the peso during the period, in contrast to the average depreciation observed during previous spread compression cycles.

For now, we maintain the expectation that Banxico will keep the policy rate at 6.50% ([Figure 5](#)). With the Fed raising rates again, the evolution of the exchange rate becomes a key variable. Further reductions in the spread could be accompanied by some peso depreciation, but what will really matter to Banxico will not necessarily be that the peso weakens, but whether the adjustment remains orderly and generates limited pass-through to consumer prices. Only a more severe depreciation or a material pass-through to inflation could materially change the monetary policy outlook.

The increase in long-term local interest rates primarily reflects higher global yields rather than a deterioration in domestic factors

In the United States, the yield on the 10-year Treasury note rose sharply in recent weeks to around 5.2%, primarily reflecting an upward reassessment of the expected path for monetary policy given the remarkable resilience of domestic demand and persistent core inflation. Although a moderation in geopolitical tensions and energy prices would help ease inflationary pressures, this factor has lost relevance against the risk of more persistent demand pressures. Conversely, a significant correction in the valuations of tech companies linked to the AI boom

could weaken investment—whose growth has been concentrated largely in this sector—and consumption through wealth effects, reducing the need for a more prolonged hiking cycle.

In this context, elevated Treasury bond yields continue to be the main driver behind the increase in Mexican long-term government rates, while domestic factors continue to play a secondary role. The spread between 10-year bond yields in Mexico and the United States has even narrowed, and country risk metrics do not show significant deterioration. In contrast, the reduction in the policy rate differential and, above all, expectations of further Fed hikes have generated pressures on the peso and greater exchange rate volatility, although the latter remains close to its historical average. Recent depreciation appears to reflect primarily an unwinding of carry trade positions—in which the peso constituted the long position—rather than a deterioration in domestic fundamentals.

Although uncertainty remains elevated, we consider that long-term rates still have room to adjust gradually downward if, as we anticipate, the Fed's hiking cycle proves less pronounced than currently priced in by markets. In our baseline scenario, we estimate that the 10-year M-Bond yield will stand at 9.0% at year-end 2026, subsequently declining to 8.5% in 2027, 8.3% in 2028, and 8.2% in 2029 ([Figure 6](#)). These forecasts are higher than those of the previous quarter and primarily reflect a higher global risk-free rate over the forecast horizon.

Regarding the Mexican peso, if the global situation normalizes, the currency will recover. If so, we anticipate that the exchange rate will most likely stand around 17.30 and 17.70 pesos per dollar at the end of 2026 and 2027, respectively.

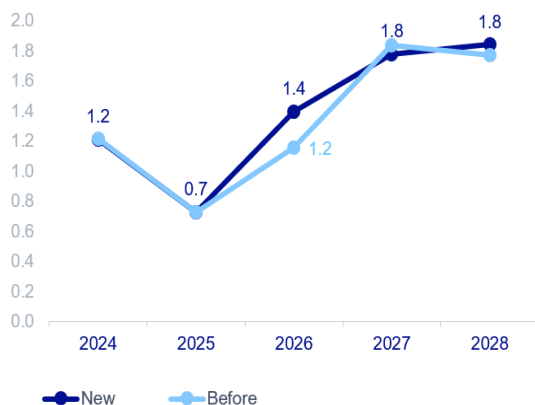
Public Sector Borrowing Requirements (PSBR) projected by SHCP for 2027 are -3.9% of GDP, which would represent marginal progress in fiscal consolidation

After analyzing the General Economic Policy Criteria for 2027 presented by SHCP, we anticipate that the Historical Balance of Public Sector Borrowing Requirements (SHRFSP) will be 55.8% of GDP at year-end 2026 vs. 54.9% in 2026. Although the progress in fiscal consolidation proposed for 2027 is only two tenths of a percentage point—since PSBR would move from -4.1% in 2026 to -3.9% of GDP—public spending pressures, an increasingly constrained fiscal space, and the absence of a tax reform to increase tax collection lead us to foresee that this consolidation will remain stagnant in coming years. In April of this year, SHCP had projected a target of -3.5% of GDP for 2027's PSBR. The adjustment toward greater gradualism implicitly recognizes the rigidities of public spending and the impetus intended for public physical investment in an environment of limited fiscal space.

Given the fragility projected for public finances in coming years due to the expansion of social programs, patrimonial support to Pemex by the federal government, public pension payments,

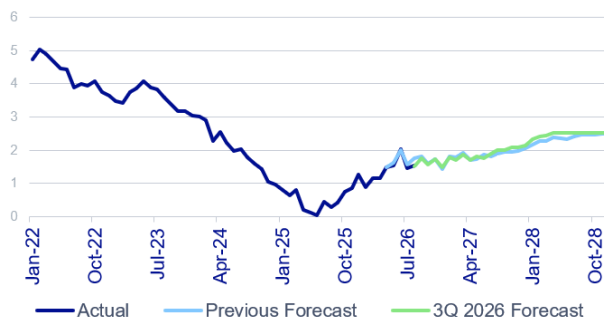
debt service, and the narrow margin for tax revenue growth without a tax reform, the federal government would most likely have to adjust discretionary spending to generate public deficits around 2.4% of GDP (or generate an average primary surplus of 1.2% of GDP) to maintain public debt at 55.8% during the 2027–2030 period. This would represent an enormous fiscal policy challenge resulting in downward pressures on economic growth. If fiscal discipline were insufficient and the federal government could only reduce the public deficit to average levels of around 3.7% of GDP in 2027–2030, debt could approach 60.0% of GDP by 2030. This possibility could lead rating agencies to lower the sovereign credit rating and the probable loss of the investment grade.

FIGURE 1. GDP
(ANNUAL % CHANGE)



Source: BBVA Research, INEGI

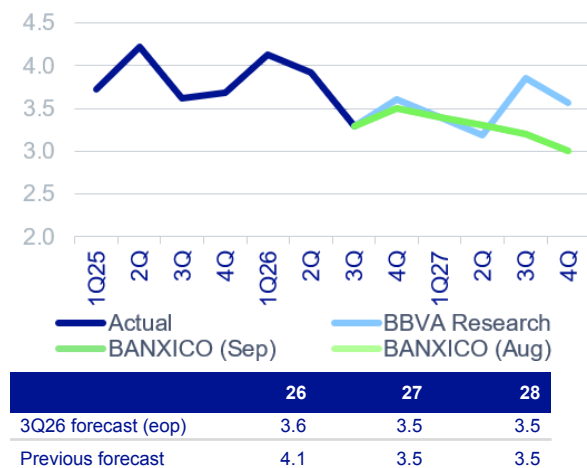
FIGURE 2. FORMAL EMPLOYMENT OUTLOOK
(ANNUAL % VAR.)



	26	27	28	29
Thousands, eop				
3Q26 forecast	333	489	591	609
Previous forecast	324	468	582	611
Annual % Var., % Fdp				
3Q26 forecast	1.5	2.1	2.5	2.5
Previous forecast	1.4	2.0	2.5	2.6

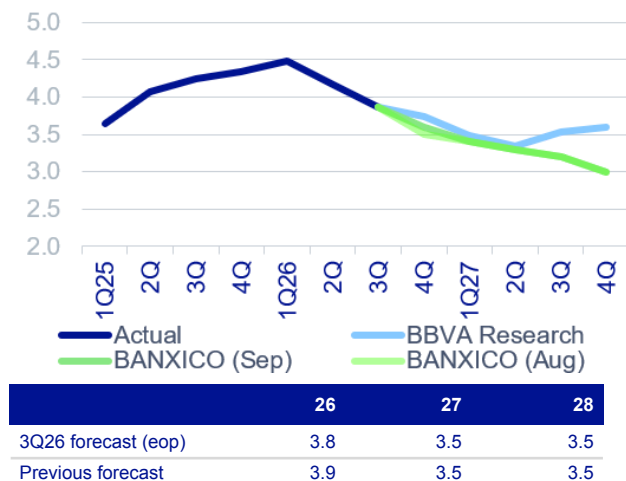
Source: BBVA Research, IMSS

FIGURE 3. HEADLINE INFLATION OUTLOOK
(YoY % CHANGE)



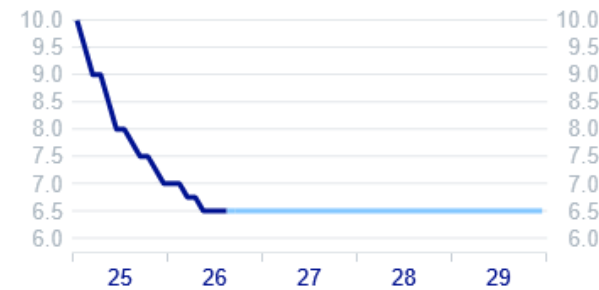
Source: BBVA Research, INEGI

FIGURE 4. CORE INFLATION OUTLOOK
(YoY % CHANGE)



Source: BBVA Research, INEGI

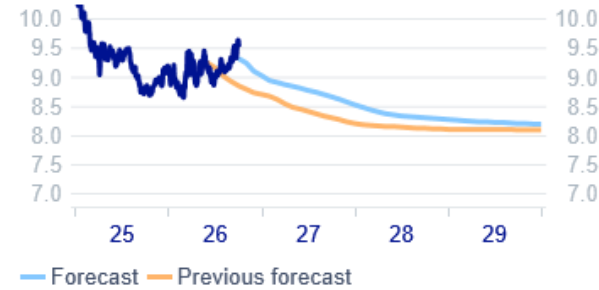
FIGURE 5. BANXICO POLICY RATE (%)



	26	27	28
3Q26 forecast (eop)	6.50	6.50	6.50

Source: BBVA Research, Banxico

FIGURE 6. 10-YEAR GOVERNMENT YIELD (%)



	26	27	28
3Q26 forecast (eop)	9.0	8.5	8.3
Previous forecast	8.7	8.2	8.1

Source: BBVA Research, Banxico, Macrobond

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