BASE

ECONOMIC OUTLOOK

MEXICO

OCTOBER 2024

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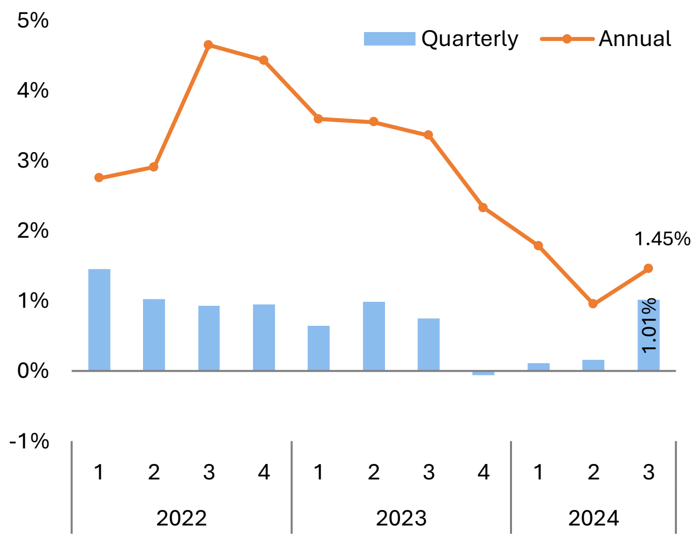
INTRODUCTION

Mexico's Gross Domestic Product (GDP) grew 1.01% in the third quarter compared to the previous quarter, exceeding market expectations that it would grow only 0.60%. Furthermore, with this, economic activity shows an acceleration with respect to the quarterly growth of 0.13% in the first half of the year. With the above, in the first 9 months of 2024, GDP accumulates a growth of 1.4%, compared to the same period of 2023, according to the seasonally adjusted series.

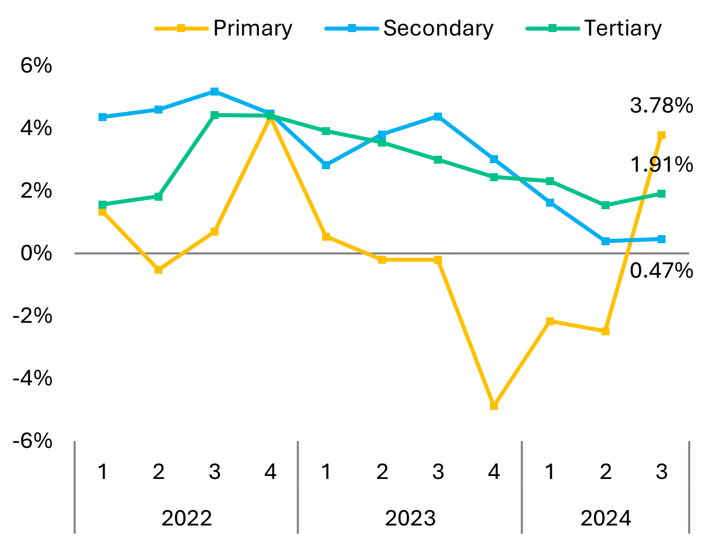
In the breakdown by major groups of economic activity, primary activities showed a rebound, growing 4.75% quarter-over-quarter after having fallen for four consecutive quarters. With this, primary activities registered an annual growth rate of 3.78%. On the other hand, secondary (industrial) activities grew 0.86% quarter-on-quarter, the highest growth rate since the third quarter of 2023. Despite this, the annual growth of secondary activities remained low at 0.47%. Finally, tertiary activities (services) grew 0.93% from the previous quarter, their highest growth rate since the third quarter of 2022, bringing the annual growth rate to 1.91%.

Fig. 1. GDP growth, % change



Source: Grupo Financiero BASE with information from INEGI.

Fig. 2. GDP by economic activity, annual % change



Source: Grupo Financiero BASE with data from INEGI.

For 2024, Grupo Financiero BASE estimates that Mexico's GDP will grow 1.4%, considering the strong deceleration of the first half of the year and that there are still signs of deterioration in several segments of economic activity, such as construction (within secondary activities) and commerce (within tertiary activities). With this scenario, total GDP growth over the last 6 years would be 5.04%, which would be equivalent to an average growth rate of 0.82% per year, the lowest since the six-year term of Miguel de la Madrid (1982-1988). Furthermore, considering the population increase during the period, GDP per capita would be suffering a decrease of 0.95% with respect to its 2018 level.

For 2025, Grupo Financiero BASE estimates that GDP will grow 0.8%, slowing down due to the fact that this is the first year of the new administration and in view of the adjustments to public spending necessary to achieve fiscal consolidation in the same year.

CONTEXT OF THE MEXICAN ECONOMY

The Mexican economy faces a complicated scenario following the federal elections of June 2, 2024, in which Dr. Claudia Sheinbaum, candidate of the MORENA-led coalition, was elected president. In addition, MORENA and its allies managed to obtain a majority of seats in both houses of the Congress of the Union, placing them very close to having the qualified majority that allows them to make changes to the Constitution. This victory ensured the permanence of the party founded by his predecessor, Andres Manuel Lopez Obrador, in power, and the continuity of his political, economic, and social ideology that characterized his administration during the last six years.

López Obrador's administration was marked by a strengthening of the role of the State in various sectors of the economy, limiting the participation of the private sector and seeking to favor State-owned companies such as Pemex and CFE. They assumed a central role in internal public security, taking on tasks that were previously the responsibility of civilian institutions, and were also given control in areas not related to security, such as infrastructure construction, customs and port control, and airport and train administration. These policies increased state intervention and in turn generated a greater perception of corruption, legal uncertainty, and insecurity, which resulted in a drop in confidence and private investment, negatively affecting Mexico's potential economic growth.

During the transition period, while López Obrador was still president but with the new Congress already in office, a controversial reform to the Judicial Branch that had been proposed since February of this year was approved. This reform (already in force), which, among other things, now consists of judges, magistrates and ministers being elected by popular vote, has generated much concern because it could weaken the independence of the courts. This has created a sense of legal insecurity for market participants, as it makes it difficult for the State to fulfill one of its essential functions: the protection of human rights and property rights, increasing the risk for those who wish to invest in Mexico.

In addition to these challenges left by López Obrador's administration, Sheinbaum's government also inherits a major challenge in terms of public finances. In 2024, public spending increased considerably, something common during election years, as governments usually increase spending on social programs to boost their popularity. On this occasion, there was also high spending on public infrastructure investment, as López Obrador took on the task of finishing his government's pending emblematic projects. The problem is that to achieve these spending levels, the government was forced to go into debt at historic levels-in the budget a net indebtedness equivalent to 5.4% of GDP was approved, but the latest revision of the Ministry of Finance and Public Credit (SHCP) estimates that it will actually be 5.9%. Thus, the SHCP estimates that the Historical Balance of the Public Sector's Financial Requirements (the broadest measure of the federal public sector's net debt) will end the year at 50.2% of GDP, considerably higher than the 43.6% left by the previous administration. To prevent public finances from becoming a more serious problem for the economy, in 2025 the government will have to undertake a fiscal consolidation effort, reducing spending and possibly taking measures to increase revenue collection, which in turn will have negative repercussions for consumption and investment.

To all this we must add the external challenges that could arise. On the one hand, a recession in the United States would have strong consequences for Mexico, since in addition to a drop in demand from the country's most important trading partner, it would also be a strong blow to remittances, which have been a great support for households and domestic consumption. There is also the change of government in the United States and the review of the T-MEC scheduled for 2026. On the other hand, geopolitical crises such as those in Israel-Iran or Ukraine-Russia could lead to changes in the prices of essential *commodities*, particularly energy. Although inflation in Mexico continues on a downward trend and is estimated to close the year at 4.4% annually, this has been achieved because the real interest rate is in restrictive territory and although the Bank of Mexico has already begun to reduce it, a price shock, such as the one that occurred in 2021 with the war between Russia and Ukraine, could reverse the trend and push inflation upwards.

This is the scenario in which Mexico finds itself: an economy with great internal uncertainty and a climate of lower confidence and investment, in addition to the need to reduce public spending. High debt and reforms that weaken institutions add pressure to economic growth, and to this are added external factors such as a possible slowdown or recession in the United States, the change of government in that country and geopolitical tensions that could further deteriorate the environment.

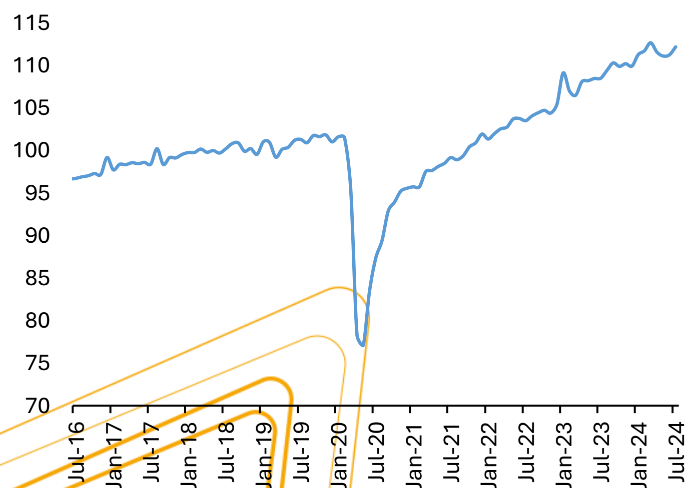
COMPONENTS AND DETERMINANTS OF AGGREGATE DEMAND

PRIVATE CONSUMPTION

Private consumption is the largest component of aggregate demand, accounting for approximately two-thirds of Mexico's GDP. Moreover, consumption is perhaps the most important indicator of the population's economic well-being, as it reflects households' ability to satisfy their needs through the purchase of goods and services. A high level of consumption suggests that households have sufficient income, and this is a positive sign for the economy. However, consumption decisions depend not only on the level of income, but also on other factors such as consumer confidence, interest rates and expectations about the country's economic future. In an environment of uncertainty, such as the one we are currently facing, consumer decisions may become more cautious, affecting consumption and economic growth.

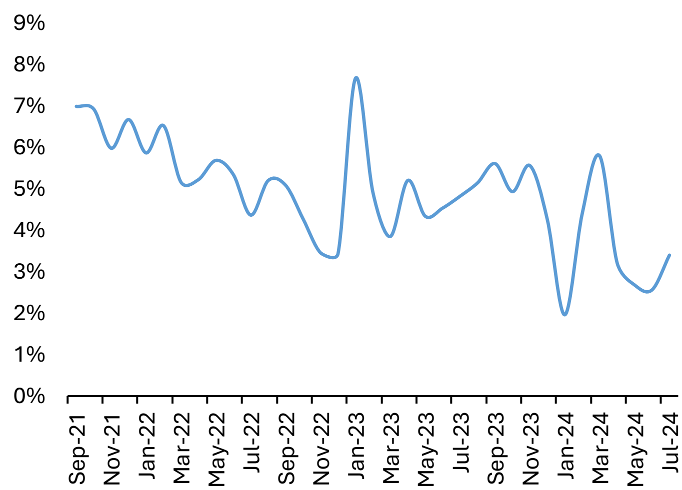
According to the Monthly Indicator of Private Consumption in the Domestic Market (IMCPMI) published by INEGI, in July 2024 consumption grew at an annual rate of 3.40%, the highest since March of this same year. However, the annual growth rate had been decreasing in the previous three months, and the accumulated annual growth in the first 7 months of 2024 is 3.42%, lower than those observed in 2023 of 5.04% and in 2022 of 5.45%.

Fig. 3. Private consumption
2013 = 100



Source: Grupo Financiero BASE with information from INEGI.

Fig. 4. Private consumption indicator
YoY % change



Source: Grupo Financiero BASE with data from INEGI.

As in 2023, the growth in private consumption in 2024 has been mainly in imported goods, which in July 2024 showed an annual growth of 15.35%. On the other hand, consumption of domestic goods and services only grew 1.46% in the same period. Growth in the consumption of imported goods increased considerably at the beginning of 2023 and remained strong due to the significant appreciation of the peso against the dollar. However, in recent months a deceleration has been observed in the face of the peso's depreciation: while in November 2023 the annual growth rate of consumption of imported goods reached 32.35%, by March 2024 it had fallen to 25.13% and by June 2024 it had fallen even further to 10.18%.

Among the main risks to consumption growth are low job creation, a possible loss of purchasing power of remittances, peso depreciation, a rebound in inflation, high interest rates, a reduction in public spending in 2025, and the general deterioration of economic expectations for Mexico due to the uncertainty of the new government. Grupo Financiero BASE projects private consumption growth of 2.7% for 2024 and 1.2% for 2025.

LABOR MARKET

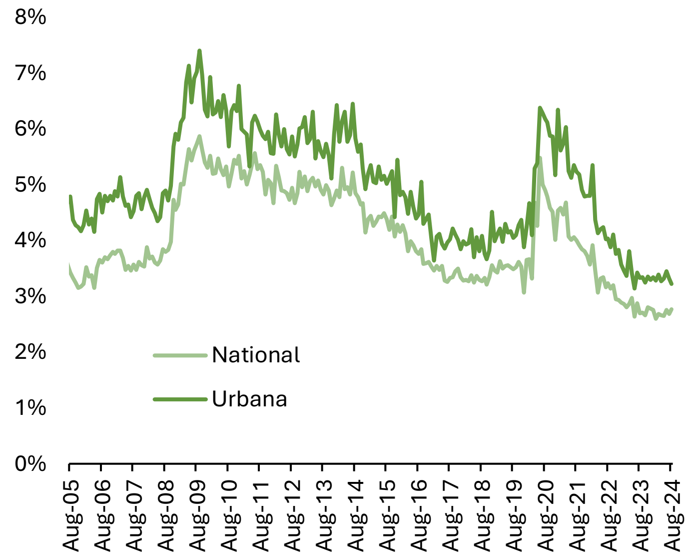
The labor market plays a crucial role in the economy because of its direct effect on consumption, as workers' employment and wages largely determine households' ability to purchase goods and services. A robust labor market, with high job creation and stability for workers, boosts consumption by providing households with economic security. Conversely, unemployment, informality and lack of job stability introduce uncertainty and limit consumption.

According to INEGI's National Occupation and Employment Survey (ENOE) for August 2024, the national unemployment rate stands at 2.76%, according to seasonally adjusted figures. Although this rate is the highest since December 2023, it is still at low levels compared to previous periods (Fig. 5). In addition, the urban unemployment rate showed a decrease from 3.31% in July to 3.23% in August. This measure is more reliable and useful for evaluating the labor market, since it is in large cities where most of the economic activity is concentrated, in addition to the fact that they are markets with greater formality and higher wages.

However, there are several signs of deterioration in the labor market in particular:

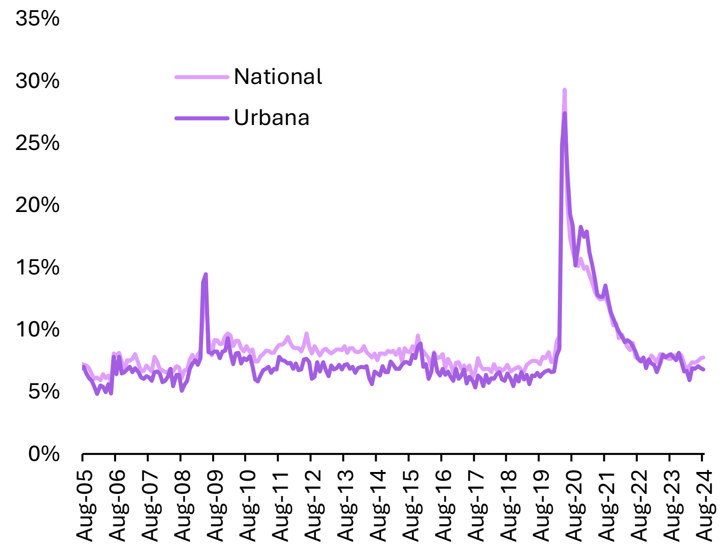
- The population available for work, which is part of the Non-Economically Active Population (NEAP), had an increase of 148 thousand people in August. These are people who, although they do want to work, did not actively look for work, so they are not considered unemployed. However, this lack of effort to get a job may be due to a feeling of discouragement, in which people feel that the current labor market does not present opportunities to get a job.
- If the population available for work were considered unemployed for purposes of calculating the unemployment rate, it would stand at 10.97% in August 2024, which would be the highest since October 2022. This "extended" unemployment rate reflects a stronger deterioration than the traditional unemployment rate shows.
- The underemployment rate, an indicator that measures the percentage of the employed population in need of additional work, stood at 7.74% in August, its highest level since December 2023 (Fig. 6). As for the urban underemployment rate, it fell in August to 6.77%. However, this is a higher level than those observed in the first quarter of 2024, as it reached a low of 5.95% in March.

Fig. 5. Unemployment rates



Source: Grupo Financiero BASE with information from INEGI.

Fig. 6. Underemployment Rates



Source: Grupo Financiero BASE with data from INEGI.

Regarding the formal labor market, figures from the Mexican Social Security Institute (IMSS) as of September 2024 show that the number of insured jobs grew at an annual rate of 1.59%. This also highlights the deterioration of the labor market, as it is the lowest annual growth rate since April 2021.

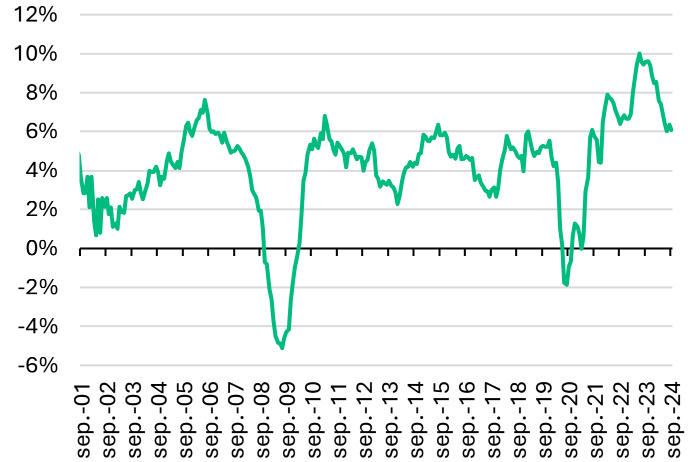
Through September, formal job creation registered with the IMSS has been 456,417 jobs, a figure significantly lower than the 756,537 jobs generated in the same period of 2023 and the lowest since the massive job loss caused by the COVID-19 pandemic crisis in 2020. More worryingly, this figure is also lower than that recorded in 2019 (488,061), the year in which Mexico entered recession (pre-pandemic (Fig. 7).

IMSS figures allow us to calculate the real wage bill, using the formal jobs registered in each month, multiplied by their respective average contribution base salary, adjusted for inflation with the National Consumer Price Index (NCPI). This indicator registered an annual growth of 6.07% in September, a notably lower rate than the 9.57% observed in the same month of the previous year. This reflects a clear deceleration in the growth of the wage bill, which translates into lower consumption growth (Fig. 8).

Fig. 7. Creation of formal jobs in the periods January-September

Source: Grupo Financiero BASE with information from IMSS.

Fig. 8. Real wage mass according to IMSS figures, annual % var.



Source: Grupo Financiero BASE with data from IMSS, INEGI.

REMITTANCES

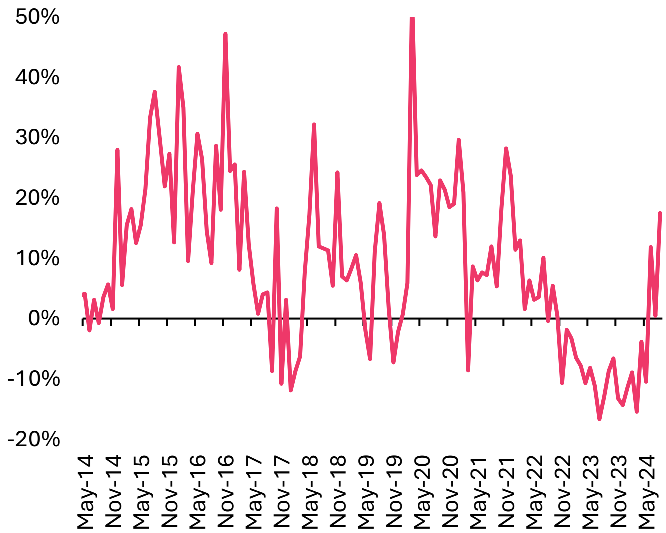
Another important determinant for the growth of private consumption in Mexico is remittances, which are the resources that people abroad, mainly in the United States, send to their families in the country. In August 2024, remittances grew 9.32% annually, with a cumulative flow for the last 12 months (September 2023 to August 2024) of US$64,871.86 million, representing an increase of 4.31% over the same period of the previous year (Fig. 9).

The Bank of Mexico publishes monthly remittance inflows in U.S. dollars, but what is relevant for Mexico's economy and households is the growth in the purchasing power of these remittances. For this reason, two variables become determinant: the exchange rate and inflation. A higher exchange rate implies that the same dollars are converted into more pesos, and furthermore, to make these figures comparable over time, it is necessary to adjust remittances in pesos for inflation, using the NCPI. This calculation shows that in August 2024 the purchasing power of remittances grew by 17.46% annually with respect to the same month in 2023. This increase in purchasing power tends to have a positive impact on the Mexican economy, as it increases household income and boosts consumption. However, this effect only materializes if the purchasing power of remittances continues to grow steadily. In fact, the cumulative flow of remittances over the last 12 months in real pesos shows an annual contraction of 5.37% (Fig. 10).

This growth trend is likely to have continued in September, given that the exchange rate (FIX) recorded a monthly depreciation of 2.5%. For 2024, Grupo Financiero BASE estimates that remittances will grow 3.00% with respect to 2023, assuming that the exchange rate closes the year at 19.50 pesos per dollar (with an average of 19.45 in the last 4 months of the year), and that inflation stands at 4.40% annually in December.

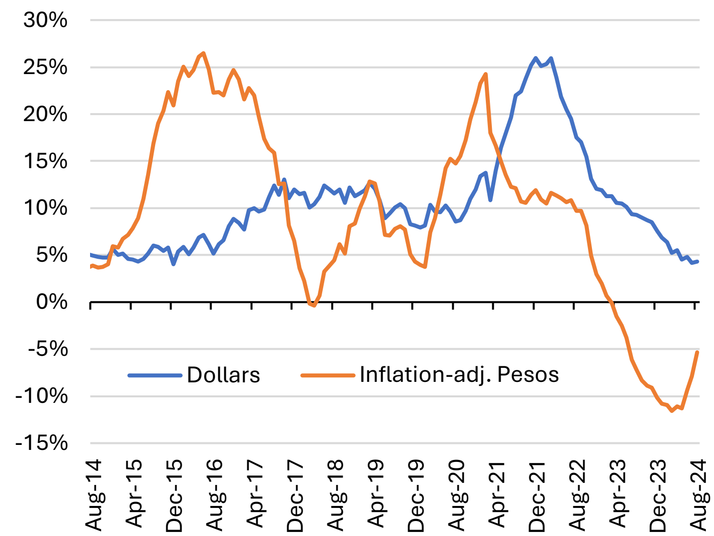
While remittances (in real pesos) are expected to grow after the 10.2% contraction observed in 2023, there is an important risk: a weak labor market in the United States would imply lower incomes for workers abroad, which would reduce the amount of money they can send to their families in Mexico. Relying on the support of remittances is of great importance for Mexican households, considering the environment they will face in 2025, of lower investment, lower public spending, lower job creation and lower wage growth.

Fig. 9. Monthly flow of remittances
YoY % change



Source: Grupo Financiero BASE with information from Banxico.

Fig. 10. Cumulative remittance flows in the last 12 months, YoY % change



Source: Grupo Financiero BASE with data from Banxico, INEGI.

FIXED INVESTMENT

Fixed investment is fundamental for the growth and development of an economy, as it consists of the acquisition of assets such as machinery and equipment or the construction of infrastructure that increase the country's productive capacity, contributing to greater growth potential in the future. This benefits the population in terms of employment, income and welfare. To finance a higher level of investment, it is crucial to have domestic savings, as they provide the necessary resources to invest, but when these savings are insufficient, the economy depends on foreign investment or indebtedness, which in the long term can be unsustainable.

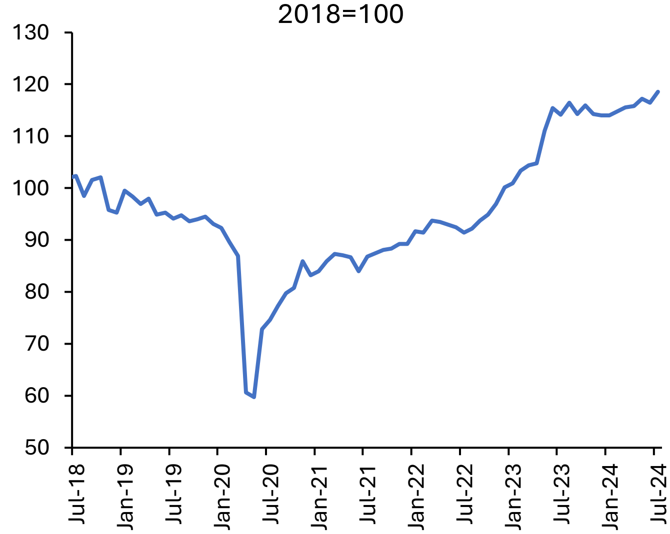
The Monthly Indicator of Gross Fixed Capital Formation (or Gross Fixed Investment) published by INEGI showed for July 2024 an annual growth rate of 3.87%. Although this represented an acceleration with respect to the 0.91% rate registered in the previous month, it still remains low with respect to what was observed in 2023 and the first half of 2024. An annual growth rate of 5.57% was recorded in May, but in the first quarter of 2024 the average annual growth rate was 11.58%, so the 3.87% rate recorded in July is low compared to these growths. These growths have led the Gross Fixed Investment indicator to reach an all-time high in July 2024 (Fig. 11).

The slowdown has been mainly in non-residential construction, which in June and July recorded its first annual contractions since August 2022, of 3.05% and 1.49% respectively. Moreover, these are the first two consecutive annual contractions since March 2021, as the August 2022 contraction was isolated and was only 0.16%. This slowdown is mostly explained by lower investment in public works, which is not enough to keep investment at the same or higher levels than the high base of comparison held in 2023, when non-residential construction investment grew at an average annual rate of 39.32%. In fact, in August, public sector construction fell 34.54% annually, the largest drop on record.

Likewise, the notorious deceleration in investment in machinery and import equipment other than transportation equipment stands out, since in the last three months of available figures (May, June and July) it registered its first annual contractions since January 2021.

What has kept gross fixed investment in the realm of positive annual growth rates are: (1) investment in transportation equipment, as it is still growing at high rates, with domestic investment growing 14.99% annually and import investment at 44.23%; and (2) residential construction, which accelerated its growth, registering an average annual rate of 7.63% in the last three months (May-July), while in the first four months of 2024 it registered an average of 4.52%.

Fig. 11. Gross Fixed Investment,
2018=100



Source: Grupo Financiero BASE with information from INEGI.

Table 1. Gross Fixed Investment, Jul-24

Indicator	MoM	YoY	Jan-Jul YoY	ATH	vs ATH
Gross Fixed Investment	1.81%	3.87%	11.37%	Jul-24	0.00%
Machinery and Equipment	0.88%	4.17%	7.00%	Jul-24	0.00%
Domestic	1.28%	5.43%	2.94%	Dec-16	-0.36%
Transport equipment	4.31%	14.99%	12.52%	Dec-16	-0.51%
Non-transport machinery and equipment	-2.76%	-5.02%	-5.95%	Dec-11	-13.37%
Imported	0.42%	2.14%	9.61%	Mar-24	-2.49%
Transport equipment	12.08%	44.23%	36.71%	Jul-24	0.00%
Non-transport machinery and equipment	-1.66%	-2.80%	6.41%	Mar-24	-5.50%
Construction	2.72%	3.39%	14.89%	May-24	-0.40%
Residential	5.03%	9.52%	4.06%	Dec-17	-11.68%
Non-residential	0.95%	-1.49%	24.07%	Aug-23	-9.14%

Source: Grupo Financiero BASE with data from INEGI.

FOREIGN TRADE

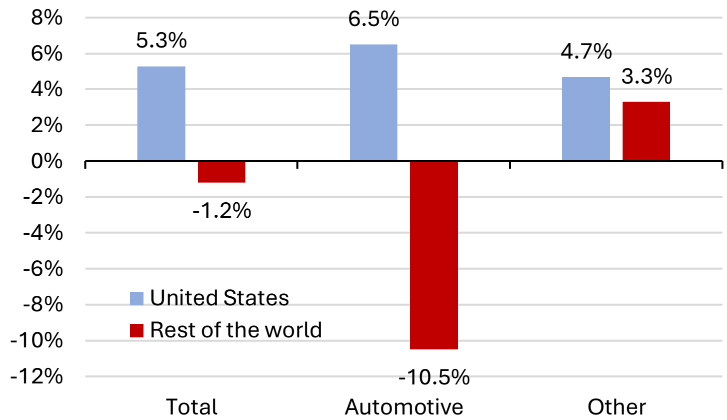
Mexican exports showed weakness during the third quarter. At an annual rate, total exports grew 0.30%, their worst performance since the first quarter when they contracted 5.14%. The low annual growth of exports in the quarter was explained by the 10.29% drop in oil exports and a growth in non-oil exports of only 0.83% per year, as the following contracted: agricultural exports with 25.04% per year, extractive exports with 10.89% and automotive exports with 1.85% (Table 1). The rest of the manufacturing exports showed an annual growth of 4.50%, being the only determinant of the low annual growth of total exports during the third quarter.

Thus, in the first 9 months of 2024, total exports accumulated growth of 3.17%, with oil exports falling 14.10% and non-oil exports growing 4.21% compared to the same period of 2023, being their lowest accumulated growth since 2020, when exports plummeted 13.19% due to the pandemic. The slowdown in exports is related to the weakness of global economic activity, which has affected demand for Mexican exports.

According to data available through August, Mexican exports accumulated a drop in the year with four key trading partners. Exports to Spain accumulated a drop of 0.70%, to South Korea 4.89%, to China 5.45% and to Germany 21.72%. It should be noted that these economies, and especially Germany, show a clear deterioration in economic activity during the year. In the first eight months of the year, these countries accounted for 4.65% of total exports, for a total of 18,888.9 million dollars, with a drop of 9.49% compared to the same period in 2023.

What has prevented the contraction of total exports during the year is the strong trade integration between Mexico and the United States. Between January and September 2024, non-oil exports (which account for 95% of total exports) accumulated a growth of 4.21%, but to the United States exports have grown at a higher rate of 5.3% in the same period, with automotive exports advancing 6.5% and the rest 4.7% compared to the same period of 2023. In contrast, to the rest of the world, non-oil exports accumulated a drop of 1.2% in the first 9 months of the year (Fig. 12). The strengthening of exports to the United States is also supported by the depreciation of the peso, which from May 31 (the day before the Mexican elections) to October 29 accumulated a drop of 17.5%.

Fig. 12. Cumulative growth in January-September 2024 of non-oil exports to the United States and the Rest of the World



Source: Grupo Financiero BASE with data from INEGI.

Therefore, the export growth forecast of 2.5% in 2024 is maintained. By 2025, export growth will depend largely on the economic performance of the United States and is therefore estimated to grow between 1.8% and 2.7%, depending on the growth scenario that materializes for that country.

Imports grew 2.01% annually during the quarter, decelerating from the 8.49% growth of the previous quarter. Within the Mexican economy, imports of consumer goods grew 4.44% annually, decelerating from 6.47% in the second quarter, imports of intermediate goods grew 2.67%, decelerating from 8.75%, and imports of capital goods contracted 6.35%. It is noteworthy that the annual drop in capital goods imports during the third quarter of this year is the largest since the second quarter of 2020, when they plummeted 17.52% affected by the pandemic.

The deterioration in imports reflects Mexico's economic situation, as the slowdown in imports of consumer goods is a sign of weak domestic demand and the loss of purchasing power of the peso. Imports of intermediate goods have also slowed, which is consistent with the deterioration of manufacturing activity in Mexico. Finally, the drop in capital imports is a consequence of the deterioration in the expectation of gross fixed investment, which is also reflected in the new investment component of foreign direct investment.

In the first 9 months of 2024, the balance of trade balance shows a deficit of 11,017 million dollars, increasing 10.99% with respect to the deficit in the same period of 2023. The deficit is mainly explained by the oil balance with a negative balance of US$7,699 million, while the non-oil balance shows a deficit of US$3,317 million. However, the increase in the deficit compared to the same period of the previous year is due to the non-oil balance, which went from a surplus balance of 6,676 million dollars in the first 9 months of 2023 to a deficit in 2024, being the first deficit balance of the non-oil balance since 2016. On the other hand, the oil balance deficit has been reduced from 16,602 million dollars last year, although it has been in deficit for 10 consecutive years.

Thus, in the first 9 months of 2024, the balance of trade balance shows a deficit of 11,017 million dollars, increasing 10.99% with respect to the deficit of the same period of 2023. The deficit is mainly explained by the oil balance with a negative balance of US$7,699 million, while the non-oil balance shows a deficit of US$3,317 million. However, the increase in the deficit compared to the same period of the previous year is due to the non-oil balance, which went from a surplus balance of 6,676 million dollars in the first 9 months of 2023 to a deficit in 2024, being the first deficit balance of the non-oil balance since 2016. On the other hand, the oil balance, although accumulating 10 years with a deficit, has been reduced.

Table 2. Trade Balance Breakdown

Third quarter, non-seasonally adjusted data

Concepts	Trade figures, third quarter 2024	
	Millions of dollars	var. annual % (original)
Exports	**156,330**	**0.30%**
Oil companies	6,635	-10.29%
Non-oil	149,695	0.83%
Agriculture and livestock	4,697	-25.04%
Extractive	2,560	-10.89%
Manufacturing	142,437	2.23%
Automotive	48,886	-1.85%
Rest	93,551	4.50%
Imports	**161,849**	**2.01%**
Oil companies	10,037	8.47%
Non-oil	151,812	1.61%
Consumer goods	23,824	4.44%
Intermediate goods	122,973	2.67%
Capital assets	15,051	-6.35%

Source: Grupo Financiero BASE with information from INEGI.

INFLATION AND MONETARY POLICY

Inflation

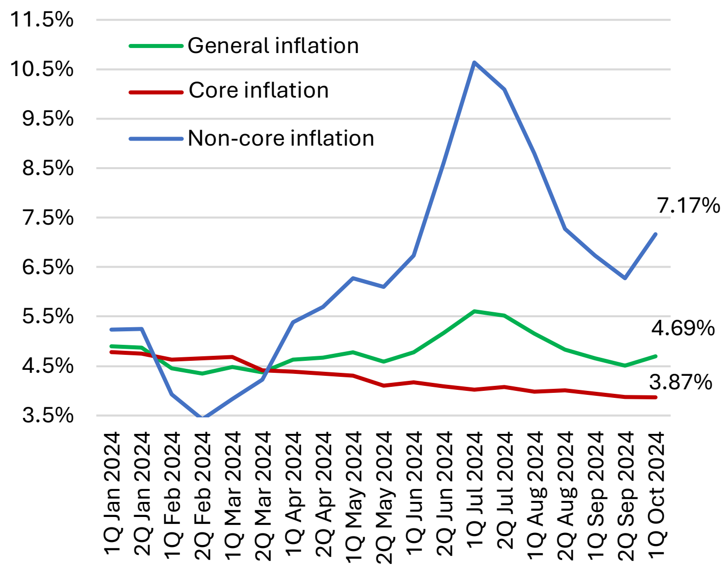
Headline inflation in Mexico reached a yearly high of 5.61% in the first fortnight of July and since then began to decelerate during the third quarter, reaching a low of 4.50% in the second fortnight of September. In the first half of October, a moderate rebound to 4.69% annual rate was observed (Fig. 13), evidencing the downward trend of headline inflation has risks.

The slowdown in inflation during the third quarter was mainly driven by the non-core component, which includes products whose prices are more volatile, mainly due to the decline in the biweekly rate of fruit and vegetable and energy inflation.

Between the first fortnight of July and the first fortnight of October, the annual rate of energy prices dropped from 9.16% to 5.19%, explained by the price of LP gas, whose inflation dropped from 25.51% to 8.25% annually in the same period, while the price of natural domestic gas has had 44 fortnights (22 months) of consecutive annual rate drops. The decrease in the price of natural gas is due to the fact that the reference price at Henry Hub accumulated 18 consecutive months of annual declines through September. This is mainly due to inventories in the United States, which through October were 4.6% above the average of the previous 5 years for the same time of the year.

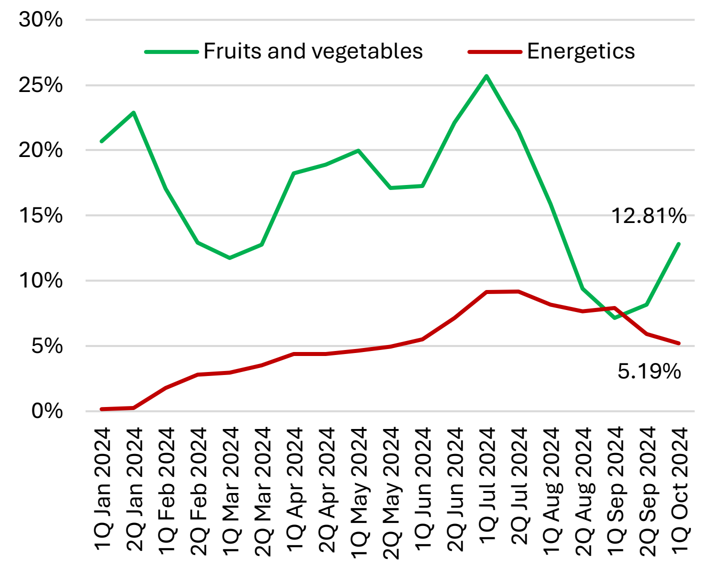
In the case of fruits and vegetables, the outlook is not as positive, since in the first two weeks of October they showed a rebound in annual inflation to 12.81% (Fig. 14), causing general inflation to accelerate again.

Fig. 13. Annual inflation rates
General, underlying and nonunderlying



Source: Grupo Financiero BASE with information from INEGI

Fig. 14. Annual inflation of fruits and vegetables and energy products



Source: Grupo Financiero BASE with data from INEGI.

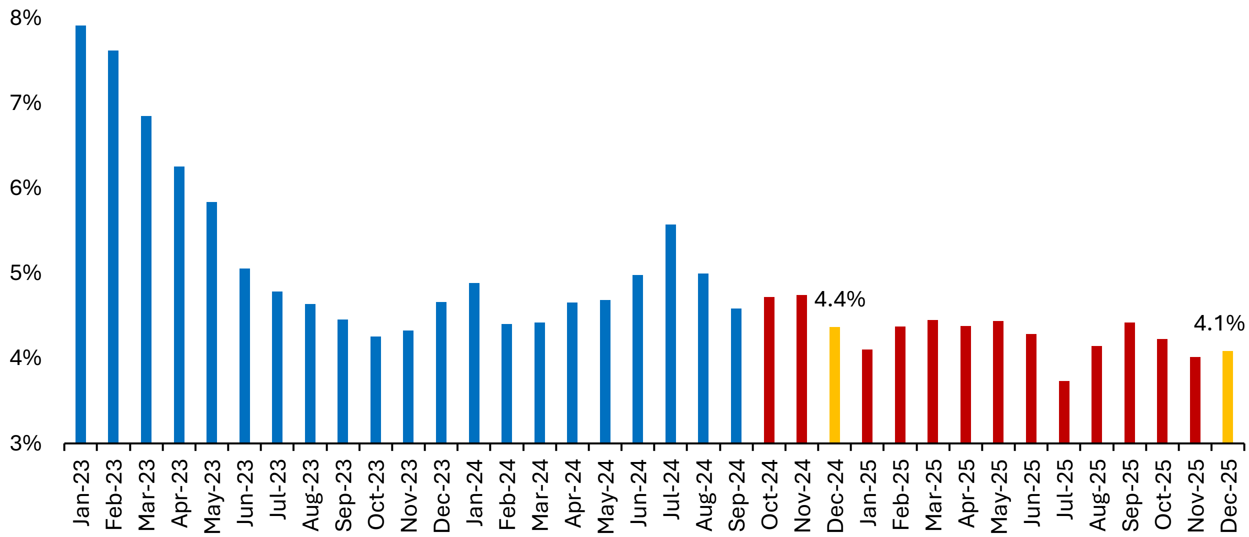
In addition, core inflation, which determines the trajectory of headline inflation in the medium and long term, continued to decelerate, although at a slower pace than in the first half of the year (Fig. 13).

Upside risks to inflation include:

1. High public spending, particularly with transfers granted to some population groups.
2. The increase in minimum wages and other contractual wages.
3. The increase in the purchasing power of remittances.
4. Public insecurity, due to the upward pressure on producers' costs.
5. Geopolitical conflicts, which threaten supply chains and the stability of international commodity prices.
6. The momentum in the services sector, which is reflected in this sector's inflation resistance to decline.
7. The depreciation of the peso, which raises the price of imported goods and could lead to an increase in long-term inflation expectations.

In the last months of 2024, headline inflation is expected to decelerate at a slower pace, which could end the year at 4.4% annually. By 2025, it is estimated that inflation could continue to decelerate to close the year at 4.1% (Fig. 15).

Fig. 15. Inflation expectation for 2024 and 2025. Annual rate



Source: Grupo Financiero BASE with information from INEGI.

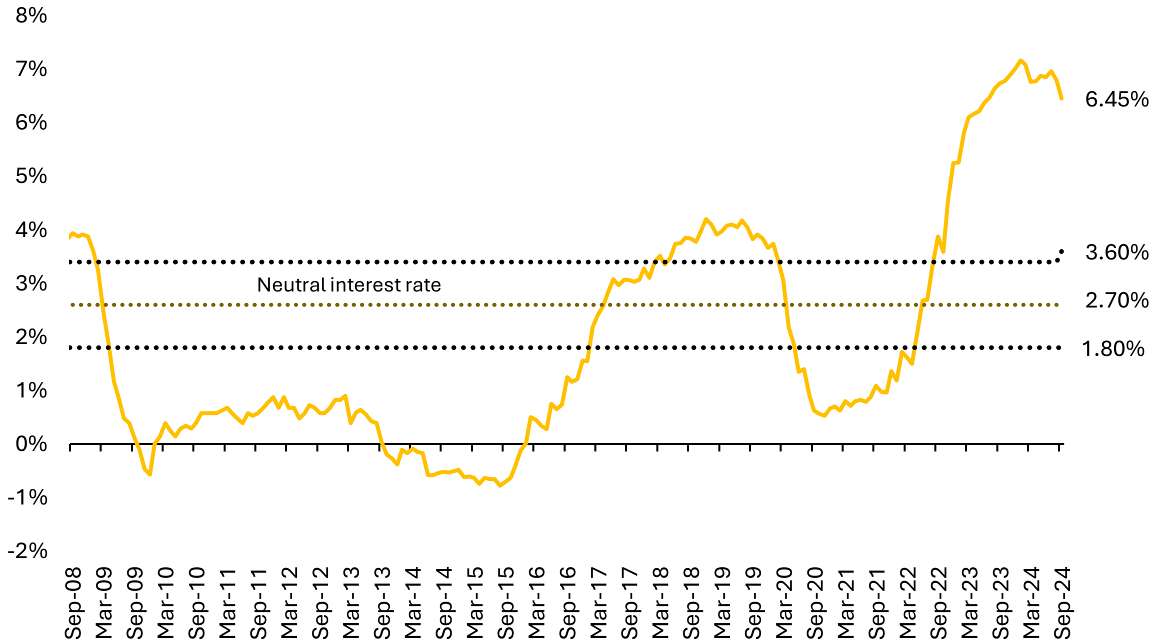
Monetary policy

In the third quarter, the Bank of Mexico resumed the cycle of interest rate cuts initiated on March 21 of this year. The cycle of cuts accumulated 75 basis points, adjusting the rate from 11.25% to 10.50%. It is worth mentioning that Banco de México's monetary stance continues to be broadly restrictive, as the real interest rate (ex ante), calculated from the Fisher equation, with the nominal interest rate and the one-year inflation expectation, stood at 6.45% in September, still well above the neutral interest rate estimated by Banco de México in a range of 1.8% to 3.6%, with a central average of 2.7% (Fig. 16).

With this, Banco de México is expected to make two additional interest rate cuts of 25 basis points each before the end of the year, bringing the nominal reference rate to 10.00%. By 2025, the interest rate is expected to close at 8.50%, which, if the one-year inflation expectation is maintained, would imply that during 2025 the real interest rate would remain in restrictive territory and it would be until 2026 when it would return to neutral territory.

At this point it is important to remember that in Mexico the most effective monetary policy transmission channels are the exchange rate and expectations channels, so the economic slowdown in 2024 has not been caused by restrictive monetary policy, but by other internal and external factors discussed earlier in this report.

Fig. 16. Ex-ante real interest rate, short term
Calculation with the Fisher equation



Source: Grupo Financiero BASE with information from Banxico

EXCHANGE RATE

In the third quarter, the peso accumulated a depreciation of 7.51% or 1 peso and 38 cents, with the exchange rate reaching a low of 17.6067 pesos on July 12 and a high of 20.2181 pesos on August 5, also a high for the year. With this, the peso added two consecutive quarters of depreciation, accumulating a drop of 18.93% in this period, being the largest depreciation in a two-quarter period since June 2020, when the peso accumulated a drop of 21.48% in the first half of that year.

In the first nine months of 2024, the peso accumulated a depreciation of 16.04% or 2 pesos and 72 cents, making it the second most depreciated currency against the dollar, behind only the Argentine peso, which accumulated a drop of 19.82%.

The peso's depreciation was explained by 1) greater risk aversion about Mexico, given the approval of constitutional reforms, particularly that of the Judicial Branch, 2) the U.S. electoral process, as Donald Trump has a high possibility of winning and has expressed his intention to impose tariffs on imports from Mexico, 3) the expectation that interest rate cuts by the Bank of Mexico will continue, which will make carry-trades with peso-denominated instruments less attractive.

The foreign exchange market is already reflecting the risk of additional upward pressure on the exchange rate in November.

1. Futures market. In the Chicago futures market, net speculative positions in expectation of an appreciation of the peso have accumulated a drop of 79.12% since June. This reflects the fact that the market remains cautious and avoids positioning in favor of the peso.

2. Real and implied volatility. Exchange rate volatility reached a high of 24.91% in June of this year, following the Mexican elections, and has stabilized at 10.42% during October. However, implied volatility (in 1-month Mexican peso options contracts) has risen during October to a high of 23.80%, a sign that the market is anticipating an increase in real volatility following the U.S. elections on November 5th. In fact, implied volatility is the highest since November 4, 2020, the day after that year's presidential election.

Fig. 17. Exchange rate, pesos per dollar

Source: Grupo Financiero BASE with Bloomberg data

According to a model of the exchange rate based on election bets, the exchange rate could rise to 23.00 pesos per dollar if Donald Trump wins the presidency, due to uncertainty regarding the application of tariffs to Mexican automotive exports. In the scenario that Kamala Harris wins the presidency, the exchange rate could take a breather and move towards 19.00 pesos per dollar.

By 2025, the exchange rate could decline in the face of a less uncertain outlook, unless global or Mexican risk aversion increases, which could materialize in the face of a deterioration in the U.S.-Mexico relationship and/or credit rating downgrades of Mexico's sovereign debt.

It is worth remembering that the year after elections in the United States, the peso tends to appreciate. However, for 2026 the outlook for the exchange rate is more challenging, as the T-MEC review threatens to be aggressive and cause peso depreciations.

PUBLIC SECTOR

As mentioned earlier in this report, the most important challenge for public finances in the short term is the high level of indebtedness being reached in 2024. Congress approved in the Federal Revenue Law for 2024 a level of indebtedness (Public Sector Borrowing Requirements or RFSP for its initials in Spanish) as a percentage of GDP of 5.4%. However, the most recent estimates of the Ministry of Finance (SHCP) indicate that the level of indebtedness for the year will reach 5.9% of GDP. This high indebtedness has been driven by spending on infrastructure projects and social programs, which is common for election years.

Total net public sector budget spending in the first eight months of 2024 amounted to 5.95 trillion pesos, a real increase of 9.6% with respect to the same period of 2023. However, budget revenues in this period were only 5.05 trillion pesos, and although they present a real increase of 3.6% with respect to the same period of the previous year, they are very low for the level of spending exercised. In addition, budget revenues have been 1.c % higher than expected by the SHCP program, while total spending has been 0.1% lower than budgeted. This is due to the fact that VAT collection grew 6.3% annually in the period and is 5.9% higher than programmed. Likewise, the financial cost, although showing a real growth of 4.0% annually, has been 6.0% lower than estimated. This has partly allowed programmable spending (over which the federal government has direct decision-making power) to grow at a real annual rate of 11.6% in the first eight months of the year, 1.3% higher than budgeted.

In the breakdown of programmable spending, current spending shows an increase of 8.7%, where the item of transfers and subsidies, which reflects the effort to improve the government's public image during the election year, grew by 14.8%, representing 25% of programmable current spending. Likewise, physical investment spending showed a real growth of 20.2% annually, due to the federal government's willingness to complete the emblematic works of the López Obrador administration. Physical investment in the fuel and energy sector increased 8.1% in real terms, reaching 267 billion pesos (36.1% of total physical investment), due to PEMEX's investments. Likewise, physical investment in transportation increased 58.8% annually, reaching 182 billion pesos (24.5% of total physical investment), reflecting spending to complete the Mayan Train, works in the Istmo de Tehuantepec and road works between Mexico City and Toluca.

Table 3. Summary of public finances

Cumulative figures for the period January-August 2024, in millions of pesos.

	Observed	Real % growth	Program	Diff. vs. prog.	% diff. vs prog.
Budgetary revenue	**5,049,383.7**	**3.6%**	**4,973,668.0**	**75,715.7**	**1.5%**
Oil	684,808.1	-7.7%	746,485.9	-61,677.8	-8.3%
Non-oil	4,364,575.6	5.7%	4,227,182.1	137,393.5	3.3%
Tax revenue	**3,340,250.0**	**6.3%**	**3,337,900.4**	**2,349.6**	**0.1%**
Income tax	1,834,689.9	0.3%	1,861,233.5	-26,543.6	-1.4%
VAT	932,171.6	6.3%	879,962.8	52,208.8	5.9%
IEPS	422,235.7	41.4%	457,853.9	-35,618.2	-7.8%
Non-Tax	247,292.1	-1.0%	186,128.4	61,163.7	32.9%
Total expense	**5,947,257.9**	**9.6%**	**5,955,394.8**	**-8,136.9**	**-0.1%**
Programmable expense	**4,304,266.9**	**11.6%**	**4,249,331.3**	**54,935.6**	**1.3%**
Current expense	3,365,149.7	8.7%	n.a.	n.a.	n.a.
Capital expenditures	939,117.2	23.3%	n.a.	n.a.	n.a.
Physical investment	739,771.6	20.2%	n.a.	n.a.	n.a.
Non-programmable expense	**1,642,991.0**	**4.7%**	**1,706,063.5**	**-63,072.5**	**-3.7%**
Cost of debt	722,746.5	4.0%	768,814.4	-46,067.9	**-6.0%**

Source: Grupo Financiero BASE with information from SHCP.

As mentioned above, to achieve these spending levels, the government had to resort to a high level of indebtedness. With an increase in Public Sector Borrowing Requirements (PSBR) equivalent to 5.9% of GDP in 2024, the Historical Balance of PSBR (SHRFSP) would close the year at a level equivalent to 50.2% of GDP. According to figures published by the SHCP, this would be the highest level on record, equaling only that of 2020. However, in 2020 the increase in the debt-to-GDP ratio was mainly due to a sharp fall in GDP. In contrast, the current increase is due to a considerable rise in debt.

This high level of indebtedness requires the government to implement a fiscal consolidation effort in 2025 to stabilize public finances. This implies that the government will have to reduce spending and/or find ways to increase revenue collection, probably by adjusting taxes and/or increasing taxation. However, it is likely that the government will opt to reduce mainly spending on physical investment, as cutting spending on social programs, which were a priority in López Obrador's administration, would be politically complicated for President Sheinbaum, and raising taxes would also be a highly unpopular measure. This reduction in public investment could have negative consequences for economic growth in the short and medium term, as it implies cutting spending that has a multiplier effect on the economy, while continuing to neglect the growth of necessary infrastructure. At the same time, efforts to increase tax collection could also have implications for consumption and private investment, being one of the main reasons why we could face economic stagnation or recession in 2025.

The perception of rating agencies (Fitch Ratings, Moody's and Standard & Poor's) also plays an important role here, especially given the expectation that the debt-to-GDP ratio will close 2024 above 50%. These agencies evaluate the country's ability to meet its financial obligations and issue credit ratings that influence investors' perception of risk. If Mexico has a high level of indebtedness without a clear fiscal consolidation strategy, the agencies could consider downgrading the country's credit rating, which would have several negative implications.

A lower rating would indicate a higher risk of default, which would raise the cost of financing for the government, which currently already represents 13.4% of total net public sector budgetary spending (according to SHCP's estimate for the end of 2024). This would increase the interest Mexico must pay on its debt, deepening the fiscal deficit and reducing the resources available for productive investment. In addition, a rating downgrade could also discourage fixed investment, as it implies higher financing costs for the entire economy. This is why it is extremely important for Mexico to implement fiscal consolidation measures that reduce debt as a percentage of GDP and give confidence to the markets about its commitment to long-term financial sustainability.

It is worth remembering that Mexico's credit rating is only one node away from losing investment grade with Fitch, while with Moody's and Standard and Poor's it is only two nodes away. This implies a serious risk for the Mexican economy, because if the investment grade is lost, it would take many years to recover it. Among the risks associated with credit rating cuts are greater exchange rate volatility, capital outflows from the country, higher financing costs for individuals, companies and the government, and a possible slowdown in the economy.

ELECTIONS IN THE UNITED STATES

With 6 days to go until the election, Donald Trump, candidate for the Republican Party, is far ahead of Kamala Harris, candidate for the Democratic Party, by 28.9 points, according to the betting market. Since 1800, betting has only failed on 2 occasions to predict who will win the election: 1) in 1948, Harry Truman of the Democratic Party, won the presidential election, despite having odds of eight to one and 2) in 2016, Donald Trump beat Hillary Clinton with odds of seven to two.

Whichever candidate wins will face the challenge of an economy with a growing debt, the threat of a recession, potential supply chain disruptions in the face of global geopolitical conflicts and the need to moderate debt growth. It will also receive a country with a high trade deficit, a historically high fiscal deficit, high consumer credit delinquencies and a banking sector that may again need help (especially medium and small banks). In addition to economic challenges, there are health challenges (due to fentanyl), illegal immigration and global geopolitical tensions. Finally, you will have the first scheduled review of the T-MEC.

Donald Trump's agenda, along with his vice president, JD Vance, is one of lower taxes, protectionist policies, lower immigration and combating drug cartels. Of particular concern is that he has threatened to:

1) Impose tariffs, which would slow the growth of Mexican exports and limit the potential for *nearshoring*.
2) Mass deportations, which would lead to a drop in remittances to Mexico, which could even lead to an increase in public insecurity in Mexico.
3) Categorizing drug cartels as terrorist organizations, which would give Trump the pretext to make incursions into Mexican territory, which could cause a diplomatic crisis with the Mexican government.

Kamala Harris' agenda, along with her vice president, Tim Walz, is higher taxes for higher income earners and greater support for those in need. Of Kamala Harris' proposals, of concern:

1) The possibility of raising the fiscal deficit, which would put pressure on the Federal Reserve to keep the interest rate higher for longer.
2) The review of the T-MEC, as she recently recalled that she was one of the 10 senators to vote against the treaty.

Whether with Harris or Trump, the review of the T-MEC will take place in 2026 and could be a factor that adds uncertainty to the Mexican economy. It is worth remembering that under the T-MEC the Sunset clause implies that the treaty has a duration of 16 years, but after 6 years a review must be made. Under this clause, the trade partners would review the treaty and if an agreement is reached, the 16-year term of the treaty would be renewed (the 10 years pending plus an additional 6 years). If no agreement is reached, the review could be repeated every year until the 10-year period is completed, at the end of which the treaty would expire. This represents a significant change with respect to NAFTA's termination clause, which stated that only 6 months' written notice was required for the departure of one of the members, without affecting the permanence of the two remaining members.

It is important to remember that the review does not represent a renegotiation of the treaty. For the 2026 review, it is expected that the issue of China's possible triangulation by Mexico to export to the United States will be a relevant issue. It should be recalled that the United States has an open trade dispute against Mexico in energy matters, which has not been elevated to the panel stage, possibly awaiting the new administration's policy for this sector and/or the review of the T-MEC. In addition, there is a panel against Mexico on genetically modified corn, while the Mexican government plans to take it to the Constitution, which would imply further straining the relationship with the United States.

Currently, Mexico's exports to the United States represent 83.1% of GDP, so a good relationship with that country, regardless of who wins the elections, will be of utmost importance.

HOW CLOSE IS MEXICO TO AN ECONOMIC RECESSION?

There is no exact definition of "economic recession", as it is a term that has been used to describe many episodes in economic history that have differed from one another. Generally, a recession can be broadly defined as a period of deep and prolonged decline in a country's economic activity (Gross Domestic Product). However, this immediately raises two questions: (1) how deep should the decline in GDP be, and (2) for how long?

For this, economists and agencies have proposed several criteria to determine whether an economy has entered a recession. One of the most common is the criterion of two consecutive quarters of GDP contraction. However, this method can be considered too simple, and there may be recessions that do not exactly meet this criterion, or long periods of contraction that are not deep enough to be considered recessions. This is why in many countries specialized committees are created to analyze a broader set of indicators and evaluate economic cycles. In the United States, the National Bureau of Economic Research (NBER) is responsible for officially determining recessions, taking into account a wider range of economic data to accurately identify the peaks and valleys of business cycles.

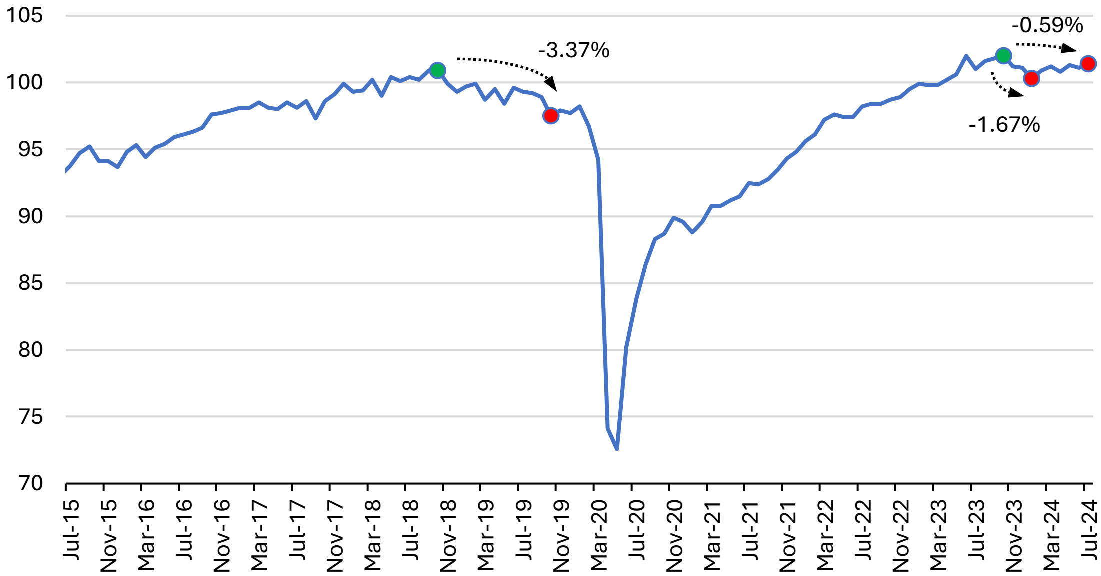
In the case of Mexico, the determination of recessions is similar. The Mexican Economic Cycle Dating Committee, created in 2021 by the Mexican Institute of Finance Executives (IMEF), is tasked with identifying the country's economic cycles. The committee determined that Mexico experienced a recession in 2019, prior to the pandemic. This is important as the committee determined that a recession did occur even though GDP contractions were minimal. In the first quarter, GDP contracted only 0.01% and in the second quarter it fell 0.27%, both very small declines. In fact, it is statistically difficult to say with certainty that there was a contraction in the first quarter, given how small the change was. In the third quarter, GDP grew 0.03%, an equally insignificant figure, which does not allow us to say with certainty that the economy grew. Finally, the year closed with a more pronounced contraction of 0.72% in the fourth quarter.

The Committee defines a recession as "a phase of the cycle in which there is a temporary, significant, sustained and generalized decline in economic activity". This definition is based on Shiskin's (1974) "three Ds" principle: *depth*, *duration* and *diffusion*. The Committee also explicitly rejects the use of the criterion of two consecutive quarters of contraction in GDP, as this is a criterion based solely on the duration factor and has been used in the media to determine whether a "technical recession" exists.

The Committee mentions that it conducts its analysis from the perspective of the classical cycle approach. For this it may be useful to analyze the System of Cyclical Indicators: Coincident and Advance (SICCA) published by INEGI, which, like the NBER, follows the classical approach, based on the business cycle.

According to SICCA, in 2019 the coincident indicator decreased 3.40 (3.37%) points from its last peak (100.9 points in October 2018) to the lowest point in 2019 (97.5 points in October 2019). However, so far, the SICCA (which is available through July 2024) does not show that there is a contraction of equal or greater magnitude than what occurred in 2019. Of the available data, the lowest point in the year is the 100.3 point recorded in January 2024, which, with respect to the last peak of 102.0 points recorded in October 2023, only represents a drop of 0.6 points (1.67%). Furthermore, in the months after January 2024 the indicator shows a recovery, and in July 2024 it is only 0.59% below the peak of October 2023 (Fig. 18).

Fig. 18. System of Cyclical Coincident and Advance Cyclical Indicators (SICCA); Coincident Indicator



Source: Grupo Financiero BASE with information from INEGI.

Annex 1 of this report presents a summary of the recession and crisis episodes that the Mexican economy has suffered from the 1980s to the 2019 recession and the COVID-19 pandemic crisis.

RISKS AND GROWTH FORECASTS

Mexico faces a number of risks that could affect its growth, both in the short and long term. These risks encompass both internal and external factors, and in most of them the role of the federal government is crucial, as it will have to act effectively to avoid a prolonged economic stagnation. The following is a list of the main risks facing Mexico:

1. **Uncertainty**: The arrival of the new government headed by Claudia Sheinbaum brings uncertainty regarding the economic and fiscal policies that will be implemented. The recent judicial reform, which has raised concerns about the independence of the courts, and the increasing control of the state in key sectors could affect investor confidence, both domestic and foreign, reducing investment in the country.

2. **High indebtedness and fiscal consolidation**: The growing level of public indebtedness, which is expected to close 2024 with a debt-to-GDP ratio above 50%, represents a significant pressure on public finances. This will require a fiscal consolidation effort in 2025, which could include spending cuts, especially in public investment, or an increase in revenue through higher taxes (an unlikely and highly unpopular measure). This adjustment could dampen economic growth, as lower infrastructure spending will affect non-residential construction investment and a higher tax burden could reduce consumption and private investment in general.

3. **Slowdown in formal job creation**: The low formal job creation in 2024 compared to previous years is worrisome. Excluding the 2020 COVID-19 crisis year, job creation in the first 9 months of 2024 is the lowest since 2019, the year of recession. A weak labor market reduces household purchasing power, limiting private consumption, which is the largest component of aggregate demand. In addition, high informality remains one of the greatest long-term challenges for the Mexican economy.

4. **Dependence on remittances**: Although remittances have been a key factor in sustaining consumption in Mexico, a slowdown in remittances could have a negative effect on domestic demand. In addition, the risk of a recession in the United States could reduce the income of Mexican workers abroad, affecting the amount of money they send to their families in Mexico, which would impact consumption in many regions of the country, especially the poorest.

5. **U.S. Elections**: On November 5, 2024, presidential elections will be held in the United States, with Donald Trump for the Republican Party and Kamala Harris for the Democratic Party. If Trump wins, he is likely to adopt a tough approach towards Mexico, especially on trade and immigration, which could generate economic tensions and pressure the exchange rate upwards. On the other hand, a Harris victory also generates uncertainty, as although it could imply a more stable bilateral relationship between Mexico and the United States, her economic and fiscal policies could weaken the U.S. economy.

6. **Other External Risks**: Finally, external risks, such as a possible recession in the United States or geopolitical tensions affecting *commodity* prices, also pose a threat to Mexico's economic growth. A slowdown in the U.S. economy would reduce demand for Mexican exports and affect remittances, while an increase in energy or food prices due to international conflicts could pressure inflation, further impacting consumption.

With this in consideration, Grupo Financiero BASE estimates that Mexico's economy will grow 1.4% in 2024 and will show a greater deceleration in 2025 with a growth of only 0.8%. The above implies that in both 2024 and 2025, GDP per capita will continue to be lower than that observed in 2018.

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ANNEX 1: RECESSIONS AND CRISES IN MEXICO

In Mexico, until recently, there was no one to determine recession periods. The existence of a recession was known when a crisis occurred. That is, it was determined that there was a recession when it was no longer possible to deny it. Among the main causes of a recession are: 1) exogenous shocks, as occurred during the pandemic in 2020 or during wars; 2) public policies, when a government adjusts its economic policy such as spending, tax rates or regulations that affect the confidence of economic agents; 3) financial crises, when the financial system suffers a collapse with ramifications on most sectors of economic activity; and 4) sectoral crises, when a key sector of economic activity suffers a collapse, triggering falls in other economic sectors.

In Mexico, IMEF's Business Cycle Dating Committee has identified 6 recession periods (GDP decline between the period prior to the start of the recession and the last quarter of the recession is shown in parentheses). Of these recessions only the first part of the 2019-2020 recession did not turn into a crisis. All the others were accompanied by a rapid deterioration of economic indicators and a large drop in GDP.

1. **December 1981 to June 1983 (-7.2%) .[1]**

   The recession, which lasted 19 months, had its origin in the growth of Mexico's foreign indebtedness for investment in the oil sector, as total debt rose from 30.7% of GDP in 1980 to 74.7% in 1982, with foreign debt rising from 12.2% of GDP to 40.5% in the same period. As a result, the budget deficit rose from 4.53% of GDP in 1980 to 13.54% in 1982. Along with the large external indebtedness, there was a 19% drop in oil prices between March 1981 and August 1982, resulting in a current account deficit as a proportion of GDP during the first 3 years of the decade (3.5%, 4.8% and 2.7%, respectively).

   The accelerated growth of the debt and the drop in oil revenues affected the government's liquidity and, in August 1982, it requested an extension for the payment of foreign debt principal. To compensate for the balance of payments imbalance, the peso devalued 541% between January 1981 and December 1982, putting upward pressure on inflation. Inflation accelerated from 27.8% annually in January 1981 to 98.8% in December 1982, reaching 112.5% annually in June 1983.

   During the recession, secondary activities contracted 12.90% and tertiary activities fell 3.30%.

2. **October 1985 to December 1986 (-5.6%).**

   The recession lasted 15 months and began in October 1985, following the earthquake of September 19, 1985, which caused severe damage to Mexico City's infrastructure, slowing economic activity and was followed by a slow reconstruction process. At the same time, oil prices fell 51% between September 1985 and December 1986, affecting public sector revenues. In fact, Pemex revenues fell from 7.31% of GDP in 1984 to 4.52% in 1986 and went from 22.68% of budgetary revenues to 16.15% in the same years.

   To compensate for the drop in revenues, indebtedness increased and the budget balance rose from 6.35% of GDP in 1985 to 11.43% in 1986 and 12.55% in 1987. As a result, total debt rose from 68.1% of GDP in 1985 to 98.8% in 1986 and 104.1% of GDP in 1987. Between September 1985 (prior to the beginning of the

[1] Source: Grupo Financiero BASE with information from INEGI and Comité de Fechado de Cíclos Económicos.
Note: The last quarter prior to the beginning of the recession and the last quarter of the recession are taken as reference.

recession) and December 1986, the peso devalued 59.61%. In the same months, inflation accelerated from 57.55% per year to 105.75% per year, reaching an all-time high of 179.73% in February 1988.

3. **December 1994 to May 1995 (-10.4%).**

The recession, also known as the Tequila Crisis, was the most severe since 1980 and lasted 15 months. This recession arose from a combination of several shocks:

1. The current account deficit remained above 4% of GDP since 1992, reaching 1.42% in 1993 and 6.05% in 1994. One way to correct the large deficit was through the depreciation of the peso, but in 1994 the exchange rate was under a controlled exchange rate band scheme (in effect since November 1991), which was supported by international reserves that were close to US$16.2 billion as of November 1994, in a delicate balance, since they had already fallen from US$28.3 billion after the assassination of Luis Donaldo Colosio, PRI candidate for the Mexican presidency, in March of the same year.

2. During the six-year term of Carlos Salinas, there was a decrease in debt as a proportion of GDP from 64.7% in 1988 to 28.2% in 1993. In spite of this, issues were made in the domestic market of government securities in dollars and with short-term maturities (6 months at the most), known as Tesobonos, which in December 1993 accounted for 5.87% of government securities held by foreign residents and rose to 70.21% at the end of November 1994. This created a vulnerability for public finances, given the unsustainability of a controlled exchange rate in a context of a large current account deficit and low international reserves.

3. In 1994, a political crisis arose with the assassination of PRI candidate Luis Donaldo Colosio in March of that year and the assassination of PRI Secretary General Francisco Ruiz Massieu in September 1994. Also, in January 1994, the armed uprising of the Zapatista Army began in Chiapas. All of this generated nervousness about Mexico's political stability vis-à-vis the outside world.

4. The Federal Reserve raised its interest rate from 3.0% at the beginning of 1994 to a high of 5.5% in December 1994 and 6.0% in February 1995.

The combination of the political crisis and capital outflows due to higher interest rates in the United States put pressure on the exchange rate and depleted international reserves in December 1994, forcing the Foreign Exchange Commission to adopt a free-floating exchange rate regime. With the introduction of free floating, the peso depreciated 24.97% between December 11 and December 30, closing at 4.99 pesos per dollar, and registered an additional depreciation of 54.95% in 1995, to close the year at 7.7396 pesos per dollar.

The exchange rate shock and capital flight put upward pressure on interest rates, with the 28-day Cetes rate rising from 13.85% in November 1994 to 75.00% in March 1993. This created an insolvency situation for the banks that led to a banking crisis in 1995.

The recession as a consequence of the aforementioned shocks had a severe impact on the population, as savings lost purchasing power, high interest rates made some loans unaffordable and the banking crisis affected the real economy, leading to an increase in the unemployment rate from 2.32% in the first quarter of 1994 to 7.08% in the third quarter of 1995.

During the recession, private consumption contracted 8.80%, while government consumption fell 1.30%. In turn, fixed investment plummeted 37.50%, a drop greater than that observed with the pandemic in 2020, as a result of a 27.90% drop in public investment and a 39.00% drop in private investment. Because there was no recession in the United States on the same dates and thanks to the depreciation of the peso, exports grew 15.80% during the recessionary period, while imports contracted 21.70%. As a result, the current account deficit was reduced to 0.4% of GDP in 1995.

4. **October 2000 to January 2002 (-2.9%).**

Unlike previous recessions, the recession that began in October 2000 had an external origin, specifically the bubble in the U.S. financial market in the technology sector. Between March 10, 2000 and April 6, 2001, the Nasdaq Composite index fell 68.44%. The end of this bubble had the effect of a recession in the United States and because the economic relationship with the United States had become closer since the signing of NAFTA, there was a contagion towards the Mexican economy. It is worth noting that this recession is the second longest lasting after the 1981-1983 recession, due to the fact that the September 11 attacks in the United States caused a reorientation of public spending, delaying economic recovery in that country.

The external origin of this recession was evident in the GDP by groups of economic activity, as the greatest contraction was observed in secondary activities, which fell 6.2%, with manufacturing falling 7.9%. On the expenditure side, private consumption grew 2.4% during the recession, with contractions in government consumption (-2.5%), private investment (-13.3%), exports (-2.0%) and imports (-1.7%). In fact, between the third quarter of 2000 and the first quarter of 2002, the unemployment rate rose from 2.44% to 3.23%, a moderate increase compared to other recession periods.

5. **July 2008 to May 2009 (9.1%).**

Also known as the Great Recession, it was a global crisis that originated in the United States due to the unsustainability of the subprime mortgage market, which unleashed a real estate crisis that turned into a financial crisis, with the collapse of lenders and investment banks, most notably Merrill Lynch on September 14, 2008, Lehman Brothers on September 17, 2008 and the insurance company AIG on September 16 of the same year. In Mexico, due to the much less developed financial market compared to that of the United States and greater banking regulation, a financial crisis was not observed, but there was an impact on economic activity through the collapse of the external sector. During the recession in Mexico, exports fell 16.8%, imports fell 23.6% and private investment fell 19.5%, as projects came to a standstill. Private consumption fell 10.3%, as the unemployment rate rose from 3.38% in the second quarter of 2008 to 6.13% in the third quarter of 2009, but government consumption grew 2.8% on par with public investment spending, which grew 3.9%, as a result of a countercyclical fiscal policy.

By major groups of economic activity, the recession caused a 10.7% drop in secondary activities, with a 14.8% plunge in manufacturing, as a result of lower demand for manufacturing exports. Due to the drop in consumption, tertiary activities (which are divided into commerce and services) fell 7.6%, being the second largest contraction during a recession period after the one that occurred between 1994 and 1995. Despite its depth, the recession lasted 11 months due to counter-cyclical economic policy in the United States and Mexico.

6. **June 2019 to May 2020 (-20.7%).**

June 2019 to December 2019 (-1.0%).

The most recent recession in Mexico can be divided into two stages. The first stage was between June and December 2019, a period in which GDP contracted 1.0%. The recession was due to the deterioration of investor confidence, as after López Obrador's electoral triumph and before the change of government, the cancellation of the New Mexico City Airport was announced. Thus, in the first part of the recession, private investment contracted 3.3%, while public investment contracted 13.2%, due to a restructuring of spending that was directed towards social programs and away from physical investment. In addition, exports fell 3.7% and imports fell 2.1%, so there was already a deterioration prior to the impact of the pandemic. Private consumption continued to grow during this period, as there was only a slowdown in job creation, while spending on government transfers increased and remittances continued to arrive from abroad. As a result, private consumption grew by 1.3%.

The second stage of this recession was explained by the pandemic, which had its most severe impact as of February 2020. Thus, between June 2019 and May 2020 (full recession), GDP contracted 20.7%, consumption 20.8%, private investment 37.0% and exports 28.6%. The deterioration in consumption was associated with job destruction, as the unemployment rate rose from 3.52% in the second quarter of 2019 to 5.25% in the third quarter of 2020. Private investment fell due to the uncertainty associated with the duration of the pandemic and its repercussions. Finally, exports plummeted due to the downturn in the U.S. economy at the onset of the pandemic, coupled with the supply shock, with the temporary shutdown of the manufacturing industry and supply chain bottlenecks.

During this recession, no countercyclical fiscal policy was implemented in Mexico, so government consumption contracted 1.5% and public investment contracted 9.7%. The shock of the pandemic was severe, mainly because contingency and isolation measures were implemented, with the temporary closing of factories and a prolonged shutdown of non-essential services. As a result, during the recession, manufacturing contracted 25.5% and leisure services fell 70.6%, while hotel and restaurant services fell 66.3%.

Although this recession can be categorized as a crisis, countercyclical economic policies were implemented in the United States that accelerated the recovery of manufacturing and exports, ending the recession and initiating a slow but sustained recovery in Mexico. It is worth noting that, the absence of a counter-cyclical fiscal policy, and lower infrastructure spending, meant that Mexico's GDP did not finish recovering until the third quarter of 2022. That is, between the GDP peak in 2018 and the recovery in 2022, 16 quarters or 4 years elapsed. In contrast, the U.S. economy began to fall in the first quarter of 2020 with the onset of the pandemic and achieved a full recovery in the first quarter of 2021, a period of only 4 quarters. That is, it took Mexico four times as long as it took the U.S. to recover.

In the periods of recession mentioned above, the episodes from 1994 to May 1995 and the Great Recession, which in Mexico was concentrated between July 2008 and May 2009, can be identified as crises. This is due to the severe impact of both recessions on most sectors of economic activity and the deterioration of the labor market. The recession of 2019-2020 was much deeper, but the downturn was due to the shock of the pandemic and was of short duration, because even though there was no fiscal stimulus in Mexico, the country is an open economy and closely related to the United States, which helped the recession to be brief, but not the economic recovery. Therefore, the pandemic recession is not considered an economic crisis.