BASE

ECONOMIC OUTLOOK

MEXICO

APRIL 2025

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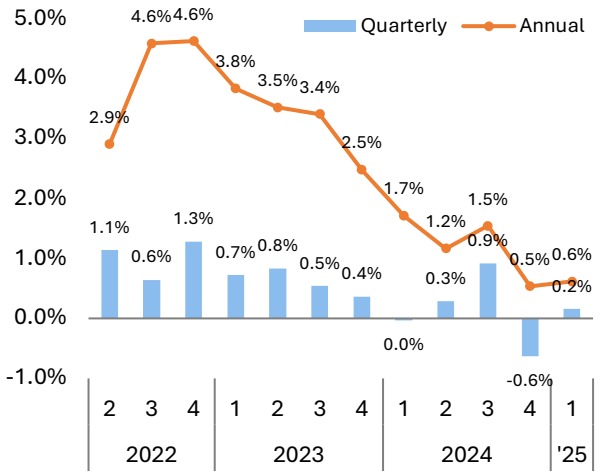
INTRODUCTION: GROWTH IN THE FIRST QUARTER OF 2025

In Mexico, GDP grew 0.16% quarter-over-quarter (QoQ) in the first quarter of 2025, after registering a 0.63% decline in the last quarter of 2024. With this, annual growth stood at 0.61%, accelerating moderately from 0.53% in the previous quarter. By major groups of economic activity, growth was concentrated in primary activities, which grew 8.09% QoQ, in a rebound after a fall of 8.46% in the previous quarter. At annual rate (YoY), primary activities grew 5.96%. However, secondary activities, whose main component is manufacturing, and tertiary activities, which include wholesale and retail trade and services, show that the deterioration has deepened.

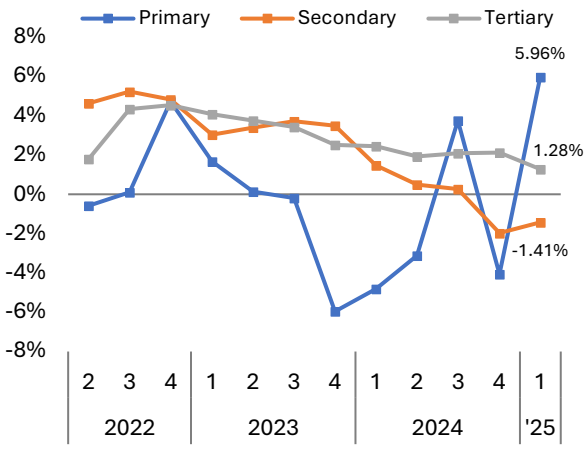
In the first quarter, secondary activities contracted 0.26% quarter-over-quarter, falling for the second consecutive quarter, something that had not occurred since the third quarter of 2019 and the second quarter of 2020, when it recorded four consecutive quarters of declines. At an annual rate, secondary activities contracted 1.41%, accumulating two quarters of annual declines. The last time consecutive falls at annual rate were recorded was between the fourth quarter of 2018 and the first quarter of 2021, when secondary activities contracted at annual rate for 10 quarters. For their part, tertiary activities contracted 0.02% QoQ, being the first decline since the third quarter of 2021. At an annual rate, tertiary activities grew 1.28%, the lowest growth rate since the first quarter of 2021.

Fig. 1. GDP growth, % variation



Source: Grupo Financiero BASE with information from INEGI.

Fig. 2. GDP by economic activity
YoY growth rate



Source: Grupo Financiero BASE with information from INEGI.

The risk of recession has not disappeared. Although GDP registered quarterly growth at the beginning of the year, avoiding a "technical recession", this was due to the rebound in primary activities, which represent only 3.4% of GDP and tend to be volatile. On the other hand, secondary activities, which show the greatest deterioration, represent 33.4% of GDP and are at risk due to the adjustments to international trade that will be observed in the coming months due to U.S. tariff policy. Finally, tertiary activities, which represent 63.3% of GDP, have already registered their first quarterly decline since 2021, which is correlated with the deterioration of the labor market observed since 2024, a deterioration that could worsen due to the uncertain environment for companies and households in Mexico.

IS MEXICO ON THE VERGE OF A RECESSION?

The Mexican economy is going through an increasingly challenging environment, marked by the loss of dynamism in its main internal drivers and by the intensification of risks from abroad. In 2024, growth of 1.3% was observed, driven largely by investment and the resilience of private consumption. However, the most relevant indicators such as consumption and gross fixed investment show an increasingly weaker performance and a clear downward trend. This loss of dynamism occurs in a context where external conditions do not offer much optimism either. With Donald Trump's victory in the November presidential election in the United States, the world's most powerful economy returned to the strategy of protectionist policies that characterized Trump's first administration.

In this scenario, the question of whether Mexico is heading towards a recession has become more relevant. It is not only a technical discussion about the criterion of "two consecutive quarters of contraction", but also about assessing whether the set of variables that drive growth are simultaneously entering a phase of weakness. Contractions in private consumption, gross fixed investment and industrial activity, as well as signs of weakening in the labor market, both in formal and total employment, suggest an economy that is already in recession or close to entering one.

Moreover, there is the institutional erosion of Mexico, in which the possibility of doing business is becoming increasingly difficult and the state is playing a greater role in the economy. While it is still too early to judge the results of the current government, there is no doubt that there is an uncertain and complicated environment for Mexico and that companies and households are responding to this environment with greater caution, which has repercussions on economic performance.

By analyzing the main macroeconomic indicators and identifying the risks facing the country in 2025, we seek to offer a perspective on the current situation and the likelihood that the deterioration will deepen until it materializes into a recession. Without jumping to conclusions, it should be recognized that the warning signs have become more frequent, more consistent and more difficult to ignore. Moreover, it should not be forgotten that this analysis assumes that in the fourth quarter of 2024 there was a 0.6% drop in GDP.

CYCLICAL INDICATORS

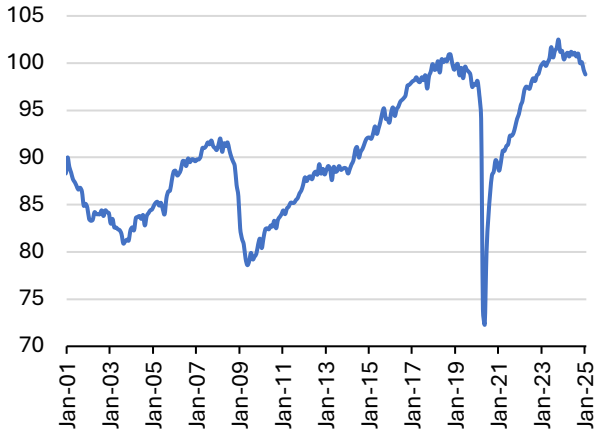
Cyclical indicators, which encompass several indicators to indicate the phase of the cycle in which Mexico finds itself, show an unfavorable outlook. The System of Composite Indicators: Coincident and Advance (SICCA), which follows the *National Bureau of Economic Research* (NBER) methodology based on the business cycle, shows in its most recent update (January 2025 figures) signs of a recession.

The coincident indicator registered a 0.50 point drop in January, reaching a level of 98.8 points. This was its second consecutive month of decline and represented its lowest level since October 2022. According to the methodology of the composite indicator system, for a phase change in the trend to be confirmed, the movement needs to have a minimum duration of five consecutive months. For

now, the indicator suggests a weakening but does not yet formally configure a signal of a change in cycle. However, using a less strict criterion, the fact that a peak of 102.5 points was reached in October 2023 and that in January 2025 the level will be 3.5% lower, we can speak of a clear downward trend (Fig. 3).

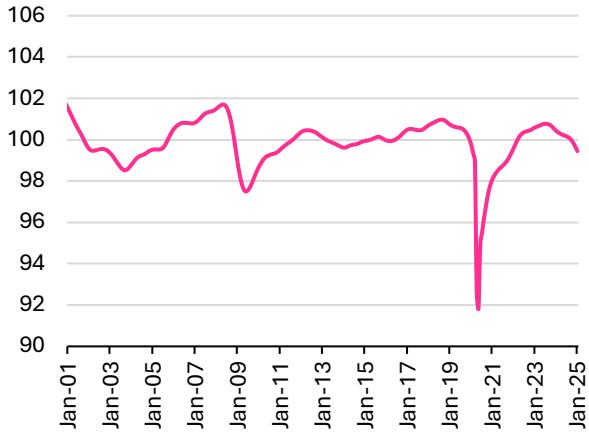
Now, if we analyze the coincident cyclical indicator, which is based on the methodology of the Organization for Economic Cooperation and Development (OECD), the situation is clearer. In January, the coincident indicator registered a drop of 0.18 points, accumulating 18 consecutive months down, something not seen since the period from September 2018 to May 2020, when the indicator fell for 21 consecutive months. Moreover, the coincident indicator now totals four months below its long-term trend, represented by the 100-point level (Fig. 4). This behavior confirms that, according to this methodology, the Mexican economy is in the recessionary phase of the economic cycle.

Fig. 3. Coincident Cycle Indicator. NBER Methodology



Source: Grupo Financiero BASE with information from INEGI.

Fig. 4. Coincident Cyclical Indicator. OECD Methodology



Source: Grupo Financiero BASE with data from INEGI.

However, reducing the analysis to the reading of a single indicator is simplistic and incorrect. As mentioned above, an analysis of the important indicators is required and the defining characteristics of a recession must be kept in mind. In this sense, it is appropriate to evaluate whether the conditions that traditionally characterize a recession are met, known as the three "D" criteria: *duration*, *depth* and *diffusion*. These three elements allow us to distinguish between a moderate slowdown and what is truly an economic recession:

- **Duration**: economic weakness must be sustained over a considerable period, typically several consecutive months, to be classified as a recession. The famous criterion of two consecutive quarters of GDP contractions only considers this characteristic and ignores the other two.
- **Depth**: the drop in activity must be significant, not simply a series of negative variance data that may be statistically insignificant.

- **Diffusion**: the contraction must be spread across multiple sectors of the economy, i.e., it must be reflected in production, employment, investment, consumption and trade, and not just in one specific area of the economy.

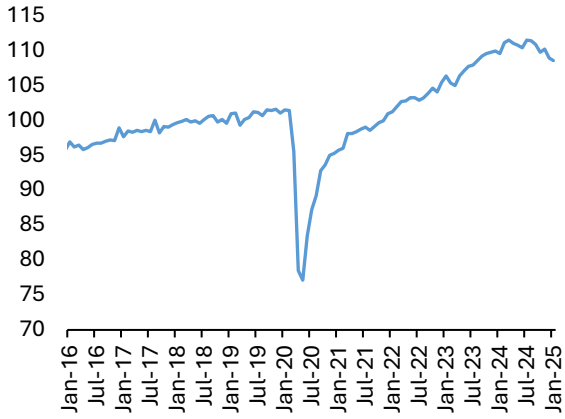
Applying this more robust approach allows for the construction of a more reliable assessment.

CONSUMPTION

Private consumption, which represents the largest component of aggregate demand (equivalent to 70.98% of GDP), started 2025 with clear signs of weakness. According to the Monthly Indicator of Private Consumption in the Domestic Market (IMCPMI) published by INEGI, consumption fell 0.34% in January in monthly terms, which in annual terms registered a contraction of 0.90%, slightly lower than the 0.94% contraction registered in December. With this, private consumption marked its second consecutive month of annual declines, something not seen since the pandemic. This weakening in consumption is occurring in a context of high economic uncertainty, both internally and externally. Household spending decisions, determined by factors such as disposable income, consumer confidence, interest rates and economic expectations, tend to become more conservative in environments of high uncertainty.

The decline observed in January was generalized among the different components of the indicator. Consumption of goods and services of national origin fell 0.28% monthly, with the consumption of goods falling 0.45% but that of services increasing 0.16%. On the other hand, consumption of imported goods fell 0.12% monthly, largely affected by the depreciation of the peso against the dollar, which caused a relative increase in the price of foreign products. This weakness in the consumption of imported goods could continue in the short term, since in February the exchange rate reached its highest level of the quarter (21.2932 pesos per dollar), which negatively impacts the ability to purchase goods abroad

Fig. 5. Private Consumption Indicator, 2013 = 100



Source: Grupo Financiero BASE with information from INEGI.

In annual terms, the results are mixed. Consumption of domestic goods and services grew 0.24% annually, its highest rate since November 2024, due to a 1.34% growth in the consumption of services, which accumulates 46 consecutive months of annual growth. However, the consumption of domestic goods contracted 0.78% annually, while that of imported goods fell 5.40%, the sharpest drop in this indicator since March 2022.

According to figures from the Monthly Survey of Commercial Companies (EMEC) published by INEGI, trade in Mexico shows clear signs of weakening in both the wholesale and retail segments. Wholesale trade has been on a negative trend since late 2023, with setbacks deepening in the first two months of 2025, while in retail trade, February's slight growth appears to have been driven by temporary factors such as anticipated purchases due to new tariffs and a low comparison base. Going forward, the sector faces important risks: retail trade could suffer from the deterioration of the

labor market, lower consumer confidence and inflationary pressures, while wholesale trade remains exposed to an environment of high uncertainty, exchange rate volatility and restrictive financial conditions, in a context where signs of recession are beginning to gain strength.

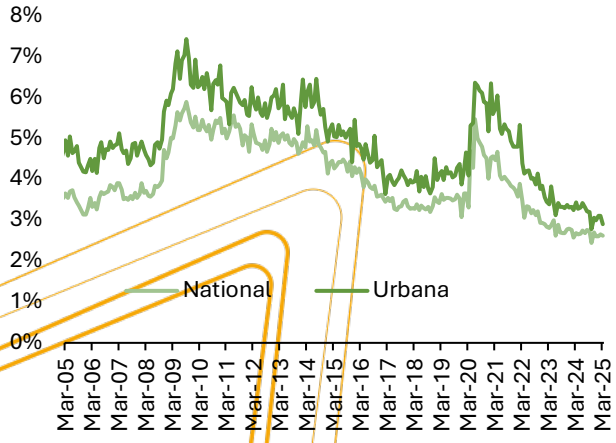
As mentioned above, disposable income is the main determinant of consumption, and at the same time, the two main sources of income for Mexican households are employment, remittances and in some cases, transfers received through government social programs.

EMPLOYMENT

While official unemployment rates remain at historically low levels, Mexico's labor market continues to face structural challenges that limit its ability to drive sustained economic growth. The most recent data from the National Occupation and Employment Survey (ENOE) for March 2025 show a decrease in the Economically Active Population (EAP) with respect to the previous year, reflecting not only a net loss of jobs, but also an increase in the number of people who have dropped out or avoided participating in the labor market. This is occurring in an environment in which the unemployment rate is at very low levels. In March, the national unemployment rate stood at 2.62% according to seasonally adjusted figures, slightly below the 2.65% rate recorded in the previous month and the 2.59% rate recorded in March 2024. Likewise, the urban unemployment rate, which more accurately reflects formal labor market conditions, decreased from 3.11% in February to 2.91% in March, its lowest level since October 2024, when the indicator's historical low was recorded (Fig. 6).

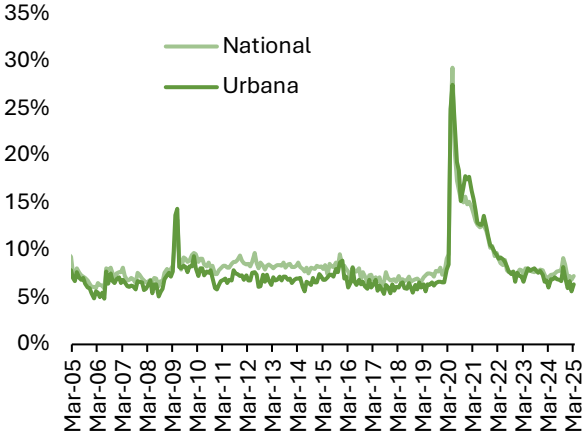
The unemployment rate is low, but one of the most worrisome aspects is the growth in the underemployment rate, both at the national and urban levels (Fig. 7). This indicator, which measures people who are employed but whose income or working conditions are insufficient, increased steadily in March. This suggests that a growing proportion of the jobs created are not meeting workers' basic needs, limiting their consumption capacity and economic security. This labor market problem is also reflected in informality, which remains above 54% and remains one of the main problems of economic development. In fact, in March 2025 the rate stood at 54.43%, up from 54.33% in March of the previous year.

Fig. 6. Unemployment rates



Source: Grupo Financiero BASE with information from INEGI.

Fig. 7. Underemployment rates



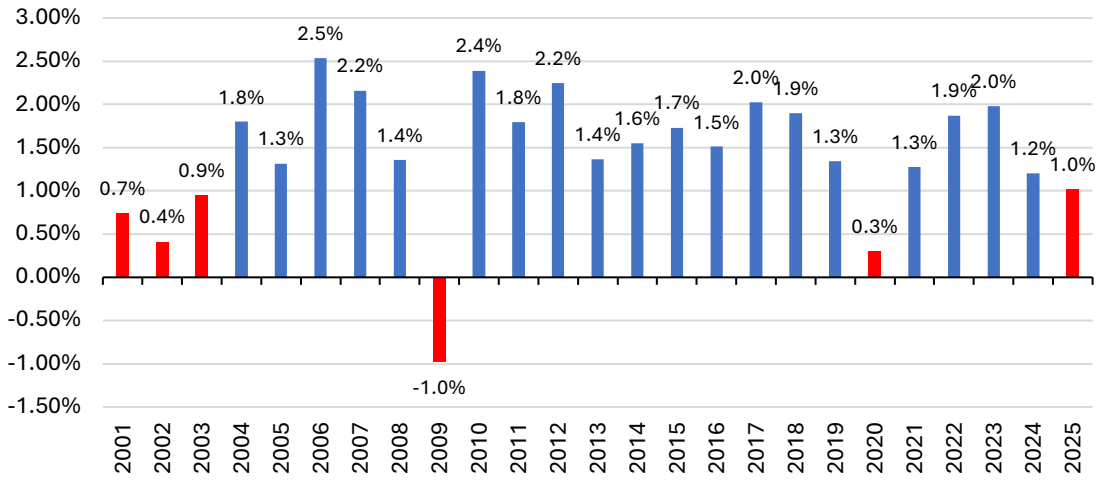
Source: Grupo Financiero BASE with information from INEGI.

When analyzing the composition of jobs by length of workday, it is noteworthy that losses are concentrated in jobs with longer workdays. Although the average hours worked has increased marginally (from 42.5 hours to 42.6 hours in the last 12 months), the net loss of long hours jobs could be reflecting a lower demand for skilled and reliable labor.

Regarding formal private employment, figures from the Mexican Social Security Institute (IMSS) at the end of March show that there are a total of 22,465,110 registered jobs. This figure implies a net creation of 175,765 formal jobs with respect to the same month of the previous year, which is equivalent to an annual increase of 0.79% (a slight acceleration with respect to the annual rate of 0.63% observed in February, but previously the lowest since April 2021).

In the cumulative first quarter of 2025, IMSS figures show a net generation of 226,731 formal jobs, representing a growth of only 1.02% over the close of the previous year. This growth rate is the lowest for a first quarter since 2020, when at the beginning of the pandemic, employment grew by only 0.30%. Worryingly, excluding the abnormal pandemic figures, this performance turns out to be the worst since the first quarter of 2009, when the economy was suffering from the Great Recession. In fact, job creation levels as low as the current one are only found in crisis periods such as 2009, 2020, or even the years 2001 to 2003 (Fig. 8). This is a sign that the labor market has lost strength.

Fig. 8. Formal job creation in the first quarter of each year



Source: Grupo Financiero BASE with information from IMSS

Another data presented by the IMSS that highlights the weakness of the labor market is the registration of employers with the institute, which in March 2025 stood at 1,048,438. This figure implies a loss of 24,478 employers with respect to the same month of the previous year. This represents an annual drop of 2.28%, slightly lower than the 2.34% drop in February, which is the largest since this indicator has been recorded monthly (January 2001). In addition, the March figure marked the ninth consecutive month with annual declines, something that had not been observed since the period of January 2009 and February 2010, during the Great Recession.

The weakness of the labor market affects total disposable income in the economy. The sum of wage income received by workers is known as the wage bill. This can be approximated with IMSS figures by multiplying the total number of jobs by the average contribution base wage, and its evolution can be analyzed month by month.

In March, the average base contribution wage stood at 619.30 pesos per day, which represented a nominal annual growth of 7.29%. Although this rate remains high in historical terms, it continues to reflect a decelerating trend, as it is the lowest growth rate since September 2021. Furthermore, considering inflation for the period, real wage growth was 3.49% annualized, the lowest since February 2023. With this, we obtain that in March the real wage bill grew 4.31% y/y, slightly above the 4.28% observed in February. Although the data show that the real wage bill continues to expand, it is important to note that it is expanding at a slower pace. The 4.28% rate recorded in February was the lowest since June 2021. This decline in real purchasing power growth generates greater caution among households and helps explain the loss of dynamism in private consumption.

REMITTANCES

Another particularly important factor for the Mexican economy is remittances, which are the transfer of resources sent by Mexican workers living abroad (mainly in the United States) to their families in Mexico. These transfers have taken on an increasingly relevant role in the national economy, due to their magnitude and their direct impact on the disposable income of millions of households. In many cases, remittances represent one of the main sources of income for households, particularly in regions of the country with little economic development. This is why the analysis of the evolution of remittance flows is fundamental to have an overview of the performance of consumption in the country.

According to the original figures published by the Bank of Mexico, February registered a monthly contraction of 4.33%, which adds to the 10.78% contraction registered in January, accumulating four consecutive months of monthly declines. This behavior is atypical and has only occurred in periods of either crisis or high depreciation of the peso against the dollar:

- **July to October 1998**, falling 5 consecutive months. This was since the peso depreciated 26.88% in the first 9 months of 1998, which allowed migrants to send fewer dollars, without reducing the purchasing power of remittances when converted into Mexican pesos.
- **November 2006 to February 2007**, falling 4 consecutive months. This drop was due to the deterioration of the labor market prior to the Great Recession in the United States, as 2.091 million jobs were created in 2006, 17.32% below the number of jobs created in 2005.
- **July 2009 to November 2009**, falling 5 consecutive months, as a direct consequence of the Great Recession.
- **September 2011 to January 2012**, falling 5 consecutive months. This can be attributed to the 24.6% depreciation of the peso between May and November 2011, allowing the migrant population to send fewer dollars without reducing the purchasing power of remittances when converted into Mexican pesos.

It is worth mentioning that remittances have never recorded more than 5 consecutive months of declines in their monthly rate, according to original series.

In the annual comparison, remittances in February registered a 0.81% drop. In fact, of the last 12 months, seven have shown declines and five have shown increases. The monthly flow of remittances in February 2025 stood at US$4,458.5 million, its lowest level since February 2023. But more worrisome is the cumulative flow for the last 12 months, which was US$64,797 million, representing a growth of just 1.87% annually, the lowest rate since February 2014.

Among the reasons that may be behind the slowdown in the growth of remittances to Mexico are the economic slowdown in the United States, which has weakened the labor market, and the recent tightening of immigration policy, which increases the risk of deportation for the undocumented population, limiting their willingness to go out to work and generate income. In fact, in February there was a drop of 432,000 jobs among people of Mexican origin over 16 years of age in the United States, the largest drop recorded for that month since data has been available (2003).

Although the amount of dollars flowing into Mexico from remittances is slowing, the purchasing power of remittances increased significantly in February. This was due to the 19.70% annual depreciation of the peso against the dollar. Converting remittances to pesos using the FIX exchange rate published by the Bank of Mexico and adjusting them for inflation in Mexico during the period, remittances in pesos grew at an annual rate of 14.42% in real terms. This growth helps to cushion, in part, the impact of the weakness in other sources of income. It is important to mention that the purchasing power of remittances has grown at an annual rate for nine consecutive months, between June 2024 and February 2025. It is worth remembering that the exchange rate began an upward trend in June of last year, following the results of the Mexican elections and the expectation of the approval of constitutional reforms that would deteriorate the country's institutional framework.

The deterioration of private consumption, reflected in the fall in disposable income, the weakening of the labor market and the slowdown in remittances, suggests that the Mexican economy is on a trajectory toward recession. Although a recession has not yet been formally confirmed, the weakness of leading indicators, in a context of high external uncertainty and downside risks, increases the likelihood that Mexico is close to a recessionary phase.

INVESTMENT

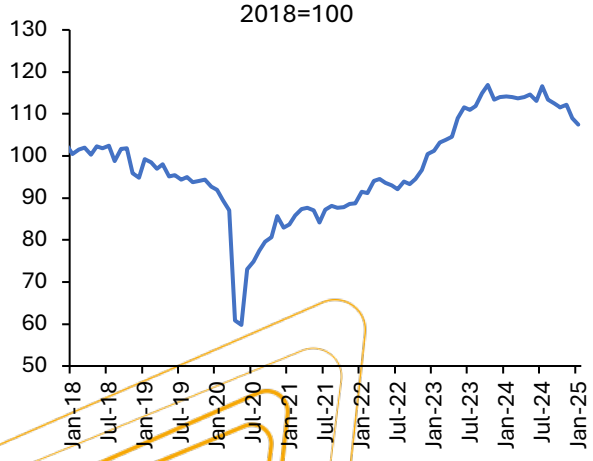
Fixed investment is one of the fundamental pillars of long-term economic growth. It is through savings and investment that the acquisition of capital goods such as machinery and equipment and the construction of infrastructure are achieved, enabling an economy to increase its productive capacity. Beyond its immediate impact on aggregate demand, fixed investment lays the foundations for the economy to become more efficient, increase its competitiveness and foster the generation of formal jobs in the future. In the case of emerging economies such as Mexico, it plays an even more important role. By boosting sectors such as construction, transportation, or manufacturing, direct investment improves the conditions and competitiveness of the economy to position it as an attractive destination for foreign investment.

Fixed investment began 2025 with a not very encouraging outlook. The Monthly Indicator of Gross Fixed Capital Formation, or Gross Fixed Investment (GFCF), registered a contraction of 1.47% monthly in January, continuing with its downward trend that began to be observed since the second half of 2024 (Fig. 9). Were it not for the slight monthly growth recorded in November (0.46%), the indicator would have accumulated six consecutive months of monthly contractions.

Furthermore, the contraction observed in January was generalized: investment in machinery and equipment fell 1.83% monthly, dragged down by the 5.05% plunge in investment in machinery and equipment of national origin. Within this, the largest contraction was in domestic transportation equipment (-5.64%), while the rest of domestic machinery and equipment fell 3.37%. Likewise, investment in imported transportation equipment plummeted 16.10% in the month, its worst performance since July 2023. On the construction side, a monthly contraction of 1.45% was recorded in January, accumulating six consecutive months of decline. The subcomponent that caused the drop was non-residential construction, which fell 3.21%, while residential construction grew 1.05%. However, in the previous month (December 2024), residential contracted 3.88%, while non-residential grew only 0.17%. This type of behavior has led total construction to contract in the last 6 months.

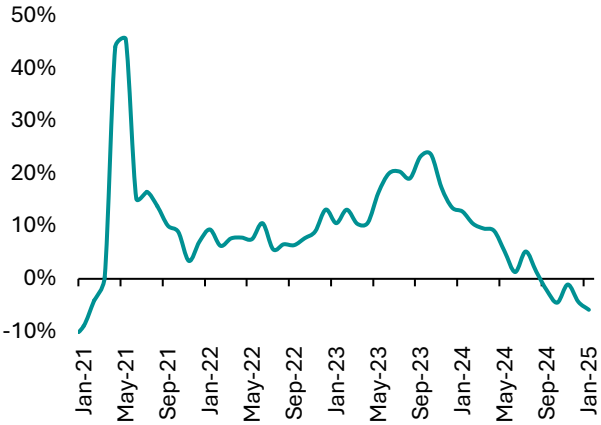
At an annual rate, there were worrisome contractions. Total gross fixed investment showed a 5.88% annual decline in January, the largest since January 2021, when the economy was still suffering from the effects of the COVID-19 pandemic (Fig. 10). With this, the investment indicator recorded its fifth consecutive month of negative annual rates, something not seen since 2021 during the pandemic. Prior to the pandemic, gross fixed investment had already accumulated several months of annual contractions caused by the pessimistic expectations created by the unorthodox public policy of the then incoming President López Obrador. This loss of dynamism pushed Mexico's economy into recession quarters before the pandemic began.

Fig. 9. Gross Fixed Investment, 2018=100



Source: Grupo Financiero BASE with information from INEGI.

Fig. 10. Annual Growth Rate of Gross Fixed Investment



Source: Grupo Financiero BASE with information from INEGI.

All components of the investment indicator show annual contractions. Construction contracted at a rate of 8.98%, with non-residential construction falling by 14.23%, its worst performance since

December 2023, while residential construction fell by 1.41%. Machinery and equipment of national origin showed an annual drop of 3.05%, despite the fact that investment in national transportation equipment grew 2.17%. Regarding investment in imported machinery and equipment, it remained relatively stable (-0.14% y/y), but imported transportation equipment plummeted 13.62%, being the steepest drop since October 2021. It is of concern that the only component with growth is investment in imported transportation equipment, as it is a sector highly dependent on external demand, mainly from the United States. Therefore, the imposition of tariffs by the United States on Mexican automotive exports is expected to be reflected in further declines in investment, also affecting aggregate demand.

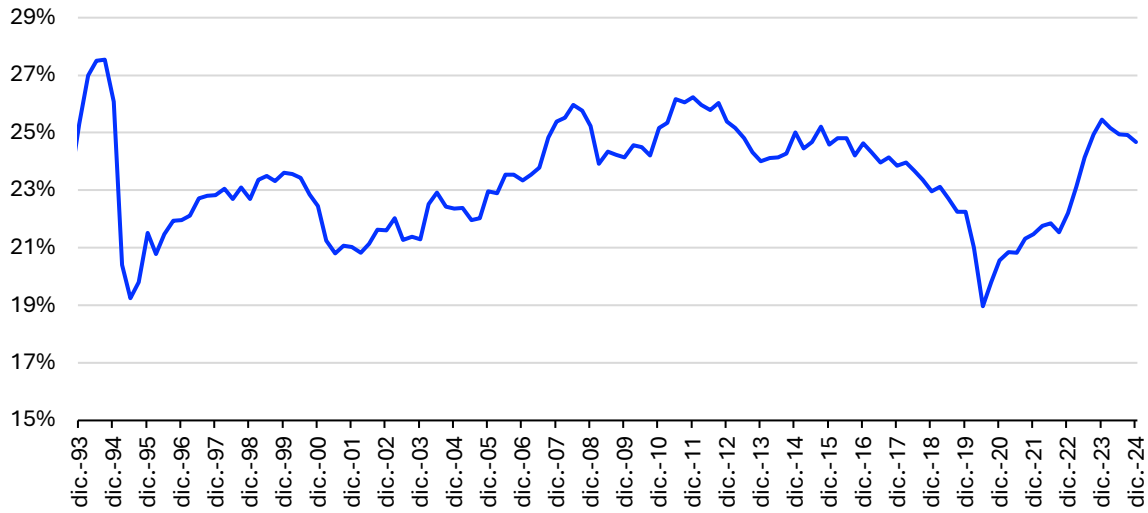
It is clear that the investment data show a context very similar to that observed in recessionary periods. However, there are exceptions. In this current trend, the largest annual drop so far is that of 5.88% in January. While to find figures of equal or greater magnitude we must go back to the period of the 2019 pandemic and recession, prior to that it is noted that 2013 saw contractions of up to 7.98% in gross fixed investment (September 2013). However, that period was not considered a recession by the Business Cycle Dating Committee. These 2013 contractions were very similar in magnitude to those observed in 2019, and in contrast, 2019 was considered a recession. The difference must lie in the fact that in 2019 deterioration was observed in more areas of the economy and not only in investment, which was reflected in a drop in 2019 GDP of 0.39%.

The outlook for investment in the coming months is not very favorable. One of the main factors of uncertainty is the possibility that the U.S. government will maintain tariffs on Mexican imports, which, as mentioned above, directly impacts sectors that are highly integrated with the U.S. economy, such as the automotive sector. Added to this is the slowdown in the global environment, which with a trade war is becoming more and more likely. The trade war between the major powers (the United States, China and the European Union) has worsened growth expectations and presents an environment that is not favorable for new investments.

Finally, there is also the internal factor that public investment faces a budgetary constraint. After a 2024 with historically high levels of indebtedness, the federal government was forced to return to fiscal discipline, and the budget approved for this year is not only lower than last year's, but the cuts particularly punish physical investment. This limits the State's ability to act as a driver of investment, which is more worrisome in sectors where private investment could participate.

Viewed as a percentage of GDP, investment has been declining. Following the Great Recession, investment as a percentage of GDP peaked at 26.2% in the second quarter of 2011 and began to decline to a level of 22.2% in the fourth quarter of 2019 (the lowest level since the third quarter of 2005). With the COVID-19 pandemic crisis, investment declined further to 19.0% of GDP in Q2 2020, but began to recover from there. By Q4 2023, investment was again 25.5% of GDP, which while still below historical highs (27.5% in 1994), was the highest since 2012. However, in 2024 investment as a percentage of GDP began to decline again, closing the year at 24.7%. It is estimated that fixed investment will continue to decline due to: 1) low public spending on infrastructure due to the need to reduce the fiscal deficit, 2) uncertainty regarding the approved reforms, particularly the Judicial Branch reform, and 3) threats and tariffs from Donald Trump's administration.

FIg. 11. Investment as % of GDP



Source: Grupo Financiero BASE with information from INEGI.

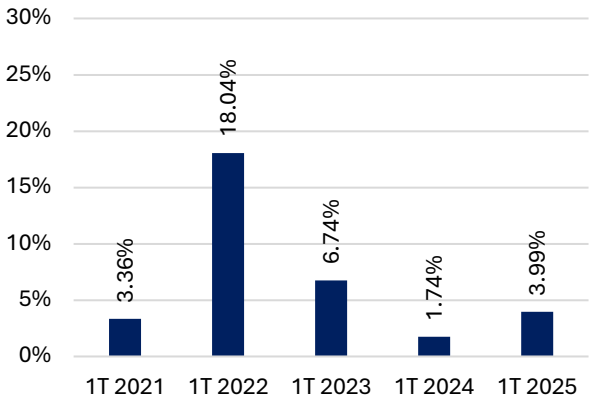
It is important to mention that Plan Mexico contemplates tax incentives for investment, which is considered positive. However, the highly uncertain environment with Donald Trump announcing tariffs, exemptions and tariffs again, as well as with the Judiciary elections coming up, will limit investment. By 2025, fixed investment is expected to show a 3% drop, following growth observed in 2023 and 2024 of 16.53% and 3.31%, respectively. The 3% drop in 2025 would be the largest since 2019 (-4.71%), if counting the contraction in 2020 (-17.78%).

INTERNATIONAL TRADE

In the first quarter, exports grew 3.99% annually (Fig. 12), with a 21.89% contraction in oil exports and a 5.41% growth in non-oil exports. Within non-oil exports, manufacturing exports grew by 5.45%, compared to a 10.67% increase in non-automotive manufacturing exports. In contrast, automotive exports fell 3.94% year-over-year in the first quarter.

Non-oil exports accounted for 96.10% of total exports in the first quarter. In fact, their 5.41% annual growth was mainly due to trade with the United States, as non-oil exports to that country grew 6.2%, in contrast to a growth of only 1.3% to the rest of the world. Within the country, automotive exports to the United States contracted 2.4% annually, but the rest of non-oil exports grew 10.7% (Fig. 13).

Fig. 12. Cumulative export growth in the first quarter of each year



Source: Grupo Financiero BASE with data from INEGI.

The contraction of automotive exports was due to:

1. At the beginning of the year, there are drops in exports due to seasonal factors, since normally the quarter with the highest volume of automotive exports is the fourth quarter of each year, and the quarter with the lowest volume is the first quarter. This is since automotive companies export more vehicles due to model updates prior to the turn of the year. This goes hand in hand with the automotive sector's sales cycle, as they tend to rise in the fourth quarter and fall in the first quarter.

2. Specifically, for automobile exports, a high comparison base effect was observed, particularly for the month of January, since in 2024 automotive exports reached an all-time high for the same month.

3. The drop in automotive exports was also due to production adjustments, out of caution in anticipation of U.S. tariffs, to avoid an accumulation of inventories.

On the other hand, the growth in non-automotive exports to the United States was due to companies making purchases in anticipation of the entry into force of more tariffs. It should be recalled that tariffs of 25% on imports from Mexico that did not comply with the USMCA had already come into effect in March, but "reciprocal" tariffs were scheduled to be announced on April 2.

Fig. 13. Annual growth for the first quarter of 2025. Non-oil exports to the United States and the rest of the world.

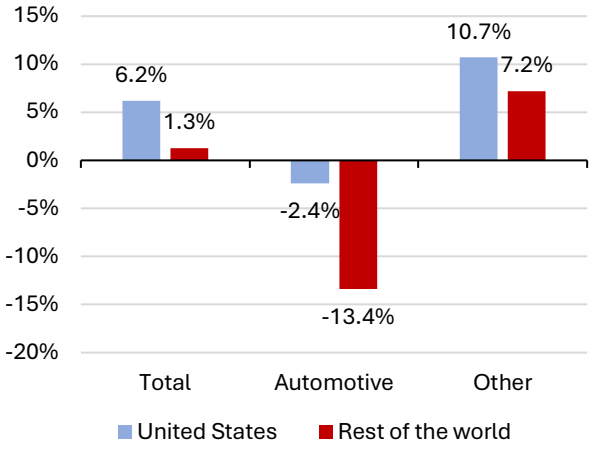
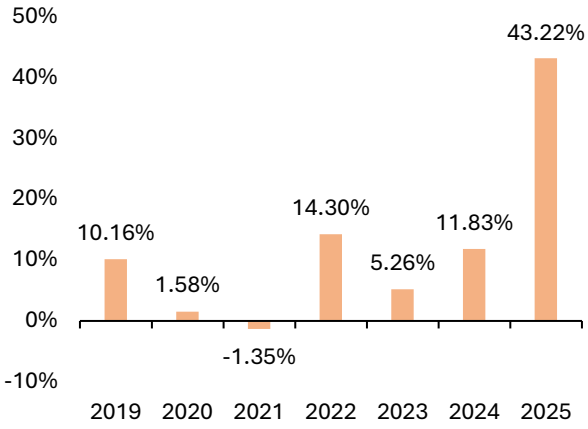


Fig. 14. Annual growth of exports to the United States in Chapter 84.



Source: Grupo Financiero BASE with data from USA Trade.

The acceleration of non-automotive manufacturing exports to the United States is identified in greater detail from USA TRADE figures (available as of February). In the first two months of the year, the growth of these exports was explained by chapter 84 (Nuclear reactors, boilers, machinery, apparatus and mechanical appliances), with an annual growth of 43.22% (Fig. 14). This chapter alone accounted for 23.81% of exports of goods to the United States in the first two months of the year, up from 17.69% in the same months of last year. It is noteworthy that of the exports of chapter 84 of the Harmonized Commodity Description and Coding System, only 13.21% comply with the USMCA rules, so it is logical that they sought to anticipate the imposition of tariffs

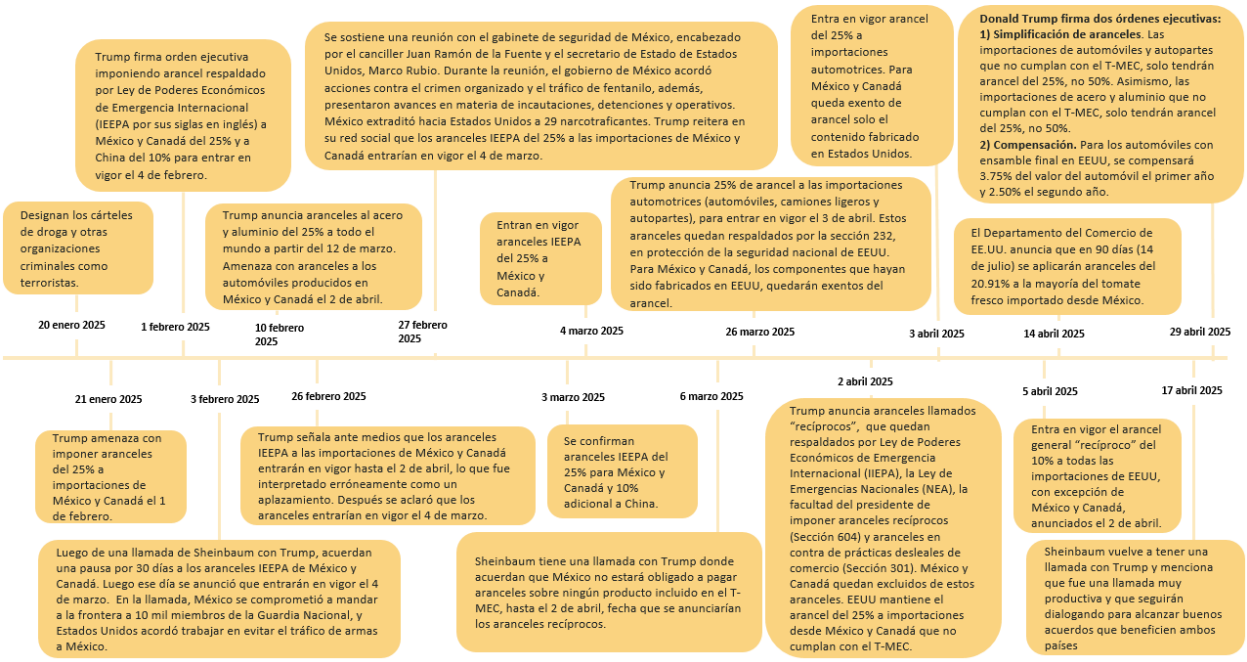
Within chapter 84, 92.21% of the growth was explained by heading 8471, data processing machines, which, although representing 53.31% of the exports of chapter 84, showed an annual growth of

109.21%. As detailed as possible, 90.05% of exports in heading 8471 were explained only by the tariff item 84715001, which specifically includes data processing units such as memory units, central processing units (CPUs) and microprocessors (chips).

Another factor that explains the sustained growth of non-oil exports to the United States is the depreciation of the peso. Although the peso recovered 1.05% monthly in February (according to the average FIX exchange rate for the month), it accumulated an annual depreciation of 20.55%.

Although exports to the United States showed growth in the first months of 2025, they are expected to fall as of April, because of tariffs and the economic slowdown in the United States, due to the caution shown by U.S. consumers due to the economic policies implemented by Donald Trump's administration.

Fig. 15. Timeline on measures implemented against Mexico in Donald Trump's second term.



Source: Grupo Financiero BASE

Donald Trump's administration has announced various tariffs and exemptions on products, which has complicated the analysis of how Mexico compares to the rest of the world and the impact these tariffs will have on the Mexican economy.

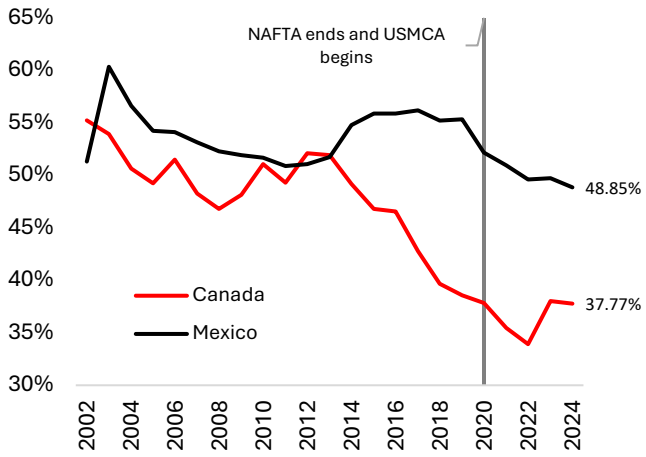
Beyond the announced tariffs, the uncertainty of what other tariffs or policies could be announced by the Trump administration is damaging the economy. It is worth remembering that for Mexico, the trade relationship with the United States is extremely important, as 26% of GDP depends directly on exports destined for the United States. If indirect effects are considered, such as the purchases that exporting companies make from domestic suppliers and the purchases that suppliers make from other suppliers, Mexico's dependence on the United States rises to one third of Mexico's GDP. No other country is currently as vulnerable to Trump's policies.

Tariffs in effect against Mexico and effective tariff.

The United States currently has several tariffs against Mexico: 1) the general 25% tariff backed by the International Emergency Economic Powers Act (IEEPA), from which it exempted goods traded under the USMCA, 2) an additional 25% tariff on steel, aluminum and manufactured goods, and 3) a 25% tariff on light cars, trucks and certain auto parts, from which it exempted U.S.-made auto parts

The IEEPA tariff, also called the fentanyl tariff, went into effect on March 4, after being postponed for 1 month. This tariff was applied to Mexico and Canada and two days after it went into effect, goods exported to the United States under the USMCA were exempted. According to information at the end of 2024, only 48.85% of Mexico's exports to the United States were made under the trade agreement, the rest used the most favored nation principle. This percentage of exports under the USMCA is even lower in the case of Canada, with 37.77% (Fig. 16).

Fig. 16. Percentage of exports to the U.S. that comply with USMCA



Source: BASE Financial Group with information from the U.S. Census Bureau.

It is very possible that some companies and products already meet the USMCA criteria, especially in the automotive industry where there is a transition regime (from NAFTA to USMCA to comply with the requirements) which expires in July of this year. The low tariffs paid when exporting under the most favored nation principle, on average 3.3% for non-agricultural products and 4.2% on average for agricultural products, could have been acting as a perverse incentive, discouraging companies from joining the treaty. Therefore, it is likely that many companies that exported to the United States under the most favored nation principle will quickly seek to join the USMCA to avoid the 25% tariff. This can be confirmed until June when the U.S. trade balance data for April, one month after the IEEPA tariff comes into effect, is published.

This general tariff for products outside the USMCA could end up favoring the trade relationship between Mexico and the United States. On the one hand, it forces exporting companies to adhere to the rules of the treaty, which generates the need to increase the use of regional components, strengthening North American manufacturing integration. On the other hand, it sends the signal that, for the U.S. government, the USMCA is relevant. It should be remembered that the treaty will have to be reviewed as of July 1, 2026, and it cannot be ruled out that this review may turn into a renegotiation and be brought forward to this year. If an early review and the permanence of the USMCA is confirmed, this could improve certainty regarding the trade relationship between Mexico and the United States in the long term. Despite this, in the short term a pause in foreign investments in Mexico is expected, as Trump does not seem to have a defined strategy.

Due to the imposition of these tariffs, Mexico and Canada did not receive additional tariffs on April 2, when a general tariff of 10% on imports from all countries and a special tariff of 11% to 50% for some countries was announced, the latter being suspended for 90 days for negotiations. On April 2, the White House reiterated that imports in compliance with the USMCA will continue to be exempt from the 25% tariff and in the scenario that the emergency measures (IEEPA) were terminated, products that do not comply with the USMCA will have a general tariff of 12%.

By considering the percentage of compliance with the USMCA by chapter and the percentage that the exports of that chapter represent of Mexico's total exports, it is possible to obtain the share of compliance, that is, the percentage share of each chapter in the exports that do comply with the USMCA. In 2024, chapter 87 of the automotive sector accounted for 45.17% of Mexico's treaty-compliant exports. In other words, almost half of USMCA-compliant exports are from the automotive sector alone. In second place is chapter 85 of electrical machinery, accounting for 17.67% of USMCA-compliant exports. In third place is chapter 84, which includes computers, refrigerators, turbines, air conditioners and motors, accounting for 7.48% of USMCA compliant exports (Table 1).

Table 1. Mexican exports to the United States by chapter. Includes 91.92% of total exports. They are ordered from highest to lowest, by importance in export value, considering the first 10 chapters. The list is divided into exports with high and low compliance with the USMCA.

Chapters with a high level of compliance	Compliance USMCA	of Mexico's total exports to the U.S.	Participation in compliance
87 Vehicles, other than railroad or tramway, and parts thereof, etc.	81.7%	27.00%	45.17%
85 Electrical machinery, etc.; sound equipment; television equipment	50.1%	17.23%	17.67%
08 Edible fruits and nuts; Citrus fruits or melon peel	81.1%	2.13%	3.53%
07 Edible vegetables and certain roots and tubers	99.9%	1.96%	4.01%
39 Plastics and plastic products	88.7%	1.60%	2.91%
40 Rubber and rubber products	85.0%	0.92%	1.60%
83 Miscellaneous articles of base metal	79.1%	0.56%	0.91%
20 Vegetable, fruit, nut or other plant preparations	96.3%	0.45%	0.90%
02 Meat and edible meat offal	86.0%	0.41%	0.72%
70 Glass and glassware	68.7%	0.37%	0.53%
Chapters with a low level of compliance	**Compliance USMCA**	**of Mexico's total exports to the U.S.**	**Participation in compliance**
84 Nuclear reactors, boilers, machinery, etc.; parts of nuclear reactors	17.5%	20.84%	7.48%
90 Optical, photographic, medical or surgical instruments, etc.	7.3%	4.52%	0.68%
27 Mineral fuel, oil, etc.; Bituminous substance	34.2%	3.22%	2.25%
22 Beverages, spirits and vinegar	9.6%	2.56%	0.51%
94 Furniture; bedding, mattresses; lighting fixtures, fixed lamps (...)	15.6%	2.52%	0.80%
98 Special classification provisions	5.0%	1.83%	0.19%
73 Articles of iron or steel	33.0%	1.44%	0.97%
71 Nat Etc Pearls, Prec Etc Stones, Pr Met Etc; Coins	13.5%	1.15%	0.32%
72 Iron and steel	1.0%	0.63%	0.01%
19 Preparations of cereals, flour, starch or milk (..)	33.2%	0.58%	0.39%

Source: Grupo Financiero BASE with information from the U.S. Census Bureau (USA Trade).

The 25% tariff on steel and aluminum imports from around the world went into effect on March 12 and was supported under section 232 of the Trade Expansion Act, which seeks to protect U.S. national security. As published in the U.S. Federal Register, this tariff applies to tariff items that account for 11.678 billion dollars of U.S. imports of Mexican origin in 2024, equivalent to 2.31% of total U.S. imports from Mexico. Of these imports, only 37% comply with the USMCA according to 2024 data.

It should be recalled that during Trump's first term, a 25% tariff on steel and a 10% tariff on aluminum were also applied. Contrary to expectations, exports of steel and its manufactures to the United States increased 7.48% during the tariff period, as Mexico gained market share from that lost by Canada, whose steel exports fell 13.45% in the same period (Table 2). This could be due to two reasons 1) Canada exports mainly steel as a raw material, while Mexico exports mainly manufactured steel products and not only the raw material and 2) the import quotas that the United States has on steel were surely increased for Mexico, since there was no way to export more if these quotas had not been extended.

Table 2. Effect of tariffs on steel and aluminum imports during the period that they were in effect against Mexico

Origin of exports	Variation period Jun18-May19 vs. previous 12 months	
	%	million dollars
Global	-1.23%	-1130
Canada	-13.45%	-2492
European Union	3.25%	399
China	-1.07%	-170
Mexico	7.48%	582
South Korea	-7.89%	-340
Brazil	17.83%	614
Germany	4.11%	151
Taiwan	7.15%	284
India	-3.99%	-95
Japan	-7.92%	-261
Vietnam	40.05%	416

Source: BASE Financial Group with information from the U.S. Census Bureau.
The European Union aggregate is included because tariffs against all countries in the region were implemented in 2018.

This implies that under Trump's first term there was a policy narrative that was not equal to the practice carried out, which should be considered when analyzing the actions carried out so far in his second term.

Finally, the 25% tariff on imports of automobiles, light trucks and auto parts went into effect on April 3 under Section 232 of the Trade Expansion Act, on the grounds of protecting U.S. national security. In the case of Mexico and Canada, exempted were components that were manufactured in the United States, which, according to the Mexican Automotive Industry Association, account for close to 40% of the content of cars exported to the United States.

According to information published in the U.S. Federal Register, the tariffs that went into effect applied to 41 different items. For Mexico, tariffs will be applied to 39.33% of exports to the United

States, representing 32.65% of total exports (Table 3). Considering that on average 40% of the products are of U.S. content, the effective tariff would be 15% (60% x 25% = 15%) for automobiles.

It is important to note that, of Mexico's exports to the United States of automobiles, light trucks and auto parts, which since April 3 have a 25% tariff, only 57.13% comply with the USMCA rules, while the remaining 42.87% were sent to the United States (until 2024) under the most favored nation criterion.

Table 3. Tariffs in force against Mexico

Tariff	25% overall	25% steel and aluminum	25% automobiles, light trucks and autoparts
Entry into force	March 4	March 12	April 3
Backed by	IEEPA	Section 232	Section 232
Duty free	USMCA exports Steel and aluminum Automobiles, light trucks and auto parts	Nothing	U.S. Content
Percentage of exports to the U.S. subject to tariffs	51.15%	2.31%	39.33%

Source: BASE Financial Group with information from the U.S. Federal Register and USA Trade.

On April 29, Trump signed two executive orders to soften the impact of tariffs, mainly on companies in the automotive sector. The first order consists of a tariff simplification, so that imports of steel, aluminum, automobiles, light trucks and auto parts, which do not comply with the USMCA, will only be subject to a 25% tariff instead of 50%. This order will take effect on May 16 and will be retroactive to the tariffs imposed on Mexico and Canada on March 4. The second executive order states that during a one-year period, 3.75% of the value of a car assembled in the United States will be compensated with imported parts. The second year the offset will be reduced to 2.50%. The order will become effective on May 3

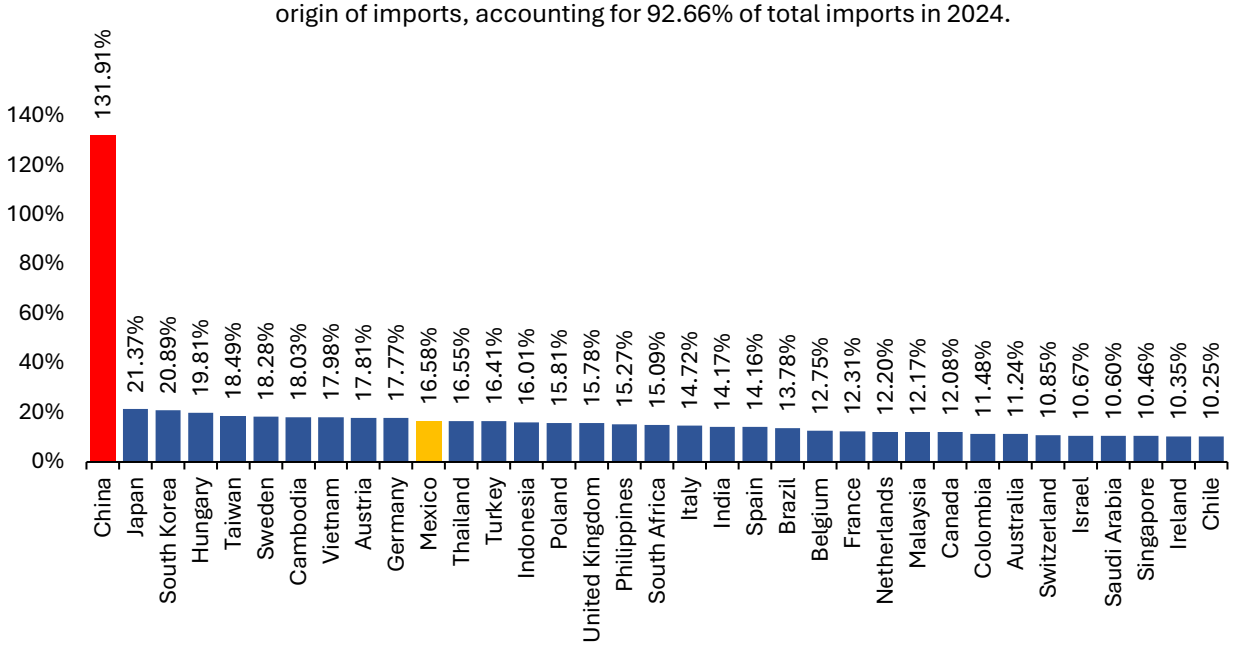
Donald Trump's administration has announced different tariffs, depending on the country and product. It has also made exemptions. With this, the tariff initially announced is different from the one imposed. This tariff determines the advantage (or disadvantage) in which each country finds itself. A higher effective tariff implies a higher increase in the price of products exported to the United States from that country, while a lower effective tariff implies a lower increase in the price of products. In an environment where the United States has imposed tariffs on everyone, it does not matter so much whether a product has a tariff or not, but rather how much higher or lower that tariff rate is relative to that of other countries exporting the same product to the United States.

With the tariffs in effect until the end of April and considering the executive orders of April 29th in which accumulated tariffs are eliminated, it is estimated that Mexico has an effective tariff on its exports to the United States of 16.58%, placing it in the eleventh position with the highest tariff

among the main trading partners of the United States, which accounted for 92.66% of that country's imports in 2024, after China with an effective tariff of 131.91%, Japan with a tariff of 21.37%, South Korea with 20.89%, Hungary with 19.81%, Taiwan with 18.49%, Sweden with 18.28%, Cambodia with 18.03%, Vietnam with 17.98%, Austria with 17.81% and Germany with 17.77%. In this list of main trading partners, Canada ranks 27th, with an effective tariff of 12.08% (Fig. 17)

This implies that with the exemptions announced and the April 29 executive orders, Mexico's position remains vulnerable. This could change if more products are shipped under the USMCA criteria and avoid the 25% tariff.

Fig. 17. Effective U.S. tariffs on imports by country of origin. Top 35 countries of origin of imports, accounting for 92.66% of total imports in 2024.



Source: Grupo Financiero BASE with information from USA Trade, Federal Register.

When considering all countries and territories, Mexico would rank 35th on the list of countries with the highest effective tariffs. However, most of these countries have very low shares of U.S. imports. If we omit China, Japan. South Korea, Taiwan, Vietnam and Germany, the remaining 28 countries with the highest effective tariffs account for only 3.18% of U.S. imports. For this reason, the exercise is conducted with the major trading partners.

If these tariffs remain in place for the rest of the year, it is estimated that they could cause total exports to fall by 4.6%, which would be the largest drop since 2009, when exports fell 30.9% due to the Great Recession. It should be added that this impact does not consider other factors such as additional tariffs or a scenario of greater economic weakness in the United States. Nor does it consider exemptions or pauses in tariffs, or exports that join the USMCA and are sent to the United States without tariffs.

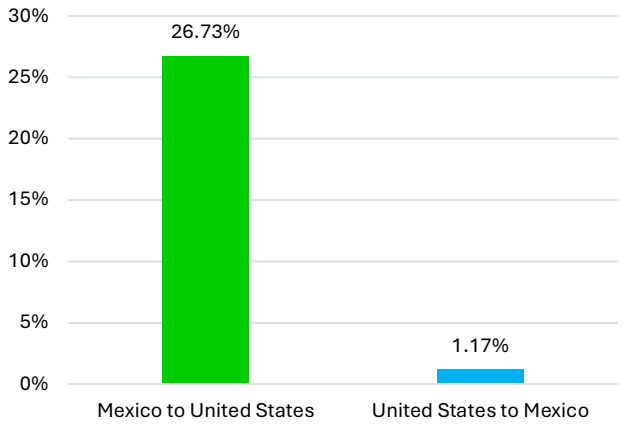
This is estimated to have an impact on GDP of 1.5 percentage points in 2025. As a result, Mexico's GDP could contract by around 1.0% this year if tariffs remain in place for the rest of the year.

Due to Mexico's effective tariff of 16.58% and the fact that the United States suspended for 90 days the highest reciprocal tariffs (between 11 and 50%), Mexico maintains a vulnerable position, as the

high effective tariff relative to most countries, including Canada, reduces the attractiveness of moving investment to Mexico. This scenario could change, depending on the relative effective tariff with which Mexico is left. However, in the short term, uncertainty affects investment and economic growth

The high effective tariff on Mexican imports may have several objectives for Donald Trump's administration, including taking advantage of the bargaining power that the United States must pressure Mexico in terms of immigration control, curbing the flow of drugs and combating drug traffickers, now designated as terrorists. It is worth remembering that only 1.17% of US GDP depends on its exports to Mexico, while 26.73% of Mexico's GDP depends on its exports to the United States (Fig. 18) Considering this, it is unlikely that the Trump administration will choose to eliminate tariffs against Mexico, which are a key tool to achieve its main objectives.

Fig. 18. Percentage of GDP explained by exports of goods from:



Source: Grupo Financiero BASE with data from INEGI, U.S. Census Bureau, U.S. Bureau of Economic Analysis.

Another objective of the Trump administration with the tariffs could be the negotiating power in the review (or renegotiation) of the USMCA. Currently, the review of the USMCA, agreed in the *sunset* clause, indicates that the treaty must be reviewed 6 years after it entered into force, so the review should begin on July 1, 2026. In this review it is likely that the U.S. government will seek to tighten two key points of the agreement: rules of origin and labor content.

The rules of origin establish the percentage of regional content that goods traded under the USMCA must have to be considered as originating in the region and be subject to a 0% tariff rate. Currently, the regional content value is set at 50% under the net cost method. However, for automotive exports, the rule is stricter and requires a regional content of 75%, while for steel and aluminum exports, the regional content must be 70%. Because the United States has imposed general tariffs on automotive and steel and aluminum imports, in practice the USMCA is not in force for these sectors.

On the other hand, for automotive exports to be considered within the USMCA, 40% of passenger cars must be manufactured by workers with a salary of at least 16 dollars per hour, while for light trucks and heavy vehicles the percentage rises to 45%. For Mexico, tightening the labor content would imply a significant increase in the cost of manufacturing, since according to information from INEGI, average wages in the automotive industry in Mexico, including statutory benefits, amount to US$10 per hour. The labor cost is not the only one, but it is of utmost importance, so the tightening of the labor content would result in a loss of competitiveness for the Mexican automotive industry.
It is worth remembering that until 2024 only 48.85% of Mexico's exports to the United States were shipped under the USMCA, while for Canada only 37.77%. With the revision of the USMCA, the Trump

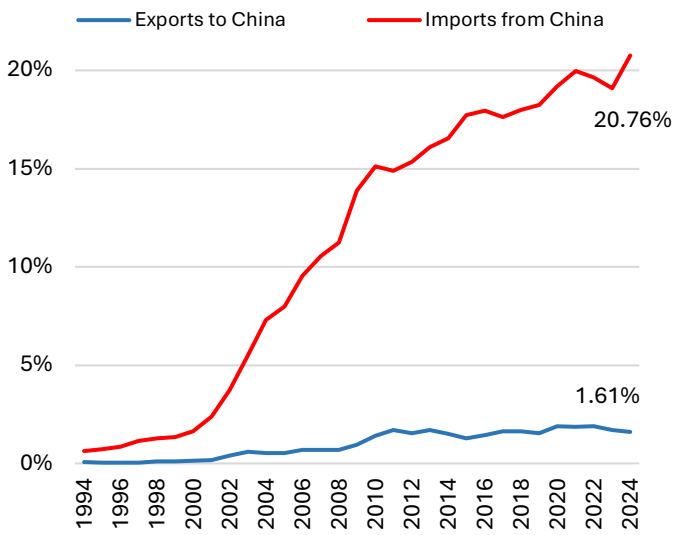
administration could force a greater portion of exports to be sent to the United States in compliance with the treaty's criteria, blocking the possibility of exports under the most favored nation principle. For Mexico, it will be of utmost importance to be able to negotiate tariffs with the United States, or get products exported under the USMCA criteria. In fact, if 80% of imports from Mexico meet the USMCA criteria, the effective tariff would drop to 10.43% at position 33, from position 11 where it is now. With this, Mexico's effective tariff would be well below other economies.

In addition to these points, the Office of the United States Trade Representative (USTR) has identified complaints regarding Mexico that could be addressed in the review, including:

1. Mexico does not provide timely notification of changes in border procedures and requirements.
2. Long delays of up to 24 months for import permits for the pharmaceutical industry, which represents a barrier to the entry of these products into Mexico.
3. The Ministry of Environment and Natural Resources has rejected import permits for chemicals containing glyphosate.
4. Delays in granting permits for pesticides and chemicals for the agricultural sector.
5. Concern about the banning of genetically modified products, decisions that are not based on scientific data.
6. Barriers to investment in the energy sector, which restrict investment by private companies in the oil industry and electricity generation.

The U.S. government could also use its bargaining power to restrict trade rapprochement between China and Mexico, in the context of a trade war in which the U.S. is making efforts to distance itself from the second largest economy in the world. It is worth noting that over the last 20 years, Mexican imports from China have grown at an accelerated pace, reaching 20.76% of total imports in 2024, the highest proportion on record (Fig. 19).

Fig. 19. Mexico's exports to and imports from China as % of total



Source: Grupo Financiero BASE with information from INEGI.

Can Mexico gain market share from the U.S.-China trade war?

U.S. trade policy is now ultra-protectionist, with historically high tariffs against China.

On April 8 at 22:00 CET, the United States imposed tariffs of 84% on imports from China. On April 9, in response, China confirmed tariffs of 50% on U.S. imports, bringing this year's applied tariff to 84%. Finally, the United States responded to the retaliation by raising the reciprocal tariff from 84% to 125%, which added to the 20% tariffs associated with the fentanyl crisis, leads to a cumulative tariff of 145% on all imports from China.

On Friday, April 11, the U.S. government exempted imports from China of smartphones, computers, semiconductors and electronic devices, equivalent to 100,235 million dollars or 22.8% of total imports from China, from the 125% tariff, maintaining the 20% tariffs associated with the fentanyl crisis that went into effect in February and March. Considering the above, 22.84% of U.S. imports from China are subject to a 20% tariff and 77.16% are subject to a 145% tariff.

To this must be added the 25% tariff on steel and aluminum imports, 25% on automotive imports and the tariffs accumulated in Trump's first term in office effective through 2024, giving an effective tariff of 131.91%.

If the tariffs are maintained, they would lead to a sharp drop in trade between China and the United States. It is worth mentioning that China's exports to the United States represent approximately 2.6% of China's GDP, while for the United States, exports to China represent 0.8% of its GDP.

The impact of the tariffs implemented by the United States means that imports from China are likely to fall. To measure the drop, the impact of tariffs during Donald Trump's first term can be taken as a reference. At that time, tariffs of 25% were implemented on $375 billions of imports from China, and as this represented only 69% of imports in 2018, the effective tariff against China was 17.4%.

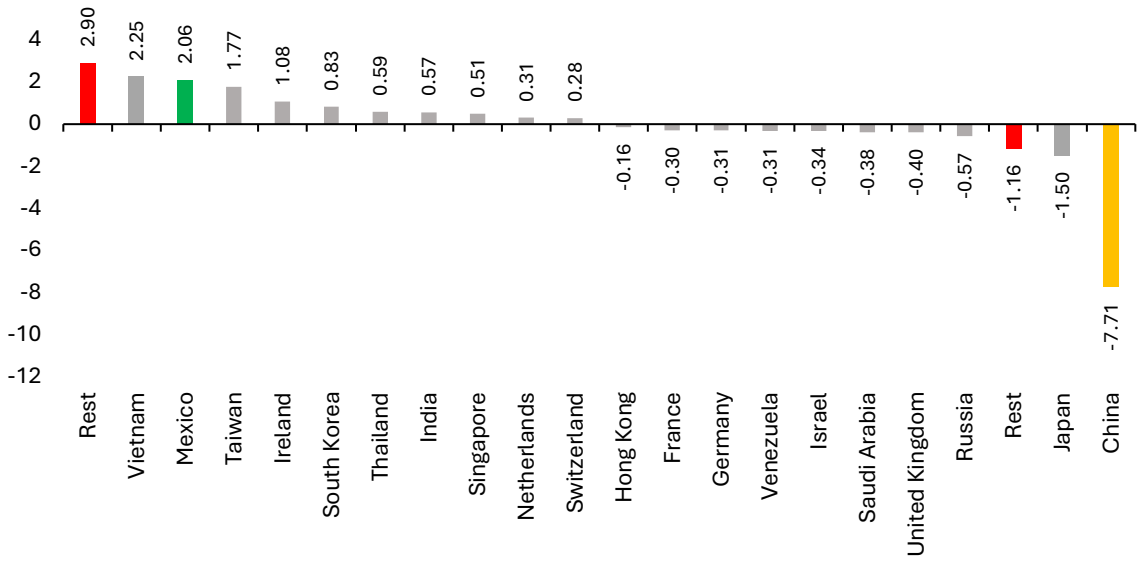
In the following years, imports from China fell 18.5% (taking as a reference the variation between 2018 and 2025). In other words, for every 1% effective tariff, the demand for imports from China fell 1.1%. If a similar behavior is observed, the application of a cumulative tariff of 145% on general imports, even adjusted for exemptions to an effective tariff of 131.91%, has the capacity to significantly reduce imports from China.

This does not mean that Chinese imports will disappear immediately, as there are imports without perfect substitutes or whose demand in the United States is inelastic, so imports will simply continue until companies produce these goods within the United States or production migrates to other countries with more favorable tariff conditions, such as Mexico and Canada.

During Trump's first term, with the trade war with China, U.S. imports from that country declined. In 2016 before Trump entered office, 21.15% of total U.S. imports were from China, contrasting with Mexico which accounted for only 13.42% of imports. In 2024, imports from China only accounted for 13.43%, with a market share 7.71 percentage points below 2016. This lower market share helped

countries such as Vietnam, whose contribution in U.S. imports rose 2.25 percentage points (Fig. 20), from 1.92% in 2016 to 4.18% in 2024, or Mexico which gained 2.06 percentage points, rising from 13.42% to 15.48%, gaining 2.06 percentage points. This implies that the 26.7% of the share lost by China was gained by Mexico. This change lasted several years. In February 2023, imports from Mexico surpassed imports from China for the first time (excluding the pandemic) and, since then, has remained above China in 24 of the last 25 months through February 2025.

Change (percentage points) in the share of total U.S. imports, 2016-2024 **Fig. 20.**



Source: Grupo Financiero BASE with data from USA Trade (Census Bureau).
Rest refers to the remaining countries that either gained or lost share in U.S. imports.

Assuming that the United States stops importing goods from China and that Mexico keeps 26.7% of this market, as occurred after Trump's first term tariffs, the share of U.S. imports from Mexico would rise from the current 15.48% to 18.97%, consolidating as the main origin of imports. Should this materialize, Mexico's exports to the United States would grow 22.5%, while total exports would grow 18.7% (Table 4). However, this growth assumes a collapse of trade between China and the U.S., with a gradual adjustment, over several years. It also does not consider the negative shock that could result from the U.S. economic slowdown.

Although the trade war is a negative event for global trade, U.S. efforts to isolate China could increase Mexico's attractiveness as an investment destination and in turn boost export growth over the next few years.

Table 4. Effect of tariffs

Change in total exports. Figures for 2024 are considered as a base	Variation	Millions of dollars
Direct effect of the tariffs against Mexico on exports	-5.4%	-32,910
Market share gain in U.S. imports over 8-year period	+18.7% (CAGR 2.2% p.a.)	+113,970

Source: Grupo Financiero BASE

In addition, this time Trump has initiated a trade war with other countries, including countries in Asia that had previously gained market share, such as Vietnam, Taiwan, South Korea, Thailand, India and Singapore. However, the impact on Mexico will depend on the effective tariff relative to other countries. If after the negotiations Mexico is left with an effective tariff lower than China, but higher than other countries with which it competes directly, it will have lost competitiveness. With this, the supply chains that are currently closely linked between Mexico and the United States will gradually become disconnected and the potential growth of Mexico's exports, as well as the arrival of new foreign direct investment, will decrease. This would be a severe and long-lasting blow to Mexico's economy.

On the contrary, if Mexico manages to lower the effective tariff, it will gain competitiveness and ensure growth in foreign direct investment from other countries due to high tariffs, as well as potential growth in exports and formal job creation.

Advantages of Mexico

Mexico has advantages in its trade relationship with the United States. These include low logistics costs and stable delivery times. According to information from the U.S. Department of Commerce, the country with the best logistics cost for U.S. imports is Ireland, with 0.20 dollars per 100 dollars of imports, followed by Singapore with 0.55 and Mexico with 0.80 dollars per 100 dollars of imports. In addition, as shares a border with the United States, delivery times remain stable, without being subject to the risks of maritime transportation.

On the other hand, supply chains between Mexico and the United States are closely linked, which has also led to a high degree of specialization in the products that Mexico exports to the United States.

Likewise, Mexico's exports are more complex than those of other emerging economies and show a similar structure to those of advanced economies, such as Germany and Japan, which export a large amount of goods to the United States in the following chapters: vehicles, industrial machinery, electrical equipment and machinery, and specialized apparatus (optical and medical) (Table 5).

Table 5. Major U.S. imports by country

U.S. imports from its main trading partners. Imports from these countries account for 55% of total imports.					
Mexico (15.48%)		**China (13.46%)**		**Canada (12.65%)**	
Vehicles	20.6%	Electrical equipment and machinery	24.2%	Mineral fuels, oils	35.6%
Industrial Machinery	18.7%	Industrial Machinery	19.2%	Vehicles	9.9%
Electrical equipment and machinery	17.5%	Toys	6.3%	Industrial Machinery	6.4%
Mineral fuels, oils	4.8%	Furniture	5.9%	Wood	3.7%
Devices (optical, medical)	4.3%	Plastics	5.0%	Plastics	3.5%
Plastics	2.2%	Garments and accessories	3.7%	Aluminum	2.8%
Beverages	2.0%	Vehicles	3.4%	Electrical equipment and machinery	2.3%
Vegetables	1.8%	Iron and steel articles	2.7%	Iron and steel	2.2%
Iron and steel articles	1.6%	Textile products	2.6%	Paper and cardboard	1.7%
of total exports to the U.S.	**73.6%**	**of total exports to the U.S.**	**73.0%**	**of total exports to the U.S.**	**68.3%**
Germany (4.92%)		**Japan (4.55%)**		**Vietnam (4.18%)**	
Vehicles	21.0%	Vehicles	31.1%	Electrical equipment and machinery	36.2%
Industrial Machinery	18.6%	Industrial Machinery	24.6%	Industrial Machinery	9.2%
Pharmaceuticals	15.8%	Electrical equipment and machinery	11.0%	Furniture	9.1%
Electrical equipment and machinery	9.3%	Devices (optical, medical)	5.6%	Garments and accessories	8.9%
Devices (optical, medical)	7.3%	Pharmaceuticals	2.1%	Footwear	8.8%
Plastics	3.2%	Plastics	1.9%	Textile products	6.7%
Metals and precious stones	2.4%	Rubber	1.8%	Plastics	2.3%
Organic chemicals	2.1%	Inorganic chemicals	1.6%	Toys	1.9%
Iron and steel articles	1.4%	Iron and steel articles	1.3%	Rubber	1.4%
of total exports to the U.S.	**81.1%**	**of total exports to the U.S.**	**80.9%**	**of total exports to the U.S.**	**84.5%**

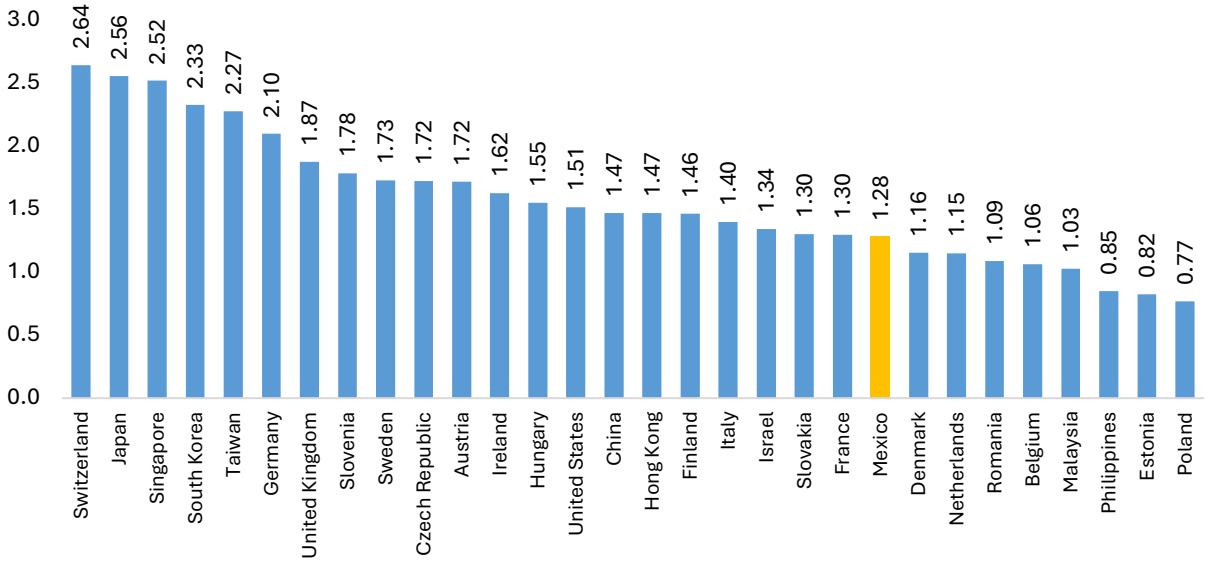
Source: Grupo Financiero BASE with information from Harvard Atlas. The chapters of Mexico's main exports to the United States are identified with color, in order to identify similarities with the United States' main trading partners. HS classification.

Harvard University calculates and publishes the Economic Complexity Index (ECI), ranking 145 countries according to their complexity and diversity of exported products. Economic complexity depends on the level of sophistication and knowledge a country has about the goods produced. A country's economic complexity is calculated based on diversity (variety of products) and ubiquity (number of countries that can produce them). Countries improve their ECI by increasing the diversity and complexity of the products they export.

Using data from the Harvard Atlas of Economic Complexity, in 2023 (latest year available), Mexico ranked 22nd with an ECI of 1.28 (Figure 21) and is the Latin American economy with the highest degree of complexity, followed by the Dominican Republic in 55th position. The only two emerging economies that surpass Mexico according to the complexity index are Hungary and China, which rank 13th and 15th respectively. Although there is no officially established range for the ECI,

historically, since 2000, the highest economic complexity value given to a country is 2.82 for Japan in 2000 and the lowest, a negative value of 3.84 for Iraq in 2010.

Fig. 21. Economic Complexity Index. Harvard University (2023)



Source: Grupo Financiero BASE with information from Harvard Atlas

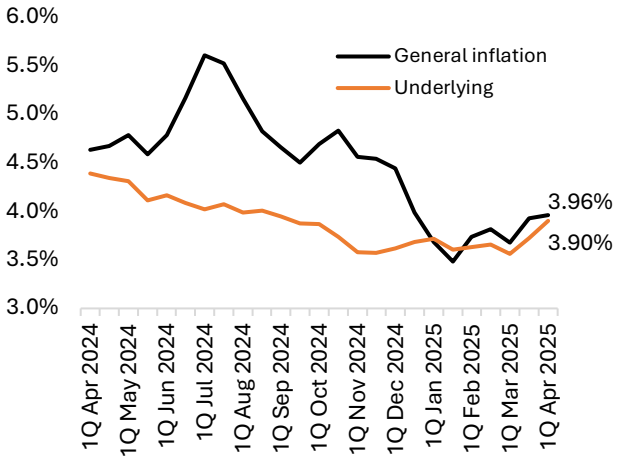
Given the above, Donald Trump can hardly undertake a process of import substitution from Mexico, as it would result in higher costs and disruptions in supply chains for the United States. If Trump wanted to substitute U.S. imports from Mexico, he would have to unbundle supply chains to import from other countries, such as Germany or Japan, which have higher production and logistics costs. It could also increase imports from other Latin American countries, but it would need several to replace Mexico, since the installed plant capacity and degree of production specialization is lower. Finally, returning all production to the United States would imply higher production costs. In addition, moving a factory from one location to another is a process that would take approximately three years, which would lead to the end of the Trump administration. Given this, it is very possible that companies will decide to wait for more information before making any changes to their production, but it is considered unlikely that there will be massive movements of production plants from Mexico to the United States.

This does not mean there are no risks. Trump has made it clear that he could sacrifice U.S. consumers. Given this, it is very possible that he will try to reach agreements with other countries before initiating the revision (or renegotiation) of the USMCA. Thus, the agreements made with other countries and the tariffs imposed on Mexico, Trump will have an advantage in the negotiations, which as mentioned before, will surely include the tightening of rules of origin, labor content and trade with China.

INFLATION AND MONETARY POLICY

In the first months of 2025, it appears that the slowdown in headline inflation has reached its limit. Headline inflation touched a low of 3.48% per annum in the second half of January and since then has accelerated to 3.96% in the first half of April, approaching 4.00%, the upper limit of the +/- 1% variation interval around the Bank of Mexico's target of 3.00% (Fig. 22).

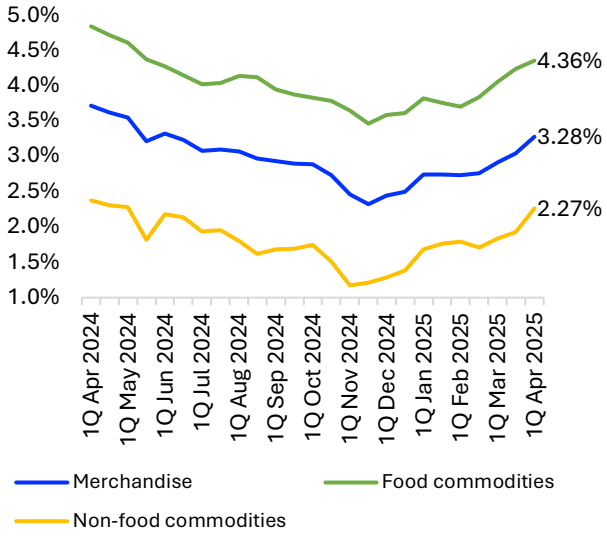
Fig. 22. Headline and core inflation, annual rate



Source: Grupo Financiero BASE with information from INEGI.

Core inflation is considered core inflation because it determines the path of headline inflation in the medium and long term, as it excludes products with more volatile prices. In contrast, the non-core component includes goods with more volatile prices, on which monetary policy has little effect. Core inflation hit an annual low of 3.56% in the first half of March and accelerated to 3.90% in the first half of April, the highest annual rate since September of last year. This acceleration is due to the merchandise component, which in the first half of April reached 3.28%, a level not recorded since June 2024, while the services component accelerated to 4.60% y/y, the highest rate since the second half of February of this year (Fig. 23).

Fig. 23. Commodity inflation, underlying component, annual rate



Source: Grupo Financiero BASE with information from INEGI.

The acceleration in inflation is no longer due to supply shocks originating from the pandemic. In the core component, pressures have been registered mainly in non-food commodities. These showed inflation below 2% for 18 consecutive fortnights, but in the first half of April inflation accelerated to 2.27%, which is partly associated with the depreciation of the peso during the last year and the increase in exchange rate volatility, particularly in March and April. On the other hand, in services prices, there are pressures due to seasonal factors, given the higher demand for transportation, hotel and tourism services due to Easter, so it is unlikely to see a sustained rebound in the inflation of this component.

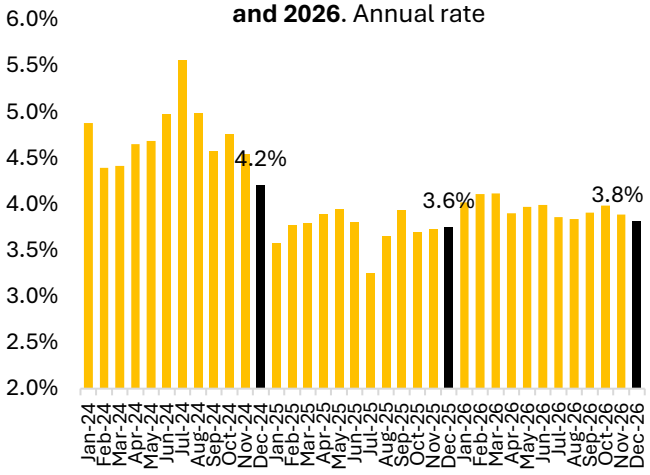
The non-core component has stabilized, with inflation between 3.00% and 4.50% so far this year (3.95% in the first fortnight of April). Within this component, fruit and vegetable inflation accumulated up to the first fortnight of April, 7 consecutive fortnights of negative rates, contrasting

with the prices of livestock products, with annual rates that remain above 8.00% per year. Energy inflation has stabilized at an annual rate of 2.62% in the last fortnight of March and the first fortnight of April, due to the government's efforts to limit increases in gasoline prices. The deceleration of energy prices, mainly gasoline, is related to the decrease in oil and gasoline prices in the commodities market.

In the coming months, the outlook for inflation has become more complex. On the one hand, a scenario of peso depreciation could make imports more expensive and generate upward pressures, especially in the merchandise component. Likewise, the tariffs imposed by the Trump administration on US imports could cause inflationary pressures in that country and second-order effects. In other words, we may see the acceleration of inflation of products that are not imported, due to the increase in the price of related products or inputs. This could contaminate inflation in Mexico through higher import prices.

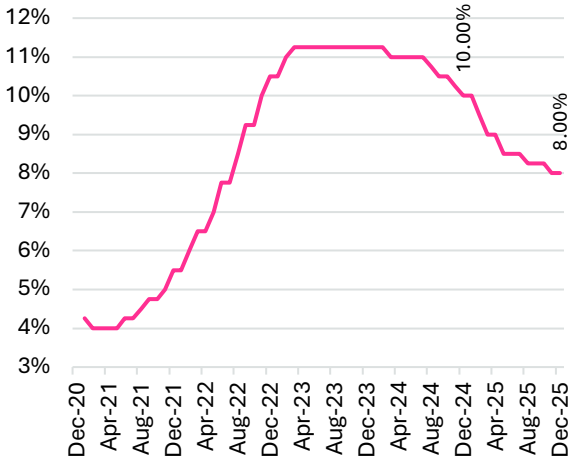
On the contrary, inflation could show a greater deceleration due to the economic slowdown or recession in Mexico, as aggregate demand pressures diminish. However, a scenario of stagflation, economic stagnation with high inflation, cannot be ruled out, especially if the high volatility of the exchange rate continues to put upward pressure on merchandise inflation. Based on the latest data, the inflation expectation at the end of the year remains unchanged at 3.6% annually (Fig. 24). However, due to the most recent upward pressures, mainly in the core component, upward adjustments to the forecast in the coming months cannot be ruled out.

Fig. 24. Inflation expectations for 2025 and 2026. Annual rate



Source: Grupo Financiero BASE with data from Banxico

Fig. 25. Interest rate and expectation



Source: Grupo Financiero BASE with data from Banxico

Despite the rebound in headline inflation, the Bank of Mexico is expected to continue cutting interest rates, as there is a marked economic slowdown that could help take pressure off headline inflation. In addition, the interest rate is still in restrictive territory. At the end of the year, the reference rate is expected to close at 8% (Fig. 25).

RISKS FOR ECONOMIC GROWTH

Mexico's economic environment in 2025 is characterized by increasing fragility and uncertainty, stemming from both internal and external factors. The loss of dynamism in private consumption, the slowdown in the labor market and the contraction in investment suggest that the country is facing increasing pressures that limit its growth capacity. Domestically, structural labor market conditions, restrictive fiscal policy and political uncertainty contribute to the darkening outlook. Externally, the risk of a deterioration in the trade relationship with the United States and the slowdown in the global economy increase Mexico's vulnerability. The following are the main risk factors conditioning growth in the short and medium term:

Internal Risks:

1. **Weak labor market and disposable income**. Although unemployment rates remain low, the deterioration in the quality of employment, the increase in underemployment and the persistence of informality limit the growth of household disposable income. The slowdown in formal job creation, together with increasingly moderate real wage growth, threatens to restrict the dynamism of private consumption, a fundamental driver of the Mexican economy. In addition, remittances, one of the factors that have contributed to sustaining household purchasing power, are slowing down considerably.

2. **Slowdown in gross fixed investment**. The contraction in gross fixed investment, observed since the second half of 2024 and accentuated in the beginning of 2025, reflects lower business confidence and a reduction in the expansion of productive capacity. At the public level, cuts in physical investment due to fiscal adjustment limit the State's capacity to act as a shock absorber for the economic cycle, while in the private sector, high political and economic uncertainty is holding back new investment projects. It is important to emphasize that Mexico's economy requires strong investment in infrastructure to be considered a more attractive destination for foreign investment, particularly in issues such as the availability of basic services like water and electricity.

3. **Internal political and governance risks**. The reform agenda promoted by the current government maintains an approach of continuity with the policies of the previous six-year term, which generates uncertainty about the future of the institutional framework and the business climate. The pressure on public finances and possible conflicts derived from the implementation of structural reforms could contribute to further worsen business confidence and limit productive investment in the coming years. This is unfortunate considering that Mexico enjoys a privileged position to be one of the main beneficiaries of the *nearshoring* trend, due to its proximity and strong economic integration with the United States.

External Risks:

1. **Trade relationship with the United States**. The protectionist stance of Donald Trump's administration represents a significant threat to growth and perhaps the one with the greatest long-term implications. The imposition of tariffs on Mexican exports by the Trump administration is already a fact, introducing a high level of uncertainty about their scope, duration and consistency. This situation generates caution among investors and companies, affecting investment decisions and compromising Mexico's ability to continue growing together with U.S. demand. Although the trade war poses risks for global trade, it also offers opportunities: U.S. efforts to isolate China could increase Mexico's attractiveness as an investment destination and strengthen its exports, if Mexico manages to maintain an effective tariff that is competitive with other countries. Mexico has logistical, productive integration and industrial specialization advantages that give it a privileged position, but the result will depend on its ability to negotiate and preserve its competitiveness. A scenario in which Mexico is left at a tariff disadvantage would have strong negative long-term consequences on its economic growth.

2. **Slowdown in the U.S. economy.** Trump's protectionist policies are affecting economic growth, as consumers are cautious about spending, while investors have lost wealth in the face of stock market declines. In addition, the threat of imposing more tariffs caused an increase in imports, due to anticipated purchases of products to avoid future tariffs. With the economic slowdown, the labor market is weakening, which in turn limits the income of Americans and slows the growth of consumption and remittances to their families in Mexico.

For 2025, Grupo Financiero BASE has the following economic growth expectations:

Table 6. Scenarios of growth expectations for 2025

Scenarios 2025	Pessimistic		Central		Optimistic	
	Quarterly	Annual	Quarterly	Annual	Quarterly	Annual
1T 2025	*0.2%*	*0.7%*	*0.2%*	*0.7%*	*0.2%*	*0.7%*
2T 2025	-0.7%	-0.3%	-0.5%	-0.1%	0.2%	0.6%
3T 2025	-1.0%	-2.2%	0.3%	-0.7%	0.3%	0.0%
4T 2025	-0.6%	-2.1%	0.1%	0.1%	0.1%	0.8%
2025	**-1.0%**		**0.0%**		**0.5%**	

Source: Grupo Financiero BASE

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APPENDIX 1. DEFINITION OF ECONOMIC RECESSION AND ECONOMIC RECESSIONS IN MEXICO.

According to the U.S. National Bureau of Economic Research (NBER), a recession is defined as the period of time between the peak of economic activity reached and the subsequent trough. This definition is complemented by three criteria: 1) a severe drop in economic activity (depth), 2) widespread across economic sectors (diffusion) and 3) lasting more than "a few months" (duration). The NBER clarifies that there are cases where the strength of the two criteria is such that, even if one of them is not met, it can be classified as a recession, as in the case of the 2020 recession which, despite being brief, due to its depth and diffusion was declared a recession. Relevant indicators for determining a recessionary period include personal income, employment, industrial activity and wholesale and retail sales.

In Mexico, the IMEF's Economic Cycle Dating Committee defines a recession as a "phase of the cycle in which there is a temporary, significant, sustained and generalized decrease in economic activity". The depth, duration and diffusion are also noted as characteristics.

There is also an informal term "technical recession", which is when there are two consecutive quarters of falling GDP. However, this is more of a rule of thumb based on the fact that sometimes when two consecutive quarterly GDP declines occur, the formal criteria of a recession are also met, but this is not always the case. In fact, the "technical recession" only addresses the duration criterion, but does not give importance to the depth and spread of the downturn across economic sectors. Two consecutive quarterly declines in GDP also do not guarantee a recession, since according to data since 1980, on two occasions GDP has contracted for two consecutive quarters without confirming a recession:

1) First and second quarters of 1988, with contractions of 0.69% and 0.33%, respectively.
2) Fourth quarter 2015 and first quarter 2016, with contractions of 0.29% and 0.06%, respectively.

Another common term associated with downturns in the business cycle is economic depression, which, although it has no official definition (like economic crises), Gregory Mankiw distinguishes it from recessions only by its severity. Similarly, there is the concept of economic crisis, which refers to the rapid deterioration of economic indicators beyond what is considered a recession.

Among the main causes of a recession are: 1) exogenous shocks, as occurred during the 2020 pandemic or in 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 declines in other economic sectors.

In Mexico, the IMEF's Business Cycle Dating Committee has identified 6 recession periods (the fall in GDP between the period prior to the start of the recession and the last quarter of the recession is

shown in parentheses). It should be noted that in the recessions for which quarterly information is available, GDP contractions vary considerably, in some cases with deep and short-lived declines, as in the 1995 and 2008-2009 recessions. In other cases, such as the 2000-2002 recession, quarterly contractions were moderate and there was even a period of quarterly growth (first quarter of 2001). Similarly in the 2019-2020 recession, in the second and third quarters of 2019 quarterly contractions were close to 0% (-0.26% and -0.04% respectively).

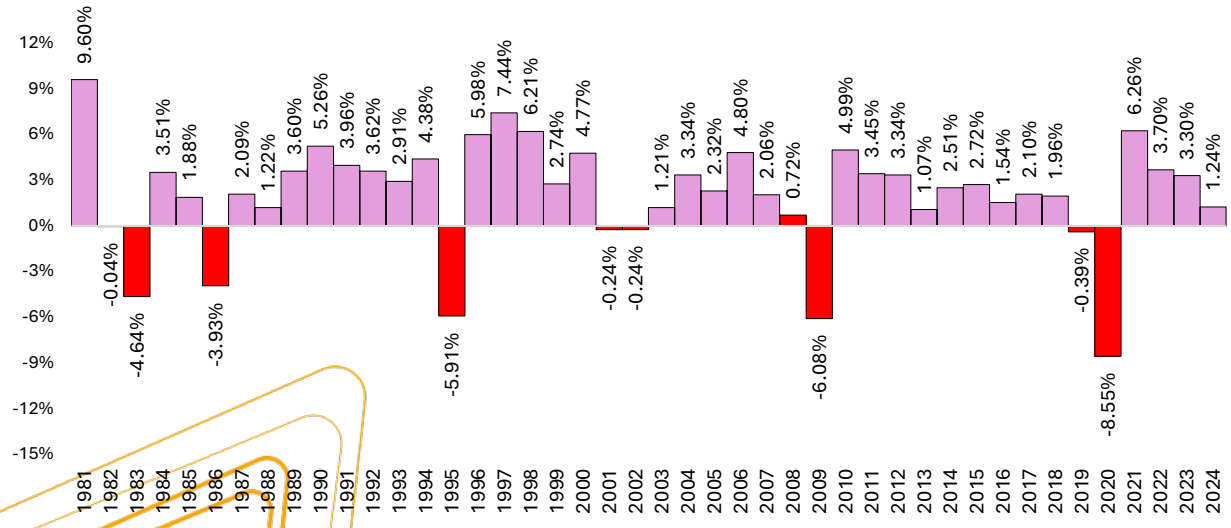
Table 6. Quarterly changes in GDP during recessionary periods in Mexico

Trimestres de duración de la recesión	Trimestre de inicio de la recesión					
	4T 1981	4T 1985	4T 1994	4T 2000	3T 2008	2T 2019
1	1.08%	-0.21%	1.08%	-1.11%	0.11%	-0.26%
2	-0.96%	-2.04%	-4.60%	0.62%	-1.60%	-0.04%
3	0.09%	-1.25%	-6.04%	-0.74%	-6.18%	-0.70%
4	-0.57%	-1.60%		-0.21%	-1.63%	-1.15%
5	-2.42%	-0.65%		-0.85%		-18.94%
6	-1.78%			-0.63%		
7	-1.80%					

Source: Grupo Financiero BASE with information from INEGI.

It is worth mentioning that historically, in the six confirmed recessions between 1980 and 2020, five of them recorded annual GDP declines close to or above 4% in the year that received the greatest impact of the recession (Figure 2). The only exception was the recession in the early 2000s, when GDP showed only moderate contractions in 2001 and 2002.

Fig. 26. Annual GDP growth. In red shows the annual performance in the years in which the six recessions occurred between 1980 and 2020.



Source: Grupo Financiero BASE with information from INEGI.

Recessions in Mexico between 1980 and 2020:

1. **December 1981 to June 1983 (-7.2%)**[1] . The recession, which lasted 19 months, had its origin in the growth of Mexico's external indebtedness for investment in the oil sector. 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 high external indebtedness, there was a 19% drop in oil prices between March 1981 and August 1982, which generated 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, the government 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, generating inflationary pressures. 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 12.9% and tertiary activities fell 3.3%.

2. **October 1985 to December 1986 (-5.6%).** The recession lasted 15 months and began in October 1985, after 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 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

[1] For the contraction indicated in parentheses, the last quarter prior to the beginning of the recession and the last quarter of the recession are taken as a reference.

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. Despite 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 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. Since 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, since 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, the 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, since 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 U.S. 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.

Table 7. GDP in recession periods in Mexico, disaggregated figures by sector

	Recession periods						
Economic Activity	**Dec81 - Jun83**	**Oct85 - Dec86**	**Dec94 - May95**	**Oct00 - Jan02**	**Jul08 - May09**	**Jun19 - May20**	**Jun19 - Dec19*.**
Total GDP	**-7.20%**	**-5.60%**	**-10.40%**	**-2.90%**	**-9.10%**	**-20.70%**	**-1.00%**
Primary activities	**-6.00%**	**-3.80%**	**-0.30%**	**9.00%**	**-3.40%**	**-2.50%**	**-2.50%**
Secondary activities	**-12.90%**	**-10.60%**	**-13.90%**	**-6.20%**	**-10.70%**	**-24.40%**	**-2.60%**
Mining			-0.50%	-0.70%	-3.10%	-5.20%	2.30%
Basic services			15.60%	9.10%	-1.70%	-6.90%	3.20%
Construction			-34.60%	-11.50%	-7.80%	-36.80%	-7.00%
Manufacturing			-11.80%	-7.90%	-14.80%	-25.50%	-2.70%
Tertiary activities	**-3.30%**	**-2.30%**	**-7.90%**	**-1.40%**	**-7.60%**	**-18.80%**	**0.10%**
Wholesale trade			-12.90%	-4.20%	-12.50%	-19.80%	0.60%
Retail trade			-13.80%	-3.50%	-15.90%	-27.70%	-0.90%
Transportation, mail and warehousing			-12.00%	-2.40%	-13.00%	-38.10%	-1.80%
Information in mass media			-9.90%	1.40%	1.70%	-13.60%	4.70%
Financial and insurance services			-0.90%	9.90%	3.30%	-8.50%	-4.40%
Real estate and rental services			1.70%	4.20%	-0.50%	-2.70%	1.30%
Professional, scientific and technical services			-7.60%	0.20%	-2.60%	-5.00%	5.20%
Corporate			-8.70%	-4.30%	-17.50%	4.70%	0.10%
Business support services			-16.40%	-2.20%	-6.20%	-9.90%	1.90%
Educational services			1.40%	3.60%	-11.90%	-3.80%	-0.30%
Health and social assistance services			-1.60%	-0.80%	8.50%	-5.10%	-1.30%
Cultural and sports recreation services			-11.70%	-7.40%	-5.40%	-70.50%	0.70%
Temporary housing and food preparation			-15.50%	-7.40%	-16.80%	-66.30%	5.60%
Other services except governmental activities			-8.90%	1.00%	-2.20%	-23.80%	-1.90%
Legislative and governmental activities			-0.50%	-4.40%	6.40%	-0.20%	0.10%
Aggregate Demand Component	**Dec81 - Jun83**	**Oct85 - Dec86**	**Dec94 - May95**	**Oct00 - Jan02**	**Jul08 - May09**	**Jun19 - May20**	**Jun19 - Dec19*.**
Private consumption			-8.80%	2.40%	-10.30%	-20.80%	1.30%
Government consumption			-1.30%	-2.50%	2.80%	-1.50%	-0.60%
Gross fixed capital formation (GFCF)			-37.50%	-10.30%	-14.60%	-33.90%	-4.60%
GFCF Public			-27.90%	6.00%	3.90%	-9.70%	-13.20%
GFCF Private			-39.00%	-13.30%	-19.50%	-37.00%	-3.30%
Exports of goods and services			15.80%	-2.00%	-16.80%	-28.60%	-3.70%
Imports of goods and services			-21.70%	-1.70%	-23.60%	-28.50%	-2.10%

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

ANNEX 2. EFFECTIVE TARIFF BY COUNTRY

Country	Effective tariff 2024	Effective tariff 2025	of total imports
Grand total	**2.34%**	**27.90%**	**100.00%**
China	10.66%	131.91%	13.43%
Israeli-administered Gaza Strip	1.38%	33.79%	0.00%
Slovakia	2.41%	33.16%	0.25%
Azerbaijan	5.10%	27.82%	0.00%
Montserrat	0.38%	27.62%	0.00%
Heard Island and McDonald Islands	2.91%	25.60%	0.00%
Bangladesh	15.22%	25.24%	0.26%
Bahrain	2.06%	24.70%	0.04%
Kyrgyzstan	2.05%	22.23%	0.00%
Japan	1.54%	21.37%	4.54%
Sri Lanka	10.48%	20.99%	0.09%
South Korea	0.21%	20.89%	4.03%
Mayotte	3.30%	20.67%	0.00%
Luxembourg	0.98%	20.53%	0.02%
Liechtenstein	2.26%	20.48%	0.01%
Somalia	1.23%	20.28%	0.00%
Cayman Islands	1.22%	20.22%	0.00%
Pakistan	9.57%	19.89%	0.16%
Oman	2.51%	19.85%	0.04%
Hungary	1.30%	19.81%	0.39%
United Arab Emirates	2.18%	19.12%	0.23%
Belarus	7.47%	18.91%	0.00%
Romania	2.17%	18.88%	0.12%
Uruguay	8.61%	18.73%	0.04%
Taiwan	0.93%	18.49%	3.56%
Sweden	1.34%	18.28%	0.55%
Macao	8.12%	18.25%	0.00%
Burma	7.32%	18.14%	0.02%
Cambodia	7.03%	18.03%	0.39%
Vietnam	3.91%	17.98%	4.18%
Serbia	1.14%	17.91%	0.02%
Austria	1.37%	17.81%	0.54%
Germany	1.38%	17.77%	4.91%
Paraguay	6.27%	17.01%	0.01%
Mexico	0.25%	16.58%	15.48%
Thailand	1.56%	16.55%	1.94%
Ethiopia	6.47%	16.49%	0.01%
Uzbekistan	2.37%	16.44%	0.00%
Czech Republic	1.18%	16.43%	0.25%

Turkey	3.29%	16.41%	0.51%
Greece	2.77%	16.11%	0.07%
Indonesia	4.85%	16.01%	0.86%
Bulgaria	2.06%	15.86%	0.05%
Poland	1.38%	15.81%	0.42%
United Kingdom	0.96%	15.78%	2.08%
Honduras	0.47%	15.64%	0.17%
Cocos Islands	1.57%	15.61%	0.00%
Tuvalu	0.32%	15.59%	0.00%
Morocco	2.61%	15.48%	0.06%
Ukraine	1.27%	15.34%	0.04%
Bosnia and Herzegovina	2.86%	15.30%	0.01%
Philippines	1.34%	15.27%	0.43%
Laos	5.14%	15.20%	0.02%
Nicaragua	1.34%	15.13%	0.14%
South Africa	0.26%	15.09%	0.45%
Italy	2.22%	14.72%	2.34%
Portugal	2.50%	14.66%	0.20%
San Marino	2.23%	14.64%	0.00%
St. Kitts and Nevis	0.35%	14.54%	0.00%
Macedonia	1.87%	14.52%	0.01%
India	2.41%	14.17%	2.68%
Spain	1.86%	14.16%	0.65%
Moldova	2.99%	14.09%	0.00%
Norfolk Island	0.35%	13.92%	0.00%
Christmas Island	0.26%	13.88%	0.00%
Brazil	1.31%	13.78%	1.30%
Tunisia	2.15%	13.74%	0.03%
Kosovo	0.59%	13.64%	0.00%
Zimbabwe	3.61%	13.61%	0.00%
Egypt	1.86%	13.61%	0.08%
Albania	2.11%	13.60%	0.00%
Eritrea	0.35%	13.55%	0.00%
Argentina	1.14%	13.39%	0.22%
Qatar	0.92%	13.38%	0.06%
Georgia	1.28%	13.20%	0.01%
Montenegro	0.80%	12.89%	0.00%
Nauru	2.02%	12.76%	0.00%
Belgium	0.91%	12.75%	0.85%
Croatia	1.70%	12.67%	0.03%
Lithuania	1.13%	12.60%	0.06%
Svalbard Island, Jan Mayen	1.12%	12.50%	0.00%
Latvia	0.96%	12.49%	0.02%
Finland	0.76%	12.34%	0.25%

Vatican City	2.34%	12.34%	0.00%
France	1.17%	12.31%	1.83%
Guinea-Bissau	2.31%	12.31%	0.00%
Yemen	2.17%	12.29%	0.00%
Eel	2.29%	12.29%	0.00%
Netherlands	0.69%	12.20%	1.04%
Malaysia	0.62%	12.17%	1.61%
Malta	0.88%	12.16%	0.01%
Central African Republic	1.11%	12.15%	0.00%
Estonia	1.13%	12.10%	0.03%
Canada	0.10%	12.08%	12.63%
Maldives	0.97%	12.00%	0.00%
Cyprus	1.64%	11.96%	0.00%
Denmark	0.56%	11.78%	0.31%
El Salvador	0.92%	11.76%	0.07%
Wallis and Futuna	1.76%	11.76%	0.00%
Syria	1.65%	11.72%	0.00%
Monaco	1.17%	11.69%	0.00%
Nepal	1.63%	11.66%	0.00%
Guinea	0.31%	11.65%	0.00%
Andorra	0.30%	11.63%	0.00%
Seychelles	0.63%	11.63%	0.00%
Mongolia	1.31%	11.60%	0.00%
Tonga	0.62%	11.57%	0.00%
Sao Tome and Principe	0.37%	11.55%	0.00%
New Zealand	1.14%	11.54%	0.17%
Lebanon	1.13%	11.52%	0.01%
Antigua and Barbuda	0.04%	11.52%	0.00%
Burundi	1.52%	11.52%	0.00%
Micronesia	1.08%	11.51%	0.00%
Niger	0.73%	11.49%	0.00%
Colombia	0.15%	11.48%	0.54%
French Southern and Antarctic Lands	1.19%	11.43%	0.00%
Norway	0.59%	11.42%	0.20%
Slovenia	0.41%	11.42%	0.19%
Afghanistan	1.32%	11.41%	0.00%
British Indian Ocean Territories	0.49%	11.36%	0.00%
Mozambique	1.26%	11.30%	0.01%
Burkina Faso	0.29%	11.29%	0.00%
Kiribati	0.26%	11.26%	0.00%
Hong Kong	0.99%	11.25%	0.18%
Bhutan	1.24%	11.24%	0.00%
Guadalupe	0.70%	11.24%	0.00%
Australia	0.12%	11.24%	0.51%

Armenia	1.18%	11.22%	0.00%
Guatemala	0.87%	11.19%	0.15%
Sierra Leone	0.38%	11.07%	0.00%
Mauritania	1.01%	11.06%	0.00%
Gibraltar	0.79%	10.98%	0.00%
Brunei	0.39%	10.96%	0.01%
Dominican Republic	0.37%	10.95%	0.23%
French Polynesia	0.43%	10.95%	0.00%
Esuatini	0.84%	10.90%	0.00%
Algeria	0.11%	10.89%	0.08%
Switzerland	0.58%	10.85%	1.94%
Cook Islands	0.38%	10.80%	0.00%
Mali	0.39%	10.78%	0.00%
Ecuador	0.44%	10.72%	0.26%
Suriname	0.18%	10.72%	0.00%
Mauricio	0.59%	10.70%	0.01%
Timor-Leste	0.20%	10.68%	0.00%
Israel	0.14%	10.67%	0.68%
Russia	0.61%	10.65%	0.09%
Cape Verde	0.24%	10.64%	0.00%
Kazakhstan	0.57%	10.61%	0.07%
Solomon Islands	0.55%	10.61%	0.00%
Zambia	0.57%	10.60%	0.01%
Saudi Arabia	0.36%	10.60%	0.39%
Madagascar	0.59%	10.59%	0.02%
Curaçao	0.49%	10.59%	0.00%
Samoa	0.47%	10.56%	0.00%
New Caledonia	0.08%	10.52%	0.00%
Costa Rica	0.11%	10.46%	0.36%
Singapore	0.08%	10.46%	1.32%
Aruba	0.12%	10.43%	0.00%
Tajikistan	0.15%	10.41%	0.00%
Marshall Islands	0.15%	10.41%	0.00%
Tanzania	0.24%	10.40%	0.01%
Turks and Caicos Islands	0.06%	10.39%	0.00%
Dominica	0.37%	10.37%	0.00%
Iceland	0.28%	10.37%	0.03%
Haiti	0.34%	10.36%	0.02%
Panama	0.15%	10.36%	0.02%
Bolivia	0.34%	10.35%	0.02%
Ireland	0.18%	10.35%	3.16%
Kenya	0.23%	10.34%	0.02%
Rwanda	0.29%	10.33%	0.00%
Jordan	0.13%	10.33%	0.10%

Israeli-administered West Bank	0.21%	10.28%	0.00%
Gambia	0.03%	10.27%	0.00%
Peru	0.10%	10.27%	0.29%
Chile	0.03%	10.25%	0.50%
Martinique	0.20%	10.22%	0.00%
Djibouti	0.03%	10.22%	0.00%
Barbados	0.18%	10.22%	0.00%
Bahamas	0.18%	10.19%	0.05%
Senegal	0.12%	10.19%	0.01%
Gabon	0.16%	10.18%	0.01%
Fiji	0.14%	10.14%	0.01%
Libya	0.14%	10.14%	0.04%
Bermuda shorts	0.03%	10.14%	0.00%
Venezuela	0.13%	10.14%	0.18%
Turkmenistan	0.05%	10.14%	0.00%
Niue	0.10%	10.13%	0.00%
Chad	0.12%	10.12%	0.00%
Jamaica	0.05%	10.12%	0.01%
Cameroon	0.08%	10.12%	0.01%
Uganda	0.10%	10.12%	0.00%
Malawi	0.08%	10.12%	0.00%
Kuwait	0.11%	10.11%	0.05%
Lesotho	0.11%	10.11%	0.01%
Guyana	0.10%	10.10%	0.16%
Belize	0.04%	10.10%	0.00%
Angola	0.06%	10.10%	0.06%
Iraq	0.10%	10.10%	0.23%
Ivory Coast	0.02%	10.10%	0.03%
British Virgin Islands	0.03%	10.09%	0.00%
St. Helena	0.05%	10.09%	0.00%
Ghana	0.07%	10.08%	0.04%
Namibia	0.04%	10.08%	0.01%
Nigeria	0.07%	10.08%	0.17%
Togo	0.06%	10.07%	0.00%
Saint Vincent and the Grenadines	0.02%	10.07%	0.00%
Vanuatu	0.03%	10.06%	0.00%
Congo	0.04%	10.06%	0.00%
French Guiana	0.01%	10.05%	0.00%
Congo	0.03%	10.05%	0.01%
Meeting	0.01%	10.05%	0.00%
Papua New Guinea	0.03%	10.05%	0.00%
Grenada	0.04%	10.05%	0.00%
South Sudan	0.05%	10.05%	0.00%
Comoros	0.04%	10.04%	0.00%

St. Maarten	0.01%	10.02%	0.00%
Trinidad and Tobago	0.01%	10.02%	0.10%
Botswana	0.00%	10.02%	0.01%
Faroe Islands	0.01%	10.01%	0.01%
Falkland Islands	0.01%	10.01%	0.00%
Liberia	0.00%	10.01%	0.00%
Greenland	0.01%	10.01%	0.00%
St. Lucia	0.01%	10.01%	0.00%
Palau	0.00%	10.00%	0.00%
Iran	0.00%	10.00%	0.00%
Benin	0.00%	10.00%	0.00%
Equatorial Guinea	0.00%	10.00%	0.00%
St. Pierre and Miquelon	0.00%	10.00%	0.00%
Sudan	0.00%	10.00%	0.00%
Cuba	0.00%	10.00%	0.00%
Tokelau	0.00%	10.00%	0.00%
North Korea	0.00%	10.00%	0.00%
Pitcairn Islands	0.00%	10.00%	0.00%

Source: Grupo Financiero BASE with information from USA TRADE, Federal Register and the White House.