



MEXICO ECONOMIC OUTLOOK 2024



Mexico is an Attractive Investment Destination.

The proximity of Mexico to the United States, the special relations between the two countries under the North American Free Trade Agreement (NAFTA), and its strategic geographical location make Mexico a highly-attractive destination for many sectors, among them, manufacturing and services.

The significant investments the country has received in recent years, the growth of the technology sector, improvements in infrastructure, and economic reforms in key sectors such as energy and telecommunications create a favorable environment for new business opportunities.



Highlights

- Mexico is the 11th largest economy in the world.
- On logistics, the proximity to the U.S. border on the north and with central and South America on the south is an unavoidable advantage for Mexico.
- Exceptionally talented, bilingual, and highly skilled labor force with high stability.
- More than 44 Free Trade Agreements and counting.
- Outstanding investment from OEM's on the last 10 years with a huge growth from Automobile, Aerospace, Electronics, Home Appliances, Steel and Food industries.
- **Mexico is a young population and this is a demographic boom for all of Latin**

America. Mexico's standing as a leader in the global manufacturing market has been long established, even amidst increased global competition. A big number of Fortune 500 companies and other multi-national companies have turned to Mexico in an attempt to cut manufacturing costs, while maintaining U.S. standards of quality and efficiency.



- In the midst of global economic turmoil, Mexico emerges as a beacon of hope, defying adversity and embracing a future full of possibilities. The recent **International Business Report (IBR)** provides an encouraging outlook that reflects a paradigm shift in the country's economic expectations.
- The pandemic unleashed a cascade of unprecedented economic challenges, testing the resilience of Mexican businesses and the adaptive capacity of the country as a whole. However, in the midst of adversity, a renewed sense of optimism emerged, evidenced by an 81% increase in business confidence regarding the national economic outlook, according to IBR data. This optimism is not unfounded; it is based on Mexico's demonstrated resilience in the face of global challenges, as well as its proactive approach to investment and innovation.



POPULATION

131.7

Millions

(131,741,347)

ANNUAL GDP GROWTH

2.5%

(In 2024)

DENSITY

67.8

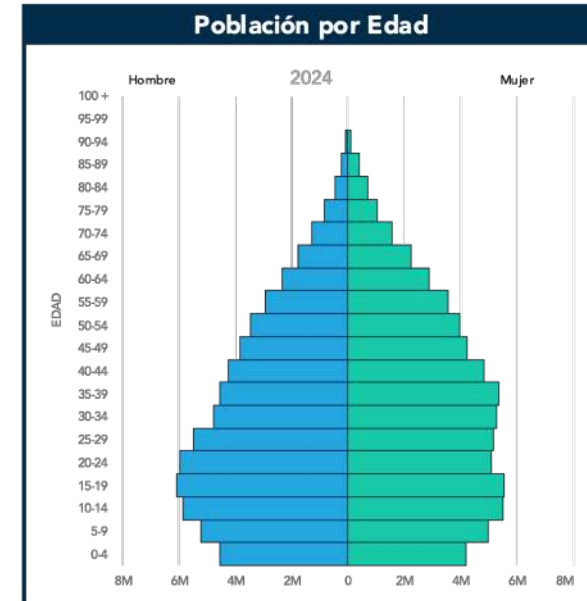
(Persons per km)²

LIFE EXPECTANCY

75.6

YEARS
(Both sexes)

- With a population of nearly 132 million, a rich cultural history, and favorable geography, Mexico is among the fifteen largest economies in the world and the second largest in Latin America.
- The country has sound macroeconomic institutions, is open to trade, and has a diversified manufacturing base connected to global value chains.



International Database
U.S. Census Bureau



ECONOMICALLY
ACTIVE
POPULATION

61.042
Millions

FOREIGN
INVESTMENT

37
Millions in 2023



Mexico performed better than most other major Latin American economies in 2023, largely due to strong nearshoring demand and rapid growth in the US.

In 2024, Mexico expects growth to level off, but remain firm at 2.5%, despite still-tight macro-financial conditions in the first half of the year and a weaker external environment.

In the medium term, **Mexico will continue to benefit from US nearshoring efforts.** Realized gains are expected to remain modest due to the government's statist policies, particularly in the energy sector, which will sustain investor concerns regarding contract rights and the business environment. However, these policies are projected to support an annual GDP growth of 2.2% from 2025 to 2028, a rate significantly surpassing the pre-pandemic five-year average.

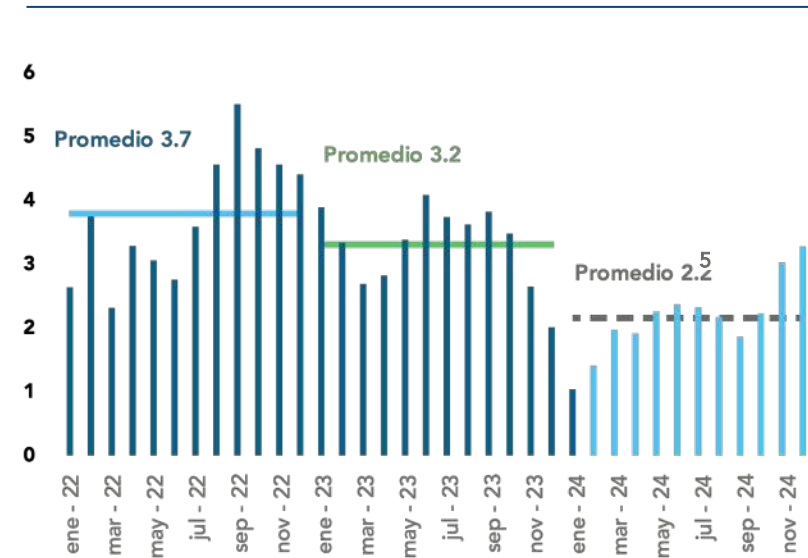
Data provided from Instituto Nacional de Estadística y Geografía del Gobierno de México. (INEGI)



- In 2023, the Mexican economy experienced a growth of 3.2%, marking a second consecutive year of expansion over 3%. This indicates a slowdown from the surge seen after the pandemic. Looking ahead, **the economy is anticipated to grow by 2.5% in 2024 and 2.2% in 2025**, continuing from the solid 3.4% growth observed in 2023. This economic growth is expected to be driven by a strong labor market, enhancing consumer spending. Furthermore, public infrastructure projects set to complete in 2024 and the offshoring of manufacturing to Mexico will bolster investment. However, the export sector may see reduced dynamism due to slower growth in the U.S. economy. **Meanwhile, inflation rates are forecasted to drop to 3.9% in 2024 and further to 3.2% in 2025.**

Projected growth of 2.5 % in 2024

IGAE, annual % change



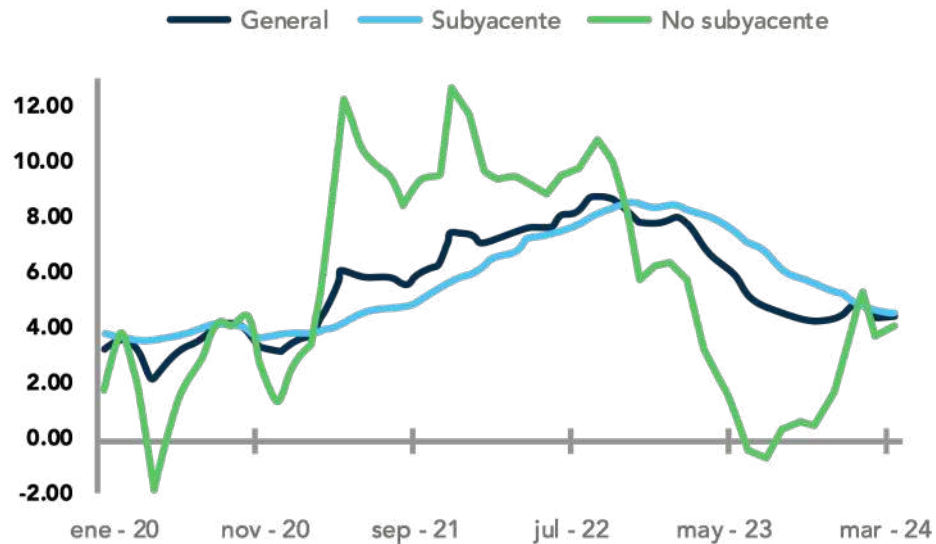
SOURCE: INEGI. Ecosignal estimate feb 2024



- The economy has rebounded to pre-pandemic levels of employment and Gross Domestic Product (GDP). Mexico's stable macroeconomic structure, the vibrancy of the U.S. economy, and a robust manufacturing sector, support continued economic growth.

Inflation is stabilizing

Inflation at annual rates, values in %.

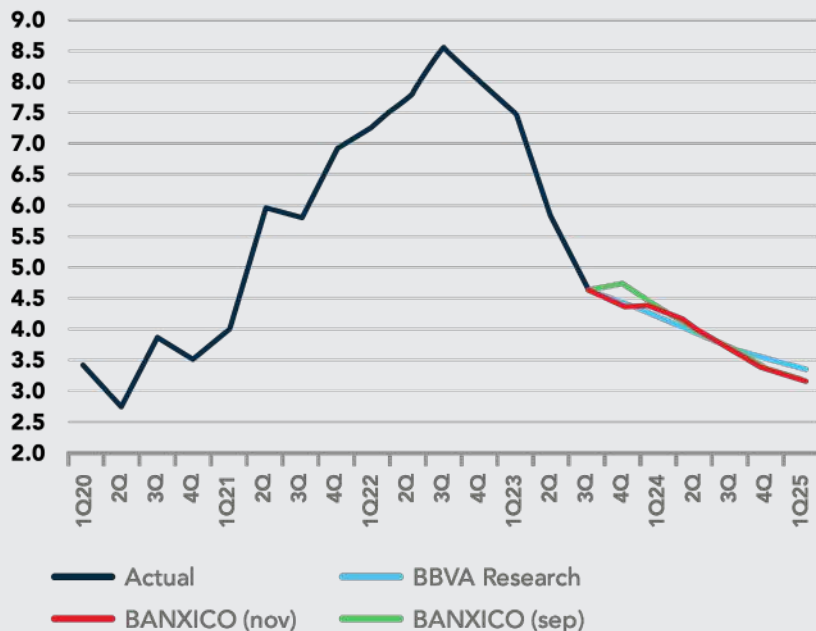


Fuente: INEGI



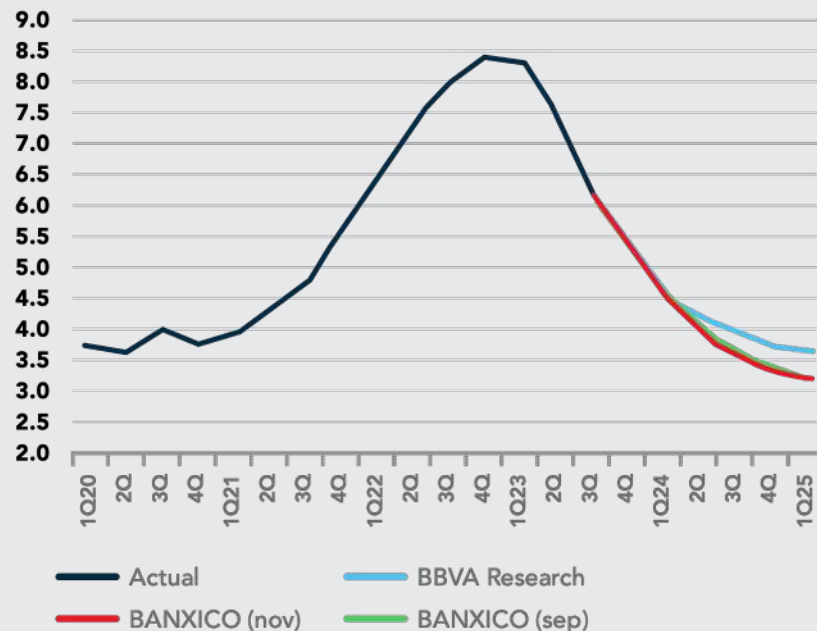
We forecast that the inflation rate will be within target range starting from the second quarter of 2024

Headline inflation forecast
(Y/Y, % change, quarterly average)



Fuente: BBVA Research, INEGI, BANXICO

Core inflation forecasts
(Y/Y, % change, quarterly average)

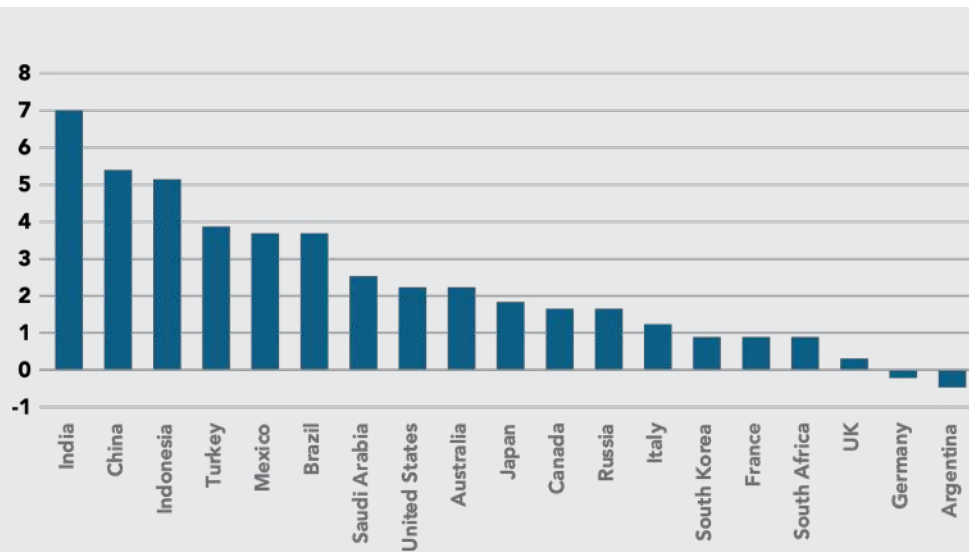


Fuente: BBVA Research, INEGI, BANXICO



Mexico ranked fifth in annual GDP growth among the G20 in the first half of 2023

Real GDP growth (annual %, 1H23 vs. 1H22)



Source: Trading Economics

Wages in Mexico are increasing at record pace

Mexican Institute of Social Security (IMSS) real average formal wage (MXN,% YoY)

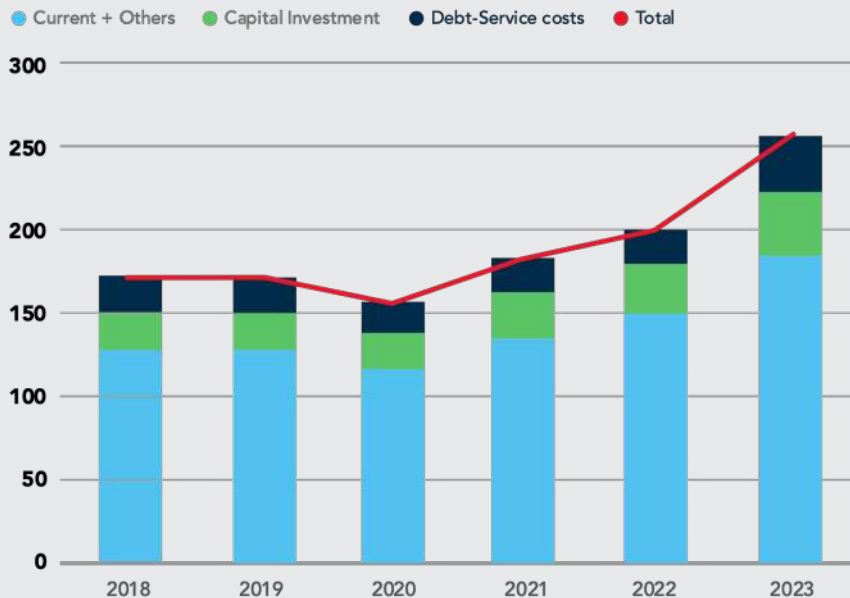


Source: Mexican Institute of Social Security



Public spending in Mexico has increased substantially from 2018 to 2023

First seven months of each year, US \$ million, real



Source: Mexico's Ministry of Finance

Mexico surpassed China as the largest commercial partner of the United States

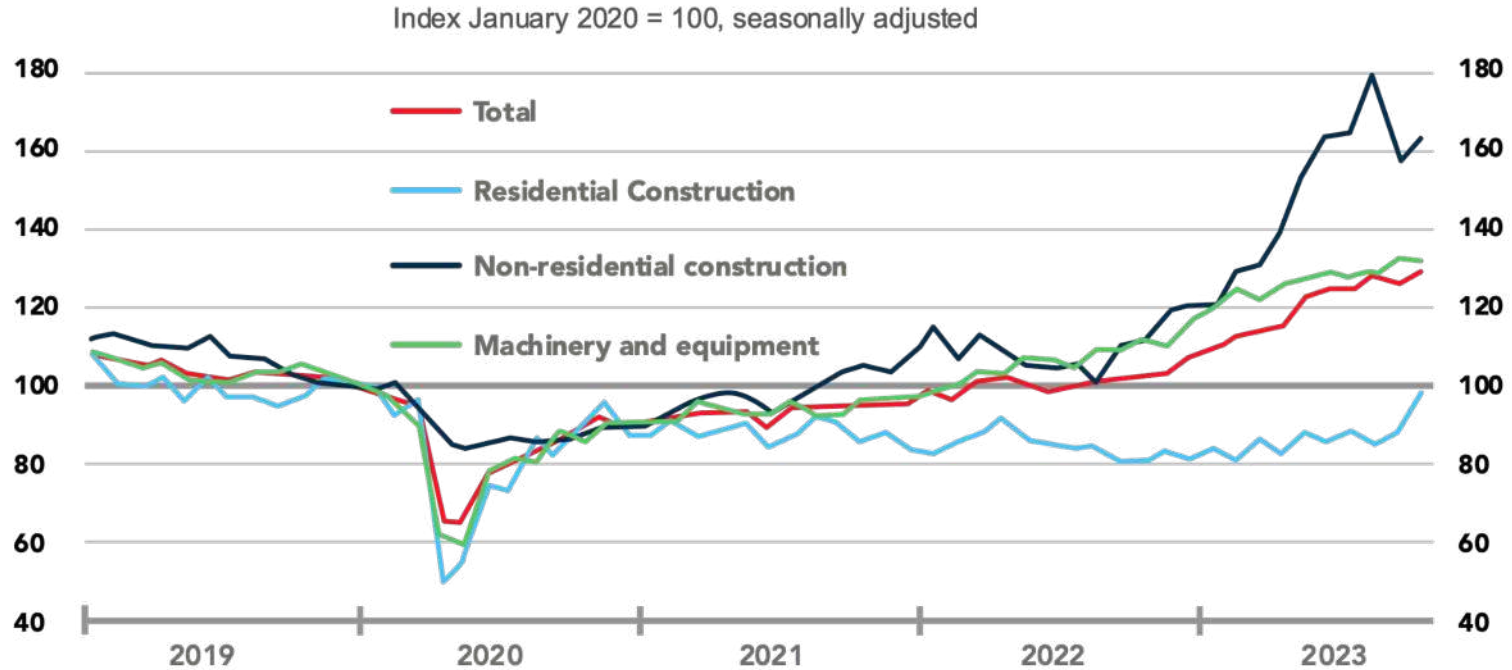
Total exports and imports to the United States, US\$ billion 12-months moving averages



Source: US Census Bureau (figures are not seasonally adjusted)



Investment has surged, buoyed by significant public investment projects

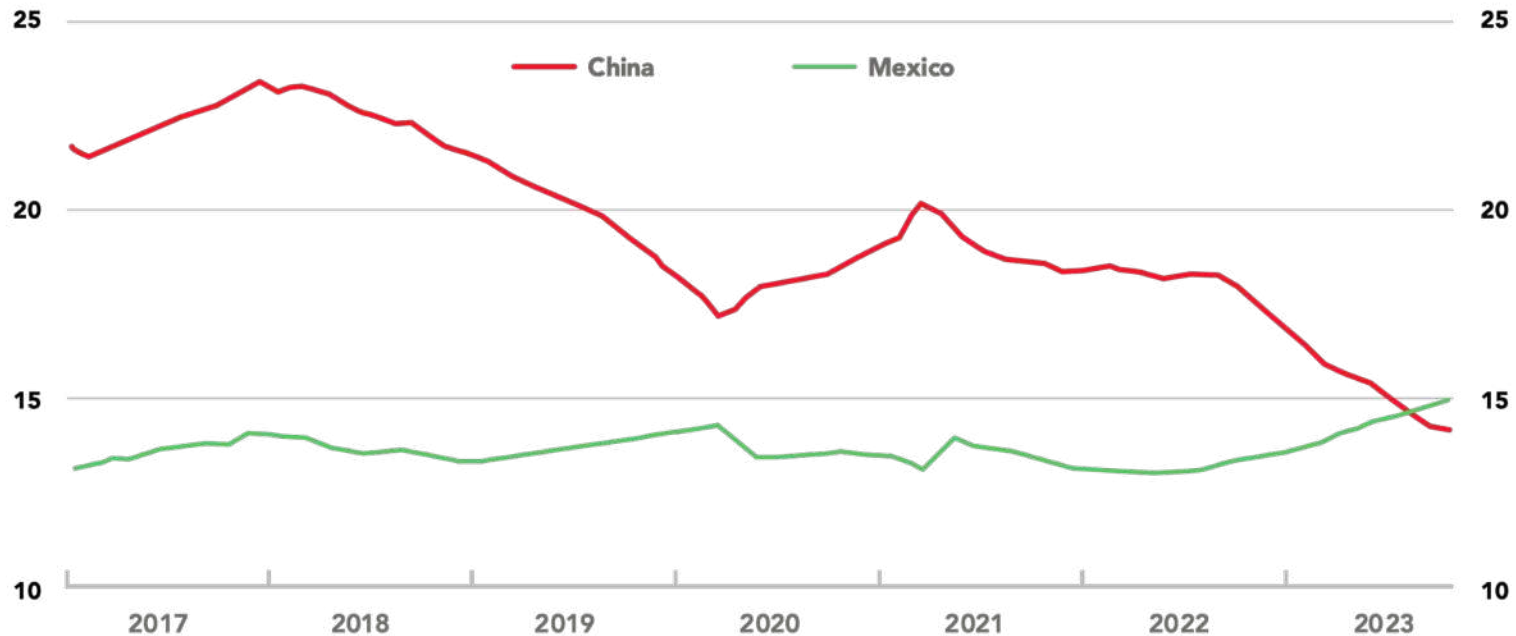


Source: INEGI



Enhancing business productivity will secure additional value chains and facilitate widespread distribution of trade benefits.

US imports from China and Mexico
12-month moving average, % of all imports



Source: UN Comtrade



To sum up, Mexico stands in a unique position to prolong this trend, attract investment, boost productivity, and raise income and employment in a sustainable way. However, this opportunity comes with big challenges, since the country needs to invest more in public infrastructure, working capital, new technologies, and public policies. It is desirable that the new administration that comes into office next year may bring new proposals to really move forward toward the "*Mexican moment.*"

Deloitte Insights.





Two out of three companies plan to expand their operations in 2024, according to a report by DataCoparmex (Confederación Patronal de la República Mexicana) from Q4 of 2023.

Businesses view this as an opportune time to increase investments in Mexico, aiming to produce more goods and develop more projects, business facilities, and larger factories.

Ranking of the largest companies in the country:

- | | |
|-----------------|------------------|
| 1. GRUPO BIMBO | 6. WALMART |
| 2. GRUPO MODELO | 7. PFIZER |
| 3. GOOGLE | 8. MERCADO LIBRE |
| 4. BBVA | 9. LIVERPOOL |
| 5. NESTLÉ | 10. CINÉPOLIS |



- With a population of 132 million, Mexico's consumer market offers an enticing opportunity for brands seeking to establish a foothold in the Latin American region.
- Major cities such as Mexico City, Guadalajara, Monterrey, and Querétaro serve as bustling hubs of economic activity.
- In 2023, five states experienced growth rates exceeding 4.5%: Nuevo León, Mexico City, Quintana Roo, San Luis Potosí, and Querétaro.



States with the best economy in 2023



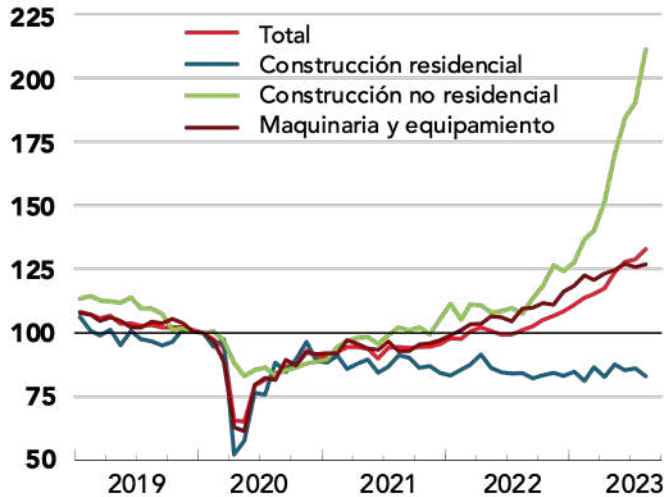


- The **growth of the middle class** in Mexico is a significant factor in the appeal of its market. This expanding demographic has considerable purchasing power and consumption patterns that are highly attractive to brands. The rise in the middle class population has fueled an increasing demand for products and services, fostering an environment that supports business growth.



Investment is rising

Índice 100 = enero 2020, s.a.

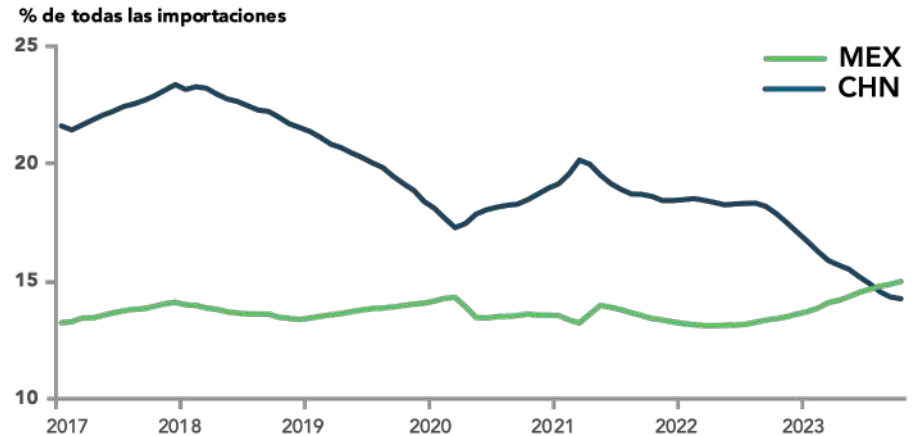


- Growth has remained robust, due to strong domestic demand. The strong labor market has bolstered consumption. Investment trends upwards, driven by public infrastructure initiatives in the southern regions and private sector investment in machinery. Exports have continued to show vigor.

Source: INEGI; and Banco de México.

Mexico has become the primary supplier of imports to the United States.

U.S. imports from China and Mexico, 12-month moving average



Source: United Nations Comtrade.



Retail in Grocery Stores and Department Stores

According to DENUE 2023, retail in grocery stores and department stores achieved 64,358 economic units.

The States with the highest number of economic units were: State of Mexico (4,485), Nuevo Leon (4,402) and Veracruz (3,956).



\$2.48B MX
Gross domestic product
Q4 2023

64,358
ECONOMIC UNITS
Nov. 2023

US \$239M
FOREIGN DIRECT INVESTMENT
Jan-Dec 2023



- In 2024, the arrival of **400 Asian companies** to Mexico through **nearshoring**, promises numerous benefits to the country. These companies are projected to invest about 20 billion dollars, marking a 25% increase from 2022. Such investments will spur economic growth, enhance foreign exchange earnings, and boost national competitiveness.
- **Nearshoring** offers advantages to both foreign and local companies by streamlining processes, cutting costs, and enhancing competitiveness. Mexico's strategic geographic position, skilled workforce, top-tier industrial infrastructure, and stable economic and political environment make it an appealing destination for foreign investors.



Nearshoring is poised to reach shopping malls; retails brands could see an annual growth rate of 15% over the next three to five years.

- The retail sector in Mexico presents a promising future full of opportunity. The creation of formal jobs and the rise in economic power of Mexicans, driven by the influx of companies capitalizing on the reorganization of supply chains through nearshoring, are poised to significantly boost the country's shopping centers.
- **Currently, Mexico is on track to meet its projected compound annual growth rate of 5.48%, with anticipated market size expected to reach to 97.29 billion USD by the end of 2026.**



Santander Mexico economists predict a mild slowdown with decreasing interest rates for Latin America's second largest economy.

In 2024, Mexico is expected to achieve a growth rate higher than its 30-year average, despite the challenges posed by higher interest rates on investment and consumption at home, and lower growth in the US, a major trading partner.

However, inflation in services has remained stubbornly high at 5.5% over the past year on the back of strong domestic demand and generous wage rises.

As the economy cools, this rate should begin to subside.

Amid a mild economic slowdown and lower inflation, there is room for the central bank to ease monetary policy. Mexico's benchmark interest rate of 11.25% is one of highest in the country's history and almost three times the forecast inflation rate for the next 12 months.

The central bank is expected to review the possibility of lowering the benchmark rate in the first quarter of 2024. Markets will be watching carefully to assess the size and speed of any cuts.

Data from: Executive Director of Economic Studies & Public Affairs at Santander Mexico



RETAIL IN MEXICO



- **The retail sector in Mexico** is booming, fueled by the increasing purchasing power of the middle class and the expansion of e-commerce. International brands are finding receptive markets for their products, while local companies are adapting and innovating to maintain alignment with evolving consumer preferences. Meanwhile, Mexico's diverse culinary heritage yields a wide range of opportunities in the restaurant industry, supporting a variety of dining options from fast-food eateries to upscale gourmet establishments.



In recent years, **the retail sector in Mexico** has experienced notable growth, driven by increased consumption. Multiple international retailers have entered the Mexican market, drawn by its economic stability and consumer potential.

International brands that have recently entered the Mexican market include:

- **IKEA:** Opened its first store in Mexico City in 2021, marking its official entry into the country.
- **Victoria's Secret:** The renowned American brand of lingerie and beauty products has opened new stores in multiple cities across Mexico.
- **Bath & Body Works:** Another popular American brand known for its bath products and fragrances, has expanded its presence in Mexico with new stores.
- **Dollar City:** The discount store chain has continued its expansion in Mexico, increasing the number of its stores.
- **Shake Shack:** The popular American burger chain debuted in the Mexican market in June 2019, opening its first branch on Paseo de la Reforma in Mexico City. Since then, it has expanded its presence in Mexico with numerous locations.



International restaurant brands are expanding into Mexico, diversifying the country's dining landscape. A sample of the most notable include:

- **Five Guys:** The American burger and fries chain opened its first branch in Mexico City in September 2021, and continues to expand across the country.
- **Ribs & Burgers:** The Australian grill and burger chain opened its first location in Mexico City in 2022.
- **Tim Hortons:** The Canadian coffee and donut chain, having opened its inaugural store in Mexico in 2022, now boasts dozens of locations across multiple cities.



New Trends in Retail

Sales in Shopping Centers Undergoing Revitalization and Development:

Omnichannel Retailing: This offers both digital and in-person sales, showcasing different products assortments to consumers through each medium.

Sustainable Retailing: Many brands are re-evaluating the products they sell, considering how they are manufactured and marketed, and prioritizing local and sustainably made products.

Relocalization: To cater to the needs of nearby users, smaller commercial spaces within a 15-minute walk are preferred for accessibility.



SHOPPING CENTERS



- **Shopping centers remain a pivotal** part of social and economic life in Mexico. As urbanization continues and new residential projects emerge, there is an increased demand for modern retail and entertainment facilities that are well-equipped to meet evolving consumer needs. **Brands offering unique experiences, including movie theaters, theme parks, and family entertainment centers, are well-positioned to capitalize on this expanding market.**



Shopping centers are reactivating, aiming for their highest sales standards.

Currently, Mexico has approximately **920 shopping centers** with more than **10,000 square meters** of rentable area. This sector has experienced steady growth, with the total area dedicated to these commercial spaces exceeding **25.4 million square meters**.

The country continues to expand its commercial infrastructure, with new development projects including **Galerías Valle Oriente** and **Portal Norte** in **Satélite**. Additionally, **Espacio Condesa** and **Patio Martín Carrera** have recently opened in **Mexico City**, along with **Mitikah**.

Located in the southern part of Mexico City, **Mitikah** was developed by Fibra Uno (FUNO). **Mitikah** is a mixed-use complex that includes residential areas, offices, and a shopping center, with a total of **120,000 square meters** of rentable commercial space.



Some major retailers in Mitikah include:

- H&M
- The North Face
- Liverpool
- Palacio de Hierro
- Pandora
- Cinopolis
- Banana Republic
- Puma
- Mont Blanc
- L'Occitane

Mitikah, exceptional in its modernity and variety of services, has become an important landmark in Mexico City's urban landscape. This growth in shopping centers reflects the vitality and dynamism of Mexico's retail market, which continues to adapt to evolving consumer trends and needs.



FIBRAS

Mexican REIT's



FIBRA, is the Mexican equivalent of REIT (*Real Estate Investment Trust*), is a financial instrument listed on the Mexican Stock Exchange. These vehicles are dedicated to the acquisition and construction of real estate properties that are rented in Mexico. The income generated from their operations is distributed to investors as dividends on a quarterly basis.

FIBRAs diversify their investment portfolios across various segments of the real estate market, including offices, industrial properties, hotels, commercial retail spaces, and self-storage facilities, among others.



FIBRA+PLUS



FIBRA **SOMA**





Prominent **FIBRAs** contributing to new space development and shopping center revitalization include:

- **FUNO:** Developer of Mitikah in the southern part of Mexico City, with 120,000 square meters of rentable commercial area.
- **Fibra Plus:** Developer of Espacio Condesa in Mexico City, with 23,527 square meters of commercial space.
- **Fibra Dahnos:** Developer of Plaza Tepeyac in the northern part of Mexico City, with 120,000 square meters of rentable area.
- **Fibra SOMA:** Of the 10 assets in operation, nine are exclusively shopping malls and one is a mixed-use project with offices and retail.
- **Fibra Shop:** Developer of 17 shopping centers, including La Perla in Zapopan, Jalisco, with 115,800 square meters.



In summary, the business environment in Mexico for 2024 holds great promise, marked by vibrancy and abundant opportunities for expansion. The country's burgeoning economy, youthful and diverse population, and continuously improving infrastructure position it as a strategic location for sustained business success. Across sectors such as retail, food service, shopping malls, and entertainment, companies investing in Mexico are poised to benefit from a dynamic and continually evolving market.



Now is the perfect time to engage in the vibrant narrative of economic growth and development that defines Mexico.

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