

US tariffs against Mexico go into effect, with retaliatory measures to be announced on Sunday

- After a one-month pause, a 25% tariff on Mexican exports to the US came into effect early today
- President Claudia Sheinbaum stated that tariff and non-tariff countervailing measures will be announced on Sunday as retaliatory actions by our country. She reiterated that efforts will continue to seek a positive and negotiated solution with the US government
- We must remember that 83.1% of our exports are destined to the US, with an equivalent value of close to 27.7% of GDP. In terms of imports, 40.1% come from our northern neighbor (13.6% of GDP)
- The effects on the economy will be diverse and will depend on their duration. In the short-term, we believe that most of the impact will be absorbed by the exchange rate, with the depreciation already accumulated in recent months helping to mitigate this. However, prolonged measures could imply structural deterioration
- Our scenario contemplates that tariffs will have a limited duration, with the governments of both countries reaching a relatively swift agreement. Nevertheless, risks to our 1.0% GDP estimate have skewed to the downside, with the effects on inflation more uncertain

25% tariffs on Mexican exports to the US come into effect. In line with what President Donald Trump mentioned in recent days and after the document published in the [Federal Register](#), these measures were implemented early this morning. It should be noticed that these had been included in an executive order signed on February 1st, although they were put on hold for a month subject to Mexico's progress on security and immigration issues. The mechanisms used by the US involve the *International Emergency Economic Powers Act* (IEEPA) and the *Trade Act of 1974*, quoting a threat from security and migration. Measures are practically universal, applying to most Mexican products. According to the implementation document, exempt goods include donations of food, clothing and medicines, as well as informational materials (e.g. publications, films, photographs, etc.). It is worth noting that this is just one of the first actions that could be implemented, highlighting others such as tariffs against steel and aluminum –through section 232 of the *Trade Expansion Act*– expected on March 12th; the reciprocal tariff plan to match foreign tariffs –where the value-added tax would be considered in the calculation– that could be announced as soon as April 2nd; measures against digital taxes that affect US technology companies; and reforms in export controls to protect strategic technologies, among others. All of this contributes to the persistence of an environment of commercial uncertainty.

Mexico's retaliatory measures will be announced on Sunday. At her press conference this morning, President Claudia Sheinbaum read a statement in which she criticized the US actions, noting that important progress had been made in dealing with security and immigration. She mentioned that *"...there is no motive, reason or justification that supports this decision that will affect our peoples and nations..."*. In view of this, she will announce tariff and non-tariff measures on Sunday at 12:00pm local time (2:00pm ET) in response. However, she reiterated that her government remains open to dialogue to find an alternative with arguments and rationality. In this sense, she said that she will speak with President Trump on Thursday.

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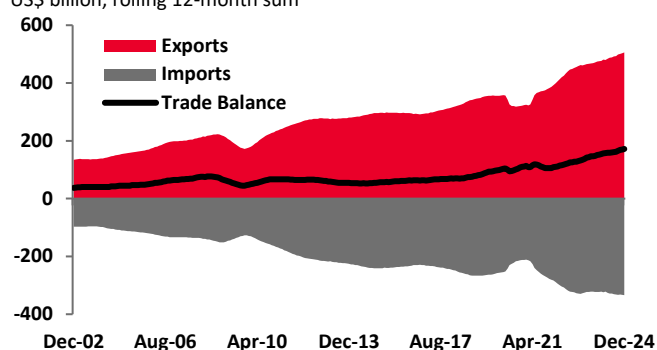
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We believe that negotiations between high-level officials will continue in the coming days in search of a possible agreement. She also said that a rethinking of our country's trade position may be necessary, a situation that we believe she will address in more detail in her speech over the weekend.

Tariffs will impact trade between the two countries. Using data from the *US Census Bureau*, Mexico consolidated its position as the main trading partner of the US in 2024. The flow of goods between both countries stood at US\$839.9 billion (chart below, left). This implied a US trade deficit of US\$171.8 billion with Mexico, which was one of President Trump's main arguments of his protectionist agenda. Focusing on Mexican exports, 83.1% of shipments were destined to the US last year, evidencing Mexico's strong dependence to that country. The main categories are vehicles, machinery, electrical and electronic equipment, projectors, and oil (table below, right). Imports from the US represent 40.1% of purchases abroad. The main items include electrical and electronic equipment, machinery, oil, autos, and plastics.

Trade balance between Mexico and the US*

US\$ billion, rolling 12-month sum



*Flows are expressed in the Mexico to the US direction
Source: Banorte with figures from the *US Census Bureau*

Main fractions exported to the US in 2024

US\$ billion

Rank	HS code	Fraction	\$US bn	% of total
TOTAL			505.9	--
1	87	Vehicles	136.6	27.0
2	84	Machinery	105.4	20.8
3	85	Electric machinery	87.1	17.2
4	90	Projectors and surgical inst.	22.9	4.5
5	27	Oil	16.3	3.2
6	22	Beverages and vinegar	13.0	2.6
7	94	Furniture	12.7	2.5
8	08	Edible Fruit	10.8	2.1
9	07	Edible vegetables	9.9	2.0
10	98	Special classification	9.2	1.8

Source: Banorte with figures from the *US Census Bureau*

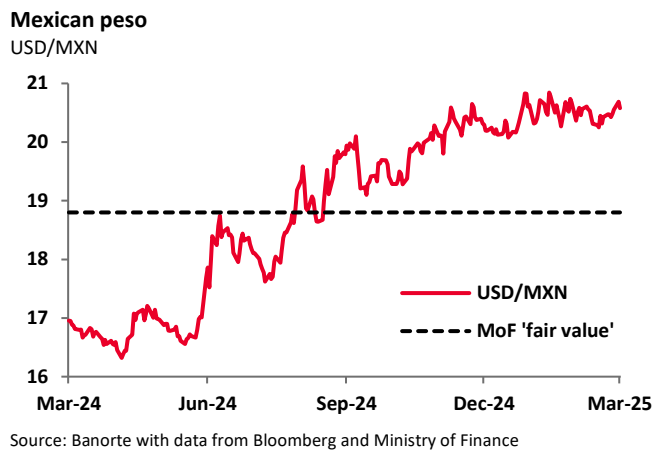
The effects from tariffs will be seen on different fronts and will be subject to their duration.

The impact will be seen in both financial and real variables, with the former already showing up. The most evident has been in the exchange rate, which already incorporated a higher risk premium after Trump's victory. According to recent comments from the Finance Minister, Rogelio Ramírez de la O, based on the 'fair value' of the Mexican peso around 18.80 per dollar, a depreciation of 10% would help reduce the impact of the tariffs to 12%. Relative to said level and with yesterday's close, the Mexican peso has already accumulated a depreciation of that magnitude (see graph below, left).

If tariffs are maintained for a few months before an agreement is reached, we believe that the peso could depreciate even further. In an extreme scenario where a 25% tariff is maintained and the exchange rate absorbs the entire duty, this would imply an additional depreciation of close to 10.3% (considering recent adjustments, especially those in 2024), reaching 23.05 pesos per dollar. In another exercise, considering an average effective tariff of 5%, Mexico could still maintain a certain margin of competitiveness with a 5% depreciation over the current level, placing the exchange rate at around 21.77 pesos per USD.

In terms of the real economy, we anticipate a negative shock to activity if the 25% tariffs remain indefinitely. The relative loss of competitiveness of local production would impact supply chains, although it would take some time for companies to adjust. If these measures persist, the deterioration would be seen first in manufacturing and freight transportation services, spreading to other sectors later as the second-order effects spread. Among them, the most relevant would be in employment and private investment, as well as in other areas, such as tax collection.

Specifically, in the extreme case that tariffs remain in place for several months (which is not our baseline scenario) we estimate an adverse impact of between 30bps and 50bps on GDP growth this year. The impact on prices is more uncertain as some shocks could be in different directions. On a positive note, some excess supply could be observed in certain goods (e.g. fresh food), lowering their prices. On the contrary, we must consider an additional depreciation of the Mexican peso which would affect imported goods. In addition, we should factor in any measure implemented by the Mexican government in response. We are waiting for the President’s message on Sunday on the latter, but our view is that any action will be targeted with the goal of minimizing its impact on the population. In this respect, we must recall that the US government unveiled tariffs to Mexican steel and aluminum in 2018 of 25% and 10%, respectively. In response, the Ministry of Economy implemented [reciprocal measures](#) during the 11 months that they were in place. The table below to the right shows some of the products that were affected by these taxes. Nevertheless, precise estimates about the several negative consequences of today’s announcement are very complicated, as we do not have enough details about: (1) Their possible duration, with non-linear effects; and (2) which actions will be decided by our country.



Goods included in 2018’s retaliatory measures

Goods	Tariffs (%)
Motorboats	15
Hams and pork sausages	20
Cranberries	20
Grated or powders cheese	20
Fresh apples	20
Fresh and frozen potatoes	20
Pork and shoulder pork	20
“Tennessee” or Bourbon-type whiskey	25
Steel plates and galvanized products	25
Rebar and steel bars for construction	25
Fresh cheese and whey	25

Source: Banorte with data from the Official Gazette

Our base case is that a quick resolution will be reached. In our view, these measures will be of limited duration, as we believe that the US government will recognize the economic and financial impact to its own country. One catalyst will probably be a stronger commitment of the Mexican government in security and migration issues. But important pressures would also build up from US businesses. As we have mentioned before, a wide array of representatives from various trade associations, and even some local governments, have expressed forceful disagreements against these measures. With the materialization of tariffs, lobbying will intensify. In this backdrop, the US Commerce Secretary, Howard Lutnick, stated that Trump could consider some relief for USMCA-compliant goods as soon as tomorrow. On the trade agreement, the review, which was originally scheduled for mid-2026, will likely be brought forward. Even with its very erratic evolution, our base case is that the threat will remain in the background intermittently during the upcoming months. In this backdrop, we still think that an uncertain environment will prevail.

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