January 24, 2024

GDP-proxy IGAE – Sluggishness in November despite some resilience in services

- **Monthly GDP-proxy IGAE (November): 2.3% y/y; Banorte: 2.7%; consensus: 3.1% (range: 2.1% to 4.7%); previous: 4.4%**
- **Activity fell 0.5% m/m, deepening the decline of the previous month. The result is consistent with timely signals, with only services achieving some progress in the period (0.2%)**
- **In the detail, industry dropped 1.0% –with construction as the main drag– breaking with eight months of progress. Primary activities contracted by 6.2%, while in services we note that 11 of its 14 sectors improved**
- **Despite recent declines, we maintain a positive view on the economy, expecting a favorable result for 4Q23. Going forward, we believe domestic sector strength will continue in 1H24 –with industry boosted by construction, and added resilience in services**

The economy grew 2.3% y/y in November. This was lower than our estimate (2.7%) and consensus (3.1%). With seasonally adjusted figures, growth was slightly stronger at 2.7% y/y (Chart 1). Back to original figures, two of the three categories maintained positive rates, with industry leading at 2.8% (Chart 3), followed by services at 2.6% (Chart 4). Lastly, primary activities plummeted to -6.5%, in our opinion due to more adverse conditions for production (Chart 2). For more details, see Table 1.

Second straight month down, noting weakness in primary activities and industry. The GDP-proxy fell 0.5% m/m (Chart 5), coming on top of the -0.1% seen in the previous month. Nevertheless, performance inside contrasts with October, with a reversion higher in services –consistent with positive fundamentals for consumption– and a negative surprise in industry. In addition, primary activities were also negative (-6.2%), which we believe could extend in coming months considering further price increases.

As we mentioned, industry fell 1.0% (Chart 6). Construction (-2.9%) erased part of October's gains. This is not entirely adverse given this category's growth so far in the year, being this just the fourth negative print during 2023. Mining declined 1.4%, dragged down by related services, while both oil and non-oil production had virtually zero movements. Finally, manufacturing fell for a second time in a row (-0.5%), impacted by a significant decline in transportation equipment, consistent with a drop in non-oil exports.

Services increased 0.2%, resuming their upward trend after falling 0.4% in October. As in past months, the strength of fundamentals was key in driving the result, especially with wage gains and dynamism in loans –not to mention remittances, which faced a negative seasonality in the month. In addition, we believe that the figures benefitted from the boost of various discount programs during the month, most notably *El Buen Fin* and *Black Friday*. On inflation, the annual metric accelerated for the first time since January on some pressures at the non-core component. Eleven of the fourteen categories improved. In this sense, we note financial services (+2.9%), entertainment (+1.8%) and lodging (+1.2%). On the other hand, declines were seen in mass media (-2.0%), governmental activities (-1.1%) and healthcare (-0.5%). Finally, we note the 0.3% increase in retail sales, better than the stand-alone report. For more details see Table 2.

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We anticipate a more modest expansion in 4Q23, albeit with a more favorable outlook for the first half of this year. Considering today's results and timely figures for December, we reaffirm our view of a slowdown in the last quarter of the previous year, albeit still with a sequential uptick. Both industry and services will have a positive contribution, with agriculture subtracting from the total. Moving to 2024, our expected path for the first half is based on our call of domestic demand strength, and to a lesser extent, also by the possible 'soft landing' of the US. In detail, we believe the boost related to the federal government's infrastructure projects and social program transfers will be key for industry and services, respectively. To the latter we add some tailwinds, especially related to the performance of US demand. On the other hand, we recognize some negative factors that may limit the economy, including: (1) Renewed price pressures, particularly in food; (2) the deepening in supply chain disruptions due to attacks in the Red Sea; (3) a slower than expected accommodative monetary cycle in advanced economies; and (4) greater weakness than anticipated in China and the Eurozone.

By sectors, we believe industry faces greater uncertainty, with mixed dynamism within. Construction will continue to be the driving force, although the base effect will be increasingly challenging. In this sense, Francisco Solares, president of the *Mexican Chamber of the Construction Industry* (CMIC in Spanish) has expressed that contracts closed in 2023 will enter their construction phase this year, supporting private-sector projects. Manufacturing could be somewhat more volatile, with some doubts about categories related to consumer goods, although expecting the auto industry to keep recovering. Supporting the latter, the *National Auto Parts Industry* (INA in Spanish) estimates auto part production growth at 3.5% for all of 2024, which would equate to slightly more than US$125 billion in sales. The *Mexican Association of Automotive Distributors* (AMDA in Spanish) forecasts sales up 7.3%. Regarding services, the outlook is clearer in the short-term, with the strength in fundamentals expected to continue –with households' real disposable income supported by the minimum wage increase and government transfers– although with a moderation more feasible in the second half of 2024.

Table 1: GDP-proxy IGAE

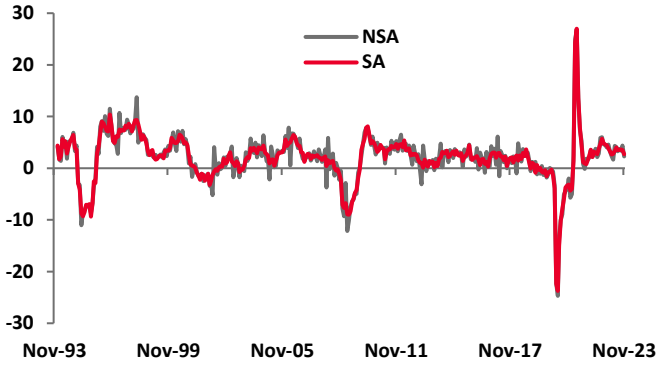
% y/y nsa, % y/y sa

	y/y, nsa				y/y, sa	
	Nov-23	Nov-22	Jan-Nov'23	Jan-Nov'22	Nov-23	Nov-22
Total	**2.3**	**4.5**	**3.4**	**3.7**	**2.7**	**4.6**
Primary activities	**-6.5**	**5.6**	**2.0**	**1.1**	**-6.6**	**5.7**
Agriculture	-9.2	7.1	1.9	1.0	-	-
Livestock	1.9	1.2	2.0	1.4	-	-
Industrial production	**2.8**	**5.7**	**3.8**	**5.3**	**3.0**	**5.5**
Mining	-2.4	4.4	1.7	4.6	-2.3	4.4
Utilities	5.5	2.0	3.8	0.5	5.7	2.2
Construction	18.0	2.8	15.4	2.7	19.3	3.7
Manufacturing	-0.3	6.9	1.3	6.5	-0.4	6.5
Services	**2.6**	**3.8**	**3.2**	**2.9**	**3.2**	**4.0**
Wholesales	7.5	1.9	3.9	6.6	8.6	2.7
Retail sales	0.8	4.2	4.5	5.8	1.8	4.4
Transportation and logistics	2.8	8.6	4.3	13.3	3.5	9.2
Mass media	-0.1	10.8	6.9	14.6	0.8	10.9
Financial services	2.2	7.0	4.9	4.0	2.1	7.4
Real estate	1.1	2.0	1.6	1.6	1.1	1.9
Professional services	-1.7	18.8	4.9	4.9	-2.5	18.6
Business support	11.6	-29.5	-7.5	-65.0	9.8	-30.7
Education	2.2	2.8	1.9	1.3	2.5	2.4
Healthcare	2.1	-1.6	1.2	-1.9	2.5	-1.0
Entertainment	-10.5	34.0	-1.3	33.6	-11.1	34.3
Lodging and restaurants	2.8	9.7	3.0	23.1	2.7	10.2
Others	2.9	1.6	3.2	4.6	3.2	1.9
Government services	1.7	0.5	1.3	0.2	2.0	0.4

Source: INEGI

Chart 1: GDP-proxy IGAE

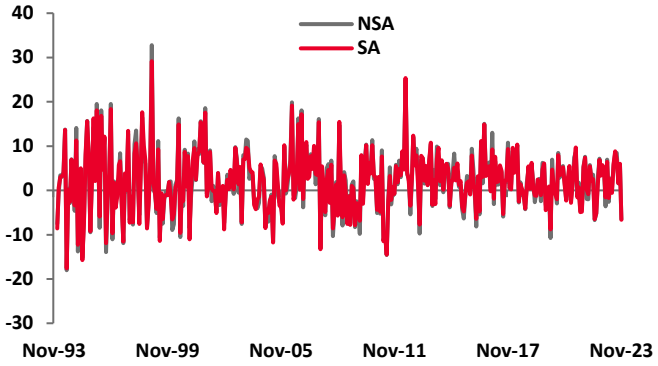
% y/y nsa, % y/y sa



Source: INEGI

Chart 2: Primary activities

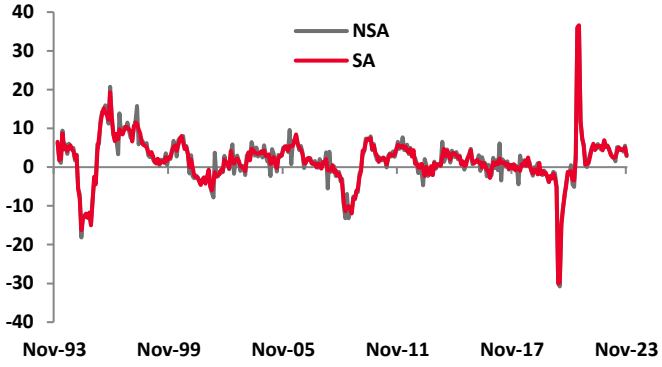
% y/y nsa, % y/y sa



Source: INEGI

Chart 3: Industrial production

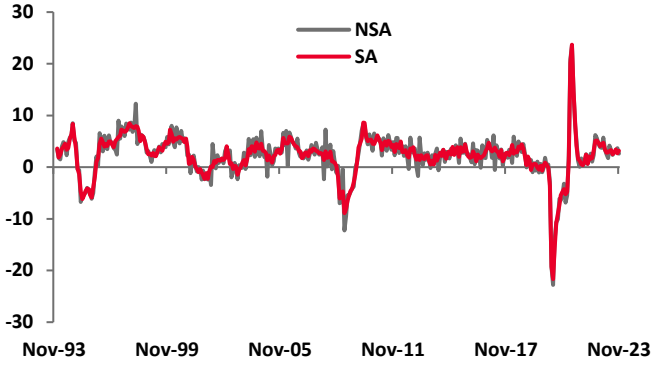
% y/y nsa, % y/y sa



Source: INEGI

Chart 4: Services

% y/y nsa, % y/y sa



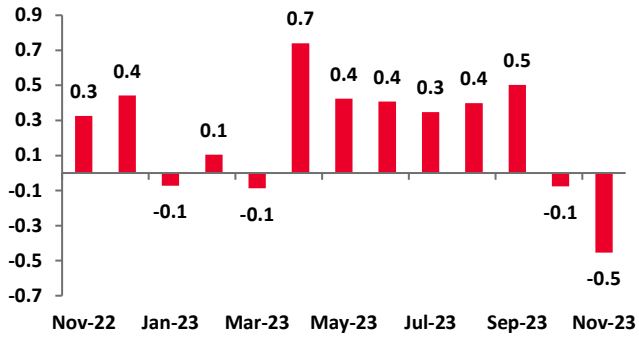
Source: INEGI

Table 2: GDP-proxy IGAE
% m/m sa, % 3m/3m sa

	% m/m			% 3m/3m	
	Nov-23	Oct-23	Sep-23	Sep-Nov'23	Aug-Oct'23
Total	**-0.5**	**-0.1**	**0.5**	**0.7**	**1.1**
Primary activities	**-6.2**	**1.8**	**-2.5**	**-1.4**	**2.3**
Industrial production	**-1.0**	**0.6**	**0.1**	**0.4**	**0.9**
Mining	-1.4	0.6	-1.0	-1.0	-1.0
Utilities	-0.4	0.0	-0.2	1.2	2.7
Construction	-2.9	4.6	-4.0	0.0	3.3
Manufacturing	-0.5	-0.4	1.6	0.7	0.4
Services	**0.2**	**-0.4**	**0.8**	**1.0**	**1.1**
Wholesales	0.4	-1.4	1.9	3.1	4.0
Retail sales	0.3	-1.2	1.1	-1.0	-1.1
Transportation and logistics	0.0	-0.9	2.3	1.8	1.5
Mass media	-2.0	-0.4	-1.8	-1.5	-0.3
Financial services	2.9	-2.1	0.2	-1.0	-1.9
Real estate	0.0	0.3	0.1	0.3	0.2
Professional services	0.9	0.9	-2.0	-0.2	0.4
Business support	0.8	4.5	-1.4	4.6	5.5
Education	0.3	0.4	-0.1	0.6	0.8
Healthcare	-0.5	1.2	0.0	0.8	0.5
Entertainment	1.8	-2.9	-1.1	-7.6	-9.3
Lodging and restaurants	1.2	-1.7	1.7	2.5	2.8
Others	0.6	0.0	-0.1	0.3	0.3
Government services	-1.1	0.0	1.7	0.7	0.4

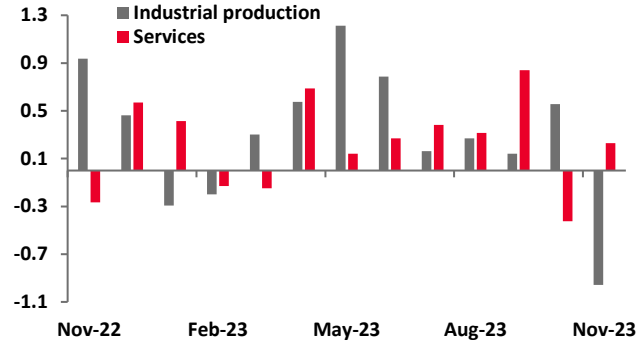
Source: INEGI

Chart 5: GDP-proxy IGAE
% m/m sa



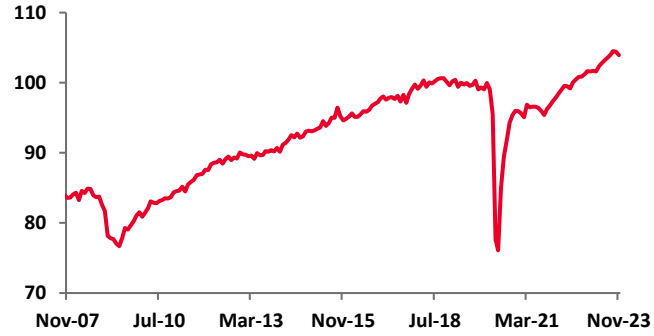
Source: INEGI

Chart 6: Industrial production and services
% m/m sa



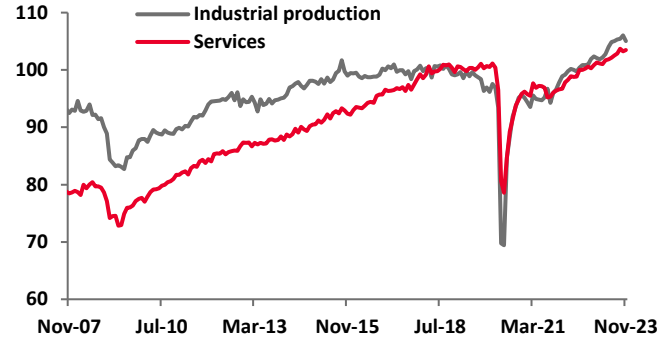
Source: INEGI

Chart 7: Global economic activity indicator
Index 100 = 2018, sa



Source: INEGI

Chart 8: Industrial production and services
Index 100 = 2018, sa



Source: INEGI

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