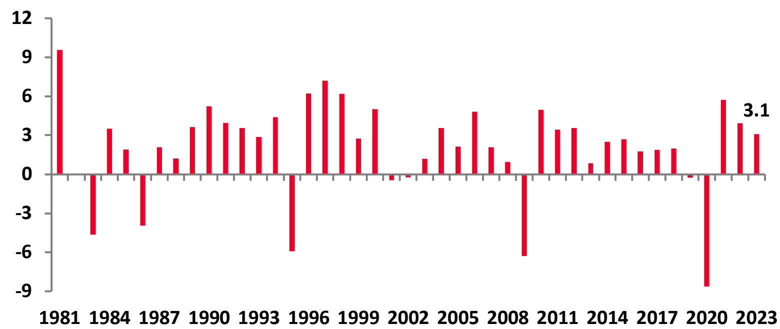
January 30, 2024

4Q23 GDP – Deceleration leads to a full-year expansion of 3.1%

- **Gross Domestic Product (4Q23 P, nsa): 2.4% y/y; Banorte: 2.8%; consensus: 3.0% (range: 2.3% to 3.5%); previous: 3.3%**
- **Gross Domestic Product (4Q23 P, sa): 0.1% q/q; Banorte: 0.3%; consensus: 0.3% (range: -0.1% to 1.3%); previous: 1.1%**
- **With this, the economy grew 3.1% in full-year 2023, driven by industry (3.6%) and services (2.9%)**
- **The pace of expansion moderated in the last period of the year, although positive for a ninth straight quarter. Inside, services grew 0.1 and industry was unchanged (0.0%). Lastly, primary activities fell 1.1%**
- **These figures imply that the economy fell around 0.3% m/m in December (0.5% y/y), dragged by both services and industry**
- **Although this result implies a slowdown, we believe conditions remain in place for a vigorous advance in 1H24. Thus, we maintain our call of 2.4% GDP growth in 2024**
- **Revised figures will be published on February 22nd**

GDP grew 3.1% in 2023. The report shows that activity advanced 2.4% in 4Q23 (Chart 1), below our view and consensus. Overall, we think the economy stayed resilient, while recognizing: (1) A slowdown in external demand, with some temporary factors also in play; and (2) higher volatility in some domestic sectors. All three sectors were positive, with industry leading (3.1%) and services behind (2.1%), while primary activities came in at 0.3% (Chart 2). With these results, GDP grew 3.1% in full-year 2023, better-than-anticipated for most of the year but below most recent estimates. Dynamism concentrated in the first three quarters (similar to 2022), although with a greater weight of local sectors relative to those externally driven. Again, strength was focalized in industry, up 3.6% –highlighting construction–, although with services also elevated at 2.9% –with several of them extending their post-pandemic normalization. Agriculture was also positive at 2.0%, even in the face of more adverse weather conditions throughout the period.

GDP
% y/y, nsa



Source: Banorte with figures from INEGI

Sequential moderation but the positive trend continues. GDP grew 0.1% q/q (Chart 3), lower at the margin albeit adding nine straight quarters of increases. Many of the drivers in previous quarters continued to contribute to dynamism. Nevertheless, we highlight higher volatility in several items –including construction and some services– and greater weakness in external demand –in addition to the shock from the autoworkers' strike in the US.


Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com


Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com


Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com


Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com


Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com

www.banorte.com/analisiseconomico
@analisis_fundam

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However, we believe the relative strength of the MXN and the resilience of consumption fundamentals remained as tailwinds.

By sector, services maintained some momentum at 0.1% (Chart 4). After stumbling at the beginning of the quarter, many categories reversed higher in November, although with base effects contributing to some heterogeneity. Entertainment and tourism –including leisure, transportation, and lodging and restaurants– have seen greater divergence, albeit with some weakness persisting relative to their post-pandemic boom. Meanwhile, commerce appears to have grown further, although with a slower pace. Finally, professional services, education and business support seem to have maintained some dynamism.

Industry was unchanged at 0.0% q/q (Table 2). Available date suggests that construction continued strong, although with some ups and downs in the different sectors and most likely at a more modest pace. Manufacturing appears to have been affected by weakness in other regions, while the auto sector limited further gains given supply chain disruptions due to stoppages in the US and maintenance in local plants. Finally, mining was helped by greater stability in oil, although with volatility in 'related services' weighing. For their part, primary activities fell 1.1%, recognizing an important contraction in November that in our view triggered relevant price hikes in subsequent months.

December decline confirms the deceleration at the end of the year. The monthly GDP-proxy IGAE averaged 3.3% y/y in October-November, implying a reading around 0.5% y/y in December (nsa). This would be consistent with -0.3% m/m, adding three consecutive declines. Within industry (-0.3% m/m) we expect some weakness in construction –dragged by edification– and in manufacturing –given reports of maintenance works in several auto plants during the month. In services (-0.6%), transactional activity and some indicators, such as car sales, were positive. Finally, primary activities climbed 8.0%, contrasting with a still adverse environment on the price front and challenging weather conditions.

We expect an acceleration in the next semester, with relevant drivers at play. With today's result, we estimate an inertial push next year of around 0.9% –mostly in line with our initial forecast– consistent with our call of a 2.4% GDP expansion in 2024. As we have mentioned previously, we think we will see a deep contrast between the first and second half of the year, expecting notable dynamism in the former, with a contraction in activity in the latter.

We highlight several drivers in 1H24, such as: (1) A relevant boost in the federal government's priority projects, looking to complete them before the June 2nd elections; (2) higher households' disposable income, helped by both the 20% increase to the minimum wage and accelerated transfers from social programs; (3) government spending associated with the electoral period; and (4) greater resilience of US activity, helping to sustain external demand. For the following six months, we expect the boost from government spending to fade somewhat, while we also anticipate an additional global slowdown. However, we believe other items could remain relevant throughout the year, including the construction of industrial spaces. In this regard, the *Mexican Chamber of the Construction Industry* (CMIC in Spanish) commented that they expect the sector to grow between 3% and 5% in 2024, although we believe this number could well be higher. In addition, some manufacturing sectors could keep recovering, mainly the auto sector.

Regarding the latter, the expansion in installed capacity of companies already operating in the country and the arrival of others in recent years could be a catalyst for higher production. Regarding the latter and according to figures from the Ministry of Economy, the automobile and auto parts sector accounted for 28% (around US$30 billion) of the total investments announced in 2023.

In addition, consumption could be somewhat more stable, expecting the labor market to maintain some strength despite the slowdown. In this regard, wage gains could remain strong –driven in part by the lighthouse effect of the minimum wage– while a better performance in key US sectors could help remittances. In addition, the relative strength of the Mexican peso should continue to help imported goods, maintaining some attractiveness relative to some domestic goods. However, given prevailing inflationary pressures, gains could be somewhat limited.

Table 1: GDP

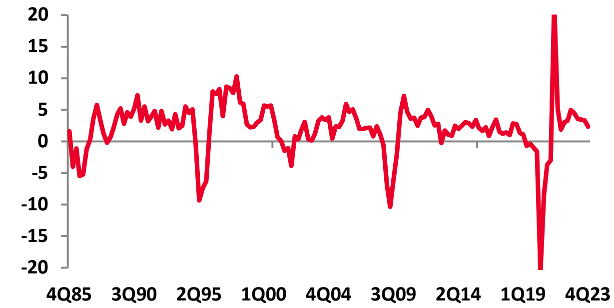
% y/y nsa, % y/y sa

	nsa						sa					
	4Q23	3Q23	4Q22	3Q22	2023	2022	4Q23	3Q23	4Q22	3Q22	2023	2022
Total	**2.4**	**3.3**	**4.5**	**5.0**	**3.1**	**3.9**	**2.4**	**3.3**	**4.5**	**5.0**	**3.1**	**3.9**
Agriculture	0.3	5.7	4.8	1.0	2.0	1.6	0.1	5.5	4.6	0.6	2.2	1.5
Industrial production	3.1	4.3	5.1	5.5	3.6	5.3	3.1	4.4	5.0	5.7	3.6	5.3
Services	2.1	2.7	4.1	4.7	2.9	3.1	2.2	2.6	4.2	4.6	2.9	3.1

Source: INEGI

Chart 1: GDP

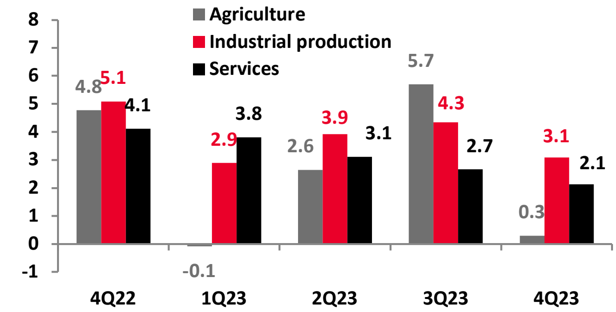
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors

% y/y nsa



Source: INEGI

Table 2: GDP

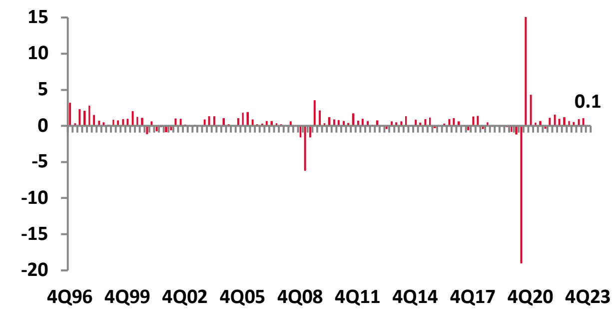
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	4Q23	3Q23	2Q23	1Q23	4Q23	3Q23	2Q23	1Q23
Total	**0.1**	**1.1**	**0.9**	**0.6**	**0.3**	**4.3**	**3.8**	**2.3**
Agriculture	-1.1	2.6	2.2	-3.9	-4.4	11.0	9.3	-14.6
Industrial Production	0.0	1.3	1.5	0.6	0.2	5.4	6.1	2.5
Services	0.1	0.9	0.6	0.7	0.5	3.8	2.6	2.8

Source: INEGI

Chart 3: GDP

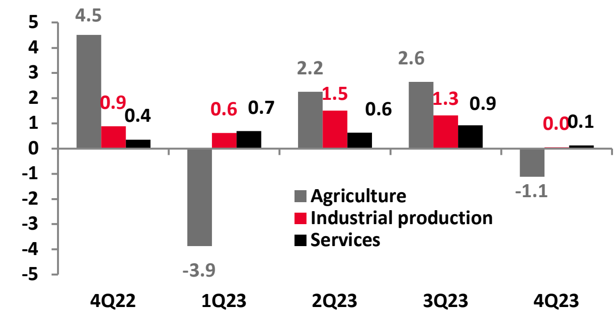
% q/q sa



Source: INEGI

Chart 4: GDP by sectors

% q/q sa



Source: INEGI

Table 3: GDP 2024: Supply

% y/y nsa; % q/q sa

% y/y	1Q24	2Q24	3Q24	4Q24	2024
GDP	**3.5**	**4.7**	**1.6**	**0.0**	**2.4**
Agricultural	-1.2	-2.8	-0.5	1.1	-0.8
Industrial production	3.7	4.8	0.6	-0.3	2.2
Services	3.7	5.1	2.2	0.0	2.7
% q/q					
GDP	**1.1**	**0.4**	**-0.6**	**-0.7**	--

*Note: Underlined figures indicate forecasts

Source: INEGI, Banorte

Table 4: GDP 2024: Demand

% y/y nsa; % q/q sa

% y/y	1Q24	2Q24	3Q24	4Q24	2024
GDP	**3.5**	**4.7**	**1.6**	**0.0**	**2.4**
Private consumption	4.3	5.9	3.2	0.7	3.5
Investment	15.1	14.2	4.2	-2.0	7.5
Govt. spending	2.8	4.9	1.3	-1.3	1.9
Exports	-2.8	0.3	-0.7	-3.2	-1.6
Imports	2.6	4.5	-0.5	-3.0	0.9
% q/q					
GDP	**1.1**	**0.4**	**-0.6**	**-0.7**	--

*Note: Underlined figures indicate forecasts

Source: INEGI, Banorte

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Directory
Research and Strategy

Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251

Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611

María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research

Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046

Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957

Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821

Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000

Luis Leopoldo López Salinas
Economist, Global
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707

Market Strategy

Santiago Leal Singer
Director of Market Strategy
santiago.leal@banorte.com
(55) 1670 - 1751

Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719

Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800

José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249

Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com
(55) 1670 - 2250

Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247

Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698

Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144

Gerardo Daniel Valle Trujillo
Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248

Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000

Quantitative Analysis

Alejandro Cervantes Llamas
Executive Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220

José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000

Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000

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