Economic and Financial Markets Research
Economic Research, Mexico

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GDP-proxy IGAE – Weakness at the start of the year amid some challenging conditions

- **Monthly GDP-proxy IGAE (January): 2.0% y/y; Banorte: 3.2%; consensus: 2.6% (range: 2.0% to 3.6%); previous: 1.1%**
- **Activity fell 0.6% m/m, extending the weakness seen at the end of last year. The result is consistent with some early figures and a backdrop with relevant challenges**
- **Inside, industry rebounded 0.4% m/m, with dynamism concentrated in construction and, to a lower extent, in manufacturing. Services were negative at -0.5%, with 7 of its 14 categories lower. Finally, primary activities plunged 12.9%, facing a difficult base effect along other issues**
- **We believe conditions for a recovery in coming months are favorable, noting several tailwinds for consumption and industry –especially construction. Nevertheless, we remain vigilant on several risks, both external and domestic**

The economy grew 2.0% y/y in the first month of 2024. This was lower than both consensus (2.6%) and our estimate (3.2%). With seasonally adjusted figures, growth came at 1.1% y/y (Chart 1). Back to original figures, two of the three categories remained in positive territory. Industry led at 2.9% (Chart 3), with services close behind at 2.2% (Chart 4). However, primary activities fell back to negative territory at -9.1% (Chart 2), its largest decline since February 2020. For further details, see Table 1.

Another sequential decline, extending the streak of weakness seen late last year. Activity fell 0.6% m/m (Chart 5), adding a fourth consecutive month of declines, with an accumulated contraction of 1.4% since September. The breakdown by sectors shows that challenges remain despite timely signals of a better performance ahead. Nevertheless, we do recognize that the result does imply risks to our growth forecasts in 1Q24. In this sense, weakness centered in primary activities, down 12.9%, consistent with adverse weather conditions and a difficult base effect.

As already known, industry expanded 0.4% (Chart 6). Construction reclaimed some importance with a 2.2% increase, broadly in line with expectations of higher dynamism in infrastructure works due to the reactivation of spending. Manufacturing posted a modest 0.2% uptick after three months of declines. Lastly, mining contracted 0.4%, impacted by volatility in 'related services' but also with some weakness in the oil sector.

Services backtracked 0.6%, with timely figures pointing to a mixed backdrop, albeit with a slight downward bias. We believe consumer fundamentals remained positive, highlighting the boost from the minimum wage hike, job creation (with seasonally adjusted figures), and loan growth. However, some headwinds included new inflationary pressures, both in agricultural goods and services (*e.g.* auto insurance, car maintenance, and restaurants and similars) and the moderation of remittances due to a negative seasonality. Inside, seven of the fourteen categories were lower. We highlight business support (-14.4%), entertainment (-5.7%) and lodging (-3.7%), with the latter two a source of some concern about discretionary spending. On the contrary, the most relevant upticks were in transportation (2.5%), mass media (1.7%) and government services (1.1%). Meanwhile, retail sales contracted 0.5%, in line with its own report. For more details, see Table 2.

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Despite the decline, we believe conditions support a favorable outcome in coming months. As mentioned in other publications, we maintain a positive view on economic activity in the short-term, with positive factors on several fronts. Starting with industry, the outlook for construction appears the clearest, with a positive spillover from both the public and private sectors –with the latter focused on industrial spaces rather than in residential categories. However, as we recently elaborated in *View from the Top*, manufacturing faces greater risks, especially in areas other than autos. Turning to primary activities, the trend could be more negative as prevailing droughts will likely be a major drag. However, we will continue to monitor the evolution of other weather phenomena, with expectations that *El Niño* could end between April and June, according to NOAA.

Closing with services, in addition to the positive spillover in categories related to consumption due to the strength of fundamentals and the advance payments of social programs, historical evidence suggests that other categories could benefit during the election campaign period. Particularly noteworthy are 'mass media' and 'professional services' –including advertising and consulting. To exemplify, in 2Q21 –the period in which mid-term election campaigns were concentrated that year– these categories increased 15.4% and 12.0% y/y, respectively. On the other hand, despite certain risks for manufacturing –and therefore for exports–, we believe transportation services could remain relatively resilient on: (1) A favorable outlook for imports –supported by consumption dynamism and MXN strength; (2) changes in purchasing patterns, with online commerce gaining market share; and (3) positive expectations on tourism. About the latter, key indicators such as air passenger traffic and hotel occupancy rates could also benefit from nearshoring, with a greater flow of travelers to locations where investments are materializing. Nevertheless, we continue to see some risks for the last months of 1H24, with price pressures, the reduction in the purchasing power of remittances and the possible lack of resources for some people after the early delivery of resources from social programs –if they spend all the money relatively quickly– among the most relevant.

Table 1: GDP-proxy IGAE

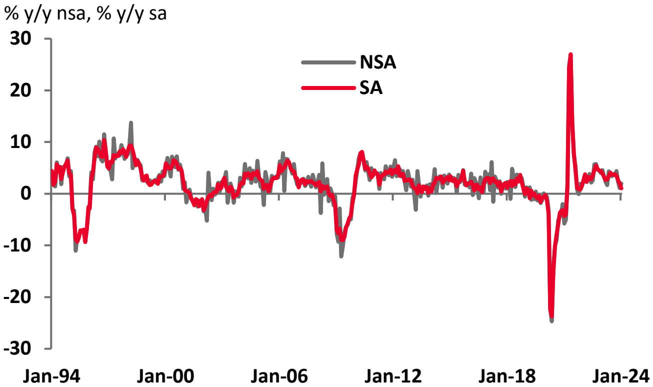
% y/y nsa, % y/y sa

	y/y, nsa				y/y, sa	
	Jan-24	Jan-23	2023	2022	Jan-24	Jan-23
Total	**2.0**	**4.6**	**3.2**	**3.7**	**1.1**	**3.9**
Primary activities	**-9.1**	**-3.6**	**2.0**	**1.6**	**-7.3**	**-0.6**
Agriculture	-14.0	-5.6	2.0	1.6	-	-
Livestock	2.3	1.1	1.9	1.4	-	-
Industrial production	**2.9**	**3.6**	**3.5**	**5.3**	**1.9**	**3.4**
Mining	-1.6	1.0	1.4	4.7	-1.8	1.0
Utilities	0.6	3.7	3.7	0.3	0.5	3.6
Construction	17.9	4.1	15.6	2.8	17.9	4.3
Manufacturing	0.1	4.1	0.9	6.3	-1.4	3.6
Services	**2.2**	**5.7**	**3.1**	**3.0**	**1.1**	**4.7**
Wholesales	3.2	9.5	3.9	6.4	1.1	7.6
Retail sales	3.1	7.2	4.1	5.5	0.9	5.0
Transportation and logistics	5.0	10.2	3.8	12.8	2.9	9.0
Mass media	4.3	3.7	5.9	14.8	4.0	3.0
Financial services	3.5	7.2	6.1	4.3	3.5	7.5
Real estate	0.7	1.6	1.6	1.7	0.9	1.7
Professional services	3.6	9.2	4.2	6.2	2.9	8.9
Business support	-13.7	-17.1	-6.2	-63.5	-11.7	-15.5
Education	2.7	1.0	2.0	1.2	2.6	0.7
Healthcare	3.0	0.3	1.3	-1.9	3.0	0.5
Entertainment	-11.0	-5.0	-1.1	33.9	-10.7	-4.2
Lodging and restaurants	-3.7	11.6	3.0	21.8	-2.8	12.9
Others	2.9	3.1	3.0	4.4	2.4	2.4
Government services	-1.7	4.9	1.2	0.0	-2.0	4.8

Source: INEGI

Chart 1: GDP-proxy IGAE

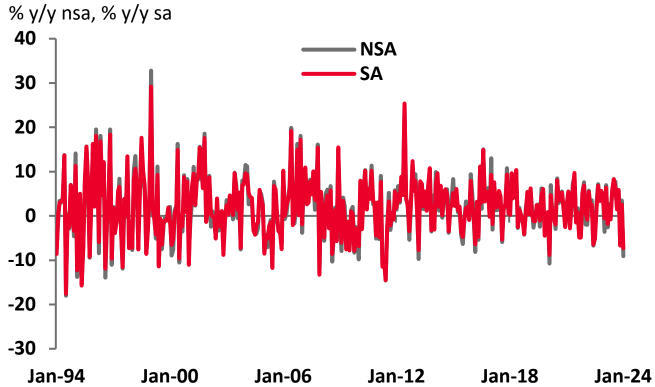
% y/y nsa, % y/y sa



Source: INEGI

Chart 2: Primary activities

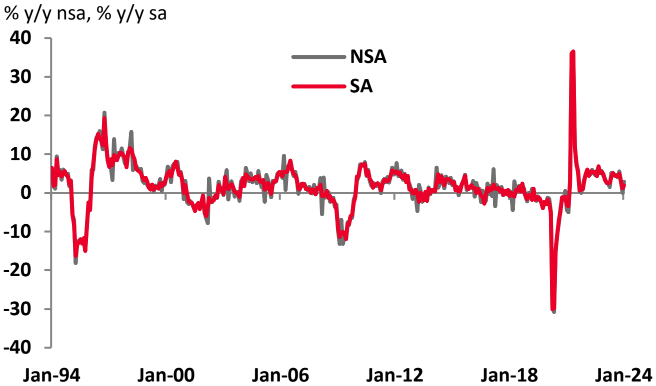
% y/y nsa, % y/y sa



Source: INEGI

Chart 3: Industrial production

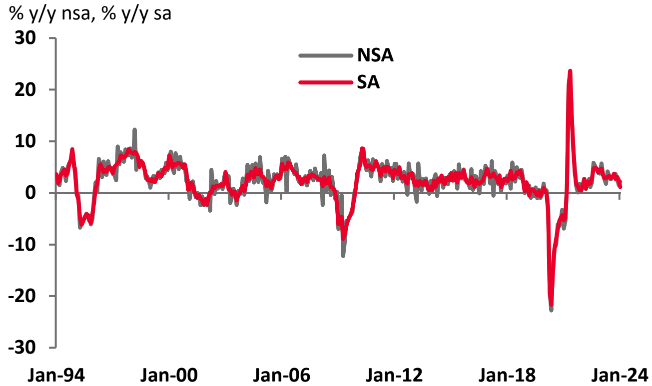
% y/y nsa, % y/y sa



Source: INEGI

Chart 4: Services

% y/y nsa, % y/y sa



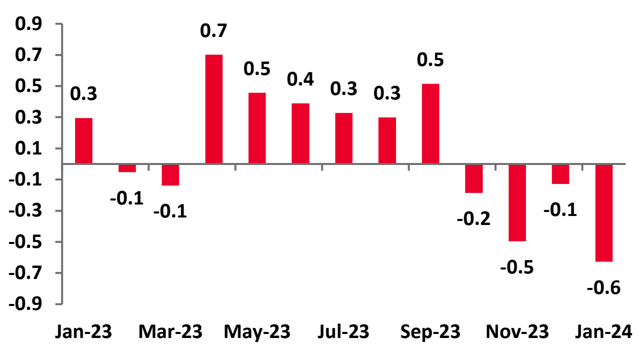
Source: INEGI

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

	% m/m			% 3m/3m	
	Jan-24	Dec-23	Nov-23	Nov'23-Jan'24	Oct-Dec'23
Total	**-0.6**	**-0.1**	**-0.5**	**-0.7**	**-0.1**
Primary activities	**-12.9**	**6.8**	**-6.1**	**-5.8**	**-1.0**
Industrial production	**0.4**	**-0.7**	**-1.0**	**-1.0**	**-0.3**
Mining	-0.4	1.4	-1.4	-0.4	0.0
Utilities	-0.8	-1.4	-0.5	-1.8	-0.4
Construction	2.2	-0.5	-2.7	-0.7	0.6
Manufacturing	0.2	-1.3	-0.5	-1.1	-0.5
Services	**-0.5**	**0.0**	**0.2**	**-0.1**	**0.2**
Wholesales	-2.3	1.1	0.1	-0.3	0.8
Retail sales	-0.5	0.9	0.4	0.6	-0.1
Transportation and logistics	2.5	-1.1	0.0	0.3	0.4
Mass media	1.7	-1.1	-0.3	-1.5	-2.0
Financial services	0.5	1.1	4.0	1.2	-2.3
Real estate	-1.2	1.2	0.0	0.6	0.8
Professional services	0.2	-0.5	1.1	1.0	1.4
Business support	-14.4	-3.7	-0.2	-5.8	2.6
Education	-0.4	0.1	0.3	0.4	0.7
Healthcare	0.5	0.6	-0.4	1.1	1.4
Entertainment	-5.7	4.7	3.0	1.4	-0.8
Lodging and restaurants	-3.7	0.8	0.9	-0.6	0.5
Others	0.9	-0.1	0.6	0.8	0.1
Government services	1.1	-0.8	-1.1	-0.7	-0.4

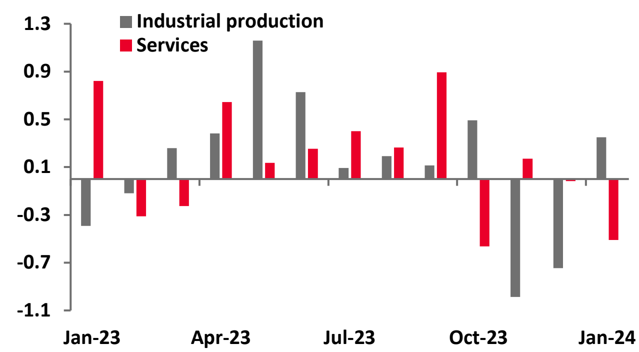
Source: INEGI

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



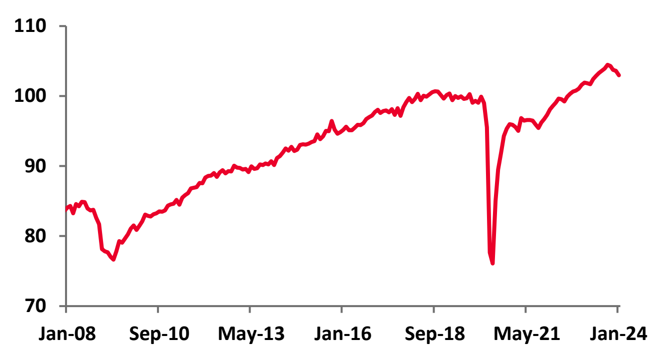
Source: INEGI

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



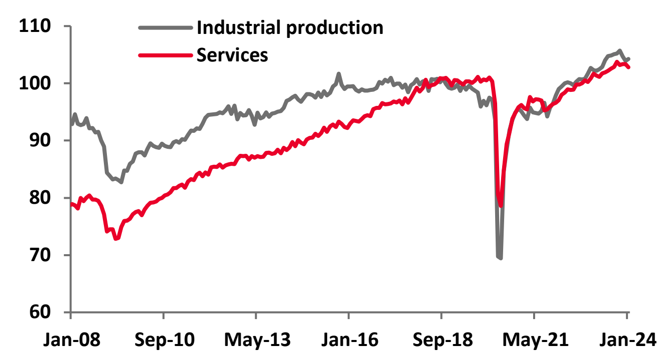
Source: INEGI

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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