

1Q24 GDP – Marginal acceleration given a relatively slow start to the year

- Gross Domestic Product (1Q24 P, nsa): 1.6% y/y; Banorte: 2.1%; consensus: 2.3% (range: 1.6% to 2.9%); previous: 2.4%
- Gross Domestic Product (1Q24 P, sa): 0.2% q/q; Banorte: 0.5%; consensus: 0.1% (range: -0.3% to 1.0%); previous: 0.1%
- The acceleration in sequential terms was somewhat marginal, extending some of the pessimism that characterized the end of last year. Despite this, the economy accumulates 10 quarters in a row of expansion. By sectors we note the uptick in services (0.7% q/q). On a negative note, there are both industry at -0.4%, and primary activities at -1.1%
- These figures imply that the economy grew around 0.5% m/m in March (-1.2% y/y), with upticks in both industry and services
- The result was lower than expected, consistent with a slow start and a modest acceleration in subsequent months. However, short-term signals remain positive, expecting more dynamism in 2Q24
- The outlook for the second half of the year remains more complex, anticipating a sequential contraction in 3Q24. We maintain our call of a 2.4% expansion this year, although with risks tilted to the downside
- Revised figures will be published on May 23rd

GDP advances in the annual comparison, with mixed seasonal effects. The economy grew 1.6% in 1Q24 ([Chart 1](#)), below consensus (2.3%) and our estimate (2.1%). We must remember that the period is affected by two contrary seasonal effects, being: (1) The leap year, which by adding one day boosts the total; and (2) that *Easter* holiday which happened in March, with a negative impact on industry that is not compensated by improvements in services. In this sense, the result with seasonally adjusted figures was +2.0% y/y ([Table 1](#)). Back to original figures, and considering the previously mentioned distortions, services led the expansion at 2.2% y/y, with industry more moderate at 0.8%, as can be seen in [Chart 2](#). Meanwhile, primary activities were lower at 0.6%.

Marginal sequential acceleration. GDP advanced 0.2% q/q ([Chart 3](#)), better than the 0.1% seen in the previous quarter. With this, activity has now reached 10 quarters of expansion, a situation not seen since the 2009-2013 period –when it added 15 quarters up. It is relevant to mention that performance was heterogeneous, contrasting with most of 2023 which showed more generalized improvements. In this sense, it is worth noting that strength was concentrated in the last two months of the quarter –with more on March’s performance below–, although it is worth noting that differences between the items persisted in the sub-sectors themselves.

In this sense, the increase was explained by services at 0.7% q/q ([Table 2](#)), a situation that has prevailed since the previous quarter. We believe that resilience in consumer fundamentals and the effects of the early payments of social programs transfers were key. As this is a preliminary report, we do not have additional details by category. However, [the cumulative performance up to February](#) suggests differences within. The best would have been mass media, transportation, and healthcare. More mixed were commerce –both wholesale and retail–, education, and financial services. In contrast, it would appear that weakness was concentrated in leisure, lodging, business support, and real estate services.

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Industry fell 0.4% q/q ([Chart 4](#)). Figures available so far show that weakness persisted in mining, with the oil component down and volatility in 'related services'. Construction was more mixed, with signs of moderation in edification. However, some momentum persisted in civil engineering, in turn related to federal government projects. More positively, manufacturing benefited from additional US strength and a further normalization in supply chains. Finally, primary activities added a second quarter down at -1.1% q/q, with challenges on the climate front continuing for the sector.

Increase in March, continuing with the positive trend. The monthly GDP-proxy (IGAE) averaged 3.1% y/y in January-February, so today's result implies a read of around -1.2% y/y in the last month of the quarter (nsa). This would be consistent with +0.5% m/m, adding a second month to the upside. Within industry (0.5% m/m) we expect strength in manufacturing, with a modest rebound in mining and construction relatively stable. In services (0.5%), most leading indicators are positive, suggesting that gains could be relatively widespread. Finally, primary activities would have fallen 2.1%, with a more challenging base effect.

We expect better results next quarter, although downside risks prevail for the full-year. Considering that the figure was lower than our estimate, we think risks to our forecast of a 2.4% full-year expansion are skewed to the downside. We continue to anticipate an acceleration in the second quarter, growing around 1.2% q/q (4.5% y/y), as shown in [Table 3](#) and [Table 4](#). After this, the outlook is more challenging, both due to a more difficult base effect, as well as to increased risks, both external and domestic.

Focusing on the short-term, as we elaborated in our last [View from the Top](#), there are several factors that should result in greater dynamism in coming months. Very briefly, these include an acceleration in construction, additional advances in manufacturing, a boost in specific items in services associated with electoral campaigns, and resilience in services related to non-discretionary spending. Thus, growth should be more widespread than in the previous two quarters (4Q23 and 1Q24), which we believe is very relevant to consolidate several points that will be key to avoid further weakness in 2H24. Specifically, we believe that momentum could help consolidate several consumption fundamentals, mainly employment and credit. Should this materialize, continued dynamism in this item of aggregate demand could help to partially offset the contractions we anticipate in investment and government spending. It should be noted that this behavior is relatively typical in a presidential election year, with the first item suffering a very complex base effect after efforts to complete as many projects as possible before Election Day. Regarding the latter, expenditures on different election-related items—from the organization itself to the parties' spending on advertising and campaign events—only occur in the second quarter, leaving a gap in the period. In addition, we think exports could be more resilient than we had previously anticipated, with signals from the US remaining positive.

In this regard, our forecast calls for a sequential decline of 0.3% q/q (1.5% y/y) in 3Q24, with a rebound of just 0.3% (1.7% y/y) in the last quarter of the year. However, we will also remain very attentive to other risks that could materialize on the international front, including geopolitical tensions (impacting both financial markets, confidence, and the real economy), adverse weather conditions (for primary activities and international trade) and possible negative effects of the monetary tightening accumulated in previous years, to name a few.

Table 1: GDP

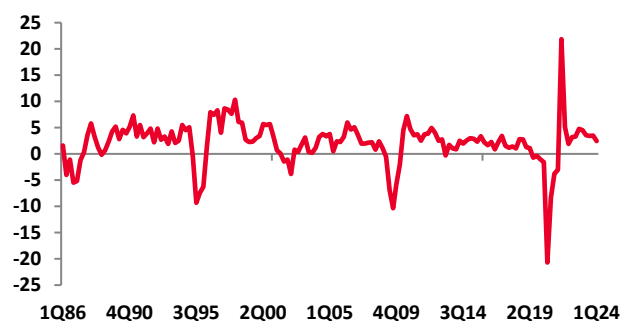
% y/y nsa, % y/y sa

	1Q24	4Q23	1Q23	nsa 4Q22	2023	2022	1Q24	4Q23	1Q23	sa 4Q22	2023	2022
Total	1.6	2.5	3.6	4.5	3.2	3.9	2.0	2.5	3.5	4.6	3.2	3.9
Agriculture	0.6	0.3	-0.1	4.8	1.9	1.6	1.3	0.0	0.6	4.5	2.1	1.5
Industrial production	0.8	2.8	2.9	5.1	3.5	5.3	1.5	2.9	2.9	5.0	3.5	5.3
Services	2.2	2.4	3.8	4.1	3.1	3.1	2.5	2.5	3.7	4.3	3.1	3.1

Source: INEGI

Chart 1: GDP

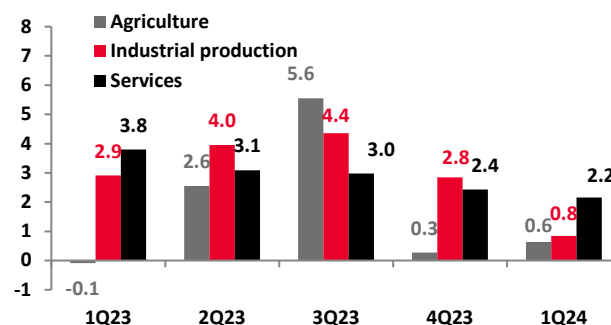
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors

% y/y nsa



Source: INEGI

Table 2: GDP

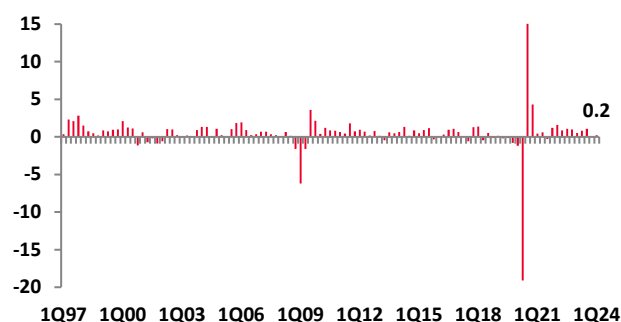
% q/q sa, % q/q saar

	1Q24	4Q23	3Q23	2Q23	1Q24	4Q23	3Q23	2Q23
Total	0.2	0.1	1.1	0.8	0.8	0.3	4.3	3.3
Agriculture	-1.1	-1.0	2.6	2.2	-4.1	-4.1	11.0	9.0
Industrial Production	-0.4	-0.1	1.0	1.6	-1.7	-0.5	4.1	6.6
Services	0.7	0.3	0.9	0.6	2.8	1.1	3.8	2.2

Source: INEGI

Chart 3: GDP

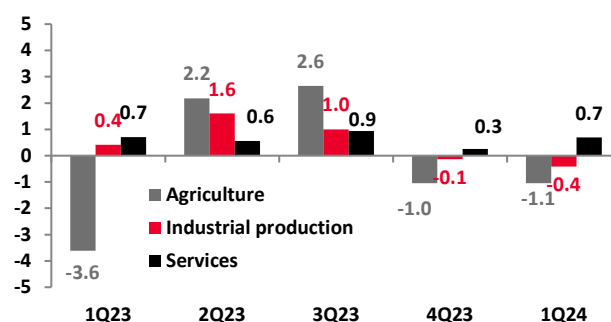
% q/q sa



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	1.6	4.5	1.5	1.7	2.4
Agricultural	0.6	-2.7	-4.0	0.7	-1.2
Industrial production	0.8	5.7	1.6	1.4	2.4
Services	2.2	4.3	1.8	1.9	2.5
% q/q					
GDP	0.2	1.2	-0.3	0.3	--

*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	1.6	4.5	1.5	1.7	2.4
Private consumption	3.8	6.2	3.1	2.2	3.8
Investment	11.2	15.3	4.3	1.1	7.8
Govt. spending	2.0	4.9	1.4	-1.2	1.8
Exports	-3.0	2.2	1.5	-0.5	0.1
Imports	3.5	6.1	0.7	0.7	2.8
% q/q					
GDP	0.2	1.2	-0.3	0.3	--

*Note: Underlined figures indicate forecasts

Source: INEGI, Banorte

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