GDP-proxy IGAE – Broad recovery in May, with notable rebounds in industry and services

- **Monthly GDP-proxy IGAE (May): 1.6% y/y; Banorte: 1.8%; consensus: 1.4% (range: 0.9% to 2.0%); previous: 5.3%**

- **The economy grew 0.7% in sequential terms, recovering from April's losses. The result is consistent with signs of recovery in both industry and services**

- **Industry expanded 0.7% m/m, with positive figures in construction and mining despite manufacturing stalling. Services expanded by 0.8%, with 8 out of its 14 items rising and commerce as the main driver. Primary activities were more modest at +0.4%, still facing challenging conditions**

- **We anticipate an additional expansion at the end of 2Q24, with more moderate growth rates throughout the remainder of the year. We remain vigilant about services' resilience, still expecting them to be the driving force in June, but likely slowing down in subsequent months**

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The economy grew 1.6% y/y in May. This was better than consensus (1.4%) but slightly below our estimate (1.8%). Gains by sector were broad, with services once again leading at 2.1% (Chart 4) and industry up 1.0% (Chart 3). Primary activities remained negative at -1.8% (Chart 2). With seasonally adjusted figures the expansion was the same, as seen in Chart 1. For more details by sectors see Table 1.

Sequential rebound, with positive signs in both industry and services. Activity grew 0.7% m/m (Chart 5) with a favorable base effect. Overall, it has grown more modestly so far this year relative to our initial expectations. Gains have been targeted inside the components, as some signals of weakness prevail. The period was characterized by a relevant improvement in construction and a positive surprise in mining. In addition, services provided positive data focused on commerce, with sales related to the *Hot Sale* campaign expanding 15.3% y/y, 0according to the *Mexican Online Sales Association* (AMVO in Spanish).

In this context, services picked up 0.8%, with timely figures already signaling dynamism. Fundamentals for consumption were mixed albeit skewed to the upside, with job gains, but with remittances negative. In our view, the period had contrasting drivers. On the positive side, we highlight the *Hot Sale* campaign and expenses related to electoral campaigns. On the contrary, a slight acceleration in prices and the absence of social programs payments. As such, eight of the fourteen categories increased. We highlight the 2.1% advance in retail sales –much stronger than in its own report (0.1%) in which internet sales and clothing led the expansion. Within this release, other categories with strength included wholesales (1.8%) and professional services (1.8%). The most relevant declines were in entertainment (-4.9%), government (-2.9%), and healthcare (-0.5%). For more details, see Table 2.

As already known, industry grew 0.7% (Chart 6). Construction led at 2.5%, achieving three months of strong improvements. Unlike other occasions, edification was the main driver, with civil engineering negative. Mining climbed 2.0%, driven by non-oil. Finally, manufacturing was unchanged (0.0%), but mostly positive inside. Primary activities had a limited increase, up 0.4%. While results are initially positive, we believe volatility is still an issue given adverse weather conditions.

We believe dynamism will moderate the rest of the year, although with some support from key sectors. Today's results help our view that 2Q24 GDP will be positive, likely with this as the quarter with the largest expansion in full-year 2024. Going forward –as we mentioned in our last quarterly report– we maintain a forecast of lower growth in the second half of the year. However, we believe some drivers will remain at play. In this regard, resilience in some services could be key, while the outlook for industry is more uncertain.

Analyzing the end of the quarter, June's figures exhibited signs of a more modest increase. On employment, the formal sector shed 30 thousand jobs, albeit with real wages still climbing. Car sales were slightly lower (+1.2% m/m vs +1.6% in May). Among other negative drivers, we highlight: (1) The strike at *ArcelorMittal* (steel company) that continued throughout the month; and (2) the economic impact of Hurricane Alberto, which left damages mainly in the northeast and the Gulf of Mexico –which should have been focused on services and, to a lesser extent, on some crops and oil production.

Turning to 2H24, we expect some diverging trends. Headwinds for industry would be most relevant. Dynamics within this sector involve changes in construction trends and manufacturing. Regarding the former, edification would be the driving force, with civil engineering works with a more modest pace. In this context, the momentum from nearshoring will likely remain reflected in edification. On manufacturing, we recognize greater uncertainty. The moderation in US activity could directly impact this component. However, auto sector performance could be enough to offset declines in other areas. Finally, on mining, we remain attentive to the non-oil item. However, we recognize that the main determinant will still be the oil sector.

Unlike industry, services have a slightly more encouraging outlook. We identify several favorable events for the rest of the year. As already known, the payment schedule for social programs returned to normal at the start of the semester. Moreover, commerce and tourism could provide some boost. On the first, several discount campaigns could be key in driving sales. In tourism, the reactivation of direct flights between China and Mexico since mid-July is a positive sign. The Tourism Ministry plans to recover pre-pandemic tourism figures from China relatively soon. Air connectivity is a first step, with strategic alliances being sought with tour operators from both countries. In the same lines, but towards 2025, announcements of new air connections between the US and Mexico's tourism destinations continue (*e.g.* Alaska Airlines will add 1.2 thousand weekly seats across several airports).
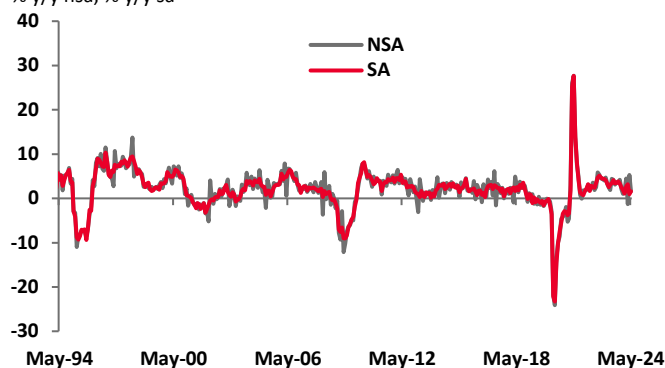
Table 1: GDP-proxy IGAE
% y/y nsa, % y/y sa

	y/y, nsa				y/y, sa	
	May-24	May-23	Jan-May'24	Jan-May'23	May-24	May-23
Total	**1.6**	**4.4**	**2.3**	**3.3**	**1.6**	**3.4**
Primary activities	**-1.8**	**-2.9**	**-0.9**	**-0.6**	**-1.8**	**-3.4**
Agriculture	-3.5	-4.8	-2.5	-1.7	-	-
Livestock	2.4	1.8	2.2	1.4	-	-
Industrial production	**1.0**	**5.0**	**1.7**	**2.9**	**0.6**	**3.8**
Mining	-2.4	3.7	-2.9	3.6	-2.5	3.5
Utilities	5.1	0.3	2.3	1.6	4.8	-0.2
Construction	10.2	17.2	11.8	6.4	9.4	15.9
Manufacturing	-1.4	2.5	-0.2	1.9	-1.8	1.0
Services	**2.1**	**4.6**	**2.9**	**3.8**	**2.3**	**3.5**
Wholesales	2.7	5.5	5.1	2.6	3.2	2.9
Retail sales	2.4	5.2	2.9	6.1	2.7	3.1
Transportation and logistics	5.0	4.2	5.3	5.5	5.4	2.7
Mass media	-5.9	13.4	0.1	7.9	-6.5	11.9
Financial services	1.4	12.0	2.1	9.0	1.0	11.3
Real estate	1.3	2.3	0.9	2.4	1.3	2.3
Professional services	9.9	9.8	6.2	6.7	8.7	7.2
Business support	7.5	-17.0	0.5	-14.2	7.1	-16.6
Education	1.8	2.2	2.5	1.5	2.1	1.6
Healthcare	4.4	0.6	4.1	0.5	4.1	-0.3
Entertainment	-28.9	47.9	-11.9	14.4	-29.1	45.4
Lodging and restaurants	-3.6	2.5	-1.6	4.0	-2.9	3.2
Others	2.1	4.2	3.5	3.9	2.1	4.0
Government services	1.7	1.7	1.7	0.8	1.4	1.3

Source: INEGI
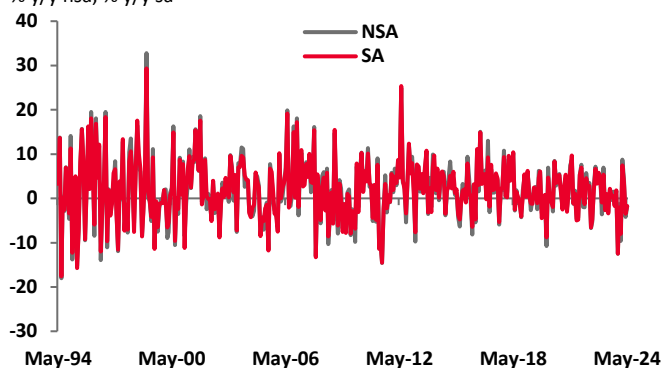
Chart 1: GDP-proxy IGAE
% y/y nsa, % y/y sa

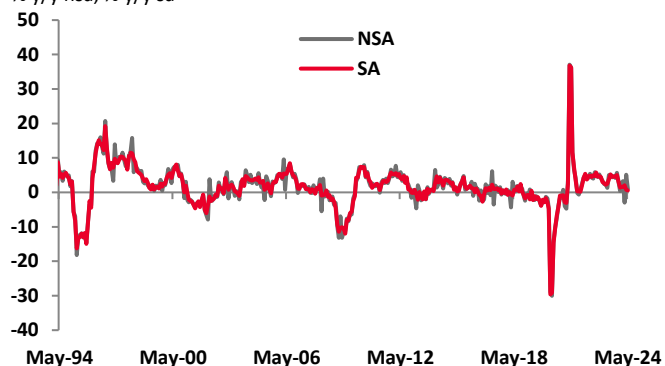Source: INEGI

Chart 2: Primary activities
% y/y nsa, % y/y sa
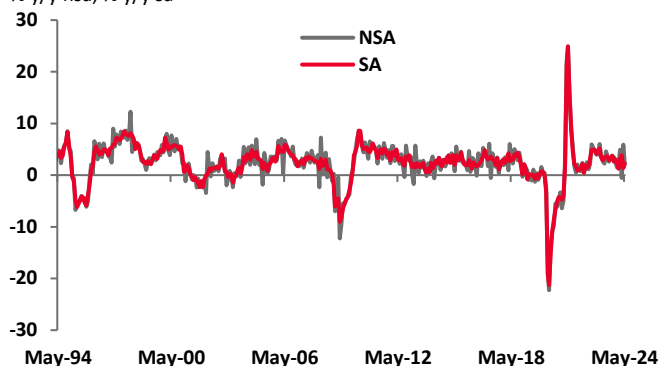

Source: INEGI

Chart 3: Industrial production
% y/y nsa, % y/y sa

Source: INEGI

Chart 4: Services
% y/y nsa, % y/y sa

Source: INEGI

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

	% m/m			% 3m/3m	
	May-24	**Apr-24**	**Mar-24**	**May-Mar'24**	**Feb-Apr'24**
Total	**0.7**	**-0.7**	**0.1**	**0.5**	**0.6**
Primary activities	**0.4**	**-4.0**	**-6.7**	**-1.0**	**8.5**
Industrial production	**0.7**	**-0.4**	**0.6**	**0.4**	**-0.1**
Mining	2.0	-0.3	-1.2	-1.4	-1.6
Utilities	3.5	-1.3	0.3	1.3	0.4
Construction	2.5	2.0	1.4	2.7	0.4
Manufacturing	0.0	-1.4	0.4	-0.2	0.0
Services	**0.8**	**-0.6**	**0.0**	**0.4**	**0.7**
Wholesales	1.8	-3.3	0.2	0.1	0.9
Retail sales	2.1	-2.5	1.9	0.7	0.5
Transportation and logistics	0.6	0.5	-0.2	1.8	2.3
Mass media	-0.3	-2.5	-0.9	-1.1	0.9
Financial services	0.6	0.1	0.6	1.0	0.7
Real estate	0.6	-0.2	0.3	0.0	-0.2
Professional services	1.8	1.8	1.8	3.2	1.5
Business support	0.6	6.0	0.1	3.0	-1.9
Education	0.9	-1.3	0.4	0.3	0.5
Healthcare	-0.5	1.4	-0.5	1.3	2.0
Entertainment	-4.9	4.9	-3.4	-2.7	-1.4
Lodging and restaurants	-0.9	-1.2	-0.7	-2.3	-2.0
Others	-0.4	-0.4	-0.2	0.9	2.0
Government services	-2.9	5.1	-1.1	1.4	1.1

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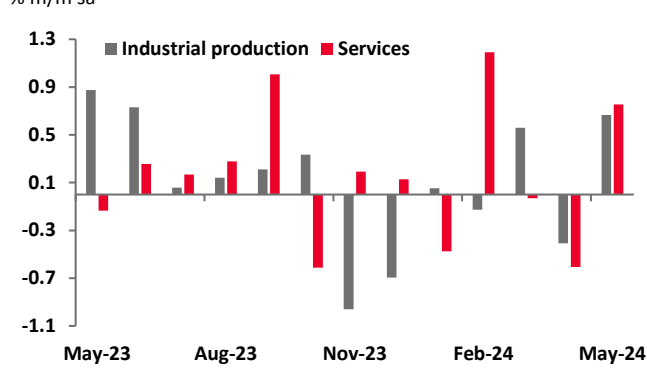
Chart 5: GDP-proxy IGAE
% m/m sa
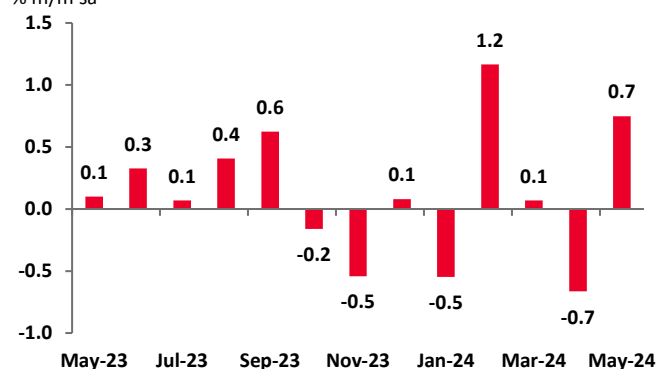
Source: INEGI

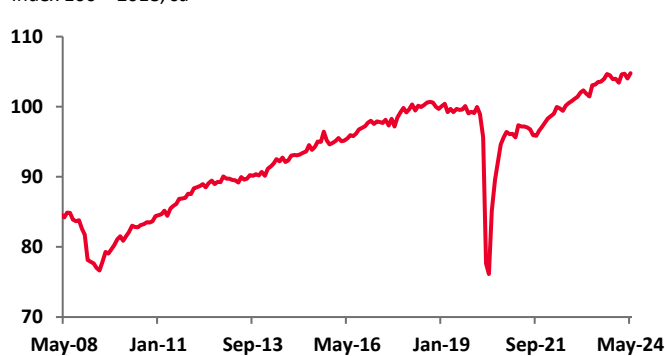**Chart 6: Industrial production and services**
% m/m sa

Source: INEGI

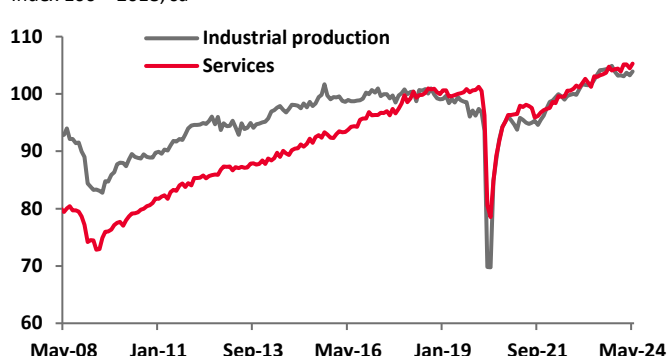**Chart 7: Global economic activity indicator**
Index 100 = 2018, sa

Source: INEGI

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

Source: INEGI

Analyst Certification.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Santiago Leal Singer, Víctor Hugo Cortes Castro, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Carlos Hernández García, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Daniel Sebastián Sosa Aguilar, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Marcos Saúl García Hernandez, Juan Carlos Mercado Garduño, Ana Gabriela Martínez Mosqueda, Jazmin Daniela Cuautencos Mora, Andrea Muñoz Sánchez and Paula Lozoya Valadez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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