July 30, 2024

2Q24 GDP – Activity lost further momentum through the middle of the year

- **Gross Domestic Product (2Q24 P, nsa): 2.2% y/y; Banorte: 2.4%; consensus: 2.4% (range: 1.4% to 2.7%); previous: 1.6%**
- **Gross Domestic Product (2Q24 P, sa): 0.2% q/q; Banorte: 0.3%; consensus: 0.4% (range: 0.2% to 0.9%); previous: 0.3%**
- **The sequential print was lower than in the previous quarter, albeit marginally. Despite this, the economy now adds 11 consecutive quarters of expansions**
- **By sectors, the push centered in both services (0.3% q/q) and industry (0.3%). On the contrary, primary activities declined 1.7%, in part because of a very challenging base**
- **These figures imply that the economy grew around 0.3% m/m in June (0.0% y/y), with strength in industry (0.6% m/m) and services also positive (0.2%)**
- **The result once again was lower than expected, consistent with the moderation in the pace that has prevailed since the end of last year**
- **Although the outlook remains challenging for 2H24, there are some green shoots for key sectors. Considering this, we reiterate our call of a 1.9% GDP expansion this year, albeit with risks tilted to the downside**
- **Revised figures will be published on August 22nd**

GDP accelerates in the annual comparison, helped by calendar effects. The economy grew 2.2% in 2Q24 (Chart 1), below consensus and our estimate. This print is inflated by the fact that the *Easter* holiday took place in March, while last year was in April. Thus, with seasonally adjusted figures the expansion was more modest at 1.1% y/y (Table 1). Back to original figures, services led at 2.7% y/y and industry followed at 1.9%, as shown in Chart 2. Meanwhile, primary activities were negative at -2.7%.

Another moderation sequentially. GDP advanced 0.2% q/q (Chart 3), marginally lower than the 0.3% seen in 1Q24. Nonetheless, it marks eleven quarters in positive territory. Results were better in the middle and the end of the period –more on June's performance later–, after a weak start in April. It is relevant to note heterogeneous dynamics, similar to what was seen in the first quarter. This is consistent with the moderation trend that prevailed since the end of last year, suggesting that the economy's exceptional momentum in previous years may be running out of steam.

In this sense, part of the progress was explained by services at 0.3% q/q (Table 2). We believe strength in some fundamentals –mainly employment and credit– were key to this. However, we indeed observed a moderation, which we think is associated with the absence of social program payments as that were brought forward. As this is a preliminary report, we do not have details by category. However, as in 1Q24, cumulative performance through May suggests differences within. The best performers would have been 'business support', professional, and financial services. Commerce –both wholesale and retail– would be more mixed, along with entertainment, and education. In contrast, it would appear that weakness was concentrated in lodging, mass media, and 'others'.

Industry climbed 0.3% q/q (Chart 4), rebounding after a 0.5% decline in the previous period. Figures available so far suggest a renewed push in construction, with gains now centered in edification. Manufacturing moderated, impacted by a challenging base effect and despite more positive signs from the US.


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Mining seems to have recovered at the margin, although the outlook remains complex. Meanwhile, primary activities declined 1.7%, erasing the expansion of the previous quarter, consistent with an adverse climate backdrop and higher food prices.

Additional progress in June. The monthly GDP-proxy (IGAE) averaged 3.4% y/y in March-April, so today's result implies around 0.0% y/y in the last month of the quarter (nsa). This would be consistent with +0.3% m/m, adding a second month to the upside. Within industry (0.6% m/m) we expect strength in construction, with more modest progress in mining and manufacturing. In services (0.2%), leading indicators are somewhat mixed, albeit with a positive bias, suggesting that gains could have been heterogeneous again. Finally, primary activities would have fallen 0.1%, extending their weakness.

We believe challenges persist for the second half of the year, although with some green shoots that could provide further support. As elaborated in previous publications, the economy tends to moderate after the federal elections, with budget programming and other challenges contributing to this. We think it will be no different this year, which would drive lower GDP growth for the remainder of the year (see Table 3 and Table 4). Nonetheless, there are several hints that sectors in which we expected a more substantial slowdown could be more supportive.

In our last *View from the Top*, we mentioned that works on several of the federal government's key infrastructure projects has continued in 3Q24. In this regard, President Andrés Manuel López Obrador mentioned that he will be inaugurate the last three sections of the *Tren Maya* between August and September, which leads us to believe that efforts to conclude them are at their peak. He also stated that he will seek to inaugurate the Mexico-Toluca and Suburban trains (about the latter, the section connecting Buenavista to the Felipe Ángeles International Airport), although he did not provide exact dates. Thus, the moderation we anticipated as early as this quarter will likely take longer to materialize. In manufacturing, some uncertainty persists, although some of the early nearshoring-related investments could begin to result into more production –although still with more time needed to see their full effects. In addition, the auto sector remains strong, key to driving the category forward. Within services, momentum in key sectors such as 'professional services' due to the electoral process may already be behind us. Nevertheless, the category could maintain some resilience on: (1) The relative strength in employment –accompanied by relevant wage gains; (2) favorable expectations about tourism in the summer –with local Tourism Ministries in states such as Quintana Roo, Jalisco, and Veracruz presenting optimistic estimates; and (3) the potential spillover in various sectors (*e.g.* mass media, restaurants) due to the holding of several sports tournaments, including continental soccer cups, and the Olympic Games.

In this context, we reiterate our call of a 1.9% expansion in this year's GDP. However, it is important to mention that today's result inserts some downside risks to our estimate.

Table 1: GDP

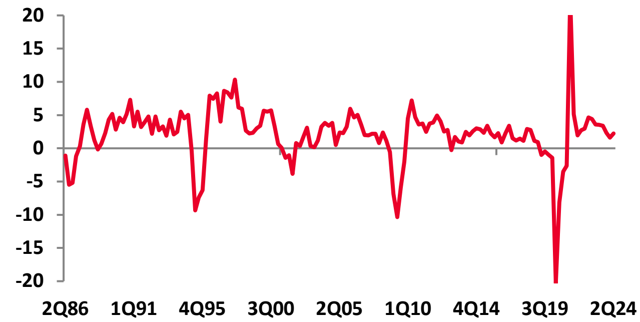
% y/y nsa, % y/y sa

	nsa						sa					
	2Q24	1Q24	2Q23	1Q23	Jan.-Jun.'24	Jan.-Jun.'23	2Q24	1Q24	2Q23	1Q23	Jan.-Jun.'24	Jan.-Jun.'23
Total	**2.2**	**1.6**	**3.5**	**3.6**	**1.9**	**3.6**	**1.1**	**1.9**	**3.5**	**3.6**	**1.5**	**3.6**
Agriculture	-2.7	0.6	-0.3	-0.1	-1.2	-0.2	-2.2	0.7	-0.4	0.5	-0.9	0.0
Industrial production	1.9	0.9	3.8	2.7	1.4	3.3	0.5	1.5	3.8	2.8	1.0	3.3
Services	2.7	2.1	3.5	4.0	2.4	3.8	1.7	2.4	3.5	3.9	2.0	3.7

Source: INEGI

Chart 1: GDP

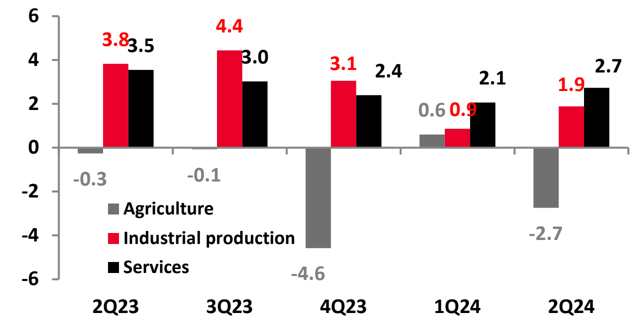
% y/y nsa



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			
	2Q24	1Q24	4Q23	3Q23	2Q24	1Q24	4Q23	3Q23
Total	**0.2**	**0.3**	**0.0**	**0.8**	**0.9**	**1.1**	**0.0**	**3.2**
Agriculture	-1.7	1.7	-1.4	0.5	-6.8	7.0	-5.5	1.9
Industrial Production	0.3	-0.5	-0.3	1.0	1.2	-1.9	-1.4	4.0
Services	0.3	0.6	0.2	0.8	1.0	2.6	1.0	3.2

Source: INEGI

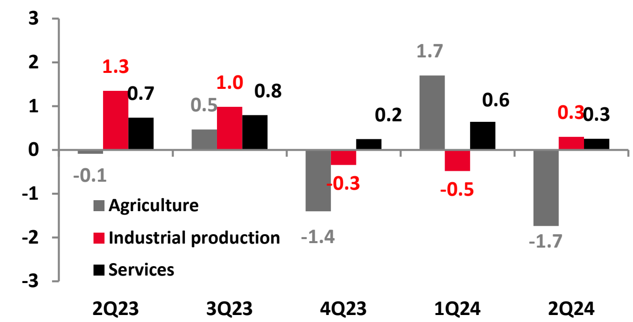
Chart 3: GDP

% 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**	**2.2**	**1.4**	**2.1**	**1.9**
Agricultural	0.6	-2.7	-1.1	1.4	-0.4
Industrial production	0.9	1.9	0.4	1.3	1.1
Services	2.1	2.7	2.0	2.6	2.4

*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**	**2.2**	**1.4**	**2.1**	**1.9**
Private consumption	3.5	4.7	3.4	2.7	3.6
Investment	9.2	9.7	3.3	1.3	5.7
Govt. spending	1.5	3.8	1.0	-1.2	1.2
Exports	-6.8	-2.5	1.6	0.7	-1.8
Imports	4.7	4.2	3.2	2.0	3.5

*Note: Underlined figures indicate forecasts

Source: INEGI, Banorte

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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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