October 30, 2024

3Q24 GDP – Strong acceleration after three quarters of sluggishness

- **Gross Domestic Product (3Q24 P, nsa): 1.5% y/y; Banorte: 1.2%; consensus: 1.3% (range: 0.6% to 1.6%); previous: 2.1%**
- **Gross Domestic Product (3Q24 P, sa): 1.0% q/q; Banorte: 0.8%; consensus: 0.6% (range: 0.4% to 1.4%); previous: 0.2%**
- **This was the strongest sequential uptick since 2Q22, recognizing a more favorable base effect after modest moves in the last three quarters**
- **By sectors, the push was generalized. We note services (0.9% q/q) –with several tailwinds– and industry (0.9%). Primary activities rose 4.6% after four quarters to the downside, helped by better weather conditions**
- **These figures imply that the economy expanded around 0.3% m/m in September (0.4% y/y), with growth in both industry (0.9% m/m) and services (0.1%)**
- **The acceleration implies an upward skew for our 1.3% full-year estimate**
- **Revised figures will be published on November 22nd**

GDP keeps growing in the annual comparison. The economy grew 1.5% in 3Q24 (Chart 1), above consensus (1.3%) and our estimate (1.2%). After significant calendar distortions in the first half of the year –due to the leap year and the *Easter holiday*–, results were more stable. Primary activities were the highest at 4.1% y/y, followed by services at 2.0%, as seen in Chart 2. Meanwhile, industry was more modest at 0.6%. With seasonally adjusted figures, the advance was of the same magnitude at 1.5% y/y (Table 1).

Strong acceleration in the sequential comparison. GDP advanced 1.0% q/q (Chart 3), its strongest expansion since 2Q22. This comes after a period of relative sluggishness, highlighting a drop in 4Q23 and rather modest advances in the first half of the year. By sectors, results continue to be highly heterogeneous despite upticks in the three major components, a situation we discussed in more detail in our latest *View from the Top*.

In this sense, services contributed to the total expansion with 0.9% q/q (Table 2). We believe that several factors explain the push, highlighting: (1) The resumption of social program payments after the elections; (2) resilience in consumption fundamentals, with some of them even strengthening –with remittances as the most important; and (3) a moderation in non-core inflation in the middle and end of the period. As this is a preliminary report, we do not have details by category. However, the cumulative performance through August suggests a good result in commerce, both in wholesale and retail sales. Mass media would also be better –albeit from a more challenging base. Meanwhile, some weaknesses would prevail in leisure, with lodging and restaurants stable. Another category to the downside would be business support.

Industry advanced 0.9% q/q (Chart 4), adding two quarters up. Figures so far suggest moderation in construction due to civil engineering, with an expansion in edification. Manufacturing gained momentum, albeit with significant differences among components. Finally, mining was better at the margin, although with variations in 'related services' dictating much of the results.

Also relevant, primary activities expanded 4.6% –its largest advance since 3Q20– with the start of the rainy season and the decline in drought levels key to explain this.


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Uptick in September. The GDP-proxy averaged 2.1% in July-August, implying a reading around 0.4% y/y in the last month of the quarter (original figures). This would be consistent with +0.3% m/m, rebounding after losses in August. Inside, we expect a recovery in construction within industry (0.9% m/m), while signals in manufacturing have been more mixed. In services (0.1%), we believe that the base effect will be a relevant factor after four months to the upside, although leading indicators still show some bright spots. Finally, primary activities would result around +1.5%, bouncing back after a sharp drop in the previous month.

Following the acceleration, we believe that challenges in coming quarters will become more relevant. As we have mentioned in previous publications, headwinds for economic activity are more present, both external and domestic in nature. Even climatic factors should play an important role.

For primary activities, our focus remains on the weather, where rains have been key to trigger a recovery. However, forecasts of a harsher winter –with more cold systems and storms anticipated this season– increase the risks of crop losses due to frost. In industry, some local cement companies quoted bad weather in 3Q24 as a key reason behind a decline in profits; hence, challenges for construction could remain if rains continue. Despite of this, it will be relevant to see the push that some of the new projects of the incoming administration may have, highlighting the preliminary works of the Mexico-Pachuca train that began at the start of the month. In manufacturing, our concern remains tied to the dynamism of the sector in the US, where issues such as wage negotiations and strikes could pose additional challenges. However, we believe autos continue to maintain a position of relative strength, albeit with signs of increased volatility in month-to-month production. Moving to services, our view is more favorable on resilience in consumer fundamentals. Thus, it is very likely that non-discretionary sectors will keep growing, although with more doubts about sectors such as entertainment and lodging. In addition, it will be relevant to see the behavior of government services given that the new administration came into office at a new date vs. previous presidential periods.

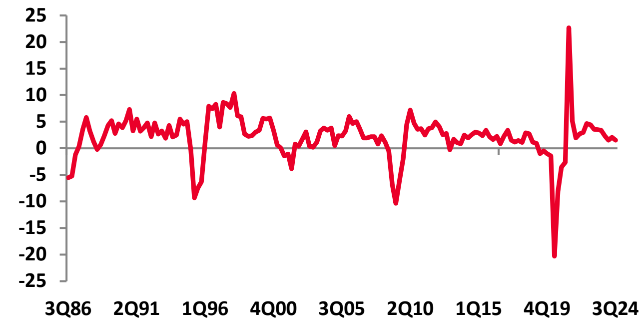
In this sense, we still forecast full-year GDP in 2024 at 1.3% (see Table 3 and Table 4). Nevertheless, we do recognize an upward skew considering today's results. Moving to 2025, lower inertial momentum from this year adds to other negatives such as (1) Expectations of a slowdown in global activity in 2025, including the US; (2) potential uncertainty stemming from the election in the latter country, especially if Donald Trump wins; (3) fiscal consolidation efforts in Mexico; and (4) the possibility of severe weather, including the entry of the *La Niña* phenomenon as early as late November. Considering all these factors, we continue expecting a 1.0% expansion next year.

Table 1: GDP
% y/y nsa, % y/y sa

	nsa						sa					
	3Q24	2Q24	3Q23	2Q23	Jan.-Sep.'24	Jan.-Sep.'23	3Q24	2Q24	3Q23	2Q23	Jan.-Sep.'24	Jan.-Sep.'23
Total	**1.5**	**2.1**	**3.4**	**3.5**	**1.7**	**3.5**	**1.5**	**1.0**	**3.4**	**3.5**	**1.4**	**3.5**
Agriculture	4.1	-2.8	-0.1	-0.3	-0.5	-0.2	3.8	-2.5	-0.2	-0.2	-0.2	0.1
Industrial production	0.6	1.8	4.4	3.8	1.1	3.7	0.5	0.4	4.4	3.8	0.8	3.7
Services	2.0	2.5	3.0	3.5	2.2	3.5	1.9	1.5	3.0	3.6	1.9	3.5

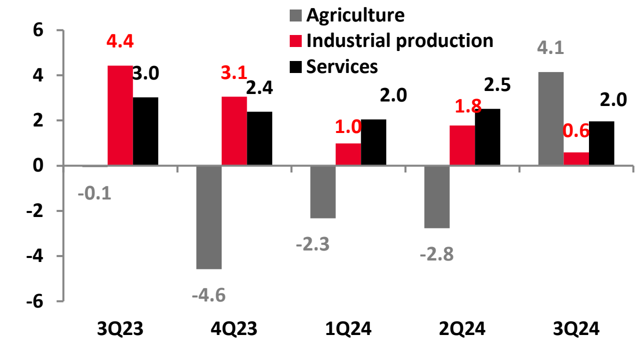
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



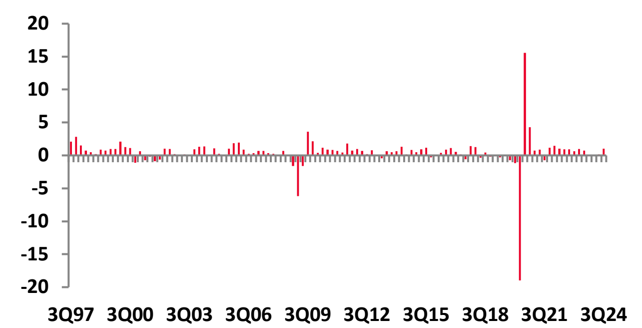
Source: INEGI

Table 2: GDP
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	2Q24	1Q24	4Q23	3Q23	2Q24	1Q24	4Q23	3Q23
Total	**1.0**	**0.2**	**0.1**	**-0.1**	**4.1**	**0.6**	**0.4**	**-0.2**
Agriculture	4.6	-0.2	-0.4	-1.7	19.6	-0.9	-1.7	-6.5
Industrial Production	0.9	0.3	-0.5	-0.4	3.5	1.1	-1.8	-1.4
Services	0.9	0.1	0.5	0.2	3.8	0.5	1.9	0.8

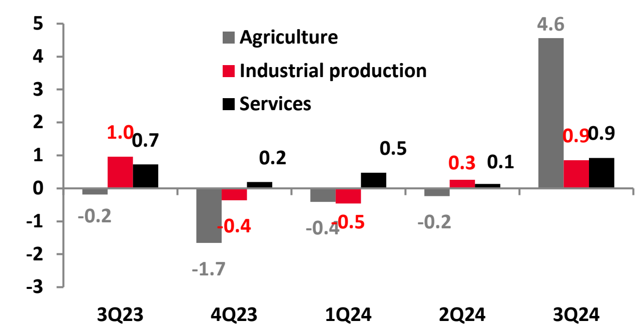
Source: INEGI

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	**1.5**	**2.1**	**1.5**	**<u>0.3</u>**	**<u>1.3</u>**
Agricultural	-2.3	-2.8	4.1	<u>0.1</u>	<u>-0.3</u>
Industrial production	1.0	1.8	0.6	<u>-0.7</u>	<u>0.7</u>
Services	2.0	2.5	2.0	<u>0.8</u>	<u>1.8</u>

*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	**1.5**	**2.1**	**1.5**	**<u>0.3</u>**	**<u>1.3</u>**
Private consumption	3.5	3.5	<u>2.4</u>	<u>1.2</u>	<u>2.6</u>
Investment	8.8	6.8	<u>0.2</u>	<u>-1.6</u>	<u>3.3</u>
Govt. spending	1.5	2.6	<u>1.2</u>	<u>-0.1</u>	<u>1.3</u>
Exports	-6.7	-2.4	<u>1.4</u>	<u>0.5</u>	<u>-1.8</u>
Imports	5.2	2.0	<u>0.4</u>	<u>2.2</u>	<u>2.4</u>

*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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