April 30, 2025

1Q25 GDP – Positive surprise despite a challenging backdrop

- **Gross Domestic Product (1Q25 P, nsa): 0.8% y/y; Banorte: 0.7%; consensus: 0.7% (range: -0.1% to 1.4%); previous: 0.5%**
- **Gross Domestic Product (1Q25 P, sa): 0.2% q/q; Banorte: 0.04%; consensus: 0.1% (range: -0.4% to 0.4%); previous: -0.6%**
- **It is relevant to note that the result suggests that the economy maintained some resilience despite a highly complex environment, with challenges both externally and locally**
- **By sectors, momentum was concentrated in primary activities (+8.1%) –facing a favorable base effect–, with services more stable (0.0%), and industry posting a second quarter down (-0.3%)**
- **Figures imply that the economy was unchanged in March at 0.0% m/m (3.2% y/y). Performance inside would have been mixed, highlighting an uptick in services (0.2% m/m), but with industry lower again (-1.5%)**
- **The fact that GDP grew despite the current backdrop is a relevant support to our forecast of a 0.5% expansion this year**
- **Revised figures will be published on May 22nd**

GDP growth in the annual comparison, with relevant calendar effects at play. The economy grew 0.8% in 1Q25 (Chart 1), above consensus (0.7%) and our estimate (0.66%). The period was impacted by offsetting seasonal effects: (1) The negative comparison with February last year due to the leap day in 2024; and (2) the positive impact of Easter, which happened in April this year vs. March in the previous year. Thus, with seasonally adjusted figures, the result was not that different at 0.6% y/y (Table 1). Going back to original data, two of the three categories were positive, which were agriculture at 6.4% and services at 1.5%, as shown in Chart 2. On the contrary, industry came in at -0.9%, adding two quarters in negative territory.

Sequential uptick, with a mixed performance inside. GDP stood at 0.2% q/q (Chart 3), avoiding the so-called 'technical recession' after contracting 0.6% in the previous quarter. This is relevant due to the highly uncertain environment following the start of Donald Trump's presidency, which has clouded the outlook for many categories. At the sector level, results were mixed gain. Nevertheless, said uncertainty, other local challenges, and base effects also impacted the results.

Primary activities advanced 8.1% q/q, facing a favorable base effect after the 8.5% drop in 4Q24. This is consistent with the better performance seen in price dynamics at the beginning of the year, especially relative to 2024. Services came in at 0.0% (Table 2), breaking with 13 quarters of growth. Fundamentals were somewhat mixed, with a slowdown in job creation at the beginning of the year and remittances impacted by uncertainty on immigration issues in the US. Nevertheless, the total payroll maintained its positive trend –helped by real wages due to the moderation in inflation–, while credit kept climbing at high rates. Full details are not yet available, but accumulated data through February suggests a strong performance in retail sales, professional services, and entertainment. However, wholesales, transportation, and 'others' would have declined, awaiting more clarity on their behavior in the last month of the quarter.


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Industry fell 0.3% (Chart 4), marking two quarters to the downside. Results by sector probably were highly heterogeneous. Manufacturing was impacted by doubts about the trade situation with the US, with some sectors bringing forward orders, but with pauses in others. Mining maintained signs of weakness, with the downward trend in the oil component prevailing and persistent volatility in 'related services'. In contrast, construction showed some signs of recovery both in edification and civil engineering.

Stability in March. Considering an average of -0.4% y/y in the GDP-proxy IGAE for January and February, today's result implies a print around 3.2% y/y in the last month of the quarter (original figures). Moreover, this is consistent with 0.0% m/m, not entirely surprising considering the 1.0% uptick in February. By sectors, services would have come in at +0.2% m/m, with relatively positive signs in credit and debit card transactions, along with improvements in some fundamental drivers. Industry would have fallen 1.5%, with a challenging base effect that impacted several areas. Finally, primary activities would have expanded 5.4%, adding four months of increases.

Headwinds remain, although the economy was more resilient than anticipated. Today's result is positive considering the prevailing context of high uncertainty. Thus, the base effect for activity for the remainder of the year is more favorable, providing a relevant support to our call of a 0.5% GDP expansion in 2025 (see Table 3 and Table 4).

In the short term, we believe uncertainty will remain as a meaningful drag given the lack of clarity in US trade policy. This will likely keep weighing on business sentiment. While the recent announcements on a 90-day pause in reciprocal tariffs and certain concessions for the auto sector are positive, the prevailing business climate is still not conducive for a pickup in new investments. It is also affecting current production, as suggested by technical stoppages in some auto plants. Considering this, we believe it is necessary to enter a new phase of negotiations to reach more durable agreements, which we believe will be achieved with an early review / renegotiation of USMCA in 2H25 (originally scheduled for 2026). Our baseline scenario contemplates that discussions could begin in the third quarter, with some relevant breakthroughs announced as early as the end of this year. In our view, the news that talks get underway will be a relevant catalyst, suggesting that agreements are within reach with the US.

On local drivers, fundamentals for consumption have been mixed. Nonetheless, they have been resilient overall. The latest labor market data was stronger at the margin despite lingering doubts about the spillover effect from the slowdown in manufacturing. Remittances have moderated, but their purchasing power in local currency has advanced, which is a very relevant source of funds for low-income households. In addition, the boost from banking credit and social programs' direct transfers could be key supports. For construction, current data seems to show some signs of recovery after a complicated year-end in 2024. However, certain challenges prevail for the private –due to uncertainty– and public components –due to fiscal consolidation. Finally, other factors that could gain more relevance in 2H25 include: (1) The first effects on aggregate demand from Banxico's rate cutting cycle; (2) the cumulative effect of the exchange rate depreciation that we expect, which would benefit industry and tourism; and (3) the materialization of some of the actions included in *Plan Mexico*.

Table 1: GDP

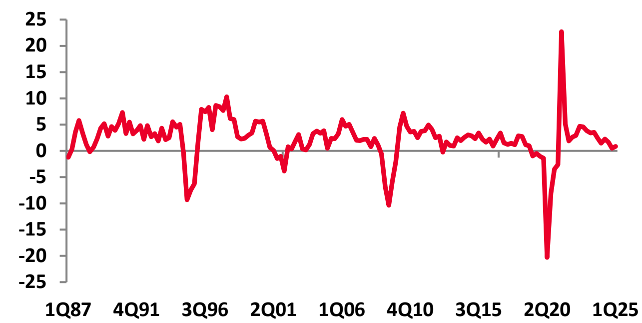
% y/y nsa, % y/y sa

	nsa						sa					
	1Q25	4Q24	1Q24	4Q23	2024	2023	1Q25	4Q24	1Q24	4Q23	2024	2023
Total	**0.8**	**0.5**	**1.5**	**2.4**	**1.5**	**3.3**	**0.6**	**0.5**	**1.7**	**2.5**	**1.2**	**3.3**
Agriculture	6.4	-4.0	-5.0	-5.9	-2.3	-1.4	6.0	-4.1	-4.8	-6.0	-2.1	-1.1
Industrial production	-0.9	-2.0	0.7	3.5	0.2	3.4	-1.4	-2.0	1.5	3.5	0.1	3.4
Services	1.5	2.1	2.2	2.4	2.3	3.4	1.3	2.1	2.4	2.5	2.1	3.4

Source: INEGI

Chart 1: GDP

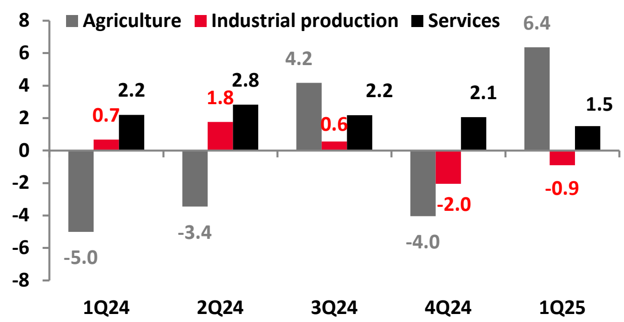
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors

% y/y nsa



Source: INEGI

Table 2: GDP

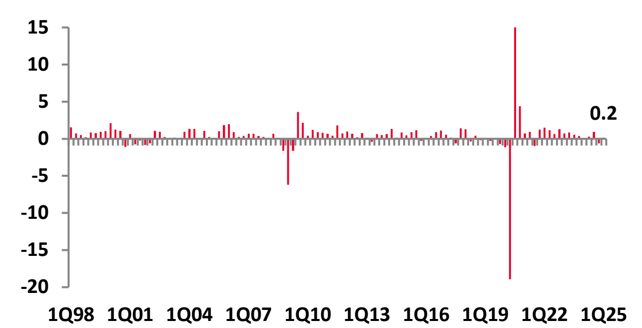
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	1Q25	4Q24	3Q24	2Q24	1Q25	4Q24	3Q24	2Q24
Total	**0.2**	**-0.6**	**0.9**	**0.3**	**0.6**	**-2.5**	**3.7**	**1.2**
Agriculture	8.1	-8.5	5.4	0.9	36.5	-29.8	23.5	3.6
Industrial Production	-0.3	-1.5	0.4	0.2	-1.0	-5.8	1.8	0.7
Services	0.0	0.2	1.0	0.4	-0.1	0.8	3.9	1.5

Source: INEGI

Chart 3: GDP

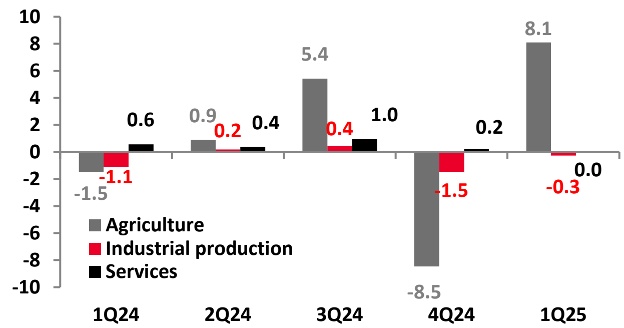
% q/q sa



Source: INEGI

Chart 4: GDP by sectors

% q/q sa



Source: INEGI

Table 3: GDP 2025: Supply

% y/y nsa; % q/q sa

% y/y	1Q25	2Q25	3Q25	4Q25	2025
GDP	**0.8**	**-0.8**	**0.0**	**1.9**	**0.5**
Agricultural	6.4	2.1	-1.1	10.2	4.6
Industrial production	-0.9	-3.1	-2.1	0.9	-1.3
Services	1.5	0.2	0.9	1.7	1.1
% q/q					
GDP	**0.2**	**0.2**	**0.6**	**0.8**	--

*Note: Underlined figures indicate forecasts

Source: INEGI, Banorte

Table 4: GDP 2025: Demand

% y/y nsa; % q/q sa

% y/y	1Q25	2Q25	3Q25	4Q25	2025
GDP	**0.8**	**-0.8**	**0.0**	**1.9**	**0.5**
Private consumption	0.2	-1.1	-0.4	1.9	0.2
Investment	-0.7	-4.4	-2.2	0.4	-1.7
Govt. spending	-0.7	-3.2	-3.6	-3.2	-2.7
Exports	9.9	5.7	2.1	-0.3	4.1
Imports	3.9	0.1	0.2	0.2	1.0
% q/q					
GDP	**0.2**	**0.2**	**0.6**	**0.8**	--

*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, 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, Ana Laura Zaragoza Félix, 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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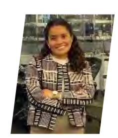

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