

GDP-proxy IGAE – Strong performance in April despite additional external risks

- **Global Economic Activity Indicator (April): 2.5% y/y; Banorte: 1.9%; consensus: 2.2% (range: 1.9% to 3.5%); previous: 2.7%**
- **With seasonally adjusted figures, the economy grew 3.3% y/y. This is higher than INEGI's *Timely Indicator of Economic Activity*, at +2.4%**
- **In monthly terms the economy picked up 0.8% m/m. There were positive results both in services (1.0%) and industry (0.4%). In the former, we note the 12.6% expansion in recreational services. Lastly, primary activities were also favorable at 1.2%**
- **Going forward, we believe economic activity will maintain a positive trend, supported by services. Nevertheless, challenges across external demand represent additional risks for industry**

The economy advanced 2.5% y/y in April. This was higher than consensus (2.2%). With seasonally adjusted figures, growth was 3.3% y/y ([Chart 1](#)), surpassing [INEGI's Timely Indicator of Economic Activity](#) at 2.4%. Back to original figures, [industry advanced 0.7%](#) ([Chart 3](#)), with services up 3.3% ([Chart 4](#)). Lastly, primary activities came in at 2.9% ([Chart 2](#)). For more details, see [Table 1](#).

Growth resumes, with improvements across the three sectors. The economy grew 0.8% m/m ([Chart 5](#)), erasing the 0.2% loss from the previous month. In our opinion, this reflects both the strength of consumer fundamentals and resilience of some subsectors that continue pushing industry (e.g. manufacturing). Other drivers remain –which in previous months have added dynamism– such as nearshoring and the moderation of inflationary pressures, both for producers and [final consumers](#). As such, activity has maintained an upward trend ([Chart 7](#)), consolidating further as the pandemic drag and other distortions are left behind.

Services grew 1.0%, quite positive as they moderated in the previous two months. This in a context in which fundamentals (e.g. [remittances](#) and [employment](#)) and related indicators can be classified as resilient (e.g. IMEF's non-manufacturing indicator). As such, six out of the nine subsectors picked up. The main expansion was in recreational services (12.6%), not ruling out an all-out push as this was the first 'normal' *Easter* holiday in three years. Other relevant categories included transportation (2.8%), retail sales (2.3%) –better than in its [stand-alone report](#)– and lodging (2.1%), all likely benefited by the same driver. Meanwhile, financial (0.0%) and professional and support services (0.0%) stagnated, with declines in wholesales (-0.2%), and education and healthcare (-0.1%).

Industry grew 0.4% ([Chart 6](#)). Manufacturing drove the expansion at 2.1%, with mining slightly positive at 0.3%. However, construction was the main laggard at -2.0%, impacted by a decline in 'edification' and 'specialized works'.

Primary activities rose 1.2%, although not enough to offset the -1.6% of the previous month. Nevertheless, this is consistent with dynamism of the sector's exports in the trade balance, along some progress in prices.

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Dynamism persists in 2Q23, despite the challenges. Considering today's results along with May's timely figures, we believe that the economy kept growing in 2Q23. However, we remain wary about the possible pace of expansion relative to the first quarter (at 1.0%) given several factors, including a challenging base effect and prevailing headwinds to external demand. Domestic conditions remain favorable, adding uncertainty to the forecast.

Regarding the external backdrop, short-term signals suggest that US industry keeps losing dynamism –with the latest figure from *S&P Global's* manufacturing PMI back to contraction at 48.5pts– and likely continuing through the remainder of 2023. Likewise, Chinese activity has not rebounded as expected at the beginning of the year, with signs of stagnation that could be relevant for the global economy. Thus, the demand for Mexican manufacturing could be limited. In addition, MXN strength remains as a challenge for exports as they become less competitive in relative terms.

Regarding domestic demand, construction should continue to be favored by the arrival of FDI, which in turn has resulted in increased demand for industrial spaces. However, PPI for the sector has been on the upside so far this year; in our opinion limiting dynamism, particularly in the residential sector. On the other hand, services will likely provide a further boost. In this sense, households' disposable income would be favored by: (1) Unemployment rates that continue at historically low levels; (2), real wages strengthening given the moderation in headline inflation, and (3) remittances that remain at above US\$5,000 million per month. The negative note lies in the behavior of core inflation in services, which remains under pressure.

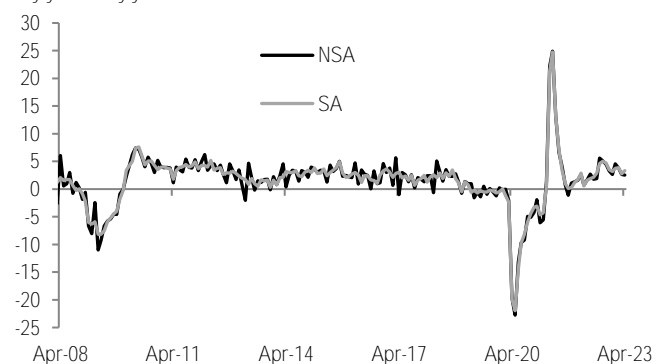
All in all, signs for the remainder of the year remain relatively positive, with increasing upside risks to our 2023 full-year GDP forecast of 2.0%.

Table 1: Global economic activity indicator
% y/y nsa, % y/y sa

	% y/y, nsa				% y/y, sa	
	Apr-23	Apr-22	Jan-Apr'23	Jan-Apr'22	Apr-23	Apr-22
Total	2.5	1.7	3.4	1.6	3.3	1.6
Agriculture	2.9	3.6	2.7	0.6	3.0	4.2
Industrial production	0.7	2.5	2.0	2.9	1.6	2.8
Mining	1.9	-0.5	1.8	1.0	1.9	-0.5
Utilities	0.6	2.3	3.3	1.5	0.7	2.8
Construction	-2.0	2.0	1.0	1.4	-1.7	2.3
Manufacturing	1.4	3.6	2.4	4.1	3.2	4.0
Services	3.3	1.2	4.0	1.1	4.1	1.1
Wholesale	-1.3	4.0	2.4	5.5	2.2	7.4
Retail	4.8	7.1	6.3	4.7	6.5	6.9
Transport	7.0	16.8	7.1	17.1	6.9	15.5
Financial services	3.3	1.0	3.4	1.4	3.3	0.9
Professional services	-0.2	-53.8	0.5	-50.5	1.2	-52.6
Education and healthcare services	0.6	-1.0	1.1	1.7	0.9	0.6
Recreational services	9.7	30.3	6.6	17.0	8.7	29.0
Lodging services	3.0	48.9	8.5	49.3	1.9	45.8
Government services	2.1	-2.5	0.4	-1.2	2.0	-2.4

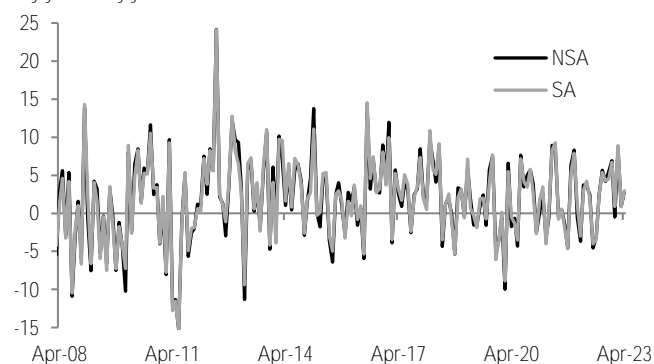
Source: INEGI

Chart 1: Global economic activity indicator
% y/y nsa, % y/y sa



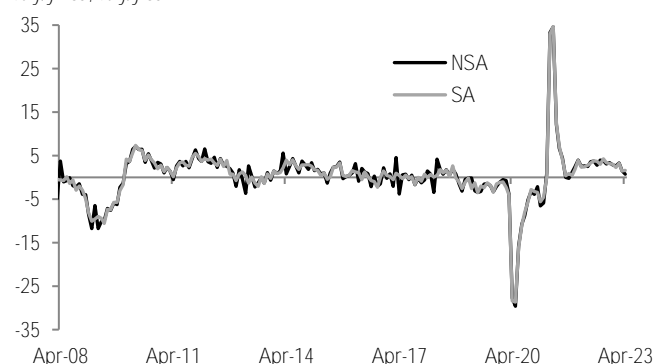
Source: INEGI

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



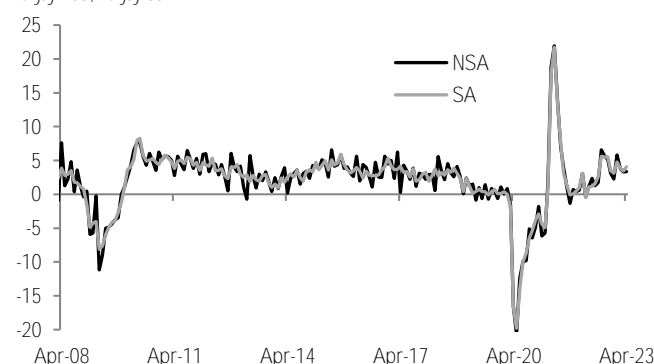
Source: INEGI

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



Source: INEGI

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



Source: INEGI

Table 2: Global economic activity indicator

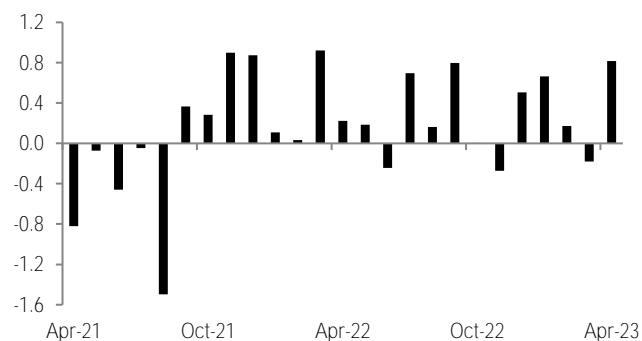
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m, sa	
	Apr-23	Mar-23	Feb-23	Feb-Apr'23	Jan-Mar'23
Total	0.8	-0.2	0.2	0.9	1.0
Agriculture	1.2	-1.6	3.6	-0.5	-1.8
Industrial production	0.4	-0.9	0.5	0.2	0.5
Mining	0.3	-3.5	3.8	2.2	2.5
Utilities	-2.0	1.0	-0.1	0.7	1.7
Construction	-2.0	1.0	-0.7	-1.1	0.1
Manufacturing	2.1	-0.8	-0.5	0.3	0.3
Services	1.0	0.1	0.0	1.4	1.4
Wholesale	-0.2	0.7	-0.7	0.2	0.2
Retail	2.3	-0.4	1.2	3.6	3.4
Transport	2.8	-0.3	-0.8	3.4	4.1
Financial services	0.0	0.1	0.5	0.3	0.4
Professional services	0.0	-0.4	2.5	3.7	3.7
Education and healthcare services	-0.1	-0.2	-0.1	-0.5	-0.2
Recreational services	12.6	1.5	0.9	7.1	2.9
Lodging services	2.1	-0.9	-0.8	3.5	5.2
Government services	1.3	-0.5	-0.5	-1.0	-1.5

Source: INEGI

Chart 5: Global economic activity indicator

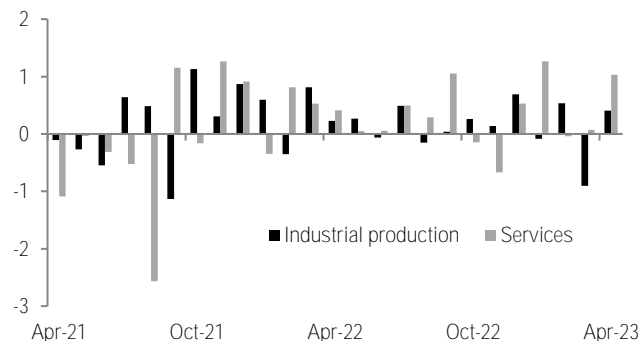
% m/m sa



Source: INEGI

Chart 6: Industrial production and services

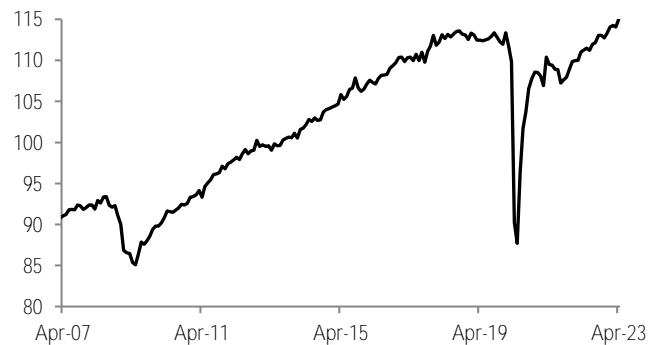
% m/m sa



Source: INEGI

Chart 7: Global economic activity indicator

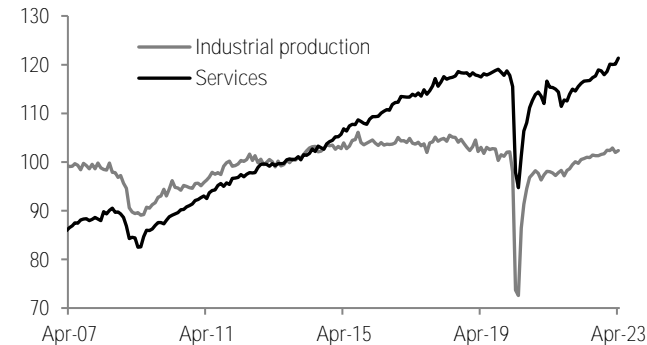
Index 100 = 2013, sa



Source: INEGI

Chart 8: Industrial production and services

Index 100 = 2013, sa



Source: INEGI

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