

GDP-proxy IGAE – Activity moderates in May, albeit with the positive trend continuing

- **Global Economic Activity Indicator (May): 4.3% y/y; Banorte: 3.8%; consensus: 3.5% (range: 2.4% to 3.8%); previous: 2.7%**
- **With seasonally adjusted figures, the economy grew 3.2% y/y. This is lower than INEGI's *Timely Indicator of Economic Activity*, at +3.6%**
- **In monthly terms, activity was unchanged at 0.0% m/m (previous: +0.9%), with a 0.4% decline in services –impacted by a setback in entertainment– and despite a 1.0% advance in industry. Finally, primary activities rose 0.3%**
- **Going forward, we expect domestic demand to remain as the driver of activity growth. However, we keep anticipating a divergence in the performance of each sector, with services maintaining dynamism but with industry somewhat limited by manufacturing**

The economy grew 4.3% y/y in May. This was higher than consensus (3.5%), but closer to our estimate (3.8%). With seasonally adjusted figures, growth was 3.2% y/y ([Chart 1](#)), with [INEGI's *Timely Indicator of Economic Activity*](#) (at +3.6%) overestimating the expansion. Back to original figures, industry accelerated to 3.9% ([Chart 3](#)), while services rose to 4.7% ([Chart 4](#)). On the other hand, primary activities came in at 1.3%, maintaining higher volatility ([Chart 2](#)). For more details, see [Table 1](#).

Small pause given a challenging base for services. Activity was unchanged at 0.0% m/m ([Chart 5](#)), not being entirely surprising –or negative– considering the advance of 0.9% the previous month. Although we believe that the general outlook remains favorable for activity, we highlight that certain challenges and timely factors continue to influence performance, resulting in some divergence between different sectors as well as some volatility. As such, we believe that the result represents only a slight pause and not a clear change from the upward trend ([Chart 7](#)).

As we knew, [industry grew 1.0%](#) ([Chart 6](#)), although with mixed trends inside. The 7.2% expansion in construction was the main driver, in our opinion benefited by the high demand for industrial spaces due to [nearshoring](#) and government spending on infrastructure projects. Mining grew 1.7% despite a challenging context. Manufacturing returned to negative territory at 1.4%, although this is not entirely surprising considering the 2.1% expansion of the previous month. However, we remain cautious due to the increase of external risks.

Services fell 0.4%, in our opinion relatively modest taking into account the accumulated progress so far in the year. Therefore, we believe that the sector remains in a positive position, benefiting from [a moderation in inflationary pressures](#) and resilient fundamentals –even despite some sings of caution in employment, although offset by strong wages and dynamic remittances.

July 25, 2023

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In this context, six of the nine categories posted declines. The biggest fall was seen in entertainment (-10.3%), impacted by the strong advance of 10.8% in April. Other relevant categories to the downside included retail sales (-1.7%) –with a larger contraction than what the [stand-alone report](#) suggested–, transportation (-1.7%), and lodging (-1.5%). Meanwhile, gains centered on wholesales (2.1%) and professional and support services (0.6%). Finally, primary activities rose 0.3%, stringing two months up. Results are consistent with the moderation in prices, albeit contrasting with the decline in [exports](#).

Headwinds and a challenging base effect explain our expectation of more moderate growth in 2H23. With this month’s result and the timely figures for June, we believe that economic activity reaffirms an evident growth trend in 2Q23, showing higher dynamism relative to what we expected at the beginning of the year. Therefore, we anticipate a positive result at the preliminary GDP report which will be released on Monday, July 31st. We believe that the favorable trend will extend at least to the next quarter, although we expect a more modest advance given an increase in risks –mainly from abroad– as well as challenging base effects.

Headwinds from abroad include: (1) Some weakness in US manufacturing –with *S&P Global* manufacturing PMI adding three months in contraction territory up to July; (2) the possibility that the central banks tightening cycles in advanced economies will continue in 2H23, being an additional drag on financial markets and weighing on companies’ financing costs; (3) new disruptions in the food supply chain due to the closure of the Black Sea trade corridor; and (4) less-than-expected dynamism in activity in China, even despite additional accommodative measures.

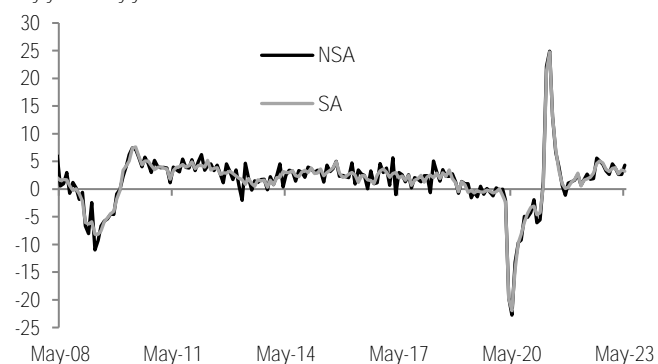
On the domestic front, we find favorable signs. We maintain our view that domestic demand will remain as the main driver for activity. We believe that consumer fundamentals will continue to perform in a positive way in the second half –mainly in employment and wages. In addition, we expect government spending through infrastructure investment and social programs transfers to continue to provide a boost to activity. Lastly, we reiterate that the relocation of production chains will continue to attract investment to the country, with it being a relevant push on construction –especially in the northern part of the country. Regarding possible risk factors, we do not rule out: (1) New inflationary pressures, especially in the non-core component; (2) challenges for the export sector and remittances due to the appreciation of the exchange rate; and (3) higher cost pressures for companies, both in terms of labor and financing.

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

	% y/y, nsa				% y/y, sa	
	May-23	May-22	Jan-May'23	Jan-May'22	May-23	May-22
Total	4.3	2.7	3.6	1.9	3.2	1.9
Agriculture	1.3	2.4	2.2	1.0	0.5	1.5
Industrial production	3.9	3.6	2.4	3.0	2.8	3.2
Mining	5.1	-1.8	2.4	0.4	5.1	-1.8
Utilities	2.0	5.2	3.1	2.2	1.7	4.8
Construction	9.2	-0.4	2.6	1.0	8.1	-1.1
Manufacturing	1.9	6.6	2.3	4.6	0.3	6.2
Services	4.7	2.4	4.2	1.3	3.5	1.2
Wholesale	8.2	9.9	3.6	6.4	5.0	7.3
Retail	7.1	7.0	6.5	5.2	4.8	4.4
Transport	6.5	14.3	7.1	16.5	5.4	13.5
Financial services	3.3	1.8	3.4	1.4	3.2	1.6
Professional services	-1.4	-42.9	0.0	-49.0	-3.5	-44.9
Education and healthcare services	1.4	1.5	1.3	1.6	0.8	0.4
Recreational services	5.2	11.6	6.9	15.9	6.0	13.1
Lodging services	2.8	35.7	7.0	46.1	2.8	34.8
Government services	1.2	-2.1	0.5	-1.4	1.1	-2.1

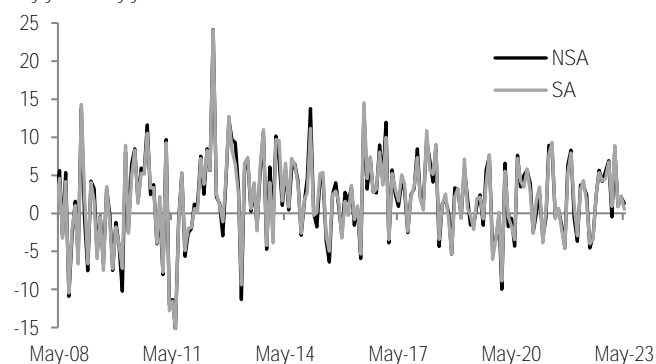
Source: INEGI

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



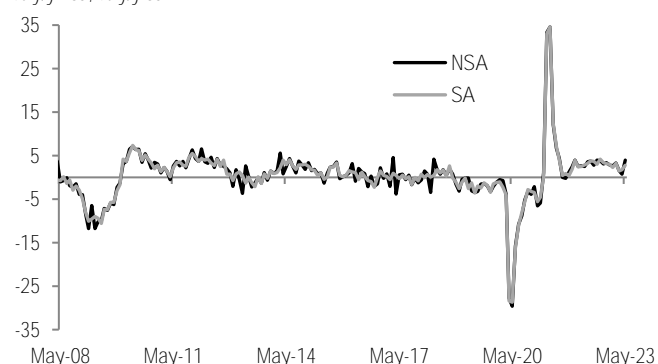
Source: INEGI

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



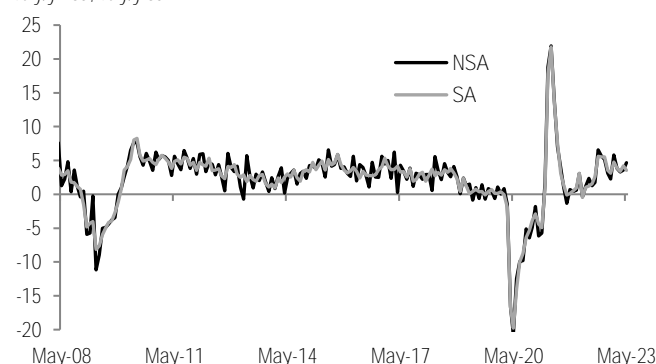
Source: INEGI

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	
	May-23	Apr-23	Mar-23	Mar-May'23	Feb-Apr'23
Total	0.0	0.9	-0.2	0.7	1.0
Agriculture	0.3	0.6	-1.3	-0.4	-0.7
Industrial production	1.0	0.5	-0.9	0.2	0.4
Mining	1.7	0.4	-3.3	0.1	2.3
Utilities	1.8	-1.6	1.1	0.8	0.9
Construction	7.2	-2.7	1.4	1.2	-0.4
Manufacturing	-1.4	2.1	-0.8	0.0	0.2
Services	-0.4	1.1	0.0	1.0	1.3
Wholesale	2.1	0.1	0.8	1.4	0.6
Retail	-1.7	2.3	-0.5	1.9	3.4
Transport	-1.7	3.4	-0.3	2.7	3.4
Financial services	0.3	0.1	0.1	0.0	0.2
Professional services	0.6	-0.2	-0.6	1.5	3.2
Education and healthcare services	-0.1	0.3	-0.2	-0.3	-0.3
Recreational services	-10.3	10.8	1.3	5.5	6.1
Lodging services	-1.5	1.4	-1.1	0.3	2.6
Government services	-0.3	1.4	-0.5	-0.3	-1.0

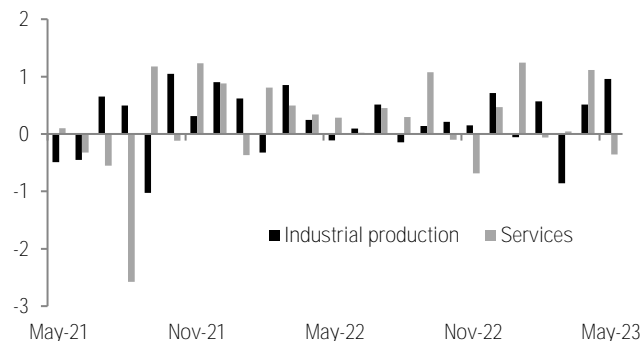
Source: INEGI

Chart 5: Global economic activity indicator
% m/m sa



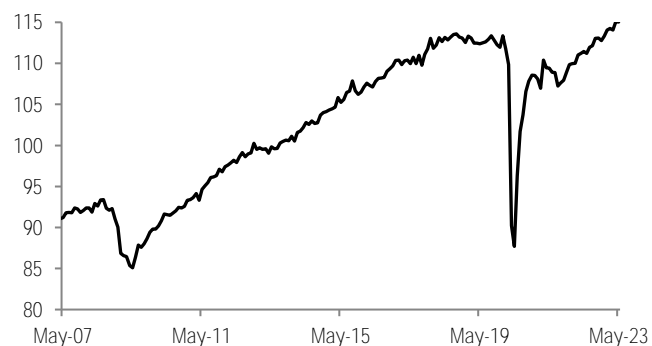
Source: INEGI

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



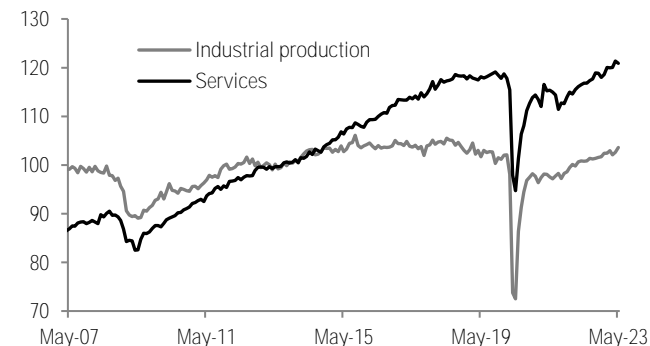
Source: INEGI

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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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalia Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, 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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