

2Q23 GDP – Dynamism continues, once again supported by services

- **Gross Domestic Product (2Q23 P, nsa): 3.7% y/y; Banorte: 3.6%; consensus: 3.3% (range: 3.0% to 3.7%); previous: 3.7%**
- **Gross Domestic Product (2Q23 P, sa): 0.9% q/q; Banorte: 0.9%; consensus: 0.8% (range: 0.5% to 1.0%); previous: 1.0%**
- **Sequential performance was very strong, supported by services (1.0% q/q), but with industry (0.8%) and primary activities (0.8%) also climbing**
- **These figures imply that the economy picked up around 0.4% m/m in June (3.9% y/y), driven by services and industry**
- **The result is consistent with a strong economy, with resilient fundamentals and weathering external risks favorably. As such, we believe risks to our full-year 2.7% forecast are skewing to the upside**
- **Revised figures will be published on August 29th. This will also include a change to the base year for national accounts, from 2013 to 2018**

GDP maintains a strong pace throughout the second quarter. The economy grew 3.7% y/y in 2Q23 ([Chart 1](#)), above market expectations (3.3%), but closer to our forecast (3.6%). We believe that activity remains in a very favorable position, with domestic sectors providing a relevant boost, while external-facing categories are performing relatively well amid more challenging conditions. By sectors, primary activities climbed to 2.5% y/y, industry reached 2.6%, and services were an inch lower at 4.2%, as seen in [Chart 2](#). With seasonally adjusted figures growth was very similar, at 3.6% y/y ([Table 1](#)).

Sequential print reaffirms the upward trend. Specifically, the economy expanded 0.9% q/q ([Chart 3](#)), stringing seven consecutive quarters with increases. Despite implying a marginal decline relative to 1Q23 (at 1.0%), it is still very favorable. In our view, some factors that played a key role included: (1) Strong consumption dynamism, bolstered by resilient fundamentals, lower price pressures and MXN appreciation; (2) an acceleration in construction, helped both by public and private projects; and (3) progress in manufacturing, with demand from the US holding steady despite a more challenging global outlook.

By sectors, services led once again at 1.0% q/q ([Table 2](#)). We do not have sector-level information yet as this is the preliminary report. Strength could have been centered in wholesales, transportation, and retail sales. In addition, we expect some improvements in lodging and entertainment in the last month after a strong increase in April and a relevant adjustment lower in May, supported by timely figures, including transactional data.

Industry picked up 0.8% ([Chart 4](#)). Available data showed construction strength—especially civil engineering—, with mining also positive, but with manufacturing mixed. The sector remains in a more challenging spot relative to services, with mounting headwinds from abroad.

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Nevertheless, US resilience and dynamism in some construction categories should provide relevant support. Lastly, primary activities expanded 0.8%, with better weather conditions likely helping.

Activity likely rebounded in June. The monthly GDP-proxy (IGAE) averaged 3.5% y/y in April-May, so today's result implies 3.9% y/y in the last month of the quarter (nsa). This would be consistent with +0.4% m/m, regaining dynamism after a pause in May (0.0%). Within industry (+0.2% m/m), IMEF's PMI manufacturing climbed to 50.9pts, albeit with some negative signs for autos –both from AMIA figures and the trade balance. Nevertheless, construction and mining could have been more stable at the margin. On services (+0.4%) signals are better. ANTAD's sales rebounded strongly while tourism indicators remained relatively favorable. Lastly, primary activities (-0.6%) would have been impacted by more challenging weather conditions.

Good results, expecting domestic resilience to continue despite headwinds from abroad. The print was practically in line with our call, inserting some mild upside risks to our [full-year GDP forecast at 2.7%](#). However, we reiterate this estimate as conditions in the second half of the year seem more challenging. Despite continued US strength (with GDP for the period at 2.4% q/q saar), we believe the pace of expansion will moderate through 2H23. In addition, weakness across other regions, including China and Europe, could also weigh on global demand and thus impact some manufacturing categories. Nevertheless, we think that resilience in consumer fundamentals, tailwinds from nearshoring, and increased government spending in key infrastructure projects will remain as positive drivers for some internal-facing sectors.

On external factors, Eurozone PMIs in July showed an additional contraction, while figures in China were mixed –with a slight uptick in manufacturing but with services lower. Turning to the US, these indicators also diverged, with manufacturing accelerating to 49.0pts (although still in contraction), but with services moderating to 52.4pts. If signs of a global demand slowdown persist, we would expect local producers to moderate output. Another adverse effect is MXN strength, reducing export competitiveness as these become more expensive in foreign currency.

Locally, [employment bounced back strongly in June](#), a situation which we believe will extend further and provide key support. As such, consumption –and services– should maintain healthy expansions. On construction, PPI finally declined in the last month of the quarter, providing some relief for the residential sector, which has lagged. Moreover, industrial construction and civil engineering projects will likely remain as main drivers, with the former boosted by nearshoring, while the latter remains underpinned by government spending. As such, we must remember that the federal government's goal is to finish priority projects, such as the *Mayan Train*, by the end of the year, which could result in additional outlays. However, we remain wary over inflation, with some evidence of a possible rebound in non-core prices (agricultural goods and energy) due to *El Niño* phenomenon. In addition, we expect some challenges for mining in coming months in the aftermath of an explosion in the *Nohoch Alfa* platform in the Cantarell region early in the month.

Lastly, for revised figures –to be published on August 29th– we cannot rule out more sizable changes as they will be accompanied by a modification of the base year for national accounts. We must remember that every five years, INEGI updates these figures –matching the periodicity of the economic census– to better reflect economic trends. As such, the new reference will be 2018 vs 2013 currently. Considering that historical series will also suffer adjustments, we will evaluate if our forecasts need to be adjusted or if they can stand unchanged.

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

	nsa						sa					
	2023	1Q23	2Q22	1Q22	Jan-Jun'23	Jan-Jun'22	2023	1Q23	2Q22	1Q22	Jan-Jun'23	Jan-Jun'22
Total	3.7	3.7	2.4	1.9	3.7	2.1	3.6	3.7	2.2	1.8	3.6	2.0
Agricultural	2.5	2.3	-0.1	-0.2	2.4	-0.1	2.5	2.9	0.0	0.5	2.7	0.2
Industrial production	2.6	2.5	3.3	3.0	2.5	3.1	2.6	2.4	3.2	2.9	2.5	3.1
Services	4.2	4.3	1.7	1.1	4.2	1.4	4.1	4.2	1.5	1.1	4.1	1.3

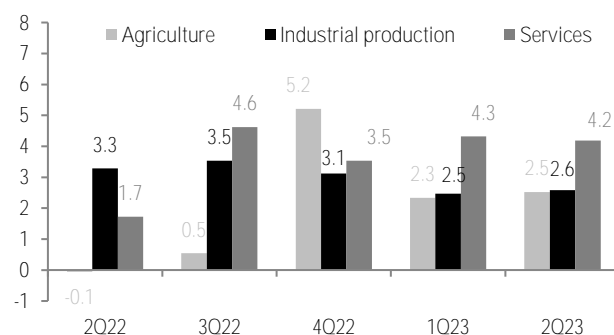
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



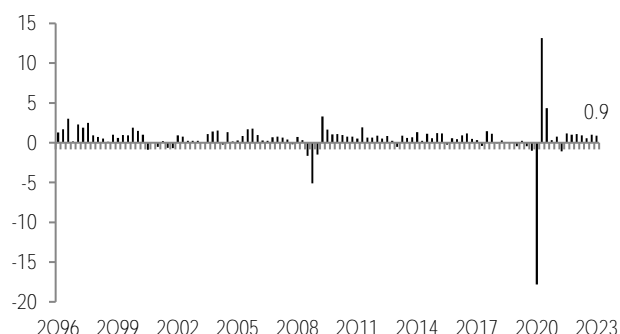
Source: INEGI

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

	% q/q				% q/q saar			
	2023	1Q23	4Q22	3Q22	2023	1Q23	4Q22	3Q22
Total	0.9	1.0	0.6	0.9	3.7	4.1	2.3	3.7
Agricultural	0.8	-2.8	2.7	1.9	3.2	-10.6	11.1	8.0
Industrial Production	0.8	0.6	0.5	0.6	3.2	2.4	2.0	2.3
Services	1.0	1.5	0.3	1.1	4.1	6.0	1.1	4.6

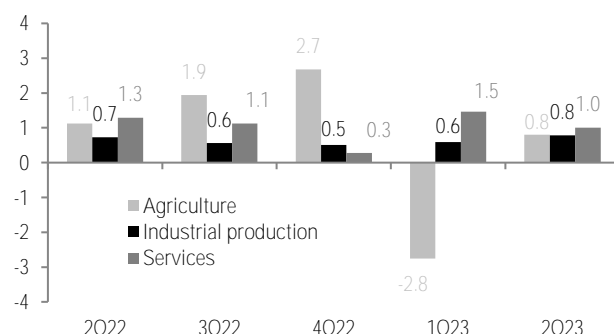
Source: INEGI

Chart 3: GDP
% q/q sa



Source: INEGI

Chart 4: GDP by sectors
% q/q sa



Source: INEGI

Table 3: GDP 2023: Supply
% y/y nsa: % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	3.7	3.7	<u>2.6</u>	<u>1.1</u>	<u>2.7</u>
Agricultural	2.3	2.5	<u>2.3</u>	<u>1.7</u>	<u>2.2</u>
Industrial production	2.5	2.6	<u>1.3</u>	<u>-0.3</u>	<u>1.5</u>
Services	4.3	4.2	<u>3.1</u>	<u>1.7</u>	<u>3.3</u>
% q/q					
GDP	1.0	0.9	<u>0.1</u>	<u>-0.3</u>	--

*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

Table 4: GDP 2023: Demand
% y/y nsa: % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	3.7	3.7	<u>2.6</u>	<u>1.1</u>	<u>2.7</u>
Private consumption	4.8	<u>4.6</u>	<u>4.3</u>	<u>2.1</u>	<u>3.9</u>
Investment	9.5	<u>8.0</u>	<u>6.8</u>	<u>1.0</u>	<u>6.2</u>
Government spending	0.7	<u>0.6</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>
Exports	-1.4	<u>0.6</u>	<u>1.3</u>	<u>1.1</u>	<u>0.4</u>
Imports	9.6	<u>5.7</u>	<u>2.3</u>	<u>-0.1</u>	<u>4.2</u>
% q/q					
GDP	1.0	0.9	<u>0.1</u>	<u>-0.3</u>	--

*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

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