

Mexico Economics – View from the Top

- We expect +0.3% m/m in July's industrial production, while we are watching headwinds for the auto sector in the short-term
- Week with few publications, only including ANTAD sales

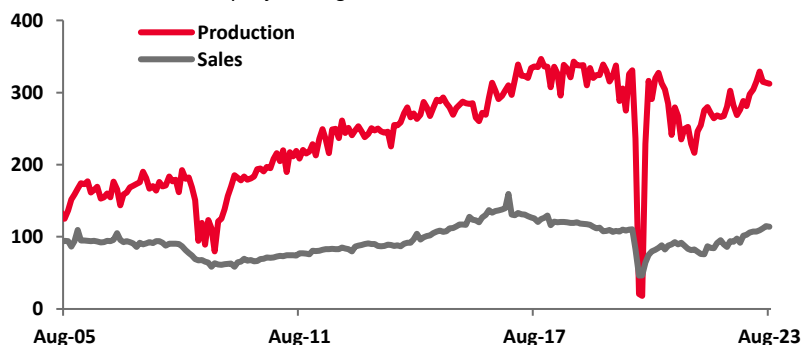
We expect some resilience in July's industrial production. We anticipate +0.3% m/m (4.6% y/y). This would be its fifth month of expansion, constituting a relevant driver –though not the most important– of the positive surprises in this year's economic growth. In turn, it would happen despite the weakening of goods' consumption relative to services in the US (our main trading partner) since at least the end of 2021. As such, we remain cautious about dynamism going forward given the heterogeneity seen among the different sectors. Similarly, leading indicators such as business confidence and aggregate trends show high volatility, suggesting that producers think the outlook remains uncertain.

Manufacturing strong despite a global slowdown... We expect them to grow 0.5% m/m (1.1% y/y). In our view, they have been affected by the global demand slowdown for goods. Along with an improvement in supply chains, this has provided some relief to inflationary pressures. Peso strength against the dollar has also played a role here, but on the negative side, it may also have been a headwind for competitiveness. Tentative evidence of this includes the relative strength of [imported goods' consumption](#) and [imports](#).

...with risks to the auto sector, although it maintains a promising outlook. Autos remain strong. In the short term, we are closely following the evolution of negotiations between the autoworkers' union and US automakers, given the high degree of integration of North American value chains. A work stoppage would be a new challenge. In our country we have already had some negative news, highlighting stoppages in some VW production lines at the end of August. On the other hand, the arrival of new brands to Mexico –especially from China, in the context of nearshoring– amid domestic demand strength has boosted sales. According to AMDA's president Guillermo Rosales, light vehicle sales in the first eight months of the year exceeded those made during the same period of 2019 by 0.4%; in August alone, they grew 24% y/y. We continue to have news of plant expansions and plans for new investments, which will initially help construction, and later, production. In this context, auto production and exports in August grew 2.8% and 15.7% y/y, respectively.

Auto production and sales

Thousand units, seasonally adjusted figures



Source: Banorte with data from INEGI



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com



[@analisis_fundam](http://www.banorte.com/analisis-economico)

Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*



Document for distribution among the general public

Construction would string three months of gains, up 0.1% m/m (+21.4% y/y). The sector has benefited from: (1) Government spending on key infrastructure projects; and (2) interest in industrial spaces. However, the residential branch has been held back by high interest rates and elevated input prices, although the latter seem to have resumed their downward trend. Despite this, strength in other areas has been notable, revitalizing after years of moderate spending. On the first point, the proposed budget for 2024, which had not been published at the time this publication closed, will probably include higher spending to accelerate works on priority projects –focused on the Mayan Train, as well as the Dos Bocas refinery, and the Trans-isthmus corridor– to finish them before the presidential term ends.

On the contrary, in mining we see a correction of -1.1% m/m (+1.5% y/y), dragged by the oil sector. At the beginning of the month, Pemex's *Nohoch-Alfa* platform in the coast of Campeche suffered a fire. As a result, average daily production in the month dipped by 43 thousand barrels per day (about 2.3% of the total), according to the company. The non-oil sector could remain more subdued, with some pessimism about China's growth still weighing. Recent stimulus measures in said country have improved the outlook –boosting commodity prices– which could encourage producers. Nevertheless, caution is likely as skepticism prevails about a possible Chinese rebound, the world's leading consumer of industrial commodities.

Oil production

Thousand barrels per day (includes condensates)



Source: PEMEX

Despite resilience in some industrial sectors, services will remain as the main support of GDP.

We believe that the gap between sectors within industry could exacerbate. Those related to the domestic economy –mainly construction, but also some branches of manufacturing– would remain stronger relative to those heavily dependent on external demand. Although we continue to expect US resilience, we believe dynamism will be centered on services, with industrial activity moderating.

Calendar of economic events

Date	Time (ET)	Indicator	Period	Unit	Banorte	Consensus	Previous
Mon 11-Sep	8:00am	Industrial production	July	% y/y	4.5	3.7	4.9
		Industrial production*		% m/m	0.3	--	0.7
		Mining*		% m/m	-1.1	--	-0.4
		Utilities*		% m/m	2.5	--	-1.8
		Construction*		% m/m	0.1	--	3.0
		Manufacturing*		% m/m	0.5	--	0.6
Mon 11-Sep	11:00am	MoF's conference call with analysts regarding the 2024 Budget Proposal					
Mon 11-Sep		ANTAD: Same-store sales	August	% y/y in real terms	--	--	1.4
Tue 12-Sep	11:00am	International reserves	Sep-8	US\$ billion	--	--	204.2
Tue 12-Sep	11:00pm	Government weekly auction: 1-, 3-, 6-, and 24-month Cetes; 3-year Mbono (Sep'26); 3-year Udibono (Dec'26) and 1-, and 3-year Bondes F					

*Seasonally adjusted figures; Source: Banorte with figures from INEGI, Banxico, and Bloomberg

Analyst Certification.

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.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document up dated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

Directory

Research and Strategy



Raquel Vázquez Godínez
Assistant
raquel.vazquez@banorte.com
(55) 1670 - 2967



María Fernanda Vargas Santoyo
Analyst
maria.vargas.santoyo@banorte.com
(55) 1103 - 4000 x 2586

Economic Research



Juan Carlos Alderete Macal, CFA
Executive Director of Economic Research and Market Strategy
juan.alderete.macal@banorte.com
(55) 1103 - 4046



Yazmín Selene Pérez Enríquez
Senior Economist, Mexico
yazmin.perez.enriquez@banorte.com
(55) 5268 - 1694

Market Strategy



Manuel Jiménez Zaldívar
Director of Market Strategy
manuel.jimenez@banorte.com
(55) 5268 - 1671



José Itzamna Espitia Hernández
Senior Strategist, Equity
jose.espitia@banorte.com
(55) 1670 - 2249



Leslie Thalía Orozco Vélez
Senior Strategist, Fixed Income and FX
leslie.orozco.velez@banorte.com
(55) 5268 - 1698



Juan Carlos Mercado Garduño
Strategist, Equity
juan.mercado.garduno@banorte.com
(55) 1103 - 4000 x 1746

Quantitative Analysis



Alejandro Cervantes Llamas Executive
Director of Quantitative Analysis
alejandro.cervantes@banorte.com
(55) 1670 - 2972



José De Jesús Ramírez Martínez
Senior Analyst, Quantitative Analysis
jose.ramirez.martinez@banorte.com
(55) 1103 - 4000



Andrea Muñoz Sánchez
Analyst, Quantitative Analysis
andrea.muñoz.sanchez@banorte.com
(55) 1103 - 4000



Alejandro Padilla Santana
Chief Economist and Head of Research
alejandro.padilla@banorte.com
(55) 1103 - 4043



Itzel Martínez Rojas
Analyst
itzel.martinez.rojas@banorte.com
(55) 1670 - 2251



Francisco José Flores Serrano
Director of Economic Research, Mexico
francisco.flores.serrano@banorte.com
(55) 1670 - 2957



Cintia Gisela Nava Roa
Senior Economist, Mexico
cintia.nava.roa@banorte.com
(55) 1103 - 4000



Marissa Garza Ostos
Director of Equity Strategy
marissa.garza@banorte.com
(55) 1670 - 1719



Carlos Hernández García
Senior Strategist, Equity
carlos.hernandez.garcia@banorte.com (55) 1670 - 2250



Isaías Rodríguez Sobrino
Analyst, Fixed Income, FX and Commodities
isaias.rodriguez.sobrino@banorte.com
(55) 1670 - 2144



Lourdes Calvo Fernández
Analyst (Edition)
lourdes.calvo@banorte.com
(55) 1103 - 4000 x 2611



Katia Celina Goya Ostos
Director of Economic Research, Global
katia.goya@banorte.com
(55) 1670 - 1821



Luis Leopoldo López Salinas
Economist, Global Internacional
luis.lopez.salinas@banorte.com
(55) 1103 - 4000 x 2707



Víctor Hugo Cortes Castro
Senior Strategist, Technical
victorh.cortes@banorte.com
(55) 1670 - 1800



Hugo Armando Gómez Solís
Senior Analyst, Corporate Debt
hugoa.gomez@banorte.com
(55) 1670 - 2247



Gerardo Daniel Valle Trujillo
Analyst, Corporate Debt
gerardo.valle.trujillo@banorte.com
(55) 1670 - 2248



Miguel Alejandro Calvo Domínguez
Senior Analyst, Quantitative Analysis
miguel.calvo@banorte.com
(55) 1670 - 2220



Jazmin Daniela Cuautencos Mora
Strategist, Quantitative Analysis
jazmin.cuautencos.mora@banorte.com
(55) 1103 - 4000