Economic and Financial Markets Research
Economic Research, Mexico

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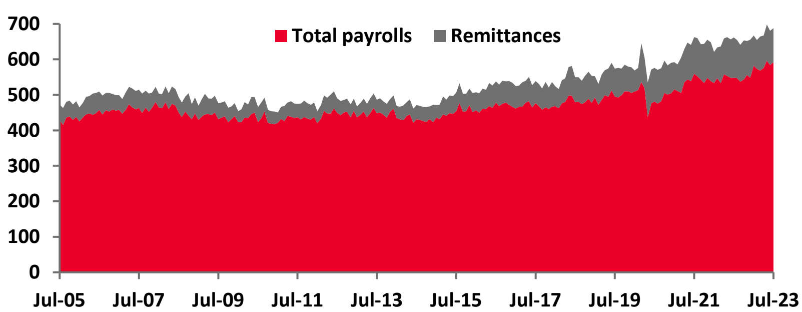
Mexico Economics – View from the Top

- **Economic activity would have grown 0.3% m/m in July, boosted by both industry and services**
- **Inflation in 1H-September to be swayed by seasonal patterns, with a modest relief in energy prices**
- **Other relevant releases include 2Q23's aggregate demand and retail sales for the seventh month of the year**

The economy would have maintained its upward trend in July. We expect 0.3% m/m in the GDP-proxy IGAE for the period, adding four months of increases. Although industry has provided some support –particularly construction–, the main growth driver continues to be services, which we expect to advance by the same magnitude.

Consumption fundamentals are key to explaining dynamism in services... These include job creation, remittances' growth, and banking credit. Regarding the former, figures up to July have been positive –with new jobs accompanied by significant wage gains. In our view, the outlook remains quite favorable, based on a more constructive outlook for the economy. In line with this, and according to *ManpowerGroup*, expectations for the remainder of the year are positive in all sectors, with 'information technologies' as the most competitive. Turning to remittances, migrants' employment in the US may remain strong, especially for some sectors that tend to employ a significant number of migrants (such as construction). According to Jesús Cervantes, CEMLA's Director of Economic Statistics, and guest in our podcast, *Norte Económico*, there are also other positive structural factors such as higher citizenship levels and/or legal work permits. On the other hand, some risks persist in the US economy due to the lagged effects of interest rate hikes, which could impact the labor market next year. For us, the balance so far is clearly positive, contributing very significantly to household income growth, which comes on top of the normalization of spending in these categories after the pandemic. For example, at the close of 2Q23, sectors such as 'accommodation and restaurants' and 'others' were still below the levels seen before COVID-19.

Total payrolls and remittances
$ billion in real terms (indexed to July 2023)*



*Remittances are expressed in local currency terms using the average '*fix*' exchange rate for the month. For figures in real terms, the historical series are 'inflated' based on most recent data.
Source: Banorte with data from INEGI and Banxico

...although they have also impacted prices. We believe high aggregate demand and wage pressures –in addition to expectations of higher prices in some inputs– in some services have been responsible for the resistance to decline of this component of core inflation. In this context, CPI for the 1st half of September will be published on Friday, expecting +0.21% 2w/2w (4.40% y/y) in the headline, with the core at +0.19% (5.70% y/y).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Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

Sector dynamics seem to show diverging trends. In the recreational and tourism categories, 'entertainment' has grown strongly in recent months, which we believe is due to families' preference to spend an increased share of their budgets on experiences. However, this has not been seen in 'lodging and restaurants', contracting in May and June. Historically, the correlation between them has been high, which we attribute to the fact that people tend to spend more on these items when their economic situation is more favorable. Given this, potential explanations for current differences could include: (1) An increase in visits to family members, resulting in a lower need for lodging; and (2) growth of private lodging services such as *AirBnb*. In either case, hotel occupancy data suggests an acceleration –on top of the usual seasonal boost from summer vacations–, so weakness could be concentrated in restaurants, perhaps impacted by renewed increases in food prices. We will also keep an eye on transportation. Short-term challenges include the dynamics within manufacturing and rising fuel prices, although demand for recreational travel continues. In commerce, we anticipate +0.2% m/m in retail sales, highlighting as a further catalyst recent Mexican peso strength that has helped imported goods. On the latter, auto and ANTAD sales suggest a slight moderation. However, Concanaco-Servytur expects 12.2% y/y growth in revenues and sales in September because of the spillover from Independence Day celebrations this weekend.

For 2024, consumption –and therefore services– will probably stay as the spearhead for the economy. So far this year, consumption has advanced at significant rates. We expect this to be corroborated in the aggregate demand report, to be released on Monday. Another area with a surprisingly strong recovery has been investment, underpinned by government spending and interest related to nearshoring. We think that domestic demand will remain quite buoyant, even despite our view of a moderation in GDP during 2H23 and next year. In addition to our belief that fundamentals will be resilient, an important driver for consumption will be transfers from government social programs, at least according to the amounts earmarked in the *2024 Budget Proposal*.

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 18-Sep	8:00am	Aggregate supply and demand	2Q23	% y/y	4.2	4.4	5.2
		Private consumption		% y/y	4.4	--	4.8
		Investment		% y/y	22.3	--	15.2
		Government spending		% y/y	2.7	--	1.3
		Exports		% y/y	-6.4	--	0.0
		Imports		% y/y	5.7	--	8.6
Tue 19-Sep	8:00am	Timely Indicator of Economic Activity*	August	% y/y	--	--	3.4
Tue 19-Sep	11:00am	International reserves	Sep-15	US$ bn	--	--	203.9
Tue 19-Sep	11:00am	Weekly government auction: 1-, 3-, 6-, and 12-month Cetes; 10-year Mbono (May'33); 20-year Udibono (Nov'43) and 2-, and 5-year Bondes F					
Wed 20-Sep	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Thu 21-Sep	8:00am	Retail sales	July	% y/y	5.1	4.8	5.9
		Retail sales*		% m/m	0.2	0.0	2.3
Fri 22-Sep	8:00am	CPI inflation	1Q-Sep	% 2w/2w	0.21	0.29	0.26
		CPI inflation		%y/y	4.40	4.50	4.60
		Core		%2w/2w	0.19	0.26	0.08
		Core		%y/y	5.70	5.77	5.96
Fri 22-Sep	8:00am	Monthly GDP-proxy IGAE	July	% a/a	3.5	3.9	4.1
		Monthly GDP-proxy IGAE*		% m/m	0.3	0.2	0.5
		Primary activities*		% m/m	-0.4	--	-1.0
		Industrial production*		% m/m	0.5	--	0.8
		Services*		% m/m	0.3	--	0.4

*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 Thalía 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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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.

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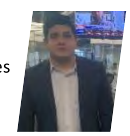

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