

GDP-proxy IGAE – Resilience extended to the start of 3Q23

- **Monthly GDP-proxy IGAE (July): 3.2% y/y; Banorte: 3.5%; consensus: 3.6% (range: 3.0% to 4.5%); previous: 4.1%**
- **In sequential terms, this implies a 0.2% m/m expansion, adding four months to the upside**
- **By sectors, industry led the expansion at 0.5% –driven by construction. Services declined 0.1%, noting declines in 8 of its 14 categories. Primary activities fell for a second month in a row at -0.2%**
- **We believe that economic activity will continue growing, with strong fundamentals as key to underpin services. However, we are more uncertain about industry despite strength in construction, looking to gauge the possible spillovers from the strike in the US auto sector**

Economic activity grew 3.2% y/y in July. This was lower than consensus (3.6%) and our estimate (3.5%). With seasonally adjusted figures, growth came in higher at 3.5% y/y ([Chart 1](#)), despite the absence of differences in working days relative to last year. Back to original figures, industry led at 4.8% ([Chart 3](#)), with services at 2.2% ([Chart 4](#)). On the other hand, primary activities came in at 3.7%, still volatile ([Chart 2](#)). For more details, see [Table 1](#).

Further industry gains, with services inching back. Activity grew 0.2% m/m ([Chart 5](#)), adding four consecutive months of gains, although moderating slightly at the margin. Conditions for activity remained positive overall, with industry boosted strongly by construction. Within services, we believe household consumption remained strong, albeit with a challenging base effect coming into play. In this context, activity extended its upward trend ([Chart 7](#)).

Industry advanced 0.5% ([Chart 6](#)), with a mostly favorable bias inside. Once again, the relevant note was related to construction, up 2.0% –its third month of notable increases. In this regard, the drivers remained the same, with significant spending on infrastructure by the federal government and higher demand for industrial spaces across the country. Manufacturing was resilient, growing 0.3% and supported by improvements in the auto sector. Finally, we highlight the 2.6% drop in mining, with PEMEX's incident at the beginning of the month impacting output. Primary activities fell 0.2%, adding two months lower and in our view affected by harsher weather conditions, including an extension of the drought, along other disruptions.

Services declined 0.1%, although only after a 0.4% expansion in the previous month. We believe consumer fundamentals have been key to explain the progress achieved so far in the year. For the period, we highlight that [wages continued to rise](#), job gains resumed, remittances inflows kept strengthening –despite MXN appreciation– and consumer loans were healthy. However, [inflationary pressures](#) have started to show some warning signs. Inside, performance was mixed, with eight of the fourteen categories lower. The most notable declines were in tourism and leisure categories, such as entertainment (-34.2%, albeit with a challenging base) and lodging and restaurants (-1.6%; adding three months lower). Other setbacks were seen in professional services (-4.8%) along with business support (-5.1%). We note the -0.9% in retail sales, contrasting with the [stand-alone report](#). Lastly, and on a more favorable note, wholesales rebounded at 2.0%. For further details, refer to [Table 2](#).

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Services will likely maintain a positive trend, with conditions turning more negative for some sectors in industry. Today's results signal that activity in 3Q23 got underway on the right foot, albeit likely at a more modest pace relative to the last few quarters. We believe a stronger divergence between sectors is more likely, with agriculture under threat from difficult climate conditions and with shocks in industry contrasting with positive drivers for services.

On industry, we are most worried about autos, as it has been the key driver for manufacturing in the last couple of months. Our concern stems from the strike in the US by the UAW, which is impacting production of GM, Ford, and Stellantis. All three companies are connected to our country, both through direct production and auto parts purchases. While the strikes have occurred at targeted plants since last Thursday, we are waiting for further announcements later today as they could be extended to additional locations. Regarding the US, Goldman Sachs estimates that 7 days of strike result in a cost between US\$100 million and US\$125 million to the US economy. Domestically, the *National Autoparts Industry Association* (INA in Spanish) estimates that production in the same time span could decline by US\$76 million. Another rising challenge is the stoppage of trains run by Ferromex through some parts of the Gulf coast, which impacted the transit of around 60 trains. Despite operations resuming rapidly, the risk of new disruptions remains. This is relevant as other sectors within manufacturing are also facing additional headwinds, such as: (1) The poor performance of Chinese activity, which could impact both supply and demand of some goods; (2) higher energy prices, putting renewed pressures on production and freight costs; (3) MXN strength, which has impacted export competitiveness; and (4) lingering doubts about the future of US industry, which has stagnated throughout the year.

Turning to services, we believe fundamentals will remain resilient. Further gains in wages, progress in employment and remittances will likely continue during the rest of the year. Another key support has been the continuation of social programs' transfers, which [will receive a notable increase in 2024](#). As such, early data for the sector shows signs of optimism. However, the pace could be more modest relative to 1H23, considering: (1) Heightened risks for inflation, with likely increases across the non-core component –both in energy and agricultural items; and (2) an impact from the appreciation of the MXN on foreign tourism –with July's data showing a 3.7% m/m decline in spending from them–, just to name a few.

Table 1: GDP-proxy IGAE

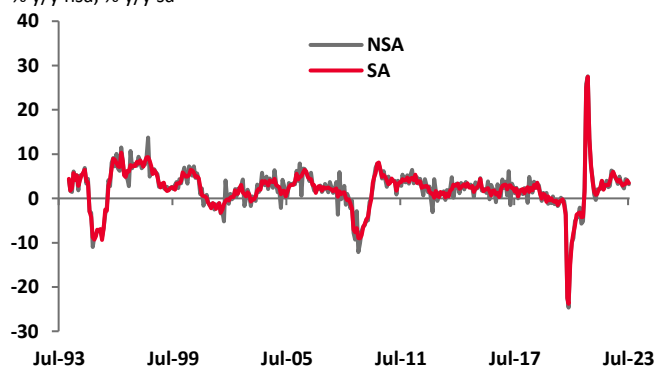
% y/y nsa, % y/y sa

	y/y, nsa				y/y, sa	
	Jul.-23	Jul.-22	Jan-Jul'23	Jan-Jul'22	Jul.-23	Jul.-22
Total	3.2	2.8	3.6	2.9	3.5	3.8
Primary activities	3.7	-3.8	2.2	0.3	4.4	-3.5
Agriculture	4.3	-6.6	2.3	-0.8	-	-
Livestock	2.7	2.2	2.0	2.5	-	-
Industrial production	4.8	4.3	3.9	4.6	4.9	5.2
Mining	-0.7	3.7	2.6	4.3	-0.5	4.0
Utilities	4.8	5.6	3.1	5.9	4.6	5.4
Construction	25.6	2.7	12.6	3.4	24.7	2.4
Manufacturing	0.8	4.6	2.0	4.8	1.1	6.2
Services	2.2	2.4	3.5	2.1	2.4	3.3
Wholesales	2.3	5.4	1.4	6.5	2.0	7.7
Retail sales	4.7	2.3	6.1	4.6	5.0	4.2
Transportation and logistics	1.9	8.0	3.9	11.8	2.0	9.5
Mass media	9.5	14.1	9.8	21.8	10.0	15.0
Financial services	6.6	1.2	6.9	1.9	6.8	1.4
Real estate	1.6	1.3	1.7	1.3	1.7	1.5
Professional services	2.2	5.2	7.7	10.8	3.9	7.8
Business support	-19.0	-53.6	-11.6	-67.4	-18.1	-53.6
Education	0.5	4.7	2.1	3.1	0.7	5.1
Healthcare	0.6	-0.1	0.8	1.6	1.1	0.5
Entertainment	-2.5	40.6	30.2	47.4	-1.2	43.5
Lodging and restaurants	1.7	13.5	5.6	33.8	3.1	15.1
Others	4.1	0.4	3.6	2.7	3.6	-0.6
Government services	-1.1	6.2	0.6	0.2	-1.4	5.7

Source: INEGI

Chart 1: GDP-proxy IGAE

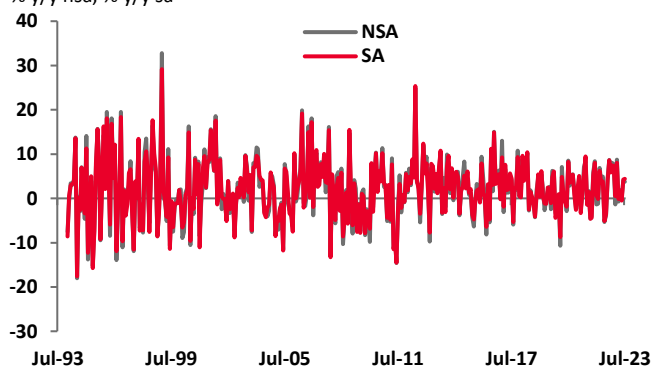
% y/y nsa, % y/y sa



Source: INEGI

Chart 2: Primary activities

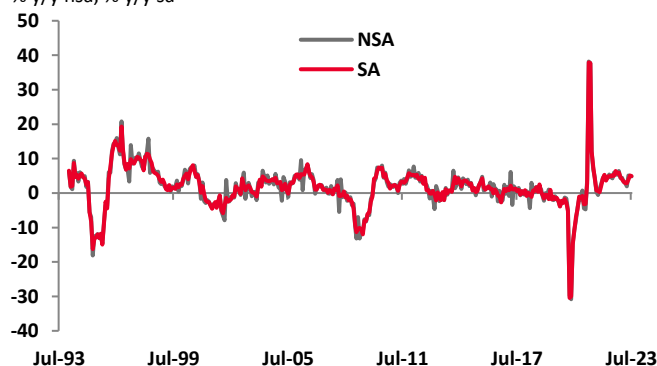
% y/y nsa, % y/y sa



Source: INEGI

Chart 3: Industrial production

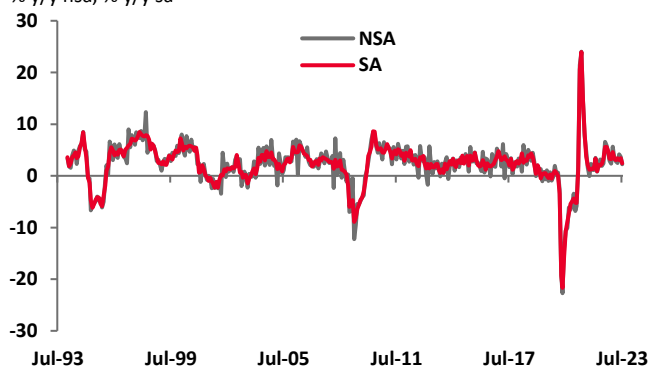
% y/y nsa, % y/y sa



Source: INEGI

Chart 4: Services

% y/y nsa, % y/y sa



Source: INEGI

Table 2: GDP-proxy IGAE

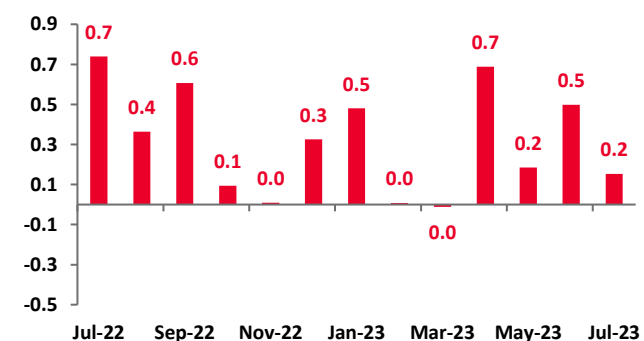
% m/m sa, % 3m/3m sa

	% m/m			% 3m/3m	
	Jul.-23	Jun.-23	May.-23	May-Jul'23	Apr-Jun-'23
Total	0.2	0.5	0.2	1.0	1.0
Primary activities	-0.2	-1.0	0.5	-0.8	0.4
Industrial production	0.5	0.8	0.9	2.0	1.4
Mining	-2.6	-0.4	0.2	-1.2	-0.1
Utilities	3.5	-2.0	2.4	0.9	-0.9
Construction	2.0	3.3	7.1	11.3	7.8
Manufacturing	0.3	0.6	-0.9	0.3	0.3
Services	-0.1	0.4	-0.1	0.6	0.8
Wholesales	2.0	-0.6	0.9	2.0	1.5
Retail sales	-0.9	2.4	-1.9	-0.2	0.6
Transportation and logistics	0.7	-0.9	-0.3	-0.1	0.0
Mass media	1.6	-1.9	-6.9	-1.9	4.6
Financial services	0.0	0.2	0.8	1.3	1.4
Real estate	-0.1	0.4	0.4	0.8	0.9
Professional services	-4.8	1.4	4.0	3.3	2.7
Business support	-5.1	-1.4	-4.4	-7.3	-2.5
Education	0.0	0.7	-0.5	0.4	0.3
Healthcare	-2.2	1.6	0.7	1.0	1.3
Entertainment	-34.2	19.6	9.0	11.1	17.0
Lodging and restaurants	-1.6	-1.5	-1.1	-3.0	-3.0
Others	2.1	0.7	-0.5	-0.5	-1.7
Government services	0.9	-0.3	1.4	1.9	-0.5

Source: INEGI

Chart 5: GDP-proxy IGAE

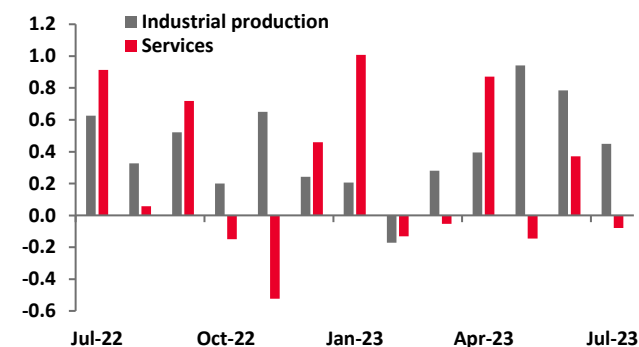
% m/m sa



Source: INEGI

Chart 6: Industrial production and services

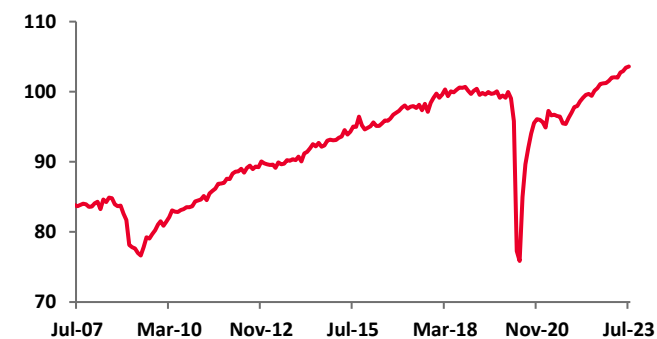
% m/m sa



Source: INEGI

Chart 7: Global economic activity indicator

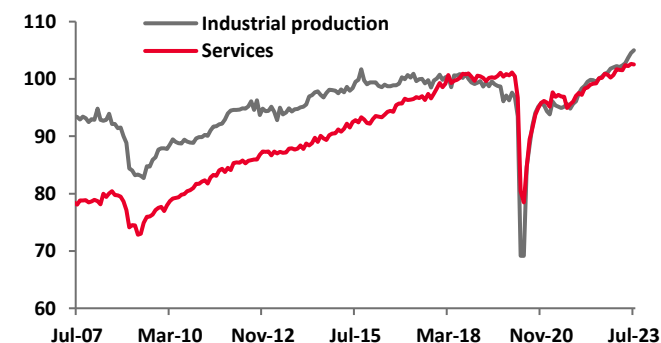
Index 100 = 2013, sa



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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