

## Mexico Economics – View from the Top

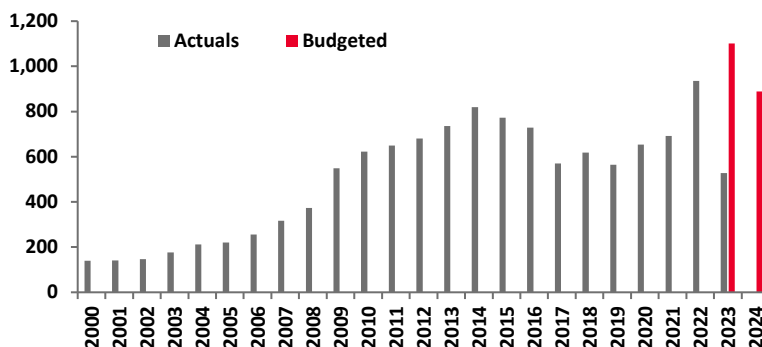
- Domestic demand figures in July will show that dynamism continued, remaining as the main driver of GDP growth
- Other relevant data in the week includes IMEF's PMIs and consumer confidence indicators for September, as well as August's remittances. We expect the latter to remain strong

**Strength in domestic demand would have continued in July.** On Tuesday, investment and consumption for the seventh month of the year will be published. We expect them to confirm that the favorable trend continued for both. Specifically, we anticipate a 1.0% m/m advance in the former (29.9% y/y), with the second expanding 0.1% (4.1%) If so, they would be in line with [more timely economic data for the period](#). We believe both will remain relatively strong for the rest of the year and into 2024, with various drivers for each one.

**Good outlook for investment in the short- and medium-term...** The sector has been benefiting from advances in construction and machinery and equipment, although with interesting dynamics inside them. On the former –which we expect at 1.7% m/m–, the non-residential component has stood out. In turn, it has been boosted by: (1) Federal government infrastructure projects (see chart below) along with some works by state authorities; and (2) interest for industrial spaces as part of nearshoring. Related to the first one, the [2024 Budget Proposal](#) shows continuity, with important resources for projects such as the *Tren Maya* (receiving \$120 billion, -19.7% y/y in real terms) and the Development of the *Istmo de Tehuantepec* (with \$21 billion; +162.3% y/y in real terms). On the latter, officials from the *Mexican Association of Private Industrial Parks* (AMPIP in Spanish), expect that 50 new parks will be developed between 2023 and 2024, with an investment of around US\$1.9 billion. According to the same association, there were 432 parks in 2022. Therefore, we consider that the outlook remains quite promising.

### Federal government spending on physical investment

Billion, nominal figures



Source: Ministry of Finance

On machinery and equipment, the imported component has had a better performance –anticipating a moderation in the month to -0.3% m/m. We believe this is mainly due to a substitution effect and advantageous purchases due to MXN strength. On the contrary, the increase in financing costs probably is the main headwind. We also keep looking into the US auto sector strike, remembering that transportation equipment is important in this category as it represents 23.1% of the total. News in this front remain negative, with the union announcing today that they will extend the strike to additional plants. In this sense, a timely figure that would show the first effects would be IMEF's manufacturing PMI for September, which we anticipate at 51.5pts (from 52.3pts in the previous month).



**Juan Carlos Alderete Macal, CFA**  
Executive Director of Economic Research and Market Strategy  
[juan.alderete.macal@banorte.com](mailto:juan.alderete.macal@banorte.com)



**Francisco José Flores Serrano**  
Director of Economic Research, Mexico  
[francisco.flores.serrano@banorte.com](mailto:francisco.flores.serrano@banorte.com)



**Yazmín Selene Pérez Enríquez**  
Senior Economist, Mexico  
[yazmin.perez.enriquez@banorte.com](mailto:yazmin.perez.enriquez@banorte.com)



**Cintia Gisela Nava Roa**  
Senior Economist, Mexico  
[cintia.nava.roa@banorte.com](mailto:cintia.nava.roa@banorte.com)



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

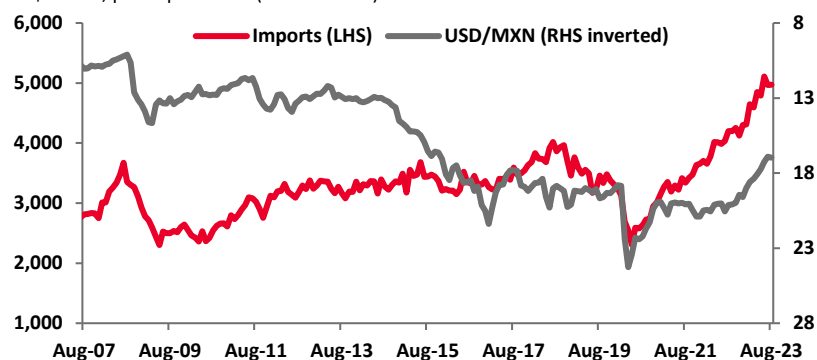
Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*



Document for distribution among the general public

## Capital goods imports and USD/MXN

US\$ billion, pesos per dollar (inverted axis)



Source: Banorte with data from Banxico and INEGI

**...while consumption will stay supported by fundamentals.** This component of aggregate demand, which represents close to 70% of GDP, has also shown strength. As we have detailed in other publications, fundamentals –mainly employment and remittances– have been key to explain this. In this regard, we await August's remittances on Monday, which we estimate at US\$5,563.2 million (+8.6% y/y). Although employment indicators for migrants backtracked at the margin, we believe their employment situation remains very solid. In turn, the relative strength of the Mexican economy will continue supporting a tight domestic labor market, which will also boost wage gains. In addition, we believe that another contributing factor has been social program transfers, for which an expansion is also contemplated in next year's budget. In the case of pensions for the elderly, the program with the most resources allocated, a 32.6% y/y growth in real terms is proposed. Using MoF estimates, the total amount represents close to 1.4% of GDP. With this in mind, we will learn about consumer sentiment indicators. We highlight IMEF's non-manufacturing PMI (Banorte: 52.9pts) and confidence (Banorte: 46.8pts) for September, both of which are expected to reinforce that the favorable trend continued.

**Domestic demand will continue driving dynamism.** We believe both items will maintain a positive trend in coming quarters, adding some upside risks to our current estimate of full-year GDP at 3.0%. However, we are cautious due to certain risks on the horizon. These include: (1) Renewed interest rate hikes, which could affect expected investment returns and durable goods' purchases; (2) inflationary pressures in energy and food, impacting overall purchasing power; and (3) higher financial volatility, which could lead to a more defensive behavior among companies and consumers, including an increase in the savings rate.

## Calendar of economic events

| Date      | Time (ET) | Event or indicator  | Period    | Unit    | Banorte        | Consensus | Previous |
|-----------|-----------|---|-----------|---------|----------------|-----------|----------|
| Mon 2-Oct | 11:00am   | Family remittances  | August    | US\$ mn | <u>5,563.2</u> | --        | 5,651.5  |
| Mon 2-Oct | 11:00am   | Banxico's survey of economic expectations   | September |         |                |           |          |
| Mon 2-Oct | 2:00pm    | IMEF's PMI survey   | September |         |                |           |          |
|           |           | Manufacturing*  |           | index   | <u>51.5</u>    | --        | 52.3     |
|           |           | Non-manufacturing*  |           | index   | <u>52.9</u>    | --        | 52.1     |
| Tue 3-Oct | 8:00am    | Gross fixed investment  | July      | % y/y   | <u>29.9</u>    | 28.0      | 28.8     |
|           |           | Gross fixed investment*   |           | % m/m   | <u>1.0</u>     | 0.0       | 3.1      |
|           |           | Machinery and equipment*  |           | % m/m   | <u>-0.5</u>    | --        | 2.1      |
|           |           | Construction*   |           | % m/m   | <u>1.7</u>     | --        | 4.2      |
| Tue 3-Oct | 8:00am    | Private consumption   | July      | % y/y   | <u>4.1</u>     | 4.8       | 4.3      |
|           |           | Private consumption*  |           | % m/m   | <u>0.1</u>     | --        | 0.3      |
|           |           | Domestic (Goods and services)*  |           | % m/m   | <u>0.3</u>     | --        | -0.1     |
|           |           | Imported (Goods)*   |           | % m/m   | <u>0.2</u>     | --        | 2.4      |
| Tue 3-Oct | 11:00am   | International reserves  | Sep-29    | US\$ bn | --             | --        | 204.1    |
| Tue 3-Oct | 11:00am   | Weekly govt. auction: 1-, 3-, 6-, and 12-month Cetes; 20-year Mbono (Nov'42) ; 3-year Udibono (Dec'26) 2-, 5-, and 10-year Bondes F |           |         |                |           |          |
| Thu 5-Oct | 8:00am    | Consumer confidence*  | September | index   | <u>46.8</u>    | --        | 46.7     |
| Thu 5-Oct | 4:30pm    | Citibanamex survey of economic expectations   |           |         |                |           |          |

\*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