October 23, 2023

GDP-proxy IGAE – Activity kept growing in August, boosted by all three sectors

- **Monthly GDP-proxy IGAE (August): 3.7% y/y; Banorte: 3.5%; consensus: 3.4% (range: 2.7% to 3.8%); previous: 3.2%**
- **In sequential terms, activity grew 0.4% m/m, adding five months of gains and corroborating that the economy is in a favorable position**
- **All sectors improved, with primary activities leading at 2.6%. Industry up 0.3% –mainly driven by construction. Services were also up by the latter magnitude, as 10 of the 14 categories were stronger**
- **We believe growth rates could moderate in the short-term, with several headwinds –mainly from abroad–already materializing. Nevertheless, domestic strength should be enough to result in smaller, albeit positive, rates through the rest of the year**

Activity grew 3.7% y/y in August. This was just above both our estimate (3.5%) and consensus. With seasonally adjusted figures, growth was slightly lower at 3.5% y/y (Chart 1). Back to original figures, industry led at 5.2% (Chart 3), with services up 2.8% (Chart 4). Lastly, primary activities were somewhat high at 3.5%, despite prevailing drought conditions throughout the country (Chart 2). For more details, see Table 1.

Broad sequential improvements. Activity grew 0.4% m/m (Chart 5), accelerating at the margin and adding five consecutive months of gains. Conditions were mainly positive. Industry was again boosted by domestic sectors (mainly construction), while consumption fundamentals remain a key support for services. These results corroborate that the positive trend in activity continues (Chart 7).

As already known, industry climbed 0.3% (Chart 6), with increases in all subsectors except for manufacturing. Construction remains as the main driver, with a fourth month of relevant increases (2.4%). In this regard, demand for industrial spaces and government spending on infrastructure stand as key supports for dynamism. Manufacturing fell 0.7%, erasing July's gains in a context of mixed signals, with non-oil exports declining, but with business confidence improving and higher demand for machinery and equipment. Lastly, we highlight mining's rebound (1.6%) with oil production recovering after an incident in the previous month. Primary activities rose 2.6%, quite positive considering harsh weather conditions, although helped in part by a more favorable base effect.

Services rose 0.3%, more than making up for July's slight decline (-0.1%). As mentioned, we consider that was supported by consumer fundamentals. We highlight wage gains, despite some job losses –albeit with services adding positions. Remittances remained strong and consumer loans kept expanding. On inflation, the annual metric moderated again. However, persistence to the upside in the core remains, a concern acknowledged by the central bank. Inside, performance was mostly positive, with ten of fourteen categories rising. We highlight entertainment (13.8%) –albeit with the expansion not enough to offset the -34.3% decline of the previous month–, and business support (5.7%). On the contrary, declines centered on financial services (-1.7%) and retail sales (-1.3%), with a more pronounced fall in the latter than in its stand-alone report. For further details, refer to Table 2.

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The pace of expansion will likely moderate in coming months, as external headwinds have materialized. Activity so far in 2023 has been quite positive relative to what we estimated at the beginning of the year. A favorable performance in household consumption, as well as an improvement in investment –both public and private– motivated an upward revision of our full-year 2023 GDP estimate to 3.3% y/y (previous: 3.0%). After an accumulated expansion of 3.7% y/y in 1H23, we expect annual growth rates for the next two quarters to be lower. However, inertial growth, and other circumstantial factors, will be key for the expansion. Regarding each sector's performance ahead, we anticipate some diverging trends to continue. Industry will remain driven by construction, but somewhat limited by manufacturing. Services will likely keep growing, albeit at a slower rate. Primary activities remain at risk amid a challenging weather outlook.

Within industry, we remain focused on the path for construction, with positive signs both for government infrastructure projects and on input prices, with the sector's PPI showing more modest increases in the last few months. Manufacturing faces additional risks, considering: (1) The UAW's strike in the US, a significant challenge for the local auto parts industry; (2) increases in oil prices that would put additional pressures on supply chains; (3) logistics issues at some border crossings –with closures at a Chihuahua's checkpoint and delays in Texas– and at ports –with an increase in queue times. Lastly, on the substitution effect between domestic and imported goods –in a context of a strong Mexican peso– one of Mexico's leading commerce chambers, CONCAMIN, acknowledges it as a headwind for local production. As such, its director, José Abugaber expressed that "*We need to consume what is made in Mexico so that the strength of domestic demand translates into higher economic growth.*"

In services, domestic demand dynamism will remain key. In this regard, our estimates of employment, wages, remittances, and credit are favorable for the rest of the year, which should keep supporting consumption. Regarding the first two, tight conditions in the labor market along with the 'lighthouse effect' of the minimum wage increase will continue driving average wages, while a strong economy keeps fostering job creation. However, the main headwind is inflation, with services high and the non-core rebounding in recent fortnights.

Lastly, primary activities will continue to be affected by: (1) Droughts, –according to CONAGUA's monitoring at the end of September, 75% of the territory showed this to some degree; (2) weak production/harvests due to rising prices and low availability of fertilizers in 2022, affecting key staples such as beans, sugar, and corn, among others; (3) the increased possibility of a harsher winter as the *El Niño* phenomenon continues to evolve; and (4) international price volatility.

Table 1: GDP-proxy IGAE

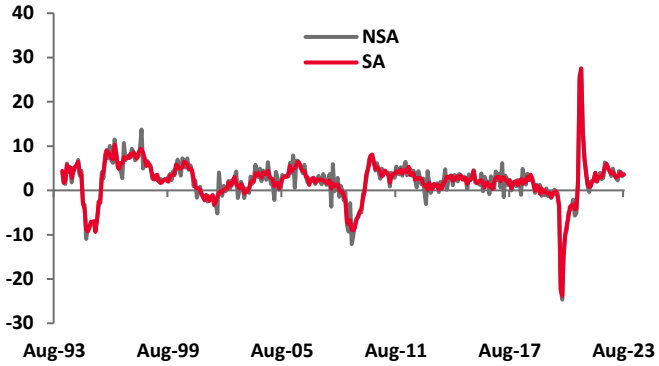
% y/y nsa, % y/y sa

	y/y, nsa				y/y, sa	
	Aug-23	Aug-22	Jan-Aug'23	Jan-Aug'22	Aug-23	Aug-22
Total	**3.7**	**6.3**	**3.6**	**3.3**	**3.5**	**5.2**
Primary activities	**3.5**	**4.5**	**2.4**	**0.7**	**2.7**	**3.6**
Agriculture	4.1	6.4	2.5	-0.2	-	-
Livestock	2.7	2.2	2.0	2.5	-	-
Industrial production	**5.2**	**6.0**	**4.1**	**4.7**	**5.0**	**4.9**
Mining	1.4	3.8	2.4	4.2	1.5	4.2
Utilities	8.9	8.2	3.9	6.2	8.9	8.1
Construction	30.8	-2.7	14.9	2.6	30.1	-3.2
Manufacturing	-0.6	8.6	1.7	5.3	-0.7	7.1
Services	**2.8**	**6.6**	**3.4**	**2.7**	**2.8**	**5.5**
Wholesales	6.4	14.4	2.0	7.4	6.1	11.3
Retail sales	3.0	3.6	5.7	4.5	3.5	2.0
Transportation and logistics	0.4	14.6	3.4	12.1	0.4	13.1
Mass media	9.0	10.6	9.7	20.3	10.3	12.6
Financial services	2.6	1.3	6.3	1.8	3.2	1.7
Real estate	1.4	2.5	1.7	1.4	1.2	2.2
Professional services	7.4	7.5	7.7	10.4	8.3	7.1
Business support	-3.2	-23.1	-10.5	-64.9	-6.3	-25.4
Education	2.2	2.8	2.1	3.1	2.6	2.7
Healthcare	1.7	-1.0	0.9	1.3	1.6	-1.2
Entertainment	-1.9	49.7	25.7	47.7	-1.9	55.1
Lodging and restaurants	1.8	21.0	5.1	32.0	1.3	20.8
Others	3.1	4.0	3.5	2.9	2.1	2.5
Government services	-0.5	1.9	0.4	0.4	-0.8	1.4

Source: INEGI

Chart 1: GDP-proxy IGAE

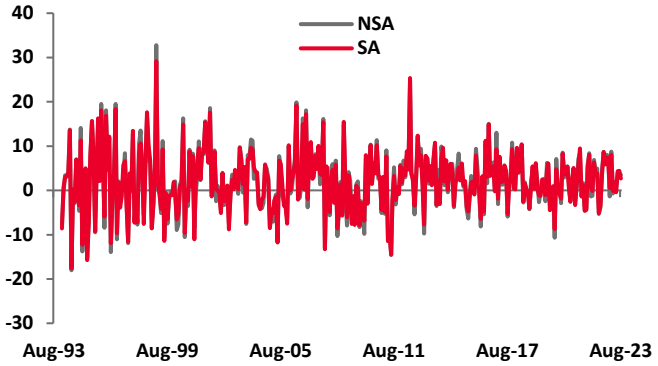
% y/y nsa, % y/y sa



Source: INEGI

Chart 2: Primary activities

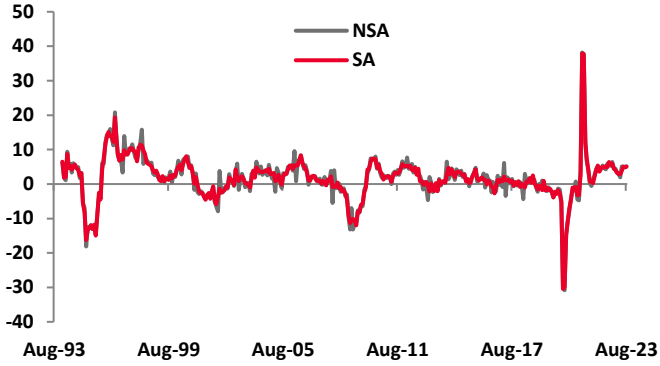
% y/y nsa, % y/y sa



Source: INEGI

Chart 3: Industrial production

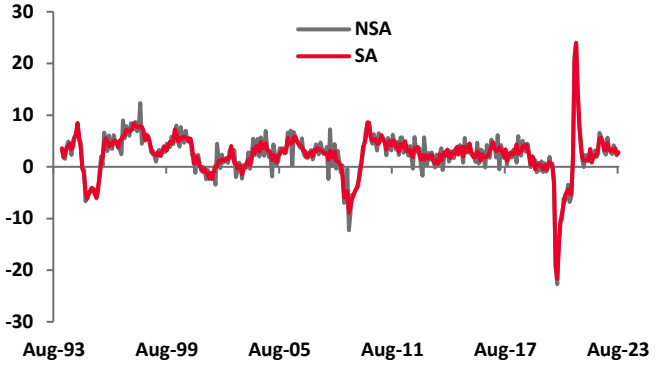
% y/y nsa, % y/y sa



Source: INEGI

Chart 4: Services

% y/y nsa, % y/y sa



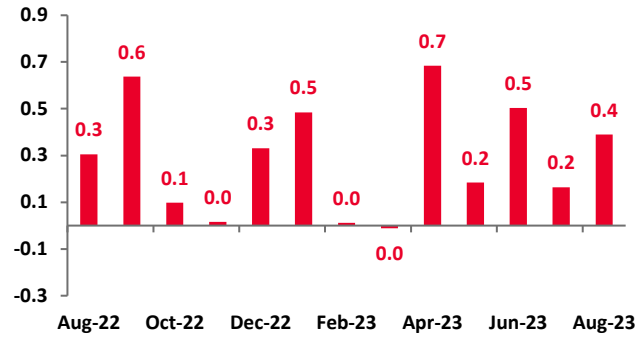
Source: INEGI

Table 2: GDP-proxy IGAE
% m/m sa, % 3m/3m sa

	% m/m			% 3m/3m	
	Aug-23	Jul-23	Jun-23	Jun-Aug'23	May-Jul'23
Total	**0.4**	**0.2**	**0.5**	**1.1**	**1.0**
Primary activities	**2.6**	**-0.2**	**-1.0**	**0.3**	**-0.7**
Industrial production	**0.3**	**0.5**	**0.8**	**2.0**	**2.0**
Mining	1.6	-2.6	-0.4	-1.2	-1.1
Utilities	2.6	4.5	-2.2	2.6	1.3
Construction	2.4	2.2	3.5	10.7	11.8
Manufacturing	-0.7	0.2	0.5	0.2	0.1
Services	**0.3**	**-0.1**	**0.4**	**0.6**	**0.6**
Wholesales	1.8	2.2	-0.5	2.5	2.2
Retail sales	-1.3	-1.0	2.2	0.1	-0.4
Transportation and logistics	0.3	0.7	-0.9	-0.1	-0.1
Mass media	-0.1	1.6	-1.9	-2.7	-2.0
Financial services	-1.7	-0.3	-0.1	-0.6	0.6
Real estate	0.3	-0.1	0.4	0.8	0.7
Professional services	2.6	-4.8	1.4	1.7	3.4
Business support	5.7	-4.6	-1.0	-4.4	-6.0
Education	0.2	0.0	0.7	0.8	0.4
Healthcare	0.5	-2.2	1.6	0.7	1.0
Entertainment	13.8	-34.3	19.2	3.3	11.2
Lodging and restaurants	2.3	-0.8	-1.1	-1.5	-2.1
Others	0.1	2.2	0.9	1.7	-0.4
Government services	-1.0	0.8	-0.4	0.9	1.8

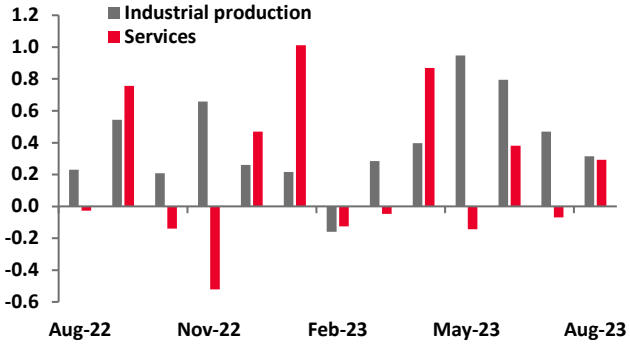
Source: INEGI

Chart 5: GDP-proxy IGAE
% m/m sa



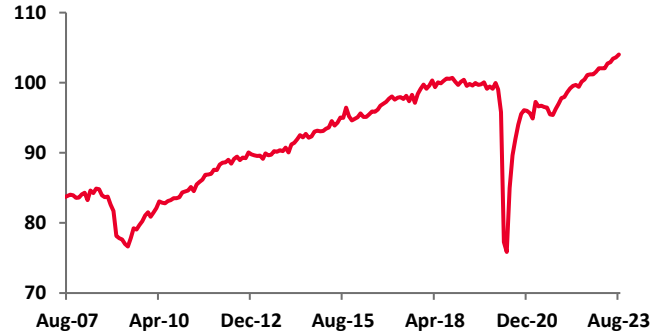
Source: INEGI

Chart 6: Industrial production and services
% m/m sa



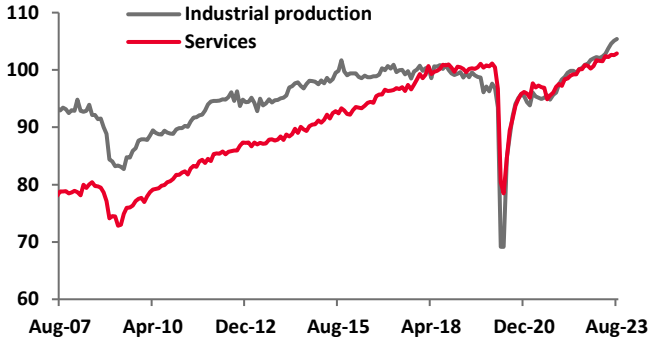
Source: INEGI

Chart 7: Global economic activity indicator
Index 100 = 2018, sa



Source: INEGI

Chart 8: Industrial production and services
Index 100 = 2018, sa



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