Economic and Financial Markets Research
Economic Research, Mexico

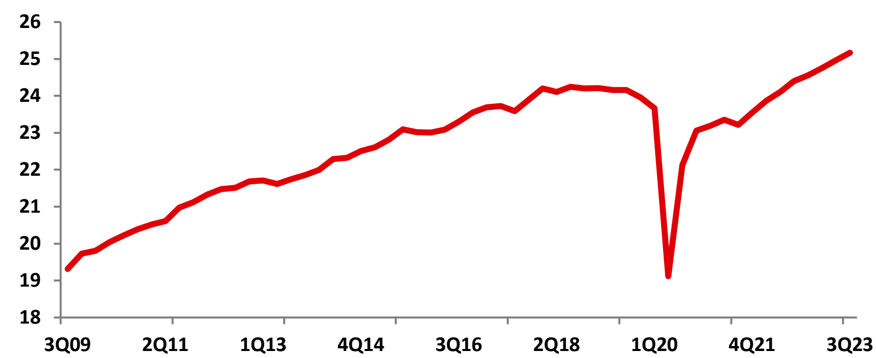
October 27, 2023

Mexico Economics – View from the Top

- **We expect 3Q23 GDP at 0.8% q/q, adding eight quarters of growth and with a relevant boost from both industry and services**
- **The short-term economic outlook seems more challenging, although performance at the start of 2024 could improve**

Economic strength likely continued in the third quarter of 2023. INEGI will publish the preliminary figure for 3Q23 GDP on Tuesday, where we expect a 0.8% q/q increase (3.2% y/y). This would match the expansion of the two previous quarters. The push would come both from industrial production (1.6% q/q) –highlighting strength in construction since May– and services (0.5%) –with a more mixed performance. Agriculture increasing (1.2%), despite a complex backdrop in terms of the country's drought conditions. If our forecast materializes, the economy would have added 8 straight quarters of expansion, its longest streak since 2015 (9 quarters), as seen in the following chart.

Gross Domestic Product
$ trillion annualized, sa



Source: Banorte with data from INEGI

Nevertheless, the outlook seems more challenging in the short-term… For the last quarter, signals so far have been more adverse, leading us to expect a more modest expansion of around 0.4% q/q. One of the largest risks stems from the UAW strike in the US, now in its sixth week –with favorable news for two of the three automakers, although expecting more concrete information still as we publish this note. We believe this is quite relevant given that manufacturing has shown signs of weakness in the last couple of months. Transportation would be most affected by this. For services, we think that the main challenge stems from inflation, expecting larger pressures at the non-core component in the next few months. In addition, latest sector data have been more volatile, particularly in discretionary items such as 'entertainment' and 'lodging and restaurants'. Nevertheless, we believe strength in fundamentals –among them family remittances, which we estimate with a positive trend in September– should offset for this. Also favorable, a major driving force will keep coming from construction, both public and private. On the former, the Minister for Communications and Transportation, Jorge Nuño Lara, mentioned that the federal government will complete at least 50 projects currently underway before the end of the presidential term. Among these, we highlight the *Tren Maya* and other works related to the *Tehuantepec Isthmus Corridor*. In the latter, NAFIN and Bancomext announced in recent weeks that they will expand their product lineup to boost the industrial real estate sector to capitalize on nearshoring trends. On this last point, the federal government also announced fiscal stimulus starting next year for 10 strategic sectors. Considering this, we maintain our full-year 2023 GDP estimate at 3.3% y/y.


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

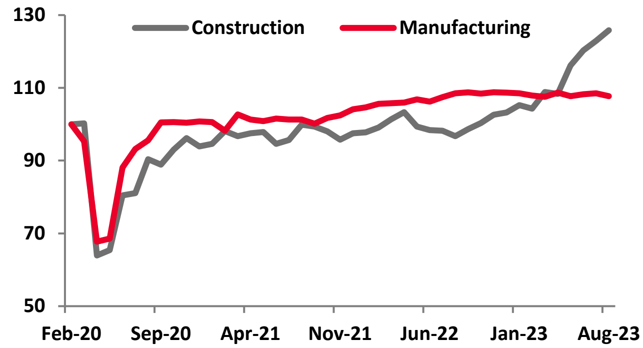
www.banorte.com/analisiseconomico
@analisis_fundam

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

FOCUS ECONOMICS
ANALYST FORECAST AWARDS
2023
#1 OVERALL FORECASTER - MEXICO

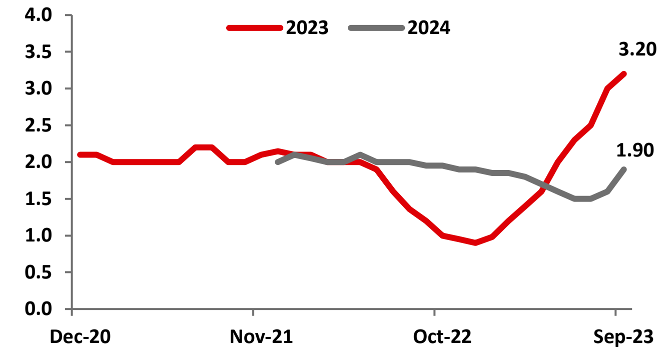
BANORTE

Construction and manufacturing
Index 100 = February 2020



Source: Banorte with data from INEGI

Banxico survey: 2023 and 2024 GDP forecasts
% y/y



Source: Banorte with data from INEGI, Banxico and FRED

...but with positive factors for growth at the start of 2024. In addition to the continuation of infrastructure works, another stimulus will come from the amount and timing of social program payments. First, the *2024 Budget Proposal* considers an expansion of 18.2% y/y in real terms in the resources assigned for priority programs. Second, we must remember that disbursements would normally be made in April and May (and some days in June). However, they will have to be brought forward to March 2024 at the latest to comply with the electoral ban. It is also very likely that the minimum wage will grow at a double-digit pace (probably between 15% to 25%) starting in January. This will increase households' disposable income.

Following this, we expect sequential contractions in 2H24. Despite of the latter, we believe that global conditions will be more complex. We anticipate a more pronounced slowdown in US consumption due to tighter credit conditions (*e.g.* higher interest rates, larger interest payments, and the resumption of student loan repayments, among other factors). This could be a drag on external demand. With a complicated base effect and the adjustment in government spending –occurring mostly before the election– we anticipate sequential declines in GDP during the second half of the year.

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 30-Oct	11:00am	Auction of 1-, 3-, 6-, and 12-month Cetes; 10-year Mbono (May'33); 3-year Udibono (Dec'26) and 2-, 5-, and 10-year Bondes F					
Mon 30-Oct		Budget balance (measured with PSBR)	September	MX$ bn	--	--	-672.9
Tue 31-Oct	8:00am	GDP	3Q23 (P)	% y/y	3.2	3.5	3.6
		GDP*		% q/q	0.8	--	0.8
		Agriculture		% q/q	1.2	--	0.7
		Industrial production		% q/q	1.6	--	1.2
		Services		% q/q	0.5	--	0.7
Tue 31-Oct	11:00am	International reserves	Oct-27	US$ bn	--	--	204.0
Tue 31-Oct	11:00am	Commercial banking credit	September	% y/y in real terms	6.0	--	6.0
		Consumption		% y/y in real terms	13.0	--	12.9
		Mortgages		% y/y in real terms	5.4	--	5.5
		Corporates		% y/y in real terms	2.7	--	2.7
Wed 1-Nov	11:00am	Family remittances	September	US$ mn	5,454.8	--	5,563.3
Wed 1-Nov	11:00am	Banxico's survey of economic expectations	October				
Wed 1-Nov	2:00pm	IMEF's PMIs	October				
		Manufacturing*		Index	50.7	--	51.5
		Non-manufacturing*		Index	52.4	--	53.3
Thu 2-Nov		Markets closed due to the Day of the Dead holiday					
Fri 3-Nov	8:00am	Gross fixed investment	August	% y/y	29.3	--	29.1
		Gross fixed investment*		% m/m	1.9	--	0.5
		Machinery and equipment*		% m/m	1.1	--	-0.9
		Construction*		% m/m	3.1	--	1.9
Fri 3-Nov	8:00am	Private consumption	August	% y/y	4.2	--	4.0
		Private consumption*		% m/m	0.5	--	0.0
		Domestic (Goods and services)*		% m/m	0.0	--	0.3
		Imported (Goods)*		% m/m	4.5	--	-1.1

*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, Paula Lozoya Valadez, 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.

Directory
Research and Strategy

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

Raquel Vázquez Godinez
Assistant
raquel.vazquez@banorte.com
(55) 1670 – 2967

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

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

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

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

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

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

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

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

Market Strategy

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

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

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

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

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

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

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

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

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

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

Paula Lozoya Valadez
Analyst, Equity
paula.lozoya.valadez@banorte.com
(55) 1103 - 4000

Quantitative Analysis

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

José Luis García Casales
Director of Quantitative Analysis
jose.garcia.casales@banorte.com
(55) 8510 - 4608

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

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

Daniel Sebastián Sosa Aguilar
Senior Analyst, Quantitative Analysis
daniel.sosa@banorte.com
(55) 1103 - 4000 x 2124

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

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