October 31, 2023

3Q23 GDP – Activity grew at a strong pace, although some risks are starting to materialize

- **Gross Domestic Product (3Q23 P, nsa): 3.3% y/y; Banorte: 3.2%; consensus: 3.2% (range: 3.0% to 3.6%); previous: 3.6%**
- **Gross Domestic Product (3Q23 P, sa): 0.9% q/q; Banorte: 0.8%; consensus: 0.8% (range: 0.8% to 0.9%); previous: 0.8%**
- **Sequential performance was very strong again, adding eight quarters of relevant expansions. We note industry (1.4% q/q), with increases also in agriculture (3.2%), and services (0.6%)**
- **These figures imply that the economy expanded around 0.5% m/m in September (3.0% y/y), driven by agriculture and services**
- **In turn, the result is consistent with other signs of strength in the economy, expecting some to extend into 4Q24. However, we recognize some risks in the short term which will likely result in more modest GDP growth in said period**
- **Considering performance so far in the year and the outlook mentioned above, we expect full-year growth in 2023 at 3.3%, with a 2.4% expansion in 2024**
- **Revised figures will be published on November 24th**

GDP kept growing at high rates in the third quarter. The economy grew 3.3% y/y in 3Q23 (Chart 1), an inch above market expectations which matched our 3.2% forecast. We believe that the economy remains in a relatively favorable position, with domestic sectors providing a relevant support. Nevertheless, categories with a larger exposure to external demand have started to show some signs of moderation, resulting in a more diverse performance across different categories. By sectors, primary activities climbed to 5.6% y/y, with industry accelerating to 4.5%. Finally, services moderated to 2.5%, noting a more challenging base effect, as seen in Chart 2. With seasonally adjusted figures, growth was the same at 3.3% y/y (Table 1).

The sequential increase reaffirms the positive trend. GDP expanded 0.9% q/q (Chart 3), improving relative to the previous two quarters and adding eight advancing. Within the main drivers, we note: (1) Construction strength, both in the public and private sectors; and (2) consumption resiliency, with fundamentals consolidating in recent months. However, we highlight some challenges as well, including: (3) A moderation in external demand, impacting dynamism within some manufacturing sectors; and (4) the depreciation of the Mexican peso in the last two months (albeit with a more defensive performance relative to most EM currencies), as well as renewed price pressures.

By sectors, industry expanded 1.4% q/q (Table 2). Available figures so far show that construction keeps growing at high rates –boosted by civil engineering on the back of infrastructure and industrial real estate projects. However, manufacturing has been weaker, in our view impacted by modest external demand, plus some of the early effects of the strike in the US auto sector that may already have been seen in September's figures. Mining may also have retreated, highlighting the shock to oil production in July as a Pemex oil rig caught fire. Services kept growing, up 0.6% (Chart 4). Despite not having information by sector as this is a preliminary report, data through August suggests some heterogeneity. Commerce seems to have maintained an upward trend –mainly on wholesales, with retail sales more limited. On the contrary, leisure-related items –including entertainment, lodging and restaurants– have shown some weakness, although not ruling out an improvement in the last month of the quarter. Finally, we believe that other items, such as education and healthcare, were more stable throughout the period.


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Activity kept climbing in September. The monthly GDP-proxy (IGAE) averaged 3.4% y/y in July-August, so today's result implies 3.0% y/y in the last month of the quarter (nsa). This would be consistent with +0.5% m/m, adding six months to the upside. Within industry (-0.1% m/m), we expect a drag from manufacturing, with transportation probably down as some of the first effects from the US auto sector strike materialized. However, construction was more resilient at the margin. On services (+0.7%) signals are better. Retail-related indicators were positive, including auto and ANTAD sales. However, we remain on the look over leisure-related sectors considering some recent sluggishness. Finally, primary activities (4.2%) would have surged despite an additional deterioration in drought conditions.

Favorable result, although with greater challenges for the remainder of the year. Considering that the figure almost matched our estimate, we believe risks to our full-year estimate of 3.3% are relatively balanced. This is consistent with a more modest expansion of 0.4% q/q (2.8% y/y) in 4Q23.

Nevertheless, both upside and downside risks keep evolving. Among the former, we believe that dynamism in construction will continue. In the public sector, 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 them, we highlight the *Tren Maya* and other works related to the *Tehuantepec Isthmus Corridor*. In the private sector, 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 incentives for 10 strategic sectors starting next year. In addition, we believe that consumption will keep growing, supported by resilient fundamentals –noting an improvement in the purchasing power of remittances as the exchange rate depreciated, a low unemployment rate, and significant wage gains.

In manufacturing, the auto sector strike in the US ended yesterday with an agreement between UAW and GM –with Ford and Stellantis announcing them at the end of last week. However, we believe the effects in our country will be relevant after six weeks of stoppages. In this sense, the latest update from the *Industria Nacional de Autopartes* estimated the impact in sales at US$780 million at the end of the previous week. Considering the chronology of the event, we believe that effects on local production will be more evident in October, without ruling out an extension to November due to lags in inventory management in the different production chains.

Negatively, one of the major concerns includes the effects of Hurricane Otis on the coast of Guerrero –particularly in Acapulco. The state's GDP represents about 1.3% of the country total. Meanwhile, its weight in the country's touristic GDP is about 11%. Of the latter, just over 65% is contributed by the municipality of Acapulco. We are still waiting for additional information on the degree of devastation to assess its possible economic impact. Nevertheless, it is clear to us that the repercussions will be significant. In addition, and more structurally, estimates for the reconstruction of the area are still very uncertain, with estimates ranging from 12-18 months for most hotels to be operational (according to Acapulco's Tourism Association), while others put the full reconstruction at 5 years (Mexican Construction Chamber). Lastly, we identify risks from higher price pressures, highlighting both increases in non-core prices –with a complex outlook for agriculture and livestock– and the persistent upward trend in some core items, mainly within services.

For 2024, we see a year of marked differences, with strong dynamism in the first half and a slowdown in 2H24. We believe efforts to complete infrastructure works will be geared towards finishing them before the elections. In addition, 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. In this respect, business owners proposed a 12.5% increase, although it will likely be much higher than this. Overall, this will increase households' disposable income.

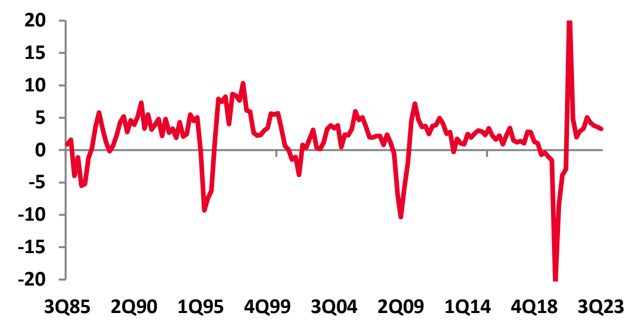
Despite of the latter, we believe global conditions will be more complex. We anticipate a more pronounced slowdown in US consumption due to tighter credit conditions (*e.g.* higher interest rates, heftier interest payments, and the resumption of student loan repayments, among other factors). This could be a drag on external demand. With a complicated base effect and an adjustment in government spending –occurring mostly before the election– we anticipate sequential declines in GDP during the second half of the year. Thus, we expect full-year growth at 2.4%.

Table 1: GDP
% y/y nsa, % y/y sa

	nsa						sa					
	3Q23	2Q23	3Q22	2Q22	Jan-Sep'23	Jan-Sep'22	3Q23	2Q23	3Q22	2Q22	Jan-Sep'23	Jan-Sep'22
Total	**3.3**	**3.6**	**5.1**	**3.3**	**3.5**	**3.8**	**3.3**	**3.6**	**5.1**	**3.2**	**3.5**	**3.8**
Agriculture	5.6	1.9	2.1	0.6	3.0	1.2	5.3	1.9	1.9	0.5	3.2	1.4
Industrial production	4.5	4.0	5.4	4.8	4.0	4.9	4.5	3.9	5.6	4.7	4.0	4.9
Services	2.5	3.5	4.9	2.3	3.3	3.0	2.5	3.4	4.9	2.2	3.3	3.0

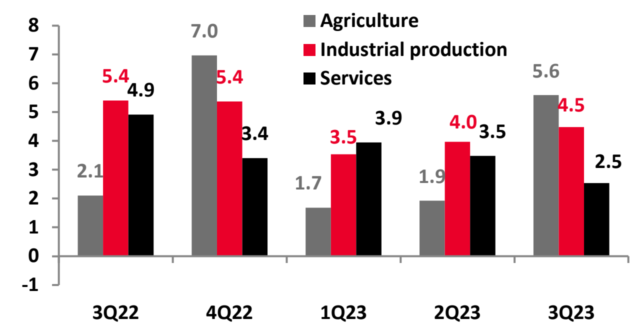
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



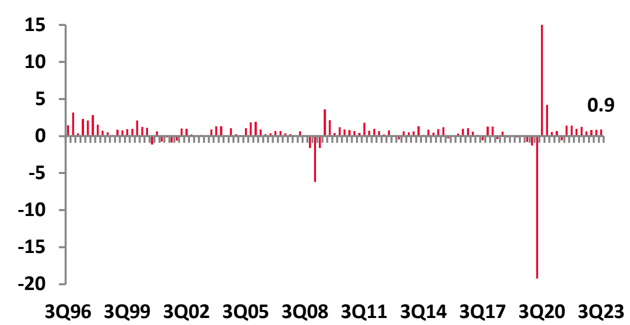
Source: INEGI

Table 2: GDP
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	2Q23	1Q23	4Q22	3Q22	2Q23	1Q23	4Q22	3Q22
Total	**0.9**	**0.8**	**0.8**	**0.6**	**3.7**	**3.4**	**3.3**	**2.6**
Agriculture	3.2	0.7	-4.1	4.5	13.2	3.0	-15.4	19.3
Industrial Production	1.4	1.2	0.6	1.0	5.6	5.0	2.4	4.2
Services	0.6	0.7	1.1	0.1	2.4	2.7	4.6	0.5

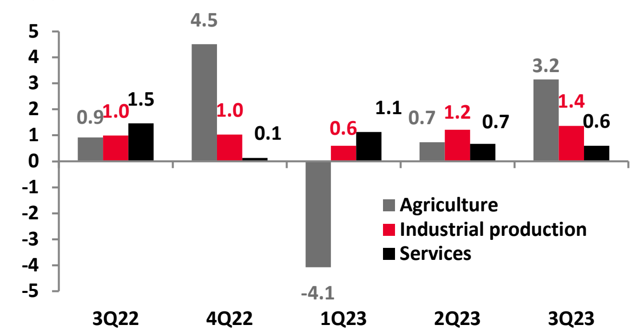
Source: INEGI

Chart 3: GDP
% q/q sa



Source: INEGI

Chart 4: GDP by sectors
% q/q sa



Source: INEGI

Table 3: GDP 2023: Supply
% y/y nsa; % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	**3.8**	**3.6**	**3.3**	**2.8**	**3.3**
Agricultural	1.7	1.9	5.6	-3.5	1.0
Industrial production	3.5	4.0	4.5	2.6	3.7
Services	3.9	3.5	2.5	3.2	3.3
% q/q					
GDP	**0.8**	**0.8**	**0.9**	**0.4**	--

*Note: Underlined figures indicate forecasts
Source: INEGI, Banorte

Table 4: GDP 2023: Demand
% y/y nsa; % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	**3.8**	**3.6**	**3.3**	**2.8**	**3.3**
Private consumption	4.8	4.3	4.4	3.5	4.3
Investment	15.2	21.0	25.9	17.2	19.8
Govt. spending	1.3	1.6	0.9	1.3	1.3
Exports	0.0	-6.1	-5.6	-5.7	-4.4
Imports	8.6	7.5	5.1	5.6	6.6
% q/q					
GDP	**0.8**	**0.8**	**0.9**	**0.4**	--

*Note: Underlined figures indicate forecasts
Source: INEGI, Banorte

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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