

Mexico Economics – View from the Top

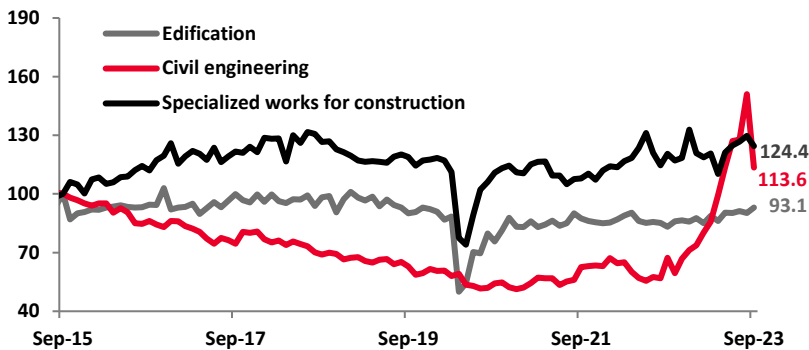
- Construction has been one of the main drivers of economic dynamism in the last few months, situation which we believe will extend at least until 1H24
- Week with few releases, highlighting ANTAD sales

Notable strength in construction in 2023... This sector is an important category for activity –representing around 5.4% of GDP in 2022 and close to 16.9% of industrial production. Unlike the pre-pandemic period, indicators related to the sector have shown an outstanding performance since the start of the year. In this sense, from January to September construction has grown 13.7% y/y based on figures from the [industrial production report](#). Regarding employment, IMSS data shows a creation of 126.5 thousand jobs up to October; analyzing this from an [investment](#) standpoint, the sector accumulated a 24.1% y/y expansion in the January-August period. In our opinion, its recent performance signals a possible trend change, especially if we consider higher financing and input costs. In this sense, evidence suggests that part of its strength could extend to coming years.

...with relevant drivers both from the public and private side. Since the beginning of the year, the main boost has come from civil engineering works (where government projects are included), as seen in the chart below. Edification has been more stable, with specialized works also gathering some strength. Inside, we recognize some relevant factors such as: (1) On the positive side, the construction of industrial spaces, driven by nearshoring efforts; and (2) on a negative note, housing edification has remain depressed.

Industrial production: Construction*

Index Sep-2015 =100, sa



*September 2015 is used as the base for the index as it represents the previous historical high for the whole sector
Source: Banorte with data from INEGI

Acceleration in government spending in infrastructure. Since 2021 we have seen a greater emphasis in resources allocated to this administration's priority projects. Following them up since that moment up to 2024 –based on figures from the [2024 Budget](#)–, the amount budgeted has grown 29.0% y/y every year on average –only noting a decline in 2024, which we attribute to several works having already being completed. In this sense, for the *Tren Maya* –with a total spending of \$218.9 billion between 2019 and 2022– spending in 2023 is expected at \$143.1 billion, with an additional \$120 billion in 2024. In addition, according to the Federal Government, the *Interoceanic Corridor of the Tehuantepec Isthmus* (CIIT in Spanish) and the Suburban Train going to the Felipe Ángeles Airport would be the last two relevant public projects to be inaugurated in 1H24. In the former, the budget for the next year is estimated at \$21.1 billion (+170.3% y/y in real terms); with the latter receiving \$2.0 billion (+56.2%).



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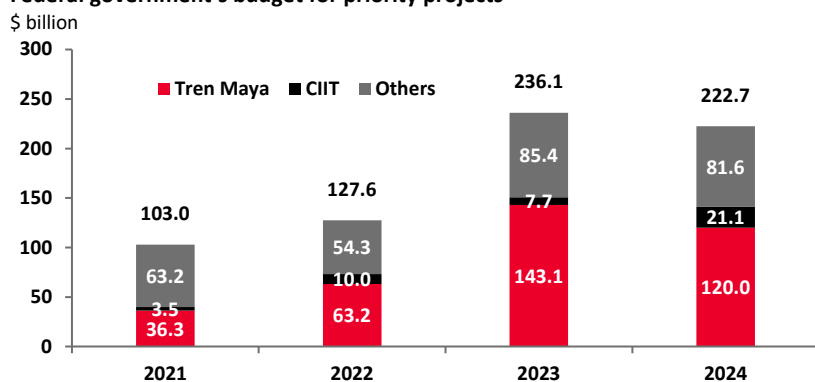
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Winners of the 2023 award for best Mexico economic forecasters, granted by Focus Economics



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Federal government's budget for priority projects



Source: Banorte with data from MoF

Interest in industrial spaces. According to the *Mexican Association of Private Industrial Parks* (AMPIP in Spanish), the percentage of industrial spaces available as of 2Q23 was only at 2.0% at a national level. Demand for this type of real estate has been concentrated in the Northern part of the country –with several cities in which availability is zero– and in the Bajío. The main use is for manufacturing, highlighting sectors such as auto parts; electronics and appliances; and machinery and tools. Currently, AMPIP identifies at least 430 industrial parks –in 27 states– with an approximate surface area of 44 million sq m. In addition, the association forecasts the construction of an additional 8 million sq m between 2023 and 2025, which would be equivalent to around 50 industrial parks. Another high-impact project is the development of 10 industrial parks in the Tehuantepec Isthmus that will be part of the CIIT Development Poles. Manufacturing companies that decide to establish their operations in said area will receive several fiscal benefits, including the exemption from income taxes and accelerated asset depreciation standards during their first three and six years of operations, respectively.

Due to synergies between the public and private sectors and higher demand from abroad, construction will continue to grow at high rates at least until 1H24. We expect that several of the factors previously outlined will extend in the medium-term, providing dynamism to the sector. However, it is important to recognize some risks related to growth, especially towards the second half of 2024. The most relevant include: (1) The completion of government works, with the start of a new administration usually denoting a slowdown as part of the changes in the headships and other important positions across the ministries; (2) a more challenging external outlook with financial costs that will remain high, impacting the investment decisions of foreign companies; and (3) a slight stagnation in the residential sector. However, we must not leave aside other positive factors that could materialize, noting among them: (1) Expansion plans for some seaports (*e.g.* Veracruz, Lázaro Cárdenas, Tuxpan, and Manzanillo); (2) other government works already budgeted (*e.g.* hospitals, schools, and development plans for housing in areas with positive nearshoring spillovers); and (3) joint reconstruction efforts in the region affected by Hurricane Otis. On this last point, operations to rehabilitate at least 35 hotels before the 2024 *Tourist Market* (at the beginning of April) and the advance of 40% of insurance coverages could boost construction as soon as the end of the year. However, according to *Coparmex*, between \$200 and \$300 billion will be needed in the medium-term for reconstruction purposes, while taking at least 5 years.

Calendar of economic events

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 13-Nov		ANTAD same-store sales	October	% y/y in real terms	--	--	0.3
Tue 14-Nov	10:00am	International reserves	Nov-10	US\$ bn	--	--	205.0
Tue 14-Nov	10:00am	Government auction: 1-, 3-, 6-, and 12-month Cetes, 20-year Mbono (Nov'42), 10-year Udibono (Nov'31) and 2-, and 5-year Bondes F					

*Seasonally adjusted figures. Source: Banorte with figures from INEGI, Banxico, and Bloomberg

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