November 24, 2023

3Q23 GDP – Dynamism reaffirmed, boosted by all three sectors

- **Gross Domestic Product (3Q23 F, nsa): 3.3% y/y; Banorte: 3.2%; consensus: 3.2% (range: 3.2% to 3.3%); preliminary: 3.3%**
- **Gross Domestic Product (3Q23 F, sa): 1.1% q/q; Banorte: 0.9%; consensus: 0.8% (range: 0.4% to 0.9%); preliminary: 0.9%**
- **Revisions were mixed, but the final result remains quite favorable. The largest change was in agriculture to 2.6% q/q (-51bps), followed by services at 0.9% (+33bps). Finally, industry was more stable at 1.3% (-5bps)**
- **Consistent with this, September's GDP-proxy IGAE came in at 0.6% m/m (3.3% y/y), adding a sixth month of improvements. Industry was supported by manufacturing, with services more mixed inside**
- **We believe dynamism will extend to the end of the year, albeit with a more modest pace. This is consistent with our view of full-year GDP at 3.3%. In addition, positive factors in 1H24 would contribute to our forecast of 2.4% growth in 2024**

Stability in 3Q23 GDP. The report showed that the economy grew 3.3% in the third quarter (see Chart 1), representing barely a +1bps revision relative to the preliminary print. Industry was lower, standing at 4.3% (-14bps) as seen in Chart 2. Services and primary activities were adjusted higher, coming in at 2.7% (+13bps) and 5.7% (+12bps), respectively. With these results, activity accumulated a 3.4% increase so far in the year (Table 1).

The economy keeps growing at high rates. GDP climbed 1.1% q/q (Chart 3) –adjusting by +16bps relative to the preliminary figure–, adding eight quarters in expansion. This had not been seen since 2013-2015 (Chart 5). By sectors, two of the three large branches were revised lower. The most substantial change was in primary activities, down by 51bps to 2.6%. Nevertheless, the result is still quite positive, especially considering harsh droughts during the summer. Industry was also revised in the same direction, albeit more modestly as it stood at 1.3% (-5bps), as seen in Chart 4. Despite a moderation in the last month of the quarter –see section ahead–, construction remained as the main driver at 6.8%. Based on monthly reports, the push came mainly from civil engineering works. In mining (-2.0%), performance was limited by an accident in a PEMEX oil rig, with volatility persisting in 'services related to the sector'. Meanwhile, manufacturing grew 0.4%, recognizing a relevant rebound in September. Inside, a heterogeneous performance prevails, with some sectors such as autos showing strength –despite the workers' strike in the US–, while others, such as textiles, have shown more weakness.

Services were stronger at 0.9% (+33bps). Despite a smaller rate compared to the other two categories, dynamism continued supported by solid fundamentals, MXN strength, and a moderation in inflationary pressures. Consistent with this, 11 of the 15 categories improved. The expansion was led by lodging (3.6%), retail sales (3.5%) and business support (3.2%). On the contrary, entertainment declined 7.6%, facing a rather challenging base effect (previous: 12.4%). Other sectors with declines included corporates (-1.3%), financials (-1.4%), and wholesales (-0.7%). For further details, please refer to Table 4.

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Activity kept growing in September, gathering additional momentum. INEGI also published the monthly GDP-proxy IGAE for the last month of the period, standing at 3.3% (Banorte: 3.1%; consensus: 3.0%). This implies 0.6% m/m, its highest pace since April. As already known, industry (0.2%) was driven by manufacturing –with a relevant push from the auto sector–, although limited by construction and mining. Services grew 0.9% with 8 of its 14 sectors improving. We note increases in professional (2.9%) and support services (2.5%), along a push in lodging (1.9%). Entertainment (-1.9%) and government (-1.4%) led the move lower.

We expect sequential increases in the following three quarters, with relevant drivers in 1H24. Considering that the final figure was practically in line we our estimate, we maintain our call of 3.3% full-year GDP growth. This implies 0.3% q/q (2.8% a/a) in the last quarter (see Table 2 and Table 3). The moderation would respond to several factors, including: (1) The negative spillover from the autoworkers strike in the US –expecting to see the first effects in October's trade balance on Monday; (2) a moderation in the pace of consumption, with renewed price pressures offsetting the consolidation in fundamentals; (3) a negative base effect after eight quarters of relevant increases; and (4) a lower boost from external demand, with a more challenging global outlook.

Nevertheless, we think that the first half of 2024 will be benefited by several factors. Dynamism would be concentrated in 1Q24 with a 1.0% q/q expansion. Some of the drivers include: (1) The pre-payment of social programs in order to comply with electoral rules; (2) the boost in infrastructure spending to finish priority projects before the June 2nd election. However, a more consistent tailwind could be construction works in the industrial sector. In this sense, demand for industrial spaces has kept climbing in the last few months, which should continue pushing the sector. According to real estate research firm *Solili*, demand for this type of spaces increased by 37% relative to October 2022, with Monterrey, Tijuana, and Saltillo among the cities attracting more interest. For the second half we identify more relevant challenges, expecting sequential declines in 3Q24 (-0.7% q/q) and 4Q24 (-0.8% q/q). Specifically, more challenging bases and the effects of a larger spending in the first semester –leaving fewer resources for this part of the year– will impact local conditions. We must add a more difficult global backdrop –which will likely materialize earlier in the year–, triggered by 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 others). Considering this, we reaffirm our call of a 2.4% full-year GDP expansion.

Table 1: GDP

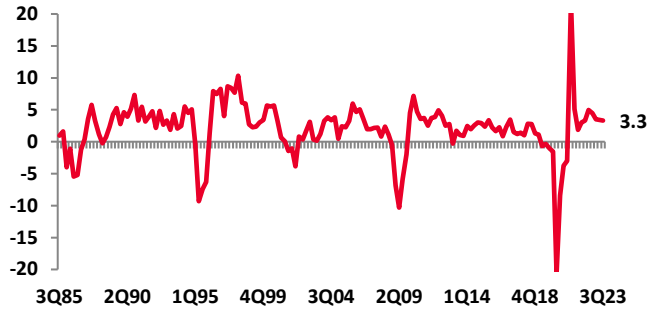
% y/y nsa, % y/y sa

	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	3.4	5.0	3.3	3.4	3.8	3.3	3.4	5.0	3.3	3.4	3.8
Agriculture	*5.7*	*2.6*	*1.0*	*-0.4*	*2.7*	*0.3*	*5.5*	*2.6*	*0.6*	*-0.6*	*2.9*	*0.4*
Industrial activity	*4.3*	*3.9*	*5.5*	*5.3*	*3.7*	*5.3*	*4.4*	*3.9*	*5.7*	*5.4*	*3.7*	*5.4*
Mining	0.3	2.8	3.8	5.4	2.3	4.6	0.5	2.7	4.0	5.3	2.3	4.6
Utilities	5.6	0.8	1.1	0.8	3.3	0.2	5.6	0.8	1.2	0.8	3.2	0.2
Construction	24.4	13.5	-0.6	4.4	13.7	3.0	24.1	13.2	-0.6	3.8	13.6	2.9
Manufacturing	0.2	1.9	7.8	5.9	1.5	6.4	0.1	1.9	7.8	6.0	1.5	6.4
Services	*2.7*	*3.1*	*4.7*	*2.0*	*3.2*	*2.8*	*2.6*	*3.1*	*4.6*	*2.0*	*3.2*	*2.7*
Wholesale commerce	4.6	1.7	9.6	7.2	2.9	7.3	4.7	2.0	9.1	7.6	2.9	7.2
Retail sales	3.0	5.3	5.5	7.2	5.2	6.0	3.2	5.1	5.7	6.7	5.1	5.9
Transportation and storage	2.4	3.9	14.2	13.9	4.5	14.2	2.8	3.9	14.2	13.7	4.5	14.2
Mass media and information	9.9	9.2	10.1	18.0	8.2	14.8	10.9	8.2	12.1	16.4	8.1	14.6
Financial services	1.1	4.3	5.1	6.9	3.1	6.5	1.4	3.8	5.4	6.3	3.1	6.4
Real estate	1.6	1.8	1.4	1.1	1.8	1.6	1.6	1.9	1.4	1.4	1.9	1.7
Professional services	5.0	9.4	4.2	1.5	7.7	2.7	5.8	9.3	4.7	1.2	7.8	2.8
Corporates	2.1	5.9	3.1	5.0	5.6	4.3	2.3	5.7	3.3	4.9	5.6	4.4
Business support	-3.8	-10.7	-43.2	-70.3	-9.4	-64.7	-4.9	-10.7	-44.2	-70.2	-9.6	-65.1
Education	1.8	2.2	2.3	0.3	1.7	1.1	1.7	2.2	2.1	1.0	1.8	1.2
Healthcare	1.3	-0.1	-2.2	0.7	0.7	-0.6	1.2	-0.2	-2.4	0.5	0.6	-0.2
Recreation, sports and cultural events	-4.2	19.4	28.7	40.7	2.6	42.2	-4.4	20.0	27.1	46.1	4.0	42.1
Temporary lodging services	3.0	0.9	16.7	23.6	3.4	25.8	2.8	1.3	16.5	23.6	3.6	26.2
Other services	2.3	2.6	3.5	4.4	3.0	4.4	2.0	3.0	3.0	5.4	2.9	4.2
Government activities	0.9	0.9	2.4	-0.6	0.9	0.2	0.7	0.9	2.1	-0.6	0.8	0.2

Source: INEGI

Chart 1: GDP

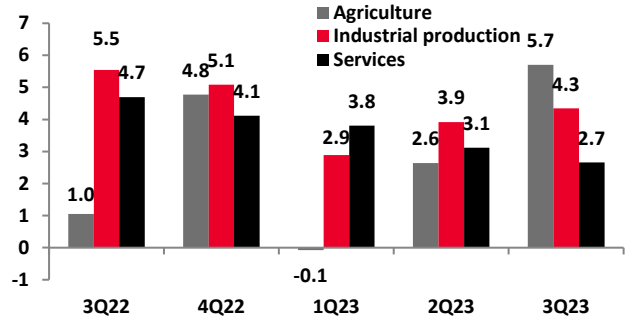
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors

% y/y nsa



Source: INEGI

Table 3: GDP 2023: Supply

% y/y nsa; % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	**3.5**	**3.4**	**3.3**	**2.8**	**3.3**
Agricultural	-0.1	2.6	5.7	-3.5	0.9
Industrial production	2.9	3.9	4.3	2.6	3.4
Services	3.8	3.1	2.7	3.2	3.2
% q/q					
GDP	**0.6**	**0.9**	**1.1**	**0.3**	--

*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	**3.5**	**3.4**	**3.3**	**2.8**	**3.3**
Private consumption	4.8	4.3	4.4	3.5	4.3
Investment	15.2	21.0	25.7	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	**0.6**	**0.9**	**1.1**	**0.3**	--

*Note: Underlined figures indicate forecasts

Source: INEGI, Banorte

Table 4: GDP

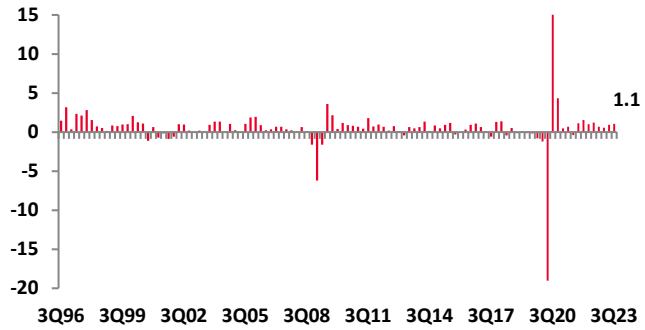
% q/q sa, % q/q saar

	% q/q sa				% q/q saar			
	3Q23	2Q23	1Q23	4Q22	3Q23	2Q23	1Q23	4Q22
Total	1.1	0.9	0.6	0.7	4.3	3.8	2.3	2.7
Agriculture	*2.6*	*2.2*	*-3.9*	*4.5*	*11.0*	*9.3*	*-14.6*	*19.3*
Industrial activity	*1.3*	*1.5*	*0.6*	*0.9*	*5.4*	*6.1*	*2.5*	*3.6*
Mining	-2.0	-0.1	0.7	1.9	-7.8	-0.3	3.0	7.7
Utilities	3.8	-0.1	1.8	0.0	16.2	-0.3	7.4	-0.1
Construction	6.8	8.4	4.5	2.6	30.3	37.9	19.2	10.8
Manufacturing	0.4	0.2	-0.9	0.4	1.5	0.9	-3.5	1.6
Services	*0.9*	*0.6*	*0.7*	*0.4*	*3.8*	*2.6*	*2.8*	*1.4*
Wholesale commerce	3.5	1.6	0.6	-1.0	14.6	6.8	2.3	-4.1
Retail sales	-0.7	0.7	2.8	0.4	-2.9	3.0	11.7	1.5
Transportation and storage	0.8	0.4	0.9	0.6	3.4	1.7	3.7	2.2
Mass media and information	1.1	4.0	0.8	4.6	4.4	17.1	3.2	19.9
Financial services	-1.4	0.9	0.7	1.2	-5.4	3.5	2.8	4.9
Real estate	0.5	0.2	0.2	0.7	2.1	0.7	0.7	2.8
Professional services	0.4	2.0	-1.4	4.8	1.5	8.1	-5.4	20.7
Corporates	-1.3	0.2	2.4	1.0	-5.0	0.8	10.1	4.1
Business support	3.2	1.7	-3.0	-6.5	13.2	6.8	-11.4	-23.7
Education	0.4	1.1	-0.1	0.3	1.5	4.4	-0.3	1.1
Healthcare	0.4	-0.3	1.8	-0.6	1.5	-1.1	7.2	-2.5
Recreation, sports, and cultural events	-7.6	12.4	-7.4	-0.5	-27.2	59.7	-26.6	-2.2
Temporary lodging services	3.6	-2.0	-1.6	2.9	15.3	-7.9	-6.3	12.2
Other services	1.0	-0.3	2.0	-0.7	4.1	-1.1	8.4	-3.0
Government activities	1.2	0.5	1.2	-2.1	4.7	2.2	5.0	-8.3

Source: INEGI

Chart 3: GDP

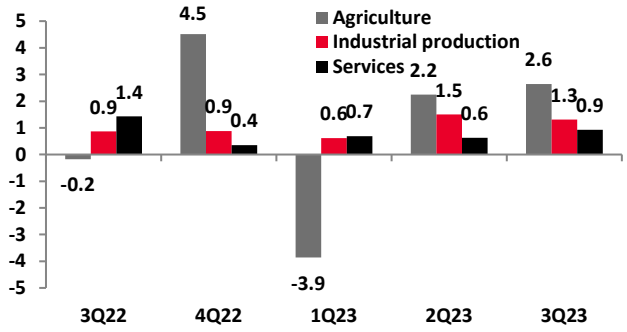
% q/q sa



Source: INEGI

Chart 4: GDP by sectors

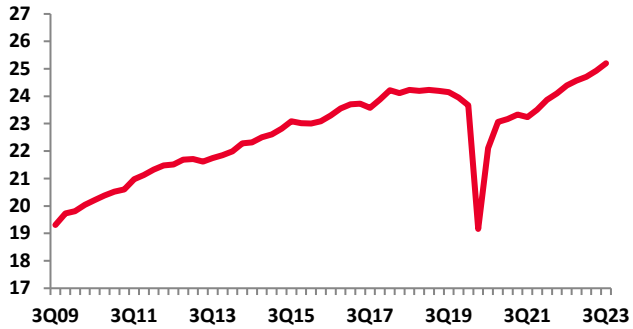
% q/q sa



Source: INEGI

Chart 5: GDP

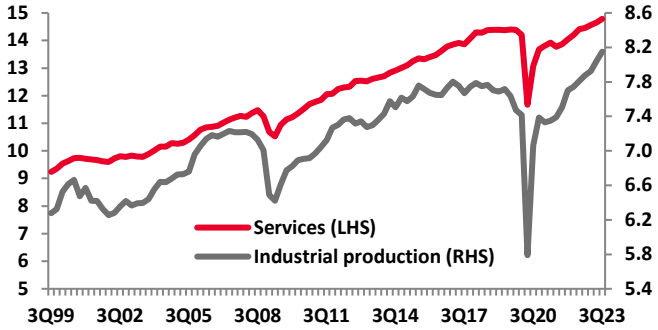
MXN trillion, sa



Source: INEGI

Chart 4: GDP by sectors

MXN trillion, sa



Source: INEGI

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