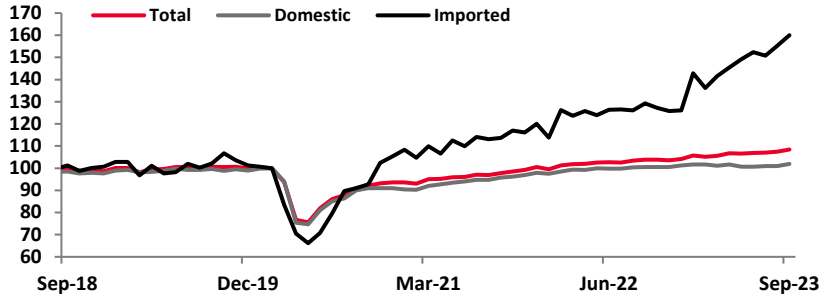
December 1, 2023

Mexico Economics – View from the Top

- **Consumption remains as a pillar of economic growth. We expect several discount programs and a favorable seasonality to keep providing some support during the last months of the year**
- **Data releases in the week include September's consumption and investment, along with November's inflation and consumer confidence**

We expect consumption to remain strong in September… Specifically, we forecast a 0.7% m/m expansion (4.0% y/y), adding four months of sequential improvements. Growth would remain underpinned by imported goods (+2.5% m/m) –with favorable signs in the period's trade balance– (see chart below), albeit with domestic categories also providing some boost this time around (+0.9%). In general terms, we recognize wage gains, the relative strength of the MXN –below 17.50 most of the month–, and lower inflationary pressures as possible catalysts.

Private consumption
Index 100 = February 2020, sa



Source: Banorte with data from INEGI

…but a moderation in October is very likely. In contrast with our views for September, timely signals are not vey encouraging for the tenth month of the year. First, the *Timely Indicator of Economic Activity* forecasts a 0.1% m/m decline in services. More specific figures reinforce this, among them ANTAD sales –with same-stores at -1.3% y/y in real terms– and auto sales –at -0.8% m/m. Our hypothesis is that consumers opt for delaying purchases of more expensive items to take advantage of the discounts and other initiatives in November. There is some evidence that this phenomenon has been around even before the pandemic, with discount initiatives, cashback programs, payment deferrals without interest, and other actions, consolidating in consumers' minds.

However, dynamism could improve in the last few months of 2023 due to more actions favoring consumers. Other changes that could have reinforced the salience of these campaigns include changes in consumption patterns and the channel in which purchases are made –with a larger bias towards online. In addition, they are no longer limited to *El Buen Fin*, which takes place on the long weekend related to the local holiday because of the anniversary of the Mexican Revolution. Other days have been incorporated, such as *Black Friday* (on the fourth Friday of the month) and *Cyber Monday* (the following Monday), along with *Singles' Day* most recently (program that originated in China which took place between November 10th and 12th). In this context, attention to these initiatives has rebounded significantly. *Google* searches for some of these terms gained momentum relative to previous years, as seen in the chart in the following page. *El Buen Fin* remains as the most relevant, with searches this year reaching its highest point since the program was introduced in 2011.

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

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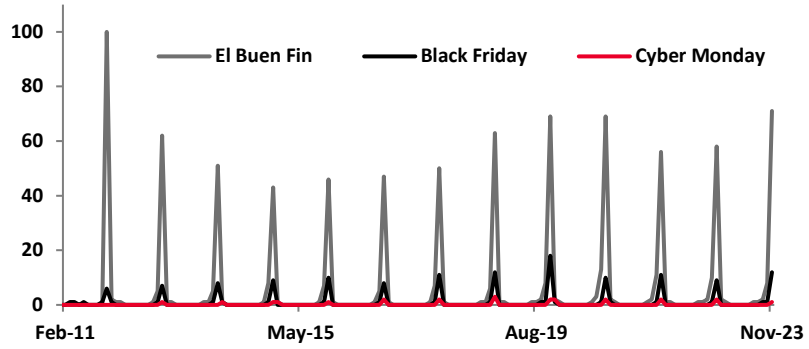
***Google Trends*: Search of key terms in Mexico**
Index 100 = Maximum searches in the historical series



Source: Google

Timely figures support this hypothesis. As this edition's close, the Ministry of Economy had not released sales' results during *El Buen Fin*. Nevertheless, several business chambers, along with some individual companies, have stated that they were favorable. Broadly speaking, the *National Chamber for Commerce, Services, and Tourism* (*Concanco-Servytur*) mentioned that this "*…has been the best edition in history…*", with sales surpassing original expectations of $141 billion during the four days of the program. Commerce chambers in Mexico City, Tlaxcala, and Puebla estimate that revenues could be between 7% and 10% higher than their estimates before sales started. Turning to company data, *Mercado Libre* announced that, just in the first day of the promotion –Friday 17th–, their sales grew 40% relative to the levels seen in the same period of 2022. Part of the success is attributed to a higher number of discounted products, with around 11.5 million showing a reduction of up to 50%. Finally, they also commented that states with the highest sales volumes were the State of Mexico, Mexico City, Veracruz, and Nuevo León.

Lastly, we believe dynamism could extend to 1H24. After year-end purchases, we usually see an unfavorable seasonality at the turn of the year, which is the so-called "January slump". Despite of the latter, we believe there are factors that will continue driving consumption. Some of the most important ones include: (1) Government transfers, both in terms of the amount (*e.g.* pensions for the elderly will increase to $6,000 from $4,800 every bimester) and timing (with advance payments to comply with electoral rules); (2) strength in consumer fundamentals, expecting employment and wages to keep rising –with the latter likely boosted by the latest 20% increase to the minimum wage; and (3) the spillover of other economic drivers, such as higher spending in infrastructure works and the construction of industrial facilities.

Economic Calendar

Date	Time (ET)	Event or indicator	Period	Unit	Banorte	Consensus	Previous
Mon 4-Dec	7:00am	Gross fixed investment	September	% y/y	22.1	25.0	32.0
		Gross fixed investment*		% m/m	-2.2	-1.2	3.1
		Machinery and equipment*		% m/m	2.5	--	0.9
		Construction*		% m/m	-6.6	--	5.2
Mon 4-Dec	7:00am	Private consumption	September	% y/y	4.0	4.0	4.1
		Private consumption*		% m/m	0.7	--	0.5
		Domestic (Goods and services)*		% m/m	0.9	--	-0.1
		Imported (Goods)*		% m/m	2.5	--	3.0
Tue 5-Dec	10:00am	International reserves	Dec-1	US$ bn	--	--	206.3
Tue 5-Dec	10:00am	Auction of 1-, 3-, 6-, and 24-month Cetes, 3-year Mbono (Sep'26), 20-year Udibono (Nov'43) and 1-, and 3-year Bondes F					
Tue 5-Dec	3:30pm	Citibanamex survey of economic expectations					
Wed 6-Dec	7:00am	Consumer confidence*	November	index	46.4	--	46.0
Thu 7-Dec	7:00am	CPI inflation	November	% m/m	0.66	0.71	0.38
				% y/y	4.34	4.40	4.26
		Core		% m/m	0.30	0.29	0.39
				% y/y	5.34	5.33	5.50

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

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