GDP-proxy IGAE – Weakness in November due to a contraction in services

- ***Global Economic Activity Indicator*** **(November): 3.3% y/y; Banorte: 3.5%; consensus: 3.9% (range: 3.0% to 5.1%); previous: 4.5%**
- **With seasonally adjusted figures, the economy grew 3.5% y/y. This is lower than INEGI's *Timely Indicator of Economic Activity,* at +4.1%**
- **The economy fell 0.5% sequentially. The main drag was services (-0.9%) –with 7 out of 9 categories lower–, while industry was unchanged (0.0%). Finally, primary activities grew 5.3%**
- **This is consistent with our view of more modest economic growth in 4Q22. This is a result of lower external demand –mainly affecting manufacturing–, and a local deceleration, which would be reflected in some services**

The economy grew 3.3% y/y in November. This was lower than consensus (3.9%) but closer to our estimate (3.5%). Using seasonally adjusted figures, growth was 3.5% y/y (Chart 1), mostly because of some holidays. The latter was below INEGI's *Timely Indicator of Economic Activity* at 4.1%. Back to original figures, industry grew 3.2% (Chart 3), with services a bit lower at 3.0% (Chart 4). Lastly, primary activities were up 7.2% (Chart 2). For more details, see Table 1.

Sequential decline, with services weak despite several tailwinds. Activity contracted 0.5% m/m (Chart 5), negative considering October's stagnation (0.0%). This signals that economic activity slowed down in the last quarter of 2022, likely driven by: (1) Persistent price pressures at the core component; (2) higher financing costs due to tighter monetary policy; (3) a slowdown in US activity; and (4) increased global recession fears. However, it seems that momentum from the previous quarter prevailed, contributing to an economic expansion for the period. In addition, a strong performance of the labor market and remittances would continue to provide households with some stability in their consumption. In this backdrop, the local economy now stands 0.7% above its pre-pandemic level (February 2020). However, it is still 1.0% below its historical high reached in September 2018 (Chart 7).

Industry was unchanged at 0.0% (Chart 6). Inside, construction drove dynamism at +0.7%, albeit dragged by declines of 0.5% in both mining and manufacturing. The former was impacted by 'related services', while manufacturing was likely influenced by lower dynamism in US industry. Primary activities rose 5.3%, benefited by a less challenging base and higher exports, in turn consistent with more moderate prices.

Services were the main drag (-0.9%) despite the tailwinds that year-end sales –which begin with *El Buen Fin* (Mexican's Black Friday)– usually represent for the sector, as well as some holidays (Day of the Dead and Mexican Revolution). Inside, performance was mostly to the downside, with seven out of nine categories falling. The main casualties were lodging (-1.8%) and wholesales (-1.4%). Retail sales were also negative at -1.1% and even below figures in its stand-alone report.

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Professional and support services extended their decline by 0.8%, now adding five months lower. On the contrary, the only two sectors that grew were education and healthcare (0.2%) and government services (0.1%), positive considering challenging base effects for both items, as seen in Table 2.

We expect a moderation in activity in 4Q22. Considering this result and some timely indicators for December, we reaffirm our call of a slowdown in the pace of economic growth at the end 2022. As mentioned previously, part of the boost would come from inertial growth in the third quarter, but we should also consider hits from both slower external demand –particularly as US industry kept losing momentum– and increased domestic challenges. Nevertheless, we believe the Mexican economy will remain resilient, supported by strong fundamentals and expectations of higher investment inflows ahead.

IMEF's PMIs remained in expansion territory, with manufacturing adding 0.6pts vs. the previous month (to 51.8pts), in opposite direction from the trend observed in its equivalent metric in the US, which added 4 months down. Non-manufacturing was mostly stable (-0.1pts) and at a high level of 53.5pts. On the other hand, AMIA's data suggest a relevant uptick in sales during the last month of the year. We remain on the look to ANTAD's data –with no publication date available yet– where we expect modest growth. However, we do not rule out that November's deceleration extends further, suggesting that households would have preferred to postpone the consumption of certain goods to prioritize others. Finally, we expect tourism at the end of 2022 to have expanded further. It is worth mentioning that, according to INEGI, the number of foreign visitors in November rose by 21.8% y/y, with a double-digit rate pace maintained throughout the full year.

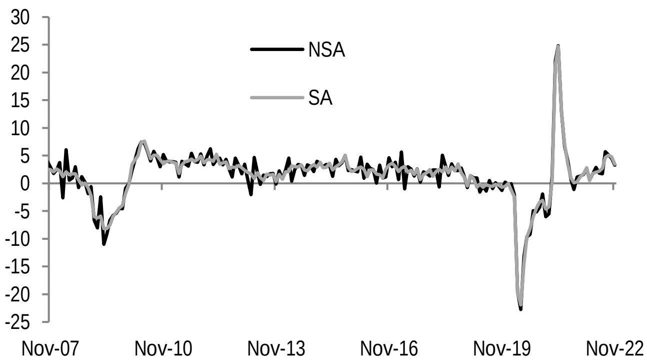
Towards the start of 2023, We remain cautious about some headwinds at the start of 2023, mainly coming from abroad, including; (1) The possibility of a weaker US labor market, especially due to higher layoffs –which started in the tech sector, but that may well extend to other industries; (2) the slowdown in US activity, with the possibility of a mild and brief recession; and (3) possible pressures in commodities' prices due to China's reopening. Locally, we remain attentive to: (1) Strength in fundamentals, particularly employment; (2) progress on USMCA disputes, noting the recent resolution for the auto sector; and (3) inflation and cost expectations. However, we believe dynamism will prevail, supporting our call of a 1.5% expansion in full-year GDP.

Table 1: Global economic activity indicator
% y/y nsa, % y/y sa

	% y/y, nsa				% y/y, sa	
	Nov-22	Nov-21	Jan-Nov'**22**	Jan-Nov'**21**	Nov-22	Nov-21
Total	3.3	1.1	2.9	4.8	3.5	0.3
Agriculture	7.2	6.3	2.7	1.9	6.5	5.4
Industrial production	3.2	1.0	3.2	5.7	2.9	0.3
Mining	-0.5	-0.2	0.1	0.2	-0.5	-0.3
Utilities	5.2	-18.6	3.7	-17.9	5.5	-18.3
Construction	1.8	1.8	-0.3	8.4	0.8	1.5
Manufacturing	4.6	2.9	5.5	9.0	4.5	1.5
Services	3.0	0.8	2.7	4.5	3.3	0.1
Wholesale	4.0	7.6	7.4	10.0	4.7	4.5
Retail	0.9	8.0	4.5	11.1	1.1	4.5
Transport	7.0	9.8	12.7	11.6	7.4	9.4
Financial services	2.6	-0.5	1.8	1.2	3.1	0.2
Professional services	-6.9	-46.7	-36.3	-15.2	-5.7	-46.3
Education and healthcare services	2.6	0.9	2.0	1.6	2.8	1.0
Recreational services	4.5	11.5	8.7	6.7	4.4	11.5
Lodging services	7.8	48.0	28.4	34.3	8.5	48.7
Government services	3.4	-0.6	0.2	-1.8	3.4	-0.6

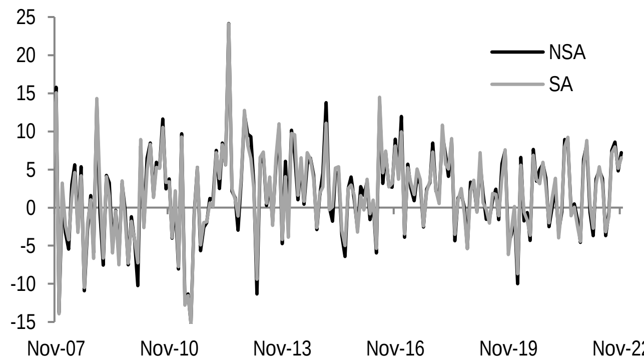
Source: INEGI

Chart 1: Global economic activity indicator
% y/y nsa, % y/y sa



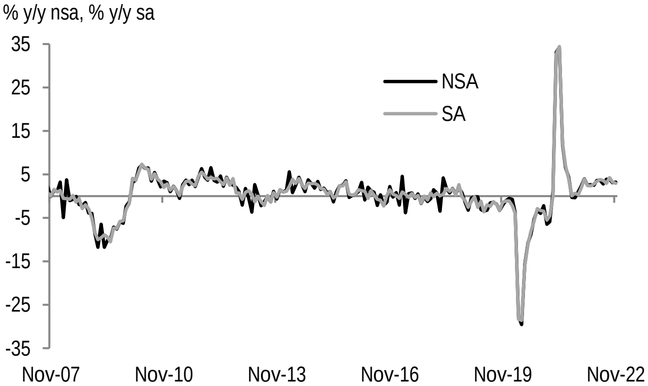
Source: INEGI

Chart 2: Primary actitivies
% y/y nsa, % y/y sa



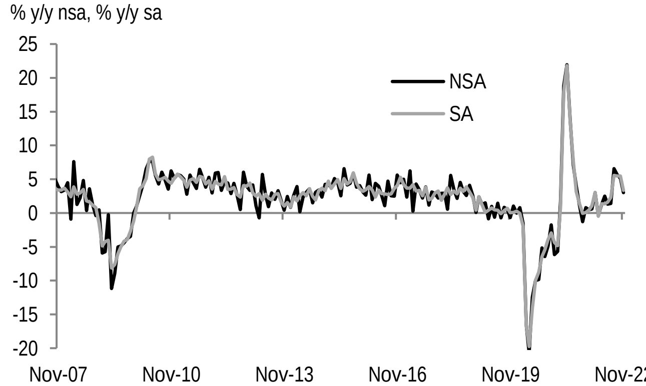
Source: INEGI

Chart 3: Industrial production
% y/y nsa, % y/y sa



Source: INEGI

Chart 4: Services
% y/y nsa, % y/y sa



Source: INEGI

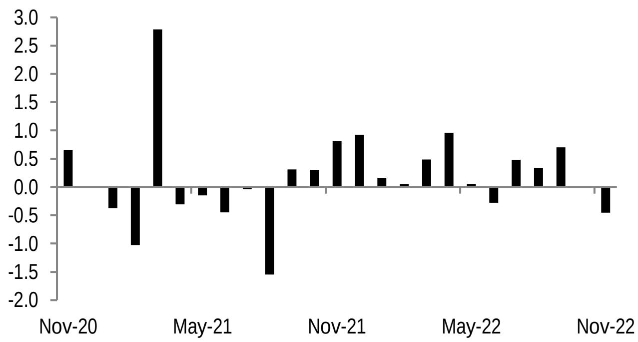
Table 2: Global economic activity indicator

% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m, sa	
	Nov-22	Oct-22	Sep-22	Sep-**Nov'22**	Aug-**Oct'22**
Total	-0.5	0.0	0.7	0.9	1.0
Agriculture	5.3	-2.7	0.4	3.9	2.9
Industrial production	0.0	0.4	-0.2	0.1	0.1
Mining	-0.5	1.7	-1.3	-1.1	-1.1
Utilities	0.4	0.1	-1.0	-1.3	-1.6
Construction	0.7	1.0	0.2	0.1	-1.3
Manufacturing	-0.5	0.2	-0.3	-0.1	0.4
Services	-0.9	-0.1	1.0	0.9	1.1
Wholesale	-1.4	-1.7	1.6	0.3	1.6
Retail	-1.1	-1.0	1.5	0.3	0.5
Transport	-0.6	0.2	1.5	1.6	1.1
Financial services	-0.1	0.2	-0.2	0.5	0.7
Professional services	-0.8	-1.5	-2.0	-5.1	-5.3
Education and healthcare services	0.2	0.5	1.0	0.4	-0.5
Recreational services	0.9	-0.3	-1.0	0.1	1.9
Lodging services	-1.8	-2.2	3.0	4.1	4.2
Government services	0.1	1.1	-0.2	2.0	2.3

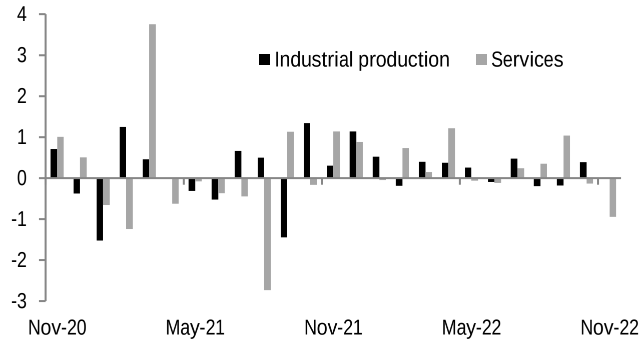
Source: INEGI

Chart 5: Global economic activity indicator
% m/m sa



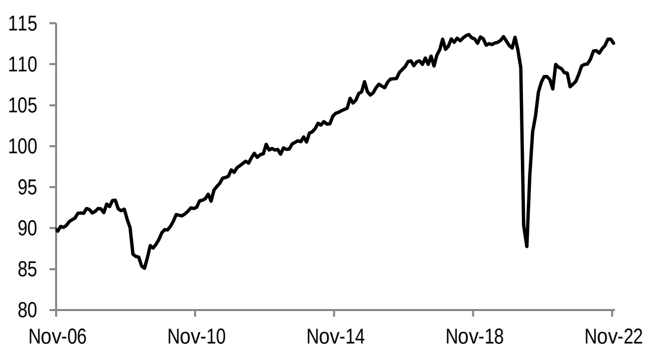
Source: INEGI

Chart 6: Industrial production and services
% m/m sa



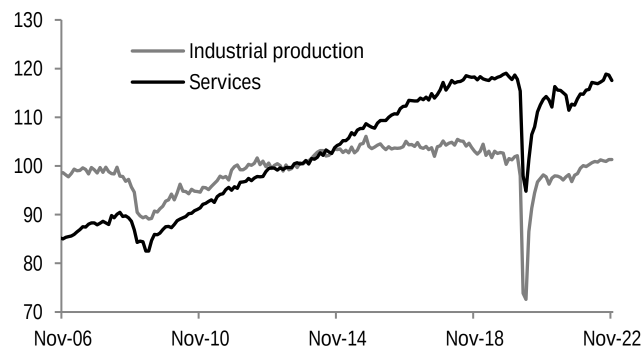
Source: INEGI

Chart 7: Global economic activity indicator
Index 100 = 2013, sa



Source: INEGI

Chart 8: Industrial production and services
Index 100 = 2013, sa



Source: INEGI

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