

GDP-proxy IGAE – Strong result in January, driven by services

- **Global Economic Activity Indicator (January): 4.4% y/y; Banorte: 3.8%; consensus: 3.0% (range: 2.3% to 4.0%); previous: 2.6%**
- **With seasonally adjusted figures, the economy grew 3.6% y/y. This is higher than INEGI's *Timely Indicator of Economic Activity*, at +3.3%**
- **The economy climbed 0.6% m/m. The main boost came from services at 1.2% –with 6 out of 9 categories higher–, and industry flat (0.0%). Primary activities fell 5.7%**
- **This result confirms that activity got underway at a relatively quick pace at the start of 2023, supporting our above-consensus GDP forecast of 1.5%. We believe risks are tilted slightly to the upside, but we remain cautious because of heightened external risks**

The economy grew 4.4% y/y in January. This was stronger than consensus (3.0%) but closer to our estimate (3.8%). With seasonally adjusted figures, growth was 3.6% y/y ([Chart 1](#)), better than [INEGI's *Timely Indicator of Economic Activity*](#) at 3.3%. Back to original figures, [industry advanced 2.8%](#) ([Chart 3](#)) and services moved higher to 5.6% ([Chart 4](#)). Lastly, primary activities stood at -1.1% ([Chart 2](#)). For more details, see [Table 1](#).

Sequential uptick for a second month in a row. Activity grew 0.6% m/m ([Chart 5](#)), quite positive considering the +0.4% seen in December. Some tailwinds help explain the result, such as: (1) Strong consumption fundamentals; (2) renewed dynamism in international trade –mainly after China's reopening, but also with resilient US demand; and (3) continued interest in [nearshoring](#). Among the challenges, we keep highlighting price pressures at the turn of the year –both for [consumers](#) and producers–, along continued expectations of additional monetary tightening. Despite of the latter, perceptions about a global recession declined in the period, which could have also helped. With this, the Mexican economy now stands 1.8% above its pre-pandemic level (February 2020), while it is also 0.1% higher than its previous historical high seen in September 2018 ([Chart 7](#)).

Services were the main driver, up 1.2% and adding two months on the upside. This is favorable as we perceived that the 'January crunch' was mentioned more significantly as a drag relative to recent years. Inside, performance was mostly positive, with six out of the nine subsectors higher. The main outperformers were transportation (+4.5%) –in line with stronger manufacturing and elevated air passenger figures–, lodging and restaurants (+3.3%) –consistent with strong hotel occupancy rates–, and retail sales (+2.4%) –echoing [yesterday's results](#). Professional and support services also showed a somewhat large increase at +1.6%, albeit still as one of the main laggards in recent months. Declines were more modest, noting financial services (-1.7%) –impacted by a challenging base, as seen in [Table 2](#)–, government services (-0.8%), and education and healthcare (-0.5%).

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Industry was unchanged at 0.0% ([Chart 6](#)), boosted by manufacturing (0.7%) –in our view on better external conditions– and a slightly lower push from mining (0.2%) –despite a setback in ‘related services’. On the contrary, construction (-1.0%) faced an adverse base effect and higher prices. Lastly, primary activities fell 5.7%, erasing the accumulated gain of the previous two months (5.3%). Nevertheless, prices were relatively stable, in our view suggesting some resilience in the sector.

Positive results set-up an economic expansion in 1Q23. Considering today’s figures, along timely indicators for February and March, we believe GDP likely kept growing in the first quarter, which would be its sixth period of sequential expansion. This is relevant as the outlook has become more challenging in the last few weeks, particularly due to external risks stemming from banking sector woes in the US and Europe.

Looking ahead, INEGI’s *Timely Indicator of Economic Activity* for February suggests that the economy advanced further. This, despite some mixed signals in other timely data, such as weaker ANTAD sales. In contrast, IMEF’s PMIs and hotel occupancy rates were stronger. Hard figures for March are still unavailable, but anecdotal evidence suggests that activity was at the worst resilient, and more dynamic at best. In addition, [more modest price pressures](#) could have a two-fold positive effect: (1) Improving the outlook for households’ income; and (2) opening the possibility of less monetary tightening. However, we will look closely to upcoming data to have more clarity on performance. Considering only advanced signals for 1Q23, it is our take that data supports our above-consensus GDP forecast of 1.5%. Moreover, risks seem tilted slightly to the upside, but we remain cautious because of heightened external risks.

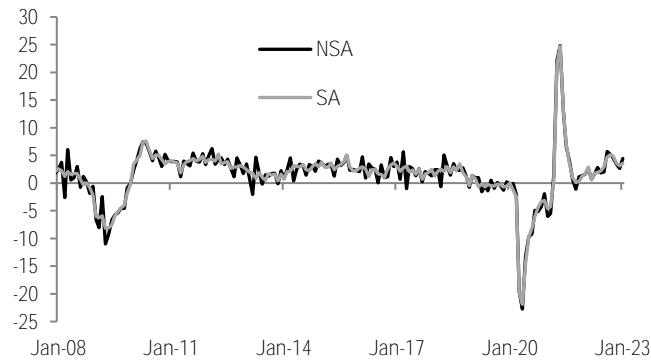
In this respect, the outlook has become increasingly uncertain. The focus is now on banks’ financial situation in the US and Europe, which seems to have pushed global recession expectations higher. The immediate reaction has been that financial conditions, credit standards, and overall supply have likely become tighter, even if markets put into question how much central banks will keep rising rates. To counter this, we believe the Mexican economy has: (1) Resilient domestic fundamentals, expecting them to be a key support for consumption; (2) help from the continuation of government spending, both through social transfers and infrastructure outlays; and (3) the push from additional nearshoring efforts, expecting some of the short-term windfalls as soon as by the end of the year, despite the structural push likely being more visible in the medium-term.

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

	% y/y, nsa				% y/y, sa	
	Jan-23	Jan-22	2022	2021	Jan-23	Jan-22
Total	4.4	1.6	2.9	4.5	3.6	1.7
Agriculture	-1.1	-0.6	3.2	2.6	0.9	1.5
Industrial production	2.8	4.0	3.3	5.4	2.5	3.9
Mining	-3.5	8.7	0.2	0.1	-3.9	8.0
Utilities	4.5	-0.2	3.6	-17.6	4.4	-0.3
Construction	3.0	2.9	0.4	8.0	2.9	3.2
Manufacturing	4.8	3.1	5.2	8.5	4.1	3.4
Services	5.6	0.6	2.7	4.2	4.5	0.9
Wholesale	9.9	1.7	6.9	9.6	7.2	1.9
Retail	8.2	3.8	4.1	10.5	5.6	4.4
Transport	8.8	17.9	11.8	11.9	8.3	18.3
Financial services	2.5	0.9	2.2	-0.1	2.9	1.4
Professional services	-0.3	-51.4	-34.7	-15.9	-0.7	-51.1
Education and healthcare services	0.8	3.9	2.1	2.8	0.2	3.9
Recreational services	5.8	11.0	9.3	8.9	6.1	11.7
Lodging services	15.5	49.9	26.3	30.4	15.6	50.5
Government services	0.9	-0.6	0.4	-1.8	1.2	-0.3

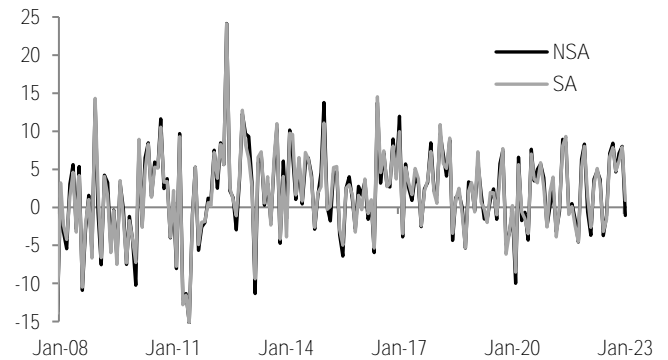
Source: INEGI

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



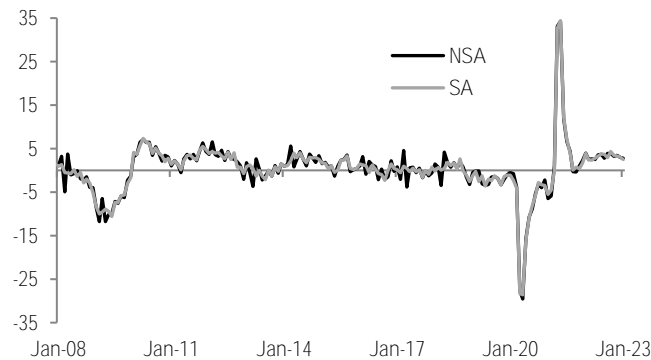
Source: INEGI

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



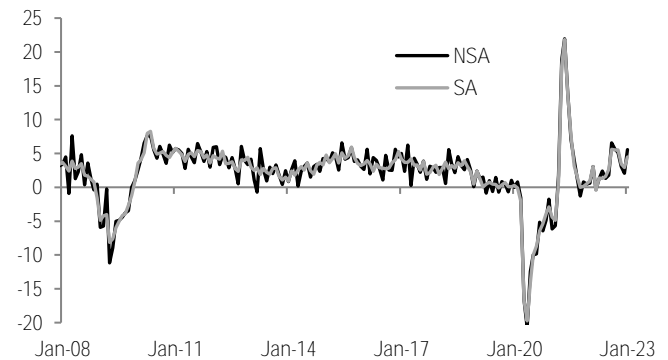
Source: INEGI

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



Source: INEGI

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



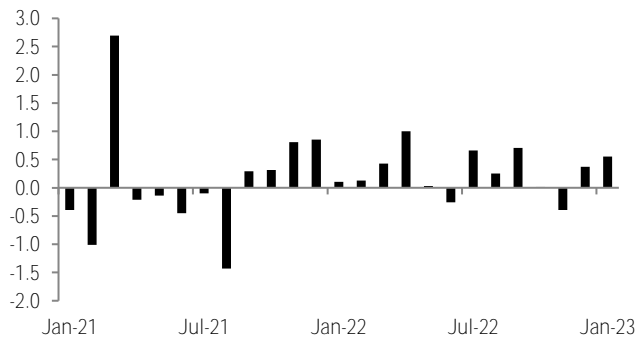
Source: INEGI

Table 2: Global economic activity indicator
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m, sa	
	Jan-23	Dec-22	Nov-22	Nov'22-Jan'23	Oct-Dec'22
Total	0.6	0.4	-0.4	0.3	0.4
Agriculture	-5.7	0.5	4.7	1.2	2.1
Industrial production	0.0	0.7	0.2	1.0	0.8
Mining	0.2	1.0	-0.4	1.0	1.0
Utilities	0.8	1.2	0.4	1.3	-0.1
Construction	-1.0	2.6	1.3	3.8	3.0
Manufacturing	0.7	0.5	-0.4	0.2	-0.2
Services	1.2	0.4	-0.9	0.0	0.2
Wholesale	0.5	0.7	-1.4	-1.3	-1.1
Retail	2.4	0.7	-1.0	0.1	-0.6
Transport	4.5	-1.8	-0.6	0.4	0.6
Financial services	-1.7	2.3	0.2	1.3	1.3
Professional services	1.6	0.5	-0.8	-1.4	-3.3
Education and healthcare services	-0.5	1.0	0.2	1.5	0.9
Recreational services	0.3	0.9	1.0	0.5	-1.2
Lodging services	3.3	2.0	-1.5	0.7	1.8
Government services	-0.8	-0.6	0.0	-0.1	0.8

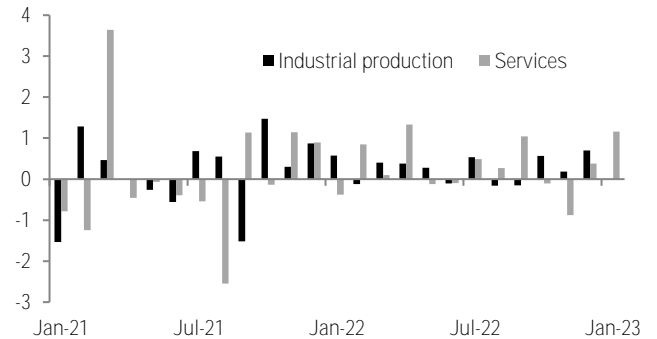
Source: INEGI

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



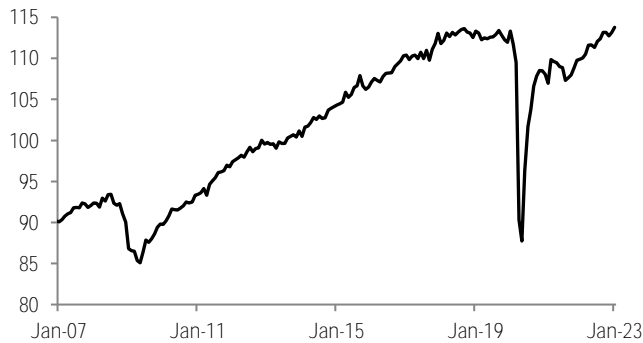
Source: INEGI

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



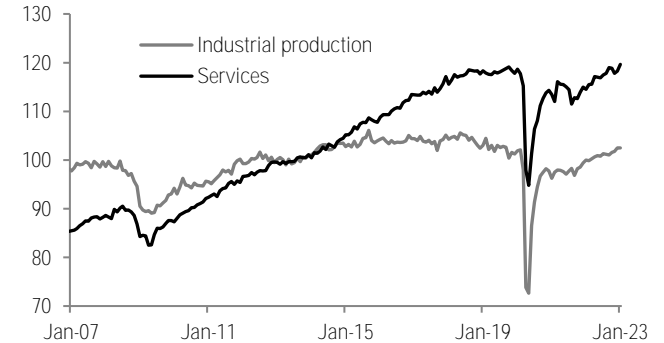
Source: INEGI

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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