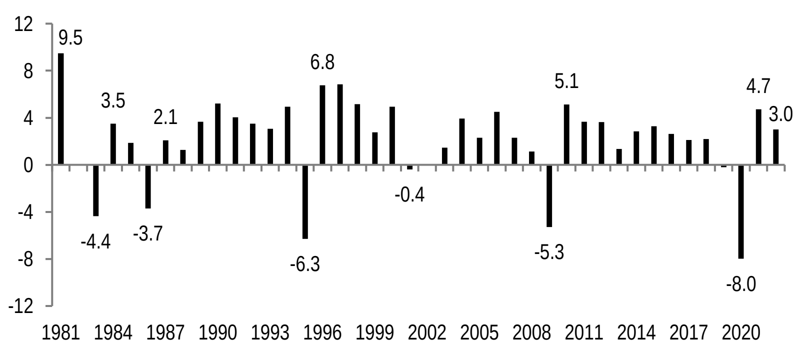
4Q22 GDP – More modest pace results in a 3.0% full-year expansion

January 31, 2023

- **Gross Domestic Product (4Q22 P, nsa): 3.5% y/y; Banorte: 3.3%; consensus: 3.4% (range: 2.5% to 4.0%); previous: 4.3%**
- **Gross Domestic Product (4Q22 P, sa): 0.4% q/q; Banorte: 0.3%; consensus: 0.3% (range: 0.0% to 1.1%); previous: 0.9%**
- **With this, the economy grew 3.0% in FY2022, driven by industrial production (3.2%) and services (2.7%)**
- **In the quarter, we highlight progress in primary activities (2.0% q/q) and industrial production (0.4%), with services more modest at 0.2%**
- **According to our calculations, today's print implies that activity advanced around 0.4% m/m (2.6% y/y) in December, with a rebound in industry and services**
- **These results imply a slightly lower inertial boost for this year than previously expected. Nevertheless, we reiterate our above consensus forecast of a 1.5% GDP expansion in 2023**
- **Revised figures will be published on February 24th**

GDP grew 3.0% in FY22. The report shows that economic activity expanded 3.5% in 4Q22 (Chart 1), slightly above our forecast (3.3%). Although this is lower than the previous quarter, much of it is due to a more challenging base effect. At the margin, calendar distortions were moderate, with seasonally adjusted figures up 3.6% y/y (Table 1). Back to original figures, primary activities stood at 6.6% y/y, industry at 3.0%, and services at 3.4%, as seen in Chart 2. With this, GDP grew 3.0% in full-year 2022, better than anticipated by most analysts throughout of the year, benefited by stronger dynamism and resilience in the first three quarters. Overall, both industry (3.2%) and services (2.7%) drove the recovery, even despite lingering challenges about economic policies, high inflation, COVID-19 contagions, and the extension of the war in Ukraine, among others.

GDP
% y/y, nsa



Source: INEGI

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Lower pace in the quarter. Sequentially, the economy advanced 0.4% q/q (Chart 3), adding five quarters to the upside. Nevertheless, the pace was markedly lower than in the four previous periods, in our opinion impacted by a more challenging base effects and other difficulties such as: (1) Additional core inflation pressures; (2) further monetary tightening; (3) a deceleration in the US; and (4) heightened global recession fears. However, resilience in some key sectors likely helped avoid a more significant slowdown, such as consumption as it was supported by better fundamentals (*e.g.* employment and remittances), as well as a renewed boost in investment.

By sectors, progress centered on primary activities at 2.0% q/q (Table 2), in our opinion helped by favorable climate conditions, noting a relatively contained hurricane season. Services grew 0.2%. Although we do not have sector-level information as this is the preliminary report, available data suggest that non-essentials kept contributing to the recovery. These include transportation and lodging, even despite signs of moderation in the latter part of the quarter. Commerce, both wholesale and retail, seems to have decelerated, while professional and support services likely remained as a drag.

Finally, industry advanced 0.4% (Chart 4), up for a seventh consecutive quarter. Unlike previous periods, dynamism did not come from manufacturing –with weakness from abroad impacting domestically. Construction seems to have been the bright spot, with favorable signals for all sectors, especially civil engineering. Mining would have been more mixed, albeit still positive, with volatility from 'related services' favorable for the whole quarter, while the oil sector would have been more stable.

GDP implies some rebound in December. Considering that the monthly GDP-proxy (IGAE) averaged 3.9% y/y in October-November, today's estimate implies that December was close to 2.6% y/y (nsa). According to our calculations, this would translate to +0.4% m/m, rebounding after the 0.5% contraction of the previous month. This is positive as signals for the period remained challenging. The expansion would have centered in industry (+0.6% m/m), with likely progress in mining –possibly on 'related services'– and construction. Manufacturing could be more stable, with data from abroad still negative and trade balance flows to the downside. Services would have grown 0.4%, not enough to offset the -0.9% of the previous month, albeit possibly finding some support from retail and other non-essential categories. Finally, agriculture would have contracted 0.4%, not surprising considering its recent performance.

Lower inertial boost for 2023, but we remain relatively optimistic about the outlook. The result for the last quarter was below our call when we revised our 2023 growth forecast to 1.5%. This implies a lower inertial boost for activity this year, which we now calculate at about 1.0% (previous: 1.2%). Nevertheless, we reiterate our forecast considering several positive factors that have materialized recently, including: (1) The favorable resolution about rules of origin in the auto sector; (2) important investments related to *nearshoring*; and (3) a moderation in global recession fears on the back of China's reopening, among others.

Despite of this, we believe accumulated rate hikes and a complex inflationary environment will indeed impact activity, especially by 3Q22 (see Table 3 and Table 4).

In the short term, some risks seem to be materializing, especially those related with a protracted US deceleration, with PMIs in said country remaining in contraction. Moreover, energy prices have signaled some rebound due to the view of a more accelerated reopening in China. This is a potential headwind as the global fight against inflation has not finished yet. On the other hand, it may also help relieve some of the remaining supply constraints along with pushing higher global aggregate demand. In our view, the overall effect on growth and inflation will be net positive.

On a medium-term basis, we see a more favorable situation. At the margin, expectations of a more modest pace of monetary policy tightening have given way to a higher likelihood of a so-called 'soft landing', at least in some latitudes. We believe that nearshoring efforts will boost investment despite our view that interest rates will stay high throughout the year, with important announcements from several companies –such as Foxconn, Mahle, BIC, Cenntro Automotive, and tentatively, BMW– helping consolidate our vision.

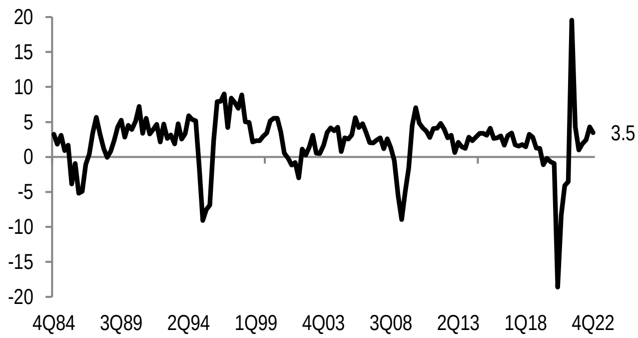
All in all, we believe that the outlook for 2023 remains challenging. Notwithstanding, the Mexican economy is in a relatively strong position to deal with this. Moreover, potential GDP could benefit in the current and coming years if the acceleration in investments materializes in coming years.

Table 1: GDP
% y/y nsa, % y/y sa

	nsa						sa					
	4Q22	3Q22	4Q21	3Q21	2022	2021	4Q22	3Q22	4Q21	3Q21	2022	2021
Total	3.5	4.3	1.0	4.3	3.0	4.7	3.6	4.3	1.1	4.3	3.0	4.9
Agricultural	6.6	3.6	3.7	-0.1	3.0	2.5	6.3	3.2	3.7	-0.8	2.8	2.3
Industrial production	3.0	3.5	1.0	3.5	3.2	5.4	3.0	3.7	0.9	3.7	3.2	5.7
Services	3.4	4.5	0.3	4.4	2.7	4.3	3.6	4.5	0.5	4.4	2.7	4.4

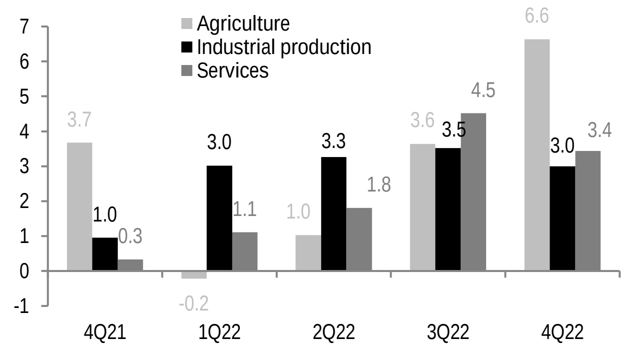
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



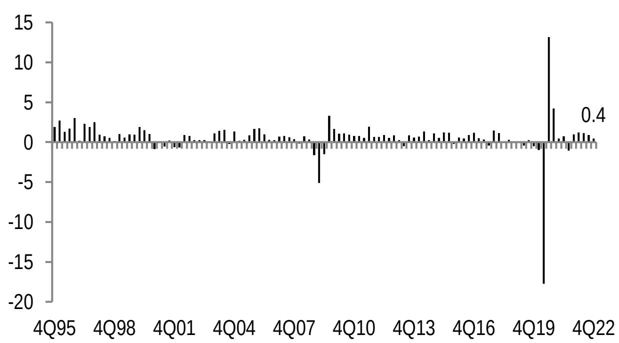
Source: INEGI

Table 2: GDP
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	4Q22	3Q22	2Q22	1Q22	4Q22	3Q22	2Q22	1Q22
Total	0.4	0.9	1.1	1.2	1.8	3.6	4.7	5.0
Agricultural	2.0	2.0	2.9	-3.1	8.4	8.1	12.3	-11.8
Industrial Production	0.4	0.6	0.7	1.5	1.5	2.3	2.6	5.9
Services	0.2	1.1	1.3	1.3	0.7	4.4	5.4	5.4

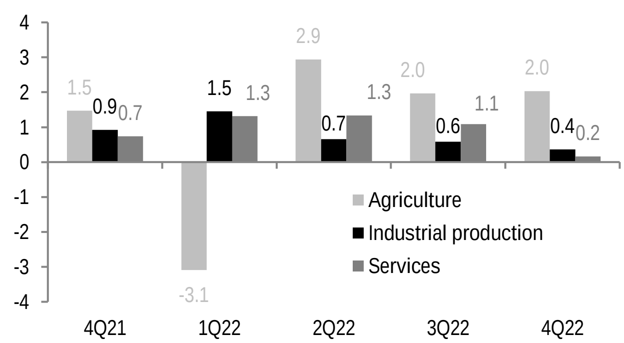
Source: INEGI

Chart 3: GDP
% q/q sa



Source: INEGI

Chart 4: GDP by sectors
% q/q sa



Source: INEGI

Table 3: GDP 2023: Supply
% y/y nsa; % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	2.8	1.8	0.7	0.7	1.5
Agricultural	4.8	2.2	1.3	2.2	2.6
Industrial production	1.3	0.3	-0.2	0.3	0.4
Services	3.3	2.4	1.0	0.8	1.9
% q/q					
GDP	0.3	0.1	-0.1	0.4	--

*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

Table 4: GDP 2023: Demand
% y/y nsa; % q/q sa

% y/y	1Q23	2Q23	3Q23	4Q23	2023
GDP	2.8	1.8	0.7	0.7	1.5
Private consumption	2.5	1.5	1.4	1.3	1.6
Investment	0.5	-0.5	-0.2	0.8	0.2
Government spending	0.7	0.9	-0.8	0.8	0.4
Exports	5.5	2.0	0.7	0.6	2.1
Imports	8.0	2.2	-2.2	0.6	1.9
% q/q					
GDP	0.3	0.1	-0.1	0.4	--

*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal and Daniel Sebastián Sosa Aguilar, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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