3Q21 GDP –Downward revision on weaker industry and services

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Alejandro Padilla
Chief Economist and Head of Research
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Gross Domestic Product (3Q21 F, nsa): 4.5% y/y; Banorte: 4.5%; consensus: 4.5% (range: 4.2% to 4.8%); preliminary: 4.6%**
- **Gross Domestic Product (3Q21 F, sa): -0.4% q/q; Banorte: -0.3%; consensus: -0.3% (range: -0.4% to -0.2%); preliminary: -0.2%**
- **Revisions relative to the preliminary report were mostly lower. Industry declined by 40bps to 0.3% q/q, while services were down 33bps to -0.9%. Primary activities were higher, to 1.3%. With these results, the economy was 4.1% below its most recent high, in 3Q18**
- **September's monthly GDP-proxy (IGAE) declined 0.4% m/m (+0.9% y/y), extending the sizable 1.2% contraction of the previous month. Industry dipped 1.4%, while services exhibited an additional 0.3% decline. Despite higher mobility and confidence levels, these figures are consistent with renewed difficulties and cautiousness due to COVID-19, as well as potential headwinds from higher inflation**
- **We maintain our full-year GDP forecast of 5.7%, albeit with slight downside risks after the report. Nonetheless, available data for 4Q21 shows signs of improvement, in line with our call of a resumption of the recovery in the period**

GDP at 4.5% y/y in 3Q21, below the preliminary report. Total activity was revised lower by 3bps (see Chart 1). Although this was in line with consensus, the overall result is weak as the advanced figure had already been way below expectations by us and the market. With seasonally adjusted data, the economy grew 4.7% y/y (Table 1). Back to original figures, the revision was mostly because of a more modest performance in industry, cut by 28bps to 5.0% y/y. Services were slightly up (9bps) at 4.2%, while primary activities were virtually unchanged, at 0.6% (Chart 2). As mentioned before, it is our take that the main headwinds included the deterioration in COVID-19 conditions, persistent supply restrictions, higher price pressures, and other adverse events such as climate disruptions. On the contrary, there was still some boost from higher demand, both from abroad but also domestically

A higher sequential contraction. GDP fell 0.4% q/q (Chart 3), which is 20bps lower than the preliminary print. According to our calculations, this was below the figure implied by INEGI's *Timely Indicator of Economic Activity*, which pointed to a 0.1% q/q contraction. As a result, the economy is 4.1% below its historical high, reached in 3Q18. Relative to 4Q19, before the pandemic hit, it is 2.9% lower. In addition, total output is close to the one seen in late 2016 (Chart 5).

Industry grew 0.3% q/q (preliminary: 0.7%). By subsectors, there was a meaningful differentiation. On the positive side, construction picked up 1.4%, surprising us positively considering lingering uncertainty and high input prices, among other factors. Based on monthly figures, we highlight strength in civil engineering, more closely associated to public sector investment.

In mining (-1.0%), the oil sector lagged as Pemex reported several production issues as well as some weather-related stoppages. Lastly, manufacturing remained limited, growing only 0.4%, with transportation equipment as well as computers, communications, electronic and other hardware among those with the highest setbacks. In this sense, the scarcity of raw materials (*e.g.* semiconductors), high shipping costs and other bottlenecks keep affecting these categories.

Services were also lower, at -0.9% q/q (preliminary: -0.6%), as seen in Chart 4. This is the first contraction since the pandemic shock in 2Q20. Inside, only 5 out of 15 categories were negative. Among them, we highlight business support (-50.8%), health (-3.6%) and professional services (-2.2%). On the contrary, tourism-related categories showed additional gains, with lodging at 4.8% and entertainment up 1.1%. Transportation was more modest (0.4%), possibly affected by lower volumes in goods. Other sectors with relevant growth included 'other services' (7.8%), corporates (7.2%) and wholesales (2.6%). Lastly, retail sales increased 1.9%, in our view positive considering some of the risks faced during the period. For further details, please see Table 4.

The economy fell further in September. The monthly GDP proxy IGAE for the last month of the quarter was also released, at 0.9% y/y (original figures). This was lower than consensus at 2.5%, but closer to our 1.4%. Adjusting for calendar effects, the economy grew 1.3% y/y, meaningfully below INEGI's mid-point of 2.8% in the *Timely Indicator of Economic Activity* (see link above). More importantly, the economy contracted 0.4% m/m after the -1.2% seen in August (revised from -1.6%). As already known, industry dipped 1.4%, while services extended their move lower, at -0.3%. The latter is very weak when factoring-in the 1.7% slump of the previous month. We thought services would benefit from leaving behind the peak (in late August) of daily COVID-19 cases during the 'third wave'. Confidence and mobility indicators were consistent with less caution among consumers. By sector, we note that only professional services and business support (-14.8%), as well as retail sales (-1.6%) contracted. To the upside, we highlight lodging (3.7%), wholesales (2.8%) and transportation (2.1%). This suggests that domestic demand has shifted to a low gear since the recovery started with the reopening, back in June last year.

Full-year 2021 estimate maintained at 5.7%, with slight downside risks. Given that the report was close to our expectations and that we had already revised lower our forecast since the preliminary print, we reiterate our full-year 2021 GDP forecast at 5.7%. This is lower than consensus, with the latest banking sector survey at 5.9%. Specifically, we estimate the fourth quarter at 1.6% q/q (4.3% y/y), with an adjustment higher because of base effects (see Table 2 and Table 3). This still implies a resumption of the recovery. In this respect, IMEF's PMI indicators suggest a better start for activity in the last quarter, especially in services. High-frequency data on mobility –recently surpassing pre-pandemic benchmarks– and the 'traffic light' indicator –with all except one state, Baja California, currently in green– also support this view. Nevertheless, we are more cautious as these signals may have lost predictive power, which in turn would potentially signal a more meaningful slowdown, especially in domestic demand.

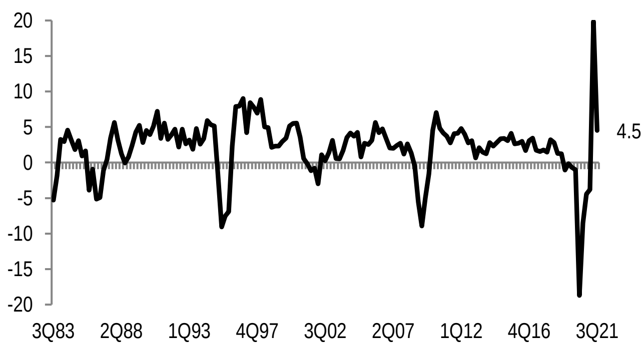
GDP growth of 3.0% in 2022. For next year our forecast remains at 3.0%, broadly in line with market expectations. Overall, what concerns us the most is the possibility that broader and more persistent price pressures increasingly hurt the economic recovery. In this sense, this week we modified our year-end 2021 and 2022 estimates, to 7.3% from 6.6%, and to 4.4% from 4.0%, in the same order. Specifically, higher inflation could dampen consumption growth, which we expect to remain supported by strong remittances and the gradual recovery of employment as the vaccination campaign advances further. It could also impact investment, both because of higher prices of key raw materials and the need to raise interest rates to contain inflation. Likewise, some unresolved issues remain about the interpretation of USMCA rules and labor regulations. In turn, the *2022 Budget* has been approved, which includes more resources for direct transfers to social programs and in public investment, which could also help at the margin. There have also been some positive news at the margin, highlighting: (1) The approval of President's Biden infrastructure plan for around US$1.2 trillion (US$550 billion in new resources), which could have direct and indirect positive effects in our country; (2) the reopening of land crossings at the US-Mexico border, which may boost regional economies given their high interdependence; and (3) elevated appetite from manufacturers due to the reconfiguration of supply chains and "nearshoring", especially as the US relationship with China remains complicated and the pandemic keeps influencing global trade. We estimate that pre-pandemic levels of activity (1Q19) will be reached around late 2Q22, with a more vigorous rebound in the second half of the year as supply chain disruptions fade away and price pressures decline gradually.

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

	% y/y nsa						% y/y sa					
	3Q21	2Q21	3Q20	2Q20	Jan-Sep **'21**	Jan-Sep **'20**	3Q21	2Q21	3Q20	2Q20	Jan-Sep **'21**	Jan-Sep **'20**
Total	4.5	19.9	-8.5	-18.7	6.1	-9.5	4.7	19.6	-8.4	-18.9	6.4	-9.6
Agriculture	*0.6*	*6.4*	*4.7*	*-3.0*	*2.1*	*-0.1*	*0.3*	*6.5*	*4.4*	*-2.7*	*1.9*	*0.1*
Industrial activity	*5.0*	*27.5*	*-8.7*	*-25.0*	*8.3*	*-11.9*	*5.1*	*27.5*	*-8.6*	*-24.9*	*8.6*	*-12.1*
Mining	2.4	6.3	-2.8	-3.8	1.8	-0.4	2.4	6.4	-2.9	-3.8	1.8	-0.4
Utilities	-1.6	5.3	-5.1	-9.9	-0.2	-5.6	-1.6	5.2	-5.3	-9.9	-0.3	-5.4
Construction	10.4	32.5	-17.5	-33.6	9.2	-19.9	10.6	32.5	-17.2	-33.6	9.3	-20.1
Manufacturing	4.5	36.4	-7.3	-28.9	10.9	-12.5	4.7	36.4	-7.2	-28.9	11.6	-12.9
Services	*4.2*	*17.7*	*-8.6*	*-16.4*	*5.4*	*-8.5*	*4.4*	*17.3*	*-8.3*	*-16.7*	*5.6*	*-8.6*
Wholesale commerce	10.7	24.9	-10.0	-22.2	12.6	-12.1	10.9	24.3	-9.8	-22.0	13.0	-12.3
Retail sales	8.5	38.0	-7.0	-27.4	12.4	-11.4	8.7	38.0	-6.9	-27.3	12.9	-11.5
Transportation and storage	19.2	53.8	-23.7	-39.9	15.1	-22.2	19.5	52.9	-23.8	-40.2	15.4	-22.4
Mass media and information	9.0	7.9	-5.9	0.2	2.5	-0.3	9.0	7.6	-6.1	0.4	2.5	0.1
Financial services	-1.4	-2.1	-6.3	-5.9	-3.8	-4.9	-1.2	-2.4	-6.2	-6.2	-3.9	-5.0
Real estate	3.2	4.2	-0.5	-2.5	2.2	-0.4	3.1	4.3	-0.6	-2.4	2.3	-0.4
Professional services	4.7	11.3	-3.2	-3.6	6.7	-2.6	5.9	10.2	-3.9	-3.1	6.9	-3.2
Corporations	3.8	3.5	8.3	-2.6	1.3	5.6	3.1	4.8	7.6	-1.3	1.4	5.9
Business support	-48.1	14.5	2.4	-4.3	-8.9	0.1	-47.9	14.6	2.7	-4.5	-8.9	0.1
Education	-0.1	-0.2	-3.7	-2.1	-1.5	-1.5	0.0	-1.1	-3.4	-2.2	-1.5	-1.6
Healthcare	7.9	15.3	-1.9	-5.0	9.4	-3.6	8.0	14.8	-1.9	-5.2	9.5	-3.6
Recreation, sports and cultural events	71.2	249.9	-58.1	-73.5	30.0	-42.6	76.5	235.6	-56.5	-74.7	22.7	-38.7
Temporary lodging services	67.7	167.7	-54.7	-72.1	28.5	-45.5	67.4	165.4	-54.8	-72.5	25.6	-44.5
Other services	9.0	10.2	-16.8	-27.9	1.2	-16.2	8.4	10.9	-17.3	-27.4	1.1	-16.3
Government activities	0.3	2.2	1.1	-0.9	-0.7	1.6	0.2	2.1	1.0	-0.9	-0.7	1.5

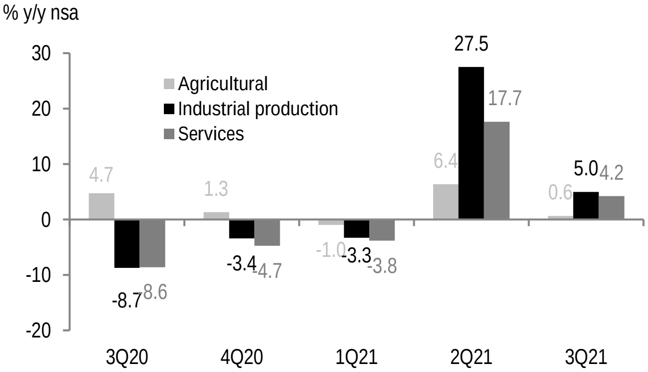
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



Source: INEGI

Table 2: GDP 2021: Supply
% y/y nsa; % q/q sa

% y/y	1Q21	2Q21	3Q21	4Q21	2021
GDP	-3.8	19.9	4.5	4.3	5.7
Agricultural	-1.0	6.4	0.6	5.8	3.2
Industrial production	-3.3	27.5	5.0	3.9	7.1
Services	-3.8	17.7	4.2	4.2	5.1
% q/q					
GDP	1.0	1.2	-0.4	1.6	--

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

Table 3: GDP 2021: Demand
% y/y nsa; % q/q sa

% y/y	1Q21	2Q21	3Q21	4Q21	2021
GDP	-3.8	19.9	4.5	4.3	5.7
Private consumption	-4.3	22.6	8.2	6.9	7.6
Investment	-5.0	34.1	11.0	3.4	9.0
Government spending	-0.7	3.9	-1.4	2.5	1.1
Exports	-4.1	41.9	9.2	7.4	11.6
Imports	-1.1	35.1	22.5	10.0	15.2
% q/q					
GDP	1.0	1.2	-0.4	1.6	--

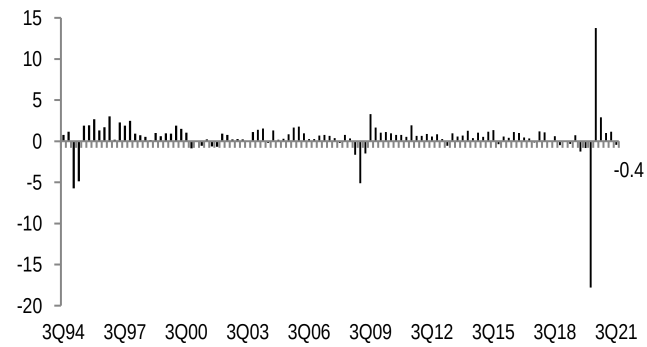
*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

Table 4: GDP
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	3Q21	2Q21	1Q21	4Q20	3Q21	2Q21	1Q21	4Q20
Total	-0.4	1.2	1.0	2.9	-1.7	4.7	4.1	12.1
Agriculture	*1.3*	*2.9*	*-0.5*	*-3.2*	*5.1*	*12.1*	*-2.0*	*-12.3*
Industrial activity	*0.3*	*0.8*	*0.4*	*3.6*	*1.3*	*3.1*	*1.6*	*15.1*
Mining	-1.0	0.0	1.6	1.8	-4.1	0.2	6.5	7.4
Utilities	-0.4	0.4	-0.5	-1.1	-1.8	1.6	-2.0	-4.2
Construction	1.4	1.1	2.5	5.1	5.8	4.6	10.5	22.1
Manufacturing	0.4	0.7	-0.4	3.9	1.8	2.9	-1.6	16.5
Services	*-0.9*	*1.2*	*1.4*	*2.7*	*-3.7*	*5.0*	*5.9*	*11.1*
Wholesale commerce	2.9	-1.9	4.2	5.4	12.1	-7.2	17.7	23.6
Retail sales	1.9	2.8	-1.1	4.9	7.9	11.7	-4.4	21.0
Transportation and storage	0.4	6.2	2.5	9.4	1.4	27.4	10.3	43.1
Mass media and information	0.5	11.5	-5.3	2.7	2.1	54.4	-19.5	11.1
Financial services	-0.8	1.4	0.3	-2.1	-3.2	5.9	1.0	-8.0
Real estate	0.9	0.8	0.4	1.0	3.5	3.3	1.8	3.9
Professional services	-2.2	1.1	5.0	2.0	-8.6	4.6	21.3	8.4
Corporations	7.2	-1.1	-6.3	3.8	32.0	-4.2	-23.0	16.0
Business support	-50.8	0.2	3.3	2.2	-94.1	0.9	14.0	8.9
Education	0.1	-0.8	0.8	-0.1	0.4	-3.2	3.4	-0.4
Healthcare	-3.6	7.0	2.1	2.6	-13.7	31.2	8.6	10.6
Recreation, sports and cultural events	1.1	23.5	14.7	23.3	4.3	132.3	72.9	131.4
Temporary lodging services	4.8	15.2	4.7	32.5	20.6	75.9	20.2	207.9
Other services	7.8	-2.0	2.4	0.2	35.0	-7.6	10.1	0.6
Government activities	-0.2	0.9	1.9	-2.4	-0.7	3.6	7.7	-9.1

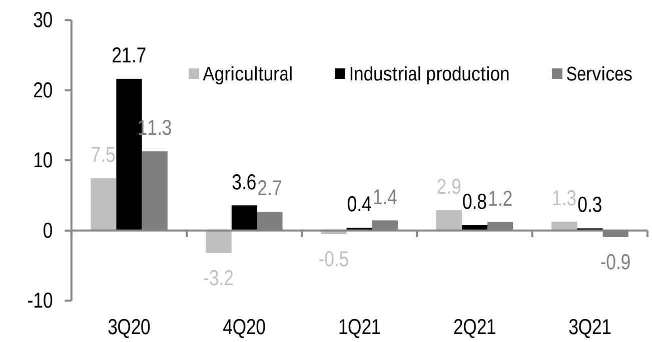
Source: INEGI

Chart 3: GDP
% q/q sa



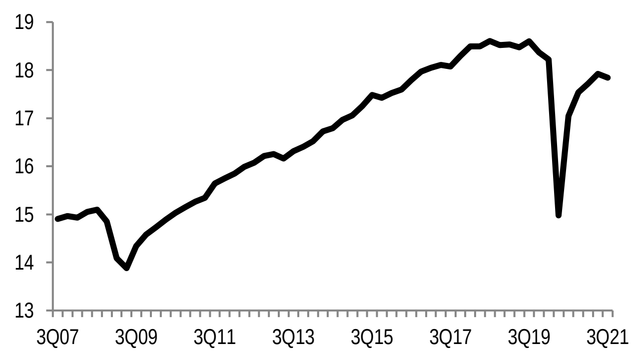
Source: INEGI

Chart 4: GDP by sectors
% q/q sa



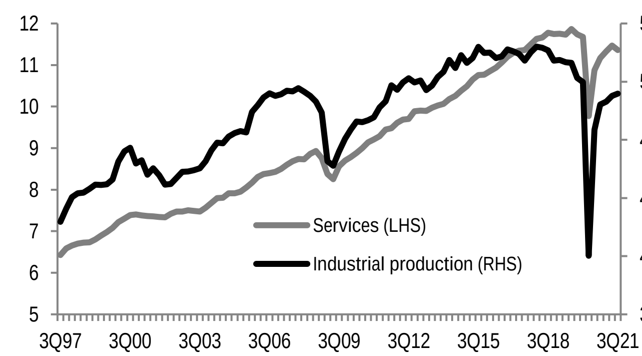
Source: INEGI

Chart 5: GDP*
MXN trillion, sa



Note: Annualized figures
Source: INEGI

Chart 6: GDP by sectors*
MXN trillion, sa



Note: Annualized figures
Source: INEGI

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Alejandro Padilla Santana	Chief Economist and Head of Research	alejandro.padilla@banorte.com	(55) 1103 - 4043
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5004 - 1282
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 5140
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8173 - 9127
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5249 - 6423
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5004 - 1051
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 1670 - 1899