3Q22 GDP – Above expectations on services, with the full-year now seen at 2.7%

- **Gross Domestic Product (3Q22 P, nsa): 4.2% y/y; Banorte: 4.1%; consensus: 3.3% (range: 2.3% to 4.1%); previous: 2.0%**
- **Gross Domestic Product (3Q22 P, sa): 1.0% q/q; Banorte: 1.3%; consensus: 0.8% (range: 0.3% to 1.3%); previous: 0.9%**
- **The annual rate accelerated on a less challenging base effect, albeit with a slightly negative seasonality. With seasonally adjusted figures, activity in the quarter grew 4.3% y/y**
- **We highlight positive results in services (1.2% q/q) and industry (0.9%), continuing with their recovery trend. In addition, primary activities rebounded again at 1.8%, with seemingly better conditions**
- **According to our calculations, today's print implies that the economy grew around 0.6% m/m (5.6% y/y) in September, with strength across the board**
- **With today's result and a slightly more favorable inertial behavior for 4Q22, we now expect full-year 2022 GDP at 2.7% (previous: 2.1%)**
- **Revised figures will be published on November 25th**

3Q22 GDP better than expected at 4.2% y/y. This was practically in line with our 4.1% forecast, but much better than the 3.3% consensus. Moreover, this represents a relevant acceleration relative to 2Q22 (Chart 1), mostly on a less challenging base effect. In addition, there is a slightly negative calendar effect. Correcting for this with seasonally adjusted figures, activity grew 4.3% y/y (Table 1). In our view, the result is positive, boosted by strength in fundamentals (*e.g.* employment, remittances and credit), along external demand resilience. These likely offset other adverse developments, such as: (1) Additional inflationary pressures, impacting household's income; (2) faster monetary tightening by global central banks; and (3) increased risks about a recession heading into the end of the year or in 2023. Back to original data, primary activities stood at 3.8% y/y, industry also at 3.8%, and services at 4.3%, as seen in Chart 2.

Broad strength in the quarter. The economy grew 1.0% q/q with seasonally adjusted figures (Chart 3), adding a fourth quarter to the upside after a hit in 3Q21 (Table 2). With this, total activity remains was 0.5% below pre-pandemic levels (4Q19). We highlight both services (1.2%) and industry (0.9%). Within the former and with known data until August, non-essential sectors recovered further, noting lodging and recreational categories, while transportation took a step back. Commerce was mixed, with strength in wholesales but retail losing steam through the middle of the period and with more adverse signs into September. Meanwhile, essential categories were more stable, but with biases related to the pandemic and the return to classes in healthcare and education. Lastly, professional and support services might have gained an inch of dynamism.

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Industry picked up for a sixth consecutive quarter, growing 0.9 % q/q (Chart 4). With this, output exceeds pre-pandemic levels by 1.5%. In our view, the key driver has been manufacturing, bolstered by improving trade conditions and resilient US demand. Meanwhile, mining has been more mixed, with volatility in new drilling projects skewing the figures for several months by now. Nevertheless, construction weakened after signs of progress in previous quarters, in our view affected by higher costs.

Lastly, primary activities climbed 1.8% q/q, extending the positive trend of 2Q22. In our view, an improvement in drought conditions and a mild hurricane season contributed to this. However, this has not seemed to fully translate to lower prices as global demand conditions remain quite tight.

GDP implies a relevant expansion in September. Considering that the monthly GDP-proxy (IGAE) averaged 3.5% y/y in July-August, today's estimate implies that September was close to 5.6% y/y (nsa). According to our calculations, this would translate to +0.6% m/m, extending the +1.0% of the previous month. This is strong considering challenging conditions across some sectors. Specifically, these point to a sizable increase in primary activities (6.3% m/m), contrasting with the outflows in the trade balance and mixed signs for prices in CPI. Meanwhile, industry would have grown around 0.5%, in our view boosted by manufacturing –with positive data from abroad– and construction rebound, with more favorable employment for the sector. Lastly, services would have grown about 0.3%, possibly aided by resilience in tourism, while signs for retail were more negative.

GDP to close the year on a better note, upgrading the full-year print to 2.7%. We believe that these results were very positive, suggesting that the economy not only maintained its underlying momentum, but accelerated despite more challenging conditions. Although there are signs of a deceleration in 4Q22, today's expansion implies higher inertial dynamism for said period, thus anticipating a flat print of 0.0% q/q (2.8% y/y). With these results, activity would have grown 2.7% in the entire year (see Table 3 and Table 4), above our previous forecast of 2.1%.

Short-term risks are climbing, especially as the acceleration in monetary tightening impacts prospective demand. This is becoming evident in forward looking indicators such as US PMIs, with October's manufacturing lower to 49.9pts and additional warning signs from producers. In addition, risks for the energy market have increased due to OPEC+ actions despite a moderation in commodity prices, which comes on top of lingering uncertainty about the winter in Europe despite a sizable inventory build-up. The main risk for the latter continues to be prices, possibly additional fuel for central banks to continue tightening, even despite mounting signs of an upcoming economic deceleration –if not outright recession– through 2023. Moreover, while risks stemming from the pandemic and its disruptions have decreased, further shocks cannot be ruled out if the zero-COVID policy remains in place in China, even with the government pushing for more accommodative economic policies.

Domestically, demand has remained resilient despite mounting inflation pressures, in our view sustained by the recovery in employment and strong remittances. Remittances are still quite tied to the US labor market, which is expected to start slowing down as Fed hikes get assimilated. Lastly, investment is still lagging, with construction heavily impacted by higher costs, especially in the residential front. Unfortunately, this weakness has not been completely offset by the push in government projects and *nearshoring* efforts. We believe these hold the key for additional dynamism in Mexico after this period of heightened uncertainty passes, expecting some companies to put off some of their efforts as financing costs are increasing and a downturn is expected.

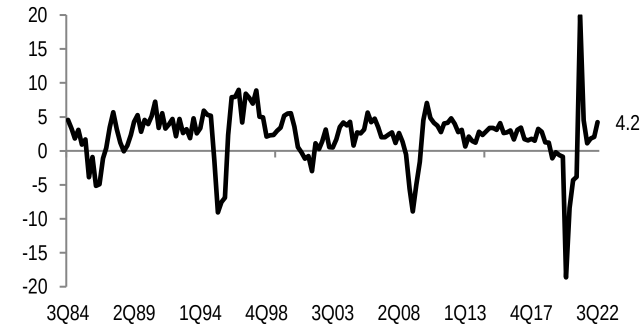
Given mounting risks and despite additional momentum in 2022, we reiterate our call of a 1.0% expansion in GDP next year. This still entails a sequential decline around the middle of the year, considering risks of a likely recession in the US amid tighter monetary and fiscal conditions, and other. The latter would be coupled with persistently high inflation domestically, likely hindering domestic demand.

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

	nsa						sa					
	3Q22	2Q22	3Q21	2Q21	Jan-Sep'**22**	Jan-Sep'**21**	3Q22	2Q22	3Q21	2Q21	Jan-Sep'**22**	Jan-Sep'**21**
Total	4.2	2.0	4.5	19.9	2.7	6.1	4.3	1.9	4.6	19.5	2.7	6.3
Agricultural	3.8	1.4	-1.3	5.6	2.2	1.2	3.5	1.4	-1.4	5.6	2.3	1.1
Industrial production	3.8	3.3	4.8	26.9	3.4	8.0	4.0	3.3	4.9	26.9	3.4	8.4
Services	4.3	1.2	4.3	18.0	2.1	5.5	4.3	0.9	4.4	17.4	2.1	5.6

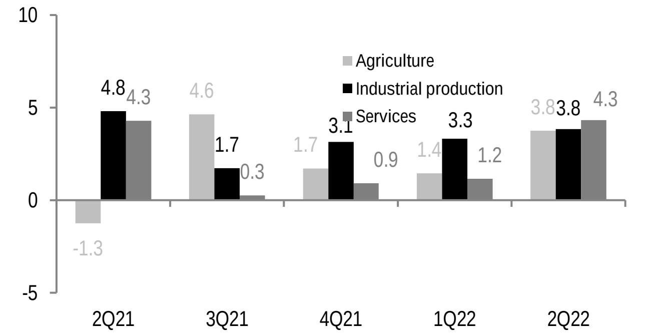
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



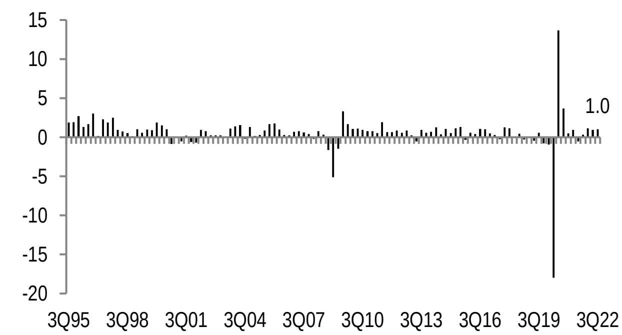
Source: INEGI

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

	% q/q				% q/q saar			
	3Q22	2Q22	1Q22	4Q21	3Q22	2Q22	1Q22	4Q21
Total	1.0	0.9	1.1	0.3	4.2	3.7	4.6	1.2
Agricultural	1.8	0.9	-1.8	1.1	7.4	3.8	-7.0	4.4
Industrial Production	0.9	0.9	1.4	0.8	3.6	3.5	5.7	3.1
Services	1.2	0.9	1.4	-0.3	4.9	3.7	5.7	-1.1

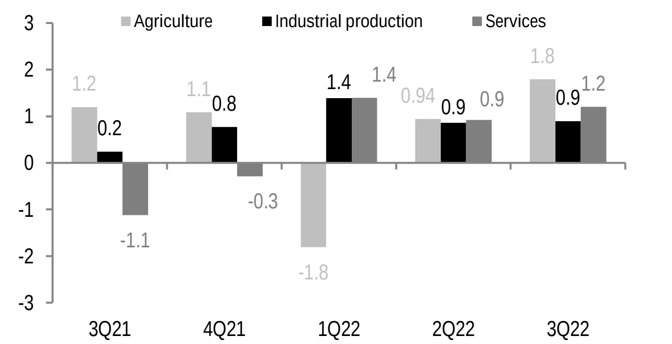
Source: INEGI

Chart 3: GDP
% q/q sa



Source: INEGI

Chart 4: GDP by sectors
% q/q sa



Source: INEGI

Table 3: GDP 2022: Supply
% y/y nsa; % q/q sa

% y/y	1Q22	2Q22	3Q22	4Q22	2022
GDP	1.8	2.0	4.2	2.8	2.7
Agricultural	1.7	1.4	3.8	0.7	1.8
Industrial production	3.1	3.3	3.8	2.3	3.1
Services	0.9	1.2	4.3	3.2	2.4
% q/q					
GDP	1.1	0.9	1.0	0.0	--

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

Table 4: GDP 2022: Demand
% y/y nsa; % q/q sa

% y/y	1Q22	2Q22	3Q22	4Q22	2022
GDP	1.8	2.0	4.2	2.8	2.7
Private consumption	7.2	6.5	6.2	3.2	5.7
Investment	5.6	7.0	3.8	1.6	4.5
Government spending	0.7	-0.3	1.1	0.4	0.5
Exports	10.0	9.3	9.8	3.9	8.1
Imports	6.1	12.4	8.2	6.3	8.2
% q/q					
GDP	1.1	0.9	1.0	0.0	--

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

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