

Downward revision of the 2024 GDP growth forecast

Grupo Financiero BASE revises downward its growth forecast for 2024 from 2.5% to 1.6%. The range was previously 1.5% to 3.0% and now the range is narrower as more information is available at the beginning of the year, from 1.3% to 2.0%.

The Mexican economy began to show consistent signs of deceleration since the fourth quarter of 2023, when GDP showed a quarterly growth of only 0.08%, being the worst performance since the third quarter of 2021. Therefore, in all of 2023, GDP grew 3.23%, decelerating from a 3.94% growth in 2022.

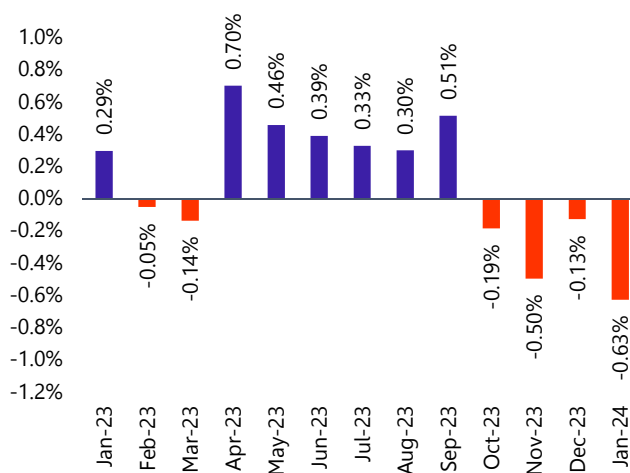
This has worsened at the beginning of 2024 and has been confirmed by the Global Indicator of Economic Activity (IGAE in Spanish) which in January showed a monthly contraction of 0.63% (Figure 1), being the largest drop since May 2020, also accumulating four consecutive months of monthly contractions, something that had not occurred since the period between June and September 2021.

Broken down, primary activities showed a monthly contraction of 12.91% in January and tertiary activities contracted 0.51% monthly, with declines in wholesale trade (-2.30%), retail trade (-0.50%), leisure services (-5.66%), temporary accommodation and food preparation (-3.66%), which are all key subsectors of trade and services. Only secondary activities grew 0.35% month-on-month, albeit after falling two consecutive months (in November and December) so this is a rebound effect and despite this, it remained 1.38% below October 2023. Growth was driven by manufacturing which grew 0.23% monthly, also due to a rebound effect after falling 2.29% the previous three months, while construction grew 2.22% monthly. On the other hand, the utilities sector contracted 0.79% monthly, accumulating five consecutive months of contraction, something that had not happened since the recession due to the Covid-19 pandemic, when utilities fell for six consecutive months between September 2020 and February 2021.

From the aggregate demand perspective, there are also signs of weakness. Consumption in Mexico showed a monthly decline of 0.60%, being the largest monthly contraction since February 2023 (-1.17%) as well as the largest decline for an equal month since 2017 (-1.46%). In its annual comparison, private consumption registered a growth of 1.90%, decelerating sharply from the 5.50% growth in December and being the smallest advance since the 6.23% contraction observed in February 2021.

On the other hand, gross fixed investment shows stagnation, advancing 0.14% monthly in January, but without growth since September 2023. Therefore, from August 2023 to January 2024 (point-to-point comparison), fixed investment accumulates a contraction of 1.63%. In the same period, investment in machinery and equipment shows a contraction of 0.32% and investment in construction has contracted 2.94%. At an annual rate, investment showed a growth of 13.82% in January, the lowest growth rate since March 2023. However, this high growth rate is due to the

Figure 1. IGAE, quarter-on-quarter growth



Source: Grupo Financiero BASE with information from INEGI.

cumulative expansion between April and August 2023 and in the coming months it is likely that annual investment growth will continue to decelerate.

Finally, exports (measured in dollars) showed a quarterly contraction of 1.05% during the fourth quarter of 2023 and in January contracted 2.53% month-over-month. In February exports showed a recovery by growing 4.24% monthly, but this was mainly due to the automotive component which grew 7.93%.

The negative performance of economic activity at the beginning of the year is also a cause for concern, as normally an election year in Mexico should see greater dynamism. Historically, since 1980, GDP has grown an average of 2.92% in presidential election years, compared to an average of 2.72% in all other years. It is also worrisome that the deterioration of economic activity occurs at the beginning of the year, since in the 7 years of previous presidential elections (since 1982), the expansion was concentrated in the first half of the year, with GDP growing at an average quarterly rate of 0.72% and decelerating to an average quarterly rate of 0.16% in the second half of the year. Of these 7 years, only 1 year saw higher average quarterly growth in the second half of the year: 1988.

According to the leading indicators (SICCA in Spanish), a significant deterioration in economic activity is confirmed. The coincident indicator, which reflects the general state of the economy under the classical approach, showed a monthly decline of 0.4 points during January, accumulating three consecutive months of declines since the peak observed in October 2023. This is the largest number of consecutive setbacks of the coincident indicator since the period between February and May 2020, when the indicator declined for four consecutive months during the pandemic. It is important to remember that a recession implies a significant and widespread drop in economic activity, something that is not occurring with data through January, as the drop in economic activity so far is neither deep nor widespread.

There are signs that a recovery could be observed in the short term. The leading indicator, which seeks to anticipate the turning points of the coincident indicator, rose 0.2 points in January, accumulating three consecutive months of upward movement and standing at 109.6 points, after falling two months in September (-0.2 points) and October (-0.5 points). Therefore, it is likely that the coincident indicator will show a recovery in the coming months.

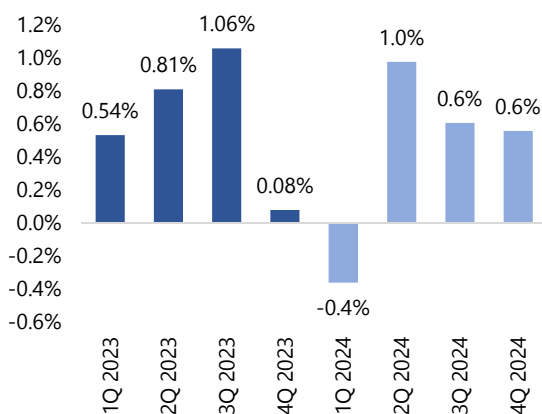
The contraction of economic activity in January makes it likely that Mexico's GDP will contract in the first quarter of 2024 and register a slowdown in full-year growth. In fact, assuming a rebound effect of the IGAE, with monthly growth of 0.6% in February and projecting growth of 0.4% in March, GDP would show a quarterly contraction of 0.4% during the first quarter, which, if confirmed, would be the first quarterly contraction in GDP since the third quarter of 2021 and the largest since the second quarter of 2020. For positive quarterly GDP growth to be observed in the first quarter, during February and March the IGAE would have to show growth rates of 0.90% or higher, which is historically unusual. The last time economic activity grew more than 0.90% per month occurred in March 2021 and before that between June and October 2020, all for a recovery after the initial impact of the pandemic. Historically in 372 observations of monthly IGAE growth (since 1993), only in 46 months (or 12.4% of the total) was monthly growth equal to or greater than 0.90% and in only 28 of these 46 months (7.5% of the total), growth was not related to a recovery period following a recession.

For the rest of the year, the following quarterly growth rates are estimated: 1.0% in the second quarter and 0.6% in the third and fourth quarters (Figure 2). This yields a growth estimate of 1.6% for all of 2024 (Table 1), revised downward from 2.5% in the previous estimate and a range between 1.3% and 2.0% per year.

Assuming a GDP contraction of 0.4% in the first quarter, an average quarterly growth of 0.6% would have to be observed in the remaining three quarters for the lower end of the 2024 growth range of 1.3% to be met. On the other hand, an average quarterly growth of 1.0% would have to be observed for the high end of the 2024 growth range of 2.0% to be met.

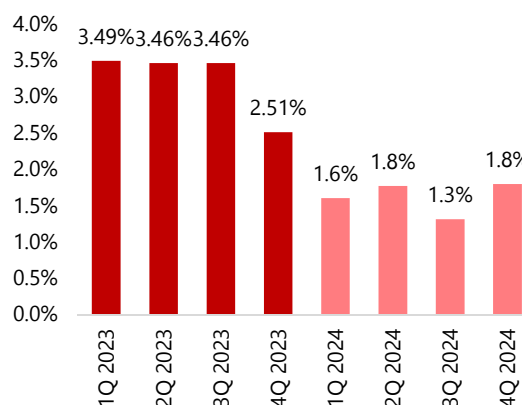
In order for Mexico's economic growth to accelerate in the second half of the year, allowing GDP to grow close to 2.0% in 2024, it would be necessary for the US economy to accelerate, driven by public spending associated with the elections, allowing US GDP to grow above the current estimate of 1.9% in 2024, and simultaneously for greater growth in the consumption of goods to be observed, favoring Mexico's exports. It is worth mentioning that since the fourth quarter of 2023, a desynchronization between the U.S. and Mexican economies was observed, due to the fact that the consumption of goods slowed down in the U.S. and the consumption of services accelerated. This trend was accentuated at the beginning of 2024, with the consumption of goods growing 1.1% annually in January and February and the consumption of services growing 2.4% and 3.0% in January and February, respectively.

Figure 2. Quarterly GDP growth, 2023 and 2024 projections



Source: Grupo Financiero BASE with information from INEGI and own estimates.

Figure 3. Annual GDP growth, 2023 and 2024 projection



Source: Grupo Financiero BASE with information from INEGI and own estimates.

Table 1. Grupo Financiero BASE's expectations for Mexico's economic growth.

Year	Full year growth	GDP per capita vs. 2018
2024	1.6%	-0.85%
2025	0.8%	-1.00%

Source: Grupo Financiero BASE

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