

Mexico

Regional Sectorial Outlook

First Half 2024

With data as of:
August 22, 2024

Key messages



GDP growth



Weak growth in 1H24 was due to contraction of the Primary sector and moderation of growth in Industry and Services. Consumption showed a greater decline due to the loss of dynamism of the wage bill.



Outlook: Regional Sectoral



We estimate that 27 states will have recovered by 2024, with **Colima and Campeche** still considerably below their pre-pandemic levels by 2025. **Construction industry** sustains growth while Manufacturing slows.



Automotive Industry



By 2Q24, Transportation Equipment's cumulative GDP shrank by 0.5% due to a slowdown in exports and the domestic market. However, domestic sales increased 12.2% as of 1H2024.



Global Value Chains



Between 2018 and 2022, US Value Added (VA) in Mexican **exports** increased 26%, and Chinese VA increased 12.2%. In the same period, Mexico increased its **competitiveness** in Transportation Equipment.

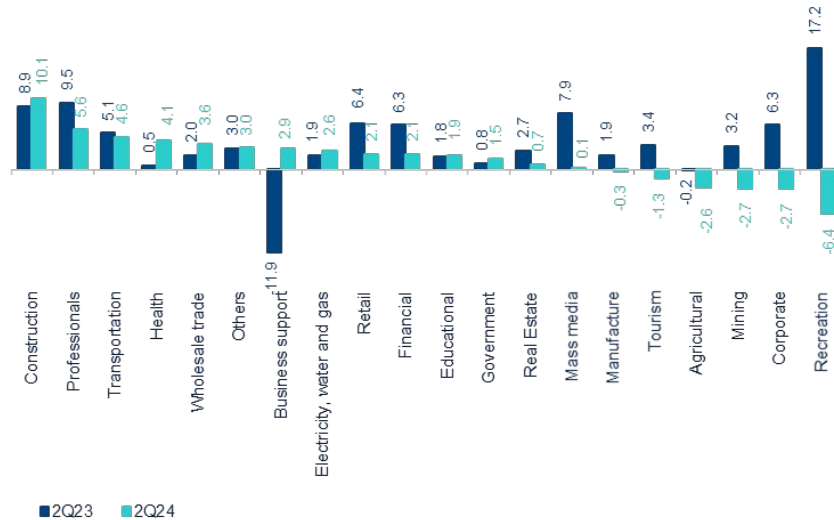
01

Sectoral Outlook

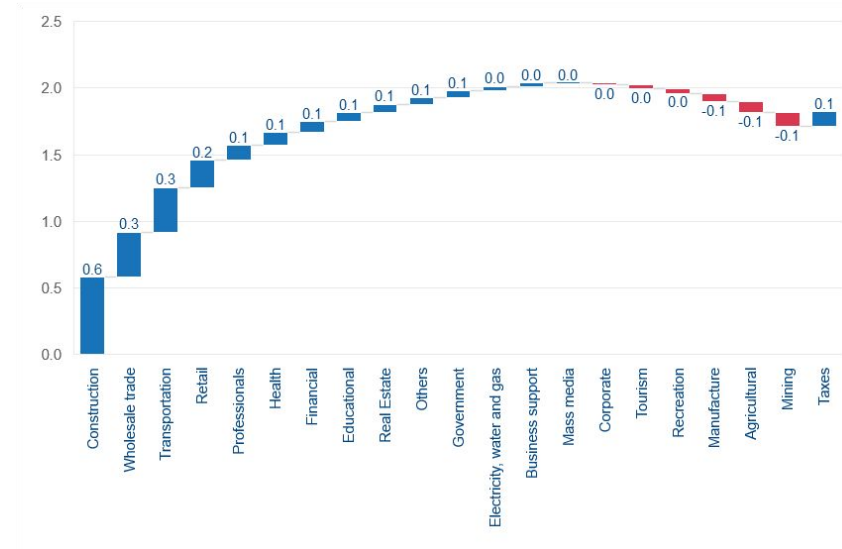
Slowdown and contraction in nearly all sectors

The most relevant industries slow down or contract by 2Q24

ACCUMULATED SECTORAL GDP (YoY GROWTH, %)



CONTRIBUTION TO 2Q24 GROWTH (PERCENTAGE POINTS)



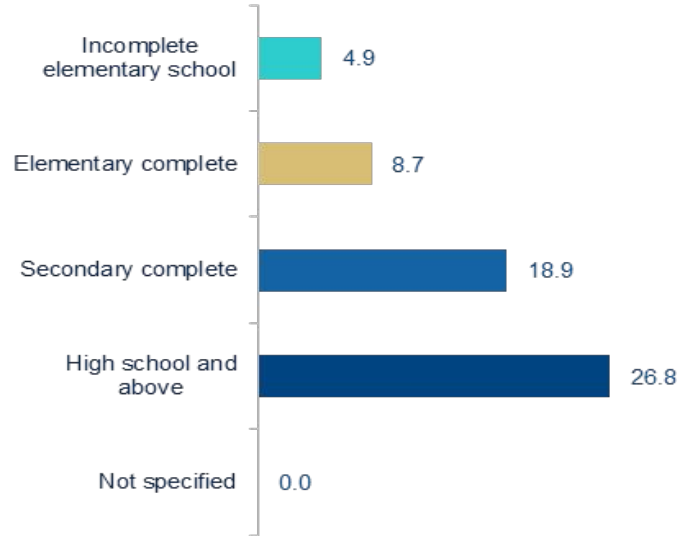
Source: BBVA Research with data from Inegi

Construction is one of the few sectors that grew at a faster pace.
Manufacturing, the industry with the most significant weight in GDP, fell by 0.3%.

Most industries demand workers with higher education

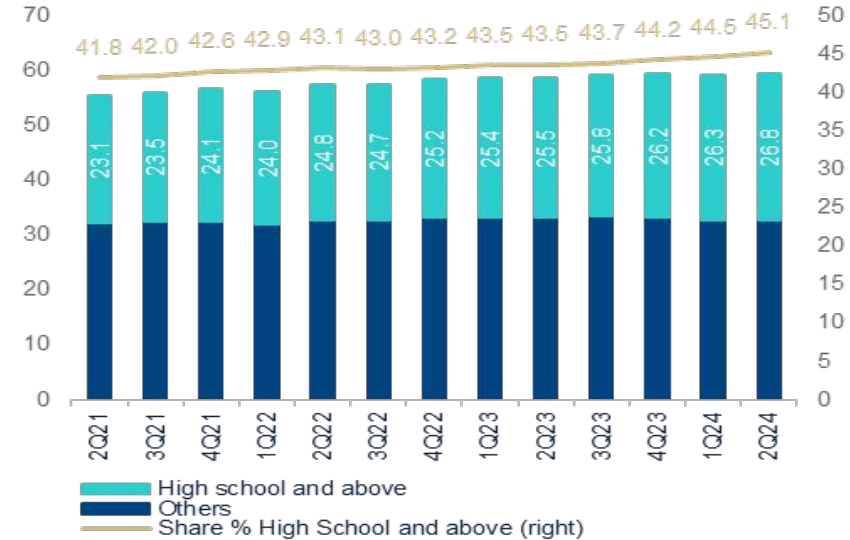
EMPLOYED POPULATION 2Q24

(MILLIONS)



EMPLOYED POPULATION

(MILLIONS AND PERCENTAGE)

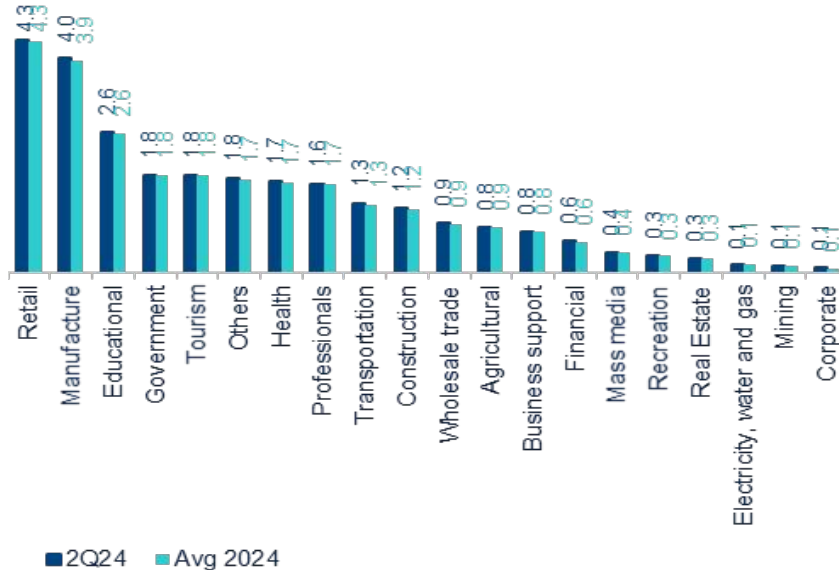


Source: BBVA Research with data from ENOE, Inegi.

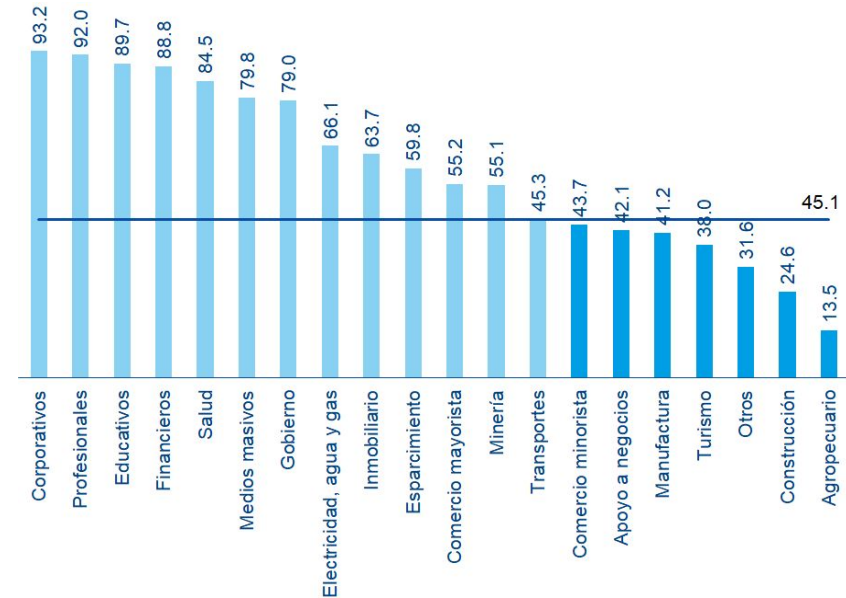
The demand for labor at the high school level and higher education is growing fastest for the Mexican economy. From 2005 to 2024, there was an increase of 16.2 million highly educated employees.

Workers with higher education levels are mostly in Services

OCCUPIED UPPER SECONDARY AND HIGHER
(MILLIONS)



OCCUPIED UPPER SECONDARY AND HIGHER
(PERCENTAGE)

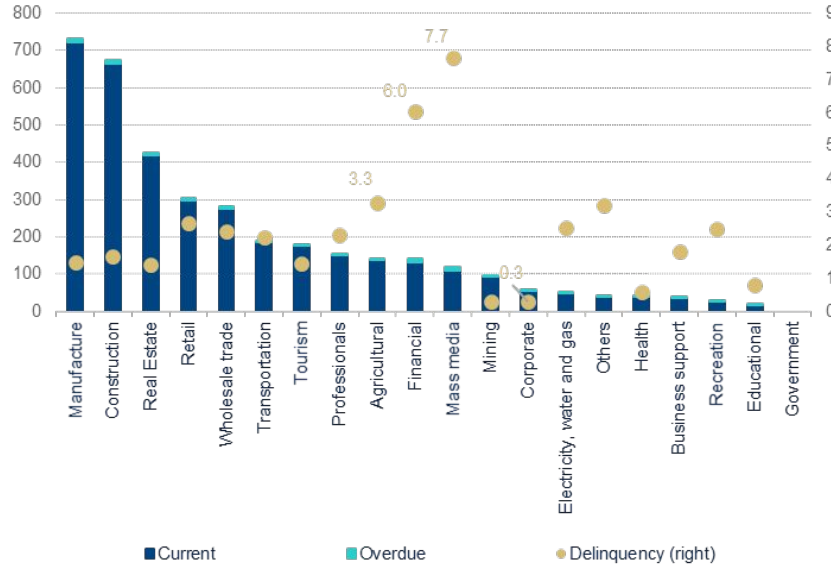


Source: BBVA Research with data from ENOE, Inegi.

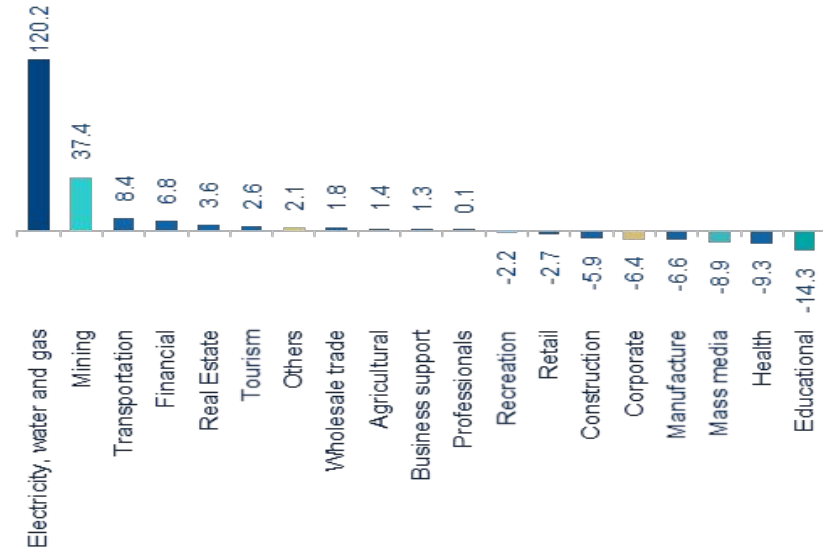
Although most higher-educated workers are in Retail Trade and Manufacturing, the Service sector has a larger share of these workers.

The energy sector has been the largest demander of bank credit

CORPORATE CREDIT BALANCE 2Q24
(BILLIONS OF PESOS AND %)



CORPORATE CREDIT BALANCE 2Q24
(YoY GROWTH, %)

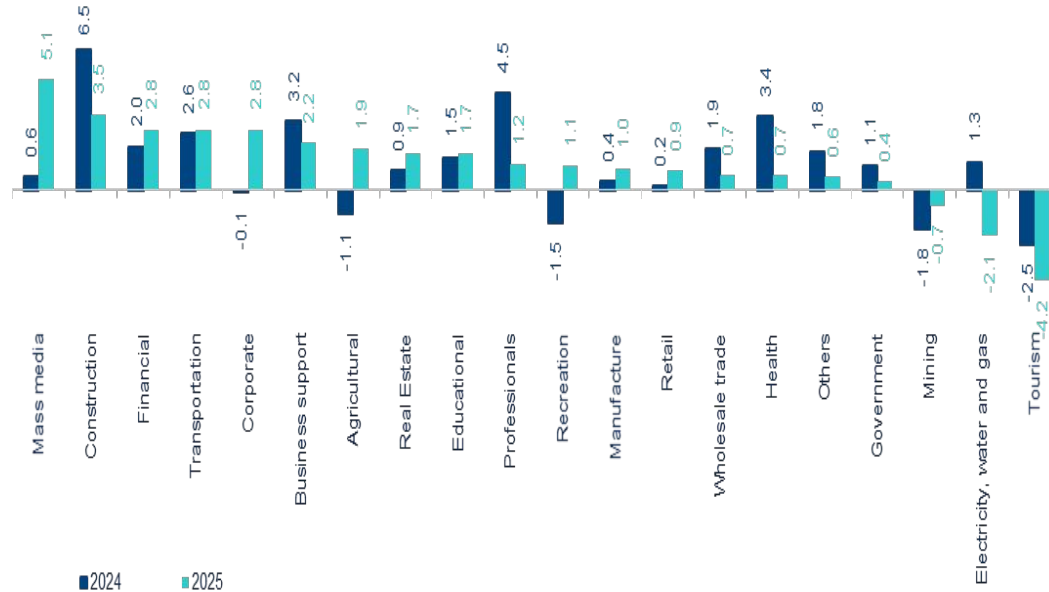


Source: BBVA Research with data from El Banco de México

Nevertheless, total bank credit to all sectors decreased by 0.5% as of June 2024.
On the other hand, the quality of the portfolio improved by reducing the delinquency rate to only 2.2% as of the same date.

Service sectors to lead the growth in 2025

SECTORAL GDP FORECAST (YoY GROWTH, %)



- Even though services will grow the most in 2025, **there is a slowdown across the economy.**
- Only two industrial sectors will grow in 2025: Construction at 3.5% and Manufacturing by 1.0%, **while Mining will fall by 0.7% and Electricity, Water, and Gas by up to 2.1%.**
- International trade restrictions could change this scenario.

02

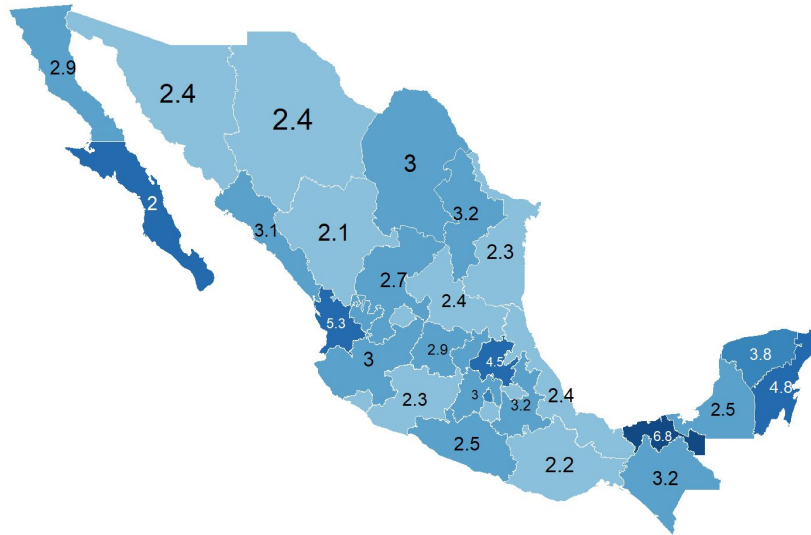
Regional Outlook

Slower than expected GDP recovery at
the state level

Activity rose in 26 states by 1Q24, with Quintana Roo at the forefront

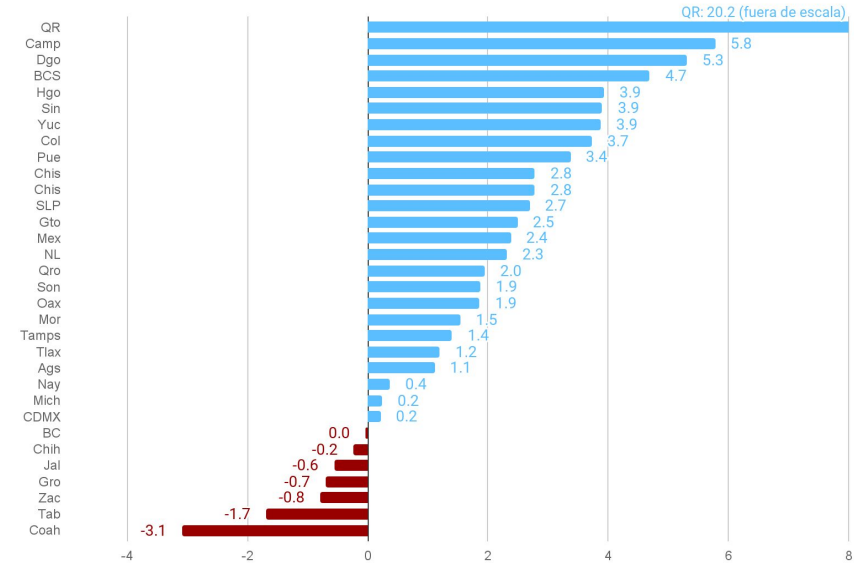
STATE GDP 2023

(YoY GROWTH, %)



ECONOMIC ACTIVITY BY STATE 1Q24

(YoY GROWTH, %)



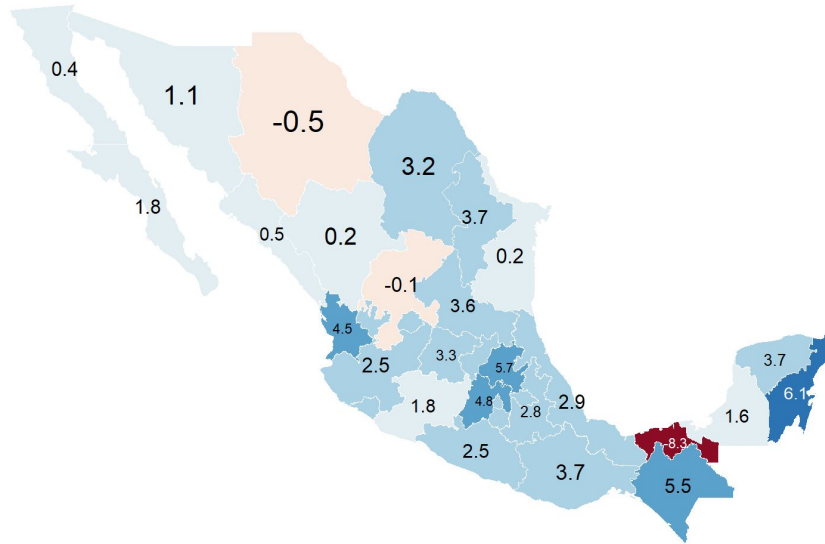
Source: BBVA Research with data from Inegi

In 2023, Consumption's resilience and Construction's momentum sustained regional growth. According to quarterly indicator of state economic activity (ITAE) data as of 1Q24, Quintana Roo leads the activity; while Coahuila shows a considerable contraction of 3.1%

By 1H24, employment and exports show heterogeneous patterns

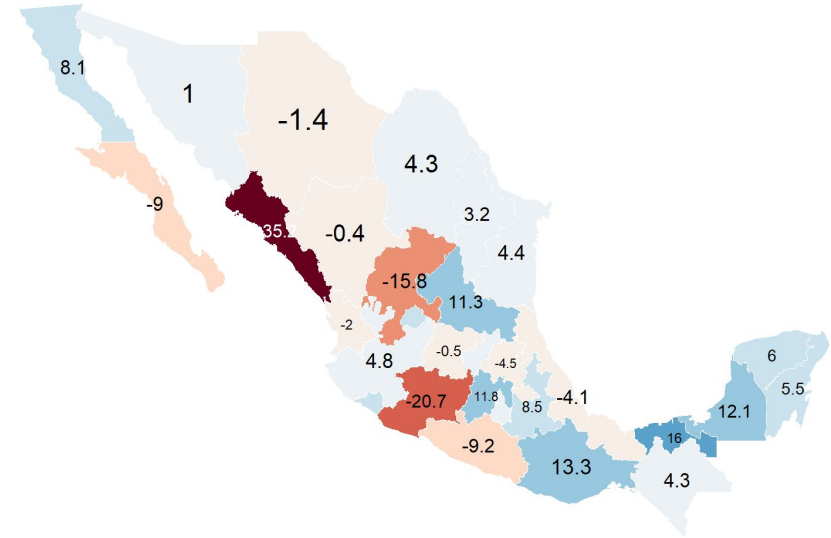
FORMAL EMPLOYMENT IMSS 1S24

(YoY GROWTH, %)



EXPORTS OF GOODS 1S24

(YoY GROWTH, %)

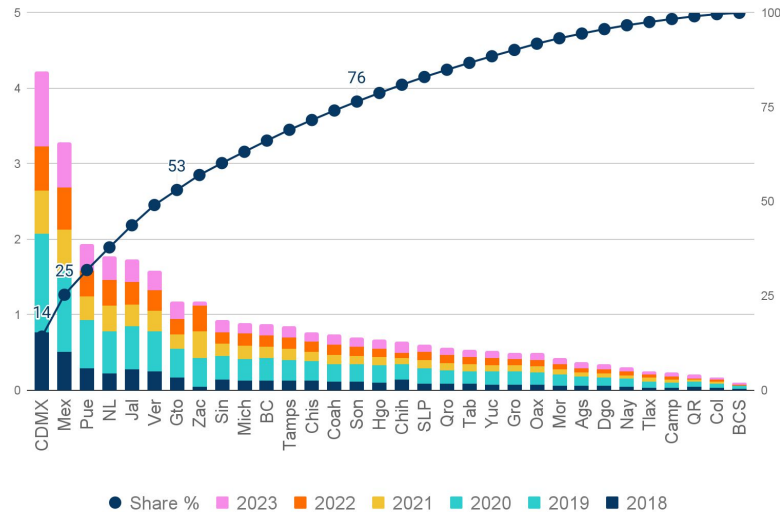


Source: BBVA Research with SHCP data

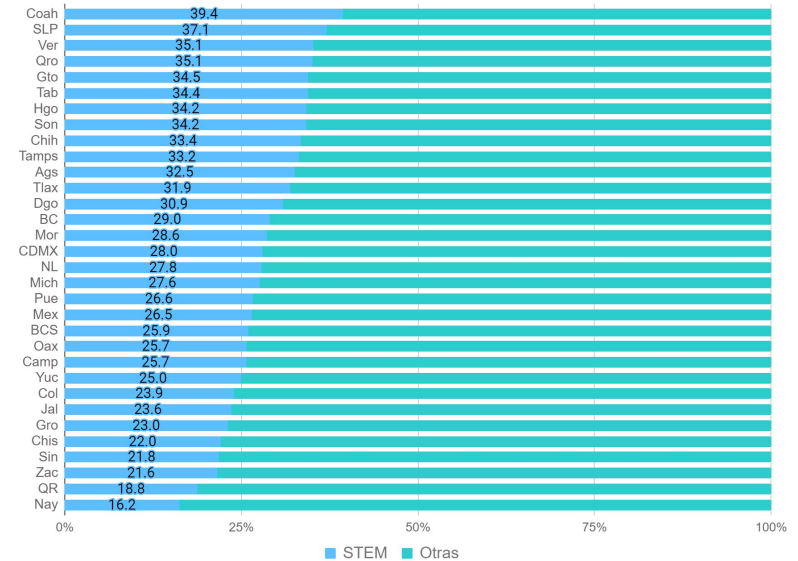
As of 1H24, all states presented growth in formal employment except Chihuahua and Tabasco. As for exports, the entities with the highest growth in this period were Tabasco, with 16%, Campeche, growing at 12.1%, and the State of Mexico, 11.8%; all these regions have an industrial vocation.

Regional overview of enrollment in STEM careers

TOTAL ENROLMENTS FROM 2018 TO 2023 (THOUSANDS; CUMULATIVE % SHARE)



ENROLMENTS 2018 - 2023 (% SHARE)

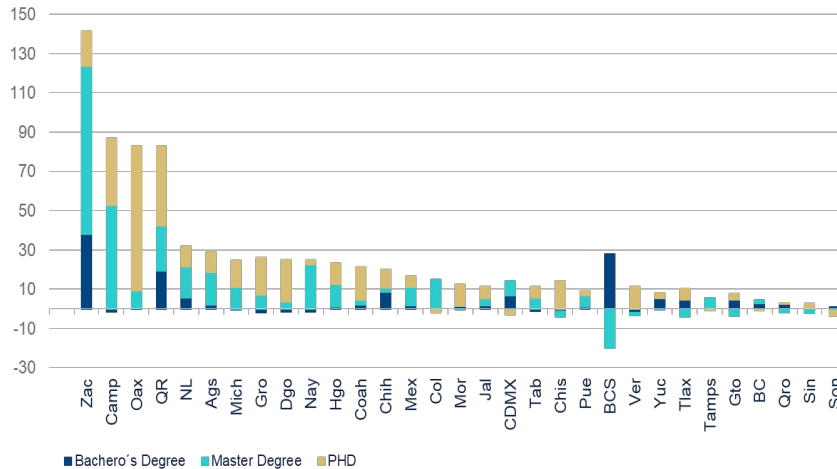


Source: BBVA Research with data from ANUIES

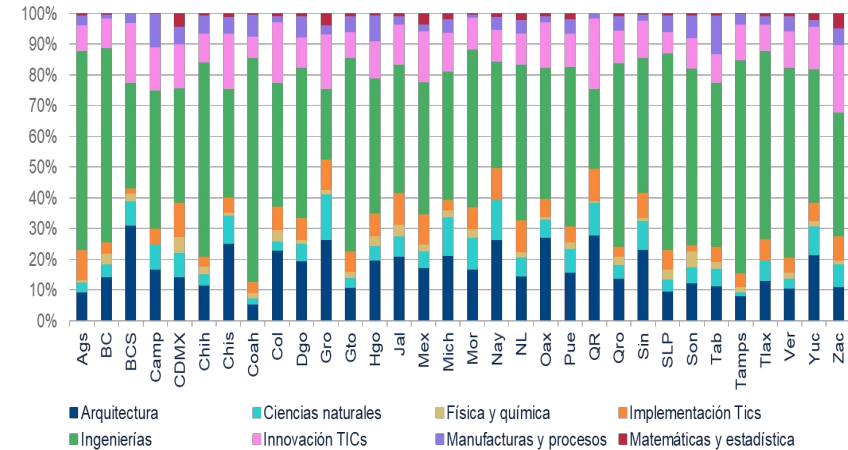
The number of students per entity is highly disproportionate, mainly due to population size and education offer. Mexico City and the State of Mexico accounts for 25% of enrolled STEM students between 2018 and 2023.

The average growth in STEM enrollments between 2018 and 2023 is 4%

ENROLLED STEM 18-23 (AVERAGE % ANNUAL GROWTH RATE)



SPECIFIC STEM 18-23 FIELDS (AVERAGE PARTICIPATION %)

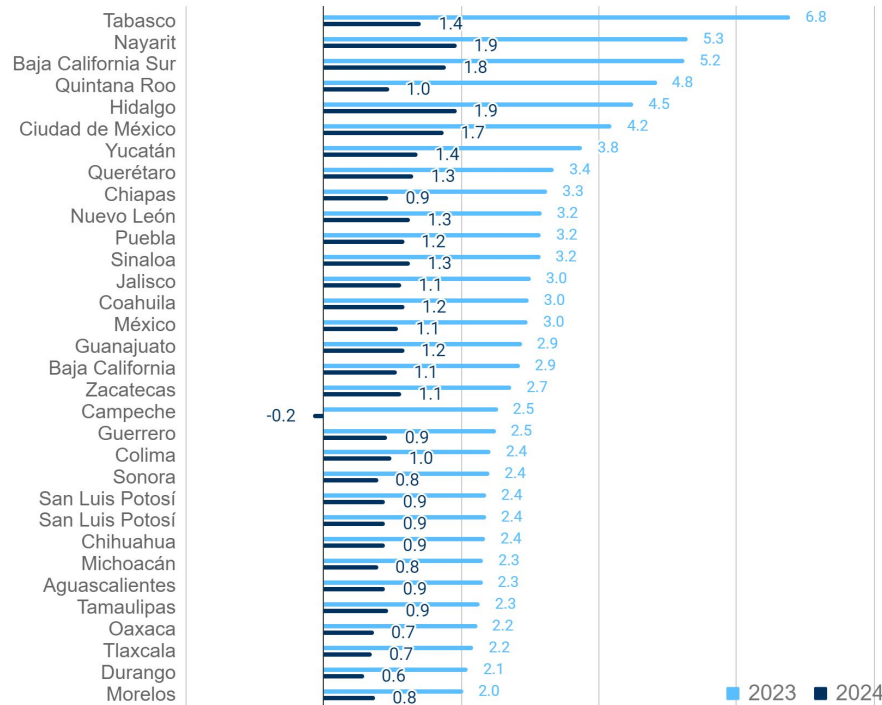


Source: BBVA Research with data from SHCP

From 2018 to 2023, Zacatecas (38%), Baja California Sur (31%), and Quintana Roo (20%) had the highest average annual growth rates. This growth can primarily be attributed to starting from a lower base. Looking into specific fields, Engineering leads (49%, average), followed by Architecture (17%) and ICT Innovation (13%).

In 2024, a slowdown is evident in all states

REGIONAL GDP FORECAST (YoY GROWTH, %)



Source: BBVA Research with Inegi data

- The slowdown results from **weak domestic demand**, **moderate investment** due to the fall in **public spending**, and the deceleration of formal employment growth.
- The states with the highest growth by **2024** will be Nayarit (1.9%), Hidalgo (1.9%), and Baja California Sur (1.8%). Only Campeche presents a 0.2% reduction in GDP.
- We forecast that **27 states** will **recover their pre-pandemic levels by 2024**, with Durango, Morelia, Coahuila, Colima, and Campeche still lagging.

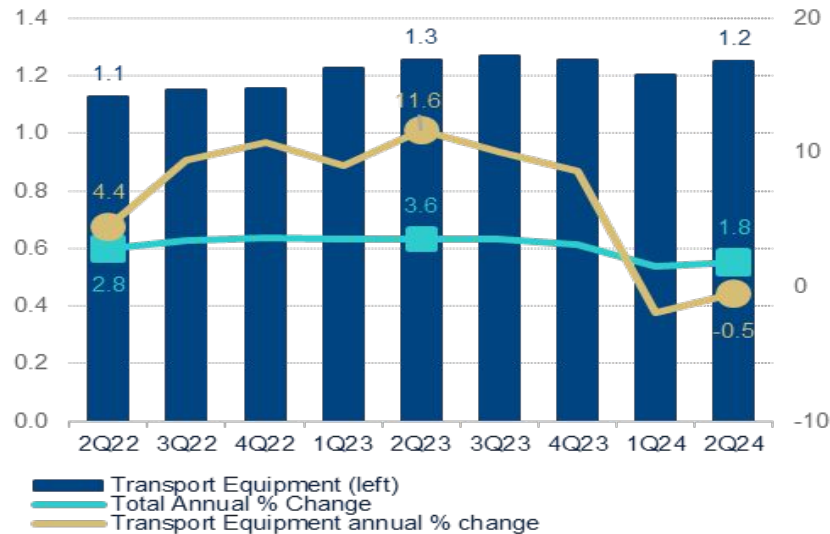
03

Automotive Market Outlook

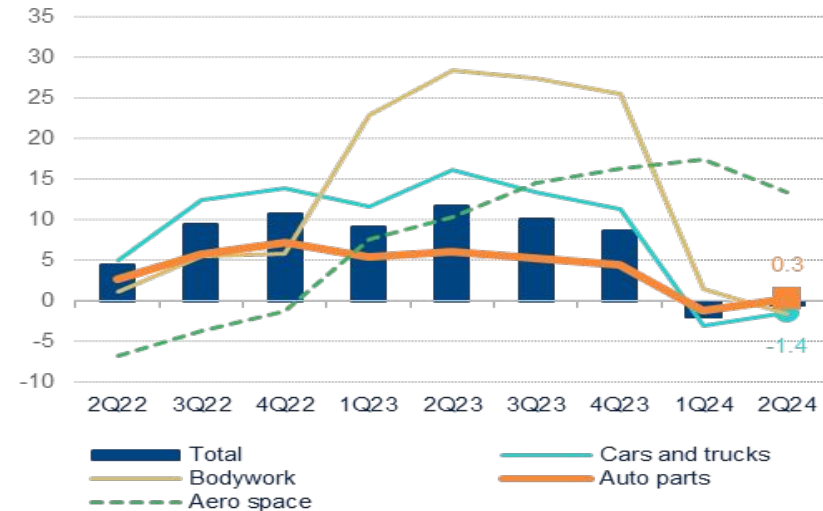
International and domestic markets slow down

Transport Equipment GDP shrinks 0.5% in 2Q24

TOTAL GDP AND TRANSPORTATION EQUIPMENT
(BILLONES DE PESOS AND ANNUAL % CHANGE)



GDP TRANSPORT EQUIPMENT
(YoY GROWTH, %)

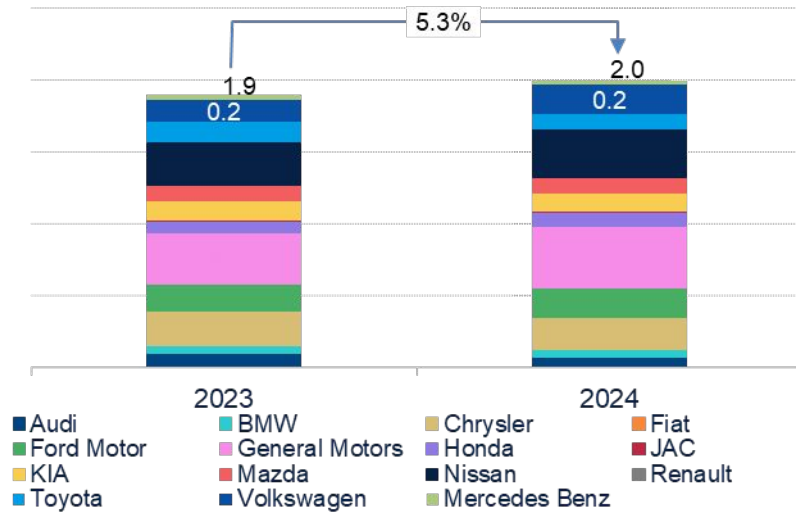


Source: BBVA Research with Inegi data

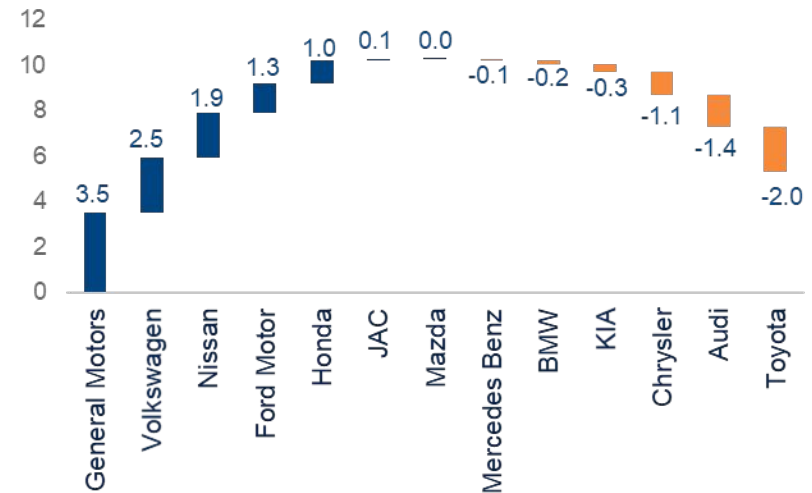
This result is due to the fall in Motor Vehicles GDP (1.4%) and the deceleration of Auto Parts GDP (0.3%).
The 13.3% growth observed in the Aerospace GDP cannot offset the contraction of Motor Vehicles

The number of units produced continues to grow, but at a slower pace

AUTOMOTIVE PRODUCTION (MILLION UNITS)



AUTOMOTIVE PRODUCTION 2024 (CONTRIBUTION TO GROWTH, %)

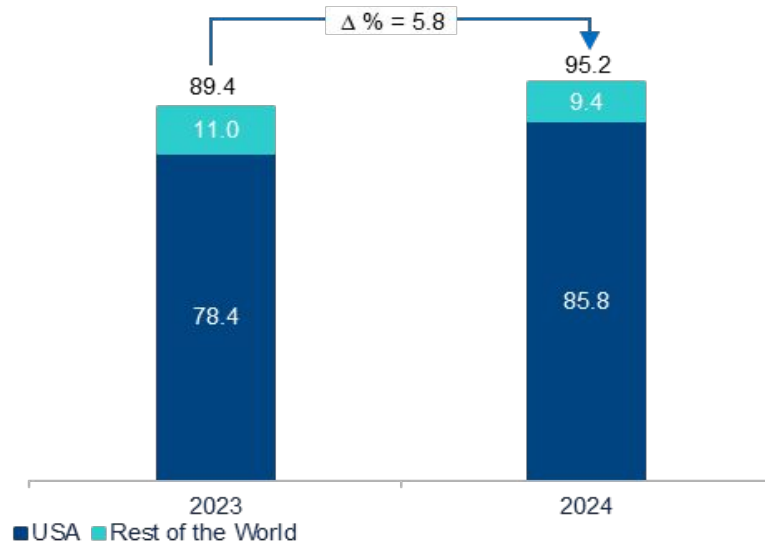


Source: BBVA Research with Inegi data

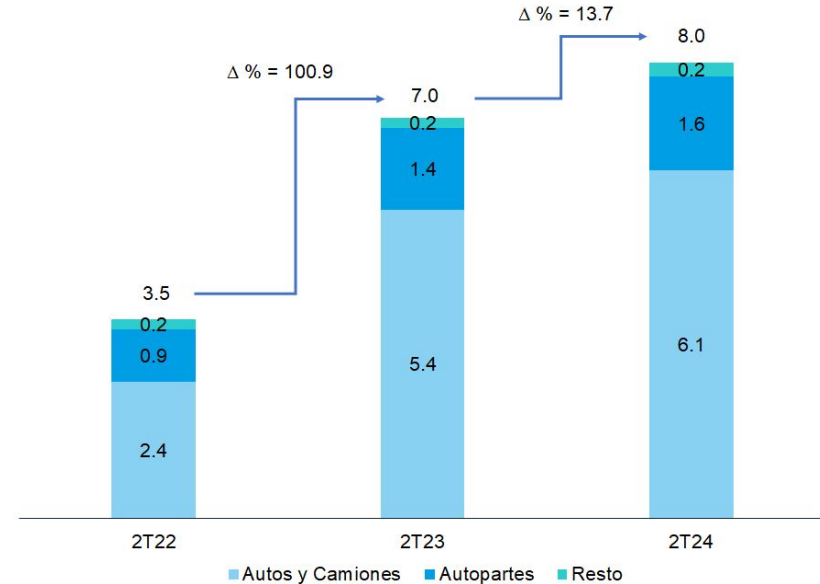
During the first half of 2024, Mexico produced almost 2 million light vehicles, meaning an advance of 5.3% over the same period compared with 2023; however, this is a lower rate than a year ago.

Automotive exports also increase, but at a slower pace

AUTOMOTIVE EXPORTS (BILLIONS OF DOLLARS)



FDI IN TRANSPORTATION EQUIPMENT (BILLIONS OF DOLLARS)



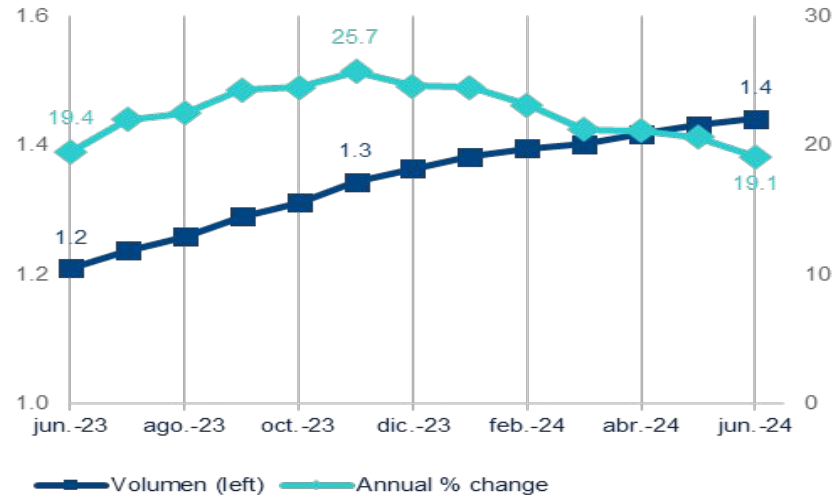
Source: BBVA Research with data from Inegi and Ministry of Economy

Automotive exports in the first six months of 2024 exceeded the previous year's by 5.8%.
We estimate that this sub-sector will continue to grow as FDI increases.

Domestic sales continue to rise steadily

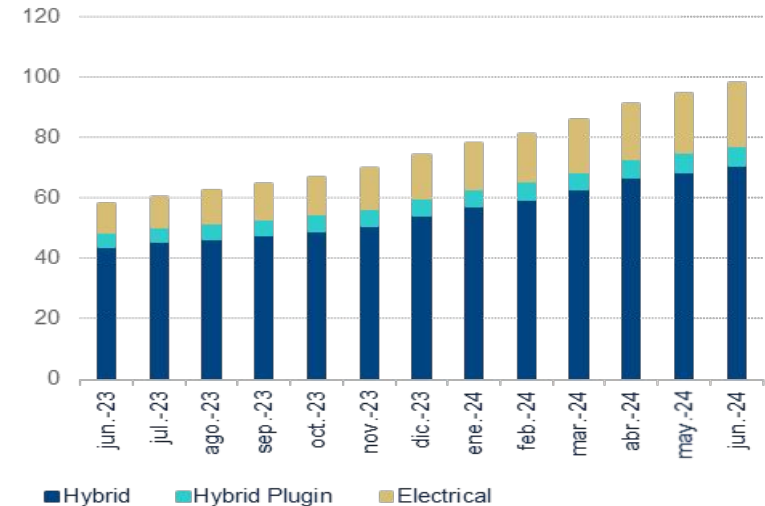
DOMESTIC SALES

(MILLIONS OF UNITS ANNUALIZED)



HYBRID AND ELECTRIC CAR SALES

(THOUSANDS OF ANNUALIZED UNITS)

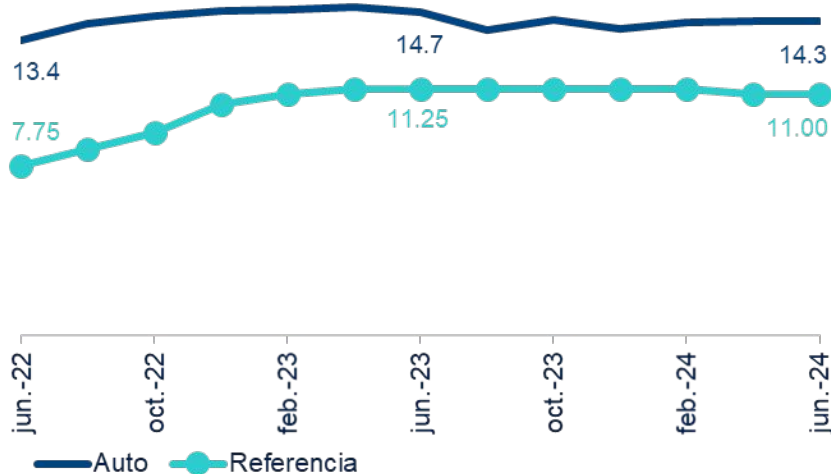


Source: BBVA Research with data from Inegi

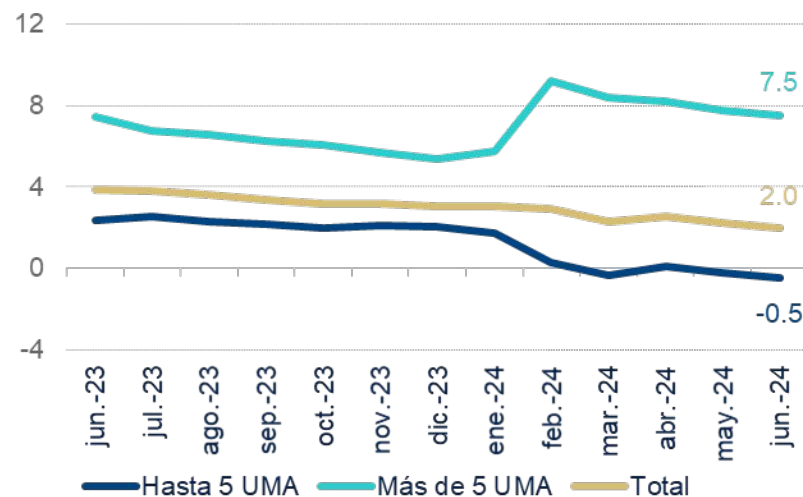
Although at a slower pace, the number of units sold in the country is growing by almost 20% YoY. These sales could close the year at around 1.5 million vehicles.

Automotive demand foundations remain positive

INTEREST RATES (NOMINAL ANNUAL RATE)



IMSS JOBS (YoY GROWTH, %)



Source: BBVA Research with data from Banco de México and IMSS.

The IMSS (Mexico's formal employment) registers more and more jobs with incomes above 5 UMA each month. In addition, the automotive credit figures already reflect the lower reference rate by the Mexico's Central Bank

04

Mexico's position in Global Value Chains (GVC) during the nearshoring period

Three indicators suggest that Mexico has improved its participation in GVC

Key messages



Higher foreign value-added in Mexican exports



Mexican exports experienced since 2020 a recomposition towards **higher U.S. and Chinese foreign value added (VA)**. Domestic VA falls from 64.9% of total export value to 58.3% in 2022.



Imported content in Machinery, Chemicals and Computers rises



Mexico is primarily a user of foreign intermediate goods rather than a **supplier of inputs to other countries**. This backward linkage has increased between 2018 and 2022.



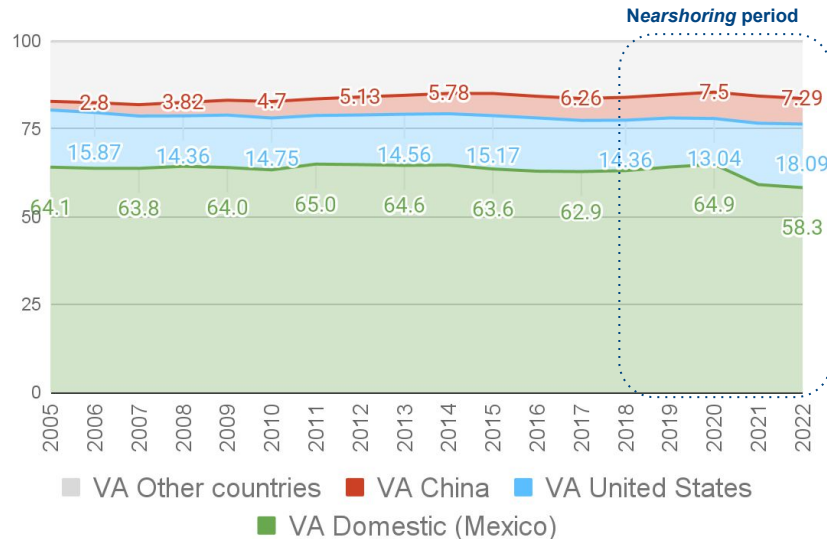
Mexico with larger comparative advantage in Transportation Equipment



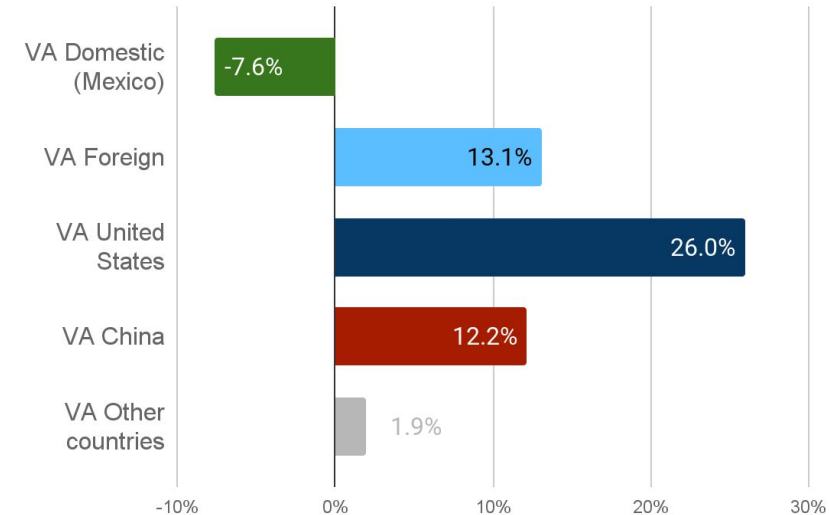
Mexico has **increased its Revealed Comparative Advantage (RCA) in Transportation Equipment, Basic Metals and Electrical Equipment** between 2018 and 2022. The remaining highly competitive industries score slightly lower on this measure.

For every \$100 Mexico export, how much added value (VA) is Mexican?

VALUE ADDED IN EXPORTS, MEXICO (% OF TOTAL EXPORTS)



VALUE ADDED IN EXPORTS, MEXICO (% CHANGE 2018 - 2022; NEARSHORING PERIOD)

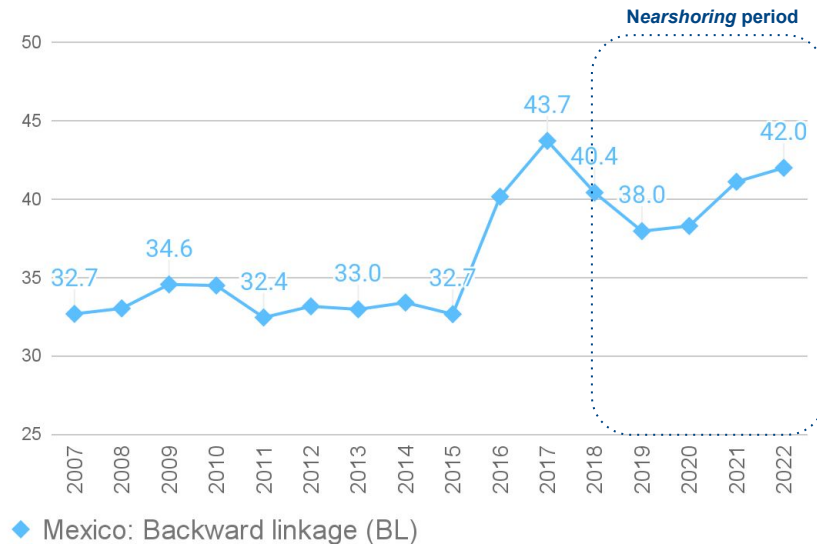


Source: BBVA Research with data from OECD, ADB. Methodology based on Koopman, Wang & Wei (2014) and Borin and Mancini (2019).

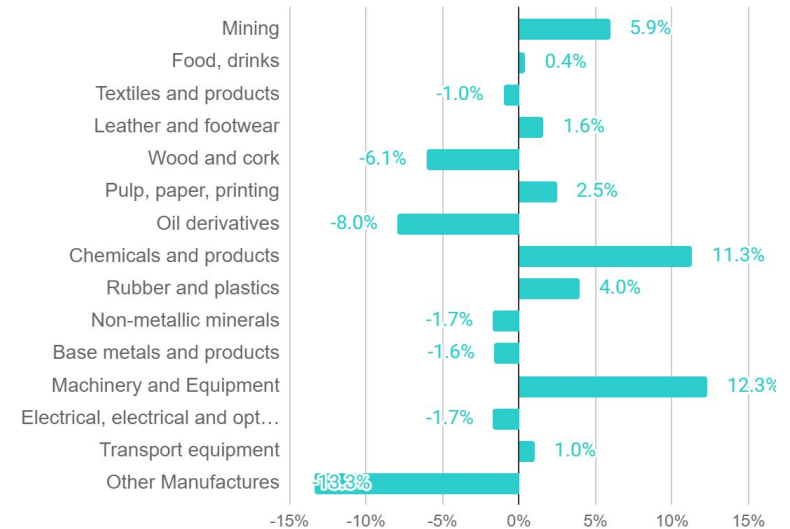
The composition of domestic value added in exports remained relatively constant, averaging 64.5% from 1995 to 2020, when it began a recomposition towards higher foreign value added, reducing domestic to 58.3% in 2022. This recomposition derives from a 26% increase in the U.S. VA and a 12.2% increase in the Chinese VA.

Backward linkage: Imported content increases across the industry

MEXICO BACKWARD LINKAGE (% OF TOTAL EXPORTS)



MEXICO BACKWARD LINKAGE BY SECTOR (% CHANGE 2018 - 2022; NEARSHORING PERIOD)

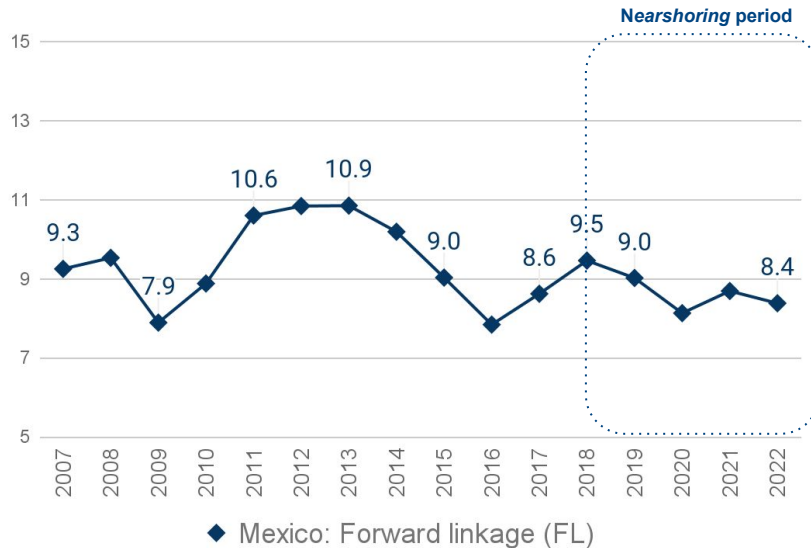


Source: BBVA Research with data from OECD, ADB. Methodology based on Koopman, Wang & Wei (2014) and Borin and Mancini (2019).

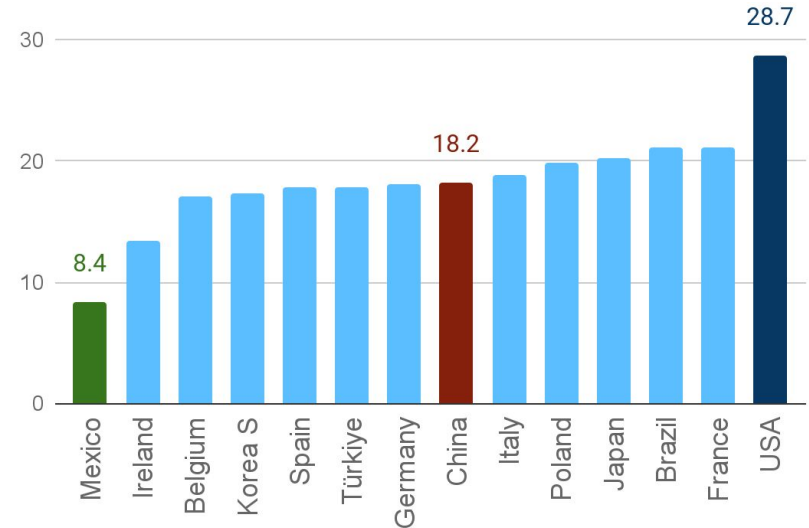
Imported content is higher in Computers, Electronics, and Electrical equipment (38.3%), followed by Transportation Equipment (31%) and lower in Basic Metals (5.8%) and Machinery and Equipment (4.5%). Between 2018 and 2022, Other Manufacturing, Oil Derivatives, and Wood reduced their imported content, while in Chemicals and Machinery increased.

Forward linkage: How much Mexican content is re-exported by third countries?

MEXICO FORWARD LINKAGE (% OF TOTAL EXPORTS)



FORWARD LINKAGE, SELECTED COUNTRIES 2022 (% OF TOTAL EXPORTS)

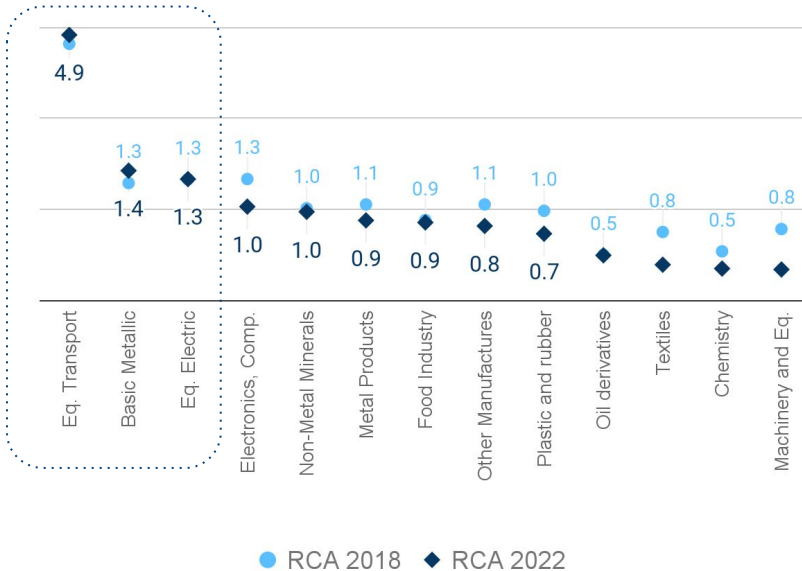


Source: BBVA Research with data from OECD, ADB. Methodology based on Koopman, Wang & Wei (2014) and Borin and Mancini (2019).

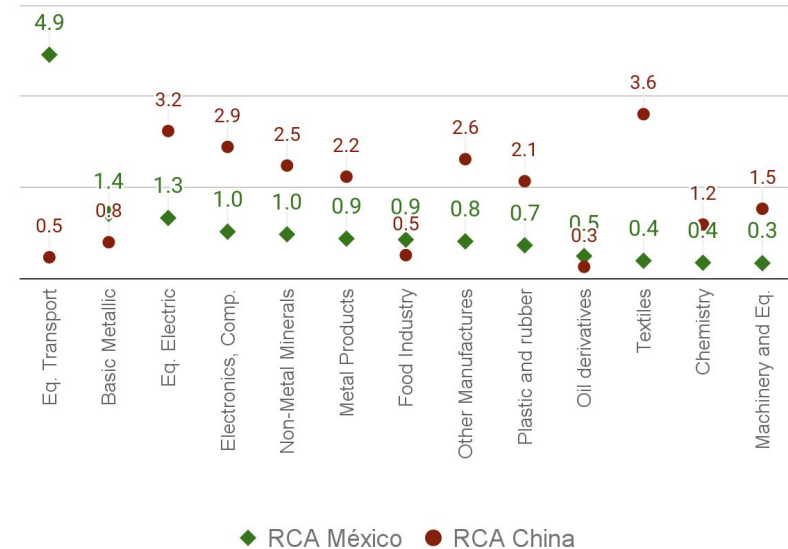
Mexico's forward linkage (FL) is among the lowest in the OECD. This FL is higher in Mining (33%), associated with exports of crude oil and other minerals, Transportation Equipment (16.1%), associated with auto parts and other intermediate goods of the automotive industry, Basic Metals (14.8%), and Basic Metals (14.8%).

Mexico's Comparative Advantage grows in Transportation, Primary Metal ...

REVEALED COMPARATIVE ADVANTAGE (RCA)
(INDEX, 2018 & 2022)



REVEALED COMPARATIVE ADVANTAGE (RCA)
(INDEX, 2022)



Source: BBVA Research with data from OECD, ADB. Methodology based on Koopman, Wang & Wei (2014) and Borin and Mancini (2019).

...and Electrical Equipment during the period associated with nearshoring (2018-2022). The remaining highly competitive industries score slightly lower on this measure. Compared to China, Mexico has an advantage in Transportation Equipment, the Food Industry, Primary Metal. Meanwhile in Computers, Electronics, and Machinery and Equipment Mexico ranks 2nd

Mexico

Regional Sectorial Outlook

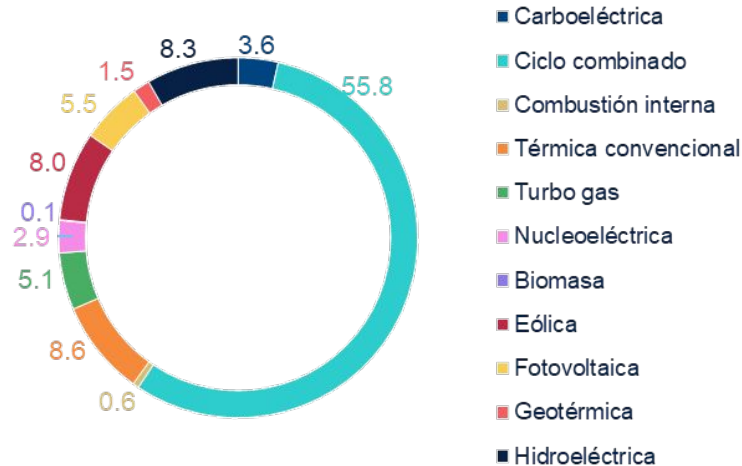
First Half 2024

With data as of:
August 22, 2024

México debe aprovechar el Nearshoring para dar un giro en materia energética

GENERACIÓN ELECTRICIDAD POR TECNOLOGÍA 2021

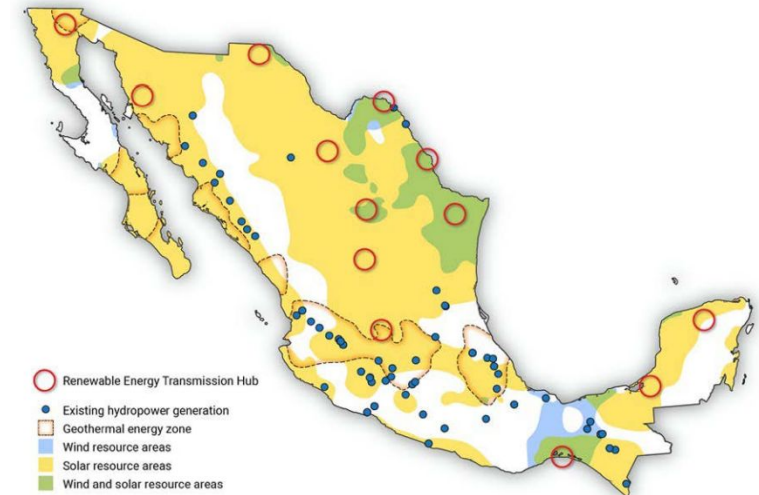
(% GENERACIÓN)



Fuente: BBVA Research con datos de Cenace

POTENCIAL DE ENERGÍA RENOVABLE

(POTENCIAL ENERGÉTICO POR REGIÓN)



Fuente: NREL Mexico Clean Energy Report

El potencial del país es inmenso en materia de energías limpias.

La carrera del Nearshoring no ha terminado. Estos resultados dan luz en las áreas de oportunidad que presenta el país y subrayan la importancia de seguir incentivando la inversión productiva.

This report has been produced by:

Chief Economist

Carlos Serrano

Diego López

Senior Economist

diegoalberto.lopez@bbva.com

Samuel Vázquez

Principal Economist

samuel.vazquez@bbva.com

Mauricio Escalera

Senior Economist

mauricio.escalera@bbva.com

Disclaimer

The present document does not constitute an “Investment Recommendation”, as defined in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (“MAR”). In particular, this document does not constitute “Investment Research” nor “Marketing Material”, for the purposes of article 36 of the Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MIFID II).

Readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data or opinions regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorised by BBVA on its website www.bbvaresearch.com.