



CAPITAL
PARTNERS

CURRENT STATUS AND ECONOMIC PERSPECTIVE US-MEXICO

February 2024

- **Benchmark rates, inflation and disposable income in USA:**
 - Unemployment and wage bill.

- **Fixed investment in USA:**
 - Growth in infrastructure, industrial and manufacturing sectors.

- **Supply chains and impacts on *Nearshoring***

- **Investment in Mexico:**

- **Mexico's Public Finance Report 2023:**
 - Growth in income from IEPS with reduction in oil income.
 - PEMEX.

FED announcement and inflation

The most recent announcement of monetary policy by the Fed took place on January 31st without any change to the current benchmark rate of between 5.25% to 5.5%. The Fed stated that it anticipates a rate cut in the future based on current economic information and is only waiting for confirmation of the trends it perceives. For many analysts, this moves the most likely date for the first cut from March to two months later, in May of this year.

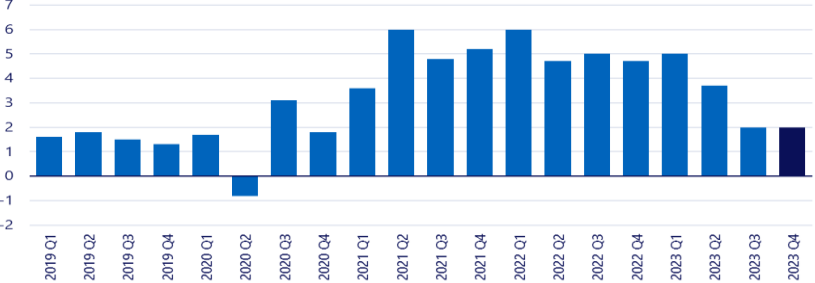
The discussion about the pivot of benchmark rates occurs in a context of extraordinary strength in the USA that positively affects certain sectors associated with exports and industrial production in Mexico. Mexico has also experienced a recovery process better than expected, and an improvement in its outlook, albeit on a smaller scale.

The main element justifying the high rates is the fight against inflation. Many consider that the most important part of this is the least volatile, which excludes energy and food. If measured from the side of personal expenditures (Personal Consumption Expenditures, PCE), it has already recorded two consecutive quarters at an annualized 2%.

This is a significant change compared to the trend a year ago, where the cumulative change for the entire year of the PCE was 5.4% in 2022 versus 2.6% in 2023.

Quarterly core PCE inflation was at a 2.0 percent annualized rate for the second quarter in a row.

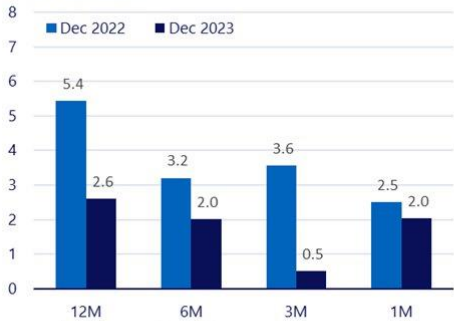
Core PCE price index, % annualized growth



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Source: Bureau of Economic Analysis.
As of January 25, 2024 at 8:30am.

PCE Inflation at Different Frequencies, December 2022 & 2023

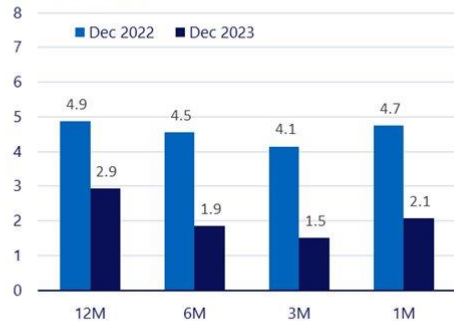
A. Headline PCE
Percent annualized



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Source: Bureau of Economic Analysis; CEA calculations.
As of January 26, 2024 at 8:30am.

B. Core PCE
Percent annualized



Blue Chip Consensus Forecast

The Blue Chip Consensus Forecast, which groups the outlook of a select group of economists from private companies, banks, and analysts, and which we can interpret as reflecting the most informed economic outlook, had a very different view in December 2022 regarding how 2023 would unfold. Under this view, there would be a recession that would increase unemployment and a low increase in discretionary income.

In contrast to this view, the USA grew at an annual rate of 3.1% (Q4 against Q4). This contributes to the extraordinary strength shown by the U.S. economy in the post-pandemic period. To illustrate this, one only needs to compare the growth, employment, discretionary income, and inflation as projected in December 2022 against the current results.

Table 1. Economic Indicators in 2023, Actual versus Blue Chip December 2022

	Projected in December 2022	Actual/Latest
Real GDP Growth (Q4/Q4)	-0.1	3.1
Unemployment Rate (Q4)	4.7	3.7
Real Disposable Income Growth (Q4/Q4)	1.8	4.2
Core PCE Inflation (Q4/Q4)	3.0	3.2

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Sources: Blue Chip Consensus Forecast; Bureau of Economic Analysis; Bureau of Labor Statistics.
As of January 25, 2024 at 8:30am

Unemployment rate

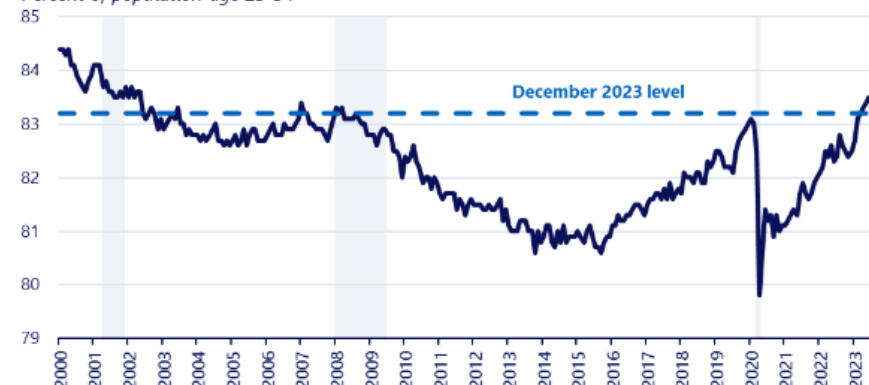
Growth above trend, an unemployment rate near historical lows, and an increase in income above inflation defined an extraordinary, in economic terms, 2023.

Employment saw increases on two fronts, both in labor participation which reached levels not seen in 20 years.

As in real increases in hourly wages starting in March 2023, thus ending a period that began with the pandemic in April 2021, where the change in real hourly compensation was negative due to high inflation.

Figure 4. Prime-Age (25-54) Labor Force Participation Rate

Labor Force Participation Rate
Percent of population age 25-54



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Sources: Bureau of Labor Statistics; CEA calculations.
Note: Gray bars indicate recessions. Data are monthly.
As of January 25, 2024 at 8:30am

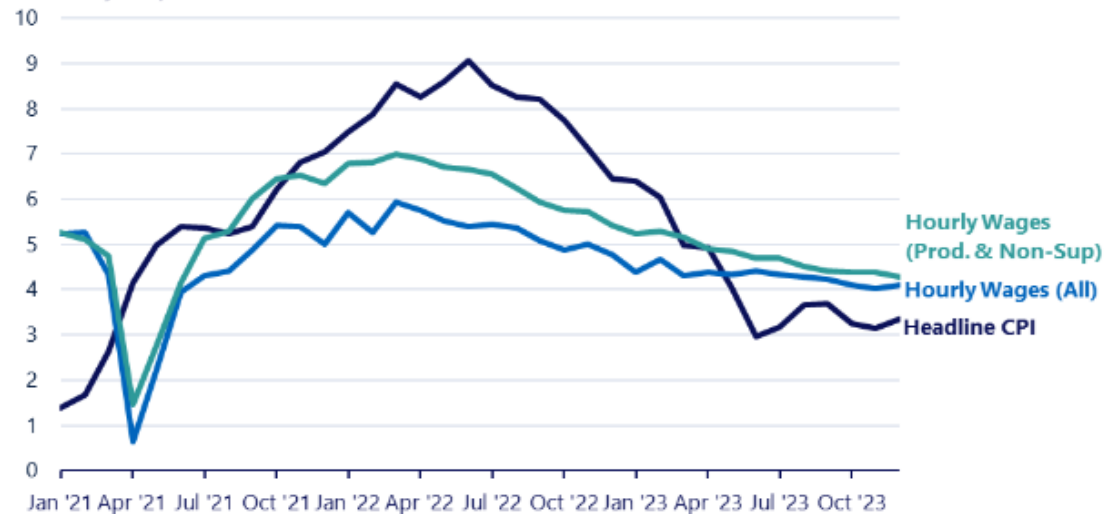
Wages and compensation growth

Wages and compensations

The aggregate real compensation increased from April 2023 due to the synergy of rising employment with higher real labor compensations.

Figure 5. Nominal Wage Growth and Inflation

Year-on-year percent



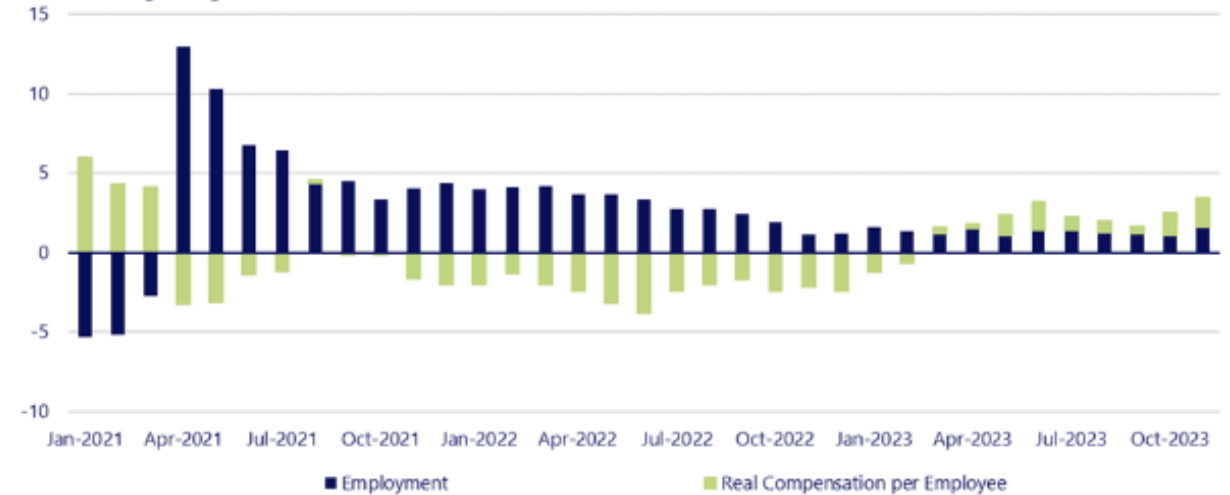
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Sources: Bureau of Labor Statistics; CEA calculations.

As of January 25, 2024 at 8:30am.

Figure 2. Contributions to 12-Month Growth in Aggregate Real Compensation

12-month Log Change



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Source: Bureau of Economic Analysis.

As of January 25, 2024 at 8:30am

US GDP (fixed investment)

Among the components in the growth of the U.S. GDP, fixed investment stands out, which on one hand decreased by 10.7% during 2023 in the residential sector, and increased by 12.7%, also throughout 2023, in "structures," a subsector composed of commercial buildings, transportation infrastructure, industrial constructions, among others.

Table 5. Real Gross Domestic Product: Annual Percent Change

Line		Percent change from preceding year								Percent change from fourth quarter to fourth quarter one year ago								Line
		2016	2017	2018	2019	2020	2021	2022	2023	2016	2017	2018	2019	2020	2021	2022	2023	
1	Gross domestic product (GDP)	1.8	2.5	3.0	2.5	-2.2	5.8	1.9	2.5	2.2	3.0	2.1	3.2	-1.1	5.4	0.7	3.1	1
2	Personal consumption expenditures (PCE)	2.5	2.6	2.7	2.0	-2.5	8.4	2.5	2.2	2.5	3.1	2.0	2.6	-0.8	7.2	1.2	2.6	2
3	Goods	3.6	4.1	4.0	3.0	4.9	11.3	0.3	2.1	3.7	5.4	2.1	3.8	8.8	6.6	-0.6	3.5	3
4	Durable goods	5.4	6.8	6.6	3.3	8.0	16.7	-0.3	4.3	6.5	8.6	2.8	5.5	15.3	5.8	0.1	6.1	4
5	Nondurable goods	2.8	2.8	2.6	2.9	3.3	8.5	0.6	0.9	2.3	3.8	1.8	2.9	5.4	7.0	-1.0	2.2	5
6	Services	1.9	1.9	2.2	1.5	-5.9	6.9	3.7	2.3	1.9	2.0	2.0	2.0	-5.1	7.6	2.1	2.2	6
7	Gross private domestic investment	-0.1	4.4	5.8	3.1	-4.7	8.7	4.8	-1.2	2.3	4.9	4.7	1.3	2.1	7.9	-2.4	1.8	7
8	Fixed investment	2.9	4.5	5.1	2.7	-2.1	7.1	1.3	0.5	3.5	5.5	3.3	2.9	0.7	3.8	-0.8	3.1	8
9	Nonresidential	1.8	4.6	6.9	3.7	-4.7	5.9	5.2	4.4	3.3	5.6	5.6	3.1	-3.7	4.9	5.6	4.1	9
10	Structures	-3.1	2.6	5.8	2.5	-9.5	-3.2	-2.1	12.7	3.7	-0.4	3.5	6.4	-14.9	-0.9	0.8	14.8	10
11	Equipment	-0.9	3.8	5.9	1.1	-10.1	6.4	5.2	-0.1	-0.9	7.5	3.3	-2.1	-3.7	1.4	5.3	-0.1	11
12	Intellectual property products	9.5	6.9	8.9	7.8	4.5	10.4	9.1	4.3	9.0	7.2	9.9	7.3	3.4	11.6	8.3	2.6	12
13	Residential	7.1	4.3	-0.7	-0.9	7.2	10.7	-9.0	-10.7	4.5	5.1	-4.1	2.2	15.9	0.4	-17.4	0.0	13

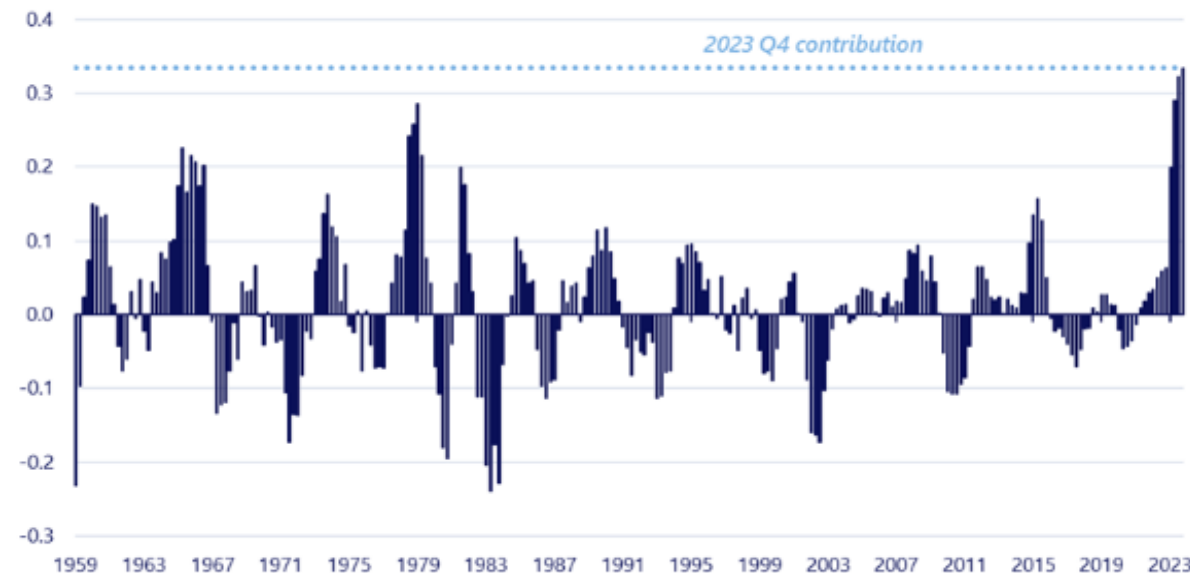
Source: Bureau of Economic Analysis

GDP (investment in infrastructure for manufacturing)

This indicates that a significant contribution to the increase in GDP is investment in manufacturing infrastructure. A possible interpretation is that there is a dual phenomenon of "onshoring" and "nearshoring." During 2023, the structures subsector contributed 14.4% to the growth of the U.S. GDP in 2023, with its contribution being negative in 2021 and 2022.

Figure 9. Contribution of real private fixed investment in manufacturing structures to real GDP growth

Contribution to year-on-year real GDP growth, percentage point



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Sources: Bureau of Economic Analysis; CEA calculations.
As of January 25, 2024 at 8:30am

Source: For further detail go to table 2 "Contributions to Percent Change in Real Gross Domestic Product" in <https://www.bea.gov/sites/default/files/2024-01/gdp4q23-adv.pdf>
- The GDP increase in 2023 is 2.5% and structures contributes .36 of that change.

Supply chain pressure

This change is part of an international phenomenon that, until mid-2023, was characterized by a decrease in the pressure on supply chains. It is important to note that the impact of the drought on the Panama Canal's transportation capabilities and the difficulties of maritime transit through the Red Sea generate uncertainty about possible inflationary impacts derived from global transport. On the other hand, these difficulties could increase interest in nearshoring in Mexico as a manufacturing and supply space closer to the North American market.

Figure 10. Global Supply Chain Pressure Index

Standard deviation points



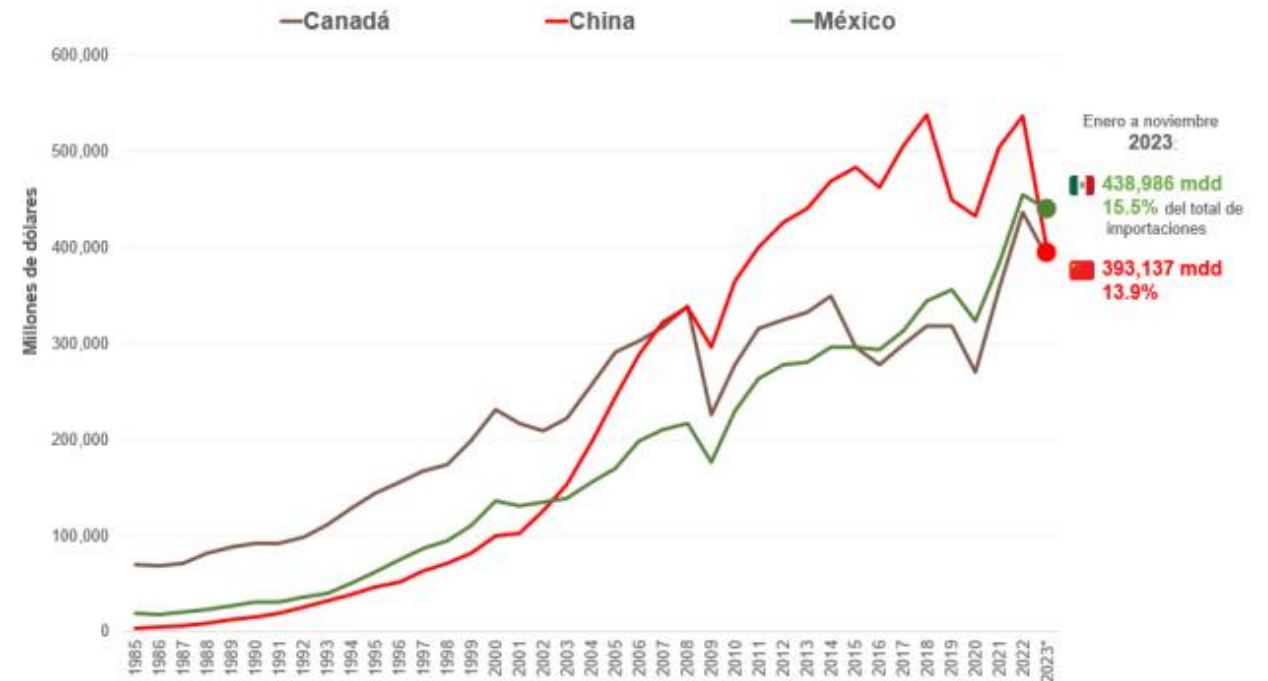
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Source: Federal Reserve Bank of New York.

Note: Gray bar indicates recession. Data are monthly.

As of January 25, 2024 at 8:30am

Value of US imports, according to country of origin



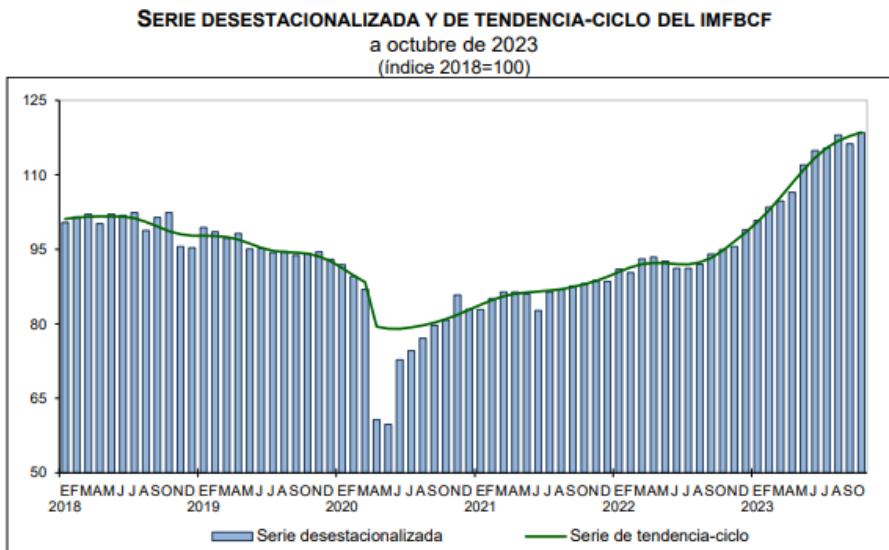
Fuente: elaborado por el IMCO con datos del Censo de Estados Unidos.

The following graph shows a decrease in North American imports from China and the dynamism of the increase in imports from Mexico and Canada.

Monthly Indicator of Gross Fixed Capital Formation

Gross Fixed Capital Formation

Within this phenomenon in Mexico, there is strong growth in the Monthly Indicator of Gross Fixed Capital Formation (IMFBC), which seems to reflect two concurrent phenomena.

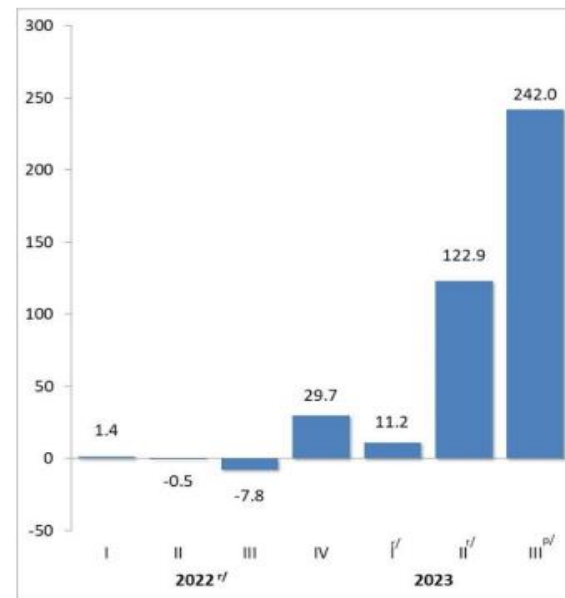


Fuente: INEGI. Sistema de Cuentas Nacionales de México (SCNM). IMFBCF. Series elaboradas mediante métodos econométricos, 2023.

The first is the strong public investment in infrastructure, particularly in the south of the country and associated with the Maya Train development projects, as we have shown in the January note using the regional economies reports from BANXICO. This type of investment is strongly localized in time and region, reflecting the progress of the government's infrastructure construction. We can see extraordinary growth, which will return to normal in the second and third quarters of 2023 for Quintana Roo.

INDICADOR TRIMESTRAL DE LA ACTIVIDAD ECONÓMICA ESTATAL, ACTIVIDADES SECUNDARIAS, RESPECTO AL MISMO PERIODO DEL AÑO ANTERIOR

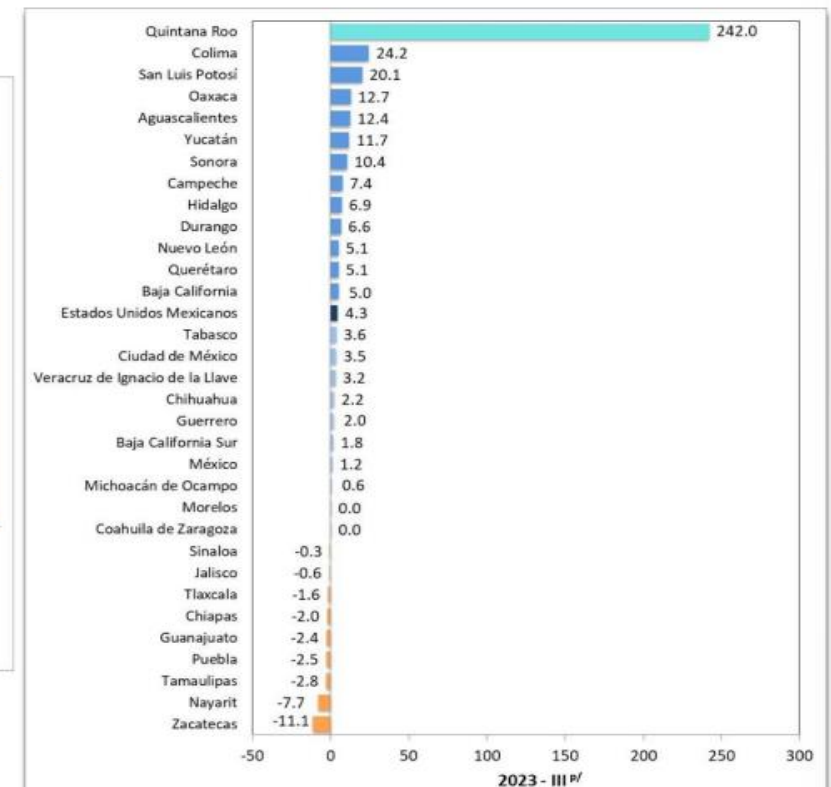
(variación porcentual de las actividades secundarias de Quintana Roo, 2022 y 2023)



^{tr} Cifras revisadas.
^{pl} Cifras preliminares.

Fuente: INEGI, ITAEE Quintana Roo, tercer trimestre 2023.

(comparación entre entidades federativas)



Monthly Indicator of Gross Fixed Capital Formation

The second phenomenon points to an investment in equipment and machinery for future industrial production, where we expect the investment to be more aligned with a process of discovering market demand.

VARIACIÓN DE LA FORMACIÓN BRUTA DE CAPITAL FIJO
CIFRAS DESESTACIONALIZADAS
octubre de 2023

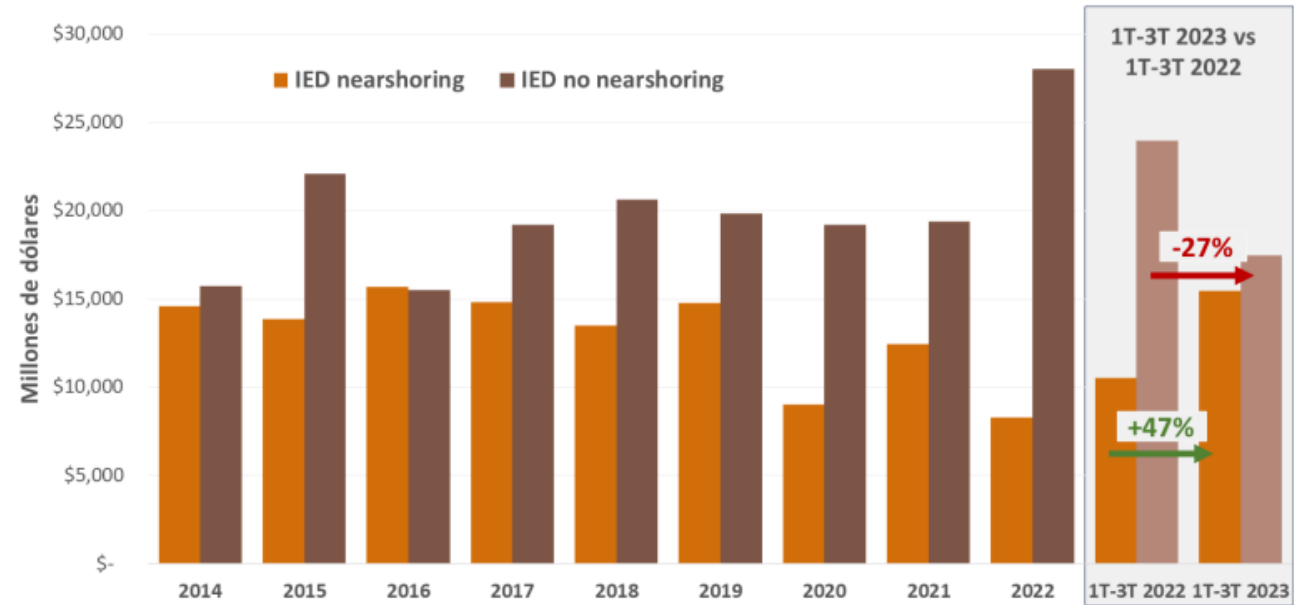
Inversión por tipo de bien y origen	Variación porcentual real respecto a:	
	septiembre de 2023	octubre de 2022
Total	1.9	24.7
Construcción	4.0	31.8
Residencial	11.3	20.1
No residencial	1.6	42.9
Maquinaria y equipo	-0.6	17.8
Nacional	-1.7	15.6
Equipo de transporte	-1.2	36.9
Maquinaria, equipo y otros bienes	-3.6	-1.4
Importado	-0.5	18.1
Equipo de transporte	0.2	49.8
Maquinaria, equipo y otros bienes	-0.6	14.4

Nota: La serie desestacionalizada del IMBCF y la de sus agregados se calculan de manera independiente a la de sus componentes.
Fuente: INEGI. SCNM. IMBCF. Cifras elaboradas mediante métodos econométricos, 2023.

In the publicly presented figures, it is not easy to separate both effects, but the increase in investment in machinery and equipment is encouraging, reflecting the phenomenon observed in the USA.

An additional exercise would consist of distinguishing from this investment which can be associated with the broad phenomenon of nearshoring. In this line, the IMCO developed an exercise where it finds a significant increase in 2023 in the investment that can be associated with this phenomenon and a significant reduction in general Foreign Direct Investment.

La IED en sectores relacionados con la relocalización de cadenas productivas creció **47%** entre los primeros nueve meses de 2022 y de 2023. En contraste, la IED en sectores no directamente ligados con el *nearshoring* cayó **(-)27%** en el mismo periodo.



Nota: la IED ligada al nearshoring toma en cuenta 57 sectores económicos integrados o con el potencial de integrarse a las cadenas productivas globales. Fuente: elaborado por el IMCO con información de la Secretaría de la Economía.

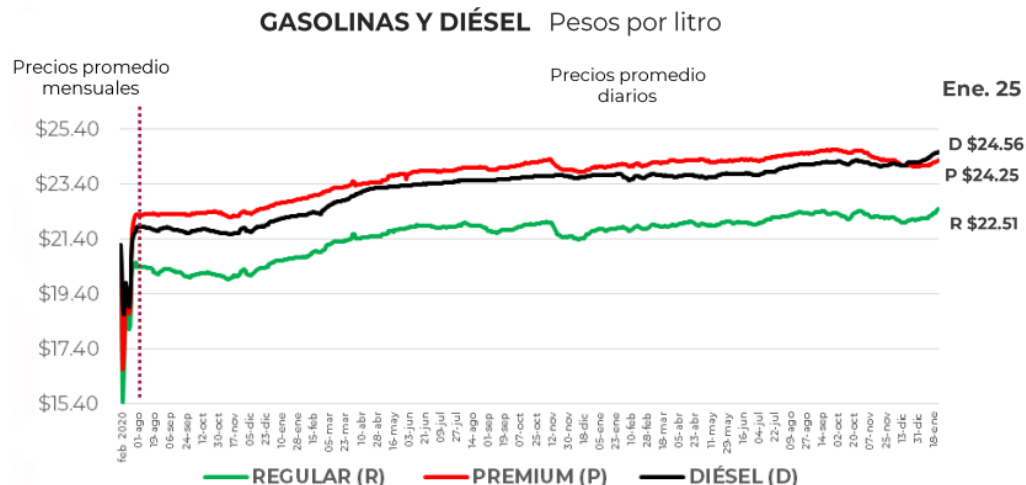
Secretary of Finance - Public Finance Report 2023

IEPS status

The Treasury presented its public finance report for 2023, showing an increase in the collection of the Special Tax on Production and Services (IEPS) of 258.9% from 117 billion pesos (mmdp) in 2022 to 445.1 mmdp in 2023.

Most of this change is explained by the IEPS on gasoline and diesel, which went from being a subsidy or negative tax of 79,612 million pesos (mdp) in 2022 to collecting 230,082 mdp in 2023, an increase of almost 310,000 mdp.

The decrease in energy prices allowed the recovery of the IEPS volume without strongly affecting the average sale prices to the public, one of the main proposals of this government.



This increase was not enough to offset the drop in oil revenues from 1,481,580 million pesos to 1,078,990 million pesos.

INGRESOS PRESUPUESTARIOS DEL SECTOR PÚBLICO (Millones de pesos)

Concepto	Diciembre			Enero-Diciembre		
	2022	2023 ^{p./}	Crec. real %	2022	2023 ^{p./}	Crec. real %
Total	655,587.0	692,276.0	0.9	6,602,829.7	7,039,148.2	1.0
Petroleros ^{1/}	197,158.8	82,904.6	-59.8	1,481,580.8	1,078,990.9	-31.0
Gobierno Federal	58,179.1	37,075.7	-39.1	640,144.9	342,412.0	-49.3
Pemex	138,979.6	45,828.9	-68.5	841,435.8	736,578.9	-17.0
No petroleros	458,428.3	609,371.4	27.0	5,121,248.9	5,960,157.3	10.3
Gobierno Federal	359,393.4	510,914.6	35.8	4,150,438.1	4,872,387.1	11.2
Tributarios	344,437.0	458,121.5	27.1	3,808,707.2	4,517,180.9	12.4
Impuesto sobre la renta	198,083.1	232,481.9	12.1	2,269,559.5	2,506,331.2	4.6
Impuesto al valor agregado	106,342.6	168,420.1	51.3	1,221,802.7	1,366,582.6	6.0
Impuesto especial sobre producción y servicios	23,915.0	40,792.2	63.0	117,532.9	445,101.9	258.9
IEPS gasolinas y diesel	7,423.7	24,470.3	214.9	-79,162.1	230,082.9	n.s.
IEPS distinto de gasolinas y diesel	16,491.3	16,322.0	-5.4	196,695.0	215,019.0	3.6
Impuestos a la importación	7,794.8	9,076.1	11.3	93,672.4	100,709.7	1.9
IAEEH ^{2/}	582.5	558.9	-8.3	7,160.1	7,159.5	-5.2
Otros impuestos ^{3/}	7,718.9	6,792.3	-15.9	98,979.6	91,296.0	-12.6
No tributarios	14,956.4	52,793.1	237.3	341,730.9	355,206.3	-1.5
Derechos	4,874.5	4,874.4	-4.5	116,035.4	121,844.8	-0.5
Aprovechamientos	9,188.1	46,739.0	386.0	217,184.0	218,785.2	-4.5
Otros	893.8	1,179.7	26.1	8,511.5	14,576.3	62.3
Organismos de control presupuestario directo	60,314.7	55,753.0	-11.7	545,706.4	606,668.9	5.3
IMSS	53,330.0	48,344.6	-13.4	493,897.5	552,228.4	6.0
ISSSTE	6,984.7	7,408.4	1.3	51,809.0	54,440.5	-0.4
Empresa Productiva del Estado (CFE)	38,720.2	42,703.8	5.4	425,104.4	481,101.2	7.2
Partidas informativas						
Ingresos tributarios	344,683.0	458,120.5	27.0	3,812,519.8	4,517,730.2	12.3
Ingresos no tributarios	310,904.1	234,155.4	-28.0	2,790,309.8	2,521,418.0	-14.4

Source: PROFECO

PEMEX - Mexican Oil Company

Regarding the financial situation of Petróleos Mexicanos (PEMEX), there is a 17% decrease in Own Revenues, 9.8% in Physical Investment, 70.3% in Financial Investment.

Although it reaches a financial balance of 56,628 mdp, it shows a substantial loss in December.

SITUACIÓN FINANCIERA DE PETROLEOS MEXICANOS ^U (Millones de pesos)

Concepto	Diciembre			Enero-Diciembre		
	2022	2023 ^{p/}	Crec. real %	2022	2023 ^{p/}	Crec. real %
Ingresos propios	138,979.6	45,828.9	-68.5	841,435.8	736,578.9	-17.0
Venta de bienes y servicios	75,454.0	32,699.6	-58.6	441,119.6	510,606.1	9.7
Cuotas IMSS	0.0	0.0	n.s.	0.0	0.0	n.s.
Cuotas y aportaciones ISSSTE	0.0	0.0	n.s.	0.0	0.0	n.s.
Otros	63,525.6	13,129.4	-80.3	400,316.3	225,972.9	-46.5
Gasto programable	95,788.6	64,851.6	-35.3	670,749.4	576,140.3	-18.6
Gasto de operación	15,795.4	15,615.4	-5.5	134,702.7	138,591.4	-2.5
Servicios personales	11,513.4	12,315.2	2.2	92,358.5	98,391.4	1.0
Otros gastos de operación	4,282.0	3,300.2	-26.4	42,344.2	40,200.0	-10.0
Pensiones y jubilaciones	10,530.4	10,998.3	-0.2	68,630.1	74,256.0	2.5
Otros gastos	-438.9	1,246.4	n.s.	827.3	5,559.2	-o-
Inversión física	40,456.8	34,011.5	-19.7	331,403.5	315,381.1	-9.8
Inversión financiera	29,445.0	2,980.0	-90.3	135,185.8	42,352.5	-70.3
Balance de operación	43,191.0	-19,022.6	n.s.	170,686.5	160,438.6	-10.9
Intereses y gastos de la deuda	10,442.3	-2,857.4	n.s.	132,358.9	103,810.2	-25.7
Internos	2,078.8	-10,897.1	n.s.	23,189.9	13,532.0	-44.7
Externos	8,363.5	8,039.7	-8.2	109,169.0	90,278.3	-21.6
Balance antes de transferencias	32,748.8	-16,165.2	n.s.	38,327.6	56,628.4	40.0
Subsidios y transferencias del Gobierno Federal	0.0	0.0	n.s.	0.0	0.0	n.s.
Balance financiero	32,748.8	-16,165.2	n.s.	38,327.6	56,628.4	40.0
Financiamiento						
Endeudamiento neto	-18,733.5	-38,487.5	n.s.	-48,585.2	-111,783.2	n.s.
Uso de disponibilidades (+) / Acumulación (-)	5,948.2	39,095.3	-o-	17,868.0	2,019.0	-89.3
Diferencias con fuentes de financiamiento	19,963.5	-15,557.4	n.s.	7,610.4	-53,135.9	n.s.
Balance primario	43,191.0	-19,022.6	n.s.	170,686.5	160,438.6	-10.9

- **Q4 GDP Advance Estimate: Context for Today's Strong Report**, Council of Economic Advisers (CEA), January 25 2024:
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