

IGAE – Historical contraction in April, albeit lower than expected

- **Global Economic Activity Indicator (April): -19.9% y/y; Banorte: -20.6%; consensus: -22.0% (range: -26.7% to -17.5%); previous: -2.3%**
- **This is the steepest decline in the history of the series, highly impacted by the stoppage in activity and social distancing measures due to the pandemic**
- **Inside, the weakest sector was industry at -29.3% y/y, albeit with services also very affected as they fell 16.4%. Meanwhile, primary activities were relatively more resilient (+1.8%)**
- **In monthly terms, activity contracted 17.3%, also a new historical low. Similar to the annual comparison, the weakest categories were industry (-25.1%) and services (-14.4%)**
- **Given that today’s report was broadly in line with our expectations, risks to our 2020 GDP estimate of -9.8% y/y remain broadly balanced. In this sense, we maintain our forecast as it is our take this will be the worst print in the year, expecting a very modest sequential recovery in coming months, as suggested by timelier data**

Economic activity plunged 19.9% y/y in April, worst in history. This was lower than consensus (-22.0%) but closer to our forecast (-20.6%). In line with what we saw in other reports and in other countries around the world, the impact that COVID-19 is having on economic activity is staggering, resulting in historical declines (see [Chart 1](#)). This, coupled with weakness already seen in previous months, has led to a 5.8% year-to-date decline in activity ([Table 1](#)). Looking at the breakdown, and as already reported, [industrial production plunged 29.3% y/y](#), driven down mainly by construction (-38.0%) and manufacturing (-35.3%), with the stoppage of non-essential activities weighing heavily on them. Services suffered a similar fate due to the same reasons, declining 16.4% ([Chart 2](#)). Inside, some of the most impacted sectors were those related to tourism and entertainment such as lodging, recreational and transportation, to name a few. These were heavily dragged down by lower mobility on recommendations to “Stay at Home”. Finally, agriculture was relatively more resilient at +1.8%, consistent with the nature of the shock.

Monthly figures tell a similar story, with generalized declines. The economy fell 17.3% m/m, also a new historical low and extending the significant decline of the previous month ([Table 2](#)). As seen in the IP report, all sectors were lower, adding up to a 25.1% plunge. Similar to annual figures, we observed sizable contractions in non-essential activities, such as construction (-32.8%) and to some extent manufacturing (-30.5%) –as some relevant industries, such as autos and textiles, also suffered from this designation–. Mining was not as highly impacted at -5.6%, with the oil sector anchoring performance despite the plunge in non-oil. Primary activities were also weaker in this comparison, coming in at -6.4%, although only after climbing 11.6% in the previous month.

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Services came in at -14.4% ([Chart 3](#)), with all but one of the nine subsectors down. Nevertheless, there is a clear difference between those considered essential or not, with some of the former, such as professional (-0.1%) and financial services (-3.5%) with some resiliency. On the latter and as mentioned above, lodging (-60.2%) and recreational (-23.7%) fell markedly. Moreover, transportation came in at -26.4%, dragged by lower passenger traffic –both ground and air– and freight. Performance in education and healthcare was relevant at +1.0%. We believe these experienced pressures from the former and non-emergency procedures in the latter, while there might have been some upside in emergency and others, related to the pandemic. Finally, commerce was also down, with wholesale at -15.0% and retail slightly lower at -30.9%, with a much more downbeat performance relative to [yesterday's report](#). With today's results, the seasonally adjusted index plunged to 2010 lows ([Chart 4](#)), which we believe will be the lowest as we anticipate improvements in May and June.

Today's figures are broadly in line with our GDP estimate. Earlier in the week, [we published our updated GDP forecast](#), now anticipating a 9.8% y/y contraction (previous: -7.8%). In the document, we discussed at length the reasons behind our revision as well as the outlook for coming months. On the former, the main drivers were: (1) A delay in the reopening of the economy; and (2) latest economic data which suggested a stronger impact in April. In this sense, the contraction reported today was broadly in line with our expectations, maintaining risks relatively balanced for our forecast.

Despite of the latter, and as also explained in our GDP note, several indicators suggest activity started to show more dynamism in May and June. Among them are included survey-based data (e.g. IMEF indicators), from business chambers (e.g. ANTAD sales, AMIA). In our view, these point to an economy that might see a slight uptick. Nevertheless, other figures such as hotel occupancy rates, at 2.7% in the first week of May, have barely budged, while other hard data, including today's trade balance report (note to be published later today) still show relevant impacts on activity. Therefore, and as mentioned repeatedly, the rebound will probably be only in sequential terms, with annual figures still deeply negative. In this sense, we maintain our estimate of a 19.4% y/y GDP contraction in 2Q20 (-12.9% q/q), followed by a slight recovery in 3Q20 at -14.6% (+4.8% q/q). In 4Q20 the rebound is estimated to be stronger, at -4.0% (+5.7% q/q).

All in all, the COVID-19 pandemic is having an unprecedented impact, resulting not only in heavy economic and hardship on people as employment conditions have sharply deteriorated. In this sense, we remain focused on the evolution of the outbreak and the shock, which unfortunately remains highly uncertain, as its effects might linger for longer than expected, consistent with our relatively low expectation for growth in 2021 of 1.8% y/y.

Table 1: Global economic activity indicator

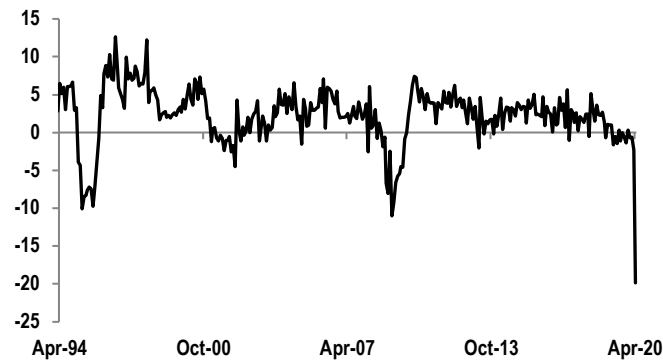
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	Apr-20	Apr-19	Jan-Apr'20	Jan-Apr'19	Apr-20	Apr-19
Total	-19.9	-1.6	-5.8	0.3	-19.7	-0.8
Agriculture	1.8	-1.7	1.8	1.0	2.4	0.2
Industrial production	-29.3	-2.9	-9.3	-0.9	-29.6	-2.2
Mining	-3.6	-9.1	2.4	-8.0	-3.6	-8.2
Utilities	-3.5	-1.1	-0.7	-0.1	-3.5	0.6
Construction	-38.0	-4.4	-15.4	-1.2	-38.4	-2.8
Manufacturing	-35.3	-0.6	-10.9	1.4	-35.5	2.8
Services	-16.4	-1.0	-4.5	0.9	-16.1	0.5
Wholesale	-19.6	-3.5	-8.2	-1.3	-18.9	-0.7
Retail	-32.7	1.5	-7.6	2.6	-32.1	4.7
Transport	-28.9	-0.3	-7.7	0.7	-28.7	0.8
Financial services	-2.6	0.2	-0.3	2.0	-2.6	0.7
Professional services	-0.5	-3.0	0.1	4.1	-0.2	-0.5
Education and healthcare services	-1.0	-2.0	-1.3	0.5	-1.0	0.4
Recreational services	-30.4	-0.1	-10.0	0.1	-30.3	0.9
Lodging services	-70.5	-0.8	-23.7	-1.6	-70.4	-1.7
Government services	1.3	-3.5	5.2	-3.2	1.0	-4.1

Source: INEGI

Chart 1: Global economic activity indicator

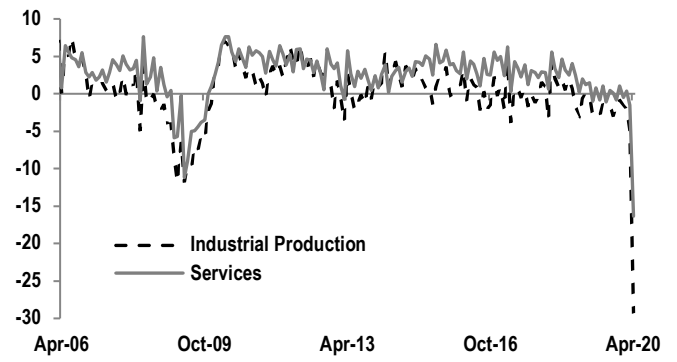
% y/y nsa



Source: INEGI

Chart 2: Global economic indicator by component

% y/y nsa



Source: INEGI

Table 2: Global economic activity indicator

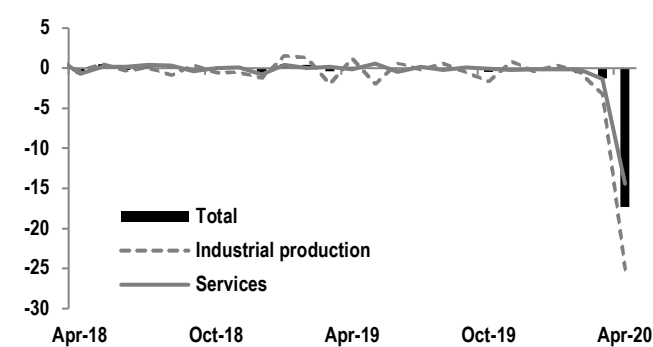
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Apr-20	Mar-20	Difference	Feb-Apr'20	Jan-Mar'20
Total	-17.3	-1.3	-16.0	-7.1	-1.0
Agriculture	-6.4	11.6	-18.0	1.5	1.7
Industrial production	-25.1	-3.3	-21.9	-10.6	-1.0
Services	-14.4	-1.4	-13.0	-5.9	-0.8

Source: INEGI

Chart 3: Global economic activity indicator

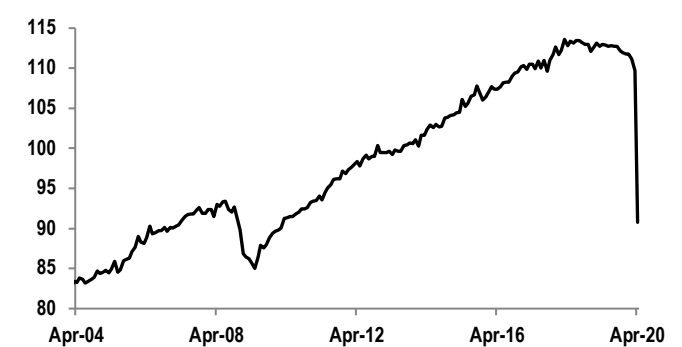
% m/m sa



Source: INEGI

Chart 4: Global economic activity indicator

Index sa



Source: INEGI

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