

GDP-proxy IGAE – A pause in the recovery despite additional strength in services

- **Global Economic Activity Indicator (February): 2.5% y/y; Banorte: 2.6%; consensus: 2.5% (range: 1.7% to 3.6%); previous: 1.8%**
- **With seasonally adjusted figures, the economy grew 2.7% y/y, below INEGI's *Timely Indicator of Economic Activity* (2.8%)**
- **By sectors, industry stood at 2.5% y/y, with services up 2.7% and primary activities down 2.9%**
- **In monthly terms, the economy was unchanged (0.0%) which we think was not entirely negative. Specifically, industry fell 1.0% with an unusual performance inside, while services maintained an upward trend at +0.6%, with practically all sectors growing**
- **This implies a slight downward risk to our forecast of +1.1% q/q in 1Q22 GDP, which will be released on Friday. Meanwhile, signals for the second quarter look increasingly challenging**

The economy grew 2.5% y/y in February. This was in line with consensus, but slightly lower than our estimate (2.6%). Using seasonally adjusted figures, growth was 2.7% y/y, lower than [INEGI's *Timely Indicator of Economic Activity*](#) (+2.8%). Back to original figures, [industry grew 2.5%](#), driven by manufacturing. On the other hand, services picked up 2.7% ([Chart 2](#)), with more support from epidemiological conditions. By subcomponents, all but two sectors were positive, albeit still with some distortions ([Table 1](#)). Lastly, the primary sector came in at -2.9%.

Stalled growth in sequential terms. The economy was unchanged (0.0% m/m), breaking with three months of sizeable increases ([Table 2](#)). Although this is negative at first glance, we believe the result is not that bad considering prevailing supply chain challenges (including a lack of raw materials and higher costs) along some key base effects. In this sense, other positive drivers were in play, such as external demand strength (mainly from the US), improved fundamentals locally and better virus conditions across North America. Current activity is 1.6% below February 2020 –used as a pre-pandemic metric– and 3.3% lower than the historical high in August 2018 ([Chart 4](#)).

By sectors, industry fell 1.0% ([Chart 3](#)). The drag came from mining (-6.6%), after an unusual expansion in the previous month. Construction was again lower (-1.5%), with widespread weakness, while manufacturing remained to the upside at 0.6% –with 14 of the 21 subsectors increasing–. Primary activities fell 3.8%, stringing three months lower and nearly erasing the sharp expansion seen in November. Overall, the signal is relatively consistent with price dynamics in the period, while also not ruling out some impacts from harsher weather conditions and other issues.

April 25, 2022

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*



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Services grew 0.6%, with four months of notable improvements. Seven of nine sectors increased, with modest adjustments in the ones that fell. Among the latter, government activities declined 0.3%, while education and healthcare was lower by -0.9%, possibly reflecting lower virus cases. On the contrary, categories with the largest improvements were wholesales (4.9%) and professional services at 3.4% –maintaining a volatile performance–. On tourism and entertainment, recreational services expanded 2.5%, with transportation (2.0%) and lodging (0.9%) were also higher, likely aided by a better backdrop. Lastly, retail sales grew 1.7%, expecting additional details in the stand-alone report which will be published tomorrow.

Resiliency at the start of the year, still with relevant challenges to overcome ahead. Despite the pause in the trend of recovery, we believe the Mexican economy has shown some strength amid the latest wave of challenges. As a result, an even accounting for today’s downward surprise, we believe [GDP in 1Q22 will post a relevant expansion](#) after some weakness in the second part of 2021. In our view, this is key as it would mark the resumption of the recovery after the pandemic shock.

Unfortunately, signals heading into the second quarter suggest a more difficult outlook. Specifically, headwinds from abroad have increased, mainly from further supply distortions as lockdowns in China have impacted activity and trade with considerable strength. In addition, cost pressures stemming from the latter factor along with higher energy and commodities’ prices as a result of the war in Ukraine could also dampen dynamism further. Locally, while mobility remains high and cases are low, additional challenges include: (1) Higher inflation, with the annual print at a new 21-year high, with notable pressures in food items; (2) some payback after the disbursement of early payments from social programs due to the electoral ban, likely leaving a gap in people’s incomes; (3) problems in trade as crossings through the border in Texas faced additional scrutiny following an order from Governor Greg Abbott for about a week in April (but with the fallout likely impacting further); and (4) increased market volatility due to expectations of additional monetary tightening, as well as some idiosyncratic factors.

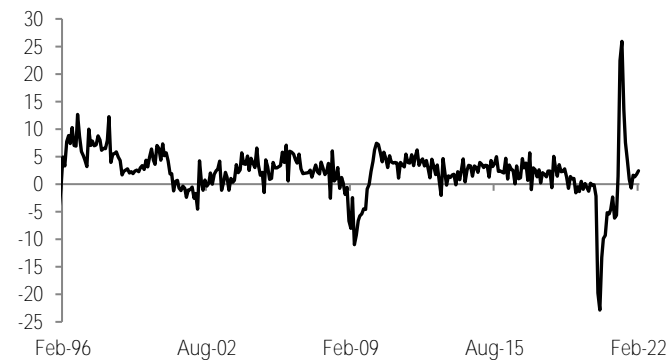
Our base case is that activity will remain to the upside in 2Q22, albeit at a more modest pace than in the first quarter. This would be supported by an additional recovery in services on the back of further improvements in fundamentals and more stable epidemiological conditions. We also see some resiliency in manufacturing exports as external demand remains strong. After this, we expect activity to gather additional pace in 2H22, contributing to our above-consensus full-year GDP estimate of 2.1%.

Table 1: Global economic activity indicator
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	Feb-22	Feb-21	Jan-Feb'22	Jan-Feb'21	Feb-22	Feb-21
Total	2.5	-5.6	2.1	-5.9	2.7	-4.2
Agriculture	-2.9	1.7	-1.0	0.3	-2.4	2.4
Industrial production	2.5	-5.2	3.4	-5.6	2.5	-3.9
Mining	-2.9	-2.5	4.2	-3.2	-2.9	0.7
Utilities	3.9	-8.1	2.7	-5.4	4.2	-8.0
Construction	-4.3	-5.5	-1.9	-8.4	-4.0	-5.9
Manufacturing	6.9	-5.7	5.3	-5.3	6.9	-4.4
Services	2.7	-6.2	1.7	-6.4	2.8	-5.1
Wholesale	10.8	0.6	6.3	-0.7	10.6	2.6
Retail	7.8	-5.1	5.7	-5.6	7.7	-2.9
Transport	17.6	-13.6	17.8	-15.1	17.7	-11.9
Financial services	2.6	-3.6	2.2	-3.0	2.8	-3.3
Professional services	-48.7	4.3	-50.3	4.0	-48.6	4.7
Education and healthcare services	2.3	-0.4	3.0	-0.4	2.3	-0.6
Recreational services	14.2	-20.8	11.6	-21.1	14.0	-20.8
Lodging services	48.1	-45.6	46.1	-44.9	49.4	-44.0
Government services	-1.4	-5.7	-0.8	-3.3	-1.4	-5.8

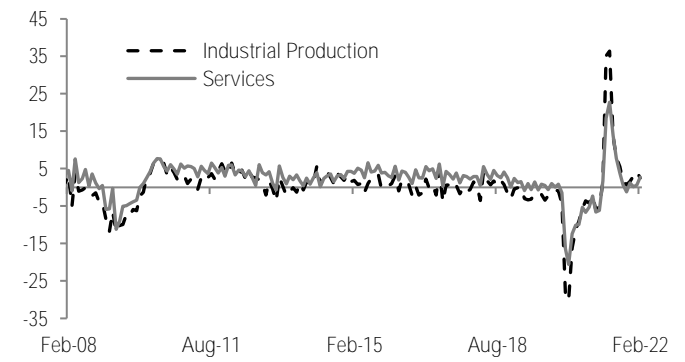
Source: INEGI

Chart 1: Global economic activity indicator
% y/y nsa



Source: INEGI

Chart 2: Global economic indicator by component
% y/y nsa



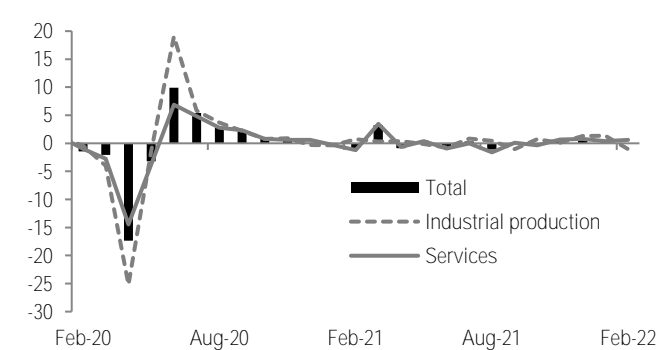
Source: INEGI

Table 2: Global economic activity indicator
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Feb-22	Jan-22	Dec-21	Dec'21-Feb'22	Nov'21-Jan'22
Total	0.0	0.4	0.8	1.5	1.1
Agriculture	-3.8	-2.2	-1.2	-1.1	2.0
Industrial production	-1.0	1.3	1.3	2.1	1.5
Services	0.6	0.4	0.8	1.6	1.1

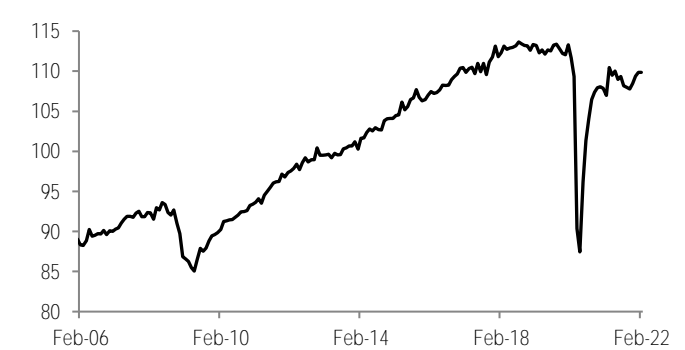
Source: INEGI

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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