GDP-proxy IGAE – A modest and generalized rebound in July

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- ***Global Economic Activity Indicator* (July): 1.3% y/y; Banorte: 1.7%; consensus: 1.6% (range: 1.3% to 2.2%); previous: 1.5%**
- **With seasonally adjusted figures, the economy grew 2.2% y/y, as there was one less working day in the annual comparison. The result is still higher that INEGI's *Timely Indicator of Economic Activity* at +1.8%**
- **In monthly terms, the economy grew 0.4%, with all three sectors higher. Primary activities rose 0.8%, with both industry and services at +0.4%**
- **While this result indicates that activity remains resilient, it is also consistent with our view of more modest growth rates in 2H22, with increasing headwinds ahead**

Activity grew 1.3% y/y in July. This was lower than both consensus (1.6%) and our estimate (1.7%). In the annual comparison, the period had one less working day. Therefore, with seasonally adjusted figures, growth was 2.2% y/y, higher than INEGI's *Timely Indicator of Economic Activity* at 1.8%. Back to original figures, industry grew 2.6%. On the other hand, services were more modest at 0.8% (Chart 2), although improving at the margin, partly on a more favorable base effect. Inside, some distortions prevail, noting the +14.3% in lodging, but with professional and support services at -36.1%. Lastly, the primary sector remained somewhat weak at -2.4%. For further details, see Table 1.

Sequential rebound, with broad improvements inside. The economy grew 0.4% m/m (Table 2), practically offsetting the accumulated loss of the previous two months (-0.4%). In this context, conditions for activity were mixed, but in our opinion with a positive bias. We highlight: (1) Good performance in employment, albeit with a marginal drop in average wages; (2) remittances' strength, still supported by a solid US labor market; (3) the resumption of social programs' payments (due to the end of the electoral ban); (4) a downward trend in COVID-19 contagions; and (5) an uptick in tourism trends with the start of summer vacations –noting an expansion in international tourism of 9.1% y/y and a 21.3% increase in tourists' spending. On the contrary, negative signs were related to the persistence of price pressures for both consumers and producers –with CPI in July at 8.16% y/y, highest in 21 years– and further monetary policy tightening globally. Lastly, the economy is close to matching its level before the pandemic, just 0.1% below February 2020. On the other hand, it is 1.8% lower than the historical high in August 2018 (Chart 4).

Industry rose 0.4% (Chart 3), adding five consecutive months of progress and resilient. Manufacturing drove this at +1.6%, being the only positive component. Declines centered in mining at -2.5% –with volatility in 'related services'– and construction at -0.9%. Primary activities rose 0.8%, which we believe is low considering the -6.0% from the previous month. It should be noted that weather conditions improved, with a moderation in droughts and the season of tropical storms and hurricanes being relatively tame until said moment, mitigating crop losses.

Services were also favorable at +0.4%. Inside, five of nine components climbed. Among those with the best performance were recreational services at +4.1% and government services +2.9%. Retail sales were also positive at +2.6% –even better than what stand-alone figures suggested. Also noteworthy, education and healthcare rose 1.9%, which we believe is related to an extension of the school-year schedule, with vacations starting later than in previous years. The most relevant setbacks were in professional and support services at -0.8% –maintaining some volatility– and financial services at -0.6%, adding two months lower.

Activity will likely keep growing, albeit at a more modest pace. We believe today's results are positive, although consistent with a slight slowdown in the recovery trend. Such deceleration is in line with our 2.1% estimate for GDP in 2022 –up 0.3% in 3Q22 and 0.1% in 4Q22– after strength during the first half of the year. According to the *Timely Indicator of Economic Activity*, August would have had null growth, with industry and services weakening. However, using today's figures, the revision to July could imply a sequential contraction for the latter month.

In industry, we continue identifying limiting factors. Firstly, both the behavior of the US –and its demand for Mexican manufacturing– as well as consumer confidence continue to weaken with a more complex short-term outlook. On one hand, US industrial production contracted 0.2% m/m in August, highlighting declines in auto production and non-durable consumer goods. Additionally, there are signs that this weakness could continue due to the persistence of headwinds such as global uncertainty because of the war in Ukraine, the continuation of zero-COVID policies in China, and expectations that the Fed's tightening cycle will extend until 2023. Secondly, and oriented to local dynamism, the path of inflation in the rest of the year is not encouraging. Although PPI kept moderating in August (-0.32% m/m; 9.41% y/y), helped by greater stability in energy (*e.g.* electricity, natural gas, gasoline) and lower commodities (*e.g.* copper, gold, wheat, corn), producers will continue to adjust and pass-through previous costs increases to consumers. On the other hand, risks for US industry are also a domestic concern as they can induce higher transportation costs and lower production due to supply chain disruptions, among others. On the positive side, it will continue to benefit from the arrival of foreign investment capital related to nearshoring. As already reiterated in previous reports, companies' plans to transfer certain production processes from Asia to our country continue. According to Banxico's last report on regional economies, 16% of companies located in Mexico reported that in the last twelve months they have had higher demand for their products or services, or in FDI, as a result of nearshoring.

Likewise, Mexican industrialists believe the country benefits from two main channels: (1) Existing trade tensions between China and the US; and (2) USMCA rules of origin. On the other hand, the Ministry of Economy presented a new industrial policy plan, which "*...will direct the efforts of economic actors towards an industrial model that generates broader economic growth...*" The plan integrates four axes: (1) Innovation and technological-scientific trends; (2) development of human capital for new trends; (3) promotion of regional industry and integration of SMEs; and (4) sustainable industries.

In addition, it is focused on five sectors: agrobusiness, electronics, electromobility, medical and pharmaceutical services, and creative industries. A pending issue is that the federal budget assigned to the plan has not been determined yet according to the recent proposal presented by the Ministry of Finance.

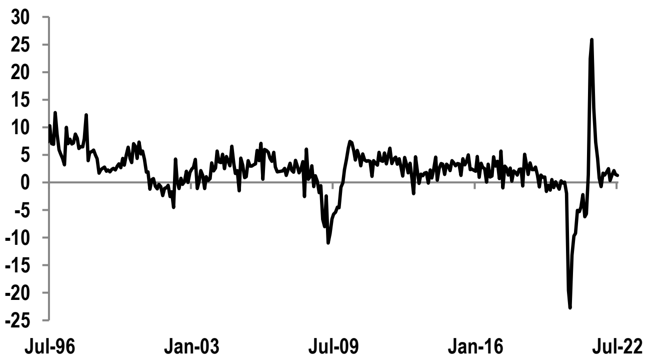
Regarding services, their performance has been more encouraging, despite higher inflationary challenges. We believe that their recovery trend will continue in the short term, driven by consumer fundamentals and favorable COVID-19 conditions –although some health experts do not rule out that contagions may resurface in the last quarter of the year. We reiterate our view that domestic demand will continue to drive performance for the rest of the year. Regarding the latter, the Confederation of National Chambers of Commerce, Services and Tourism (Concanaco-Servytur) published their estimates for the 8th edition of *'El Buen Fin'* (from November 18th to 21th), where sales are expected at $195 billion. Other holidays could also have positive spillover effects relative to previous years, both in retail sales and tourism-related services in a context of more normalized conditions.

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

	y/y nsa				y/y sa	
	Jul-22	Jul-21	Jan-Jul'22	Jan-Jul'21	Jul-22	Jul-21
Total	**1.3**	**7.3**	**1.5**	**7.3**	**2.2**	**7.7**
Agriculture	**-2.4**	**-2.2**	**1.2**	**1.3**	**-2.7**	**-2.5**
Industrial production	**2.6**	**7.7**	**3.1**	**9.4**	**3.5**	**8.2**
Mining	-0.8	3.1	0.9	1.8	-0.7	3.5
Utilities	2.2	3.9	2.9	1.0	2.1	3.8
Construction	-1.0	12.9	0.0	7.7	-0.8	14.1
Manufacturing	5.1	7.7	4.9	13.5	6.7	8.4
Services	**0.8**	**7.7**	**0.8**	**6.7**	**1.7**	**8.1**
Wholesale	3.7	17.3	6.4	14.2	6.4	18.9
Retail	3.1	7.3	4.9	13.9	5.1	8.5
Transport	8.2	18.2	13.6	9.3	9.5	19.5
Financial services	1.2	1.9	2.2	0.5	1.4	2.0
Professional services	-36.1	-13.9	-48.8	7.0	-36.0	-14.3
Education and healthcare services	4.6	3.1	2.5	1.8	4.7	3.4
Recreational services	2.8	17.6	10.3	3.2	2.0	16.4
Lodging services	14.3	97.9	29.4	24.1	14.8	98.4
Government services	0.7	-0.7	-1.2	-1.0	0.3	-1.1

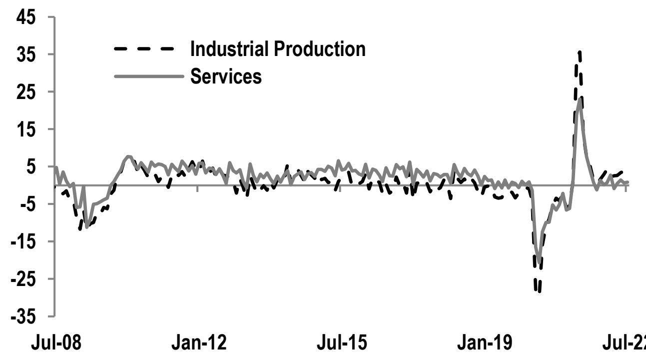
Source: INEGI

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



Source: INEGI

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



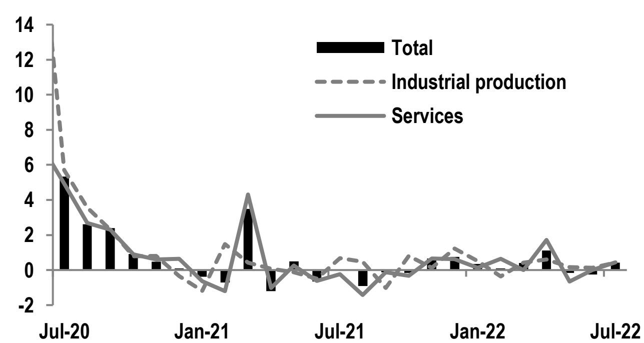
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	Jul-22	Jun-22	May-22	May-Jul'22	Apr-Jun'22
Total	**0.4**	**-0.3**	**-0.2**	**0.7**	**12**
Agriculture	0.8	-6.0	2.3	-0.6	1.3
Industrial production	0.4	0.1	0.2	0.9	0.9
Services	0.4	0.0	-0.7	0.6	1.5

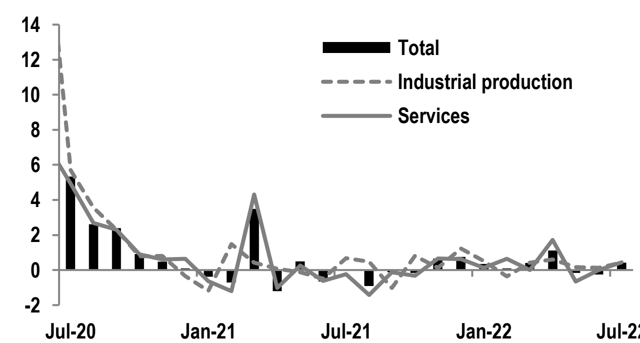
Source: INEGI

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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