Economic activity – The *leap-year* behind February's 4.1% growth

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- **Global economic indicator, IGAE (February): 4.1% yoy; Banorte-Ixe: 3.8%; consensus: 3% (range: 2.2% to 4.3%); previous: 2.3%**
- **February's growth was partially explained by a calendar effect, given that the *leap-year* added an additional working day to the annual comparison**
- **Controlling for this calendar effect, the Mexican economy grew 2.9% yoy**
- **In seasonally adjusted terms, economic activity posted a 0.2 m/m expansion**
- **We continue to believe that the Mexican economy will show a more visible recovery throughout the first half of the year**

Growth in February partially explained by the *leap-year*. *INEGI* just released its Global Economic Indicator (IGAE) report for February, in which economic activity increased 4.1% yoy, marginally above our 3.8% forecast (consensus: 3%). However, we highlight that February's growth was partially explained by a calendar effect, given that the *leap-year* added an additional working day to the annual comparison. Controlling for this calendar effect, the Mexican economy grew 2.9% yoy.

Taking a look at the breakdown, and using the calendar-adjusted figures, services sector edged-up 3.9%, while industrial production increased a scant 0.8% yoy. In this regard, mining output fell 5% yoy, while manufacturing production increased 1.8%, and construction expanded 3.8% on the back of the higher investment projects made by the private sector.

February's IGAE report

%yoy (original figures)	Feb-16	Feb-15	Jan-Feb, '16	Jan-Feb, '15
Total	4.1	2.6	3.2	2.4
Agriculture	3.7	-2.1	4.4	5.7
Industrial production	2.6	2.0	1.7	1.5
Services	5.0	3.1	4.0	2.8
%yoy (adjusted by calendar effects)	**Feb-16**	**Feb-15**	**Jan-Feb, '16**	**Jan-Feb, '15**
Total	2.9	2.6	2.9	2.6
Agriculture	3.7	-2.1	4.4	5.7
Industrial production	0.8	2.0	1.2	1.7
Services	3.9	3.1	3.7	3.0

Source: INEGI

In seasonally adjusted terms, economic activity increased 0.2% m/m. Taking a look at the breakdown, industrial output fell 0.1% m/m, as a result of a 2.5% m/m contraction in construction output, a 0.2% decline in the mining industry, and the 0.5% m/m growth in manufacturing production. Moreover, services expanded 0.5% m/m, while primary activities fell 1.7% m/m.

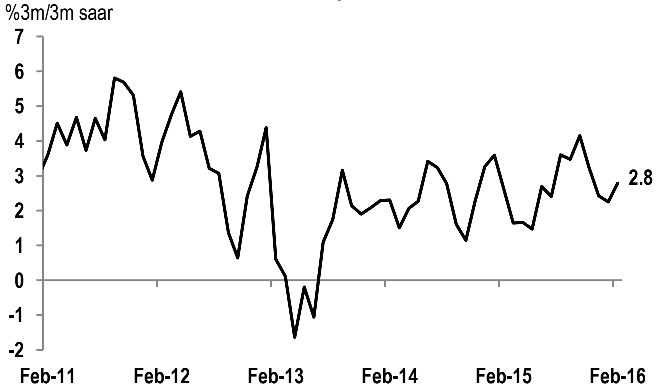
With these figures, economic activity now shows a 2.8% 3m/3m saar growth vs. 2.4% in 4Q15. In addition, the services sector posted a 3.5% 3m/3m saar expansion (refer to the charts below).

Global economic indicator: February 2016

%m/m sa	Feb-16	Jan-16	Difference
Total	0.2	0.6	-0.4
Agriculture	-1.7	0.3	-2.0
Industrial production	-0.1	0.7	-0.8
Services	0.5	0.3	0.3

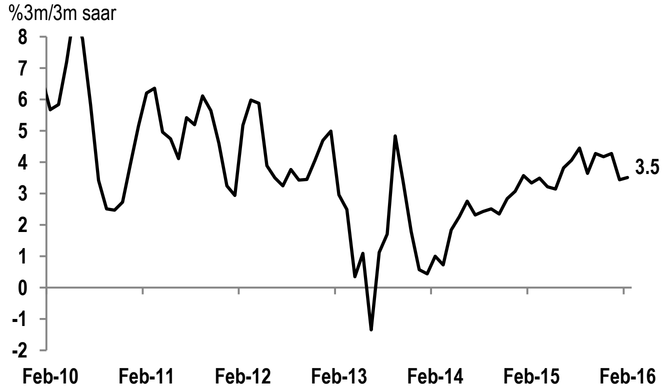
Source: INEGI

Global economic indicator: February 2016
%3m/3m saar



Source: Banorte-Ixe

Global economic indicator: Services
%3m/3m saar



Source: Banorte-Ixe

Looking ahead, we continue to believe that the Mexican economy will show a more visible recovery. Domestic demand has stand out as Mexico's main growth engine. In particular, Mexican households are spending more given the significant gains in real wages, while firms have increased their investment spending given the more positive outlook that prevails for the Mexican economy. We believe that the recent upward trend in domestic demand will continue throughout the first half of 2016 given the following factors: (1) The recovery of the labor market; (2) inflation levels below 3% that will hold throughout the year; and (3) the better growth prospects in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, despite the recent deceleration in manufacturing output, other indicators show that this sector will recover. In this regard, we believe that the manufacturing industry will strengthen in the second quarter of 2016 given: (1) Mexico's manufacturing exports of final goods will recover given the added depreciation of the Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger demand for domestic manufactured goods.

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