

## IGAE – Stagnation persists, although positive signs start to emerge

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- **Global Economic Activity Indicator (July): 0.3% yoy; Banorte: 0.2%; consensus: 0.6% (range: -0.2% to +1.2%); previous: -0.9%**
- **By components, services and primary activities grew 1.2% and 4.1% yoy, in the same order. Meanwhile and as previously published, industry fell 1.7%**
- **On a monthly basis, activity contracted 0.1%, partially reversing the +0.2% of the previous month, with weakness still concentrated in industry (-0.4% m/m) but also shown within services (-0.1%, in line with the previous month)**
- **In our view, the report shows that activity remained stagnant at the beginning of 3Q19, with a challenging outlook still in place despite tentative signs of a better performance going forward**

**Economic activity increased 0.3% in July.** According to the *Global Economic Activity Indicator (IGAE)*, economic activity grew 0.3% yoy, stronger than our forecast of 0.2% but below consensus at 0.6%. It is worth noting that this figure is biased to the upside as the period had one more working day in the annual comparison.

As it had been published already, industrial activity remained weak, falling 1.7% yoy, impacted by the 8.4% and 7.5% declines in construction and mining, respectively, with manufacturing stronger as it grew 3.0%. For details, please refer to: “*Industrial production – Slight contraction in July despite resilient manufacturing*”, <[pdf](#)>, September 11<sup>th</sup>, 2019. Primary activities showed a strong performance, expanding 4.1%, even when considering an adverse base effect (+3.4% yoy in July 2018).

On the other hand, services edged-up 1.2% yoy, higher than the -0.2% observed previously and despite a relatively challenging base effect (+4.5% in July last year). Within, retail sales were up 4.0%, surpassing Monday’s report for the same month at 2.1%. Among sectors, we also highlight the 3.4% advance in professional services, along the 1.3% in transportation, with the latter probably having benefited from the uptick in manufacturing. Only one out of nine sectors contracted, which was government services at -3.7%, in negative territory for nine consecutive months and contracting 3.5% on a year-to-date basis. In our view, the latter has been affected by the typical slowdown in spending during the first year of a new administration, although also by austerity measures implemented by the Federal Government.

These results show that economic activity remains in stagnation. Nevertheless, we see some tentative signs of recovery, particularly when considering the performance within services, which supports our view of a pickup in the second half of the year.

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**Global economic activity indicator: July 2019**

% yoy, nsa

	Jul-19	Jul-18	Jan-Jul'19	Jan-Jul'18
<b>Total</b>	<b>0.3</b>	<b>3.4</b>	<b>0.1</b>	<b>2.1</b>
<b>Agriculture</b>	<b>4.1</b>	<b>3.2</b>	<b>3.7</b>	<b>2.7</b>
<b>Industrial production</b>	<b>-1.7</b>	<b>1.3</b>	<b>-1.8</b>	<b>0.4</b>
Mining	-7.5	-7.2	-7.7	-6.1
Utilities	-1.0	5.2	0.3	1.9
Construction	-8.4	4.6	-4.5	2.4
Manufacturing	3.0	2.4	1.0	1.6
<b>Services</b>	<b>1.2</b>	<b>4.5</b>	<b>0.9</b>	<b>2.9</b>
Wholesale	1.0	4.5	-1.4	3.3
Retail	3.9	7.2	2.7	3.9
Transport	1.3	5.5	0.0	4.2
Financial services	0.5	5.2	1.8	2.5
Professional services	3.4	6.1	5.0	3.6
Education and healthcare services	0.1	0.5	0.2	0.6
Recreational services	1.1	-2.4	0.2	-1.6
Lodging services	0.4	0.9	0.4	1.5
Government services	-3.7	2.9	-3.5	3.5

Source: INEGI

**On a monthly basis, the economy declined 0.1%.** In our view, this figure confirms that the economy remained stagnant during the period. It should be mentioned that the month had three more labor days when compared to June, helping explain part of the weakness despite the improvement in the annual comparison. Taking this situation into account, we believe the report provides a cautious signal about the quarter's economic performance. It is our take that services were still impacted by overall weakness, extending the fall at -0.1% m/m, in line with the contraction of the previous month. Nevertheless, the mix at the subsector level seems to be more favorable than what the headline suggests, with only 3 branches in contraction. While retail (-1.1%) and recreational services (-2.0%) posted sharp decreases, we highlight the expansion within transportation (+0.4%) and professional services (+0.8%). Industry declined 0.4%, with mining as the weakest performer at -2.9%. Last but not least, the primary sector grew 3.5%, more than reversing the 1.8% fall of the previous month.

**Global economic indicator: July 2019**

% m/m, sa

	Jul-19	Jun-19	Difference
<b>Total</b>	<b>-0.1</b>	<b>0.2</b>	<b>-0.3</b>
Agriculture	3.5	-1.8	5.2
Industrial production	-0.4	1.1	-1.4
Services	-0.1	-0.1	0.0

Source: INEGI

The economy fell -0.3% 3m/3m saar, improving relative to the -0.7% of the previous month and despite a decline in the monthly comparison. In this context, part of the recovery is explained by the elimination of a negative base when performing the calculation. However, the further slowdown of industrial activity is not reassuring.

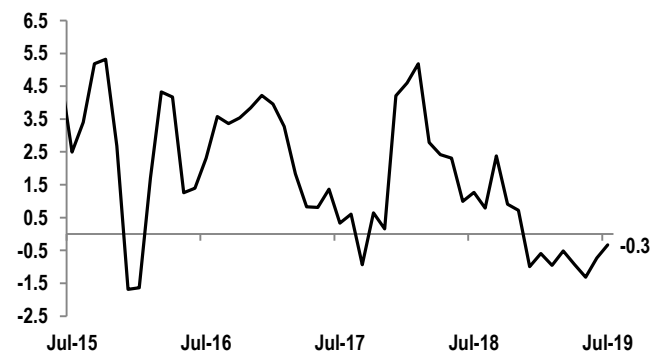
**Global economic indicator: July 2019**

% 3m/3m saar

	May-Jul '19	Apr-Jun '19
<b>Total</b>	<b>-0.3</b>	<b>-0.7</b>
Agriculture	-7.1	-10.4
Industrial production	-5.2	-2.1
Services	1.8	0.3

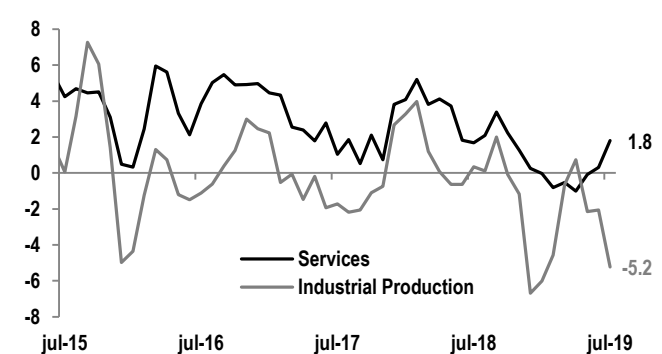
Source: INEGI

**Global economic indicator**  
% 3m/3m saar



Source: INEGI

**Global economic indicator: Industrial production and services**  
% 3m/3m saar



Source: INEGI

**We continue expecting a gradual improvement in activity.** Broadly speaking, it is our take that today's report shows that the economy remained stagnant in July. Nevertheless, we have identified some positive signs within services as they could possibly be related to an improvement in private consumption. Among them, we highlight the advance in the IMEF non-manufacturing index for August (despite remaining in contraction), less inflation pressures that provide further support to real wages, and a relative acceleration in remittances and banking credit growth. Moreover, we keep expecting a clearer benefit to consumption in the 2H19 from the government's social programs. Nevertheless, it will be important to see if domestic demand strengthens, as it has remained weak in a context of both high uncertainty and a moderation in the pace of formal job creation. We also think that a positive sign would be if durable goods' purchases stop declining at such elevated rates, which is still pending to materialize.

On industry we also expect better results, particularly in construction. For example, some news reports state that Mexico City's local government is working to reactivate this sector after the suspension of various projects, while business chambers also mentioned that they expect a stronger performance going forward. Moreover, the Federal Government recently reached an agreement with the four companies responsible for the construction of gas pipelines for CFE, which could help restore some of the lost ground in business confidence. Manufacturing has been somewhat resilient according to most recent data. In the US, we have had more positive news on the margin, including: (1) The 0.6% m/m advance in August's industrial production (its highest increase in one year); and (2) a slight pickup in *IHS Markit's* preliminary PMI manufacturing index in September, reaching its highest level since April and with the advance driven by the production and new orders subcomponents.

Despite of the latter, industrial activity remains challenged, particularly as global economy has decelerated to a great extent due to trade uncertainty. In this respect, the possibility of another increase in tariffs by the US to China –which could materialize as soon as October 15<sup>th</sup>– is still not discarded. As a result, it will be important to analyze the results of Mexico's trade balance in August, to be released tomorrow, in order to gauge the strength of manufacturing and private consumption.

In our view, industry could improve modestly in spite of the headwinds that have resulted from trade tensions, with a potentially positive effect for our country in terms of market share gains within US imports due to the conflict with China.

We maintain our full-year GDP forecast at 0.8% yoy, recognizing that risks are skewed to the downside. We believe that more accommodative financial conditions –on the back of lower interest rates globally, including Banxico–, the plan to increase public spending through higher investment and consumer credit, and the possibility of an orderly, real exchange rate depreciation (as we currently forecast) could help generate some needed dynamism. Nevertheless, this will probably be limited as the global context suggests that economic growth will be weaker.

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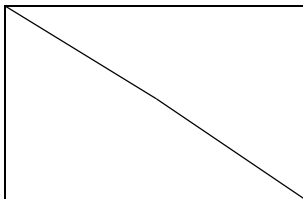
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