GDP-proxy IGAE – Upward surprise in November, albeit still with modest activity

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- ***Global Economic Activity Indicator* (November): 1.7% y/y; Banorte: 1.0%; consensus: 1.0% (range: -0.1% to 1.8%); previous: -0.6%**
- **With seasonally adjusted figures, the economy picked up 0.3% y/y, slightly above INEGI's *Timely Indicator of Economic Activity* at 0.2%**
- **By sectors, industry stood at 1.6% y/y, with services still somewhat weak at 1.3%. Primary activities came in at 6.9%**
- **In monthly terms, the economy rose 0.3%, consistent with a challenging backdrop. Performance was mixed, with industry lower (-0.1%), but with agriculture and services stronger, up 7.2% and 0.5%, respectively**
- **We believe that overall uncertainty regarding the pandemic, supply constraints, price pressures and other factors will still limit the pace of the recovery in the short term**
- **Today's result implies some weakness in 4Q21 GDP, despite better signs for December**

The economy expanded 1.7% y/y in November. This was higher than consensus (1.0%), which matched our forecast. This was skewed higher by a calendar effect (Chart 1), with one more working day in the annual comparison (vs. -1 in November). As such, using seasonally adjusted figures, it was at 0.3%, slightly above the +0.2% forecast from INEGI's *Timely Indicator of Economic Activity*. Back to original figures, industry expanded 1.6%, as already known, while services stood at 1.3% (Chart 2), suggesting some weakness. Strong variations remain inside, still reflecting pandemic distortions (Table 1). The primary sector came in at 6.9%, much higher than our expectations. With this, the economy grew 5.3% y/y so far in the year.

Modest sequential rebound, but above expectations. The economy rose 0.3% m/m, quite low considering accumulated losses of 2.4% in the last five months. This suggests that the economy remained in a tight spot despite better virus conditions, resulting in better fundamentals and other marginal gains. In our view, most of the constraints are still associated to the pandemic, including overall uncertainty, supply constraints and price pressures, among others. As a result, activity stands close to levels seen in mid-2016, 3.4% below February 2020 –before the pandemic struck– and 5.0% lower than the historical high seen in August 2018 (Chart 4).

By sectors, industry declined 0.1% (Chart 3). The breakdown showed a heavy drag from construction (-0.6%), manufacturing stable (0.0%) –with some positive developments inside– and a mild uptick in mining (0.4%). Primary activities grew 7.2% after three months in contraction. Nevertheless, it was quite strong considering reports of cold weather in the period possibly impacting harvests, which resulted in lower exports and higher prices. Services rose 0.5%, stopping a five-month slide.

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In particular, eight out of nine subsectors were higher (Table 2). Professional and support services were up 5.0% after their recent string of weakness. Wholesales were modest (0.1%), while retail saw more dynamism (2.0%). This may be because of the discount period from *El Buen Fin*, although in our view inserting risks for December as it may well have been because of early shopping ahead of the holiday season. Hence, we will be looking for further details in the stand-alone report, which will be published tomorrow. In tourism, recreational services were higher (0.4%), with a marked uptick in lodging (2.6%), contrasting with signals from hotel occupancy rates. Transportation came in at 1.0%, likely supported by some positive trends within manufacturing on top of the boost from higher passengers. Turning to more essential sectors, education and healthcare backtracked 0.1%. Financial services came at 0.2%, with government activities more favorable at 0.4%.

Attention on 4Q21 GDP next week, likely modest despite favorable signs in December. With today's figures, growth so far in 4Q21 has been 0.5% y/y, suggesting dampened activity. There could be some upside in December, with signs of more dynamism in several fronts. As such, we are waiting for the trade balance (scheduled for Thursday) to make our final estimation for the preliminary print, which will be released on Monday, January 31st.

Epidemiological conditions in December were mostly stable, fostering higher mobility. Moreover, some fundamentals kept improving, including employment. Most other timely figures were positive. Both IMEF's PMIs rebounded substantially, with manufacturing rising by 1.8pts to 52.6 units and non-manufacturing expanding 2.1pts to the same level. We highlight notable gains in 'new orders' and 'production' in the latter. Consistent with this, ANTAD sales accelerated once again, with the metric for all-stores at 8.0% y/y in real terms, highest since July. A favorable metric might also be in store for the primary sector, with notable declines in prices across all of December suggesting higher output. Turning to industry, auto production came in at 212.3 thousand units, which using seasonally adjusted figures translates into a 10.0% m/m expansion. However, reports about semiconductor shipments have taken a turn for the worse, likely limiting more dynamism. For construction, sentiment indicators were favorable, while short-term price dynamics should keep boosting mining.

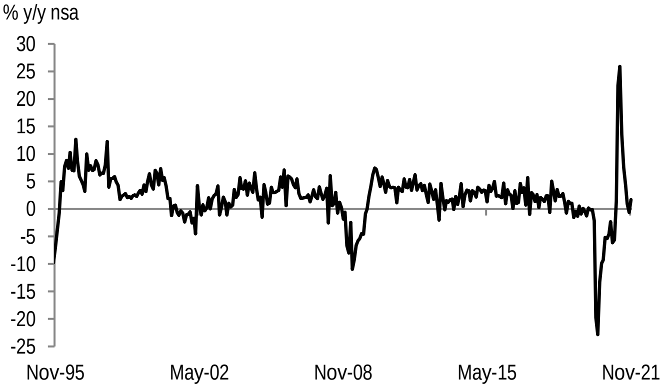
All in all, we believe the Mexican economy remains in a tight position, with mounting risks into 2022 as the new variant of the virus spreads, jeopardizing confidence which could be an additional setback for the recovery. This comes on top of the withdrawal of monetary stimulus across the world, likely impacting investment. On the contrary, some favorable factors remain in place, including resilient remittances from the US, a more robust economy accustomed to handling the pandemic, and a expected reduction in price pressures and bottlenecks in 2H22.

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

	y/y nsa				y/y sa	
	Nov-21	Nov-20	Jan-Nov'**21**	Jan-Nov'**20**	Nov-21	Nov-20
Total	1.7	-4.6	5.2	-8.5	0.3	-4.0
Agriculture	6.9	3.5	2.0	1.1	6.9	3.3
Industrial production	1.6	-4.2	6.9	-10.4	0.7	-3.7
Mining	1.8	-2.5	1.7	0.0	1.7	-2.6
Utilities	-1.7	-7.9	-0.6	-6.7	-1.6	-7.8
Construction	-0.6	-9.0	7.7	-17.4	-1.0	-8.8
Manufacturing	2.8	-2.3	9.0	-10.7	1.2	-1.1
Services	1.3	-5.3	4.6	-8.0	0.0	-4.6
Wholesale	8.9	-2.9	11.1	-11.0	4.6	-1.7
Retail	6.8	-0.2	10.5	-9.9	3.2	0.6
Transport	11.1	-10.2	10.6	-14.7	9.7	-10.0
Financial services	1.2	-2.4	0.9	-1.3	1.2	-2.5
Professional services	-46.6	-3.3	-13.1	-1.9	-46.8	-3.1
Education and healthcare services	1.1	-1.9	1.5	-1.4	0.9	-1.5
Recreational services	9.6	-18.1	5.8	-17.7	9.7	-18.2
Lodging services	44.3	-42.3	31.7	-45.3	44.3	-42.4
Government services	0.4	-1.2	-0.5	1.0	0.5	-1.0

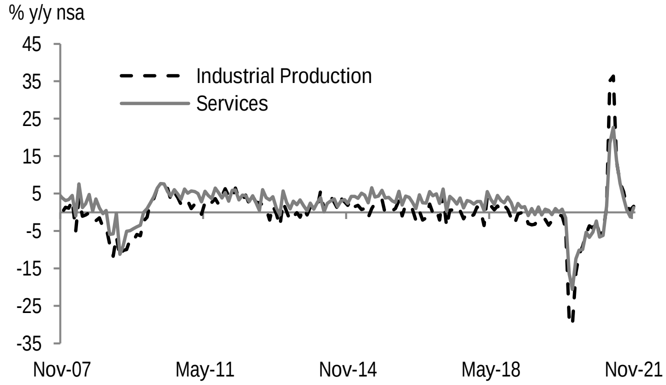
Source: INEGI

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



Source: INEGI

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



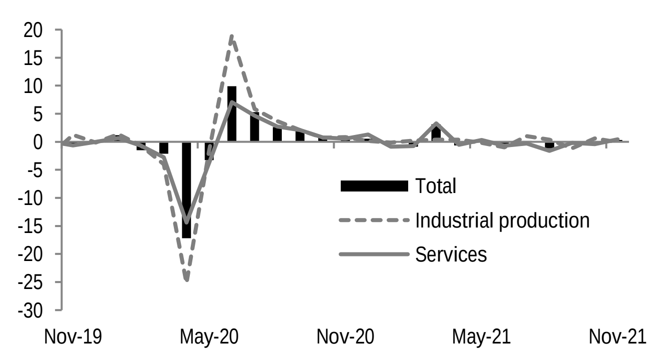
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	Nov-21	Oct-21	Sep-21	Sep-Nov'**21**	Aug-Oct'**21**
Total	0.3	-0.2	-0.3	-1.0	-1.6
Agriculture	7.2	-1.3	-1.5	-0.1	-2.1
Industrial production	-0.1	0.6	-1.1	-0.1	0.2
Services	0.5	-0.4	-0.2	-1.5	-2.3

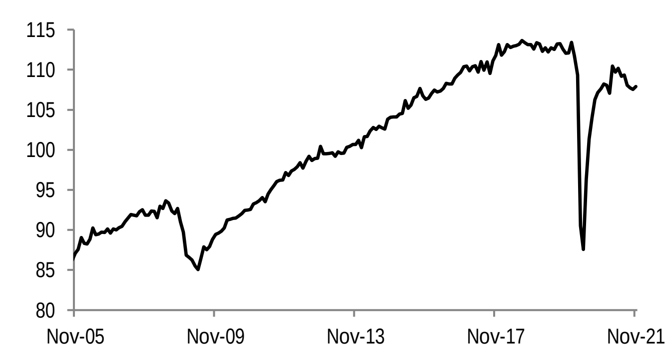
Source: INEGI

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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