

IGAE – Economic activity stays limited in August

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Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.mactal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Global Economic Activity Indicator (August): -0.9% yoy; Banorte: -0.1%; consensus: 0.5% (range: -1.6% to +0.8%); previous: 0.3%**
- **By components, services declined 0.7% while primary activities added a sixth consecutive month in positive territory at 0.2%. As previously published, industry contracted 1.3%**
- **On a monthly basis, activity stayed limited, advancing 0.1% m/m after falling by virtually the same magnitude in the previous month. Industry held up better at 0.8%, while services were unchanged**
- **The report shows that the stagnation of economic activity has extended, particularly in services and despite positive fundamentals that suggest a slight acceleration going forward**

Economic activity fell -0.9% in August. According to the *Global Economic Activity Indicator (IGAE)*, economic activity contracted 0.9% yoy, below our -0.1% forecast and consensus at 0.5%. It is worth noting that this figure is biased downwards as the period had one less working day in the annual comparison. On a year-to-date basis, the economy has been flat.

As it had already been published, industry fell 1.3% yoy, with the sector in negative territory for ten consecutive months, resulting in a 1.7% accumulated fall so far this year, albeit with some improvement relative to July. For details, please refer to: “*Industrial production – Recovery in mining and construction in August*”, <[pdf](#)>, October 11th, 2019. On the other hand, primary activities have held up relatively better, advancing 0.2% after a sizable increase of 4.2% in the previous month.

Services contracted 0.7% yoy, below the 1.1% of the previous month and with the latter revised 10bps lower. Retail sales were up only by 0.4%, which is considerably more modest than our 1.9% forecast for tomorrow’s report. Among sectors, we highlight the 3.3% and 1.8% advance in recreational and professional services, respectively, while transportation was somewhat muted at +0.2%. Government services stood at -1.6%, extending their decline for tenth consecutive month and accumulating a 3.3% fall so far in 2019, still lacking evidence of spending acceleration despite the government’s goal of higher outlays to provide relative support to growth.

The report shows that the stagnation of economic activity has extended, without convincing signs of an improvement in domestic demand despite relatively strong fundamentals for consumption. We believe dynamism could increase slightly going into year-end, particularly when compared to the first half of 2019, although the report does not allow us to be highly optimistic in this regard, at least for now.

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Global economic activity indicator: August 2019

% yoy, nsa

	Aug-19	Aug-18	Jan-Aug'19	Jan-Aug'18
Total	-0.9	1.8	0.0	2.0
Agriculture	0.2	2.9	3.4	2.7
Industrial production	-1.3	0.3	-1.7	0.4
Mining	-3.2	-4.0	-7.1	-5.8
Utilities	2.7	3.5	0.6	2.1
Construction	-2.9	-1.8	-4.3	1.9
Manufacturing	-0.5	2.2	0.8	1.7
Services	-0.7	2.5	0.7	2.8
Wholesale	-3.4	0.3	-1.7	2.9
Retail	0.4	5.6	2.4	4.1
Transport	0.2	4.0	0.0	4.2
Financial services	-0.8	3.1	1.5	2.6
Professional services	1.8	2.0	4.6	3.4
Education and healthcare services	-3.2	2.1	-0.2	0.7
Recreational services	3.3	-2.5	0.6	-1.8
Lodging services	0.4	-0.5	0.4	1.2
Government services	-1.6	0.0	-3.3	3.1

Source: INEGI

On a monthly basis, the economy inched 0.1% higher. This figure is broadly in line with recent economic performance, hovering around zero since April (see chart below, left). In this respect, the report fails to signal that the economy may finally be gathering some dynamism. Moreover, it makes it likely that a contraction is observed in 3Q19, which is worrisome considering that Mexico barely averted a ‘technical recession’ during the first half. Industry advanced 0.8%, supported by construction and mining, with the former particularly favorable in terms of the signal provided for domestic demand. Nevertheless, manufacturing fell 0.4%, weakest print so far in 2019. Services were flat; with 4 out of 9 subsectors were in contraction, lower than the six in this condition in July. We noted the weakest performance in health and education (-0.5%). On a more positive note, government services were up for the first time in three months (+0.4%). The primary sector fell 2.6%, with some payback after the +3.4% observed in July. Last but not least, we highlight that the 3m/3m saar rate returned back to positive after staying in contraction since December 2018, in our view suggesting that the economy is improving slightly.

Global economic indicator: Aug 2019

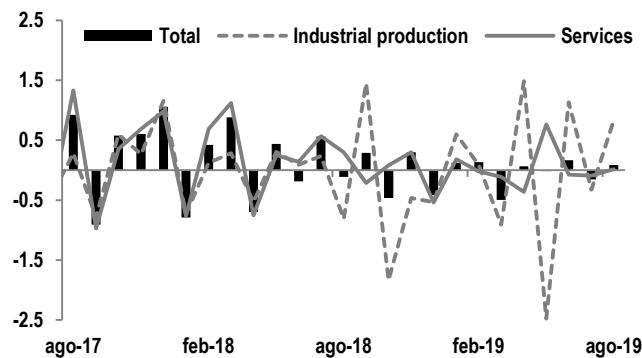
% m/m, sa, % 3m/3m saar

	% m/m, sa			% 3m/3m saar	
	Aug-19	Jul-19	Difference	Jun-Aug'19	May-Jul '19
Total	0.1	-0.2	0.2	0.4	-0.3
Agriculture	-2.6	3.4	-6.0	-3.7	-7.4
Industrial production	0.8	-0.3	1.2	0.0	-4.6
Services	0.0	-0.1	0.1	1.0	1.6

Source: INEGI

Global economic indicator

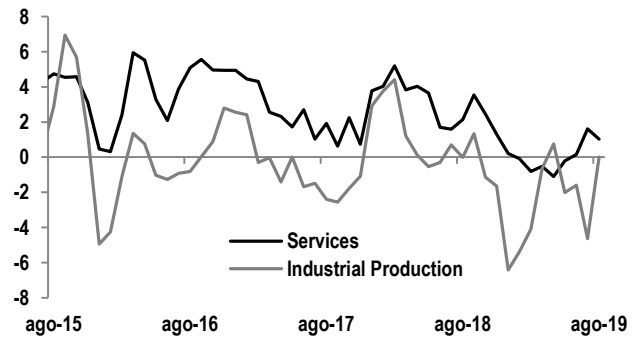
% m/m



Source: INEGI

Global economic indicator by component

% 3m/3m saar



Source: INEGI

Cautiousness on activity is still warranted as risks prevail, despite positive signs going forward. Overall, we see today's figure as negative, particularly given that the services sector has failed to gather steam. In this respect, the report confirms that the economy has been less dynamic than we had previously expected. As a result, a few days ago we downgraded our GDP forecast for full-year 2019, from 0.8% to 0.3% yoy, albeit maintaining our estimate for 2020 at 1.4%. For details, see: "*Mexico – A slightly more constructive view on growth for 2020*", [pdf](#), October 22, 2019.

We highlight the downside in services, which has failed to pick-up despite fundamentals for private consumption that continue pointing to a better performance. Among them, we highlight the stabilization in the unemployment rate (instead of increasing further) in the two months up to September, with strong formal job creation in the month. Remittances keep growing at a healthy rate (8.7% year-to-date), on track towards a new historical high for full 2019. Banking credit accelerated in August, suggesting the possibility that the outlook is improving, while annual inflation has fallen further.

Business confidence may also have bottomed out, with all sectors higher in September. Global trade uncertainty is falling, with the US and China possibly signing an agreement as soon as next month. Moreover, the Undersecretary for Foreign Affairs for North America, Jesus Seade, stated that the ratification of the USMCA has entered a critical stage and could be approved in the US before year-end. In our view, sentiment could be lifted further if these events materialize, a situation that could help reignite at least to some extent private investment.

Despite of the latter, it is our take that industry is still facing some challenges. In particular, the manufacturing sector –which comprises 49.7% of industrial activity and has a weight of 16.5% in IGAE– may be impacted by temporary factors such as the labor strike of GM workers in the US that started about one month ago and has not been resolved yet. In this respect, we highlight that, during the last 12 months, auto exports represented 36.3% of all manufacturing shipments. According to AMIA, of all exported autos this year until August, 25% were made by this company, the single highest share among the most relevant brands operating in Mexico.

Evidence of the potential timing and magnitude of the impact will likely be observed in next week's trade balance report. In our view, it is also likely going to have an adverse effect in industrial production, both in that month and at least until October. On the other hand, manufacturing has been resilient despite global headwinds, benefitting from market share gains in US imports at the expense of China.

Lastly, regarding economic policy, we expect Banxico to cut the reference rate towards 6.00% by year-end 2020, which should help ease financial conditions. Meanwhile, the government has maintained its commitment with fiscal responsibility and has simultaneously recognized the need to boost spending, adjusting its primary surplus forecast for next year in the Budget Proposal to 0.7% of GDP from 1.3% previously. Overall, we believe that the report and recent data is consistent with our expectation of a gradual improvement in activity during the second half of the year, albeit with relatively low conviction.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research – Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454