

## Global Economic Indicator – Higher than expected growth explained by a calendar effect

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- **Global Economic Indicator, IGAE (August): 2.9% yoy; Banorte-Ixe: 2.2%; consensus: 2.1% (range: 1.9% to 3%); previous: 1.2%**
- **August's growth was explained by a calendar effect that added two working days to the annual comparison**
- **Correcting for this effect, economic activity increased a scant 1.5% yoy**
- **In seasonally adjusted terms, economic activity fell 0.1% m/m, but now adds a 4.1% 3m/3m saar expansion**
- **However, we believe that IGAE's higher growth in July and August is responding to factors of a statistical nature, rather than an improvement in economic activity (seasonally adjusted figures)**
- **As we mentioned in our previous report, the seasonally adjusted figures for the second quarter of the year were affected by seasonal factors that were not fully incorporated into INEGI's adjustment**
- **This implies that the third quarter growth is simply explained by an artificially low base of comparison**
- **We continue to believe that the Mexican economy will decelerate in the second half of the year**

**The Mexican economy grew 2.9% in August.** INEGI just released its Global Economic Indicator (IGAE) report for August, in which economic activity increased 2.9% yoy, above our 2.2% forecast (consensus: 1.4%). However, we highlight that August's growth was explained by a calendar effect that added two working days to the annual comparison. Correcting for this calendar effect, economic activity in August increased a scant 1.5% yoy

Taking a look at the breakdown, and analyzing the calendar adjusted figures, industrial production fell 0.9% yoy. Manufacturing production increased 0.2%, while mining output declined 8.1% yoy. Similarly, construction output fell 1.4% yoy, as a result of the fiscal cuts implemented in the second half of the year.

In addition, services edged-up 2.7%, explained by the 4.3% expansion in transport services, a 8.3% growth in recreational services, and a 4.6% increase in professional services. However, trade posted a 0.7% yoy contraction in August, while primary activities increased 9.7% yoy, as shown in the table below.

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### August's IGAE report

% yoy

Original figures	Aug-16	Aug-15	Jan-Aug, '16	Jan-Aug, '15
Total	2.9	2.7	2.3	2.3
Agriculture	9.7	3.6	4.1	0.5
Industrial production	0.3	1.2	0.4	1.1
Services	4.2	3.5	3.4	3.1
Calendar-adjusted figures	Aug-16	Aug-15	Jan-Aug, '16	Jan-Aug, '15
Total	1.5	2.9	2.1	2.4
Agriculture	9.7	3.6	4.1	0.5
Industrial production	-0.9	1.2	0.1	1.2
Services	2.7	3.7	3.2	3.1

Source: INEGI

### August's IGAE report

% yoy, calendar adjusted figures

	Aug-16	Aug-15	Jan-Aug, '16
<b>Total</b>	<b>1.5</b>	<b>2.9</b>	<b>2.1</b>
<b>Agriculture</b>	<b>9.7</b>	<b>3.6</b>	<b>4.1</b>
<b>Industrial production</b>	<b>-0.9</b>	<b>1.2</b>	<b>0.1</b>
Mining	-8.1	-6.0	-5.0
Utilities	2.9	3.6	4.1
Construction	-1.4	3.0	1.4
Manufacturing	1.2	3.8	1.0
<b>Services</b>	<b>2.7</b>	<b>3.7</b>	<b>3.2</b>
Commerce	-0.7	4.2	1.7
Transport	4.3	7.7	5.3
Financial services	4.5	2.6	3.6
Professional services	4.6	2.3	5.1
Educational services	1.1	0.0	1.4
Recreational services	8.3	3.2	7.3
Housing services	0.9	7.1	3.6
Government services	1.6	1.9	-0.8

Source: INEGI

**In seasonally adjusted terms, economic activity fell 0.1% m/m.** Taking a look at the breakdown, industrial output posted a 0.4% m/m contraction as a result of the recession in the mining industry (-1.7% m/m), the 0.8% fall in construction output, and the 0.2% m/m increase in manufacturing production. Moreover, services posted a null growth, while primary activities edged up 10.2% m/m.

With today's figures, economic activity now shows a 4.1% 3m/3m saar expansion. In addition, services increased 4.2% 3m/3m saar, while industrial production now shows a 0.1% saar contraction (refer to the charts below).

However, we believe that IGAE's higher growth in July and August is responding to factors of a statistical nature, rather than an improvement in economic activity. As we mentioned in our previous report, the seasonally adjusted figures for the second quarter of the year were affected by seasonal factors that were not fully incorporated into INEGI's seasonal adjustment. This implies that the third quarter growth is simply explained by an artificially low base of comparison.

**Global economic indicator: August 2016**

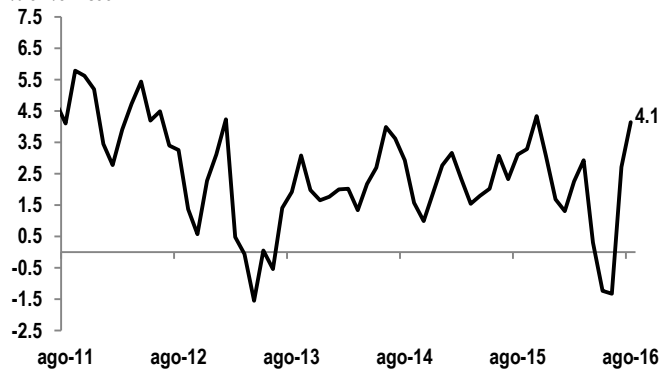
% m/m sa

	Aug-16	Jul-16	Difference
Total	-0.1	0.2	-0.3
Agriculture	10.2	-3.8	14.0
Industrial production	-0.4	0.1	-0.4
Services	0.0	0.6	-0.7

Source: INEGI

**Global economic indicator**

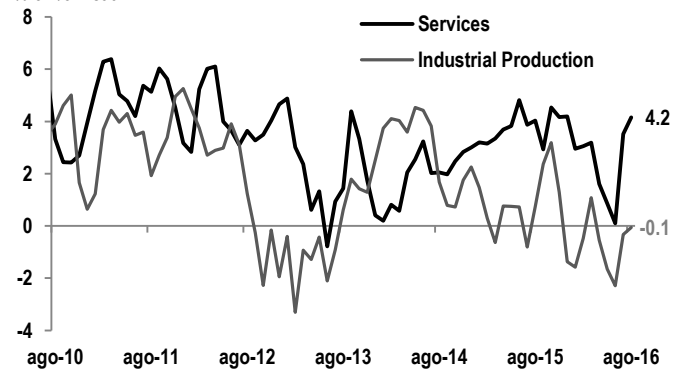
% 3m/3m saar



Source: Banorte-ixe

**Global economic indicator: Industrial production and services**

% 3m/3m saar



Source: Banorte-ixe

**We continue to believe that the Mexican economy will decelerate in the second half of the year.** Domestic demand has stood out as Mexico’s main growth driver during the last five quarters. In this context, we believe that the current growth dynamics in domestic demand will continue throughout the second half of the year given the following factors: (1) The recovery in households’ income derived from significant gains in real wages; (2) the better growth prospects of credit to the private non-financial sector; and (3) the higher growth in remittances inflows (now adding a 6.6% yoy growth in the first eight months of the year).

However, manufacturing output has maintained a downward trend, as a result of the deceleration in the US manufacturing industry (given that both hold a strong correlation). In addition, the fiscal adjustments announced by the Ministry of Finance will bound Mexico’s economic growth, although its effect will be limited. While the measures taken so far this year amount to 0.9% of GDP, we believe their negative impact on economic growth could be of 0.7%-pts taking into account the multiplier effect of government spending, and that this fiscal cut is ensuring that the federal government is taking the right steps to warrant the fiscal stability of our country.

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