

IGAE – Services drive growth of the Mexican economy during May

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- **Global Economic Indicator, IGAE (May): 2.23% yoy; Banorte: 2.4%; consensus: 2.2% (range of estimates: 1% to 2.8%); previous: 4.5%**
- **The increase in economic activity during the month was explained by the 2.9% increase in services**
- **In seasonally adjusted terms, economic activity increased 0.5% m/m as a result of greater dynamism in the services sector**
- **We believe that economic dynamism will continue in the coming months**

Economic activity favored by dynamism in the services sector. INEGI just released its *Global Economic Activity Indicator (IGAE)* report for May, in which economic activity increased 2.23% yoy, below our 2.4% forecast (consensus: 2.2%).

Taking a look at the breakdown, primary activities posted an 8% yoy growth, while industrial production increased 0.3% yoy. The scant expansion in the latter was explained by the 2.8% yoy advance in manufacturing output, which was partially offset by the 6.6% yoy contraction in mining activity. In addition, construction output climbed 0.3% yoy.

Regarding services, they climbed 2.9% yoy due to a 4.4% yoy expansion in wholesales and 3.5% yoy in retail sales. In addition, it is worth highlighting the 6.5% yoy growth in transportation services. By contrast, the only component, that declined was recreational services, posting a 3.7% yoy contraction (as seen in the table below).

Global economic indicator: May 2018
% yoy, sa

	May-18	May-17	Jan-May '18	Jan-May'17
Total	2.2	3.2	2.1	2.3
Agriculture	8.0	1.0	5.7	3.2
Industrial production	0.3	0.6	0.2	-0.5
Mining	-6.6	-8.0	-6.0	-10.3
Utilities	-2.7	-0.4	0.3	0.1
Construction	0.3	-1.2	2.2	-0.9
Manufacturing	2.8	4.7	1.5	3.4
Services	2.9	4.7	2.8	3.7
Wholesale	4.4	4.2	3.9	1.2
Retail	3.5	10.5	3.8	6.2
Transport	6.3	5.8	3.9	17.2
Financial services	2.1	3.7	2.4	2.7
Professional services	0.9	3.9	2.2	-4.0
Educational services	1.4	1.1	1.1	-1.9
Recreational services	-3.7	2.2	-1.5	6.5
Housing services	0.0	6.8	2.0	12.2
Government services	3.6	-0.1	3.2	-8.8

Source: INEGI

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Using seasonally adjusted figures, the economy expanded 0.5% m/m, above the 0.6% m/m contraction seen in April. Primary activity increased 2.7% m/m, while services edged-up 0.6% m/m. Moreover, industrial activity showed a 0.1% m/m growth on the back of higher manufacturing output, which was compensated by contractions in mining and construction activity.

Global economic indicator: May 2018

% m/m, sa

	May-18	Apr-18
Total	0.5	-0.6
Agriculture	2.7	-2.3
Industrial production	0.1	-0.4
Services	0.6	-0.5

Source: INEGI

In annualized terms, the economy expanded 1% 3m/3m saar on the back of increases of 2.8% and 2.7% in industrial output and services, respectively (refer to the charts below).

Global economic indicator: May 2018

% 3m/3m saar

	May-18	Mar-18
Total	1.0	2.7
Agriculture	6.2	2.1
Industrial production	-0.9	2.7
Services	2.8	3.2

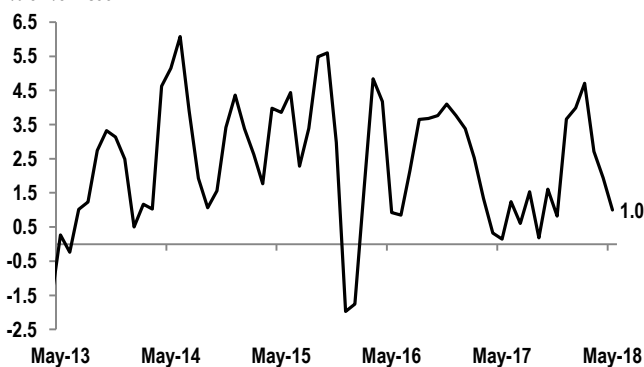
Source: INEGI

We believe that economic dynamism will continue in the coming months.

Regarding industrial production, we think that manufacturing output will drive this sector, particularly given the depreciation of the Mexican currency in June will result in a greater external demand for Mexican products, which in turn will have a positive impact on local manufacturing production and exports. In addition, mining output will continue dragging total industrial production, while construction activity will continue to expand, albeit at a more moderate pace. For services, we continue to believe that these will be the main driver for growth for the Mexican economy, particularly due to a greater dynamism in retail sales, which will continue to be pushed by favorable conditions in the labor market.

Global economic indicator

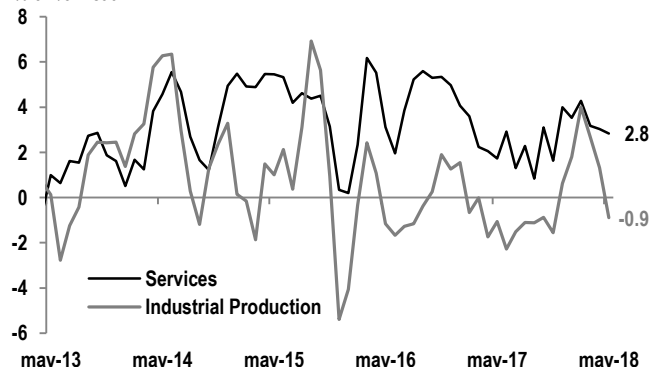
% 3m/3m saar



Source: INEGI

Global economic indicator: Industrial production and services

% 3m/3m saar



Source: INEGI

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