

Economic activity in August – Domestic demand gains momentum

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- **Global economic indicator, IGAE (August): 2.58% yoy; Banorte-Ixe: 2.52%; consensus: 2.4% (range: 1.8% to 3.2%); previous: 2.04%**
- **Growth in August was explained by the recovery of domestic demand**
- **In seasonally adjusted terms, economic activity posted a 0.5% m/m expansion**
- **We continue to believe that the Mexican economy will show a more visible recovery in the second half of the year**

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www.ixc.com.mx
@analisis_fundam

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Saúl Torres

Analyst, Mexico
saul.torres@banorte.com

Growth in August was explained by the recovery of domestic demand. INEGI just released its Global Economic Indicator (IGAE) report in August, in which economic activity increased 2.58% yoy, marginally above our 2.52% forecast (consensus: 2.4%). Taking a look at the breakdown, industrial production increased a scant 1% yoy, while the services sector edged-up 3.3% as shown in the following table.

Industrial output still shows a weak rate of growth. As we mentioned in our last IP report, the 1% yoy expansion in industrial production during August was explained in part by the 5.8% decline in mining activity, given the fall in Mexico's oil production, adding seventeen consecutive months in contraction. Moreover, Mexico's construction sector continues to recover although at a more moderate pace with a 2.1% expansion vs. the 3.5% observed on average year-to-date. However, manufacturing output continues to show momentum, expanding 3.1% yoy as a result of the moderate growth in the U.S. manufacturing sector and a lower vehicle production. Finally, utilities expanded 4.5% yoy.

A more dynamic service sector. Services increased 3.3% yoy, as a result of a 7.1% yoy increase in housing and tourism services, while transportation and information in mass media services grew 6.8% yoy. Similarly, trade showed a 3.8% expansion. Moreover, recreational services edged-up by 2.6% yoy.

August's IGAE report

%yoy	Aug-15	Aug-14	Jan-Aug, '15	Jan-Aug, '14
Total	2.6	1.3	2.4	1.9
Agriculture	8.2	7.9	4.2	3.9
Industrial production	1.0	1.1	1.0	1.5
Mining	-5.8	-1.8	-6.4	-0.9
Utilities	4.5	1.4	3.0	1.7
Construction	2.1	3.6	3.5	0.0
Manufacturing	3.1	1.4	2.9	3.3
Services	3.3	1.2	3.1	2.0
Comerce	3.8	2.3	4.4	2.2
Transport	6.8	-0.6	4.6	2.0
Financial services	2.2	1.6	1.8	2.4
Professional services	2.3	-2.0	2.2	0.2
Educational services	0.0	1.0	0.8	1.3
Recreational services	2.6	2.0	3.6	0.9
Housing services	7.1	3.3	4.6	2.8
Government services	1.8	2.2	3.6	2.9

Source: INEGI

In seasonally adjusted terms, economic activity increased 0.5% m/m. Taking a look at the breakdown, industrial output increased 0.2% m/m, as a result of a 1% m/m growth in manufacturing production, and a 0.6% m/m contraction in construction output. Moreover, the services sector posted a 0.4% m/m expansion. Taking a look at the breakdown, we highlight the 0.1% m/m growth in trade and the significant 1.1% m/m increase in transportation and information in mass media services. Finally, primary activities increased 6.6% m/m. With these figures, economic activity now shows a 3.8% 3m/3m saar growth vs. 2.7% in June; we highlight that the services sector posted a 4.2% 3m/3m saar expansion which reflects the better growth dynamics of Mexico's domestic demand (refer to the chart on the next page).

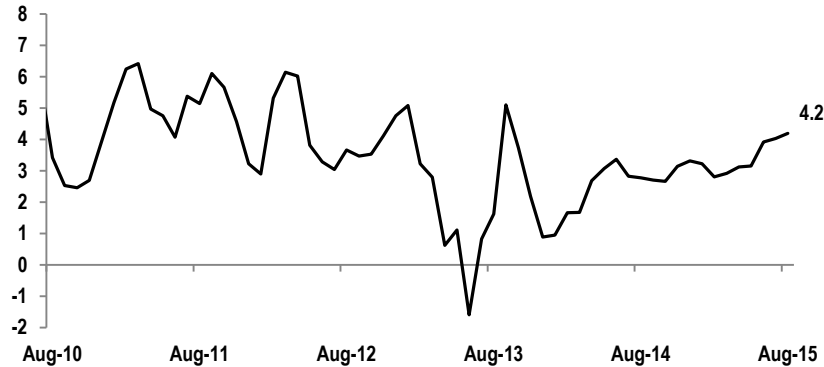
Global economic indicator: August 2015

%m/m sa	Aug-15	Jul-15	Difference
Total	0.5	0.1	0.3
Agriculture	6.6	3.2	3.4
Industrial production	0.2	0.3	-0.2
Services	0.4	-0.2	0.6

Source: INEGI

Global economic indicator

%3m/3m saar



Source: Banorte-Ixe

We continue to believe that the Mexican economy will show a more visible recovery in the second half of the year. Domestic demand has stand out as Mexico’s main growth engine. In particular, Mexican households are beginning to spend more given the significant gains in real wages, while firms have increased their investment spending given the more positive outlook that prevails for the Mexican economy. We believe that the recent upward trend in domestic demand will continue throughout the second half of the year given the following factors: (1) The recovery of the labor market; (2) the recent downward trend in inflation that will hold throughout the year; and (3) the recovery in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, despite the recent deceleration in manufacturing output, other indicators show that this sector will show a more visible recovery in the next months. In particular, Mexico’s vehicle production increased 4.1% yoy in September, while manufacturing exports have shown an upward trend in the first figures of 3Q15. In this regard, we believe that the manufacturing industry will strengthen in the second half of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico’s manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

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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
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Rey Saúl Torres Olivares	Analyst	saul.torres@banorte.com	(55) 1670 - 2957
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
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto parts	valentin.mendoza@banorte.com	(55) 1670 - 2250
María de la Paz Orozco García	Analyst	maripaz.orozco@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	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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 Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	ricardo.velazquez@banorte.com	(55) 5268 - 9879
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454