

## IGAE – Better-than-expected performance suggesting resiliency in the face of shocks

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@analisis\_fundam

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

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

- **Global Economic Activity Indicator (February): 1.11% yoy; Banorte: 0.80%; consensus: 0.98% (range: 0.2% to 1.4%); previous: 1.27%**
- **Economic activity posted a more muted growth in its annual comparison relative to the previous month, with industry at -0.8% (previous: -1.0%) and services growing 1.7% from 2.2% in January**
- **Using seasonally adjusted data, economic activity increased 0.3% m/m, adding two months in expansion territory and staying positive in spite of transitory shocks during the month**
- **With these results, GDP in 1Q19 is likely to have been stronger than feared at the start of the year, with a relatively better performance in services than industry expected to prevail in coming months**

**Economic activity up in February.** According to the *Global Economic Activity Indicator (IGAE)*, economic activity increased 1.1% yoy, above our 0.80% forecast but closer to consensus at 0.98%. Inside the report, primary activities surged 9.2%, highest since January 2017 and typically very volatile. As previously published, industrial production fell 0.8%, impacted by the 1.1% decline in construction (-1.1%) which followed a strong rebound of 1.3% in January. Meanwhile, manufacturing moderated to 1.1%. The tertiary sector also slowed down slightly to 1.7%, down from the 2.2% advance in the previous month. Looking at the breakdown, only 3 out of 9 sectors posted negative rates, highlighting wholesales at -1.3% after rebounding 5.9% in February. Government services contracted for a fourth consecutive month at -2.5%, consistent with typical delays in spending in the first year of a new federal administration. On a more positive note, retail sales grew 4.4%, above the 1.8% rate according to *INEGI's* report published yesterday. Moreover, transportation managed to grow 0.8%, slowing down significantly when compared to average growth of 4.3% in 4Q18. We believe this could be explained by supply chain shocks, albeit at a more modest pace than expected initially.

### Global economic indicator: February 2019

% yoy, nsa

	Feb-19	Feb-18	Jan-Feb'19	Jan-Feb'18
<b>Total</b>	<b>1.1</b>	<b>2.2</b>	<b>1.2</b>	<b>2.1</b>
<b>Agriculture</b>	<b>9.2</b>	<b>7.7</b>	<b>6.2</b>	<b>2.8</b>
<b>Industrial production</b>	<b>-0.8</b>	<b>0.6</b>	<b>-0.9</b>	<b>0.7</b>
Mining	-6.4	-5.5	-8.4	-4.7
Utilities	-1.1	3.6	-1.4	2.3
Construction	-1.1	4.7	0.1	4.7
Manufacturing	1.1	0.5	1.2	0.7
<b>Services</b>	<b>1.7</b>	<b>2.7</b>	<b>1.9</b>	<b>2.7</b>
Wholesale	-1.3	5.9	1.5	5.7
Retail	4.4	2.7	3.4	4.0
Transport	0.8	3.2	0.7	20.2
Financial services	3.0	1.9	3.4	-1.4
Professional services	5.7	2.9	6.2	-11.3
Educational services	0.7	1.1	0.8	1.5
Recreational services	0.1	-1.0	-1.4	2.8
Housing services	-0.3	2.5	-1.9	10.2
Government services	-3.5	2.9	-3.1	-6.4

Source: INEGI

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**Using seasonally adjusted figures, the economy picked up 0.3% m/m.** This was less than 1bp away from rounding up to 0.4%, and stronger than the 0.2% observed in January. Nevertheless, it should be noted that the primary sector surged 3.5%, a situation that is likely to have reverted in March. This helps explain the acceleration, as both secondary and tertiary activities moderated sequentially to 0.3% (from 0.7%) and 0.1% (from 0.3%), respectively. Nevertheless, the fact that both managed to stay positive is good news in the light of some temporary shocks during the period, which we believed would have had a more sizable effect. In particular, in the former we saw manufacturing edging up by 0.2%, the same magnitude as in January. Meanwhile, within services, the transportation sector (more closely related to external demand) partially rebounded as it grew 0.6%, no enough to compensate for the 1.6% fall in the previous month. In our view, sector details are consistent with relatively stronger dynamism in domestic-facing sectors, supported by healthy fundamentals for consumption, particularly the pickup in real wages, along the possibility of being further supported by the deployment of social programs by the federal government.

**Global economic indicator: February 2019**

% m/m, sa

	Feb-19	Jan-19	Difference
<b>Total</b>	0.3	0.2	0.2
Agriculture	3.5	0.1	3.4
Industrial production	0.3	0.7	-0.5
Services	0.1	0.3	-0.3

Source: INEGI

In annualized terms, the economy fell 0.1% 3m/3m saar, inching down mainly as a result of a weaker performance at the margin in services. By this measure, only the primary sector shows significant strength but faded away relative to February, and as expected to remain the case in coming months. On the other hand, industrial activity is likely to shift to positive territory in 1Q19 given the better performance in the first two months of the year and the positive base effect after dropping the fall in December.

**Global economic indicator: February 2019**

% 3m/3m saar

	Dec'18-Feb '19	Nov'18-Jan '19
<b>Total</b>	-0.1	0.1
Agriculture	13.4	18.4
Industrial production	-3.7	-5.5
Services	-0.2	0.7

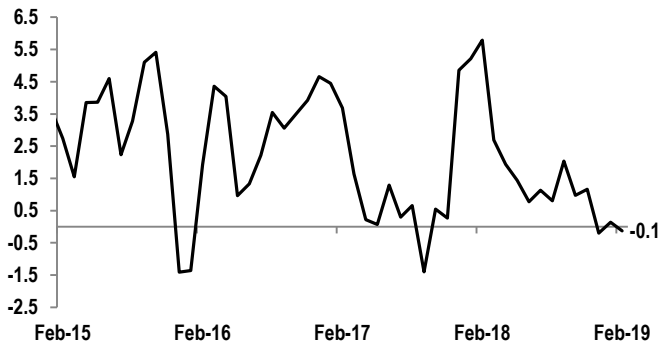
Source: INEGI

**Stronger-than-expected activity considering transitory shocks during the month.** During the first two months of the year and in monthly terms, the economy grew an average of 0.3%, so far above the average fall of -0.1% observed in 4Q18. In this respect, GDP during 1Q19 is almost certainly going to be positive with respect to the previous quarter, which is a favorable surprise given the abovementioned shocks and what we believed at the start of the year. In our view, the latter did affect industrial activity, mostly through the exports channel, as seen in manufacturing exports according to the trade balance report published earlier today. Despite this, the sector managed to grow for a second consecutive month, implying that the domestic front helped to make up for external weakness.

On the other hand, we believe services will keep growing despite moderating at the margin. Going forward, among the latter we believe that government services are likely to remain as the weak spot but will not be enough to drag down its overall performance. All in all, industry is likely to remain weaker than services in coming months as it is more exposed to external drivers, while primary activities could also decline after their recent advance but its overall effect would be limited given its low overall weight.

**Global economic indicator**

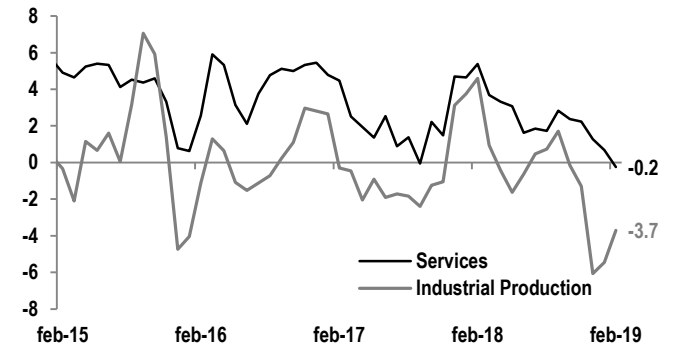
% 3m/3m saar



Source: INEGI

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

% 3m/3m saar



Source: INEGI

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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
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@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.cebaldos@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	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.roltan.ferrer@banorte.com	(55) 5004 - 1454