

IGAE – Slight contraction in August’s economic activity

October 23, 2018

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- **Global Economic Indicator, IGAE (August): 1.67% yoy; Banorte: 2.2%; consensus: 1.9% (range of estimates: 1.3% to 2.4%); previous: 3.3%**
- **The increase in economic activity was explained by the 2.4% growth in services, albeit moderating from the strong 4.4% pace of the previous month**
- **Nevertheless, in seasonally adjusted terms, economic activity fell 0.1% m/m, driven by the contraction in both primary and secondary activities**
- **Following the report, we believe that the probability of a significant rebound in activity during 3Q18 has decreased**

More moderate economic activity in August. INEGI just released its *Global Economic Activity Indicator* (IGAE) report for August, in which economic activity increased 1.7% yoy, below our 2.2% forecast and consensus at 1.9%. Inside the report, primary activities increased 1%. As previously known, industrial production increased 0.2%, limited by weakness in construction as it fell by 1.6%. On the other hand, manufacturing activity kept pushing forward, albeit at a more moderate pace as it grew by 2.1% from 2.4% in the previous month. Last but not least, services picked up by 2.4%, also below the figure in July that stood at a strong 4.4%. In this latter sector, we highlight the 5.6% advance in retail and 4.1% in transportation. On the contrary, recreational, housing and government services fell 2.5%, 0.5%, and 0.3%, respectively.

Global economic indicator: August 2018

% yoy, nsa

	Aug-18	Aug-17	Jan-Aug'18	Jan-Aug'17
Total	1.7	2.5	2.1	2.2
Agriculture	1.0	-1.0	3.1	3.0
Industrial production	0.2	0.1	0.4	-0.4
Mining	-4.0	-8.9	-6.0	-9.5
Utilities	2.6	-1.2	1.9	-0.2
Construction	-1.6	-1.0	1.9	-1.1
Manufacturing	2.1	4.0	1.8	3.4
Services	2.4	3.9	2.9	3.5
Wholesale	0.3	7.9	2.8	2.5
Retail	5.6	0.5	4.1	4.7
Transport	4.1	5.1	4.1	17.0
Financial services	2.7	3.7	2.8	0.7
Professional services	2.1	7.6	3.4	-2.9
Educational services	2.2	1.1	1.0	-3.4
Recreational services	-2.5	1.4	-1.6	6.8
Housing services	-0.5	7.7	1.2	14.4
Government services	-0.3	-0.3	2.8	-10.4

Source: INEGI

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Using seasonally adjusted figures, the economy contracted 0.5% m/m, reversing some of the advance in July. In this context, activity dipped by a very similar magnitude relative to the contraction observed last June. This was mostly due to the decrease in both primary (-1.3% m/m) and secondary activities (-0.5% m/m). Services kept showing a relatively strong performance as they were up by 0.4%, its highest level since May and with four consecutive months in positive territory.

Global economic indicator: Aug 2018

% m/m, sa

	Aug-18	Jul-18	Difference
Total	-0.1	0.5	-0.5
Agriculture	-1.3	2.9	-4.2
Industrial production	-0.5	0.2	-0.7
Services	0.4	0.3	0.1

Source: INEGI

In annualized terms, the economy expanded 1.2% 3m/3m saar, marginally higher than the previous month. Once again, we highlight services at 1.9%, followed by industrial production at 0.8% from practically flat in July. Agriculture dipped 9.9%, its lowest level since April 2017, although this sector is characterized by its elevated volatility (refer to the charts below).

Global economic indicator: Aug 2018

% 3m/3m saar

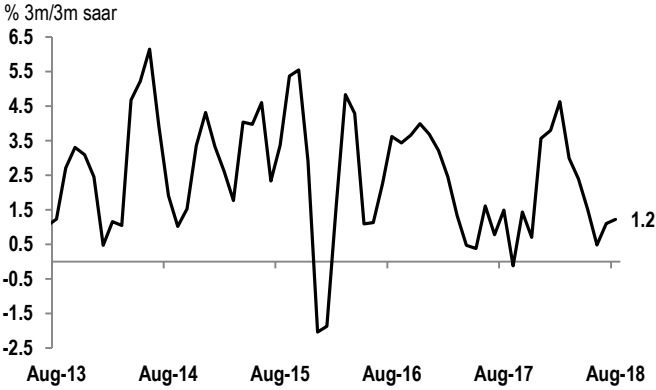
	Aug-18	Jul-18
Total	1.2	1.1
Agriculture	-9.9	-1.8
Industrial production	0.8	0.0
Services	1.9	1.7

Source: INEGI

These figures suggest relatively modest GDP growth in 3Q18. Our optimistic outlook for the quarter has been downgraded after the report, suggesting that the strong positive surprise in July's economic activity was likely driven more by strategic changes of businesses facing a highly uncertain trade outlook than an improvement in the underlying trend. In this respect, these figures seem to indicate that the economy has returned to growth near potential, in our view reducing the possibility of a positive surprise in 3Q18 GDP that will be released next week.

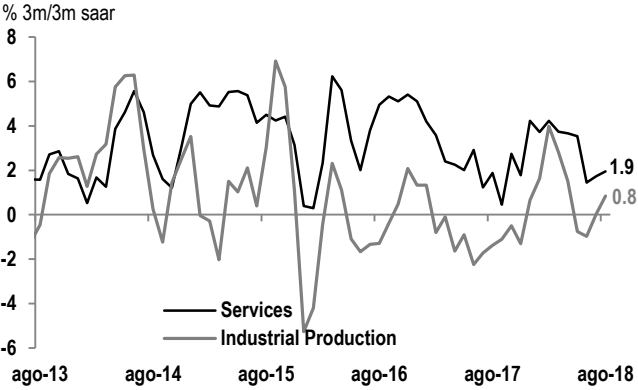
Data by sector suggests consumption and internal demand have remained relatively strong and will stay as the main engine of growth, supported by the good performance of the labor market. On the other hand, manufacturing also remains healthy in spite of the more modest print in August and supported by US economic activity, although with some early warning signs in the form of lower global growth. In contrast, investment remains contained, related at least in part to the high degree of local and external uncertainty faced by economic agents that is likely to stay with us at least during the rest of the year.

Global economic indicator



Source: INEGI

Global economic indicator: Industrial production and services



Source: INEGI

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