IGAE – Overall economic activity failed to gain traction in May

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- **Global Economic Activity Indicator (May): -0.4% yoy; Banorte: -0.4%; consensus: -0.8% (range: -2.0% to +0.2%); previous: -1.4%**
- **By components, services posted only a 0.9% increase while industrial production fell 3.3%, as previously reported**
- **On a monthly basis, activity was unchanged relative to April, with recent months suggesting that economic growth is stagnating**
- **In particular, services edged-up 0.8%, managing to reverse the setback observed in the previous two months. Nevertheless, this was more than compensated by the contraction in IP of 2.1%**
- **In our view, prospects for economic growth remain challenging, with a high likelihood of a contraction in 2Q19 GDP on an annual basis**

Economic activity posts negative results in May. According to the *Global Economic Activity Indicator* (*IGAE*), economic activity fell 0.4% yoy, in line with our forecast. Weakness was concentrated in the secondary sector, as already known, remembering that it contracted 3.3% with strong declines in construction (-9.8%) and mining (-8.9%), while manufacturing managed to edge-up 0.7% (for more details see: "*Industrial production – Strongly negative in May, with all sectors in contraction*" <pdf>). Primary activities also slowed down, growing only 0.5%, its worst performance since last October when they fell 2.8%.

Services were more favorable, growing 0.9%. Inside, the bright spot was retail sales, growing 4.2%, in line with the message seen in yesterday's report, which as we explained, was positive considering current conditions. Another favorable sector was professional services, up 11.8%, partly benefited by a base effect. Only three out of the 9 subsectors declined, highlighting the 5.1% contraction in wholesales, its worst since April 2017. Meanwhile, transportation edged-down 2.1%, reflecting the slowdown in industry. In addition, and in line with its recent trend, government services plunged -3.8%, only behind January's –4.1% so far this year.

Considering these results, accumulated performance for the first two months of the quarter is at -0.9% yoy, while YTD reached +0.3%. This, as well as more timely data from June's trade balance –also published this morning– leads us to believe that the outlook for 2Q19 is bleak. Key components from the latter report point to a deceleration. In particular, non-oil consumption imports fell 5.7%, while manufacturing exports only grew only 2.9%, impacted by non-auto exports. In this context, we forecast that activity in the quarter will fall in the annual comparison, with our final forecast to be published by the end of the day in our weekly publication, *Ahead of the Curve*.

Global economic indicator: May 2019
% yoy, nsa

	May-19	May-18	Jan-May'19	Jan-May'18
Total	**-0.4**	**2.2**	**0.3**	**2.0**
Agriculture	**0.5**	**7.8**	**4.0**	**4.4**
Industrial production	**-3.3**	**0.2**	**-1.6**	**0.2**
Mining	-8.9	-6.5	-8.1	-5.7
Utilities	1.6	-1.2	-0.5	1.2
Construction	-9.8	0.0	-3.2	2.3
Manufacturing	0.7	2.7	1.0	1.3
Services	**0.9**	**2.9**	**1.1**	**2.8**
Wholesale	-5.1	4.5	-1.4	4.0
Retail	4.2	3.5	2.9	3.8
Transport	-2.1	6.5	-0.2	4.1
Financial services	1.8	2.1	2.3	2.0
Professional services	11.8	0.9	6.1	2.9
Education and healthcare services	-0.2	1.0	0.4	0.7
Recreational services	0.8	-3.8	-0.5	-1.7
Lodging services	3.9	0.0	-0.1	2.0
Government services	-3.8	3.9	-3.2	3.4

Source: INEGI

On a monthly basis, the economy stagnated. Although this was also better than market expectations, it is not a positive signal in terms of the quarter's sequential performance. Inside, services managed to more than reverse losses observed in the previous two months, expanding 0.8% m/m. Just like in the annual comparison, retail sales were strong (+2.4%), as well as professional (+5.2%) and lodging services (+3.8%). On the latter, dynamism would seem to be favorable despite negative reports regarding tourism data in the *Riviera Maya* due to seaweed in beaches, although more information is needed, particularly for the summer months. On the contrary, government and recreational services led losses, both at -0.6%. Meanwhile, IP fell 2.1%, with all components in contraction, although with a significant plunge in construction (-6.2%). Finally, agriculture grew 0.7%.

Global economic indicator: May 2019
% m/m, sa

	May-19	Abr-19	Difference
Total	0.0	0.1	-0.1
Agriculture	0.7	-2.7	3.4
Industrial production	-2.1	1.4	-3.5
Services	0.8	-0.3	1.1

Source: INEGI

In annualized terms, the economy fell 1.3% 3m/3m saar, dragged down by a considerable deceleration in industrial activity and after a brief recovery in the previous month. Meanwhile, services managed to climb back to zero after three months in contraction. Nevertheless, we do not rule out that this could reverse back in June, as timely data points to lingering sector weakness.

Global economic indicator: April 2019
% 3m/3m saar

	Mar-May '19	Feb-Apr '19
Total	**-1.3**	**-0.7**
Agriculture	-3.6	3.8
Industrial production	-2.2	0.1
Services	0.0	-0.7

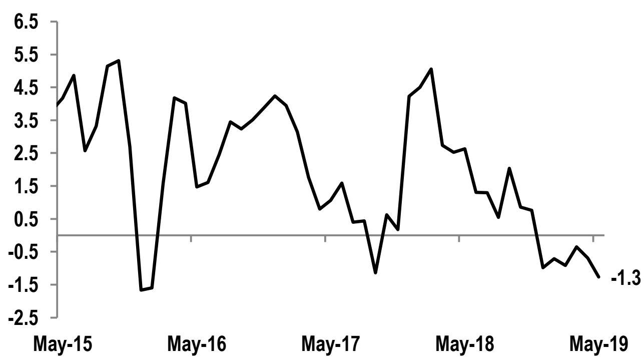
Source: INEGI

In our view, growth prospects remain challenging. In our view, the report confirms our view that economic activity seems to have decelerated more than previously expected. This led us recently to adjust lower our GDP forecast for 2019 to 0.8% from 1.5% yoy. For details, see: "*Mexico – Economic activity decelerates more than expected*", <pdf>. In particular, we maintain our view that prospects for domestic demand have weakened, while the external sector keeps growing in spite of a challenging global backdrop.

Regarding the latter, we will be focused on signs that stimulus measures by a plethora of central banks around the world could help kick-start trade flows, which has suffered due to tensions in recent years. Moreover, we believe there is a higher chance of a greater push for expansionary fiscal policy, which would also help in this front if it materializes.

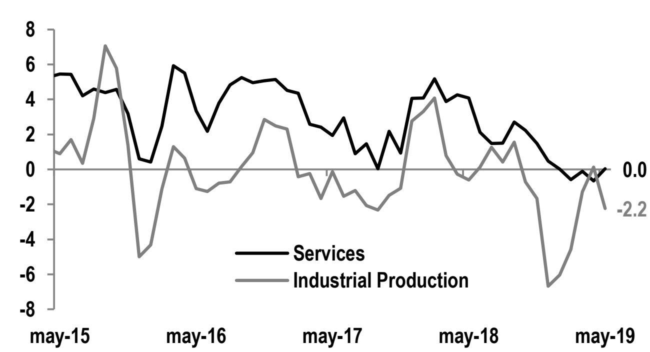
In terms of local conditions, we believe that the outlook remains difficult, with investment showing further signs of decelerating while consumption is still growing, albeit at a more modest pace than observed in recent years. We believe this is mostly because of the deceleration in formal job creation coupled with high levels of uncertainty, which have led consumers to increase their savings. We expect there could be some boost for these sectors in the second half of the year, with the possibility of a rate cut having a favorable impact on investment, the depreciation of the exchange rate helping export dynamism, while consumption could benefit from an expanded coverage of direct transfers programs from the Federal Government.

Global economic indicator
% 3m/3m saar



Source: INEGI

Global economic indicator: Industrial production and services
% 3m/3m saar



Source: INEGI

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