

July's Global Economic Indicator – First signs of a slower growth

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- **Global Economic Indicator, IGAE (July): 1.3% yoy; Banorte-Ixe: 1.2%; consensus: 1.4% (range: 0.5% to 2.3%); previous: 2.2%**
- **July's growth was explained by the 1% contraction in IP coupled with the 2.6% yoy growth in services**
- **In seasonally adjusted terms, economic activity increased 0.3% m/m**
- **We continue to believe that the Mexican economy will decelerate in the second half of the year**

The Mexican economy grew 1.3% in July. INEGI just released its Global Economic Indicator (IGAE) report for July, in which economic activity increased 1.3% yoy, marginally above our 1.2% forecast (consensus: 1.4%). We highlight that today's figure falls significantly short of the 2.4% average growth observed in the first half of the year.

Taking a look at the breakdown, services edged-up 2.6%, explained by the 6% expansion in transport services, a 9.6% growth in recreational services, and a 3.5% increase in housing and tourism services. Paradoxically, trade posted a 1.9% yoy contraction in July, while last week's retail sales report showed a 7.9% expansion.

Moreover, industrial production fell 1% yoy. Mining output declined 6.3% yoy, while manufacturing production decreased 0.2%. Similarly, construction output fell 0.1% yoy, as a result of the fiscal cuts implemented in the second half of the year. Finally, primary activities increased 3.8% yoy, as shown in the table below.

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July's IGAE report % yoy

	Jul-16	Jul-15	Jan-Jul, '16	Jan-Jul, '15
Total	1.3	1.9	2.3	2.3
Agriculture	3.8	-7.1	3.5	0.1
Industrial production	-1.0	1.0	0.4	1.1
Mining	-6.3	-5.6	-4.1	-6.5
Utilities	5.9	3.5	4.4	4.3
Construction	-0.1	4.4	1.9	3.9
Manufacturing	-0.2	2.0	1.1	2.9
Services	2.6	2.9	3.2	3.1
Comerce	-1.9	4.4	2.2	4.6
Transport	6.0	5.4	5.5	4.2
Financial services	3.9	1.3	3.4	1.7
Professional services	4.7	2.0	5.2	2.0
Educational services	1.6	0.6	1.3	0.6
Recreational services	9.6	2.9	7.0	3.8
Housing and tourism services	3.5	5.6	4.4	4.3
Government services	2.0	-0.4	-1.2	3.9

Source: INEGI

In seasonally adjusted terms, economic activity increased 0.3% m/m. Taking a look at the breakdown, industrial output expanded 0.3% m/m, as a result of a 0.4% m/m contraction in the mining industry, the 0.3% fall in construction output, and the 0.8% m/m increase in manufacturing production. Moreover, services increased 0.6% m/m in July.

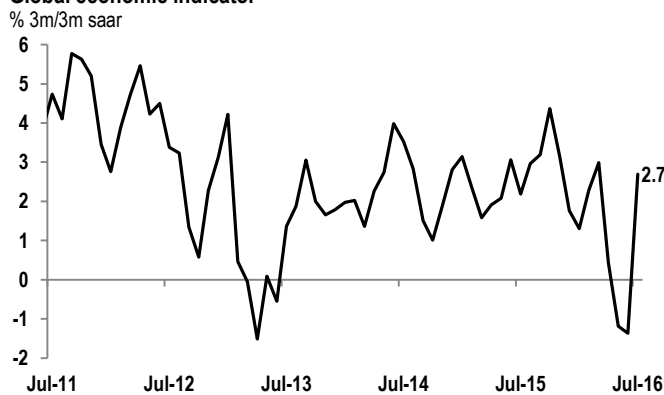
With today's figures, economic activity now shows a 2.7% 3m/3m saar expansion. In addition, the services sector edged-up to 3.5% 3m/3m saar, while industrial production now shows a 0.4% saar growth (refer to the charts below). However, we believe that IGAE's higher growth in July (seasonally adjusted figures) is responding to factors of a statistical nature, rather than an improvement in economic activity, given that the seasonally adjusted figures for the second quarter of the year were affected by seasonal factors difficult to correct.

Global economic indicator: July 2016

%m/m sa	Jul-16	Jun-16	Difference
Total	0.3	0.6	-0.3
Agriculture	-3.4	6.3	-9.7
Industrial production	0.3	0.1	0.2
Services	0.6	0.2	0.3

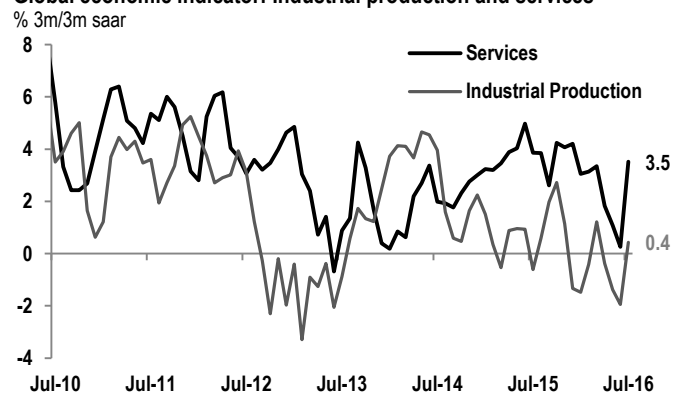
Source: INEGI

Global economic indicator



Source: Banorte-Ixe

Global economic indicator: Industrial production and services



Source: Banorte-Ixe

We continue to believe that the Mexican economy will decelerate in the second half of the year. Domestic demand has stood out as Mexico's main growth driver during the last five quarters. In this context, we believe that the current growth dynamics in domestic demand will continue throughout the second half of the year given the following factors: (1) The recovery in households' income derived from significant gains in real wages; (2) the subdued levels of inflation; (3) the better growth prospects of credit to the private non-financial sector; and (4) the higher growth in remittances inflows (now adding a 8.9% yoy growth in the first half of the year).

However, manufacturing output has maintained a downward trend, as a result of the deceleration in the US manufacturing sector (given that both hold a strong correlation). In addition, the fiscal adjustments announced by the Ministry of Finance will bound Mexico's economic growth, although its effect will be limited. While the measures taken so far this year amount to 0.9% of GDP, we believe their negative impact on economic growth could be of 0.7%-pts taking into account the multiplier effect of government spending, and that this fiscal cut is ensuring that the federal government is taking the right steps to warrant the fiscal stability of our country.

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