

IGAE – The Mexican economy maintains a downward trend

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- **Global Economic Indicator, IGAE (November): 1.5% yoy; Banorte: 1.2%; consensus: 1.2% (range: 0.5% to 2%); previous: 1.5%**
- **November's scant economic growth was explained by the moderate 2.6% yoy expansion in services and the 1.5% contraction in industrial production**
- **In seasonal adjusted terms, economic activity increased 0.7% m/m, as a result of the 0.9% expansion in services**
- **Looking ahead, we believe that the Mexican economy will decelerate in the coming months**

The Mexican economy maintains a downward trend. *INEGI* just released its Global Economic Indicator (IGAE) report for November, in which economic activity increased 1.5% yoy, above our 1.2% forecast (consensus: 1.2%). Taking a look at the breakdown, industrial production posted a 1.5% yoy contraction, as a result of the the 8.5% yoy fall in mining output, given the decline in oil production in the Gulf of Mexico. Moreover, construction fell 5.7% yoy, as a result of the 6.6% contraction in building projects, whereas public civil engineering construction projects declined 6.8% yoy, given the austerity program implemented by the Federal Government. By contrast, manufacturing output increased 2.4% yoy. In addition, services grew 2.6%, below the 2.7% observed in October (refer to the table on the next page).

In seasonally adjusted terms, economic activity increased 0.7% m/m. Taking a look at the breakdown, services output edged-up to 0.9% m/m. Moreover, industrial production fell 0.1% given the 1.2% contraction in construction output, even though manufacturing activity increased 0.6% and the 0.1% growth in mining.

Despite the 0.7% m/m gain, the Mexican economy adds a marginal 0.6% 3m/3m saar expansion. Industrial production has fallen 2.5% 3m/3m saar, while services add a 1.8% expansion (refer to the charts on the third page).

Looking ahead, we believe that the Mexican economy will decelerate. We continue to appraise significant risks to Mexico's growth scenario, where we highlight the deceleration in services, as a result of the country's persistently high inflation.

Regarding industrial production, we expect a more visible recovery in manufacturing production given the uncertain trade relation with the US, which will probably foster a higher flow of exports, hedging a scenario of future tariffs.

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In addition, we expect a higher growth in construction output as soon as 1Q18 derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico's political and economic environment will continue to discourage private investment projects.

Moreover, we believe that Mexico's mining industry will continue to fall throughout the first half of the year, as a result of Government's fiscal consolidation plan, which has affected Mexico's drilling projects. All in all, we expect that the positive effects coming from the higher manufacturing and public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal deceleration of the Mexican economy in the first quarter of 2018.

Global economic indicator: November 2017

% yoy nsa

	Nov-17	Nov-16	Jan-Nov, '17	Jan-Nov, '16
Total	1.5	4.7	1.9	2.7
Agriculture	8.9	8.2	3.2	3.5
Industrial production	-1.5	2.4	-0.7	0.5
Mining	-8.5	-7.1	-10.0	-3.7
Utilities	3.1	-1.1	-0.3	0.1
Construction	-5.7	5.4	-1.7	2.3
Manufacturing	2.4	5.0	3.2	1.4
Services	2.6	5.7	3.1	3.8
Wholesale	6.2	6.4	3.1	1.7
Retail	1.1	9.7	3.7	3.1
Transport	4.9	5.0	4.2	13.2
Financial services	2.0	4.9	3.7	2.7
Professional services	1.3	8.1	3.5	-1.6
Educational services	0.9	1.7	0.8	0.3
Recreational services	0.0	3.6	1.3	6.5
Housing services	5.2	1.2	4.3	10.9
Government services	-1.1	5.4	0.1	-5.4

Source: INEGI

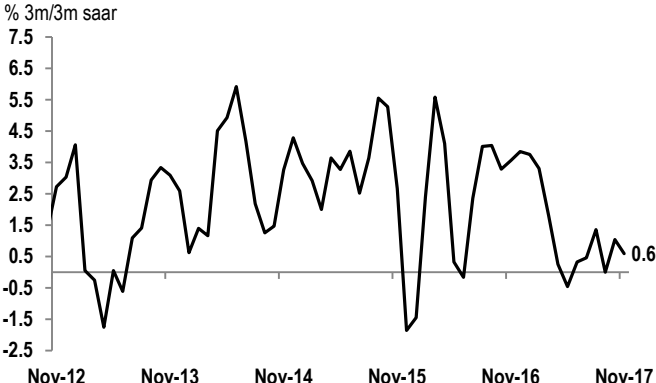
Global economic indicator: August 2017

% m/m sa

	Nov-17	Oct-17	Difference
Total	0.70	0.2	0.5
Agriculture	7.10	-0.1	7.2
Industrial production	-0.13	-0.1	0.0
Services	0.88	0.5	0.4

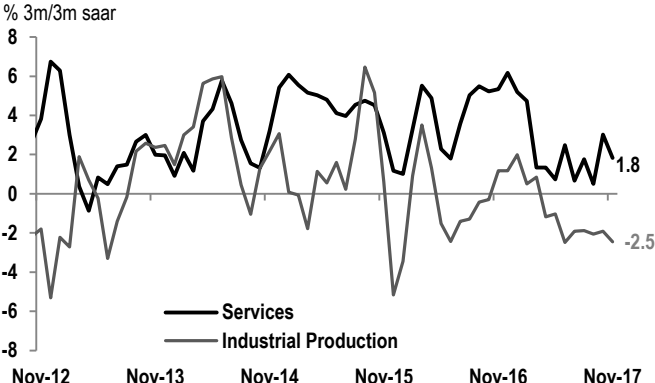
Source: INEGI

Global economic indicator



Source: Banorte

Global economic indicator: Industrial production and services



Source: Banorte

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