

IGAE – Strong deceleration of the Mexican economy in July

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- **Global Economic Indicator, IGAE (July): 1% yoy; Banorte-Ixe: 1.5%; consensus: 1.7% (range: 0.7% to 1.9%); previous: 2.4%**
- **July's lower economic growth was explained by the 1.6% yoy contraction in industrial production, coupled with the moderate 2.4% increase in services**
- **In seasonal adjusted terms, economic activity fell 0.7% m/m (2.1% yoy), as a result of the 1% contraction in industrial production**
- **We believe that the Mexican economy will continue to decelerate in the second half of the year**

Strong deceleration in July. INEGI just released its Global Economic Indicator (IGAE) report for July, in which economic activity increased a scant 1% yoy, below our 1.5% forecast (consensus: 1.7%). Taking a look at the breakdown, industrial production posted a 1.6% yoy contraction, as a result of the 8.6% reduction in mining activity coupled with the 3.7% decline in construction output. However, manufacturing activity increased 2.2% yoy. In addition, services increased a moderate 2.4%, below June's 3.9% (refer to the table on the next page).

In seasonally adjusted terms, economic activity fell 0.7% m/m. Taking a look at the breakdown, services output edged-down to -0.1% m/m. Moreover, industrial production posted a 1% m/m contraction, as a result of the 2.1% m/m reduction in construction output, in addition to the 1.4% fall in mining activity. However, manufacturing production increased 0.3% m/m. With today's figures, the Mexican economy adds a 1.4% 3m/3m saar expansion. However, industrial production has fallen 2.3% 3m/3m saar, while services add a 3.2% expansion (refer to the charts on the following page).

The Mexican economy will continue to decelerate in the second half of the year. We continue to appraise significant risks to Mexico's growth scenario. We expect a marginal deceleration of private consumption, as a result of the upward trend in inflation. However, this will be partially offset by the higher growth of the labor market.

In addition, we believe that construction activity will maintain a downward trend, as a result of the Federal Government's austerity program. Moreover, we believe that the recession of the mining industry –mainly due to Mexico's lower oil production– will continue during the second half of the year, which will continue to partially offset the positive effects in services output. As a result, we maintain our 1.9% GDP forecast for 2017.

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Global economic indicator: July 2017

% yoy nsa

	Jul-17	Jul-16	Jan-Jul, '17	Jan-Jul, '16
Total	1.0	1.2	2.0	2.1
Agriculture	2.0	4.7	3.4	2.2
Industrial production	-1.6	-1.4	-0.5	0.1
Mining	-8.6	-6.6	-9.9	-4.3
Utilities	-2.7	6.1	-1.5	3.7
Construction	-3.7	-1.0	-0.6	1.7
Manufacturing	2.2	-0.6	3.4	0.9
Services	2.4	2.6	3.4	3.3
Comerce	2.2	-2.0	2.9	2.2
Transport	3.2	6.4	4.6	5.5
Financial services	3.8	3.8	4.3	3.6
Professional services	0.1	4.6	3.8	5.3
Educational services	1.7	1.6	1.7	1.0
Recreational services	-2.1	10.2	1.8	6.8
Housing services	6.1	3.5	4.3	4.4
Government services	-0.8	1.9	0.3	-1.2

Source: INEGI

Global economic indicator: July 2017

% m/m nsa

	Jul-17	Jun-17	Difference
Total	-0.7	0.6	-1.3
Agriculture	-1.6	4.2	-5.8
Industrial production	-1.0	0.0	-1.0
Services	-0.1	0.3	-0.5

Source: INEGI

Global economic indicator

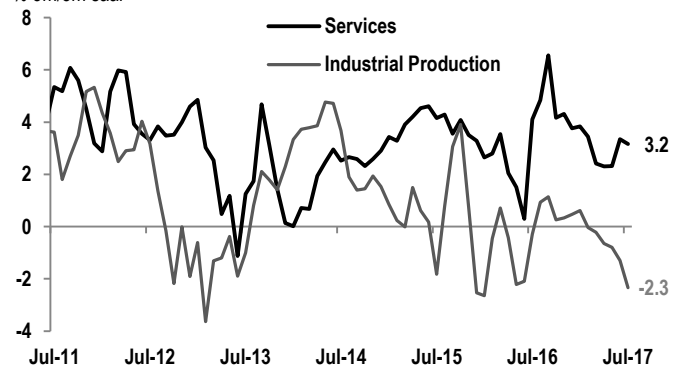
% 3m/3m saar



Source: Banorte-Ixe

Global economic indicator: Industrial production and services

% 3m/3m saar



Source: Banorte-Ixe

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