

IGAE – The Mexican economy grew 2.2% yoy in May

July 26, 2016

- **Global Economic Indicator, IGAE (May): 2.2% yoy; Banorte-Ixe: 1.5%; consensus: 2.2% (range: 1.5% to 2.6%); previous: 3%**
- **May's growth was explained by the deceleration in IP coupled with the 3.5% yoy growth in services**
- **In seasonally adjusted terms, economic activity increased 1% m/m**
- **With today's figure, we now believe that the Mexican economy grew 2.4% yoy in 2Q16 (previous estimate: 2.2%)**

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Higher than expected growth in May. INEGI just released its Global Economic Indicator (IGAE) report for May, in which economic activity increased 2.2% yoy, above our 1.5% forecast (consensus: 2.2%). Taking a look at the breakdown, services edged-up 3.5%, explained by the 3.3% growth in trade, a 4.9% expansion in transport services, and a 0.9% contraction in government services, given the fiscal cut implemented in the first half of the year.

Moreover, industrial production increased a scant 0.4% yoy. In this regard, mining output declined 4.7% yoy, while manufacturing production expanded 0.8%. Moreover, construction output posted a 2.8% yoy growth. Finally, primary activities declined 3.5% yoy, as shown in the table below.

May's IGAE report

%yoy	May-16	May-15	Jan-May, '16	Jan-May, '15
Total	2.2	1.4	2.5	2.2
Agriculture	-3.5	3.3	1.4	3.1
Industrial production	0.4	-0.9	0.7	1.2
Mining	-4.7	-8.0	-3.5	-6.6
Utilities	6.2	1.9	3.2	4.9
Construction	2.8	1.2	2.5	4.2
Manufacturing	0.8	0.9	1.4	2.9
Services	3.5	2.6	3.6	2.8
Trade	3.3	2.0	3.5	4.1
Transport	4.9	2.8	6.1	3.4
Financial services	3.5	3.4	3.4	1.8
Professional services	5.1	2.2	5.5	1.4
Educational services	2.3	0.6	1.1	0.4
Recreational services	6.3	2.7	6.9	3.8
Housing services	2.4	3.5	4.6	3.6
Government services	-0.2	4.2	-1.9	4.8

Source: INEGI

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In seasonally adjusted terms, economic activity increased 1% m/m. Taking a look at the breakdown, industrial output expanded 0.3% m/m, as a result of a 0.5% m/m contraction in the mining industry, a 0.2% expansion in construction output, and the 0.3% m/m hike in manufacturing production. Moreover, services increased 1.2% m/m in May.

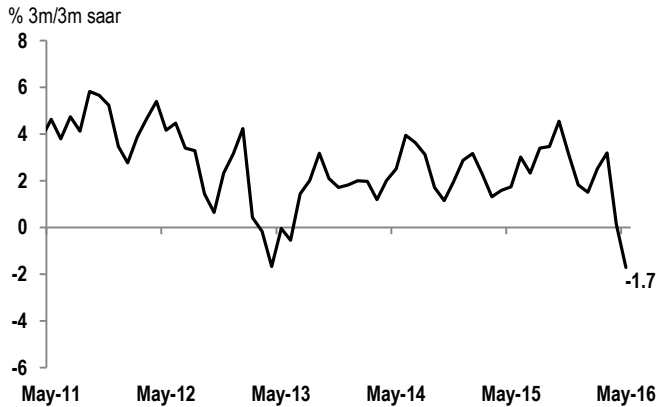
However, with these figures, economic activity continues to trend down, now showing a 1.7% 3m/3m saar contraction. In addition, the services sector edged-down to 0.8% 3m/3m saar, while industrial production now shows a 2.5% saar contraction (refer to the charts below).

Global economic indicator: May 2016

%m/m sa	May-16	Apr-16	Difference
Total	1.0	-1.2	2.2
Agriculture	-3.1	3.4	-6.5
Industrial production	0.3	-0.6	0.9
Services	1.2	-1.5	2.7

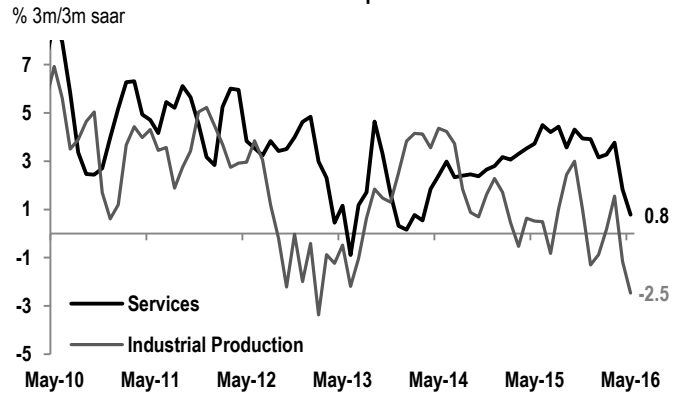
Source: INEGI

Global economic indicator



Source: Banorte-ixe

Global economic indicator: Industrial production and services



Source: Banorte-ixe

We now believe that the Mexican economy grew 2.4% yoy in 2Q16. With today's figures, we now believe that the Mexican economy will show a 2.4% yoy growth during the second quarter, below the 2.6% observed in 1Q16 (previous forecast: 2.2%).

In this regard, domestic demand has stand out as Mexico's main growth engine. In particular, Mexican households are spending more given the significant gains in real wages, while firms have increased their investment spending given the more positive outlook that prevails for the Mexican economy. We believe that the recent upward trend in domestic demand will continue throughout the year given the following factors: (1) The recovery of the labor market; (2) inflation levels below 3% that will hold throughout the year; (3) private banking credit growth will continue to support private consumption and investment; and (4) the better growth prospects in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, despite the recent deceleration in manufacturing output, we believe that the manufacturing industry will probably show a marginal recovery given: (1) Mexico's manufacturing exports of final goods will continue to show a moderate expansion given the added depreciation of the Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger demand for domestic manufactured goods.

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