

## IGAE – The Mexican economy accelerated in February

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[www.banorte.com](http://www.banorte.com)  
[@analisis\\_fundam](https://twitter.com/analisis_fundam)**Alejandro Cervantes**  
Senior Economist, Mexico  
[alejandro.cervantes@banorte.com](mailto:alejandro.cervantes@banorte.com)

- **Global Economic Indicator, IGAE (February): 2.35% yoy; Banorte: 2.3%; consensus: 2% (range: 1.6% to 2.6%); previous: 2.15%**
- **February's economic growth was explained by the 2.9% yoy expansion in services coupled with the scant 0.7% increase in industrial production**
- **In seasonally adjusted terms, economic activity increased 0.7% m/m, as a result of the 0.7% expansion in services**
- **Looking ahead, we believe that the Mexican economy will show a more vigorous growth in 2Q18**

**The Mexican economy accelerated in February.** INEGI just released its Global Economic Indicator (IGAE) report for February, in which economic activity increased 2.35% yoy, in line with our 2.3% forecast (consensus: 2%). Taking a look at the breakdown, industrial production posted a 0.7% yoy growth, which was mostly explained by the 4.5% yoy increase in construction output as a result of the 7.7% expansion in building projects, whereas civil engineering construction projects declined 7.2% yoy. By contrast, mining output edged-down 5.7% yoy, given the 6.8% reduction in oil and gas production. Moreover, manufacturing output increased a scant 0.9% yoy, as a result of the 39.3% yoy reduction in the fabrication of oil and carbon-based products coupled with the 6.2% contraction in the production of electric equipment. Nevertheless, vehicle production increased 6.5% yoy, while the fabrication of machinery and equipment posted a 5.7% yoy expansion.

In addition, services grew 2.9%, in line with January's figure. Taking a look at the breakdown, wholesale and retail sales increased 5.9% and 2.7% yoy, respectively, while financial services posted a 2.7% expansion (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 0.7% m/m from -0.4% in January. Moreover, industrial production expanded 0.4% m/m (previous: 0%), as a result of the 0.6% increase in manufacturing output. In addition, construction output expanded 0.5% m/m, as a result of the 2% growth in building projects. By contrast, mining activity posted a 1.9% m/m contraction.

With today's figures the Mexican economy adds a 5.1% 3m/3m saar expansion. Industrial production has risen 4.6% 3m/3m saar, while services posted a 4.7% growth (refer to the charts on the third page).

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**Looking ahead, we believe that the Mexican economy will show a more vigorous growth in 2Q18.** It is likely that services growth momentum will continue throughout the second quarter of the year, given the upward trend in the Mexican labor and credit markets. In addition, we believe that inflation's recent downward trend will support private spending in this period.

Regarding industrial production, we believe that Mexican manufacturing output will show a higher growth in the next months. Specifically, we consider that the uncertainty surrounding the presidential elections that will take place in our country on the 1<sup>st</sup> of July will probably result in a greater depreciation of the Mexican currency during the second quarter of the year. This would imply a greater external demand for Mexican products, which will have a positive impact on Mexican manufacturing production and exports.

In addition, we believe that the recovery in construction output will continue in 2Q18, as a result of 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.

All in all, we expect that the positive effects coming from the higher services, manufacturing, and public construction output will over-compensate the negative impact of a lower private investment. As a result, we believe that the Mexican economy will show a more vigorous growth in 2Q18

#### Global economic indicator: February 2018

% yoy nsa

	Feb-18	Feb-17	Jan-Feb, '18	Jan-Feb, '17
<b>Total</b>	<b>2.4</b>	<b>0.4</b>	<b>2.2</b>	<b>2.0</b>
<b>Agriculture</b>	<b>8.3</b>	<b>-4.1</b>	<b>3.1</b>	<b>3.9</b>
<b>Industrial production</b>	<b>0.7</b>	<b>-2.3</b>	<b>0.8</b>	<b>-1.0</b>
Mining	-5.7	-14.3	-5.3	-11.8
Utilities	3.1	-1.1	2.3	-0.1
Construction	4.5	-0.1	4.4	0.2
Manufacturing	0.9	1.2	1.1	2.7
<b>Services</b>	<b>2.9</b>	<b>2.1</b>	<b>2.9</b>	<b>3.5</b>
Wholesale	5.9	-2.7	5.5	0.5
Retail	2.7	1.0	4.1	4.3
Transport	2.8	2.4	2.9	19.5
Financial services	2.7	5.1	2.4	3.1
Professional services	2.8	6.1	1.9	-8.9
Educational services	1.5	0.7	1.1	5.5
Recreational services	-0.7	0.2	-0.3	7.3
Housing services	2.5	0.2	3.4	6.3
Government services	3.0	0.9	2.2	-9.2

Source: INEGI

**Global economic indicator: February 2018**

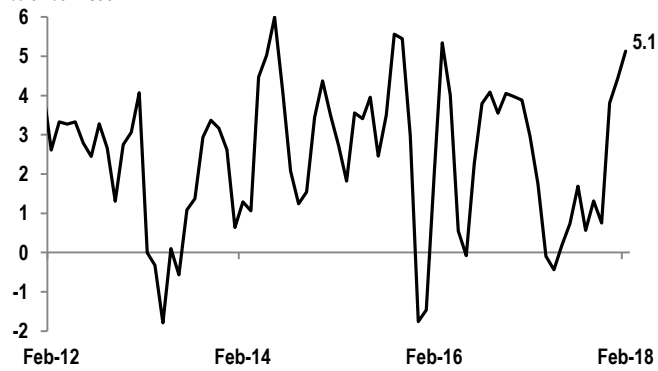
% m/m sa

	Feb-18	Jan-18	Difference
Total	0.72	-0.6	1.4
Agriculture	-0.60	1.0	-1.6
Industrial production	0.44	0.0	0.5
Services	0.69	-0.4	1.1

Source: INEGI

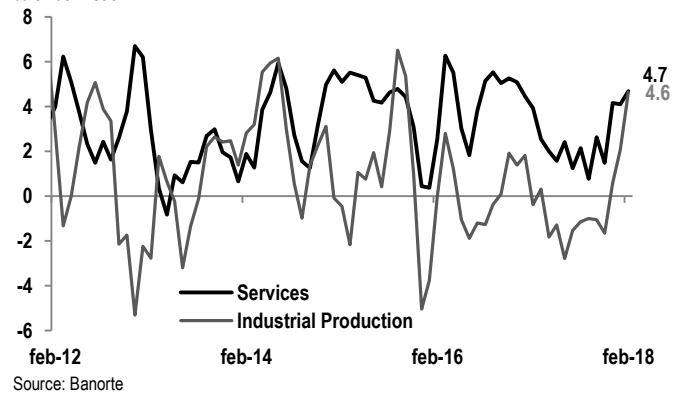
**Global economic indicator**

% 3m/3m saar



**Global economic indicator: Industrial production and services**

% 3m/3m saar



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**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Senior Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Strategist Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454