

IGAE – The Mexican economy falls 1.2% m/m in April

June 23, 2016

- **Global Economic Indicator, IGAE (April): 3% yoy; Banorte-Ixe: 3.5%; consensus: 3.2% (range: 2.5% to 4.1%); previous: 1.2%**
- **April's growth was partially explained by a calendar effect, given that the *Holy Week* added working days to the annual comparison**
- **Controlling for this calendar effect, the Mexican economy grew a scant 0.7% yoy**
- **In seasonally adjusted terms, economic activity posted a 1.2 m/m contraction**
- **Despite April's falls, looking ahead we continue to believe that the Mexican economy will show a more visible recovery**

www.banorte.com
www.ixe.com.mx
@analisis_fundam

Alejandro Cervantes
Senior Economist, Mexico
alejandrocervantes@banorte.com

Growth in April partially explained by the *Holy Week*. INEGI just released its Global Economic Indicator (IGAE) report for April, in which economic activity increased 3% yoy, below our 3.5% forecast (consensus: 3.2%). However, we highlight that April's growth was partially explained by a calendar effect, given that the *Holy Week* added working days to the annual comparison. Controlling for this calendar effect, the Mexican economy grew a scant 0.7% yoy.

Taking a look at the breakdown, and using the calendar-adjusted figures, services sector edged-up 1.9%, explained by the 2.3% growth in trade, a 4.6% expansion in transport services, and a 0.9% contraction in government services. Moreover, industrial production fell 0.9% yoy. In this regard, mining output declined 3.6% yoy, while manufacturing production decreased 1.6%, and construction posted a null growth.

April's IGAE report

% yoy	Apr-16	Apr-15	Jan-Apr, '16	Jan-Apr, '15
Total	3.0	2.1	2.6	2.4
Agriculture	2.2	2.7	2.9	3.0
Industrial production	1.9	1.7	0.8	1.7
Services	3.6	2.4	3.7	2.8
%yoy adjusted by calendar effects	Apr-16	Apr-15	Jan-Apr, '16	Jan-Apr, '15
Total	0.7	2.5	2.3	2.5
Agriculture	2.2	2.7	2.9	3.0
Industrial production	-0.9	1.6	0.4	1.7
Services	1.9	2.7	3.5	2.9

Source: INEGI

Document for distribution among public

In seasonally adjusted terms, economic activity fell 1.2% m/m. Taking a look at the breakdown, industrial output posted a 0.7% m/m reduction, as a result of a 2% m/m contraction in the mining industry, a 0.1% decline in construction output, and the 0.7% m/m fall in manufacturing production. Moreover, services decreased 1.4% m/m in April, given the 1.4% contraction in transport services, the 0.5% m/m decline in trade, and the 3% fall in tourism services.

With these figures, economic activity continues to trend down, now showing a null annualized growth. In addition, the services sector edged-down to 1.5% 3m/3m saar, while industrial production now shows a 1.2% saar contraction (refer to the charts below).

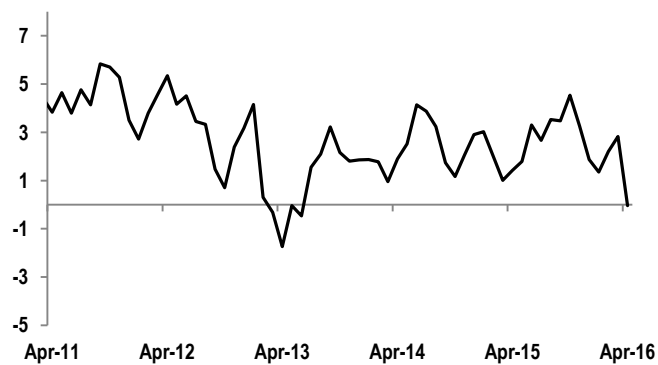
Global economic indicator: April 2016

% m/m sa	Apr-16	Mar-16	Difference
Total	-1.2	-0.2	-1.0
Agriculture	3.3	-4.1	7.3
Industrial production	-0.7	-0.2	-0.5
Services	-1.4	0.4	-1.8

Source: INEGI

Global economic indicator

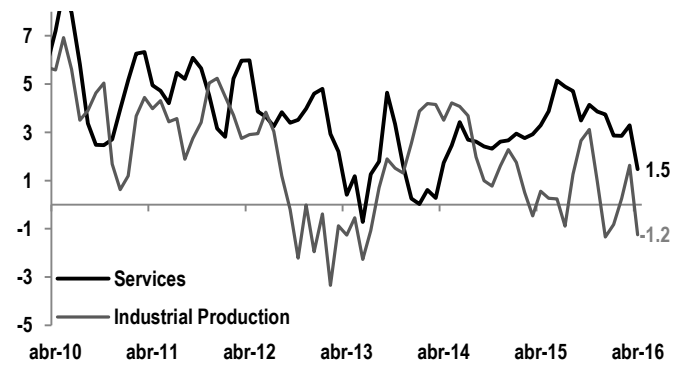
% 3m/3m saar



Source: Banorte-ixe

Global economic indicator: Industrial production and services

% 3m/3m saar



Source: Banorte-ixe

Despite April's significant deceleration, we continue to believe that the Mexican economy will show a more visible recovery. 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.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

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
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
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 Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst 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	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@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