

IGAE – Better-than-expected performance of activity at the turn of the year

March 25, 2019

www.banorte.com
@analisis_fundam

Juan Carlos Alderete, CFA
Senior Economist, Mexico
juan.alderete.mactal@banorte.com

Francisco Flores
Economist, Mexico
francisco.flores.serrano@banorte.com

- **Global Economic Activity Indicator, IGAE (January): 1.27% yoy; Banorte: 0.80%; consensus: 1.05% (range of estimates: 0.5% to 1.5%); previous: 0.04%**
- **Economic activity improved in its annual comparison relative to the previous month, with industry falling 0.9% (previous: -2.5%) and services growing 2.2% from 0.9% in December**
- **Using seasonally adjusted data, economic activity increased 0.2% m/m, not enough to compensate for the 0.4% decrease in the previous print**
- **We believe the outlook for economic activity remains skewed to the downside, although today's better-than-expected report reduces the probability of an outright contraction in 1Q19**

Economic activity rebounded in January. INEGI just released its *Global Economic Activity Indicator (IGAE)* report for the first month of the year, in which economic activity increased 1.3% yoy, above our 0.8% fore, cast and consensus at 1.05%. Inside the report, primary activities picked up 3.8%. As previously published, industrial production fell 0.9%, in our view influenced by the slowdown at the end of last year but also by supply chain disruptions and weak global manufacturing, with this latter sector edging up 1.3%. On the other hand, services were up 2.2%. Looking at the breakdown, we highlight the contraction of 3.4% in housing and 2.4% in government, the latter likely due to the change in the federal administration. Transportation managed to grow 0.6%, were we expected more weakness as a result of disruptions already mentioned. Last but not least, retail sales edged up 2.5% despite a moderation in formal job creation and higher unemployment at the margin, among other factors that point to some slowdown. All in all, the report was more positive than expected but is still consistent with our broad view of a deceleration in economic activity, at least during the first half of the year.

Global economic indicator: January 2019

% yoy, nsa

	Jan-19	Jan-18	2018	2017
Total	1.3	2.0	1.9	1.9
Agriculture	3.8	-0.8	2.8	3.4
Industrial production	-0.9	0.8	0.2	-0.3
Mining	-10.5	-3.9	-5.5	-8.2
Utilities	-1.5	1.1	2.1	-0.4
Construction	1.7	4.6	0.6	-0.9
Manufacturing	1.3	0.9	1.7	2.8
Services	2.2	2.7	2.7	3.0
Wholesale	4.5	5.4	2.4	4.1
Retail	2.5	5.2	3.8	2.8
Transport	0.6	3.5	4.0	15.7
Financial services	3.8	1.2	3.0	-1.3
Professional services	6.7	1.1	3.8	-2.1
Educational services	0.8	0.4	0.8	-3.3
Recreational services	-2.7	-0.1	-1.5	3.9
Housing services	-3.4	4.5	1.0	12.0
Government services	-2.4	1.7	1.8	-8.1

Source: INEGI

Document for distribution among public

Using seasonally adjusted figures, the economy picked up 0.2% m/m. This figure is not enough to make up for the 0.4% contraction of the previous month. Nevertheless, we believe it is positive in the light of some temporary shocks during the period that we expected to have a more negative effect. We highlight that all sectors managed to stand in positive territory, with services and primary activities both growing at 0.3%, while industry picked up 0.6%. In our view, headwinds for the latter remain relatively high on the persistent drag in mining coupled with the moderation in global manufacturing. With respect to services, it is our take that its relative resiliency could stay as fundamentals for consumption remain healthy and the possibility of being additionally supported by social programs of the federal government.

Global economic indicator: January 2019

% m/m, sa

	Jan-19	Dec-18	Difference
Total	0.2	-0.4	0.6
Agriculture	0.3	-2.5	2.8
Industrial production	0.6	-0.5	1.0
Services	0.3	-0.6	0.9

Source: INEGI

In annualized terms, the economy fell 0.1% 3m/3m saar, still impacted by significant weakness in the previous month, when this metric was at -0.4%. By this measure, only the primary sector shows significant strength, although this is likely to fade away in coming months. On the other hand, we believe that industrial activity could remain weak at least for the next two months, particularly on February as some data suggest already.

Global economic indicator: January 2019

% 3m/3m saar

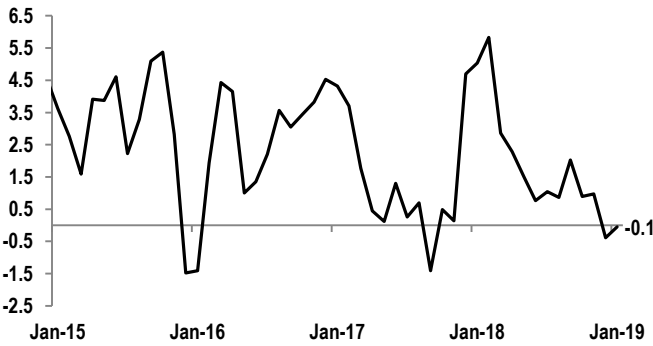
	Nov '18-Jan '19	Oct-Dec '18
Total	-0.1	-0.4
Agriculture	19.9	3.4
Industrial production	-5.5	-6.1
Services	0.7	1.2

Source: INEGI

Economic activity to grow modestly in 1Q19. Although today's report was better than expected, we keep forecasting greater weakness in economic activity going forward. Regarding temporary shocks, we believe that their effect could be seen with some lag, considering that some companies could have built up inventories before cutting production levels. Nevertheless, the capacity to respond diminishes as the shocks lingered around, without discarding more of an impact in February as opposed to January. In this respect, we will be watching closely dynamics in activity to confirm or not this hypothesis. We also noted that government services grew 2% m/m, which is relatively positive considering the change in the federal administration. If confirmed, this could also help activity levels, although not likely to be enough to compensate for the significant slowdown observed in industrial activity, which would also be limited by the moderation in global economic data, particularly in the manufacturing sector and as suggested by trade data released so far. All in all, the outlook in coming months is still biased to the downside, despite today's print reducing the probability of an outright contraction in 1Q19.

Global economic indicator

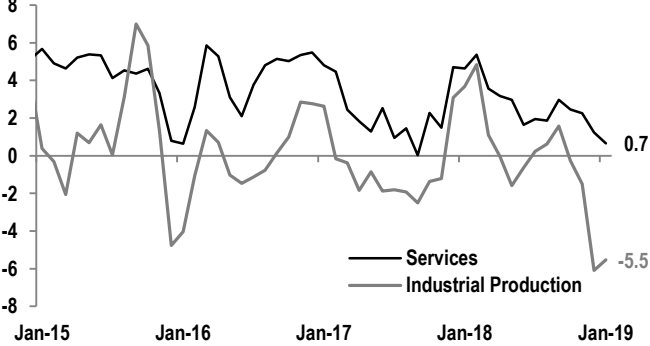
% 3m/3m saar



Source: INEGI

Global economic indicator: Industrial production and services

% 3m/3m saar



Source: INEGI

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.

Certification of Analysts.

We, Gabriel Casillas Olivera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalia Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte Ixe and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

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
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.rozco.velez@banorte.com	(55) 5268 - 1698

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
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
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	Manager, 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