

## Full-year 2018 GDP at 2% yoy

February 25, 2019

- **INEGI released today its revised GDP report for 4Q18**
- **Gross Domestic Product (4Q18): 1.7% yoy; Banorte: 1.7%; consensus: 1.7% (range of estimates: 1.7% to 1.8%); preliminary figure: 1.8%**
- **Compared to preliminary data, both the secondary and tertiary sectors were revised lower in 4Q18, ending at -0.9% and 2.7% yoy, respectively. In contrast, primary activities were higher by 20bps to 3%**
- **In seasonally-adjusted terms, the economy expanded 0.2% q/q (1% saar), with industrial activity at its weakest since 4Q15 at -1.2%, while services were revised marginally higher to 0.7%**
- **With today's data, full-year 2018 GDP stood at 2.0% yoy, with growth in December barely positive at 0.04% according to the *Global Indicator of Economic Activity*, lowest in the year when excluding March, which was affected by the *Holy Week* holiday**
- **We reiterate our 2019 GDP forecast of 1.5% yoy, slightly below current consensus at 1.8%**

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### **GDP expanded 1.7% yoy in 4Q18, 10bps lower than preliminary figures.**

This rate of expansion was in line with our forecast and consensus, mainly as a result of a weaker performance in industry, which was revised to -0.9% from -0.7% yoy. Moreover, services were also downgraded slightly, going from 2.9% to 2.7%. Looking at the details, we highlight the strong advance of 9% in financial and 8.5% in mass media services during the quarter. In contrast, we note the relative deceleration in retail sales in the annual comparison, from 5.5% in the previous quarter to 3.1%, albeit still quite positive as they grew at an above 3% rate in every quarter, resulting in a 3.8% growth rate during full-year 2018. In our view, this is consistent with relatively strong fundamentals for consumption, including growth in real wages and a gradual reduction in inflation, among other factors.

In industrial activity, we highlight the deceleration of manufacturing activity at 1.5% yoy, with a full-year expansion in this category of 1.7%. Nevertheless, industry in all 2018 barely grew 0.2%. In this respect, mining remains as a heavy drag, falling by 7.3% in the quarter and -5.5% in the year, with contractions in both oil- and non-oil related activities. Meanwhile, construction fell 2.2% in 4Q18 but +0.6% in the year. Lastly, primary activities expanded 3% and 2.4%, respectively.

Broadly speaking, the revisions were mainly explained by weaker-than-expected dynamism in December, with the *Global Economic Activity Indicator* (IGAE) posting a marginal expansion of 0.04% yoy. In this respect, industrial activity deepened its decline, going from -1.2% in November to -2.5%. Moreover, services were also more modest, from a relatively high increase of 2.1% in the previous month to only +0.9%

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**GDP**  
 % yoy nsa

	Final		Preliminary	
	4Q18	2018	4Q18	2018
<b>Total</b>	<b>1.7</b>	<b>2.0</b>	<b>1.8</b>	<b>2.0</b>
Agricultural	3.0	2.4	2.8	2.4
Industrial production	-0.9	0.2	-0.7	0.2
Services	2.7	2.8	2.9	2.8

Source: INEGI

**With seasonally adjusted figures, GDP grew 0.2% q/q on a weaker performance in both industry and services.** It is also worth noting that 3Q18 GDP was revised down from 0.8% to 0.6%, driven also by the two sectors. In this quarter, the former had its weakest performance since 4Q15 at -1.2% q/q. Nevertheless, all were in contraction (see table below). In our view, this was mainly driven by a slowdown in global manufacturing and trade by the end of the year, which was exacerbated due to a significant increase in local uncertainty during the same period. Moreover, the start the federal administration probably helps explain part of the significant decline of 1.7% in construction (particularly due to civil engineering projects), while mining had its steepest fall since 3Q17 at -4.0% -which was already heavily affected by natural disasters-. Moreover, manufacturing, which has been the most dynamic in recent years, declined 0.1%, its first fall since mid-2017.

In services, we note the decrease for second consecutive quarter in government services at -0.4% q/q, moderating its decline when compared to the previous quarter at -2.5% but still quite low. On the contrary, wholesale and retail advanced at the same rate of 1%, with a more modest performance in the former. Mass media and information was the top performer at 3.5%, while the weakest was recreational services (-1.5%). Additionally, agriculture lifted up to 2.2% from 1.4% in the previous quarter.

In line with the performance in annual terms, December was an unusually weak month according to the monthly GDP-proxy. In particular, our attention was driven to: (1) The decline in all of the three components, a situation not seen since last April; and (2) The 0.6% m/m fall in services, its first contraction in seven months and an important sector to keep monitor going forward given its high share in overall GDP, particularly the healthy performance of the retail sector on the back of good fundamentals for consumption. In this respect, this figure suggests a higher-than-expected deceleration that could have been explained by the increase in uncertainty, decoupling further from the strength observed in consumer confidence.

**GDP growth**

%yoy nsa; % q/q sa, %q/q saar

	% yoy			% q/q		% q/q saar	
	4Q18	3Q18	2018	4Q18	3Q18	4Q18	3Q18
<b>Total GDP</b>	<b>1.7</b>	<b>2.5</b>	<b>2.0</b>	<b>0.2</b>	<b>0.6</b>	<b>1.0</b>	<b>2.4</b>
<b>Agriculture</b>	<b>3.0</b>	<b>2.0</b>	<b>2.4</b>	<b>2.2</b>	<b>1.4</b>	<b>9.3</b>	<b>5.5</b>
<b>Industrial activity</b>	<b>-0.9</b>	<b>1.1</b>	<b>0.2</b>	<b>-1.2</b>	<b>0.2</b>	<b>-4.7</b>	<b>0.6</b>
Mining	-7.3	-3.1	-5.5	-4.0	-2.2	-15.1	-8.4
Utilities	1.4	4.2	2.1	-1.4	1.5	-5.3	6.1
Construction	-2.2	0.8	0.6	-1.7	-0.4	-6.5	-1.7
Manufacturing	1.5	2.3	1.7	-0.1	0.7	-0.6	2.7
<b>Services</b>	<b>2.7</b>	<b>3.1</b>	<b>2.8</b>	<b>0.7</b>	<b>0.6</b>	<b>2.8</b>	<b>2.6</b>
Wholesale commerce	1.8	1.8	2.4	1.0	2.1	4.1	8.6
Retail sales	3.1	5.5	3.8	1.0	0.7	4.0	2.6
Transportation and storage	2.2	3.4	3.1	0.1	0.5	0.5	2
Mass media and information	8.5	4.4	6.0	3.5	0.9	14.9	3.6
Financial services	9.0	8.3	6.3	1.3	4.2	5.4	17.8
Real estate	2.1	2.2	1.9	0.4	0.2	1.7	0.8
Professional services	4.1	3.1	1.3	0.3	0.4	1.3	1.7
Corporations	-1.1	0.7	-0.4	-1.4	-2.0	-5.6	-7.9
Business support	3.5	5.5	5.1	0.1	1.2	0.3	5.1
Education	0.4	0.2	0.2	0.9	-0.2	3.7	-0.8
Healthcare	2.0	3.3	2.5	-0.3	0.5	-1.3	2.2
Recreation, sports and cultural events	0.2	1.9	0.2	-1.5	2.3	-5.9	9.6
Temporary lodging services	0.3	0.7	1.0	0.1	0.5	0.2	2
Other services	-1.1	-1.4	-1.1	0.2	0.0	0.8	-0.2
Government activities	-0.7	0.5	1.8	-0.4	-2.5	-1.7	-9.8

Source: INEGI

**We maintain our 2019 GDP forecast at 1.5% yoy, slightly below consensus at 1.8%.** The full-year 2018 performance remained unchanged at 2%, but in our view the details of the report signal the need for more caution from the one we had already incorporated in our outlook for 2019. In particular, it is our take that a limited but negative impact stemming from transitory factors in the domestic front (railway blockades, delay in gasoline distribution, and strikes in Tamaulipas) suggests weakness will likely extend at least to 1Q19. We maintain our 1.5% yoy GDP forecast for this year, with a renewed focus on the performance of the secondary and tertiary sectors after today's revisions (given that they suggest a weaker starting position into this year) and the uncertainty about the magnitude of the combined impact that the events already described could have had. Moreover, global economic activity has decelerated, including in the US, with other drivers in that country such as the government shutdown potentially adding headwinds to an already weakened manufacturing sector.

We will be attentive to Banxico's Quarterly Report on Wednesday, in which we expect the central bank to revise lower its GDP forecasts, particularly for 2019, with the mid-point of the forecast range estimated to be downgraded 30bps to 1.9% from 2.2% yoy. For details, see: "*Ahead of the curve*", <[pdf](#)>, February 22, 2019. Moreover, consensus according to the latest central bank survey is at 1.8%, a figure that we believe could be lowered in coming months. All in all, we believe consumption and net exports will be the main factors of support for growth this year, but with a high likelihood that both moderate. Moreover, government spending could contract, particularly in 1H19 given the usual slowdown in the first year of a new federal administration, which could be coupled with weaker investment, particularly from the private sector.

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