February's IGAE – Building momentum

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- **Global economic indicator, IGAE (February): 2.3% yoy; Banorte-Ixe: 3%; consensus: 2.4% (range: 2.2% to 3%); previous: 2.3%**
- **February's 2.3% yoy growth was explained by a gradual recovery of the services**
- **In seasonally adjusted terms, economic activity remained unchanged (+1.9% 3m/3m saar), while industrial activity expanded 0.2% m/m**
- **Despite the slow beginning in the first quarter of the year, we believe that the Mexican economy will begin to show a more visible recovery**

February's 2.3% yoy growth explained by a gradual recovery of the services. *INEGI* just released its February's Global Economic Indicator (IGAE) report showing that economic activity expanded 2.3% yoy, below our 3% estimate (consensus: 2.4%). However, *INEGI* revised its January's figure to 2.3% yoy from 2%. Taking a look at the breakdown, industrial production grew 1.6% yoy, while the services sector increased 2.6%.

As we mentioned in our February's IP report, manufacturing output grew 4% yoy, as a result of the significant depreciation of the Mexican currency. Moreover, construction sector showed, for the ninth time in 20 months, a positive rate of expansion (1.1% yoy), which was explained by the recovery in private investment projects. However, given the fall in Mexico's oil production, mining activity declined 3.8% adding eleven consecutive months in contraction. Finally, utilities expanded 3.8% yoy.

Moreover, services increased 2.6% yoy, as a result of a 3.6% expansion in trade. Similarly, transportation and information in mass media services grew 3.4% yoy, while recreational services increased by 5% yoy. However, professional and educational services grew 0.5% and 0.3%, respectively, while financial services increased a scant 1.1%yoy, as shown in the next table.

In seasonally adjusted terms, economic activity remained unchanged. Taking a look at the breakdown, industrial output increased 0.2% m/m, as a result of a 1% m/m expansion in manufacturing production, and a significant 2.2% m/m reduction in construction output. Moreover, the services sector posted no significant changes. However, we highlight the expansion observed in recreational services (1% m/m), housing services (+1.3% m/m), and the fall observed in trade (-0.4% m/m) and financial services (-0.3% m/m). Finally, primary activities decreased 5.1% m/m. With these figures, economic activity posted a 1.9% 3m/3m saar growth, as shown in the chart below.

Global economic indicator: February 2015

%yoy	Feb-15	Feb-14	Jan-Feb, '15	Jan-Feb, '14
Total	**2.3**	**1.7**	**2.3**	**1.3**
Agriculture	**3.4**	**7.7**	**9.6**	**2.0**
Industrial production	**1.6**	**0.7**	**1.2**	**0.9**
Mining	-3.8	-0.4	-4.8	-0.5
Utilities	3.8	0.6	3.4	0.8
Construction	1.1	-2.5	3.6	-2.3
Manufacturing	4.0	2.7	2.7	3.0
Services	**2.6**	**1.9**	**2.5**	**1.6**
Comerce	3.6	2.1	3.5	1.6
Transport	3.4	1.9	3.6	1.5
Financial services	1.1	2.3	1.6	2.2
Professional services	0.5	0.5	1.2	-1.3
Educational services	0.3	0.8	0.0	0.9
Recreational services	5.0	1.3	4.1	1.8
Housing services	4.6	2.7	3.8	3.0
Government services	7.1	3.2	4.6	3.2

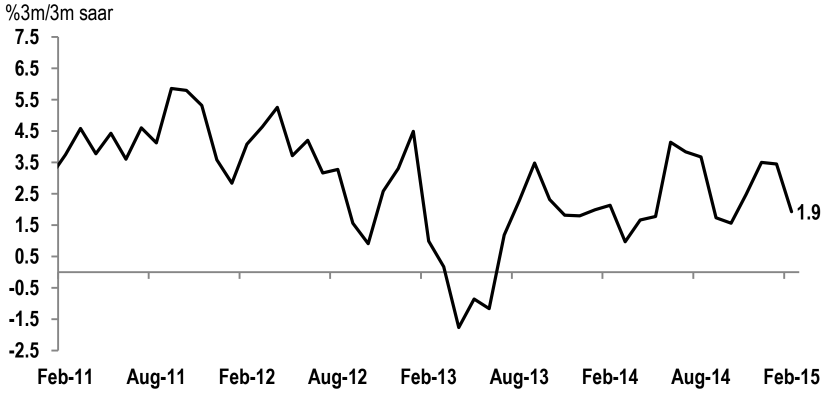
Source: INEGI

Global economic indicator: February 2015
seasonally adjusted figures

%m/m sa	Feb-15	Jan-15	Difference
Total	0.0	0.4	-0.4
Agriculture	-5.1	6.6	-11.7
Industrial production	0.2	-0.1	0.3
Services	0.0	0.4	-0.4

Source: INEGI

Global economic indicator
%3m/3m saar



Source: Banorte-Ixe

Despite the slow beginning in the first quarter of the year, we believe that the Mexican economy will begin to show a more visible recovery. Mexico's manufacturing sector will show better growth dynamics derived from the higher growth prospects in both private consumption and manufacturing production in the U.S., and the significant depreciation of the Mexican currency. Similarly, we believe that domestic demand is beginning to show a more visible recovery given the following factors: (1) The better growth dynamics in the manufacturing sector, which will eventually translate into better growth prospects for certain sectors related to this industry, such as trade and transport services; (2) the recovery of the labor market; (3) the recent downward trend in inflation that will hold throughout the year; and (4) the recovery in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

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