

## 2Q19 GDP stagnated, but avoids a ‘technical recession’

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- **Gross Domestic Product (2Q19 F): -0.8% yoy; Banorte: -0.8%; consensus: -0.8% (range of estimates: -0.9% to -0.6%); preliminary figure: -0.7%**
- **Compared to preliminary data, industrial activity and services were revised down, at -3% yoy (from -2.8%) and 0% (from 0.1%), in the same order**
- **In seasonally-adjusted terms, activity stagnated during the period, with null growth (0.0% q/q), below the 0.1% of the preliminary report. Secondary activities remain as the weak spot, revised to -0.2% and adding three consecutive quarters in contraction**
- **The report confirms that the economy managed to avoid a so-called ‘technical recession’, defined as two consecutive quarters in contraction**
- **In addition, June’s IGAE stood at -0.9% yoy (+0.2% m/m), weaker than the figure implied by the preliminary estimate around -0.5% yoy. Services were weak, as they stalled to 0.0% m/m**
- **We maintain our 2019 GDP forecast at 0.8% yoy, expecting a slightly weaker performance on services when compared to our previous estimates**
- **Economic activity provides additional support to our call that Banxico will cut the reference rate two more times this year, each by 25bps, in September and December**

**GDP declined 0.8% yoy in 2Q19, 10bps lower than the preliminary estimate.** This figure was in line with both our expectations and consensus. As a result, economic activity in 1H19 was up 0.2%, significantly below the 1.9% observed in the same period of 2018. Nevertheless, quarterly figures are distorted by the timing of the *Holy Week*. Correcting this calendar effect, the economy grew 0.3% yoy sa in 2Q19, also 10bps lower than the preliminary print.

Taking a look at the breakdown, only the secondary sector was revised slightly lower, to 1.7% yoy sa, with primary activities standing at 1.7% and services at 1.0%. We highlight that government activities were down 4.0% yoy sa, below the -3.2% observed in the previous quarter. In our view, this is likely related to austerity measures implemented by the Federal Government, along the usual slowdown of spending in the first year of a new administration. We also note the strong 5.5% decline in corporations, weakest since 4Q13. On a more positive note, transportation held up relatively better at 1.3%, above the 0.5% observed in 1Q19. Additionally, retail sales were pretty strong as they advanced 4.4% in the quarter, although with a relatively weak performance was observed in June according to the report published last Wednesday.

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## GDP 2Q19

% yoy

	Final		Preliminary	
	NSA	SA	NSA	SA
<b>Total</b>	<b>-0.8</b>	<b>0.3</b>	<b>-0.7</b>	<b>0.4</b>
Agricultural	1.4	1.7	1.4	1.7
Industrial production	-3.0	-1.7	-2.8	-1.6
Services	0.0	1.0	0.1	1.0

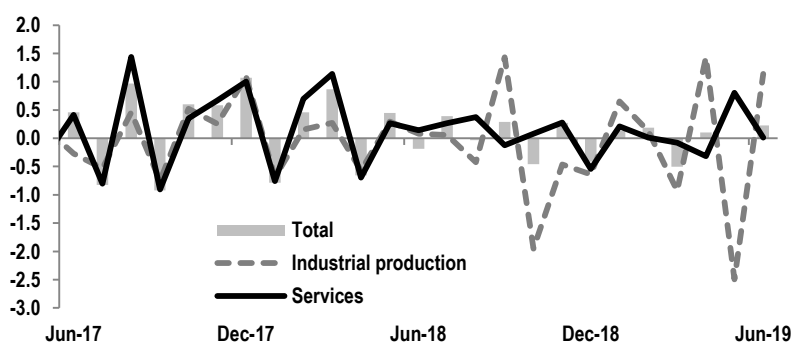
Source: INEGI

**Economic activity was improved in June relative to the previous month, but services stalled.** In particular, the *Global Economic Activity Indicator (IGAE)*, also released today, fell 0.9% yoy nsa, weaker than the implied figure of -0.5% of the preliminary release and consensus expectations at -0.6% (Banorte: -0.8%). Revisions were very mild, with April up from -1.5% to -1.4%, while May was basically unchanged. As already known, industry declined 2.9%. Services declined 0.1% and primary activities stood at 2.5%, adding up to eight months in positive territory.

Despite the contraction in annual terms, activity was stronger when compared to the previous month, advancing 0.2% after a flat performance in May. This was supported by the relative rebound in industry at 1.1% m/m, but only after falling 2.5% in the previous month. More relevant though, we highlight that services decelerated strongly as they were flat relative to May, when they advanced 0.8% m/m. In our view, this is a weak performance, consistent with other data suggesting that domestic demand is faltering.

### GDP monthly proxy (IGAE)

% m/m (sa)



Source: INEGI

**The report confirms that the economy avoided a so-called technical recession.** In particular, GDP in 2Q19 stagnated at 0.0% q/q, below the 0.1% estimated in the preliminary report. In this respect, the report confirmed that the economy avoided two consecutive quarters in contraction, or a so-called ‘technical recession’. Nevertheless, performance in 1Q19 was revised lower by 9bps, to -0.3% from -0.2%, while 4Q18 was higher only 4bps, to 0.1%. Overall results confirm that the economy has decelerated strongly and has been in a weaker position since at least 4Q18.

Taking a look at the breakdown, secondary activities remain as the weak spot, with industrial activity revised lower to -0.2%, adding three consecutive quarters in contraction. The main drag was construction, which plunged 2.9%, while mining fell 1.1%, a similar pace to the previous quarter. On the contrary, manufacturing advanced 1.1%, showing resiliency despite high global trade tensions.

Services advanced 0.2%, not enough to make up for the -0.3% of 1Q19. Eight out of fifteen subsectors were positive, two were basically flat (real estate and government activities), and five in contraction, with professional services (-3.3%) showing the weakest performance. On the contrary, we highlight that retail sales accelerated to 1.7% from 0.9%, while other services grew 2.9%.

#### GDP

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

	% yoy nsa		% yoy sa		% q/q		% q/q saar	
	2Q19	1Q19	2Q19	1Q19	2Q19	1Q19	2Q19	1Q19
<b>Total GDP</b>	-0.8	1.2	0.3	0.1	0.0	-0.3	0.1	-1.0
<i>Agriculture</i>	1.4	5.7	1.7	5.3	-3.4	1.6	-12.8	6.4
<i>Industrial activity</i>	-3.0	-0.6	-1.7	-2.0	-0.2	-0.5	-0.8	-1.9
Mining	-7.8	-7.6	-8.0	-7.6	-1.1	-1.2	-4.3	-4.9
Utilities	0.7	0.2	1.2	-0.3	1.6	-0.4	6.5	-1.5
Construction	-6.9	-0.7	-5.0	-3.0	-2.9	0.0	-11.3	0.2
Manufacturing	-0.2	1.6	1.5	0.0	1.1	0.0	4.7	0.0
<i>Services</i>	0.0	1.8	1.0	0.9	0.2	-0.3	0.9	-1.1
Wholesale commerce	-4.0	0.5	-1.2	-1.9	-0.6	-2.3	-2.3	-8.8
Retail sales	2.1	2.9	4.4	0.5	1.7	0.9	6.9	3.5
Transportation and storage	0.5	1.1	1.3	0.5	1.2	-0.2	4.7	-0.6
Mass media and information	-5.0	0.1	-4.9	1.0	-1.7	-5.3	-6.7	-19.7
Financial services	2.1	6.3	2.4	6.4	-0.8	-0.9	-3.1	-3.5
Real estate	1.0	1.7	1.0	1.5	0.0	0.4	0.2	1.7
Professional services	-2.7	5.6	-1.4	4.1	-3.3	1.0	-12.6	4.1
Corporations	-5.0	-3.0	-5.5	-2.4	0.4	-2.0	1.7	-7.6
Business support	5.8	7.7	5.8	7.6	1.5	2.4	6.0	10.1
Education	-1.7	1.4	-0.1	-0.3	-0.2	-0.2	-0.9	-0.8
Healthcare	1.2	1.2	1.1	1.3	0.7	0.2	2.8	0.9
Recreation, sports and cultural events	0.3	-2.4	0.2	-1.7	2.3	-2.1	9.4	-8.2
Temporary lodging services	2.1	-1.3	1.1	-0.3	1.5	-0.6	6.0	-2.4
Other services	3.6	-0.1	3.8	-0.3	2.9	0.2	12.2	0.9
Government activities	-3.8	-3.1	-4.0	-3.2	0.0	-0.7	-0.2	-2.7

Source: INEGI

**We maintain our 2019 GDP forecast at 0.8% yoy.** With the report in line with our expectations, we reiterate our estimate for full-year 2019 of 0.8% yoy (see table below). In particular, we currently anticipate GDP in 3Q19 at 1.0% and 4Q19 at 1.6%. In this respect, it is important to say that activity was up only 0.2% in the first half, with our forecasts implying a better performance in the second half, to 1.3% yoy.

As stated when the preliminary report was published, we believe that dynamism in services will gradually recover in the rest of the year, particularly as social programs gather pace and government spending normalizes, along the help that may be provided after the recent announcement of the Ministry of Finance to accelerate infrastructure and consumption spending. For details, see: “*Mexico – MoF Undersecretary and announces measures to support economic activity*”, [pdf](#), July 30, 2019. Nevertheless, we think that some of the latest data keeps sending warning signs about its pace of advance. Therefore, we reduce slightly our forecast for services growth this year, to 1.5% from 1.6% yoy.

On the contrary, manufacturing activity has stayed resilient, which could help industry despite global trade tensions. In particular, data released so far for July seem to suggest that activity gained pace, with US industrial production and auto exports stronger when compared to the previous month. Moreover, we believe construction may improve gradually after the very weak performance observed in 2Q19, also helped by some plans to reactivate the sector. Although we anticipate secondary activities will contract this year in a challenging global context, we adjust our full-year forecast slightly higher, from -1.5% to -1.4% yoy.

Regarding monetary policy, it is our take that the report supports further our view that Banxico will cut the reference rate two more times this year, each by 25bps, in September and December. As a result, the reference rate would end this year at 7.50%. In our view, the central bank is increasingly concerned about the growth and more comfortable with the outlook inflation going forward, expecting even lower demand-side pressures and a widening output gap. In this respect, we estimate the output gap at -0.8% of potential GDP based on the monthly-proxy (IGAE), in negative territory since December.

#### GDP growth forecasts

% yoy, nsa

	1Q19	2Q19	3Q19f	4Q19f	2019f	2020f
<b>GDP (aggregate supply)</b>	<b>1.2</b>	<b>-0.8</b>	<b>1.0</b>	<b>1.6</b>	<b>0.8</b>	<b>1.4</b>
Primary sector	5.7	1.4	3.7	2.4	3.2	1.0
Secondary sector	-0.6	-3.0	-1.5	-0.4	-1.4	0.5
Tertiary sector	1.8	0.0	2.0	2.4	1.5	1.9
<b>GDP (aggregate demand)</b>	<b>1.2</b>	<b>-0.8</b>	<b>1.0</b>	<b>1.6</b>	<b>0.8</b>	<b>1.4</b>
Private consumption	1.1	<u>0.5</u>	<u>1.6</u>	<u>2.2</u>	<u>1.4</u>	<u>1.9</u>
Investment	-0.9	<u>-7.3</u>	<u>-2.4</u>	<u>-0.9</u>	<u>-2.9</u>	<u>0.4</u>
Government spending	-0.8	<u>-1.3</u>	<u>-0.2</u>	<u>0.6</u>	<u>-0.4</u>	<u>0.5</u>
Exports	2.0	<u>4.1</u>	<u>5.5</u>	<u>6.5</u>	<u>4.6</u>	<u>3.2</u>
Imports	1.7	<u>0.6</u>	<u>0.8</u>	<u>1.0</u>	<u>1.0</u>	<u>2.5</u>

Source: Banorte

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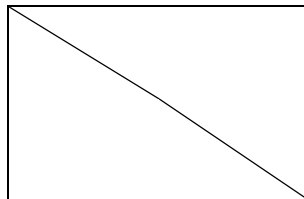
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