

1Q19 GDP revised down to 1.2% yoy, dragged by industry and services

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- **Gross Domestic Product (1Q19 F): 1.2% yoy; Banorte: 1.4%; consensus: 1.3% (range of estimates: 1.0% to 1.5%); preliminary figure: 1.3%**
- **Compared to preliminary data and using original figures, only primary activities were revised slightly lower, from 5.9% to 5.8% yoy nsa. Industry and services remained at -0.6% and +1.9%, respectively**
- **In seasonally-adjusted terms, the economy fell -0.2% q/q (-0.7% saar), in line with the preliminary report. It is relevant to note that services declined 0.2%, its first contraction since 2Q13**
- **In this respect, March's IGAE stood at 1.3% yoy, quite weak considering it was benefitted by a calendar effect. Adjusting for this, activity contracted 0.6% m/m**
- **Moreover, January and February were revised lower by 5bps in each case, to 1.2% and 1.1% yoy, respectively, helping explain the reduction in 1Q19 GDP relative to the preliminary estimate**
- **We maintain our 2019 GDP forecast at 1.5% yoy, with risks skewed further to the downside**

GDP expanded 1.2% yoy in 1Q19, 10bps lower than the preliminary estimate. Nevertheless and as already mentioned in previous publications, this figure is distorted by a favorable base effect due to the Easter holiday. Correcting for the latter, the economy grew only 0.1% yoy sa. Taking a look at the breakdown, the primary sector surged 5.6% yoy sa. Industrial activity fell 2.1%, weakest since 4Q09, in the aftermath of the financial crisis. In our view, this confirms that the sector was indeed impacted by local transitory shocks, coupled with the global slowdown in trade. In particular, manufacturing decreased 0.1%, its first decline since 2Q13. Moreover, construction was also a heavy drag at -2.7%, in our view impacted by heightened uncertainty.

On the other hand, services slowed-down to 1.0% from 2.6% in the previous quarter. Considering weakness in manufacturing and specific shocks to this sector, transportation was also affected as it stood flat. Retail sales were also significantly more modest at +0.4% from 3.0% in the previous quarter. Lastly and in line with previous expectations, government services showed the highest decline as they fell 3.1%, impacted by the start of a new federal administration.

GDP 1Q19

% yoy

	Final		Preliminary	
	NSA	SA	NSA	SA
Total	1.2	0.1	1.3	0.2
Agricultural	5.8	5.6	5.9	5.6
Industrial production	-0.7	-2.1	-0.7	-2.1
Services	1.9	1.0	1.9	1.0

Source: INEGI

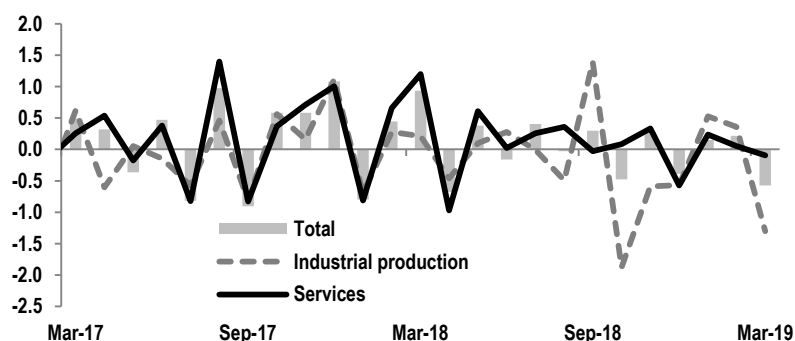
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Economic activity plunged in March. In particular, the *Global Economic Activity Indicator* (IGAE), also released today, grew 1.3% yoy nsa, in line with the implied figure based on the preliminary release. Nevertheless, data for January and February were revised lower by 5bps each to 1.2% and 1.1%, respectively. As a result of the latter, 1Q19 GDP was revised an inch lower to round-down to 1.2% instead of 1.3% in the preliminary report.

As previously mentioned, March figures are distorted to the upside. Correcting for this, activity declined 0.6% yoy sa, its first contraction since 2009. Moreover, it is consistent with a monthly decline of the same magnitude when compared to February. This is significantly weaker than the expansion of 0.2% observed in each of the first two months of the year, explaining the turnaround to a 0.2% contraction in sequential GDP.

GDP monthly proxy (IGAE)

% m/m (sa)



Source: INEGI

GDP contracted 0.2% q/q after barely growing in the previous quarter, confirming the slowdown in economic activity. In particular, 4Q18 GDP was revised down to 0.03% from 0.2% GDP, with the highest downward revision in services. Taking a look at the 1Q19 breakdown, only primary activities were positive at 2.6%. Secondary activities added two consecutive quarters in contraction at -0.6% from -1.3%. In this sector, construction was the only positive component at 0.8%. Manufacturing retraced 0.4% and mining added five quarters of decline at -1.4%, with oil production likely staying as a drag to performance.

Lastly and on a more negative note, services fell 0.2%, its first decline since 2Q13. Only 5 out of 15 subsectors were positive, dragged by components such as mass media (-5.4%), corporates (-2.2%) and wholesales (-1.9%). Retail sales managed to stay positive at 0.7%, while real estate –the sector with the highest weight– grew at the same rate.

GDP

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

	% yoy nsa		% yoy sa		% q/q		% q/q saar	
	1Q19	4Q18	1Q19	4Q18	1Q19	4Q18	1Q19	4Q18
Total GDP	1.2	1.7	0.1	1.6	-0.2	0.0	-0.7	0.1
<i>Agriculture</i>	5.8	2.9	5.6	2.8	2.6	2.8	10.7	11.6
<i>Industrial activity</i>	-0.7	-0.9	-2.1	-0.8	-0.6	-1.3	-2.2	-4.9
Mining	-7.6	-7.3	-7.6	-7.2	-1.4	-4.0	-5.3	-15.0
Utilities	-0.7	1.4	-1.3	1.5	-1.3	-1.6	-5.1	-6.1
Construction	-0.8	-2.2	-2.7	-1.9	0.8	-1.4	3.0	-5.5
Manufacturing	1.6	1.5	-0.1	1.5	-0.4	-0.4	-1.7	-1.5
<i>Services</i>	1.9	2.7	1.0	2.6	-0.2	0.4	-0.7	1.5
Wholesale commerce	0.8	1.8	-1.5	1.5	-1.9	0.5	-7.2	2.1
Retail sales	2.8	3.0	0.4	3.0	0.7	0.9	2.7	3.7
Transportation and storage	0.7	2.2	0.0	2.0	-0.7	-0.2	-2.7	-0.7
Mass media and information	0.1	8.5	1.1	7.7	-5.4	2.7	-19.9	11.4
Financial services	6.8	9.0	7.1	8.8	0.0	0.9	-0.1	3.5
Real estate	1.9	2.1	1.7	2.3	0.7	0.4	2.8	1.7
Professional services	5.6	4.1	4.9	3.8	2.7	1.0	11.2	4.2
Corporations	-3.0	-1.1	-2.4	-0.9	-2.2	-2.1	-8.7	-8.0
Business support	7.7	3.5	7.6	3.7	2.6	0.6	10.9	2.6
Education	1.3	0.4	-0.3	0.2	-0.2	0.6	-0.8	2.5
Healthcare	1.2	2.0	1.3	2.1	0.2	-0.4	0.8	-1.4
Recreation, sports and cultural events	-2.4	0.2	-1.7	0.2	-2.0	-1.7	-7.9	-6.6
Temporary lodging services	-1.3	0.2	-0.3	0.1	-0.7	-0.2	-2.8	-1.0
Other services	0.2	-1.1	-0.3	-1.2	0.0	0.2	-0.1	1.0
Government activities	-3.1	-0.7	-3.1	-0.5	-0.3	-0.8	-1.2	-3.1

Source: INEGI

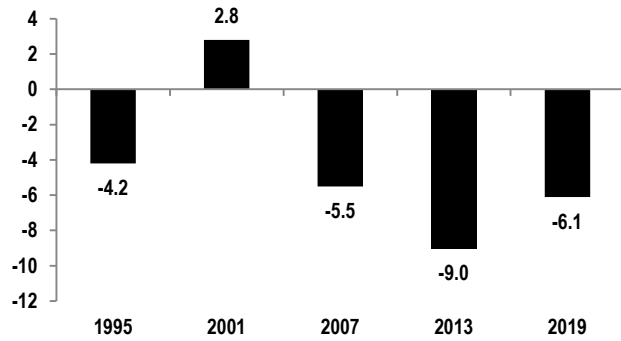
We maintain our 2019 GDP forecast at 1.5% yoy, with risks skewed further to the downside. This heightened risk is mainly due to very weak performance in March. Nevertheless, we maintain our forecast as the economy was impacted by several transitory shocks during the period.

In our view, the most relevant is the signal of a significant slowdown in services despite still positive fundamentals for private consumption, particularly real wage gains and the expectation of higher transfers due to social programs of the Federal Government. In this respect, we still believe that private consumption will be the main growth driver of the economy. However, the period's quarterly contraction provides significant warning signs.

Second, industrial activity is also moderating, which in our view could extend in the short term. Externally, we believe that trade tensions and its dent on global growth will have a more negative impact than the potential advantage from lower uncertainty at the margin regarding the USMCA. In this respect, we had positive news in recent days after the US government lifted tariffs on Mexican exports of aluminum and steel. On the contrary, the approval process is still imbued with political challenges, particularly in the US ahead of the election in 2020.

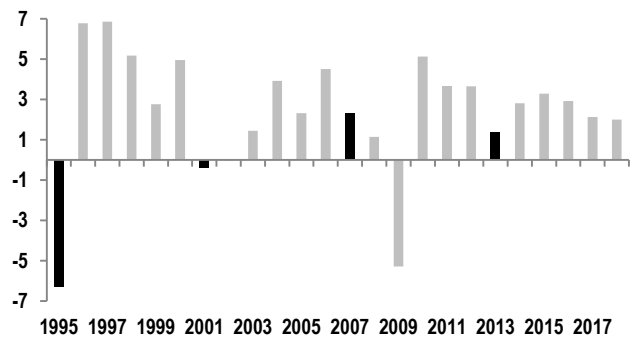
Last but not least, the report confirmed the expected deceleration in government spending (see charts below), reflected within services and construction, particularly when compared to the same period of 2018. In our view, the drag from this factor will lessen during the year as spending from the federal government normalizes. Risks to this are concentrated in the possibility of additional austerity measures in order to comply with fiscal targets in a context of lower revenues due to the slowdown in economic activity.

Budget spending during the first quarter of a new federal administration
% yoy in real terms



Source: MoF

GDP
% yoy



*Note: Bars in black signal the first year of government of a new federal administration
Source: INEGI

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