

## IGAE – Weakness continues despite a marginal improvement in April

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- **Global Economic Activity Indicator (April): -1.4% yoy; Banorte: -0.5%; consensus: -0.4% (range: -1.0% to 2.0%); previous: 1.3%**
- **It should be noted that the annual comparison is negatively impacted by the timing of the Easter Holiday. Adjusting for this effect, economic activity grew 0.3% yoy, better than the -0.6% of the previous month**
- **On a monthly basis, economic activity bounced back 0.1%, not enough to compensate for the 0.5% fall in March. Inside, industrial production was the only component that grew, up by 1.5%.**
- **On a more negative note, services furthered their fall by sliding 0.3% in a context of persistent moderation in the pace of formal job creation and elevated global and domestic uncertainty**
- **Despite of the slight rebound in the month, recent signals suggest that growth will remain limited at least during 2Q19, with downside risks still present to our 1.5% full-year 2019 forecast**

**Economic activity recovers marginally in April.** According to the *Global Economic Activity Indicator (IGAE)*, economic activity fell 1.4% yoy, below both our 0.5% forecast and consensus at 0.4%. It should be noted that this is explained at least in part by a negative calendar effect due to the timing of the Easter Holiday, which subtracted working days in the annual comparison. Adjusting for this, economic activity grew 0.3%, better than the -0.6% of the previous month.

Inside, and using seasonally adjusted figures, primary activities expanded 1.9%, lowest since October. As published previously, industrial production fell 0.4%, with most of the weakness in mining (-8.2%) and construction (-1.5%). In addition, manufacturing grew 3.1%, highest since September 2018. The tertiary sector reached +0.5%, adding three months growing at a pace below 2%. In our opinion, this is a warning sign regarding domestic demand, particularly private consumption. By sectors, four stood in negative territory while three expanded below 1%. Considering this, the only shining light is the 4.2% growth in retail sales. However, this is dimmed as it is partly explained by a favorable base effect. Meanwhile, government services fell 3.2%, with six consecutive months in contraction.

All in all, average performance in March and April –used to neutralize the distortion due to the Easter Holiday– shows a deceleration of 0.1% yoy (using non-seasonally adjusted figures), lower than we forecasted at the start of the year. In this context, activity during the first four months of the year stands at only +0.5%, maintaining significant downside risks to our 1.5% growth forecast for full-year 2019.

However, we believe growth could find some support in the second half due to: (1) A less challenging base effect, particularly considering the expansion of 1.7% yoy in 4Q18; (2) an acceleration in social spending –via direct transfers– by the Federal Government, which according to several sources, have suffered important delays; and (3) some normalization in other government spending, which has been affected by the traditional slowdown in the first year of a new federal administration. Nevertheless, the latter could still be pressured by austerity measures from the new administration.

**On a monthly basis the economy just expanded 0.1%.** This was significantly lower than the expected by the market and not enough to compensate for the 0.5% m/m fall in March. Inside, only IP expanded (+1.5%), in large part by a positive base effect given that it fell 1.2% in the previous month. In this regard, the best performing component was construction at +2.2%. Manufacturing grew 0.6%, adding four months in expansion, resilient despite increased trade tensions.

On the other hand, services fell 0.3%, furthering the 0.2% contraction from the previous month. This deterioration is largely explained by the 1.1% contraction in retail sales, as well as the 3.1% fall in professional services. On a more positive note, transportation edged-up 0.3%, probably explained by the favorable performance in manufacturing, as previously mentioned.

**Global economic indicator: April 2019**

% m/m, sa

	Apr-19	Mar-19	Difference
<b>Total</b>	<b>0.1</b>	<b>-0.5</b>	<b>0.7</b>
Agriculture	-2.6	-2.0	-0.6
Industrial production	1.5	-1.2	2.7
Services	-0.3	-0.2	-0.1

Source: INEGI

In annualized terms, the economy fell 0.5% 3m/3m saar, dragged down by a considerable deceleration in services. However, this was partially offset by the rebound in industrial production, although this sector is still facing significant headwinds going forward.

**Global economic indicator: April 2019**

% 3m/3m saar

	Feb-Apr '19	Jan-Mar '19
<b>Total</b>	<b>-0.5</b>	<b>-0.2</b>
Agriculture	4.0	12.6
Industrial production	0.4	-0.7
Services	-1.3	-0.7

Source: INEGI

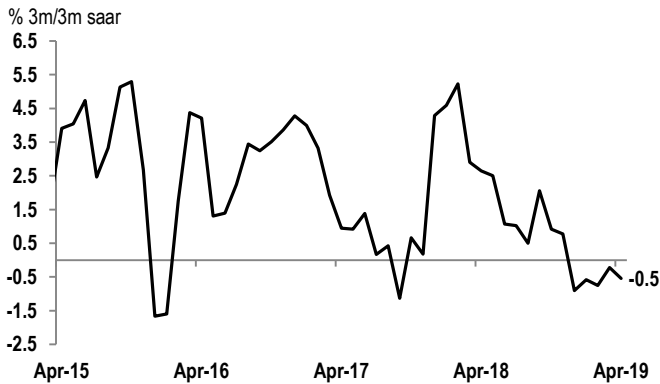
**Growth has been weak, with more negative signals in terms of domestic demand.** It should be noted that the economy barely grew 0.1% m/m even after the strong contraction in the previous month, suggesting that the recent performance is considerably weaker and not only driven by a series of negative shocks experienced at the start of the year. In this regard, the result was disappointing. In addition, it should be noted that the environment remains highly uncertain, both globally and locally, a situation which has had a greater-than-expected impact on economic activity.

In the external front, the greatest concern is still lower dynamism in trade as a result of increased tensions by the US with several of its partners, mostly impacting industry. In this sense, the outlook remains skewed to the downside, exacerbated by recent threats from President Trump towards Mexican exports, a risk which we believe has not been fully eliminated despite the delay in the implementation of tariffs and the recent approval of USMCA by the Mexican Senate. For additional details in this regard, see: “*The Mexican Senate approves USMCA*” <pdf>, published on June 20<sup>th</sup>, 2019. On a more positive note, and as mentioned previously, manufacturing has remained strong despite of this uncertain environment.

On the local side, we consider the fall for a second consecutive month in services as a warning sign about dynamism of domestic demand and consumption, which has been the main driver for growth in the last quarters. Specifically, it should be remembered that this deceleration has been experienced with a persistently slower pace of formal job creation, which has diluted the strong increase in real wages observed since the start of the year. In addition, this occurred despite strength in consumer confidence, which in our opinion is still highly correlated with optimism in the political front as opposed to actual outlays.

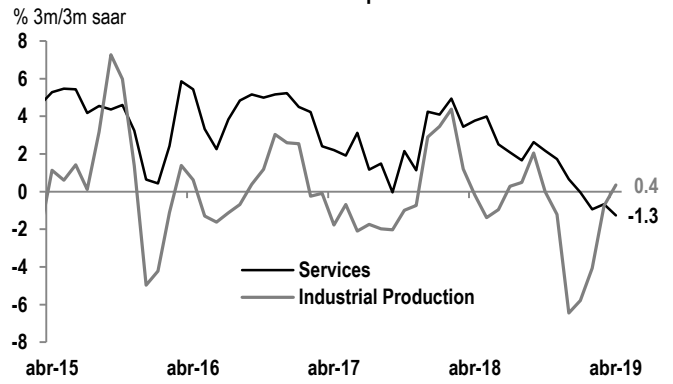
In the very short term, there are some mixed signals. On one hand, IMEF’s PMIs point to further weakness in May. However, other indicators, such as auto exports suggest a better dynamism. In this regard, we are looking forward to the May trade balance report (to be published on June 27<sup>th</sup>), which will provide a clearer picture of economic activity during the month and 2Q19 after the downside surprise in activity during the previous quarter.

**Global economic indicator**



Source: INEGI

**Global economic indicator: Industrial production and services**



Source: INEGI

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