

IGAE – Growth of 1.8% yoy on a better performance in services

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- **Global Economic Activity Indicator, IGAE (November): 1.8% yoy; Banorte: 1.0%; consensus: 1.2% (range of estimates: -0.2% to 2.3%); previous: 2.9%**
- **Economic activity moderated but has stayed relatively resilient, underpinned by services (1.4%) despite the drag in industrial production (-1.3%)**
- **Using seasonally adjusted data, economic activity increased 0.4% m/m, with a better-than-expected performance in retail sales**
- **We maintain our view that growth will decelerate in 4Q18 as December could be impacted by higher inflation and unemployment, although after today's print risks are less skewed to the downside**

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Economic activity stays resilient in November. INEGI just released its *Global Economic Activity Indicator (IGAE)* report for November, in which economic activity increased 1.8% yoy, above our 1.0% forecast and consensus at 1.2%.

Inside the report, primary activities surged 5.1%. As previously published, industrial production fell 1.3% dragged by both construction and mining. Moreover, manufacturing grew 1.4%, moderating relative to the previous month at 2.6%. Once again, the most surprising element was services, increasing 3.0% yoy. In this sector, we highlight the strength in transport (5.4%) in spite of the relative deceleration in manufacturing and given the typically high correlation among them. Additionally, retail sales surged 5.0%, supported in part by better-than-expected results of the *Good Weekend*. On the contrary, we noted the contraction in wholesales (-0.7%), recreational (-0.6%) and government services (-0.5%).

Global economic indicator: November 2018

% yoy, nsa

	Nov-18	Nov-17	Jan-Nov'18	Jan-Nov'17
Total	1.8	1.6	2.1	2.0
Agriculture	5.1	7.7	2.5	3.7
Industrial production	-1.3	-1.3	0.4	-0.3
Mining	-8.0	-7.4	-5.2	-8.3
Utilities	0.8	3.1	2.4	-0.4
Construction	-3.3	-5.5	1.1	-1.3
Manufacturing	1.4	2.4	1.8	3.1
Services	3.0	2.6	2.9	3.1
Wholesale	-0.7	7.1	2.6	4.4
Retail	5.0	0.2	4.2	3.0
Transport	5.4	6.3	4.2	15.9
Financial services	4.5	1.2	3.0	-1.6
Professional services	4.3	1.7	4.1	-2.6
Educational services	1.2	1.0	0.8	-3.7
Recreational services	-0.6	-1.3	-1.7	4.2
Housing services	1.2	4.8	1.3	12.7
Government services	-0.5	-0.2	2.3	-9.0

Source: INEGI

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Using seasonally adjusted figures, the economy picked up 0.4% m/m after contracting in October. This expansion is the highest since last June, exhibiting a stronger than expected performance in services as only two out of nine subsectors grew relative to the previous month. In particular, we highlight the 2.9% increase in retail sales, alluding to the strength of consumption as the main growth driver and in spite of a deceleration in monthly job creation. In this respect, sector dynamics definitely surprised us positively. Additionally, primary activities surged 9.2% while industrial activity fell 0.6%, with the outlook for the latter still skewed to the downside given the deceleration in global trade.

Global economic indicator: November 2018

% m/m, sa

	Nov-18	Oct-18	Difference
Total	0.4	-0.3	0.7
Agriculture	9.2	-3.0	12.2
Industrial production	-0.6	-1.7	1.1
Services	0.4	0.2	0.2

Source: INEGI

In annualized terms, the economy expanded 1.3% 3m/3m saar, matching the figure reached last month. By this metric, only the primary sector rebounded meaningfully, with the other two actually decelerating for a second month in a row suggesting that surprises in the annual comparison could be motivated by base effects, and that economic activity will likely moderate in 4Q18, as expected.

Global economic indicator: November 2018

% 3m/3m saar

	Sep-Nov '18	Aug-Oct '18
Total	1.3	1.3
Agriculture	6.5	-5.0
Industrial production	-1.5	0.3
Services	2.9	3.1

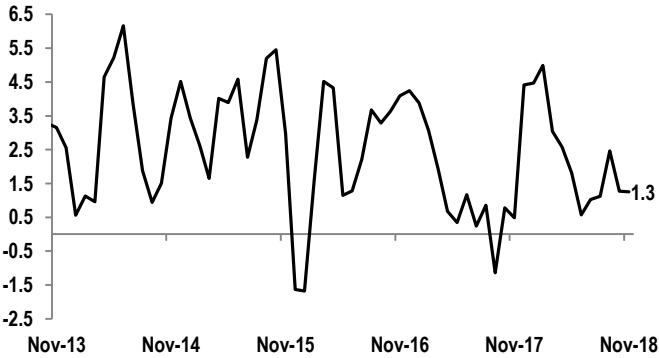
Source: INEGI

We maintain our forecast that economic activity will decelerate in 4Q18.

Nevertheless, we recognize that risks are less skewed to the downside due to the resiliency in services, as warned on the previous month's report. In this respect, higher local uncertainty at the end of October and the beginning of November have not had an effect as adverse as expected. On the contrary, we still believe that one potentially negative effect for the last month of the year, particularly for services, is the significant upward surprise in inflation coupled with higher unemployment during the month. We maintain our view that economic activity ended the year on a weaker footing, waiting for the release of the first estimate of 4Q18 GDP next week. For the annual figure to end at our 2.1% yoy forecast, GDP could range between 1.87-2.26%. Despite of this, we still do not expect a significant shift in growth relative to potential GDP, while we reiterate our view that growth could be lower in 2019, particularly during the first half of the year.

Global economic indicator

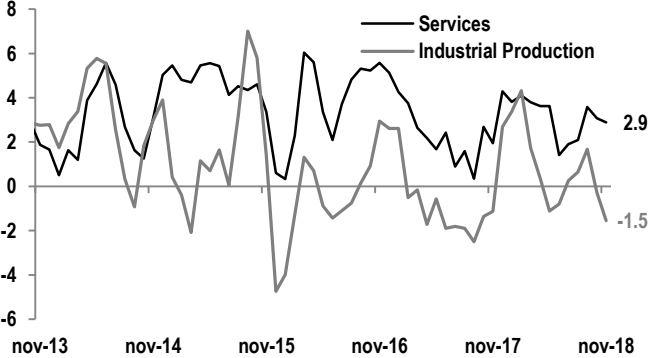
% 3m/3m saar



Source: INEGI

Global economic indicator: Industrial production and services

% 3m/3m saar



Source: INEGI

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