

## 2Q19 GDP – The Mexican economy continues to decelerate, but avoided a ‘technical recession’

- **Gross Domestic Product (2Q19, nsa): -0.7% yoy; Banorte: -0.5%; consensus: -0.3% (range of estimates: -0.7% to 0.8%); previous: 1.2%**
- **Gross Domestic Product (2Q19, sa): +0.1% q/q; Banorte: -0.2%; consensus: -0.2% (range of estimates: -0.8% to 0.2%); previous: -0.2%**
- **In this respect, economic activity did not observe two consecutive quarters in negative territory, avoiding a so-called ‘technical recession’**
- **By components, primary activities contracted 3.4% q/q, industrial activity was flat, and services grew 0.2%**
- **Taking into account that the monthly GDP-proxy, IGAE, fell 0.9% yoy on average in April-May, today’s figure would imply a -0.1% decline in June, suggesting that activity at the end of the quarter remained relatively weak**
- **As a result, the economy grew about 0.2% yoy in 1H19, lower than the 1.9% of the same period of 2018**
- **We maintain our full-year 2019 GDP forecast of 0.8% yoy, anticipating a contraction in industry and a slowdown in services**
- **The revised figure will be published on August 23<sup>rd</sup>**

**The Mexican economy contracted 0.7% in 2Q19.** This figure was lower than consensus at -0.3% and closer to our forecast of -0.5%. It is worth noting that this is the first time of an annual contraction since 4Q09. Nevertheless, it should also be remembered that this print is distorted by the timing of the Easter holiday, which was in April during 2019 vs. March in 2018, subtracting labor days to the annual comparison. Adjusting for the latter, the economy grew 0.3% yoy. The primary sector advanced 1.4% yoy nsa (1.7% yoy sa), lower than in the previous quarter, which was highly likely given that the latter figure was very strong. As already expected, industry contracted and was the main driver of the muted result, falling 2.8% (-1.6%, adjusted). Last but not least, services grew 0.1% (1.0%, adjusted), with the seasonally-adjusted data matching the result observed in 1Q19.

In the quarterly comparison, GDP increased 0.1%, stronger than consensus (-0.2%) and without observing two consecutive quarters in negative territory, as the market was expecting. It should be noted that this result was observed in an environment of high uncertainty, both domestic and external, amid several temporary shocks and the first year of a new administration, a combination which underlies our recent downward revision of full-year 2019 GDP from 1.5% to 0.8% yoy. For details, see: “*Mexico – Economic activity decelerates more than expected*”, <[pdf](#)>, July 22<sup>nd</sup>, 2019.

July 31, 2019

www.banorte.com  
@ analisis\_fundam

**Gabriel Casillas**

Chief Economist and Head of Research  
gabriel.casillas@banorte.com

**Delia Paredes**

Executive Director of Economic Analysis  
delia.paredes@banorte.com

**Juan Carlos Alderete, CFA**

Senior Economist, Mexico  
juan.alderete.macal@banorte.com

**Francisco Flores**

Economist, Mexico  
francisco.flores.serrano@banorte.com

Document for distribution among  
public

Relative to 1Q19, primary activities stood at -3.4% q/q, which is not that surprising considering the strong 2.6% advance of the previous quarter. Industrial activity was unchanged, but only after two consecutive quarters in contraction. Lastly, services remained limited at +0.2% (previous: -0.2%).

### GDP

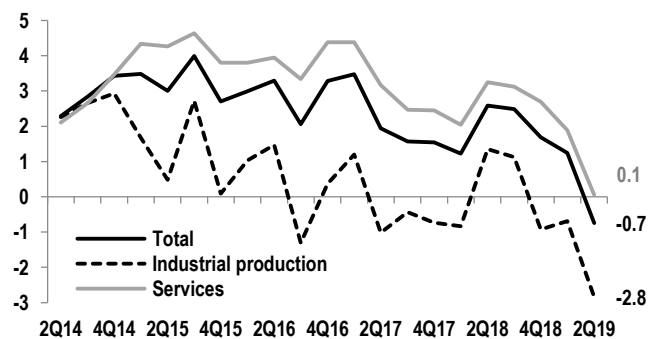
% yoy (nsa); % q/q (sa)

% yoy, nsa	2Q19	1Q19	2Q18	1Q18	1H19	1H18
<b>Total</b>	<b>-0.7</b>	<b>1.2</b>	<b>2.6</b>	<b>1.2</b>	<b>0.2</b>	<b>1.9</b>
Agricultural	1.4	5.8	1.3	3.1	3.5	2.2
Industrial Production	-2.8	-0.7	1.3	-0.8	-1.8	0.3
Services	0.1	1.9	3.2	2.0	1.0	2.6
% yoy, sa	2Q19	1Q19	2Q18	1Q18	1H19	1H18
<b>Total</b>	<b>0.4</b>	<b>0.1</b>	<b>1.5</b>	<b>2.2</b>	<b>0.3</b>	<b>1.9</b>
Agricultural	1.7	5.6	1.5	2.8	3.6	2.1
Industrial Production	-1.6	-2.1	0.1	0.2	-1.8	0.2
Services	1.0	1.0	2.3	2.9	1.0	2.6
% q/q, sa	2Q19	1Q19	2Q18	1Q18	1H19	1H18
<b>Total</b>	<b>0.1</b>	<b>-0.2</b>	<b>-0.4</b>	<b>1.3</b>	--	--
Agricultural	-3.4	2.6	-0.8	-0.2	--	--
Industrial Production	0.0	-0.6	-0.4	0.7	--	--
Services	0.2	-0.2	0.0	1.4	--	--

Source: INEGI

### GDP

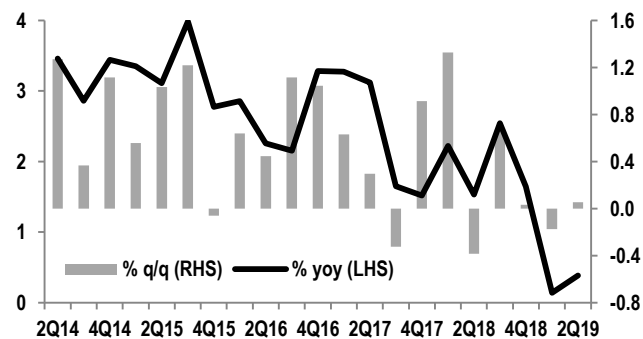
% yoy nsa



Source: INEGI

### GDP

% yoy sa; q/q sa



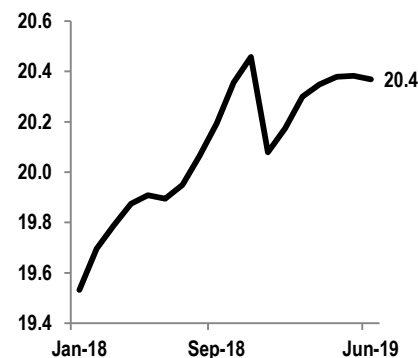
Source: INEGI

During the first two months of the quarter, growth averaged -0.9% yoy according to the monthly GDP-proxy, so today's figure implies a slight decline in June (-0.1% yoy nsa). June data released so far suggest a weak environment for domestic demand, in particular in terms of private investment, along some deceleration in the external front (see: "*Mexico – Weakness across the board in June*", [pdf](#), July 26<sup>th</sup>, 2019). IMEF indices fell when compared to May, with both in contraction territory, while other indicators such as auto production according to *AMIA* and same-store sales by *ANTAD* and *Walmart* were also weaker at the margin.

**The Mexican economy avoided a so-called ‘technical recession’.** In this context, and contrary to some market participants, we consider that the economy is not in recession. In particular, our preferred definition is the one by the National Bureau of Economic Research (NBER), which states it as follows: “...a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales...”<sup>1</sup>. Given that it is not a strictly numerical definition, an independent, nine-person committee of renowned economists define and set the official date of recessions. Based on the latter, we argue that Mexico is not in a recession as we have not observed a significant increase in the unemployment rate, while formal job creation, retail sales and wholesales keep growing, in spite of doing so at a more modest pace than in the previous year (see charts below)

**Formal employees\***

Million workers

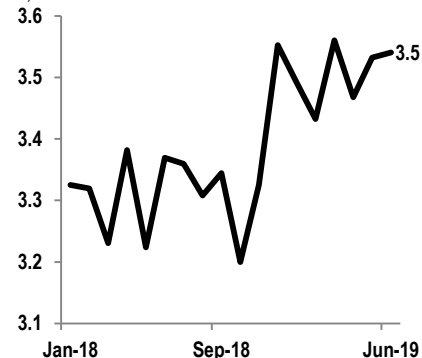


\*Number of insured workers with Social Security from IMSS

Source: IMSS, Labor Ministry

**Unemployment rate**

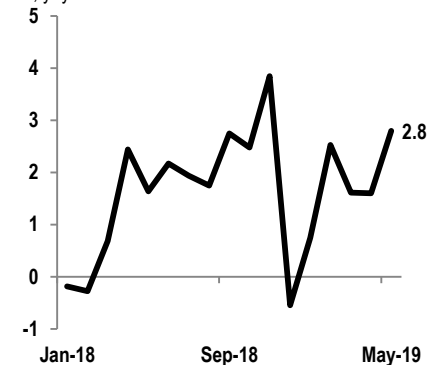
%, sa



Source: Banorte with data from INEGI

**Retail sales**

%, yoy



Source: Banorte with data from INEGI

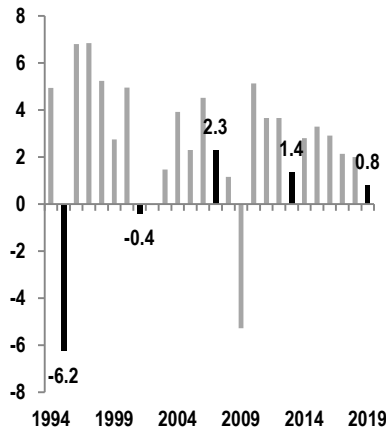
**We reiterate our 2019 GDP forecast at 0.8% yoy.** In our view, the report is consistent with our recent estimate revision. First of all, since early 2018 we had anticipated that the typical slowdown in public spending at the start of a new federal administration would subtract around 50bps to the annual rate, to 1.8%. As we have mentioned before, a significant deceleration of activity has been observed in the first year of recent administrations (see chart below, left). On one hand, the private sector postpones investments due to electoral uncertainty. Moreover, new administrations have tended to make personnel changes, which are charge of executing investment outlays and spending, resulting in a slowdown. In February 2019, we made an additional adjustment, mainly due to a series of transitory shocks during the first quarter (delay in fuel distribution, strikes in Tamaulipas, and railway blockades), which subtracted around 33bps to GDP, implying an expansion of 1.5%.

Moreover, the Mexican economy keeps facing other headwinds, in particular: (1) Suspension of construction projects in Mexico City; and (2) lower-than-expected investments of the private sector, impacted by low confidence levels, with additional effects on aggregate demand and consumption. We estimate these two factors to subtract an additional 70bps to growth in 2019, resulting in our new forecast of 0.8%, as shown in the chart below on the right.

<sup>1</sup> Source: NBER, <https://www.nber.org/cycles.html>

### GDP in the first year of a new administration

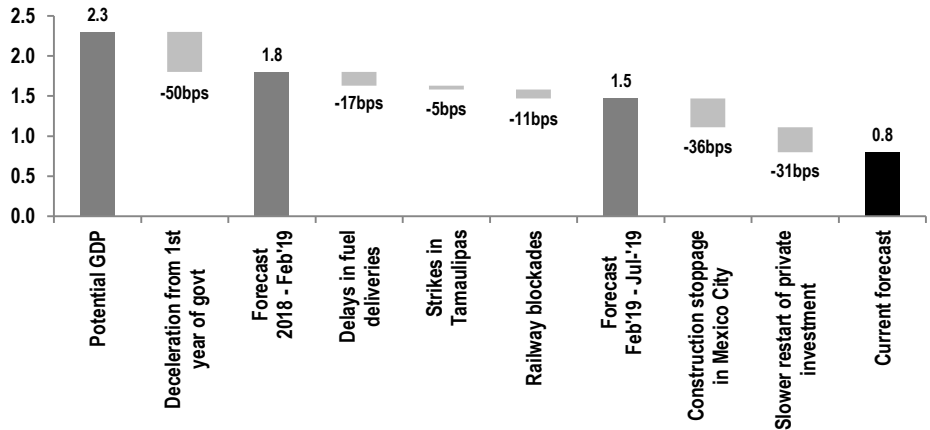
% yoy



Source: Banorte with data from INEGI

### 2019 GDP growth forecast

% and contribution in bps



Source: Banorte with data from INEGI

Going forward and in terms of aggregate demand (with 2Q19 data to be released until September 20<sup>th</sup>), we anticipate a 2.9% full-year contraction in investment and of -0.4% in government spending, both impacted by the typical slowdown during the first year of a new Federal Administration. In this respect, on Monday, the Ministry of Finance announced a series of measures aimed to accelerate infrastructure and consumption spending for the rest of the year. For details, see: “Mexico – MoF Undersecretary and announces measures to support economic activity”, <[pdf](#)>, July 30, 2019. We still believe government expenditures will normalize gradually, with a more sizable impact on GDP until 2020. Moreover, we anticipate a moderation in consumption growth to 1.4% relative to the 2.2% advance observed in 2018.

Analyzing figures from the supply-side, it is our take that dynamism in services will gradually recover in the rest of the year, albeit recognizing that the previous report provided some warning signs about its pace of advance, which in our view were confirmed today. On the other hand, industry would contract on an annual basis. Global signals for manufacturing suggest a still challenging backdrop, including in the US. Broadly speaking, we believe that high local uncertainty is taking a toll on decisions made by both companies and consumers. Moreover, trade tensions and lower global growth prospects will likely continue affecting our country given its status as a small and open economy.

Detailed forecasts are shown in the table below:

**GDP growth forecasts**

% yoy, nsa

	1Q19	2Q19	3Q19f	4Q19f	2019f	2020f
<b>GDP (aggregate supply)</b>	<b>1.2</b>	<b>-0.7</b>	<b>1.0</b>	<b>1.5</b>	<b>0.8</b>	<b>1.4</b>
Primary sector	5.8	1.4	3.6	2.3	3.2	1.0
Secondary sector	-0.7	-2.8	-1.6	-0.7	-1.5	0.5
Tertiary sector	1.9	0.1	2.0	2.3	1.6	1.9
<b>GDP (aggregate demand)</b>	<b>1.2</b>	<b>-0.7</b>	<b>1.0</b>	<b>1.5</b>	<b>0.8</b>	<b>1.4</b>
Private consumption	1.1	<u>0.6</u>	<u>1.6</u>	<u>2.2</u>	<u>1.4</u>	<u>1.9</u>
Investment	-0.9	<u>-7.2</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>0.4</u>	<u>-0.4</u>	<u>0.5</u>
Exports	2.0	<u>4.1</u>	<u>5.5</u>	<u>6.4</u>	<u>4.6</u>	<u>3.2</u>
Imports	1.7	<u>0.6</u>	<u>0.8</u>	<u>1.1</u>	<u>1.0</u>	<u>2.5</u>

Source: Banorte

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

## Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

Reference	
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Luis Leopoldo López Salinas	Analyst, Global Economist	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials / Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts / Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454