

July's IGAE – Domestic demand stands out as Mexico's main growth engine

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- **Global economic indicator, IGAE (July): 1.95% yoy; Banorte-Ixe: 1.8%; consensus: 2.15% (range: 1.47% to 2.7%); previous: 3.24%**
- **July's 1.95% yoy growth was explained by the recovery of domestic demand**
- **In seasonally adjusted terms, economic activity posted a 0.1% m/m expansion**
- **We continue to believe that the Mexican economy will show a more visible recovery in the second half of the year**

July's 1.95% yoy growth explained by the recovery of domestic demand. INEGI just released its July's Global Economic Indicator (IGAE) report, in which economic activity increased 1.95% yoy, slightly above our 1.8% forecast (consensus: 2.15%). Taking a look at the breakdown, industrial production increased a scant 0.7% yoy, while the services sector edged-up 2.8% as shown in the following table.

As we mentioned in our July's IP report, manufacturing output grew a scant 1.3% yoy, as a result of the moderate growth in the U.S. manufacturing sector and a lower vehicle production. Moreover, Mexico's construction sector increased 4.3% yoy, which was explained by the recovery in private investment projects. However, given the fall in Mexico's oil production, mining activity declined 5.3% adding sixteen consecutive months in contraction. Finally, utilities expanded 4% yoy.

Moreover, services increased 2.8% yoy, as a result of a 4.3% expansion in trade. Similarly, housing and tourism services increased 5.6% yoy, while recreational services edged-up by 2.9% yoy. Moreover, transportation and information in mass media services grew 5.3% yoy.

July's IGAE report

%yoy	Jul-15	Jul-14	Jan-Jul, '15	Jan-Jul, '14
Total	2.0	2.5	2.4	2.0
Agriculture	0.0	7.7	3.9	3.5
Industrial production	0.7	2.1	1.0	1.6
Mining	-5.3	-1.9	-6.5	-0.8
Utilities	4.0	0.6	2.8	1.7
Construction	4.3	3.2	3.7	-0.5
Manufacturing	1.3	3.6	2.8	3.5
Services	2.8	2.5	3.1	2.1
Comerce	4.3	3.6	4.5	2.2
Transport	5.3	0.0	4.3	2.4
Financial services	0.9	3.0	1.8	2.5
Professional services	2.0	0.3	2.2	0.5
Educational services	0.9	3.1	0.9	1.4
Recreational services	2.9	1.9	3.7	0.7
Housing services	5.6	1.5	4.3	2.8
Government services	0.2	4.2	3.9	3.0

Source: INEGI

In seasonally adjusted terms, economic activity increased 0.1% m/m. Taking a look at the breakdown, industrial output increased 0.2% m/m, as a result of a 0.5% m/m contraction in manufacturing production, and a significant 1.5% m/m expansion in construction output. Moreover, the services sector posted a 0.2% m/m contraction. Taking a look at the breakdown, we highlight the 0.4% m/m growth in trade and the significant 1.3% m/m fall in transportation and information in mass media services. Finally, primary activities increased 4.3% m/m. With these figures, economic activity now adds a 2.6% 3m/3m saar growth; however, the services sector posted a 3.9% 3m/3m saar expansion which reflects the better growth dynamics of Mexico's domestic demand (refer to the chart on the next page).

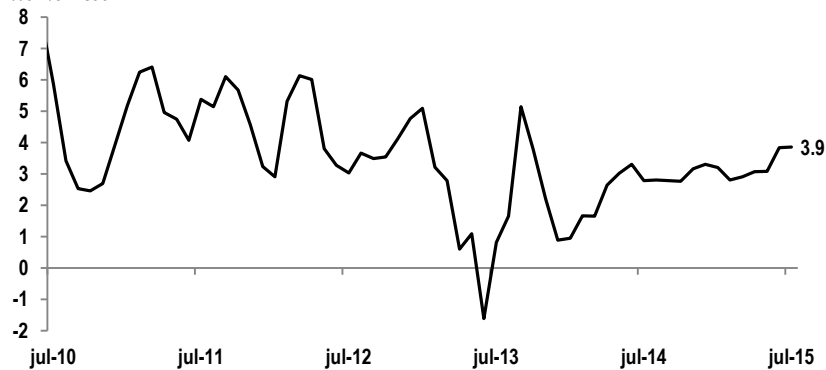
Global economic indicator: July 2015

%m/m sa	Jul-15	Jun-15	Difference
Total	0.1	0.4	-0.3
Agriculture	4.3	-7.6	11.9
Industrial production	0.2	0.2	0.0
Services	-0.2	0.6	-0.8

Source: INEGI

Global economic indicator

%3m/3m saar



Source: Banorte-ixe

We continue to believe that the Mexican economy will show a more visible recovery in the second half of the year. Domestic demand has stand out as Mexico's main growth engine. In particular, Mexican households are beginning to spend more given the significant gains in real wages, while firms have increased their investment spending given the more positive outlook that prevails for the Mexican economy. We believe that the recent upward trend in domestic demand will continue throughout the second half of the year given the following factors: (1) The recovery of the labor market; (2) the recent downward trend in inflation that will hold throughout the year; and (3) the recovery in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, despite the recent deceleration in manufacturing output, other indicators show that this sector will show a more visible recovery in the next months. In particular, Mexico's vehicle production increased 7.7% yoy in August, while manufacturing exports have shown an upward trend in the first figures of 3Q15. In this regard, we believe that the manufacturing industry will strengthen in the second half of the year given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a much more visible recovery given the recent and significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

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