

## IGAE – Growth of 2.9% yoy above consensus, supported by services

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**Juan Carlos Alderete, CFA**  
Senior Economist, Mexico  
juan.alderete.macal@banorte.com

**Francisco Flores**  
Economist, Mexico  
francisco.flores.serrano@banorte.com

- **Global Economic Activity Indicator, IGAE (October): 2.9% yoy; Banorte: 1.8%; consensus: 2.2% (range of estimates: 0.5% to 2.8%); previous: 2.1%**
- **The increase in economic activity was driven by the strong advance of 4.1% in services, considerably above the 2.2% print of the previous month**
- **Nevertheless, we believe that this figure could be positively influenced by a benign base effect as a result of earthquakes in 2017 and one additional working day when compared to the previous year**
- **In this respect and using seasonally adjusted data, economic activity fell 0.3% m/m, driven by the contraction in both primary and secondary activities, but with a modest pickup in services**
- **Despite the upside surprise, we maintain our forecast of a moderation in GDP growth during 4Q18, as forward-looking indicators continue to suggest a slowdown by the end of the year**

**Economic activity remained strong in October.** *INEGI* just released its *Global Economic Activity Indicator (IGAE)* report for October, in which economic activity increased 2.9% yoy, significantly above our 1.8% forecast and consensus at 2.2%. Nevertheless, we highlight that part of this surprise could be explained by: (1) a base effect, as some sectors were still affected by last year's earthquakes; and (2) a positive calendar effect, adding one working day relative to the previous year. In particular, growth when adjusting for this latter driver resulted in a 1.9% increase, higher than the 0.9% figure in the same month of 2017.

Inside the report, primary activities fell 3.0%. As previously known, industrial production increased 1.0%, supported by a rebound in construction activity of 1.4%, by weakness in construction as it fell by 1.6%, with manufacturing slightly accelerating as it grew 2.5% from 2.4% in the previous month. The most surprising element was services, increasing 4.1% yoy, its highest increase last July. In this latter sector, we highlight strong growth of 6.5% in professional services, 5.9% in wholesales, and 4.9% in transportation services. On the contrary, we highlight that the only sector contracting in the annual comparison was recreational services at -1.8%.

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**Global economic indicator: October 2018**

% yoy, nsa

	Oct-18	Oct-17	Jan-Oct'18	Jan-Oct'17
<b>Total</b>	<b>2.9</b>	<b>1.5</b>	<b>2.1</b>	<b>2.1</b>
<b>Agriculture</b>	<b>-3.0</b>	<b>2.7</b>	<b>2.1</b>	<b>3.1</b>
<b>Industrial production</b>	<b>1.0</b>	<b>-0.8</b>	<b>0.6</b>	<b>-0.2</b>
Mining	-5.6	-9.1	-5.0	-8.4
Utilities	4.8	-3.7	2.6	-0.7
Construction	1.4	-1.5	1.6	-0.8
Manufacturing	2.5	2.8	1.8	3.2
<b>Services</b>	<b>4.1</b>	<b>2.6</b>	<b>2.9</b>	<b>3.2</b>
Wholesale	5.9	9.9	3.0	4.1
Retail	4.4	2.1	4.1	3.3
Transport	4.9	4.4	4.0	17.4
Financial services	4.1	0.3	2.8	-1.3
Professional services	6.5	1.4	4.1	-3.2
Educational services	1.3	1.6	0.8	-3.0
Recreational services	-1.8	-1.3	-1.8	4.6
Housing services	1.4	3.4	1.3	12.2
Government services	2.7	-3.3	2.6	-9.0

Source: INEGI

**Using seasonally adjusted figures, the economy contracted 0.3% m/m, more than reversing September's advance.** In this context, activity dipped by the same magnitude relative to the previous month expansion, but more than compensating the previous increase given the higher base. This was mostly due to the contraction in both primary (-2.9% m/m) and secondary activities (-1.6% m/m). Services posted a more moderate growth at 0.2%. Nevertheless, overall growth in the previous two months has been relatively muted in comparison with the rest of the year.

**Global economic indicator: October 2018**

% m/m, sa

	Oct-18	Sep-18	Difference
<b>Total</b>	<b>-0.3</b>	<b>0.3</b>	<b>-0.6</b>
Agriculture	-2.9	0.2	-3.1
Industrial production	-1.6	1.3	-2.9
Services	0.2	0.1	0.1

Source: INEGI

In annualized terms, the economy expanded 1.4% 3m/3m saar, lower than the 2.7% advance in the previous month. By this metric, all three sectors decelerated relative to September, particularly in primary activities although it is the less relevant in terms of its relative weight and the most volatile.

**Global economic indicator: Oct 2018**

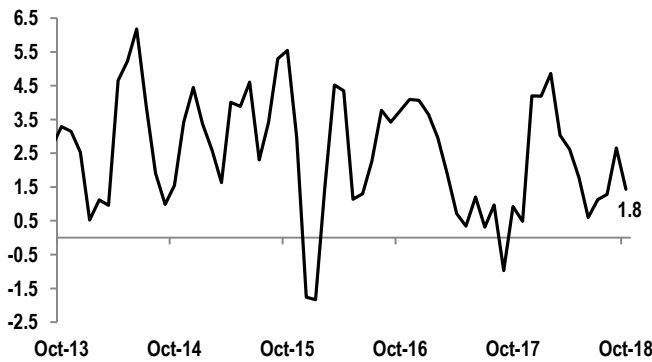
% 3m/3m saar

	Aug-Oct '18	Jul-Sep '18
<b>Total</b>	<b>1.4</b>	<b>2.7</b>
Agriculture	-5.1	1.1
Industrial production	0.5	2.3
Services	3.1	3.5

Source: INEGI

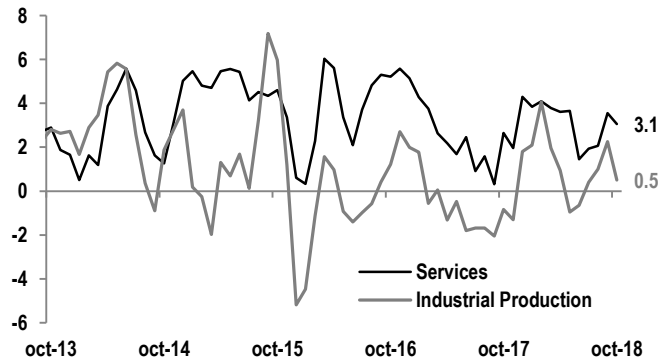
**Despite the upward surprise, we maintain our forecast that economic activity will decelerate in 4Q18.** In particular, we reiterate our 4Q18 GDP forecast of 2.1% yoy, although we recognize that it could be stronger if services maintain their strong dynamism. Nevertheless, we believe that higher uncertainty at the end of October could adversely affect activity in the remaining months of the quarter. Moreover, inflation in November and the 1<sup>st</sup> half of December has surprised significantly higher, while the pace of job creation has also been moderating, suggesting that real wages could be less supportive for domestic demand in the short term. We believe that an increase in frictional unemployment is due as soon as December, given changes in the public sector given the beginning of the new Federal administration, but which could be exacerbated. Some looking forward indicators, such as Mexico’s IMEF indices signal the possibility of more modest growth ahead. Lastly, US indicators such as IP and PMI indices for December also suggest a slowdown, which could weigh on the manufacturing sector. All in all, we do not still see a significant shift in growth relative to potential GDP, in spite of the relatively high print in October.

**Global economic indicator**  
% 3m/3m saar



Source: INEGI

**Global economic indicator: Industrial production and services**  
% 3m/3m saar



Source: INEGI

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**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
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 Thalía 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
Francisco Duarte Alcocer	Analyst	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
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	Analyst, 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 Asset Management	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 Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454