

Economic activity– Domestic demand continues building momentum

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- **Global economic indicator, IGAE (November): 2.7% yoy; Banorte-Ixe: 1.7%; consensus: 1.9% (range: 1.7% to 2.5%); previous: 2.3%**
- **Growth in November was explained by the recovery of domestic demand, reflected in the 4.2% expansion within the services**
- **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 1Q16**

Growth in November was explained by the recovery of domestic demand. INEGI just released its Global Economic Indicator (IGAE) report for November, in which economic activity increased 2.7% yoy, above our 1.7% forecast (consensus: 1.9%). Taking a look at the breakdown, industrial production increased a scant 0.1% yoy, while the services sector edged-up 4.2% as shown in the table on the next page.

A more dynamic service sector. Services increased 4.2% yoy, as a result of a 6.8% yoy increase in housing and tourism services, while transportation and information in mass media services grew 8.4% yoy. Similarly, commerce showed a 4.2% expansion. Moreover, recreational services edged-up by 2% yoy.

Industrial output still shows a weak growth. As we mentioned in our last IP report, the 0.1% yoy expansion in industrial production during November was explained in part by the 4.3% decline in mining activity, given the fall in Mexico's oil production, adding twenty consecutive months in contraction. Moreover, construction output fell 1.2% yoy, given the 4.6% yoy reduction in public civil engineering construction projects derived from the fiscal cut announced by the federal government. Similarly, manufacturing output decelerated significantly, expanding a scant 1.8% yoy as a result of the moderate growth in the U.S. manufacturing sector, and a lower vehicle production. Finally, utilities expanded 4.9% yoy.

November's IGAE report

% yoy	Nov-15	Nov-14	Jan-Nov, '15	Jan-Nov, '14
Total	2.7	1.8	2.5	2.0
Agriculture	2.2	0.3	3.2	3.7
Industrial production	0.1	2.1	1.0	2.5
Mining	-4.3	-5.3	-5.9	-1.1
Utilities	4.9	6.8	4.1	8.2
Construction	-1.2	4.5	2.9	1.5
Manufacturing	1.8	3.7	2.8	3.7
Services	4.2	1.8	3.3	1.7
Commerce	4.2	4.3	4.6	2.8
Transport	8.4	1.7	5.4	2.0
Financial services	2.9	0.3	1.9	1.3
Professional services	5.9	-0.3	2.2	0.4
Educational services	2.2	-0.7	0.8	-0.2
Recreational services	2.0	1.8	3.8	1.0
Housing services	6.8	5.3	5.6	3.1
Government services	0.5	2.1	2.8	2.8

Source: INEGI

In seasonally adjusted terms, economic activity increased 0.1% m/m. Taking a look at the breakdown, industrial output decreased 0.5% m/m, as a result of a 0.4% m/m contraction in manufacturing production, a 1.4% m/m reduction in construction output, and a 0.5% m/m fall in mining. Moreover, the services sector posted a 0.3% m/m expansion. Finally, primary activities fell 0.7% m/m.

With these figures, economic activity now shows a 3.3% 3m/3m saar growth vs. 3.4% in September. We highlight that the services sector posted a 4.5% 3m/3m saar expansion which reflects the better growth dynamics of Mexico's domestic demand (refer to the charts below).

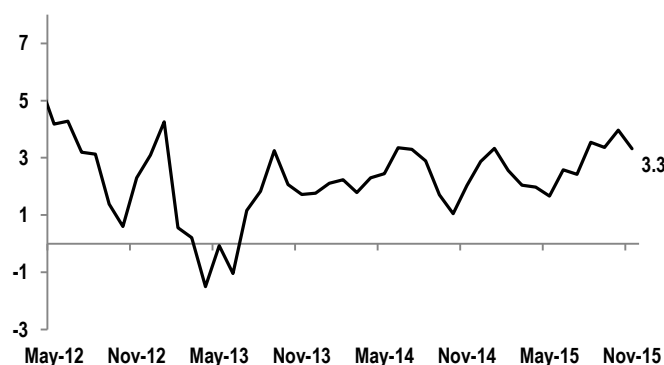
Global economic indicator: November 2015

%m/m sa	Nov-15	Oct-15	Difference
Total	0.1	0.2	-0.1
Agriculture	-0.7	-4.6	4.0
Industrial production	-0.5	-0.1	-0.4
Services	0.3	0.5	-0.2

Source: INEGI

Global economic indicator

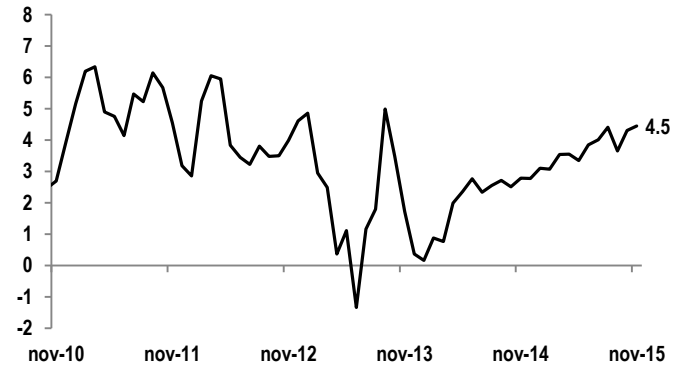
%3m/3m saar



Source: Banorte-ixe

Global economic indicator: services

%3m/3m saar



Source: Banorte-ixe

Looking ahead, we continue to believe that the Mexican economy will show a more visible recovery. 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 first quarter of 2016 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 better growth prospects 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 this regard, we believe that the manufacturing industry will strengthen in the first quarter of 2016 given: (1) Mexico's manufacturing exports will recover given the recent and significant depreciation of the Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger demand for domestic manufactured goods.

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