

1Q19 GDP – Transitory events added to the first year of usual government weakness

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

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

- **Gross Domestic Product (1Q19 nsa): 1.3% yoy; Banorte: 1.5%; consensus: 1.4% (range of estimates: 0.0% to 1.7%); previous: 1.7%**
- **Gross Domestic Product (1Q19 sa): -0.2% q/q; Banorte: 0.2%; consensus: 0.3% (range of estimates: -0.1% to 0.4%); previous: 0.2%**
- **By major components, primary activities increased an outsized 2.6% q/q, industrial activity contracted 0.6% and services fell 0.2%**
- **It is worth noting that there were several transitory shocks during this quarter, including the delays in fuel distribution, strikes in Northeast Mexico, and railway blockades in Michoacan**
- **This figure implies that the economy is estimated to have grown close to 1.4% yoy nsa in March. Nevertheless, this figure would take into account a favorable base-effect due to the Easter Holiday**
- **In this respect, the economy seems to have decelerated strongly in the last month of the quarter, with most of the weakness concentrated in industry along a moderation in services**
- **In spite of today's negative surprise, we maintain our 2019 GDP forecast at 1.5% yoy with risks tilted to the downside**
- **The revised figure will be published on May 24th**

The Mexican economy grew 1.3% in 1Q19. INEGI published today its preliminary GDP report, showing a GDP expansion of 1.3% yoy in 1Q19, below both consensus at 1.4% and our estimate of 1.5%. It is worth remembering that this figure is influenced by the timing of the Easter holiday, which was in April during 2019 vs. March in 2018, adding labor days to the annual comparison. In this respect and adjusting for the latter, the economy grew only 0.2% yoy sa. The primary sector advanced an outsized 5.9% yoy (5.6% yoy sa), highest since the third quarter of 2014 and likely reverting at least some of this advance in the next quarter (correlation in q/q growth with one-lag at -0.56 since 2000). Industrial activity contracted -0.7% (-2.1% sa), dragged by generalized during the period. Services were up by 1.9% (1.0% sa), decelerating relative to the 2.7% seen in the previous quarter.

In seasonally-adjusted terms, GDP fell 0.2% q/q, far-below consensus (+0.3%) and practically erasing the advance of 4Q18. It should be remembered that this result took place in an environment filled with a high degree of uncertainty, mostly due to relevant transitory shocks in the first two months, including delays in fuel distribution and railway blockades. Moreover, global economic activity was dampened by trade uncertainty, making up for a more challenging external sector. In our view, these help explain most of the weakness in industry, which declined 0.6% q/q. with two consecutive quarters in negative territory.

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Primary activities were up by 1.9% q/q, above the 0.4% in previous quarter. Moreover, services stood at -0.2%, lower than the 0.7% of the previous quarter and confirming that the economy indeed exhibited less dynamism as it was its first fall since 3Q17, when several natural disasters hit.

GDP

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

% yoy nsa	1Q19	4Q18	3Q18	2Q18	2018
Total	1.3	1.7	2.5	2.6	2.0
Agricultural	5.9	3.0	2.0	1.3	2.4
Industrial production	-0.7	-0.9	1.1	1.3	0.2
Services	1.9	2.7	3.1	3.2	2.8

% yoy sa	1Q19	4Q18	3Q18	2Q18	2018
Total	0.2	1.7	2.5	1.5	--
Agricultural	5.6	2.7	2.3	1.4	--
Industrial production	-2.1	-0.8	1.0	0.1	--
Services	1.0	2.7	3.2	2.3	--

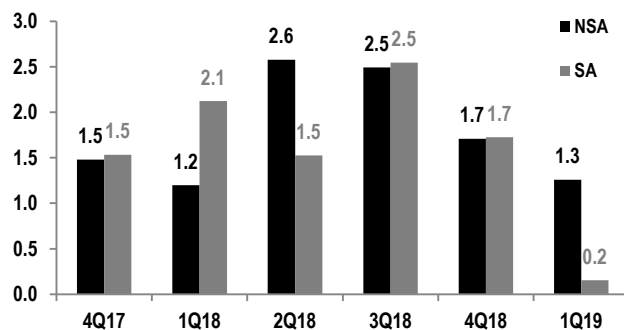
% q/q sa	1Q19	4Q18	3Q18	2Q18	2018
Total	-0.2	0.2	0.6	-0.2	--
Agricultural	2.6	2.2	1.4	-1.6	--
Industrial production	-0.6	-1.2	0.2	-0.3	--
Services	-0.2	0.7	0.6	0.4	--

Source: INEGI

During the first two months of the quarter, growth averaged 1.2% yoy according to the monthly GDP proxy, with today's figure implying in March of around 1.4% yoy nsa. If confirmed, we would evaluate this as weak considering the positive base-effect from the Easter holiday mentioned above. Moreover, it is our take that this is consistent with a modest performance according to the March trade balance report. For details, see: *"Trade balance – Tentative signs of weakness in manufacturing and consumption"*, April 26th, 2019, [pdf](#). Other signs in the same direction include ANTAD and Walmart same-store sales when adjusted for inflation.

GDP

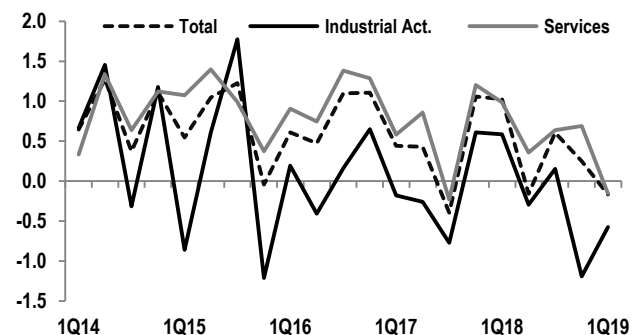
% yoy



Source: INEGI

GDP: Industrial production and services

% q/q sa



Source: INEGI

We maintain our 2019 GDP forecast at 1.5% yoy, still with downside risks.

In this respect, activity seems to have decelerated meaningfully in March. Industry looks like the most affected, especially those sectors with higher sensitivity to external demand, such as manufacturing. In our view, this sector is at risk of extending its most recent contraction in the short term. Moreover, anecdotal evidence suggests border-crossing delays at the US border have had a strong negative impact in April. According to several news outlets, these started on March 29th and have impacted activity in Ciudad Juarez, Tijuana, Nogales, and Nuevo Laredo. Moreover, the heads of the automotive and freight transportation chambers have stated that the impact has been significant and they have persisted until today. According to industry chamber *CONCAMIN*, a wide range of companies have already experienced losses, with a preliminary estimate of US\$ 800 million daily. Mining is expected to remain a drag at least during 2Q19 as challenges to increase oil production remain high, even with some early signs of stabilization.

To the latter, we should add that 1Q19 GDP in the US showed a meaningful decline in imports (-3.7% saar, with -4.4% in goods). If this dynamic continues, they will likely be an additional headwind to an already weak performance for the external sector even after taking into account that Mexico has had some market-share gains given US trade tensions with China. Moreover, we should add that the probability of a global economic recession in the next 20 months has increased substantially.

In addition, services contracted despite being resilient so far. We continue believing that fundamentals for consumption are strong, with real wage gains compensating for the deceleration in job creation and the typical slowdown in government spending at the start of a new federal administration. This situation has already been seen in the breakdown of government services in the public finance reports for the first two months of the year. Nevertheless, this should gradually improve in coming quarters. Moreover, we believe that the possible acceleration in the disbursement of new federal programs, still strong growth in remittances and a gradual decline in inflation will be supportive for consumption in coming quarters. Nevertheless, the fact that services surprised so negatively provide an early and very relevant warning sign regarding underlying dynamics in this sector which increased an increased focus.

We maintain our current GDP forecast for 2Q19 at 0.9% yoy and full-year estimate of 1.5% (see chart below). Considering today's report and taking into account the distortion caused by the calendar effect, we believe downside risks for economic activity have increased. It is our take that the economy will be limited by industrial activity in the short term, both due to local factors and sluggishness in global manufacturing and trade. Regarding the tertiary sector, we think it will manage to return to positive territory given healthy fundamentals for consumption.

GDP Forecasts

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

% yoy nsa	1Q19	2Q19 f	3Q19 f	4Q19 f	2019 f	2020 f
Total	1.3	0.9	1.5	2.1	1.5	2.1
Agricultural	5.9	-2.1	3.6	-1.1	1.9	2.0
Industrial production	-0.7	-1.6	-0.2	0.7	-0.4	0.8
Services	1.9	2.0	2.2	2.6	2.2	2.6
% q/q sa						
Total	-0.2	1.0	0.4	0.6	--	--

Source: INEGI; Banorte

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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
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@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 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
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 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