

May's IGAE – Stuck in a moment of moderate growth

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- **Global economic indicator, IGAE (May): 1.5% yoy; Banorte-Ixe: 1.2%; consensus: 1.1% (range: 0.4% to 2%); previous: 2.1%**
- **May's 1.5% yoy moderate growth was partially explained by a calendar effect**
- **However, using INEGI's calendar-adjusted figures, May's IGAE increased a scant 2.1% yoy**
- **In seasonally adjusted terms, economic activity posted a 0.1% m/m expansion**
- **Even though Mexico's economy is stuck in a moment of moderate growth, we believe that the Mexican economy will show a much more visible recovery in the second half of the year**

May's 1.5% yoy growth explained by a calendar effect. INEGI just released its May's Global Economic Indicator (IGAE) report showing that economic activity increased 1.5% yoy, slightly above our 1.2% estimate (consensus: 1.1%). However, May's moderate growth was partially explained by a calendar effect. Using INEGI's calendar-adjusted figures, May's IGAE expanded 2.1% yoy. Taking a look at the breakdown, industrial production fell 0.1% yoy, while the services sector increased 3.2% as shown in the following table.

May's IGAE

%yoy	May-15	May-14	Jan-May, '15	Jan-May, '14
Total	1.5	1.8	2.3	1.7
Agriculture	6.6	4.5	6.3	3.1
Industrial production	-0.9	2.0	0.9	1.4
Services	2.6	1.5	2.9	1.8
%yoy adjusted by calendar effects	May-15	May-14	Jan-May, '15	Jan-May, '14
Total	2.1	2.2	2.5	1.8
Agriculture	6.6	4.5	6.3	3.1
Industrial production	-0.1	2.5	1.1	1.4
Services	3.2	2.1	3.0	1.9

Source: INEGI

As we mentioned in our May's IP report, and using INEGI's calendar-adjusted series, manufacturing output grew 1.9% yoy, as a result of a lower vehicle production and a slower growth in Mexican exports. Moreover, Mexico's construction sector increased 1.9, which was explained by the recovery in private investment projects. However, given the fall in Mexico's oil production, mining activity declined 8% adding fourteen consecutive months in contraction. Finally, utilities expanded 1.2% yoy.

Moreover, services increased 3.2% yoy (calendar-adjusted figures), as a result of a 3.8% expansion in trade. Similarly, housing and tourism services increased 3.6% yoy, while recreational services edged-up by 3% yoy. Moreover, transportation and information in mass media services grew 3.4% yoy, while professional and educational services increased 2.3% yoy. Financial services edged-up 3.5% yoy.

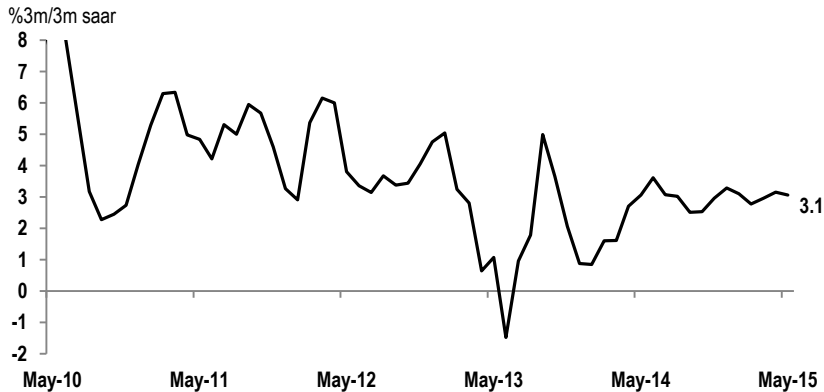
In seasonally adjusted terms, economic activity increased 0.1% m/m. Taking a look at the breakdown, industrial output fell 0.4% m/m, as a result of a 0.9% m/m contraction in manufacturing production, and a significant 1.5% m/m reduction in construction output. Moreover, the services sector posted a 0.4% m/m expansion, given the better growth dynamics in trade (0.1% m/m) and transportation and information in mass media services (+1.3% m/m). Finally, primary activities increased 2.5% m/m. With these figures, economic activity posted a 1.1% 3m/3m saar growth; however, the services sector posted a 3.1% 3m/3m saar expansion as shown in the chart below.

Global economic indicator: May 2015

%m/m sa	May-15	Apr-15	Difference
Total	0.1	0.6	-0.6
Agriculture	2.5	3.1	-0.6
Industrial production	-0.4	-0.1	-0.3
Services	0.4	0.4	0.0

Source: INEGI

Global economic indicator



Source: Banorte-Ixe

Even though Mexico's economy is stuck in a moment of moderate growth, we believe that the Mexican economy will show a much more visible recovery in the second half of the year. Mexico's manufacturing sector will show better growth dynamics derived from the higher growth prospects in both private consumption and manufacturing production in the U.S., and the significant depreciation of the Mexican currency. Similarly, we believe that domestic demand is beginning to show a more visible recovery given the following factors: (1) The better growth dynamics in the manufacturing sector, which will eventually translate into better growth prospects for certain sectors related to this industry, such as trade and transport services; (2) the recovery of the labor market; (3) the recent downward trend in inflation that will hold throughout the year; and (4) the recovery in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

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