

## Global Economic Indicator – Services remain as Mexico’s main growth driver

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- **Global Economic Indicator, IGAE (April): -0.7% yoy; Banorte-Ixe: -0.9%; consensus: -1% (range: -1.7% to 2.5%); previous: 4.33%**
- **April’s lower growth was explained by a calendar effect, as a result of an artificial base of comparison given the *Holy Week*, which subtracted working days to the annual comparison**
- **With seasonal adjusted figures, economic activity increased 2.7% yoy and 0.1% m/m, as a result of the expansion in services**
- **Looking ahead, we continue to believe that the Mexican economy will marginally decelerate**

**Lower growth as a result of a calendar effect.** INEGI just released its Global Economic Indicator (IGAE) report for April, in which economic activity fell 0.7% yoy, marginally above our -0.9% forecast (consensus: -1%). However, we highlight that April’s lower growth was explained by a calendar effect, as a result of the *Holy Week*, which subtracted working days to the annual comparison. In seasonally adjusted terms, economic activity increased 2.8% yoy and 0.1% m/m.

Taking a look at the breakdown, and analyzing the seasonal-adjusted figures, services output increased 0.5% m/m (4.5% yoy). Taking a look at the breakdown, the subsectors that posted a better performance were those strongly correlated to external demand, such as trade (2.2% m/m and 4.8% yoy) and transportation (2.4% m/m and 6.1% yoy).

By contrast, industrial production fell 0.3% m/m (-0.3% yoy), as a result of the 0.9% contraction in mining activity (-9.5% yoy) coupled with the 1.7% fall in construction output (-2.6% yoy). In the first case, the fall in mining was explained by the significant contraction in Mexico’s oil production, as well as the lower public investment in Mexico’s drilling projects. In the latter, the contraction in construction output was explained by the fiscal cuts implemented by the Federal Government. In addition, manufacturing activity increased 0.6% m/m (5.1% yoy).

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**We continue to believe that the Mexican economy will decelerate.** On the upside, the uncertainty surrounding the future of the US-Mexico trade relationship has led to a greater flow of both exports and manufacturing production during the first quarter of the year. We estimate that this trend will continue during the second and third quarters. Similarly, we expect a slight deceleration in domestic demand stemming from the upward trend in inflation. However, it will be partially offset by the upward trend in formal employment and the strong performance of banking credit. As a result, we believe that domestic demand will continue to be the Mexico’s main growth driver.

In addition, we expect that domestic demand will be curtailed by the deceleration in construction activity, as a result of the fall in public investment projects, given the fiscal consolidation efforts of the Federal Government. In addition, we believe that the recession in the mining industry will continue throughout the year, which will offset the positive effects of Mexico’s higher manufacturing output. On the aggregate, the above-mentioned effects will result in a marginal deceleration of Mexico’s economic activity.

**Global economic indicator: April 2017**

% m/m sa

	Apr-17	Mar-17	Difference
<b>Total</b>	<b>0.1</b>	<b>-0.3</b>	<b>0.4</b>
<b>Agriculture</b>	<b>-0.9</b>	<b>-1.1</b>	<b>0.3</b>
<b>Industrial production</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.2</b>
Mining	-0.9	-0.5	-0.4
Utilities	-0.3	0.6	-1.0
Construction	-1.7	-0.5	-1.2
Manufacturing	0.6	-0.2	0.8
<b>Services</b>	<b>0.5</b>	<b>-0.1</b>	<b>0.7</b>

Source: INEGI

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