

Economic activity expands 2.5% yoy in 3Q18

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- **INEGI released today its final GDP report for 3Q18**
- **Gross Domestic Product (3Q18): 2.5% yoy; Banorte: 2.7%; consensus: 2.6% (range of estimates: 2.3% to 2.7%); preliminary figure: 2.6%**
- **Compared to preliminary data, services were revised down from 3.4% to 3.2% yoy, while strong industrial activity in September did not result in an upward adjustment in secondary activities, staying at 1.1%**
- **In seasonally-adjusted terms, the economy expanded 0.8% q/q (3.4% q/q saar), with primary and secondary activities reversing their contraction in 2Q18 and with an improvement in all three sectors**
- **With today's data, year-to-date growth stands at 2.1% yoy, exactly in line with our expectations for full-year 2018**

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GDP expanded 2.5% yoy in 2Q18, slightly lower than preliminary figures.

As a result, the expansion was below our forecast (2.7%) and consensus (2.6%), mainly as a result of a weaker-than-expected performance in services, which was revised to 3.2% from 3.4% in the preliminary print. Looking at the details, we highlight the advance of 5.5% in retail sales, consistent with the strong fundamental position of consumers as inflation gradually decreases and positive wage revisions in real terms have maintained the unemployment rate hovering at lows around 3.4%.

Growth in industrial activity was unchanged relative to preliminary data at 1.1%. Manufacturing maintains a healthy pace of growth at 2.3%, accelerating relative to the advance of 1.4% in 1H18, which may have been aided by lower trade uncertainty. On the contrary, mining remains a drag in spite of a favorable base effect, contracting 2.9%. Construction activity advanced 0.7%, below the expansion of 2% in the first half of the year. Lastly, primary activities expanded 2.2%, with no surprises relative to advanced data.

Broadly speaking, we reiterate our view that this print was positive considering that 2Q18 benefitted from a calendar effect that increased working days in the annual comparison. Moreover, the period was characterized with relevant local and global catalysts that resulted in a challenging and uncertain backdrop for activity, underscoring the relative resiliency of the Mexican economy.

GDP
 % yoy nsa

NSA	Final		Preliminary	
	3Q18	YTD	3Q18	YTD
Total	2.5	2.1	2.6	2.2
Agricultural	2.2	2.2	2.2	3.1
Industrial production	1.1	0.5	1.1	0.5
Services	3.2	2.8	3.4	2.9

Source: INEGI

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Taking a look at the breakdown, and using seasonally adjusted figures, the best performance was on services and manufacturing. Regarding the former, the rate of expansion accelerated to 0.8% q/q vs. 0.3% in the previous quarter. Six out of nine services subsectors were stronger than in 2Q18, noting the 1.8% advance in wholesales while retail jumped to 0.6% from -2.1%. Nevertheless, government activities plunged 2.2% after staying in positive territory during the previous four quarters. Moreover, mass media decelerated to 0.4% from 4.8%. In our view, both of these are consistent with the expected reduction in government spending after the July 1st election.

In industrial activity, manufacturing strengthened to 0.9%, with a slight acceleration on a quarterly basis and its highest expansion since 1Q17. Moreover, the fall in construction was more modest, standing at -0.1% from -0.8%. Nevertheless, and considering that both global and local uncertainty has increased in recent months, it is our take that performance will stay relatively weak at least for the rest of the year.

GDP growth

%yoy nsa; % q/q sa, %q/q saar

	% yoy		% q/q		% q/q saar	
	3Q18	2Q18	3Q18	2Q18	3Q18	2Q18
Total GDP	2.5	2.6	0.8	-0.1	3.4	-0.4
Agriculture	2.2	1.5	0.4	-1.0	1.5	-3.9
Industrial activity	1.1	1.3	0.5	-0.3	1.9	-1.0
Mining	-2.9	-6.0	-1.6	-0.2	-6.3	-0.9
Utilities	4.0	2.1	1.5	0.7	6.1	2.9
Construction	0.7	2.4	-0.1	-1.8	-0.3	-7.0
Manufacturing	2.3	3.3	0.9	0.4	3.8	1.8
Services	3.2	3.2	0.8	0.3	3.1	1.3
Wholesale commerce	1.8	3.6	1.8	-1.6	7.5	-6.2
Retail sales	5.5	3.6	0.6	-2.1	2.5	-8.0
Transportation and storage	3.4	3.8	0.9	0.5	3.8	1.9
Mass media and information	4.4	7.7	0.4	4.8	1.5	20.8
Financial services	8.5	4.5	4.3	2.5	18.6	10.2
Real estate	2.3	2.3	0.3	0.5	1.2	2.0
Professional services	3.1	-0.3	0.4	0.3	1.7	1.1
Corporations	0.7	1.7	-1.8	5.3	-7.0	23.0
Business support	5.5	7.3	1.5	2.4	6.1	10.0
Education	0.2	1.2	-0.4	-0.6	-1.5	-2.3
Healthcare	3.3	2.3	0.7	1.1	2.8	4.7
Recreation, sports and cultural events	1.9	-1.1	2.2	1.0	9.0	3.9
Temporary lodging services	0.7	0.0	0.6	0.5	2.4	1.9
Other services	-1.4	-0.4	-0.2	-0.4	-0.8	-1.6
Government activities	0.5	4.5	-2.2	0.4	-8.6	1.8

Source: INEGI

We reiterate our 2018 GDP growth forecast of 2.1% yoy. On a year-to-date basis, GDP growth stands at 2.1%, matching our forecast for the entire year. For our expectation to materialize, GDP in 4Q18 would need to print between 1.9% to around 2.3%, which we see as feasible. In our view, economic activity in 4Q18 is likely to moderate relative to the previous quarter, driven by: (1) The elimination of a favorable base-effect in the yearly comparison due to natural disasters that took place in 3Q18; (2) the expectation that support from government spending will keep fading away as the electoral process has ended, given that some remaining inertial spending could still have taken place in 3Q18; (3) tentative signs of moderation in activity according to October's soft data so far, such as lower business confidence and PMI indexes in manufacturing and non-manufacturing, with the former actually in contraction territory due to a relatively steep fall in forward-looking indicators; and (4) increased uncertainty on both the local and global growth scenario, which has impacted relevant variables such as the exchange rate and medium- and long-term interest rates.

For 2019, we expect GDP growth to decelerate to 1.8%, below consensus expectations at 2.2% according to Banxico's latest survey. In this respect, our view is supported by a relatively typical negative effect at the beginning of each new administration that results in lower government spending. In terms of industrial activity, mining will keep subtracting dynamism as oil production continues to fall, while risks to manufacturing seem to be on the rise. In this respect, we expect US economic activity to moderate next year (GDP at 2.5% yoy vs. 2.8% in 2018) as the fiscal stimulus implemented in 2018 fades away, particularly after the US mid-term election results. Moreover, the possibility of disruptions in global trade remains high, particularly because of US policy.

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