

Economic activity– January’s 2.3% growth in line with our forecast

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- **Global economic indicator, IGAE (January): 2.3% yoy; Banorte-Ixe: 2.3%; consensus: 2.5% (range: 2.1% to 3.1%); previous: 2.6%**
- **Growth in January was explained by the recovery of domestic demand, reflected in the 2.9% expansion within the services**
- **In seasonally adjusted terms, economic activity posted a 0.6% m/m expansion**
- **We continue to believe that the Mexican economy will show a more visible recovery in 1Q16**

Growth in January was explained by the recovery of domestic demand. INEGI just released its Global Economic Indicator (IGAE) report for January, in which economic activity increased 2.3% yoy, in line with our forecast (consensus: 2.5%). Taking a look at the breakdown, services sector edged-up 2.9%, while industrial production increased a scant 1.1% yoy, as shown in the table on the next page.

A more dynamic service sector. Services increased 2.9% yoy, as a result of a 7.1% yoy growth in housing and tourism services, while transportation and information in mass media services increased 5.2% yoy. Similarly, commerce showed a 2% expansion, while recreational services edged-up by 5.7% yoy.

Industrial output still shows a weak growth. As we mentioned in our last IP report, the 1.1% yoy expansion in industrial production during January was explained in part by the 2.5% decline in mining activity, given the fall in Mexico’s oil production, adding twenty-two consecutive months in contraction. However, construction output increased 4.6% yoy as a result of the 6% hike in building projects, whereas public civil engineering construction projects increased a scant 1.7% yoy as a result of the fiscal cut announced by the Federal Government and approved in the Fiscal Law for 2016. Finally, manufacturing output decelerated significantly, expanding a scant 1% yoy as a result of the moderate growth in the U.S. manufacturing sector, and a lower vehicle production.

January's IGAE report

%yoy	Jan-16	Jan-15	2015	2014
Total	2.3	2.2	2.5	2.1
Agriculture	5.4	12.9	3.3	3.8
Industrial production	1.1	1.1	1.0	2.6
Mining	-2.5	-6.5	-5.8	-1.5
Utilities	1.6	6.7	3.8	8.2
Construction	4.6	6.4	2.5	2.0
Manufacturing	1.0	1.7	2.9	3.9
Services	2.9	2.4	3.4	1.8
Comerce	2.0	3.6	4.5	3.1
Transport	5.2	4.0	6.0	2.2
Financial services	2.5	1.4	1.9	1.2
Professional services	3.8	1.5	1.9	0.3
Educational services	0.8	-0.5	0.9	-0.1
Recreational services	5.7	3.3	3.7	1.1
Housing services	7.1	2.9	5.9	2.9
Government services	0.3	3.0	2.6	2.9

Source: INEGI

In seasonally adjusted terms, economic activity increased 0.6% m/m.

Taking a look at the breakdown, industrial output increased 1.2% m/m, as a result of a 0.1% m/m contraction in manufacturing production, a 1.4% expansion in the mining industry, and the 4.6% m/m growth in construction output, its highest growth since February 2004. In addition, the services sector posted a 0.2% m/m expansion. Finally, primary activities grew 0.5% m/m.

With these figures, economic activity now shows a 2.2% 3m/3m saar growth vs. 2.3% in December. In addition, the services sector posted a 3% 3m/3m saar expansion (refer to the charts below).

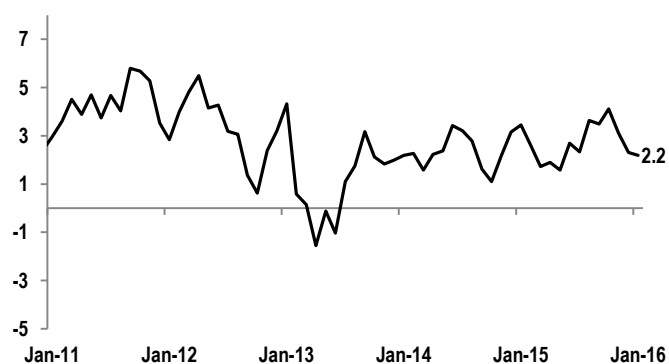
Global economic indicator: January 2016

%m/m sa	Jan-16	Dec-15	Difference
Total	0.6	0.1	0.5
Agriculture	0.5	4.3	-3.8
Industrial production	1.2	-0.3	1.5
Services	0.2	0.2	0.0

Source: INEGI

Global economic indicator

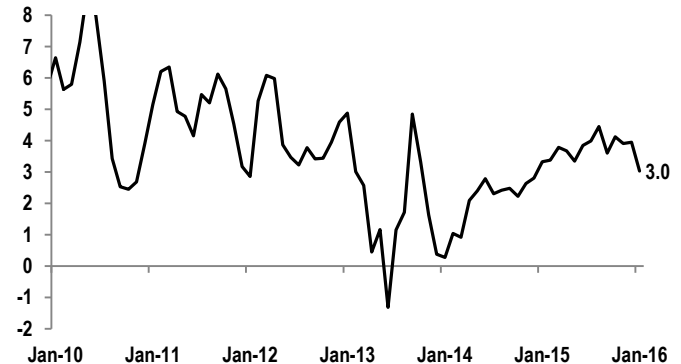
%3m/3m saar



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 spending 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 of final goods will recover given the 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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