

## 3Q19 GDP – The Mexican economy expanded 0.1% q/q

- **Gross Domestic Product (3Q19, nsa): -0.4% yoy; Banorte: 0.0%; consensus: 0.0% (range of estimates: -0.2% to 0.6%); previous: -0.8%**
- **Gross Domestic Product (3Q19, sa): +0.1% q/q; Banorte: 0.2%; consensus: 0.2% (range of estimates: -0.1% to 0.4%); previous: 0.0%**
- **By components, primary activities advanced 3.5% q/q, industry extended its decline at -0.1%, while services remained weak at 0.0%. Overall, the report shows muted levels of economic activity, a situation that has been observed since 4Q18**
- **Figures suggest that the economy is not in recession, while we believe that it may start gathering pace in coming months and into 2020**
- **Year-to-date, growth has been flat vs the 2.1% in the same period of 2018**
- **In this respect and taking into account that the monthly GDP-proxy, IGAE, fell 0.3% yoy on average in July-August, today's figure would imply a 0.8% decline in September, contrasting with other data that suggested a stronger performance at the end of the quarter**
- **We maintain our 2019 GDP forecast at 0.3% yoy with risks now to the downside. We still think activity will recover in 2020, with our estimate at 1.4%**
- **The revised figure will be published on November 25<sup>th</sup>**

**Economic activity contracted 0.4% in 3Q19.** This figure is lower than consensus which expected flat growth, which matched our own forecast, but above the -0.8% observed in 2Q19, albeit with the latter affected by the timing of the Easter holiday. In contrast, the quarter presented today had the same number of working days in the annual comparison. Adjusting for this, the economy was weaker, falling 0.4% yoy from +0.3% in the previous period. By components, the primary sector advanced 5.4% yoy nsa, improving after the 1.4% observed in the second quarter. Industrial activity was stronger at -1.7% from -3.0%. Last but not least, we highlight the protracted slowdown within services as they stood at -0.1% after a flat reading (0.0%) in the previous period and the first negative reading since 4Q09. Year-to-date, GDP growth has remained flat (0.0% yoy) when compared to the 2.1% in the same period in 2018.

In the quarterly comparison, GDP increased 0.1%, 10bps below consensus. In this respect, we believe today's report is still consistent with an economy in stagnation, with growth hovering close to zero since 4Q18. It should also be mentioned that preliminary figures are not accompanied by revisions to past data, so the economy has not yet seen two consecutive quarters in negative territory, or a so-called 'technical recession'.

October 30, 2019

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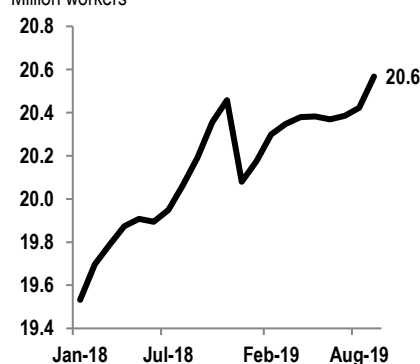
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In this respect, our preferred definition is the one by the National Bureau of Economic Research (NBER), which states it as follows: “...a recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales...”<sup>1</sup>. Given that it is not a strictly numerical definition, an independent, nine-person committee of renowned economists define and set the official date of recessions. Based on the latter, we argue that Mexico is not in a recession as we have not observed a significant increase in the unemployment rate, while formal job creation, retail sales and wholesales keep growing, in spite of doing so at a more modest pace than in the previous year (see charts below)

**Formal employees\***

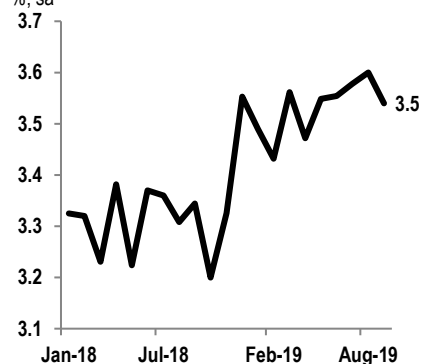
Million workers



\*Number of insured workers with Social Security from IMSS  
Source: IMSS, Labor Ministry

**Unemployment rate**

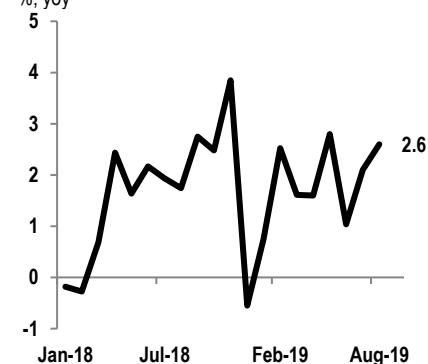
%, sa



Source: Banorte with data from INEGI

**Retail sales**

%, yoy



Source: Banorte with data from INEGI

Details of today's report are shown in the table below:

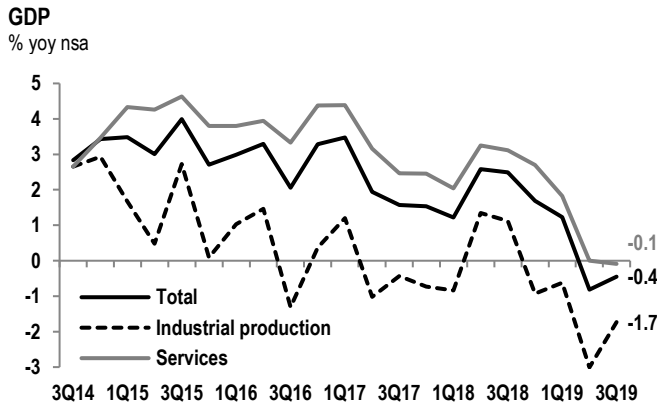
**GDP**

% yoy; % q/q

| % yoy, nsa            | 3Q19 | 2Q19 | 3Q18 | 2Q18 | Jan-Sep'19 | Jan-Sep'18 |
|-----------------------|------|------|------|------|------------|------------|
| <b>Total</b>          | -0.4 | -0.8 | 2.5  | 2.6  | <b>0.0</b> | <b>2.1</b> |
| Agricultural          | 5.4  | 1.4  | 2.0  | 1.3  | 4.0        | 2.1        |
| Industrial Production | -1.7 | -3.0 | 1.1  | 1.3  | -1.8       | 0.5        |
| Services              | -0.1 | 0.0  | 3.1  | 3.2  | 0.6        | 2.8        |
| <b>% yoy, sa</b>      |      |      |      |      |            |            |
| <b>Total</b>          | -0.4 | 0.3  | 2.5  | 1.6  | <b>0.0</b> | <b>2.1</b> |
| Agricultural          | 5.3  | 1.7  | 2.2  | 1.7  | 4.2        | 2.1        |
| Industrial Production | -1.8 | -1.7 | 1.1  | 0.1  | -1.8       | 0.5        |
| Services              | 0.0  | 1.0  | 3.2  | 2.4  | 0.6        | 2.8        |
| <b>% q/q, sa</b>      |      |      |      |      |            |            |
| <b>Total</b>          | 0.1  | 0.0  | 0.5  | -0.2 | --         | --         |
| Agricultural          | 3.5  | -3.4 | 0.7  | 0.1  | --         | --         |
| Industrial Production | -0.1 | -0.2 | 0.2  | -0.4 | --         | --         |
| Services              | 0.0  | 0.2  | 0.6  | 0.2  | --         | --         |

Source: INEGI

<sup>1</sup> Source: NBER, <https://www.nber.org/cycles.html>



Source: INEGI



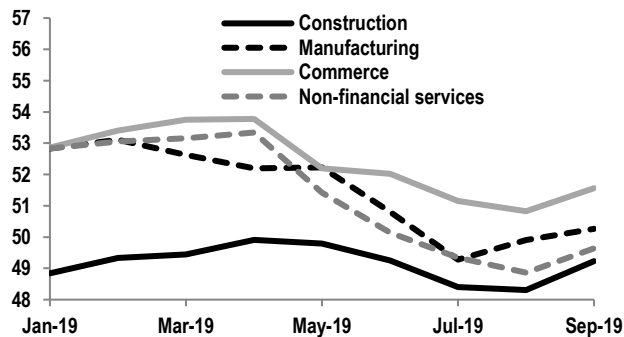
Source: INEGI

During the first two months of the quarter, growth fell -0.3% yoy according to the monthly GDP-proxy, so today's figure implies a decline in September (-0.8% yoy nsa). As we stated in our preview publication, soft data for the month has been mostly positive, highlighting: (1) Consumer and business confidence picking up; (2) the unemployment rate declined slightly in a context of strong formal job creation -145,416 new jobs, highest for the same month since 2016-; (3) banking credit accelerated and seems to be improving; and (4) remittances have surprised to the upside. In this respect, the IMEF manufacturing index increased since a cycle low of 47.3pts in August, while the non-manufacturing seems to have stabilized after reaching a minimum of 47.2pts in July. Despite of the latter, implied figures for the month in both industry and services suggest that performance remained muted overall. As we have mentioned previously, our concern is mostly focused on domestic demand.

**We maintain our 2019 GDP forecast at 0.3% yoy, with downside risks.** Unfortunately, today's report inserts additional downside risks to our already modest estimate. Additionally, we also reiterate our more optimistic view on growth for next year, with our estimate at 1.4% yoy. For details, see: "*Mexico – A slightly more constructive view on growth for 2020*", [pdf](#), October 22<sup>nd</sup>, 2019. Moreover, we believe this better performance can be observed as soon as in the last quarter as there are some positive signs, particularly in terms of the high uncertainty faced by economic agents which has affected performance significantly, especially in private investment.

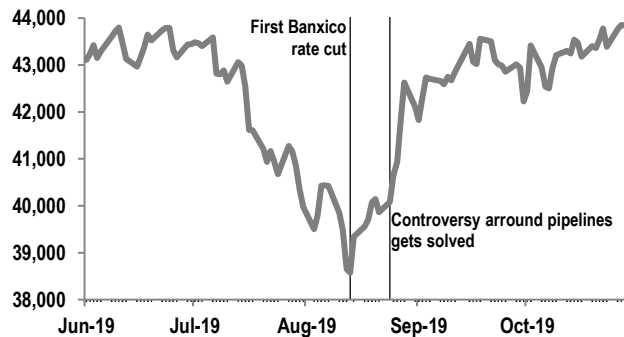
Within the latter and in the domestic front, we highlight three recent developments: (1) Higher business confidence across all sectors in September, as mentioned above (see chart below, left), but in particular the “adequate moment to invest component” in construction, which has been one of the main drags to growth within industry (-4.2% yoy so far this year until August). In our view this has also been observed in the recent performance of the stock market (chart below, right); (2) the recent follow-up of the Federal Government in publishing terms and conditions for infrastructure projects, which is among the efforts to stimulate the economy by bringing forward spending into the sector to this year instead of 2020 (for details, see: “Mexico – MoF Undersecretary and announces measures to support economic activity”, <[pdf](#)>, July 30, 2019); and (3) comments by the Undersecretary for Foreign Affairs for North America, Jesus Seade, and the Minister of Finance, Arturo Herrera, stating that the ratification of the USMCA has entered a critical stage and that it could even be approved in the US before year-end. Although anything can still happen and the outlook remains uncertain, we believe sentiment could be lifted further if these two latter events materialize. In this respect, we believe business confidence has likely bottomed-out, a situation that could help gradually reignite private investments.

**Business confidence**  
Index



Source: INEGI

**S&P/BMV IPC index**  
Index



Source: Bloomberg

**Externally, trade tensions between the US and China are waning, which is positive for global growth.** So far, Mexico has benefitted from this situation as we have gained market share in the US imports market. Specifically and on a 12-month basis, our country’s share has increased from 19.5% at year-end 2016 –just before Trump’s presidential term began– to 21.3% as of August 2019; meanwhile, China has declined from 21.1% to 20.5% during the same period. This helps explain why manufacturing activity has been resilient, surpassing expectations. In our view, this sector could remain strong, even if temporary shocks such as GM’s labor strike in the US in September and October will likely mean a weak start for 4Q19.

**In our view, the most challenging factor behind the downside risks to our current year forecast, based on its recent performance, is consumption.** The latter has happened in spite of relatively strong fundamentals. Among them, we highlight that: (1) Inflation has kept surprising to the downside, with the ‘purchasing power’ component within consumer confidence improving lately as a result; (2) wage negotiations have stayed strong, with a nominal increase of 5.8% year-to-date until September, further supporting real wage gains; (3) banking credit has also been favorable, with consumer credit actually growing 3.2% yoy in August, its highest pace in two years; and (4) remittances keep growing at a very healthy rate, on track towards a new historical high for full 2019. Overall, we maintain our view that private consumption will improve, although we recognize that so far it has failed to strengthen as expected.

**Last but not least, regarding economic policy we expect Banxico to cut the reference rate towards 6.00% by year-end 2020, which should help ease financial conditions.** Meanwhile, the government has maintained its commitment with fiscal responsibility and has simultaneously recognized the need to boost spending, adjusting its primary surplus forecast for next year in the Budget Proposal to 0.7% of GDP from 1.3% previously.

Overall, it is our take that despite today’s report keeps showing limited levels of activity, the outlook into 2020 is likely to be more favorable, particularly as we believe that the high levels of uncertainty and the typical adverse effect coming from the first year of a new administration are fading away.

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|           |   |
|-----------|---|
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