

## IGAE – Monthly slowdown in services during January

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- **Global Economic Indicator, IGAE (January): 2.15% yoy; Banorte: 2.03%; consensus: 2% (range: 1.5% to 2.9%); previous: 1.14%**
- **January's economic growth was explained by the 2.9% yoy expansion in services and the scant 0.9% increase in industrial production**
- **However, in seasonal adjusted terms, economic activity decreased 0.7% m/m, as a result of the 0.4% fall in services**
- **Looking ahead, we believe that the Mexican economy will decelerate in the coming months**

**The Mexican economy slowed down in January.** INEGI just released its Global Economic Indicator (IGAE) report for January, in which economic activity increased 2.15% yoy, above our 2.03% forecast (consensus: 2%). Taking a look at the breakdown, industrial production posted a 0.9% yoy expansion, as a result of the 4% yoy increase in construction as a result of the 5.5% growth in building projects, whereas public civil engineering construction projects declined 5.6% yoy, given the austerity program implemented by the Federal Government. Moreover, manufacturing output increased 1.7% yoy. By contrast, mining output decreased 5% yoy, given the decline in oil production in the Gulf of Mexico. In addition, services grew 2.9%, above the 1.9% observed in December (refer to the table on the next page).

**However, in seasonally adjusted terms, economic activity decreased 0.65% m/m.** Taking a look at the breakdown, services output edged-down to 0.4% m/m. Moreover, industrial production barely increased 0.04% given the 0.5% contraction in manufacturing output, even though construction activity increased 0.5% and the 1.6% growth in mining.

Despite the 0.4% m/m fall, the Mexican economy adds a 4.4% 3m/3m saar expansion. Industrial production has risen 2% 3m/3m saar, while services add a 3.9% expansion (refer to the charts on the third page).

**Looking ahead, we believe that the Mexican economy will decelerate.** We continue to appraise significant risks to Mexico's growth scenario, where we highlight the deceleration in services, as a result of the country's persistently high inflation.

Regarding industrial production, we believe that Mexican manufacturing production will show a higher growth in the next months. Specifically, we consider that the uncertainty surrounding the prospects of a successful NAFTA renegotiation and the presidential elections that will take place in our country on the 1<sup>st</sup> of July will probably reflect in a greater depreciation of the Mexican currency during the second quarter of the year. This would imply a greater external demand for Mexican products, which will have a positive impact on Mexican manufacturing production and exports.

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In addition, we expect a higher growth in construction output as soon as 1Q18 derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico's political and economic environment will continue to discourage private investment projects.

Moreover, we believe that Mexico's mining industry will continue to fall throughout the first half of the year, as a result of Government's fiscal consolidation plan, which has affected Mexico's drilling projects. All in all, we expect that the positive effects coming from the higher manufacturing and public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal deceleration of the Mexican economy in the first quarter of 2018.

#### Global economic indicator: January 2018

% yoy nsa

	Jan-18	Jan-17	2017	2016
<b>Total</b>	<b>2.1</b>	<b>3.6</b>	<b>1.9</b>	<b>2.8</b>
<b>Agriculture</b>	<b>-0.7</b>	<b>11.0</b>	<b>3.6</b>	<b>3.5</b>
<b>Industrial production</b>	<b>0.9</b>	<b>0.3</b>	<b>-0.6</b>	<b>0.4</b>
Mining	-5.0	-9.5	-9.8	-4.1
Utilities	1.6	0.9	-0.2	0.1
Construction	4.0	0.6	-1.0	2.0
Manufacturing	1.7	4.2	2.9	1.5
<b>Services</b>	<b>2.9</b>	<b>4.9</b>	<b>3.0</b>	<b>3.9</b>
Wholesale	5.1	3.9	3.0	2.0
Retail	3.2	7.0	4.1	13.7
Transport	2.2	5.9	3.7	2.9
Financial services	1.0	3.6	3.5	-0.9
Professional services	0.7	2.8	0.8	0.3
Educational services	0.2	3.1	1.4	6.2
Recreational services	4.4	-0.5	4.3	10.1
Housing services	1.7	0.8	0.1	-5.0
Government services	<b>2.1</b>	<b>3.6</b>	<b>1.9</b>	<b>2.8</b>

Source: INEGI

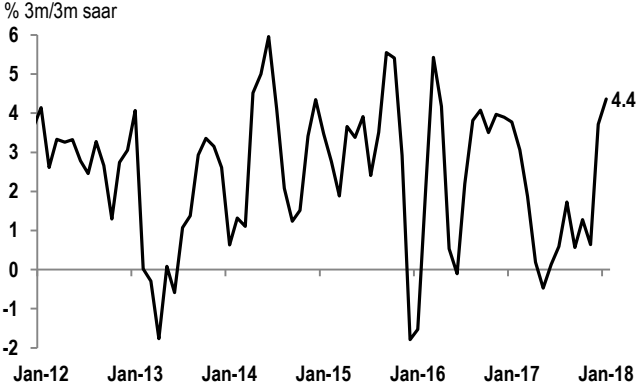
#### Global economic indicator: January 2018

% m/m sa

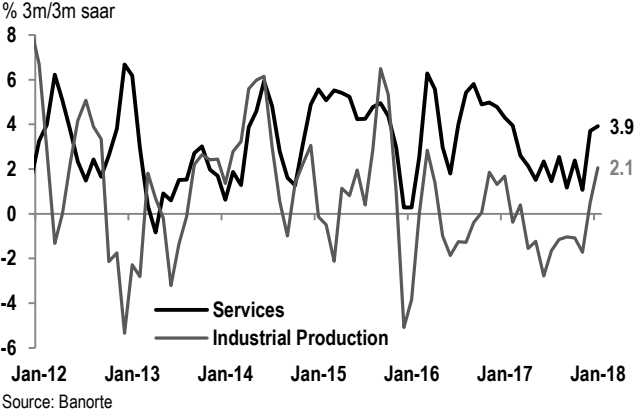
	Jan-18	Dec-17	Difference
Total	-0.7	0.9	-1.5
Agriculture	1.3	-5.1	6.4
Industrial production	0.0	1.0	-0.9
Services	-0.4	0.4	-0.8

Source: INEGI

**Global economic indicator**



**Global economic indicator: Industrial production and services**



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