

A slightly lower growth rate in 2019 due to certain transitory events

- We remain constructive on the performance of the Mexican economy in 2019 on the back of the boost that the government's social programs will provide to private consumption along with the dynamism in the export sector
- Nevertheless, we believe that downside risks to growth have increased
- To the slightly negative impact on the back of fuel shortages at the beginning of the year, we must add the effect of teacher blockades to railroads in Michoacán along with *maquila* workers' strikes, particularly in Matamoros, Tamaulipas
- Looking ahead, growth prospects remain dim, as a result of uncertainty derived from both external and domestic factors

Impact of transitory shocks in the first quarter, with an effect on 2019 rate of growth. We remain constructive on the performance of the Mexican economy this year as a result of two factors: (1) The boost that social programs promoted by the new administration will give to private consumption; and (2) the export dynamism after the uncertainty generated by trade negotiations with the United States and Canada has ebbed away, although legislative approvals are still pending (see chart below). Nevertheless, we recognize that downside risks to growth have increased. Our evaluation of the impact on GDP growth from fuel shortages at the beginning of the year (see note: "*Limited impact on GDP from fuel shortage*" <[here](#)>) suggested a very limited impact on economic activity in 2019 (-0.17% at the end of January) since we expected them to be, as it turned out, a transitory event that only affected 13 states in the country. As a result, we decided to maintain our growth forecast for 2019, although recognizing that it had downside risks. Since then, the economy has been subject to two other shocks, also transitory, but that together we think they will have a more significant negative impact on 2019 growth, such as: (1) *Maquila* workers' strikes in Matamoros, Tamaulipas; and (2) blockade of the railroads in the state of Michoacan. According to our estimates, these three shocks could subtract 33bps from our original 2019 growth forecast, so now we expect an economic expansion of only 1.5% y/y vs. 1.8% previously.

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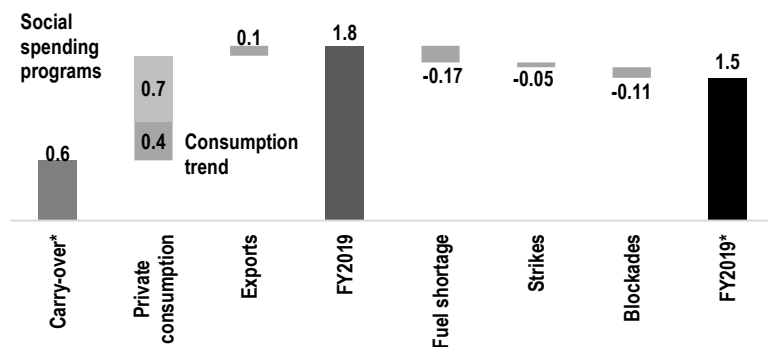
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GDP Growth estimates

% contribution



Source: Banorte with data from INEGI

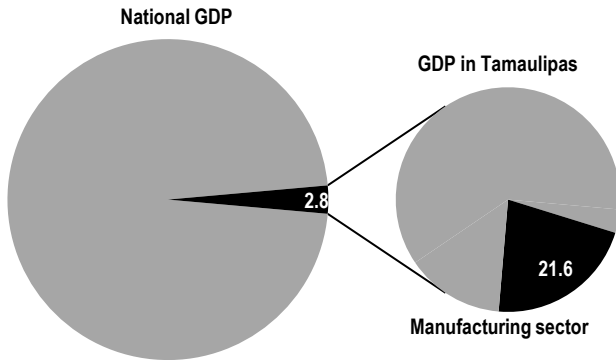
Strikes in Matamoros' maquilas. Workers negotiations started last January 12th, affecting the state of Tamaulipas' manufacturing activity. According to anecdotal evidence, from the 48 companies experiencing strikes, 22 reached an agreement by the end of January while another 41 companies settled on February 6th. To calculate the total effect, we made a three-stage estimate: (1) We estimated the percentage of production affected in the state of Tamaulipas; (2) we calculated the impact on GDP at a state level; and (3) we determined the impact on national GDP.

In the first case, although we do not have data on the affected production, we measured the impact on output using the total number of manufacturing companies in the state of Tamaulipas, assuming they are all *maquiladoras* and that they have a similar production. In this sense, the most updated information on the program for the *Manufacturing, Maquiladora and Export Services Industries* (IMMEX) points to the fact that, in Tamaulipas, there are 356 manufacturing companies.

Moreover, we assumed that the degree of the impact on Tamaulipas' *maquila* sector was around 4.8% during the period in question. This figure is obtained assuming that 48 out of 356 companies stopped working for 17 days (up to January 29th), lowered to 26 that continued striking for eight more days (up to February 6th) and seven were affected one additional day, as shown in the chart below on the right. With respect to the impact on Tamaulipas' GDP, according to INEGI, manufacturing activity weights 21.6% of total economic activity. Moreover, Tamaulipas represents 2.83% of the national GDP (chart below on the left).

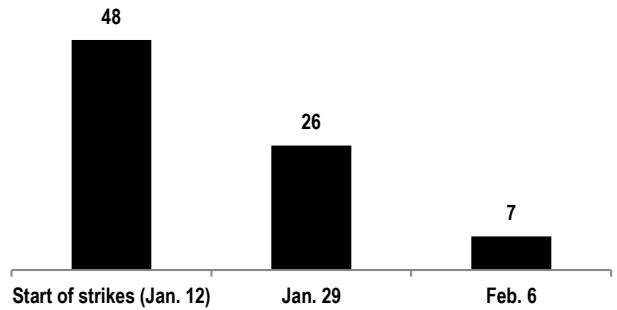
As a result, we expect a negative impact of 0.05%-pts of GDP. Our estimates assume that affected activity in *maquiladoras* in question represent value added to GDP. Moreover, we also carried out another estimate of the impact, using the number of workers furloughed, obtaining similar results.

GDP weights
% of total



Source: Banorte with data from INEGI

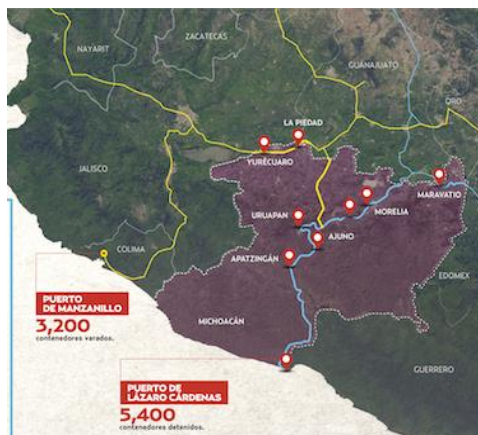
Companies with striking workers
of days



Source: Banorte

Railways blockades in Michoacan. The estimate of the impact from this shock implied a greater degree of complexity due to the series of assumptions that we had to carry out in terms of the states and the sectors that were affected. Anecdotally, we know that 13 states suffered at least to some degree in spite of the blockades being only in this state (see chart below). Aguascalientes, Baja California, Guanajuato, Jalisco, Michoacán, San Luis Potosi, Sinaloa and Sonora had a significant impact, mainly in manufacturing and in the services sectors, while the effect was minor agriculture. Meanwhile, Colima, State of Mexico, Nayarit, Nuevo León and Querétaro were affected, but to a lesser extent. We also assumed that blockades affect both the goods 'outbound' and 'inbound'. We built a matrix with the affected states by sector -taking into account their weight on each state GDP and in national GDP-, and the degree of impact and the days affected. As a result, we expect an impact in the area of 0.11%-pts) of GDP in 2019.

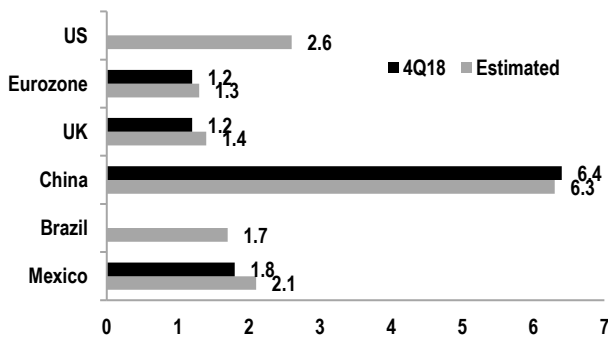
Routes affected by blockades in Michoacan



Source: El Heraldo

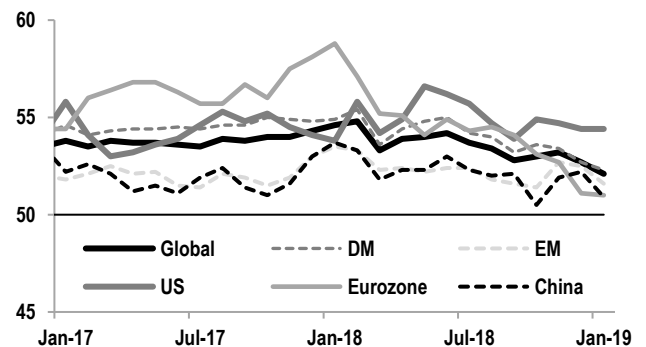
Looking ahead, growth prospects remain dim, as a result of uncertainty derived from both external and domestic factors. Economic activity globally ended 2018 with less dynamism than expected, with negative surprises in most of the regions (see chart below on the left). In addition, the first indicators of activity suggest such weakness will likely extend to 2019, both in the manufacturing sector and in the services sector (see chart below on the right). Moreover, geopolitical risks remain high with investors trying to assess its impact on growth prospects. Such risks include *Brexit* as well as the *impasse* between the executive branch and the US Congress, with important issues still on the agenda such as the case of the debt ceiling or the approval of the USMCA. Regarding the latter, although we expect some delay, we believe that it will be approved in the three countries. At the domestic level, we cannot rule out additional transitory shocks that could affect growth, both in short, medium and long-term. We will focus on the upcoming publication of the *National Development Plan* of the new government where, among others, we will be able to learn its plans for the different sectors of the country.

Growth in 4Q18
% y/y



Source: Bloomberg

Composite PMI
index



Source: Bloomberg

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