IGAE – Weakness persists on limited dynamism in services

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- ***Global Economic Activity Indicator* (November): -1.2% y/y; Banorte: -0.2%; consensus: -0.6% (range: -1.8% to -1.0%); previous: -0.7%**
- **Services fell 0.7%, with strong declines in wholesales as well as education and health services. Primary activities plunged 2.1% and, as previously known**
- **Year-to-date, the economy accumulates a 0.2% y/y contraction, with 4Q19 tracking at -1.0%. Weakness during the quarter has been concentrated in industry, affected by temporary shocks**
- **In monthly terms, activity barely advanced 0.1% after falling 0.4% in October. This was explained by null growth in services (0.0%), even after IP surged 0.8%**
- **We reiterate our 0.8% GDP growth forecast for 2020, more optimistic about underlying dynamics as we expect lower uncertainty to help economic activity**

Economic activity declined 1.2% y/y in November. This was lower than both consensus (-0.6 %) and our forecast (-0.2%). With this result, the economy accumulates a year-to-date 0.2% y/y contraction, with the first two months of 4Q19 standing at -1.0%. Looking at the breakdown, industry declined 2.1% y/y, as it had been previously reported. Agriculture fell by the same magnitude (-2.1%), moderating significantly relative to the previous month at 8.4%, in part explained by a more challenging base effect but also signaling additional weakness in the period. Services failed to pick up and extended their contraction for a second month at -0.7%, contrary to our expectations. In particular, we forecasted retail sales to have had a better performance but they barely grew 0.2%. It should be noted that this contrasts with more timely data on the sector which signaled a stronger performance driven by discounts offered during *El Buen Fin* (Mexico's Black Friday). Moreover, we observed strong weakness in categories such as wholesales (-7.4%), education and health (-2.3%), and recreational services (-1.9%), as shown in Table 1.

On a monthly basis the economy barely grew 0.1%, failing to reverse last month's decline. This was driven by null growth in services (0.0%), with five of its nine components in contraction. Inside, the most significant declines were in wholesales (-1.2%) and recreational services (-1.0%), broadly in line with the annual comparison. Moreover, we highlight the 0.4% contraction in government activities, especially after taking into account that these had advanced during the last three months. On a more positive note, retail sales grew 0.5%, although we remain cautious given that this figure could be distorted by the effects from *El Buen Fin*. Transportation edged-up 0.3%, which we believe was driven by the modest rebound in the auto sector with the resumption of shipments playing a key role. Finally, the primary sector was the weakest, falling 2.0%. With the exception of retail sales, we consider domestic-facing-sectors continue to exhibit a higher degree of deceleration.

Today's report confirms that weakness extended into 4Q19. Contrary to our expectations, the performance was negative despite the support provided by the rebound in industry. In this sense, our concern about services has increased, with available information for December suggesting that difficulties prevailed. Same-store sales from Walmart and ANTAD came in at -0.2% and +0.8% y/y, respectively, which suggest that consumers might have adjusted their spending patterns to take advantage of discounts during *El Buen Fin*. Additionally, the IMEF manufacturing index inched only slightly higher relative to the previous month –to 46.8pts from 46.6pts–, while the non-manufacturing fell at the margin (-0.3pts), to 48.8pts. Formal employment was also downbeat, with the annual rate of job creation at 1.7%, virtually at its post-financial crisis lows. Although this contrasts with the dip of the unemployment rate to 3.1%, looking at other metrics, we believe the labor market has cooled down, attributed to the economic slowdown experienced throughout the year. We also highlight that banking credit growth decelerated in the two months through November, led by corporates and which coincided with new lows in terms of business confidence. Considering this situation, we will be focused in the preliminary GDP for 4Q19, to be published next week, which will be relevant to gauge short-term momentum, although information so far suggests a limited performance.

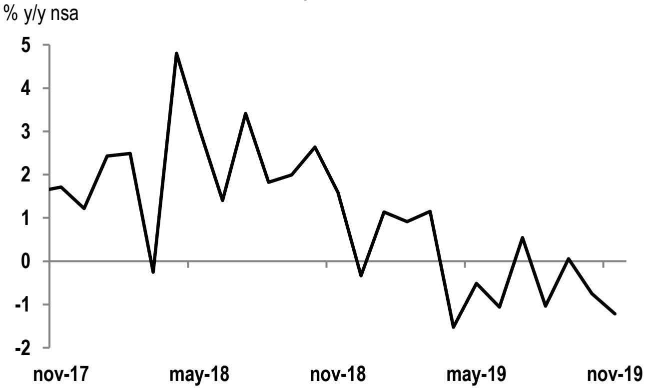
We expect GDP to improve in 2020. We reiterate our forecast for this year at 0.8% y/y. In our view, the relative improvement to 2019 will be supported by several factors, including lower uncertainty –especially in the trade front, especially after the ratification of USMCA in the US– that could help lift business confidence. Moreover, the first phase of the government's infrastructure plan should help reignite private investment. On the other hand, the typical slowdown of the first year of a new administration will not be present, which could also be positive in terms of public spending in infrastructure. Consumption would accelerate modestly (1.2% y/y), helped by higher wages, well-behaved inflation, and the consolidation of social programs, among the most relevant drivers. On the contrary, we estimate net exports to contribute less than in 2019, with the US slowing down –affected to some extent by the global deceleration– while imports could accelerate after a tough year which will likely end in contraction territory in annual terms.

Table 1: Global economic activity indicator
% yoy nsa

	Nov-19	Nov-18	Jan-Nov'19	Jan-Nov'18
Total	**-1.2**	**1.6**	**-0.2**	**2.3**
Agriculture	**-2.1**	**3.3**	**2.4**	**2.4**
Industrial production	**-2.1**	**-1.5**	**-1.8**	**0.8**
Mining	0.9	-7.2	-5.6	-5.5
Utilities	3.2	6.5	2.0	7.8
Construction	-3.4	-7.2	-5.0	1.3
Manufacturing	-3.0	2.0	0.3	2.0
Services	**-0.7**	**3.0**	**0.4**	**3.0**
Wholesale	-7.4	0.2	-3.2	3.5
Retail	0.2	3.6	2.4	3.0
Transport	1.2	5.3	0.9	4.0
Financial services	0.5	4.1	0.9	2.5
Professional services	2.4	5.1	4.2	3.9
Education and healthcare services	-2.3	1.3	-0.7	1.4
Recreational services	-1.9	-0.7	0.7	1.0
Lodging services	2.9	2.6	0.8	2.3
Government services	-0.9	-0.5	-2.8	4.1

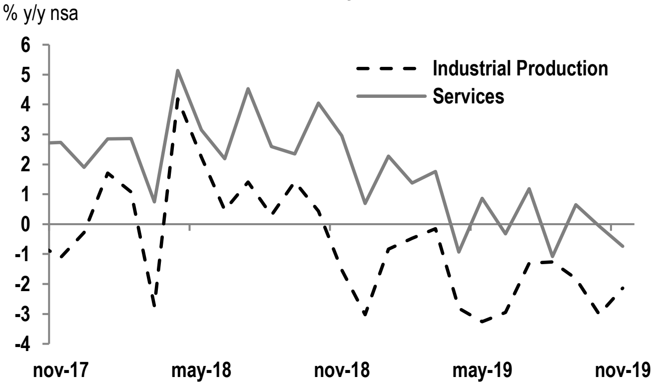
Source: INEGI

Chart 1: Global economic activity indicator
% y/y nsa



Source: INEGI

Chart 2: Global economic indicator by component
% y/y nsa



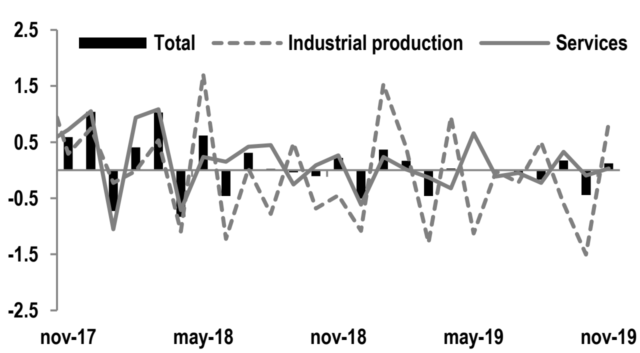
Source: INEGI

Table 2: Global economic activity indicator
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Nov-19	Oct-19	Difference	Sep-Nov'19	Aug-Oct'19
Total	**0.1**	**-0.4**	**0.6**	**-0.2**	**-0.2**
Agriculture	-2.0	-1.1	-0.8	2.5	2.3
Industrial production	0.8	-1.5	2.3	-1.1	-0.6
Services	0.0	-0.1	0.1	0.1	-0.1

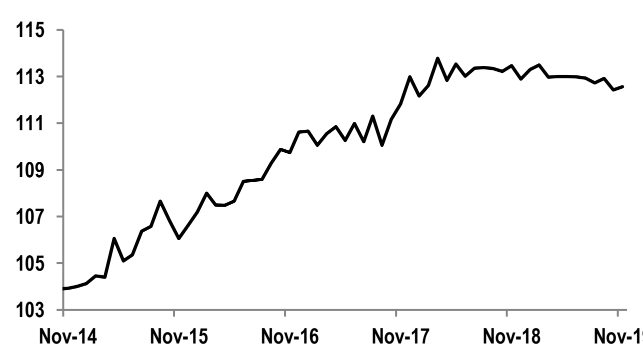
Source: INEGI

Chart 3: Global economic activity indicator
% m/m sa



Source: INEGI

Chart 4: Global economic activity indicator
Index sa



Source: INEGI

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