# The Mexican economy declined 0.1% in 2019, dragged by industry

February 25, 2020

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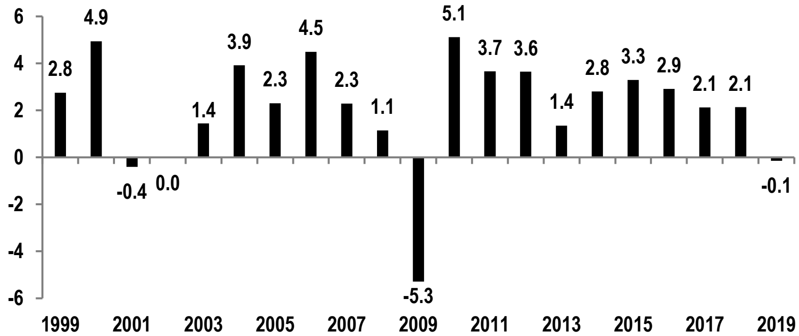
- **Gross Domestic Product (4Q19 F): -0.5% y/y; Banorte: -0.4%; consensus: -0.4% (range of estimates: -0.7% to -0.2%); preliminary figure: -0.3%**
- **As a result, GDP in full-year 2019 contracted 0.1% y/y, below last year's +2.1% and lowest since 2009 (-5.3%). Primary activities advanced 1.9%, industry contracted 1.8%, and services decelerated to 0.4%**
- **As already published, industry was revised to -2.1% from -1.8% y/y in the preliminary estimate. Moreover, and slightly below our expectations, services were also lower, at 0.0% from 0.2%. Meanwhile, primary activities were up 1.6%**
- **In seasonally-adjusted terms activity was also revised to the downside, to -0.1% q/q. With this, the economy contracted sequentially in each of the last four quarters. The secondary sector stood at -1.2%, affected by auto sector shocks and muted dynamism in construction. Services improved at the margin, at 0.2% from 0.0% in 3Q19**
- **December's *IGAE* climbed 0.7% y/y (+0.2% m/m), above expectations which coincided with our 0.5% estimate. Performance in the period in question was stronger in manufacturing and construction within industry, while services were also positive**
- **We reiterate our 0.8% GDP forecast for 2020, modestly below market expectations around 0.9-1.0%**

**GDP at -0.5% y/y in 4Q19, about 20bps below the preliminary estimate.** This was slightly below our estimate and consensus. As a result, GDP in full-year 2019 contracted 0.1% y/y, weakest in a decade which was in the midst of the global financial crisis (see chart below). Taking a look at the breakdown, the secondary sector saw the most significant adjustment, down about 30bps relative to the preliminary estimate, to -2.1%. We also highlight that manufacturing stood at -1.7% from +1.3% in 3Q19, affected by temporary shocks in autos during October but also with a modest performance in other industries. Construction was also muted at -5.8%, although with some tentative signs of improvement by the end of the period. Mining was down only 0.4%, stronger than in 3Q19 and providing a relatively more positive backdrop for this year, particularly in the oil sector.

Services keep showing a muted performance, with this quarter at zero from a preliminary print of 0.2%. In the details, government activities were back to positive (0.4%) for the first time since 3Q18. Retail sales advanced 3.1%, although wholesales retraced strongly (-5.7%). Corporates declined 6.3%, extending the fall from the previous quarter and with the weakest among subsectors. On the other hand, transportation inched back to negative (-0.5%), likely impacted by lower dynamism in overall manufacturing activity.

**GDP**
% y/y nsa




Source: INEGI

**GDP 4Q19**
% y/y

| | Final | | Preliminary | |
|---|---|---|---|---|
| | NSA | SA | NSA | SA |
| **Total** | **-0.5** | **0.4** | **-0.3** | **-0.3** |
| Agricultural | 1.6 | 1.7 | 1.9 | 1.9 |
| Industrial production | -2.1 | -1.9 | -1.8 | -1.5 |
| Services | 0.0 | 0.0 | 0.2 | 0.1 |

Source: INEGI

**Seasonally-adjusted figures show that challenges remained.** In particular, GDP in the period was -0.1% q/q, below the preliminary report at 0.0%. With this, the economy added four consecutive quarters in contraction –given that 3Q19 was revised to a slight decline–. Similar to recent periods, this is not surprising as these figures have been hovering close to zero since 4Q18, in our view only confirming that the economy downshifted materially since the latter period.

Despite of this, some green shoots are worth mentioning. In industry, mining advanced for second quarter in a row (0.5%), consistent with our view that this subsector will stop being a drag for overall activity. Nevertheless, construction and manufacturing were weak. More importantly, services were up 0.2%, highest in the full calendar year. Taking a look at the breakdown, 8 out of 15 sectors grew, including retail sales (0.5%), mass media (4.1%) and lodging (1.7%). We also noted that government activities accelerated to 1.0%, in our view impacted recently by austerity measures of the Federal Government. On the contrary, we are relatively concerned by the strong 3.3% plunge in corporates, weakest since 4Q13.

**GDP**
%y/y nsa; % q/q sa, %q/q saar

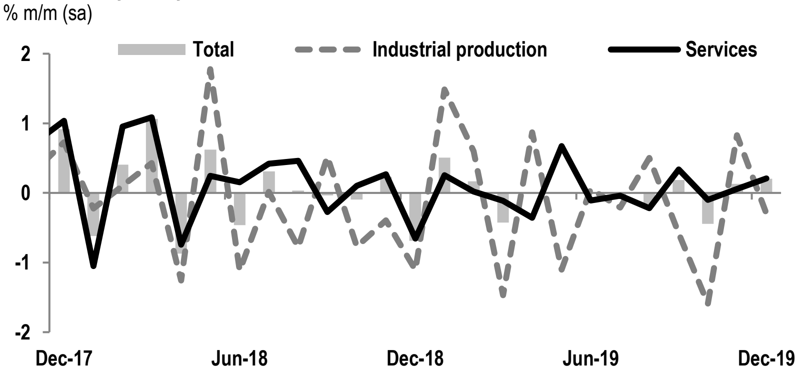
| | % y/y, nsa | | % y/y full-year | | % q/q | | % q/q saar | |
|---|---|---|---|---|---|---|---|---|
| | 4Q19 | 3Q19 | 2019 | 2018 | 4Q19 | 3Q19 | 4Q19 | 3Q19 |
| **Total GDP** | -0.5 | -0.3 | -0.1 | 2.1 | -0.1 | -0.1 | -0.5 | -0.3 |
| *Agriculture* | 1.6 | 5.4 | 1.9 | 2.4 | -1.1 | 3.6 | -4.4 | 15.2 |
| *Industrial activity* | -2.1 | -1.5 | -1.8 | 0.5 | -1.2 | -0.4 | -4.6 | -1.6 |
| Mining | -0.4 | -4.2 | -5.1 | -5.7 | 0.5 | 1.4 | 2.2 | 5.7 |
| Utilities | 4.7 | 2.5 | 2.3 | 7.5 | 1.4 | 1.8 | 5.6 | 7.3 |
| Construction | -5.8 | -6.9 | -5.0 | 0.5 | -1.8 | -2.9 | -7.0 | -11.3 |
| Manufacturing | -1.7 | 1.3 | 0.2 | 1.8 | -2.2 | -0.2 | -8.4 | -0.9 |
| *Services* | 0.0 | 0.1 | 0.4 | 2.9 | 0.2 | 0.0 | 0.8 | 0.0 |
| Wholesale commerce | -5.7 | -3.5 | -3.2 | 3.3 | -1.1 | -0.7 | -4.5 | -2.8 |
| Retail sales | 3.1 | 3.0 | 2.7 | 2.6 | 0.5 | -0.1 | 2.1 | -0.3 |
| Transportation and storage | -0.5 | 1.3 | 0.8 | 3.2 | -1.3 | -0.3 | -5.0 | -1.3 |
| Mass media and information | 6.5 | 4.1 | 1.4 | 5.4 | 4.1 | 5.3 | 17.2 | 22.9 |
| Financial services | -4.3 | -3.6 | -0.2 | 5.0 | 0.0 | -1.6 | 0.0 | -6.3 |
| Real estate | 1.4 | 0.9 | 1.2 | 1.7 | 0.6 | 0.3 | 2.4 | 1.3 |
| Professional services | 1.2 | 0.7 | 1.3 | 1.9 | 1.2 | 1.9 | 4.9 | 7.6 |
| Corporations | -6.3 | -2.5 | -3.7 | 6.1 | -3.3 | 0.2 | -12.7 | 0.9 |
| Business support | 4.0 | 2.7 | 4.9 | 4.5 | 1.4 | -0.3 | 5.7 | -1.1 |
| Education | -1.3 | -2.0 | -1.1 | 0.5 | 0.3 | -0.8 | 1.2 | -3.0 |
| Healthcare | -0.8 | -0.8 | 0.3 | 3.0 | -0.2 | -0.6 | -0.8 | -2.4 |
| Recreation, sports and cultural events | -2.2 | -1.5 | -1.0 | 3.2 | -1.5 | 0.5 | -5.9 | 2.1 |
| Temporary lodging services | 2.8 | 0.6 | 1.0 | 2.1 | 1.7 | 0.5 | 7.0 | 1.9 |
| Other services | -1.5 | 1.1 | 1.1 | 1.3 | -1.6 | -2.6 | -6.3 | -10.0 |
| Government activities | 0.4 | -1.9 | -2.4 | 3.3 | 1.0 | 0.1 | 4.2 | 0.5 |

Source: INEGI

**Economic activity in December improved at the margin.** Specifically, the *Global Economic Activity Indicator* (IGAE), also released today, increased 0.7% y/y, which was higher than consensus and our forecast of 0.5%. Revisions to past data were negative at the margin, with October from -0.7% to -0.8% and November unchanged at -1.2%. By sector, primary activities were slightly more positive, industry declined 1.0% and has been negative for little more than a year, while services rebounded to 1.4%, highest since March.

With seasonally-adjusted figures, activity recovered gradually, up 0.2% m/m. We highlight services at +0.2%, accelerating at the margin in a backdrop in which consumption has failed to gather pace despite strong fundamentals. In this respect, the report suggests that domestic demand may be improving gradually after a weak performance throughout the year. In our view, this sector could have benefited, at least partially, by lower uncertainty.

**GDP monthly proxy (IGAE)**
% m/m (sa)




Source: INEGI

**We maintain our 2020 GDP forecast at 0.8%.** Our forecast is still an inch lower than consensus, which is around 0.9-1.0%. Aside from industry which was affected by temporary factors, we believe some data within today's reports were positive, especially the sequential performance observed in December and that services seem to be improving gradually.

Nevertheless, some relevant risks remain, the most important for 1Q20 being the "Coronavirus" outbreak, still very uncertain to gauge but with negative implications for the global outlook. We should mention that Mexico may benefit from disruptions in China and/or Asia as it may be an alternative supplier, particularly for the US market. In this sense, the situation may be similar to the one observed after the US imposed tariffs to China last year, in which our country was able to gain market share in terms of total imports. Despite of the latter, we believe it will likely end up as a headwind for industry in Mexico at least in 1Q20, centered mostly in manufacturing. In this respect, AMIA data show vehicle production in January down 5.8% y/y, moderating its pace of decline relative to December but still weak. Moreover, we do not rule out some impact to Mexico's aerospace industry from *Boeing* halting production of its *737 Max* in the US. Additional information about manufacturing will be known in the trade balance report for the same month, to be released on Friday. Nevertheless, we should mention that we do not expect it to show a sizable impact yet from supply chain disruptions.

We continue thinking that 2020 will show an improvement in relative terms, supported by several factors, including lower uncertainty –especially in trade after the ratification of USMCA in the US–.We believe the agreement will come into force in the early part of the second semester. This could help lift business confidence, although it kept declining in January, providing us with a warning sign. In our view, the first phase of the government's infrastructure plan could help private investments to improve, with businesspeople also waiting for detailed plans in energy –which according to news reports, should be unveiled this month. The typical slowdown of the first year of the new administration will not be present, which would also be favorable for public infrastructure spending. On the other hand, we see stronger construction and mining, which should help industry recover after a very weak year.

We expect consumption to accelerate modestly (1.2% y/y, see table below), helped by wages –lifted in part by the 20% minimum wage increase–, well-behaved inflation, and the consolidation of social programs, among the most relevant. In turn, this could help services to gather more strength. One important factor to keep watching is credit –which decelerated in the last months of 2019, particularly to corporates–, and the pace of formal job creation, which has been muted. We will watch closely the unemployment rate for January, which plunged to a new historical low in seasonally-adjusted terms at the end of 2019. On the other hand, we estimate net exports to contribute less than in the previous year, with the US slowing down –affected to some extent by the global deceleration– while imports could accelerate.

Lastly, we see monetary and fiscal policy as less restrictive at the margin. We reiterate our view that Banxico will cut the reference rate towards 6.50% by year-end, front-loaded with 25bps cuts each time in March and May. In terms of fiscal policy, room for stimulus is limited, although the government is aiming for a more modest primary surplus (0.7% from 1.1% in 2019). Nonetheless, some risks remain, particularly in terms of revenue given GDP growth forecasts and challenges to oil production, among the most relevant. Lastly, we cannot rule out renewed shocks, especially due to the US election but also due to other global geopolitical risks.

**GDP growth forecasts**
% y/y, nsa

| | 1Q20f | 2Q20f | 3Q20f | 4Q20f | 2019f | 2020f |
|---|---|---|---|---|---|---|
| **GDP (aggregate supply)** | **0.9** | **0.8** | **1.0** | **0.6** | **-0.1** | **0.8** |
| Primary sector | 2.6 | 3.2 | 1.1 | 1.0 | 1.9 | 2.0 |
| Secondary sector | 0.9 | 1.1 | 1.1 | 1.2 | -1.8 | 1.1 |
| Tertiary sector | 0.8 | 0.7 | 1.1 | 0.4 | 0.4 | 0.7 |
| | | | | | | |
| **GDP (aggregate demand)** | **0.9** | **0.8** | **1.0** | **0.6** | **-0.1** | **0.8** |
| Private consumption | 1.5 | 1.2 | 1.4 | 0.7 | 0.8 | 1.2 |
| Investment | -1.0 | 1.1 | 0.9 | 0.1 | -4.9 | 0.3 |
| Government spending | 0.5 | 0.6 | 0.4 | 0.0 | -1.3 | 0.4 |
| Exports | 2.3 | 1.5 | 2.2 | 1.2 | 1.7 | 1.8 |
| Imports | 0.6 | 1.3 | 1.2 | 0.7 | -1.1 | 1.0 |

Source: Banorte

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