IGAE – Activity flat in January, as services disappointed

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- ***Global Economic Activity Indicator* (January): -0.8% y/y; Banorte: -0.2%; consensus: -0.3% (range: -1.6% to 0.9%); previous: 0.7%**
- **Services were most disappointing as they declined 0.5% y/y, while industrial production added fifteen months in contraction at -1.6%. Only the primary sector grew, standing at 1.1%**
- **In monthly terms, activity was flat (0.0%), with the economy still underperforming despite some positive signals elsewhere. This was due mostly to services which fell 0.2%, outweighing for a better performance in industry, which advanced 0.3%**
- **In our view, today's report is less optimistic than what other data on activity had been signaling about economic dynamism at the turn of the year**
- **We have recently changed our call for GDP to contract 3.5% y/y in 2020 (previous: 0.8%), with restrictions to activity and high uncertainty due to COVID-19, strongly impacting the outlook**

Economic activity declined 0.8% y/y in January. This was below both consensus (-0.3%) and our forecast (-0.2%). This was partially driven by a challenging base effect, with the economy growing consistently in the first quarter of last year. As already reported, industry declined 1.6%, with mining leading higher as it exhibited its strongest advance since December 2005, although limited by both construction and manufacturing. In this respect, performance in services was disappointing (-0.5%), primarily wholesales (-5.3%) but also retail sales (+1.2%), with the latter lower than our expectations and relative to the signal provided by the report released yesterday. On the contrary, lodging (2.6%) and professional (2.3%) were the strongest, as shown in Table 1. Lastly, agriculture added two consecutive months higher, growing 1.1%

On a monthly basis, the economy remained in very low gears. Specifically, activity was unchanged (0.0%), dragged mostly by services, which at -0.2% saw its worst performance since August 2019 (Table 2). In addition, December was revised to 0.1% from 0.2%. The deceleration in services was broadly based, with 5 out of 9 sectors contracting. We highlight weakness in some relevant foreign-driven sectors, such as lodging (-0.6%) and transportation (-0.7%), which had been resilient in recent months. Nonetheless, some important domestic-facing sectors were also muted, such as recreational (-0.6%) and education (-0.3%), while retail sales contracted 0.7%. It is relatively positive that government services (0.3%) picked up for second consecutive month. As a result, the 0.3% advance in industry was not enough to compensate for the latter. The most dynamic sector in secondary activities was mining (4.5%), with its highest growth since October 2017 –which was distorted by several natural disasters in the previous month–, and some green shoots in construction. Lastly and despite growing in annual terms, agriculture declined 0.3%, with four consecutive months in contraction.

A sobering report in a deeply challenging global environment. As mentioned above, the report surprised to the downside, particularly as services at the turn of the year were more muted than expected based on advanced data. As a result, available figures for February, which we had also judged as relatively strong, should be taken with a grain of salt. It should be mentioned that annual rates in the latter period will be distorted to the upside by the leap-year effect. This is most evident in same-store sales for Walmart and ANTAD, which surged 4.4% and 3.7% y/y in real terms, respectively. Nonetheless, IMEF indicators for the same month remained in contraction, while the latest banking credit data also signaled low dynamism. We will also look closely for tomorrow's release of the trade balance in February, which in our view could see a high surplus as the COVID-19 possibly impacted imports more than exports, especially non-oil intermediate goods given that supply-chain disruptions first affected China, which is one key source of inputs for the manufacturing industry.

At the margin, this backdrop is negative considering that GDP is likely to have been hit strongly on worldwide restrictions to fight the Coronavirus. Looking ahead, recent news and anecdotal evidence in industry affirm that a wide-range of manufacturers have halted or scaled back operations, including the all-important auto sector both in the US and Mexico. Mining, a relatively bright spot in recent months on government efforts to lift crude-oil production, is also likely to be affected. In this respect, a couple of days ago the President said they will revise production targets downwards, focusing on the most profitable fields after the recent downward shock to prices, and that oil auctions will not restart this year. In construction, the global demand shock will most surely hit business confidence further, with the "adequate moment to invest" component likely dipping and with very limited fiscal room for the government to make up for the prevailing slack.

In services, stringent mobility restrictions and social-distancing measures have not been as high in Mexico as in other places, picking up more noticeably since about two weeks ago. This may suggest the virus may not have affected as much in 1Q20. Moreover, retail sales may have recovered some ground as consumers engaged increasingly in some panic-buying, transfers from social programs have continued, and the Federal Government has stated that they will speed up resources to states. In our view, this could benefit mostly non-durable goods. On the contrary, other very relevant categories such as recreational, lodging (closely related to tourism), and educational services (with schools suspending activities at least one month starting on March 23rd) will likely be hard hit in March and more than outweigh for the former.

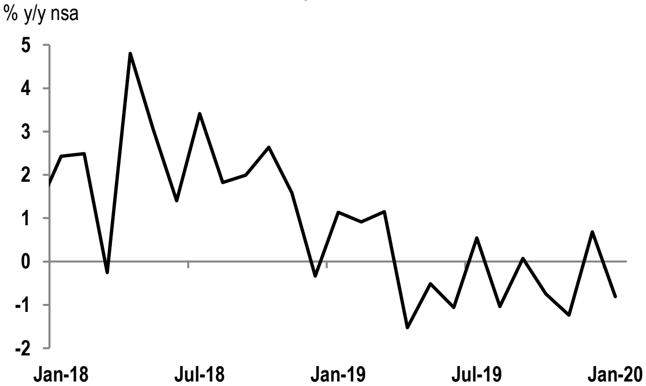
In this context, we recently updated our macroeconomic framework, expecting GDP to contract 3.5% this year, followed by a modest rebound of 1.0% in 2021. These forecasts assume an 8-week quarantine in our country and a relatively mild global recession. Nevertheless, they are highly uncertain and with elevated risks as they depend on the evolution and duration of the Coronavirus pandemic, along the effectiveness and opportunity of policy responses –both domestically and globally– among other factors.

Table 1: Global economic activity indicator
% yoy nsa

	Jan-20	Jan-19	2019	2018
Total	**-0.8**	**1.1**	**-0.1**	**2.1**
Agriculture	**1.1**	**-1.1**	**2.1**	**2.5**
Industrial production	**-1.6**	**-0.8**	**-1.8**	**0.5**
Mining	5.8	-10.5	-5.1	-5.7
Utilities	0.4	-0.6	2.3	7.5
Construction	-8.6	1.7	-5.0	0.5
Manufacturing	-0.9	1.3	0.2	1.8
Services	**-0.5**	**2.3**	**0.5**	**2.8**
Wholesale	-5.3	4.2	-3.2	3.3
Retail	1.2	2.3	2.7	2.6
Transport	-0.3	0.5	1.0	5.0
Financial services	-0.3	3.6	0.8	1.9
Professional services	2.3	7.4	4.1	5.8
Education and healthcare services	-1.7	1.1	-0.6	0.7
Recreational services	-0.8	-0.6	0.6	0.3
Lodging services	2.6	-2.5	1.0	2.8
Government services	0.5	-2.3	-2.4	3.9

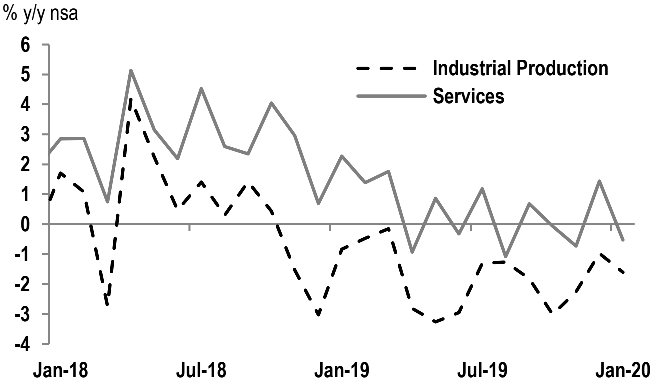
Source: INEGI

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



Source: INEGI

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



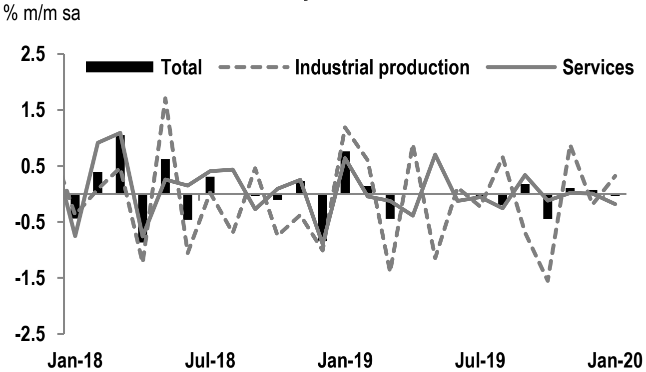
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	Jan-20	Dec-19	Difference	Nov'19-Jan'20	Oct-Dec'19
Total	**0.0**	**0.1**	**-0.1**	**-0.1**	**-0.3**
Agriculture	-0.3	-0.1	-0.3	-1.3	-0.7
Industrial production	0.3	-0.2	0.5	-0.4	-1.3
Services	-0.2	0.0	-0.2	0.0	0.0

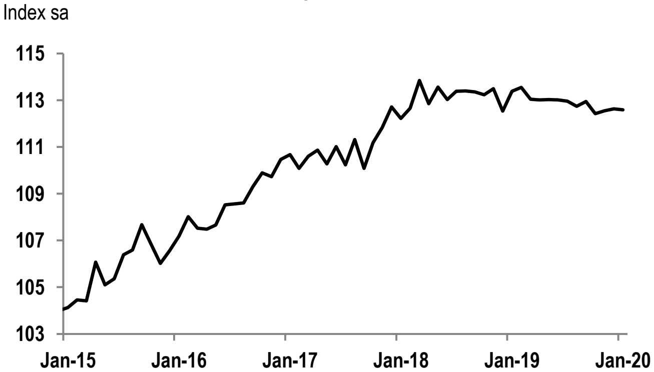
Source: INEGI

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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