

IGAE – Contraction in February, dragged by industry while services remain limited

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- **Global Economic Activity Indicator (February): -0.6% y/y; Banorte: -0.5%; consensus: -0.7% (range: -1.2% to 0.8%); previous: -0.8%**
- **It should be mentioned that this figure is skewed to the upside due to the additional day from the leap year. Correcting for the latter, activity fell 1.6% y/y**
- **With seasonally adjusted figures, services remained weak at -0.3% y/y, while IP extended its negative streak by falling 3.5%. Primary activities declined the most, at -8.3%**
- **In monthly terms, activity contracted 0.2%. We highlight services at +0.1%, with the sector muted once again and even before the strong impact expected from COVID-19. IP edged-down 0.6%, partially impacted by supply chain woes**
- **This report suggests that low economic dynamism continued during the first two months of the year, which will be dragged further down in coming months due to the pandemic**
- **In this context, we recently revised our GDP forecast for 2020 to -7.8% from -3.5% y/y, with a greater uncertainty than usual about the estimate given the lack of visibility over the duration of social distancing measures, among other factors**

Economic activity declined 0.6% y/y in February. This was slightly different than both consensus (-0.7%) and our forecast (-0.5%). It is important to remember that this print is distorted higher due to the additional day from the leap year. Adjusting for the latter, using seasonally adjusted figures, activity fell 1.6% ([Table 1](#)). Additionally, and using the same figures, performance year-to-date was -1.2%, which we consider weak. [As already reported](#), industrial output declined 3.5%, driven down by construction and manufacturing, with the latter starting to be impacted by supply chain disruptions. Services were also limited, contracting 0.3%. Specifically, we highlight that retail sales stood at -0.5%, despite some early signs of precautionary purchases (especially in food and beverages) due to the pandemic, but even weaker than the [retail sales report released yesterday](#), which disappointed lower. Finally, agriculture plunged -8.3%, with reports of harvests affected by adverse weather conditions.

Extending January's weakness. Specifically, activity contracted 0.2% m/m, falling after being basically flat in the previous month (see [Table 2](#)). Within services, 4 out of 9 sectors declined. Similar to the previous month, the weakest sector was lodging (-0.7%), with higher dependency to external factors, although transportation rebounded 0.4% after January's strong decline. On those more related to domestic conditions we observed a more mixed performance. To the downside, we highlight the 0.4% contraction in both professional services and retail. On the contrary, education (0.4%) and recreational services (0.3%) recovered. We also note a steep acceleration in government activities (6.1%), highest since May 2010, which is a historical high.

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Despite of this, we expect a generalized decline in the short term, with a higher impact in the latter due to social distancing measures. On the other hand, industrial production fell 0.6%, with all sectors in contraction except utilities. The steepest reduction was in mining (-2.0%), retracing markedly after some recent strength. Moreover manufacturing (-0.7) and construction (-0.9%) were also weak. Meanwhile, agriculture plunged 5.7%, lowest in three years.

With an already weak economy, more trouble lies ahead. We judge the report as weak, with the economy continuing the muted trend in place since late 2018. The main drag was industry on supply chain issues, while services did not manage to pick up the slack. On the latter, weakness will likely exacerbate in March, with the IMEF non-manufacturing for that month [dipping to a new historical low](#). Meanwhile, formal employment in services during the same month registered a net reduction of 73,569 posts, with the annual rate of total sector employment declining to 1.6% from 2.6% in February, lowest in little over ten years. Going into 2Q20, this sector is expected to be hit very strongly at least in April and May. In this respect, social-distancing measures and the #StayAtHome initiative ramped up after the declaration of the sanitary emergency in Mexico on March 30th, followed by “Phase 3” of the Coronavirus pandemic announced on April 21st. Sales of goods –particularly essential items– could hold up better. For example, ANTAD’s sales declined 2.1% y/y in real terms in March. Nevertheless, this will likely drop more as several of the biggest departmental stores in the country (*e.g.* Palacio de Hierro, Liverpool, Sears, and Coppel, among others) closed all their physical locations, instead selling only via internet. On the contrary, some supermarkets (such as stated by Chedraui in its most recent conference call with investors) have said that sales in April kept growing at a robust pace.

In industry, we believe weakness was partially explained by early effects from supply chain disruptions worldwide, a situation that will also deepen in coming months. In this respect, we will watch closely for March’s trade balance report next week, where we see strong declines in both exports and imports. We forecast the most acute impact next quarter. Oil mining will likely moderate as a result of the [deal with OPEC+ and other producers to cut production](#), starting in May. Moreover, the president stated that operations in some new wells will be halted after price declines. Manufacturing would see a similar story, with widespread disruptions in several industries in Mexico and the US (and worldwide), including autos. In that country, several auto plants will tentatively resume production in early to mid-May, although at a slower pace than before and in stages. According to news reports, some plants in our country are also planning to open next month. Lastly, we believe construction, which had shown some improvement in late 2019, will also be severely affected, with the “adequate moment to invest” component within business confidence reaching a new all-time low and consumers wary of purchasing big-ticket items due to high levels of uncertainty.

Given this very challenging backdrop –in which its not clear when economic activity could return to ‘normal’–, and considering the factors mentioned above, among others, we will publish later today our updated point-estimate for 1Q20 GDP, which currently stands at -2.9% y/y. Lastly, we reiterate our forecast that economic activity [will contract 7.8% in full-year 2020](#).

Table 1: Global economic activity indicator

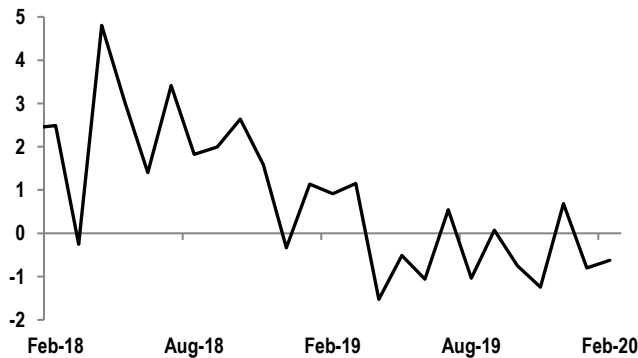
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	Feb-20	Feb-19	Jan-Feb'20	Jan-Feb'19	Feb-20	Feb-19
Total	-0.6	0.9	-0.7	1.0	-1.6	0.9
Agriculture	-8.4	5.4	-3.0	1.8	-8.3	5.7
Industrial production	-1.9	-0.5	-1.8	-0.7	-3.5	-0.5
Mining	5.5	-5.8	5.6	-8.3	2.1	-5.9
Utilities	1.6	-0.9	0.9	-0.7	1.5	-1.0
Construction	-9.1	0.0	-8.8	0.8	-9.5	-0.9
Manufacturing	-1.0	1.0	-1.0	1.2	-2.2	1.3
Services	0.4	1.4	-0.1	1.8	-0.3	1.4
Wholesale	-5.7	-2.1	-5.5	1.0	-7.2	-1.7
Retail	1.9	4.4	1.6	3.3	-0.5	4.3
Transport	1.5	0.6	0.6	0.6	0.3	1.1
Financial services	0.4	2.2	0.1	2.9	0.3	2.1
Professional services	0.2	6.9	1.2	7.1	0.7	6.8
Education and healthcare services	-0.9	0.2	-1.3	0.7	-0.7	0.1
Recreational services	-0.7	0.8	-0.8	0.1	-0.9	0.6
Lodging services	2.3	-1.1	2.2	-1.8	1.2	-0.3
Government services	8.5	-3.3	4.5	-2.8	7.9	-3.7

Source: INEGI

Chart 1: Global economic activity indicator

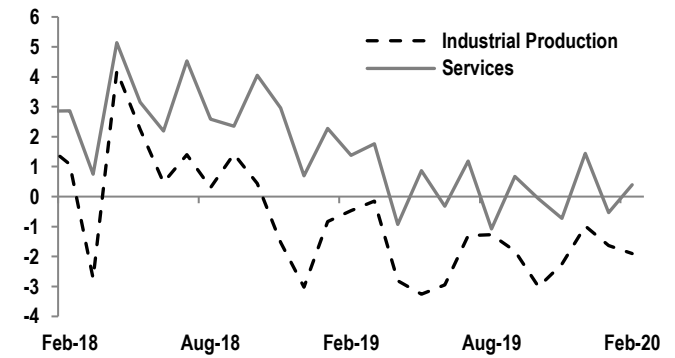
% y/y nsa



Source: INEGI

Chart 2: Global economic indicator by component

% y/y nsa



Source: INEGI

Table 2: Global economic activity indicator

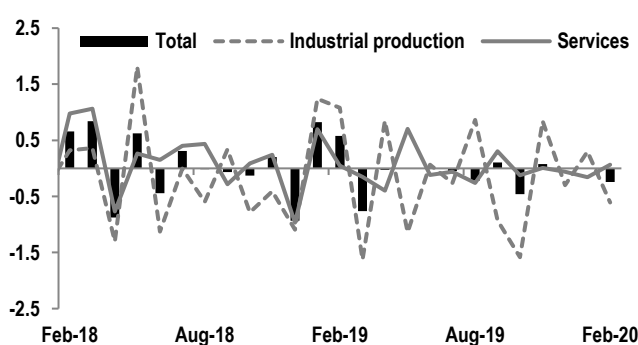
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Feb-20	Jan-20	Difference	Dec'19-Feb'20	Nov'19-Jan'20
Total	-0.2	0.0	-0.2	-0.2	-0.2
Agriculture	-5.7	0.2	-5.8	-2.9	-1.2
Industrial production	-0.6	0.3	-0.9	-0.3	-0.6
Services	0.1	-0.2	0.2	-0.2	-0.1

Source: INEGI

Chart 3: Global economic activity indicator

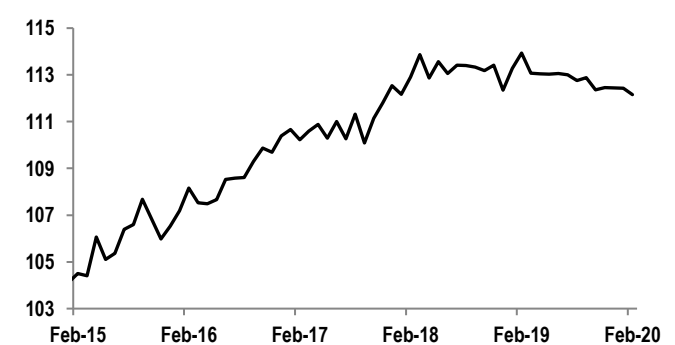
% m/m sa



Source: INEGI

Chart 4: Global economic activity indicator

Index sa



Source: INEGI

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