IGAE – Activity declined further in May, reaching a new low due to the pandemic

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- ***Global Economic Activity Indicator*** **(May): -22.7% y/y; Banorte: -20.3%; consensus: -20.3% (range: -23.6% to -17.0%); previous: -19.8%**
- **This figure represents a new historical low in the annual comparison, surpassing the previous month, dragged further by other adverse factors such as a more challenging base effect and less working days**
- **Inside, the weakest sector was again industry at -30.7% y/y, although with services also lower at -20.3%. Meanwhile, primary activities remained in positive territory at +2.5%**
- **Contrary to our expectations, in monthly terms the economy dipped 2.6%, explained by the decline in both services (-3.2%) and IP (-1.8%)**
- **Considering today's results and more timely data, we reiterate that 2Q20 will be by far the weakest quarter in the year, highly impacted by the pandemic. Going forward we expect a sequential recovery starting in June, extending into 2H20 as reopening efforts gather additional pace**

Economic activity plunged 22.7% y/y in May, a new historical low. This was lower than consensus (-20.3%) which was coincided with our forecast. It should be noted that this was even lower than April's -19.8% (see Chart 1) despite some signs of a slight acceleration in activity. In this sense, we point out that several adverse factors skewed the figure, such as a more adverse base effect and a lower number of working days in the annual comparison. Nevertheless, and using seasonally adjusted figures, activity plunged -21.7% vs. -19.6% in April, signaling that these were not the only drivers behind the deceleration and thus also reaching a new low for that series. Looking at the breakdown –and using non-seasonally adjusted figures–, industrial production declined 30.7% y/y, with manufacturing (-37.1%) and construction (-36.3%) once again leading losses, albeit with an additional drag from mining (-5.9%), as oil output cuts came into force. Services surprised us to the downside despite already beaten expectations, standing at -20.3% (Chart 2). We still saw heavy declines in non-essential categories such as lodging, recreational and transportation, while those deemed as essential (e.g. financial, health and education) were relatively more stable (Table 1). Finally, agriculture stayed strong at 2.5%. In this backdrop, the economy accumulates a 9.3% year-to-date contraction.

Monthly figures showed an additional deterioration. Contrary to our expectations, the economy dipped 2.6% m/m on top of the 17.3% contraction of the previous month (Table 2). It should be noted that social distancing measures remained in place practically during the whole month. As a result, the level of activity levels was at its lowest since late 2009 (Chart 4). IP declined further at -1.8%, with all four subsectors down again. The sharpest declines were in utilities (-10.2%) and mining (-3.0%), remembering these were the most resilient in April. Meanwhile, construction (-1.3%) and manufacturing (-0.3%) were relatively unchanged, as restrictions to non-essential activities remained in place.

Services came in at -3.2% (Chart 3), with seven out of nine subsectors down. Similar to the previous month, non-essential sectors were still among the weakest, such as recreational (-4.3%), lodging (-3.3%), and transportation (-1.7%). Nevertheless, we highlight that wholesales plunged 16.2% and for a second month in a row. We think that the build-up of supply chain disruptions –affecting transportation directly– may have also impacted greatly this category on challenges to distribution. Retail also declined (-1.3%), contrasting with the recent sales report which showed a modest sequential recovery. On a more positive side, financial services picked up 1.7%, while professional services were unchanged. In our view, these may have benefitted from digital solutions (*e.g.* such as bank mobile apps) and other telecom services (*e.g* videoconferences). Lastly, education and health care contracted modestly (-0.5%), not enough to compensate the previous +0.9% and most likely supported by the latter category.

Today's figures make it virtually certain that 2Q20 will be the weakest quarter in history. The economy in April and May declined 21.3% y/y on average. Even with our expectation of a rebound in June on the back of the gradual reopening of the economy and stronger external activity, the quarter will most likely exhibit an unprecedented decline.

Regarding the last month of the quarter, a broad range of signals point to a better performance. Both IMEF PMI indicators improved by 4.4pts, with manufacturing at 42.0pts and non-manufacturing at 42.5pts. In industry, auto production came in at 238,946 units, a 29.2% y/y decline which is still very high, but much better than the -93.8% in May. Several surveys, including aggregate trend and business confidence, show manufacturing and construction slightly better. This may have been boosted by the new designation of essential activities, including the latter industry, auto manufacturing and non-oil mining, starting on June 1st. In services, signals are also more positive. ANTAD same-store sales improved to -20.5% y/y in real terms (previous: -21.2%), while auto sales came in at -41.1% y/y vs. -59.0% in May. Air passenger traffic in privately-operated airports declined 82.5% y/y, a 10.5%-pts rise relative to the previous month. In addition, hotel occupancy rates stood at 4.3% in the first week of June (vs. the 3.1% average in May). Moreover, *Open Table* figures showed an average annual decline in seated diners in June of 90.7% (previous: 98.4%), while mobility data from *Apple* and *Google* signals an extension of the recovery through July after a better June.

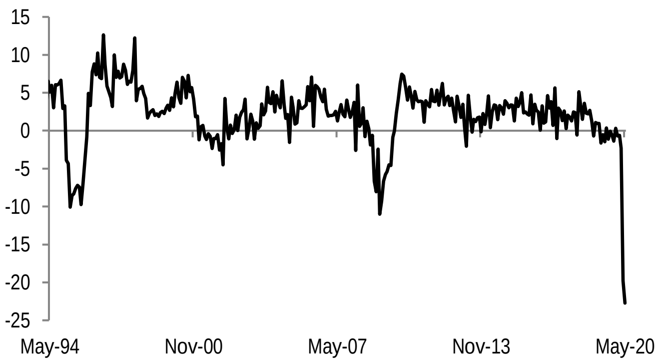
Going forward, we continue expecting a very gradual recovery in the second half of 2020 as reopening efforts extended further in July despite the unfavorable evolution of COVID-19 contagion curves. Nevertheless, we still believe risks are tilted to the downside as policy flexibility is constrained in terms of stimulus given mandated austerity measures, uncertainty remains high given the lack (at least until now) of an effective treatment and/or vaccine, and the hit that the pandemic has exerted on both aggregate demand and key industries (*e.g.* tourism, air travel, lodging, entertainment). Therefore, our view is that the recovery will start in June albeit very gradually, maintaining our full-year forecast at -9.8% y/y for 2020.

Table 1: Global economic activity indicator
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	May-20	May-19	Jan-May**'20**	Jan-May**'19**	May-20	May-19
Total	-22.7	-0.5	-9.3	0.2	-21.6	-0.5
Agriculture	2.5	-1.7	1.8	0.4	2.5	-1.6
Industrial production	-30.7	-3.1	-13.7	-1.4	-29.7	-3.1
Mining	-5.9	-8.9	0.7	-6.2	-5.8	-8.7
Utilities	-13.1	3.6	-3.3	0.1	-12.9	3.8
Construction	-36.3	-9.6	-19.4	-3.1	-35.9	-8.9
Manufacturing	-37.1	0.7	-16.3	1.0	-35.6	0.4
Services	-20.3	0.8	-7.7	0.9	-19.1	0.9
Wholesale	-35.5	-4.7	-14.1	-3.5	-32.4	-4.3
Retail	-36.2	4.0	-13.6	2.6	-33.8	4.4
Transport	-30.8	-1.8	-12.5	0.1	-29.9	-1.9
Financial services	-1.1	1.8	-0.4	1.9	-0.9	2.0
Professional services	-9.7	11.9	-2.0	3.4	-8.4	12.9
Education and healthcare services	-2.0	-0.7	-1.5	0.4	-1.3	-0.5
Recreational services	-33.3	0.9	-14.8	0.5	-33.3	0.8
Lodging services	-72.0	3.7	-33.8	-1.0	-72.1	3.0
Government services	0.8	-4.5	4.3	-3.8	0.9	-4.5

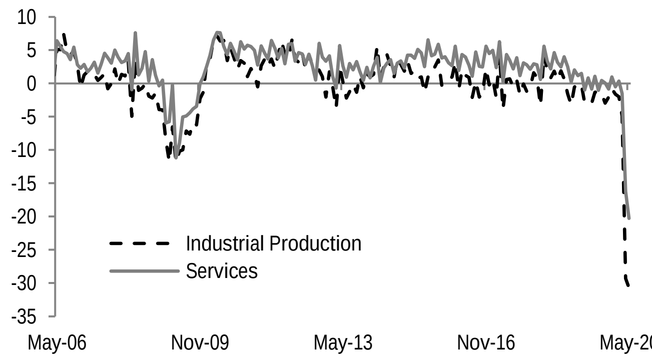
Source: INEGI

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



Source: INEGI

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



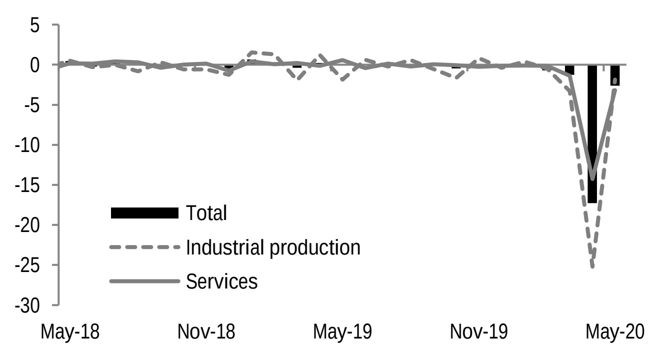
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	May-20	Apr-20	Difference	Mar-May'20	Feb-**Apr'20**
Total	-2.6	-17.3	14.6	-13.7	-7.1
Agriculture	1.6	-7.0	8.6	3.8	1.2
Industrial production	-1.8	-25.2	23.4	-20.1	-10.6
Services	-3.2	-14.3	11.1	-11.8	-5.8

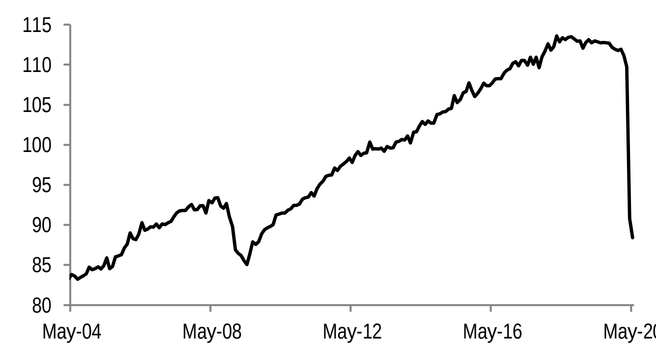
Source: INEGI

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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