

## IGAE – A modest recovery in August as services surprised to the downside

- **Global Economic Activity Indicator (August): -9.4% y/y; Banorte: -8.7%; consensus: -8.3% (range: -9.4% to -4.6%); previous: -9.7%**
- **Despite an extension of the recovery, this figure surprised to the downside as several signals suggested a stronger rebound in the month**
- **Inside and as already known, industry contracted 9.0% y/y, with an improvement in construction (-13.7%), albeit still weak. Services stayed at -10.2%, with a calendar effect dragging the sector lower**
- **In monthly terms, the economy picked up 1.1%, with industry at +3.3% and services disappointing at +0.4%. Primary activities were down 5.9%, although after a strong increase in July**
- **After today's report, we adjust our 3Q20 GDP estimate –to be released on Friday– to -9.1% y/y (+11.4% q/q), below our original forecast of -8.8% y/y (+11.8% q/q)**

**Economic activity fell 9.4% y/y in August.** This was below consensus (-8.3%) and our -8.7%. Although it was higher than the previous month even before accounting for a more difficult calendar effect (with less working days in the annual comparison), it is our take that it was a bit disappointing, especially after considering more timely data that suggested more dynamism. With seasonally adjusted figures, performance picked up to -8.5% y/y from -9.8% in July. In our view, one of the main drivers was the additional efforts to reopen the economy, albeit with more marginal gains as less businesses' and industries retook their activities from zero –as several had already did so in previous months–. To the latter, we also add persistent external strength, although recognizing also a more limited effect. By sectors –and with original data–, industrial production fell 9.0% y/y, with construction improving to -13.7% mainly due to the residential sector, although still weak. Manufacturing was also more limited (-9.2%), even with favorable signals from the US that had a positive effect in recent months. On the other hand, services were unchanged relative to July, at -10.2% ([Chart 2](#)). Within, we perceived a relevant impact from a calendar effect ([Table 1](#)) although still with a differentiated performance between essential categories (*e.g.* education and healthcare, financial and professional services) and non-essentials (*e.g.* lodging, recreational and transportation services). Finally, primary activities remained strong at +5.2%. With these, activity has contracted 9.9% y/y year to date ([Chart 1](#)), still below our most recent GDP revision in which we anticipate -9.0% for the full year.

**Monthly data signals a deceleration in the pace of the recovery.** The economy picked up only 1.1% m/m (Banorte: +1.7%) after advancing 5.7% in July ([Table 2](#)) and 8.9% in June. One factor behind this moderation was a base effect, which has become increasingly difficult. As a result, absolute levels of activity are about 7.4% below those in February (before the pandemic hit) but +16.3% relative to its low in May ([Chart 4](#)).

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Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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By sectors, industrial production led gains at 3.3%, with all subsectors up and highlighting the 11.2% in construction, as already mentioned. Mining and manufacturing were more modest, both at 0.8%, with the latter surprising down given declines in some of its most important industries, such as food and beverages, and transportation.

Services stood at +0.4% m/m ([Chart 3](#)), with five out of the nine subsectors lower and disappointing us in terms of their overall dynamism. Nevertheless, we should mention that several of these declines happened after strong upticks in July. Among them, we highlight the 1.2% fall in retail sales, contrasting with the +2.5% in [the report published on Friday](#). Financial (-0.6%) and professional services (-2.9%) were also lower, contrary to our view of more stability. On a positive note, wholesales increased 3.1%, possibly a positive signal for September. Transportation kept rising at 1.2%, which we believe is driven by a recovery the air passenger traffic, better mobility, and the relative strength in manufacturing. Education and healthcare increased 2.2% after falling 1.6% in July, which could be related to both a marginal effect from the ‘return to school’ –albeit remotely– and possibly the rest of health services (excluding COVID-19 care) on better domestic epidemiological conditions. Finally, primary activities contracted -5.9%, although only after growing 14.0% in July. This seems consistent with fruits and vegetables’ price dynamics in the month.

**We adjust our 3Q20 GDP estimate lower.** Specifically, last Friday we published [our forecast for 3Q20 preliminary GDP](#), expecting it at -8.8% y/y (+11.8% q/q). Nevertheless, we modify it lower, driven by two factors: (1) The negative surprise in today’s report –especially the moderation in services–, given that only because of this GDP would fall to -8.9%; and (2) a modification in the trajectory for services in September given today’s signal of more headwinds for a rebound in domestic demand relative to what we had penciled in, subtracting around 20bps. Therefore, we now expect a 9.1% y/y decline for the quarter, translating to an 11.4% q/q expansion with seasonally adjusted figures. By sectors, we maintain industrial production unchanged at -9.1% y/y (+21.6% q/q), with no additional information regarding this category. In contrast, services would now fall 9.3% y/y (+8.0% q/q), 60bps lower than the -8.7% originally forecasted.

In another relevant side note, today’s print was also below the mid-point forecasted by INEGI in its newly released *Timely Indicator of Economic Activity* (IOAE in Spanish), which estimated a 7.9% y/y sa contraction (actual: -8.5%). Despite of this, it should be said that it was within the 95% confidence interval, from -9.6% to -6.2%. This discrepancy is normal, while the release is a very valuable effort by the institute to provide timely and quality data, highly relevant in economic agents’ decision-making process.

All in all, we consider that today’s report was somewhat weak, especially about the possible pace of the recovery in domestic demand –specifically in services–. Although it was highly likely that dynamism would be lower than in June and July as the reopening continued, it was weaker than other timelier indicators suggested. Despite this convincing us to adjust lower our 3Q20 estimate, we still expect [full-year GDP at -9.0% y/y](#), as in our most recent update.

**Table 1: Global economic activity indicator**

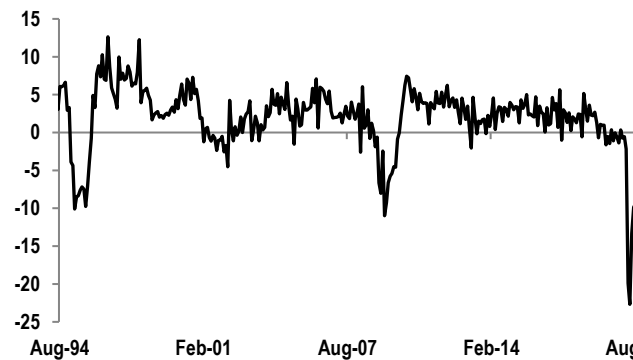
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	Aug-20	Aug-19	Jan-Aug'20	Jan-Aug'19	Aug-20	Aug-19
<b>Total</b>	<b>-9.4</b>	<b>-1.1</b>	<b>-9.9</b>	<b>-0.2</b>	<b>-8.5</b>	<b>-0.7</b>
<b>Agriculture</b>	<b>5.2</b>	<b>-1.3</b>	<b>2.6</b>	<b>0.5</b>	<b>5.9</b>	<b>-0.6</b>
<b>Industrial production</b>	<b>-9.0</b>	<b>-1.2</b>	<b>-13.1</b>	<b>-1.5</b>	<b>-8.4</b>	<b>-1.3</b>
Mining	-3.5	-3.6	-0.8	-7.0	-3.8	-4.0
Utilities	-4.5	4.0	-5.6	1.3	-4.8	3.8
Construction	-13.7	-3.1	-20.3	-4.2	-14.0	-3.6
Manufacturing	-9.2	-0.3	-14.3	1.0	-7.7	0.3
<b>Services</b>	<b>-10.2</b>	<b>-1.1</b>	<b>-8.9</b>	<b>0.5</b>	<b>-9.3</b>	<b>-0.5</b>
Wholesale	-10.7	-7.2	-13.0	-3.0	-7.9	-5.7
Retail	-12.7	1.8	-13.3	2.8	-10.2	3.4
Transport	-21.4	0.2	-16.2	0.2	-20.8	0.4
Financial services	-2.0	-0.8	-0.9	1.3	-1.7	-0.5
Professional services	-3.0	1.5	-2.6	4.2	-2.5	1.5
Education and healthcare services	0.6	-3.3	-1.5	-0.4	0.8	-3.0
Recreational services	-21.7	3.3	-17.9	0.8	-21.8	2.9
Lodging services	-53.5	0.7	-44.3	0.1	-53.4	1.0
Government services	2.5	-1.4	3.6	-3.6	2.4	-1.4

Source: INEGI

**Chart 1: Global economic activity indicator**

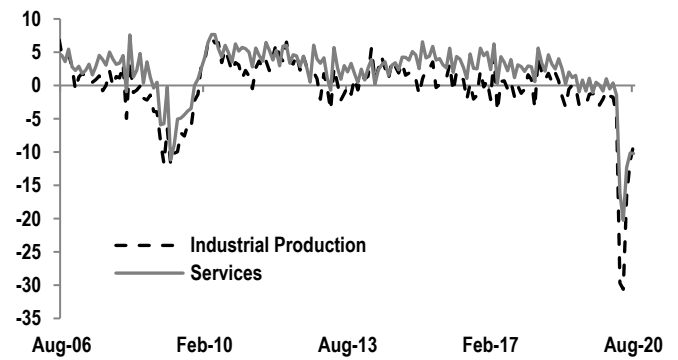
% y/y nsa



Source: INEGI

**Chart 2: Global economic indicator by component**

% y/y nsa



Source: INEGI

**Table 2: Global economic activity indicator**

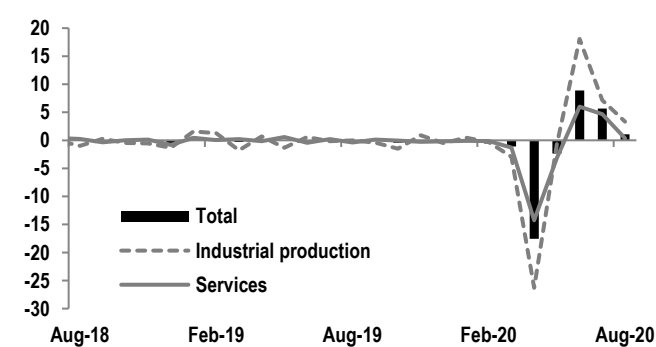
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Aug-20	Jul-20	Difference	Jun-Aug'20	May-Jul'20
<b>Total</b>	<b>1.1</b>	<b>5.7</b>	<b>-4.6</b>	<b>4.2</b>	<b>-8.0</b>
Agriculture	-5.9	14.0	-19.9	0.0	0.9
Industrial production	3.3	7.1	-3.8	11.2	-8.9
Services	0.4	4.7	-4.3	1.4	-8.3

Source: INEGI

**Chart 3: Global economic activity indicator**

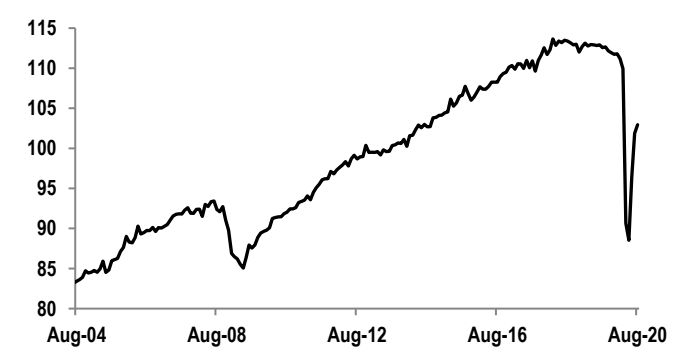
% m/m sa



Source: INEGI

**Chart 4: Global economic activity indicator**

Index sa



Source: INEGI

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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