

IGAE – A strong print in November as *El Buen Fin* had a positive impact

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- **Global Economic Activity Indicator (November): -3.9% y/y; Banorte: -4.9%; consensus: -4.6% (range: -5.1% to -4.0%); previous: -5.3%**
- **In our opinion, today's print is positive, considering signals of more muted dynamism in forward looking data, including INEGI's latest Timely Indicator of Economic Activity**
- **Inside and as already known, industry contracted 3.7% y/y, with an improvement in construction (-7.8%) while manufacturing was weaker (-2.1%). Services were higher at -4.8%, likely boosted by *El Buen Fin* sales**
- **In monthly terms, the economy rose 0.9%, with both industry and services at +1.1%. Primary activities were more muted at 0.2%, albeit with an overall more challenging base effect**
- **Although today's report represents an upward risk for our -5.6% 4Q20 GDP estimate, the deterioration in epidemiological conditions is a short-term headwind for activity**

Economic activity fell 3.9% y/y in November. This was stronger than consensus at -4.6% and further away from our -4.9%. In our view, this result is positive ([Chart 1](#)), considering a negative calendar effect (with one less working day in the annual comparison, similar to October). With seasonally adjusted figures, activity stood at -3.5% y/y, better than the mid-point (-4.3%) but still within the confidence interval (-5.2% to -3.1%) within [INEGI's latest estimation of the Timely Indicator of Economic Activity](#). This is particularly favorable considering a further deterioration in epidemiological conditions, albeit with signals of renewed dynamism in some categories within services due to *El Buen Fin* sales. By sectors –and back with original data–, [industrial production fell 3.7% y/y](#), with construction higher to -7.8% on a more favorable base, while the rest of the sectors were more muted, including manufacturing at -2.1%. Meanwhile, services were stronger at -4.8% ([Chart 2](#)). While there is still quite a gap between essential (e.g. education and healthcare, financial and government services) and non-essential categories (e.g. lodging, recreational and transportation services), it has narrowed relative to the lockdown months ([Table 1](#)), albeit possibly aided this month by an additional boost coming from discounts in the latter categories, which were larger relative to previous years. Primary activities extended their strength to +8.8%. With these results, activity has contracted 8.5% y/y year to date. Nevertheless, it is our take that there was a heftier decline in December, with a more evident impact from the deterioration in the number of cases and deaths.

Monthly data reflects a positive performance. The economy rose 0.9% m/m, extending the +1.2% seen in October ([Table 2](#)) and adding six months with sequential expansions. In this context, the relative deceleration is consistent with an increasingly difficult base effect. As a result, absolute levels of activity are about 3.1% below those in February (before the pandemic hit) but +20.8% relative to its low in May ([Chart 4](#)).

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By sectors, both industrial production and services rose 1.1% each ([Chart 3](#)). Within the former, construction led gains at +2.2%, with mining edging-up 0.1%. On the contrary, manufacturing was unchanged (0.0%), with weakness in key sectors such as electronic goods and oil- and carbon-based goods.

Within services, only two out of the nine subsectors were lower, these being professional services (-1.5%) –accumulating two months of declines– and healthcare and education (-0.3%) –with what seems to be some payback from the previous month–. On a more positive note, the effect from the extended discounts from *El Buen Fin* seems to be more evident in these figures, highlighting relevant increases in transportation (3.7%), retail sales (3.0%), lodging (2.6%), and wholesales (1.9%). This would be consistent with broad discounts in goods, airfares and tourism services, driving additional sales. Recreational services edged-up 0.3%, with stable mobility levels, also reflected in little changes in the traffic light indicator in big metro areas during the period, despite an additional deterioration. Lastly, both government and financial services rose 0.3%, reverting some of the losses seen in October. Finally, primary activities rose 0.2%, stringing three months to the upside and in line with the better prices seen in the period.

Cautious on December, with increased short-term risks. Given today’s results, we recognize some upside risks to our [-5.6% y/y \(+2.1% q/q\) forecast for activity in 4Q20](#), which would equate to GDP falling 8.6% y/y in all 2020. However, we maintain our estimate considering information already published on the economy in December. These include broad indicators such as IMEF’s indices, as well as more targeted data like ANTAD sales, which point to a drop due to the deterioration in epidemiological conditions. This was clearly reflected in the traffic light indicator, especially in Mexico City and the State of Mexico, resulting in renewed restrictions such as non-essential businesses closing, while others like restaurants operated only through take-out schemes. This likely limited usually high revenue streams, such as New Year parties in restaurants and other events, which show a clear seasonal pattern in the recreational services category. Moreover, weakness seems to have extended to January, with mobility indicators trending further down in recent days while additional states also returned to ‘red’, currently totaling ten. Other headwinds persist, with reports of new railway blockades in Michoacán which will probably disrupt trade again in the Lázaro Cárdenas port. In contrast, both Mexico City and the State of Mexico reintroduced in-store dining in outdoor spaces in order to curb some of the economic impact.

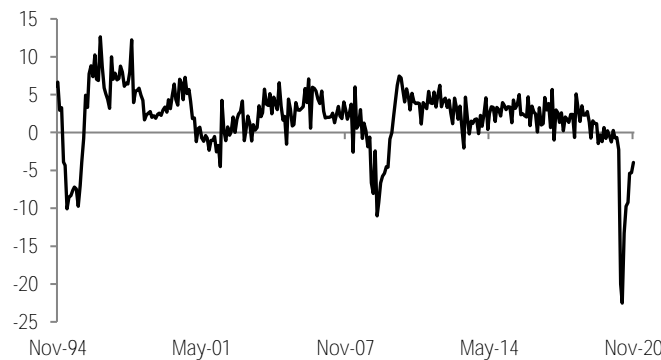
The outlook in the medium-term seems to be more favorable at the margin, with the vaccination program moving along despite delays, which could help a lagging domestic demand and boost confidence. Nevertheless, some idiosyncratic factors may continue weighing, especially on investment. We believe the main boost will continue to be the external sector, with good progress in the vaccination scheme in the US, on top of the expectation of a US\$1.9 billion stimulus package relatively soon. In addition, comments from the incoming Treasury Secretary, Janet Yellen, suggests that political pressure on China will continue, which may be positive for our country. In this context, we maintain our expectation for activity to rise 4.1% y/y in 2021 despite what would be a more challenging base effect, albeit with the possibility of heightened risks if lockdowns continue.

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

	y/y nsa				y/y sa	
	Nov-20	Nov-19	Jan-Nov'20	Jan-Nov'19	Nov-20	Nov-19
Total	-3.9	-1.2	-8.5	-0.1	-3.5	-1.1
Agriculture	8.8	-4.9	2.9	0.8	8.9	-5.4
Industrial production	-3.7	-2.1	-10.7	-1.7	-3.3	-1.8
Mining	-2.4	1.6	-1.0	-4.8	-2.5	1.5
Utilities	-7.0	0.2	-5.4	-0.9	-7.0	0.0
Construction	-7.8	-3.9	-17.7	-5.2	-8.0	-4.4
Manufacturing	-2.1	-2.6	-11.0	0.7	-1.2	-2.0
Services	-4.8	-0.6	-8.0	0.7	-4.5	-0.4
Wholesale	-1.9	-4.6	-10.1	-0.9	-1.0	-2.9
Retail	-0.9	-2.9	-10.7	-0.6	0.0	-1.8
Transport	-10.7	0.9	-15.3	1.2	-10.5	0.9
Financial services	-1.1	1.5	-0.7	1.8	-1.3	1.3
Professional services	-4.9	1.5	-2.4	3.3	-4.4	2.2
Education and healthcare services	-0.6	-1.3	-1.6	0.7	-0.5	-1.0
Recreational services	-17.3	-1.9	-18.3	1.1	-17.4	-2.1
Lodging services	-41.0	3.5	-44.0	0.9	-41.7	2.2
Government services	1.5	-0.6	2.9	-2.5	1.5	-0.4

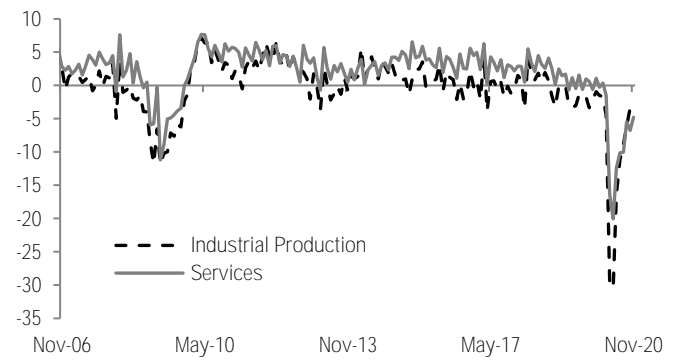
Source: INEGI

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



Source: INEGI

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



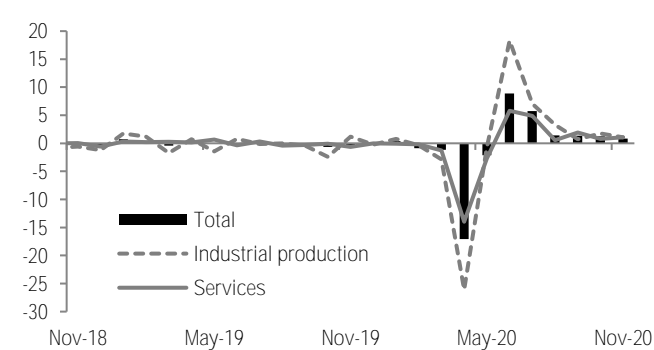
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	Nov-20	Oct-20	Sep-20	Sep-Nov'20	Aug-Oct'20
Total	0.9	1.2	1.3	5.3	9.5
Agriculture	0.2	0.6	0.7	1.8	2.2
Industrial production	1.1	1.8	0.7	6.8	15.0
Services	1.1	0.8	1.9	4.8	7.3

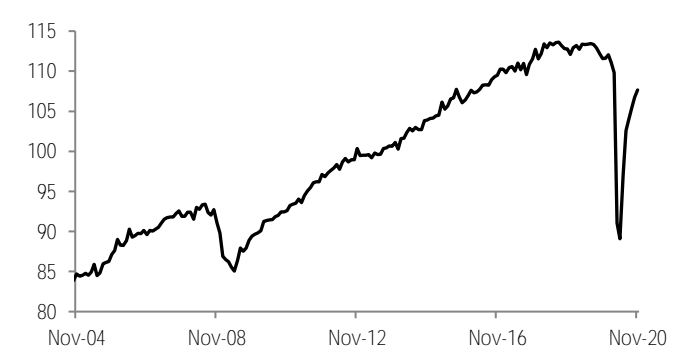
Source: INEGI

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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