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Mexico

IGAE – A modest decline in April, but the recovery should continue

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- ***Global Economic Activity Indicator* (April): 22.3% y/y; Banorte: 21.7%; consensus: 21.7% (range: 21.0% to 24.7%); previous: 0.8%**
- **Today's annual print shows a strong upward skew due to the base effect triggered by the start of the lockdowns. There are also calendar-related distortions, including the *Easter* holiday Correcting for the latter, performance was slightly below INEGI's *Timely Indicator of Economic Activity***
- **As already known, industry surged 36.6% y/y. Services stood at 17.9%, with non-essential categories propped-up**
- **Nevertheless, in monthly terms the economy fell 0.2% after a steep acceleration in March. Industry declined 0.2%, with services positive at 0.3%. Primary activities plunged 2.9%, likely impacted by the drought**
- **Despite today's setback, GDP remains poised to maintain sequential growth in 2Q21, possibly accelerating as epidemiological conditions and other key drivers kept improving during the rest of the period**

Economic activity shoots-up 22.3% y/y in April. This was slightly above our forecast and consensus, both at 21.7%. Details are presented in Chart 1. There is a slightly positive calendar effect as the impact of the *Easter* holiday was spread out between March and April. Correcting for this (using seasonally adjusted figures), activity rose 21.4%, slightly below the mid-point of INEGI's *Timely Indicator of Economic Activity*. However, annual performance is distorted by the base effect, as the same period in 2020 was hit by the first lockdowns, with activity decreasing massively. In this context –and back to original data, sector figures show wide differences, with industry up 36.6% and services up more modestly, at 17.9% (Chart 2). In the former, the base effect is more evident in construction (45.1%) and manufacturing (52.0%), as they were the most affected. Turning to services a similar pattern emerges, as non-essential categories soared (Table 1), such as lodging (156.5%), transportation (33.8%), and to a lesser extent, entertainment (16.2%). Nevertheless, it is not as strong as some industry components considering that the room left for a full recovery is larger. On essential activities, the most positive include education and healthcare (6.8%), financial (2.7%) and government (1.7%). Lastly, agricultural activity was the only negative at -0.7%.

Sequential decline after accelerating in March. Activity fell 0.2% m/m, albeit only after the notable 2.7% expansion in March (Table 2). This suggests that the mild decrease should not be a cause for concern and is mostly driven by a more difficult starting point. In this respect, other indicators show additional dynamism, supported by improvements in the epidemiological front, strength from abroad and signals of a revival in domestic components. As such, the economy remains close to levels seen in early 2017 (Chart 4).

Industrial production fell 0.2% (Chart 3), breaking with 10 consecutive months of growth. Inside, mining was the only sector higher (1.0%), with the decline in manufacturing (-0.5%), not enough to offset the previous month's gains. Slightly concerning was construction (-0.3%), showing some signs of stagnating after a strong start in the year.

Services were positive at 0.3%, with only two out of nine subsectors lower. In particular, these were wholesales (-6.3%) and recreational services (-2.3%), which is consistent with some payback as these had some of the largest outperformance in the previous month. Nevertheless, and surprising to the upside, lodging was once again the best at 7.3% (previous: 9.2%), possibly with a sizable boost from the *Easter* holiday. In a similar manner, transportation rose 2.8%. Meanwhile, and contrasting with the stand-alone report, retail sales grew a massive 4.2% after having lagged in the previous month. On essential sectors, education and healthcare expanded 2.2%, possibly driven more by the former rather than the latter as COVID-19 cases kept falling. In addition, government services posted a marginal 0.1% increase, with financial services unchanged (0.0%).

Despite this slight setback, we expect activity to keep moving higher in coming months. As already mentioned, most drivers and other signals suggested a better performance, which coupled with previous gains and a quite modest decline, still point to an overall positive outlook for the economy. This is mainly underpinned by the evolution of the pandemic, external demand strength, and some pockets of a revival in domestic sectors.

On the virus, the rate of daily cases and deaths kept improving throughout May and most of June, with some setbacks only at the end of the period. Several states retraced in the traffic light indicator, highlighting Mexico City, now at 'yellow'. Moreover, the pace of vaccinations has stabilized at around 400 thousand per day, decelerating after a high in early June. We expect timely actions to curb contagions and efforts to speed up the vaccination program. Nevertheless, this remains as the largest risk for activity, considering the potential impact from more contagious variants which could lead to the imposition of another strict lockdown. Saying this, we believe the possibility of a downturn such as in April-May 2020 is low, as people are more informed and have adapted their behavior to deal with the virus.

On the external front, since March we had not had definite signs of additional stimulus in the US. But yesterday, President Biden announced an agreement with some Republicans on a first infrastructure package. The plan contemplates US$579 billion on physical investments, with details still to be unveiled. Although positive, it is not a yet a certainty as a stalemate could arise in Congress, especially in the Senate. The plan could be approved as soon as July if these hurdles are cleared, with projects probably starting even later. As a result, the windfall could likely happen until 2022. Notwithstanding, we do not rule out that expectations of additional spending could lift consumer and business confidence, which could in turn have indirect positive effects in our country. Despite of this, the most immediate source of an additional boost would likely be from resources of previous programs that have not been fully disbursed yet.

Going to domestic drivers, additional employment gains could keep boosting consumption –and therefore services–, with remittances also as a key support. We also believe that uncertainty and cautiousness has likely faded after the electoral process, possibly leading to a mild acceleration in investment and other lagged sectors. These two factors are key for the recovery to continue, building up on dynamism from abroad.

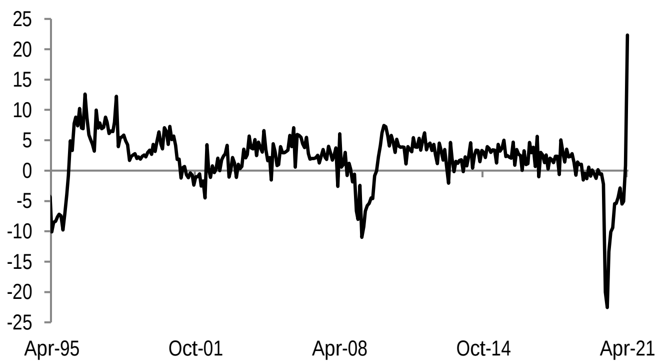
In this context, we maintain our call of an acceleration in activity in 2Q21, climbing 1.1% q/q, with the recovery extending for the remainder of the year at a slightly more modest pace. This would be consistent with our 5.9% GDP forecast for 2021, with risks even possibly tilted to the upside.

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

	y/y nsa				y/y sa	
	Apr-21	Apr-20	Jan-Apr'**21**	Jan-Apr'**20**	Apr-21	Apr-20
Total	22.3	-20.0	2.1	-5.8	21.4	-19.9
Agriculture	-0.7	-1.4	2.2	-2.3	-0.1	-0.3
Industrial production	36.6	-29.5	4.8	-9.0	35.7	-29.9
Mining	5.5	-3.7	-0.9	3.0	5.6	-3.6
Utilities	-3.1	-2.9	-5.3	-0.6	-3.4	-2.8
Construction	45.1	-39.8	2.1	-15.7	44.6	-40.3
Manufacturing	52.0	-35.0	8.8	-10.3	50.2	-35.3
Services	17.9	-16.4	0.9	-4.4	17.0	-16.1
Wholesale	18.0	-19.5	7.4	-7.3	16.7	-18.4
Retail	51.2	-33.1	6.1	-8.3	50.8	-32.6
Transport	33.8	-28.7	-2.8	-7.4	32.9	-28.7
Financial services	2.7	-2.5	-0.8	-0.1	2.5	-2.8
Professional services	9.7	-0.1	4.4	0.3	8.8	-0.9
Education and healthcare services	6.8	-1.8	2.3	-1.7	4.7	-2.0
Recreational services	16.2	-30.2	-9.0	-10.3	15.8	-30.1
Lodging services	156.5	-70.9	-14.8	-24.2	156.3	-71.3
Government services	1.7	1.1	-2.5	5.0	1.6	0.9

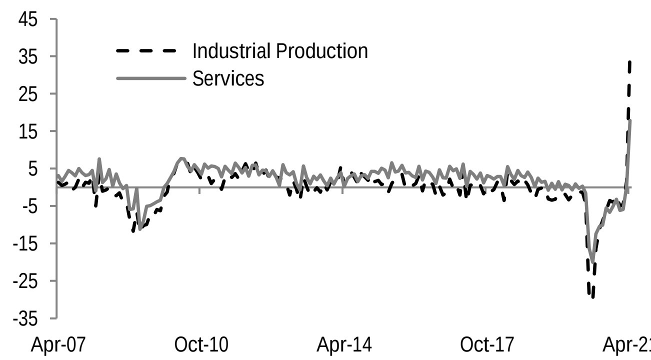
Source: INEGI

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



Source: INEGI

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



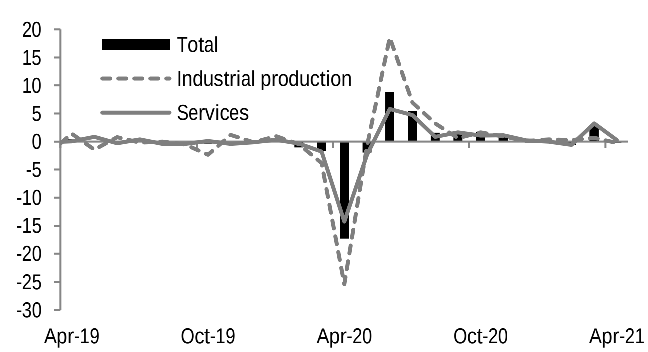
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	Apr-21	Mar-21	Feb-21	Feb-Apr'**21**	Jan-Mar'**21**
Total	-0.2	2.7	-0.6	1.4	1.1
Agriculture	-2.9	1.5	-0.1	1.0	0.6
Industrial production	-0.2	0.7	0.3	1.0	1.2
Services	0.3	3.2	-0.6	1.7	1.2

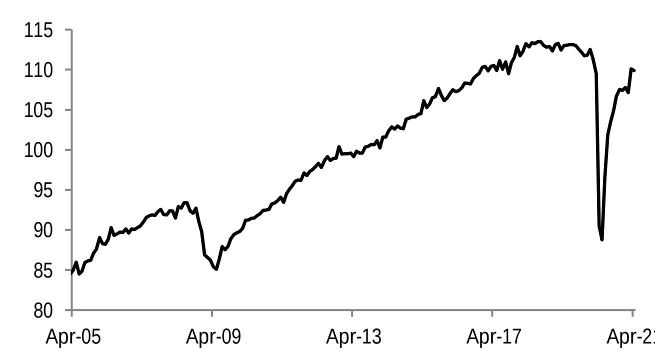
Source: INEGI

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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