IGAE – Modest rebound in July amid challenging pandemic conditions

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- ***Global Economic Activity Indicator* (July): 7.1% y/y; Banorte: 7.9%; consensus: 8.5% (range: 7.1% to 9.6%); previous: 13.3%**
- **With seasonally adjusted figures it grew 7.7% y/y, below INEGI's *Timely Indicator of Economic Activity***
- **By sectors, industry stood at 7.3% y/y, with services marginally higher at 7.4%. Primary activities moderated to -0.7% considering a difficult base effect from 2020**
- **In monthly terms, the economy rebounded 0.5%, not making up for the -1.1% seen in the previous month. All sectors advanced, with industry up 1.1% on construction and manufacturing. Services rose barely 0.3%, aided by a slight acceleration in some tourism-related categories. Lastly, primary activities came in at +1.9%**
- **We believe today's result suggests there has been at least a slight impact from the 'third wave' of COVID-19, resulting in a pause in the recovery**
- **Nevertheless, as epidemiological conditions have taken a turn for the better, we expect renewed dynamism in the latter part of the year, despite not being as strong as in 1H21**

Economic activity rose 7.1% y/y in July. This was below consensus (8.5%) but closer to our forecast (7.9%). As in June, figures are lower given a less favorable base effect. There was also a slightly negative calendar effect due to an additional working day and other effects related to the summer holiday. As such, with seasonally adjusted figures, activity grew 7.7% y/y, also below INEGI's *Timely Indicator of Economic Activity*. Back to original figures, industry expanded 7.3%, with services at 7.4%, as seen in Chart 2. Within the latter, wide differences remained across categories (Table 1), with an uneven reopening reflected in categories such as lodging (98.6%) and transportation (18.2%). Meanwhile, other categories with a more essential status such as education and healthcare (2.6%), government (-0.9%) and financial services (1.6%) were more modest. The primary sector came in at -0.7%, with a sharp moderation due to a more challenging base effect.

Modest sequential rebound suggests challenges remain. The economy grew 0.5% m/m, quite mild considering the -1.1% of the previous month (revised from -0.9%). In our view this suggests that the 'third wave' of COVID-19 has had at least a modest economic impact, not only domestically, but also globally. This has been reflected in different ways, including additional disruptions to supply chains along increased cautiousness among consumers. With these results, activity stands close to levels seen in 2017, still 1.3% below February 2020 –before the pandemic struck– and -3.1% vs. the historical high seen in August 2018 (Chart 4).

By sectors, services rose just 0.3%, with five out of the subsectors higher (Table 2). There seems to be an additional boost from some tourism-related categories, such as lodging (+0.9%) and recreational services (+4.9%), in our view coinciding with renewed dynamism related to the summer holiday. However, transportation took a tumble (-1.3%), which on top of a better performance in manufacturing (as detailed below) could suggest changes in travelling patterns. Surprising to the upside, retail sales jumped 5.3%, much better than the stand-alone report, but also with a more positive base effect (-4.5%). We also saw a notable decline in professional services (-10.1%). Turning to more essential categories, education and healthcare ticked-up 0.3%, likely related to worsening virus conditions. Meanwhile, government services were unchanged at 0.0%.

In addition, and as already known, industry expanded 1.1% (Chart 3). The breakdown showed a rebound in construction (0.6%) and manufacturing (1.4%), with an additional decline in mining (-0.3%). Despite of this, information for the sector continues to be negative, with an extension in supply disruptions in the cards in upcoming months. Lastly, primary activities rose 1.9% m/m, likely benefited by an improvement in drought conditions throughout the country. However, considering that a harsh environment in this front remained in the US, prices in the period did not improve.

Risks in the short-term, albeit expecting better signs later in the year. The fact that activity showed only a modest improvement in sequential terms despite a favorable base (with the decline in June) suggests relevant challenges for the recovery. We believe these are related to worsening conditions surrounding the pandemic, with the number of daily COVID-19 cases reaching all-time highs in mid to late August. Nevertheless, the impact so far seems more limited than in previous waves, as suggested by resilient mobility, which could be explained by: (1) Progress on the vaccination front, with some of the most vulnerable groups already inoculated; (2) looser government restrictions allowing for more openness in economic activities; and (3) people growing tired of the pandemic.

In this context, available data for August points to a mild decline. INEGI's *Timely Indicator of Economic Activity* forecasts a slight sequential contraction of around 0.2% m/m, with weakness again in industry. This is relatively consistent with IMEF's PMIs, albeit with the latter also signaling lower services. Meanwhile, and in our view also important, the trade balance for the period showed a sharp deceleration in manufacturing exports –both for autos and 'others'–, along with weakness in the oil sector. Meanwhile, imports decelerated across the board, noting relevant contractions in non-oil, both for consumption and intermediate goods. Overall, this suggests a still difficult period in terms of activity.

September looks more positive though, with daily cases and deaths maintaining a downward trend. Despite some volatility, vaccinations kept moving forward, with 43 million people fully vaccinated (around 33% of the total population). We believe this should be especially beneficial to services, more so for those that rely on social interactions. This could start to set the table for a more dynamic winter holiday season, also boosted by an increased flow of foreign visitors.

In addition, with some children returning to school, an important cue would be an increase in the labor force participation rate, with some parents –which data shows to be mainly women– able to look for and possibly get a job.

Nevertheless, challenges remain. The main ones continue to be related to industry, especially manufacturing. Reports abound regarding additional stoppages in several auto plants across the country due to the lack of semiconductors. Some producers that have halted production include Audi, Toyota and GM. The latter has already scheduled a one-week shutdown in mid-October due to this. These are not only impacting autos, with other industries also having to shut down. This is especially concerning as news point to an extension well into 2022, limiting the recovery in a context in which global stimulus will start to fade away. As if it not were enough, this is compounded by other idiosyncratic risks, including some tensions related to USMCA and railway blockades which have persisted in Michoacán, just to name a few.

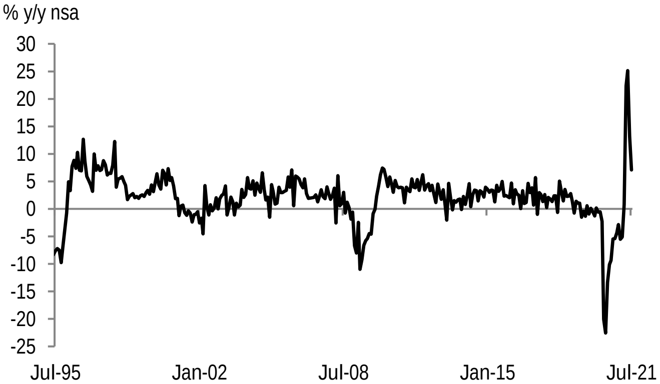
We maintain our call of a 6.2% y/y expansion in GDP this year, followed by 3.0% growth in 2022. However, and weighing some of the factors detailed above, we believe downside risks have been building up gradually. As such, we will be monitoring data closely for the following months, helping us to gauge the impact of the 'third wave' more precisely and the recovery trend going forward.

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

	y/y nsa				y/y sa	
	Jul-21	Jul-20	Jan-Jul'**21**	Jan-Jul'**20**	Jul-21	Jul-20
Total	7.1	-10.1	7.3	-10.0	7.7	-9.9
Agriculture	-0.7	7.4	3.6	-1.2	-1.1	6.7
Industrial production	7.3	-11.2	10.0	-13.4	8.0	-11.1
Mining	3.2	-3.2	1.8	1.1	3.4	-2.9
Utilities	4.1	-7.9	-0.2	-6.3	4.1	-7.9
Construction	15.0	-23.6	10.2	-20.3	16.6	-22.8
Manufacturing	6.2	-8.7	13.8	-15.0	7.0	-9.1
Services	7.4	-10.5	6.2	-8.8	8.4	-9.9
Wholesale	17.0	-14.4	14.3	-13.1	18.8	-13.9
Retail	7.6	-7.8	13.3	-14.1	9.0	-7.4
Transport	18.2	-22.0	9.0	-15.1	19.5	-21.2
Financial services	1.6	-2.1	0.7	-0.6	1.8	-1.8
Professional services	-13.6	1.3	2.5	-3.7	-12.9	1.2
Education and healthcare services	2.6	-5.1	2.8	-2.2	3.4	-4.4
Recreational services	14.9	-20.1	1.1	-17.5	14.1	-20.7
Lodging services	98.6	-61.7	23.6	-44.0	98.5	-61.8
Government services	-0.9	4.2	-0.8	3.7	-0.9	4.2

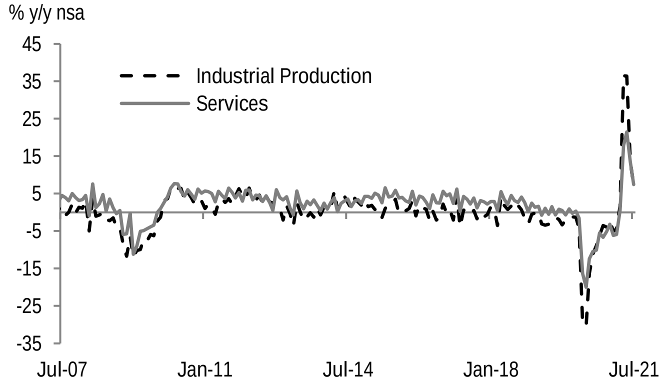
Source: INEGI

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



Source: INEGI

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



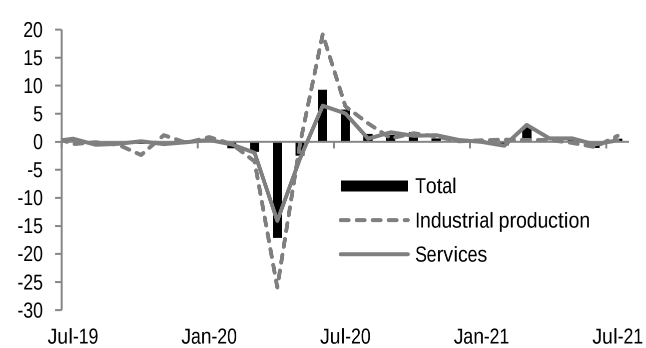
Source: INEGI

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

	% m/m, sa			% 3m/3m sa	
	Jul-21	Jun-21	May-21	May-Jul'**21**	Apr-Jun'**21**
Total	0.5	-1.1	0.5	0.9	1.6
Agriculture	1.9	-4.1	7.7	3.3	1.1
Industrial production	1.1	-0.9	-0.2	-0.1	0.2
Services	0.3	-0.5	0.6	1.8	2.6

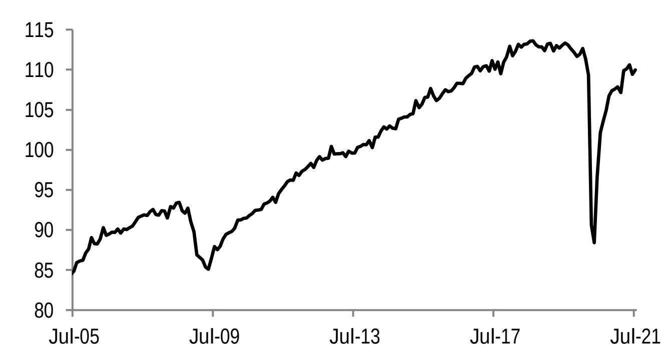
Source: INEGI

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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