Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

July 23, 2024

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Latam Daily: Mexico Econ Activity and Retail Sales Recap

- **Mexico: Economic activity growth decelerated in May due to industry and services slowdown; Retail sales slowed in May, with declines in four out of nine components**

MEXICO: ECONOMIC ACTIVITY GROWTH DECELERATED IN MAY DUE TO INDUSTRY AND SERVICES SLOWDOWN

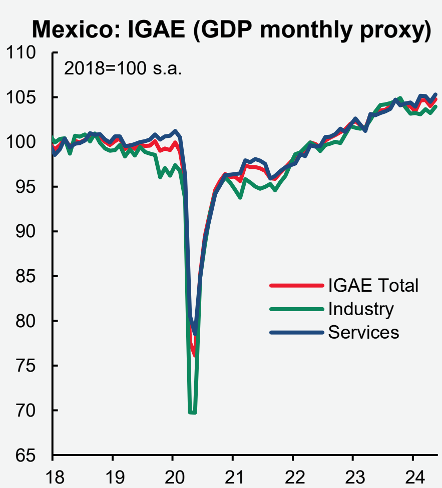
In May, the GDP monthly proxy, Global Indicator of Economic Activity (IGAE) slowed from to a 1.6% y/y pace of growth from 5.3% previously. By sector, industrial activities slowed sharply from 5.1% to 1.0% y/y owing to a decline in manufacturing of -1.4% from 3.8% and less strong growth in construction, at 10.2% from 16.2% in April, with tailwinds from public infrastructure projects continuing. Services activity also moderated 2.1% y/y from 5.9%, with retail and wholesale trade showing reduced momentum, at 2.4% and 2.7% from 7.2% and 11.5% respectively, while the largest advance came from technical and professional services at 9.9%. Primary activities softened their decline from -4.2% to -1.8% y/y.

On a monthly seasonally adjusted basis, the IGAE rebounded from -0.7% to 0.7%, thanks to a recovery in industrial activity of the same magnitude (0.7% from 0.4% previously)—led by construction—as well as an advance in services (0.8% vs. -0.6% previously) on retail and wholesale trade. Primary activities rebounded to a lesser extent from -0.4% to 0.4%. On a cumulative basis, the IGAE is up 2.3% compared to the same period a year earlier.

During the first half of the year, economic activity has performed at a slower pace than analysts had expected (chart 1). Economists expected that the rise in fiscal spending for this year would have a positive impact on the overall performance of Mexico's economy particularly in consumption; however, this impulse has not materialized to the desired extent. By sector, manufacturing is facing a period of slow advances, curbed by the restrictive level of interest rates and a slower pace of industrial production in the United States. On the other hand, we believe that construction will continue to advance vigorously, albeit at a slower pace owing to the change of administration in public projects. Finally, services have shown greater resilience, leading the economy's advance, although recent more moderate increases in trade show signs of moderation, in line with the recent drop in formal employment and lower increases in remittances.

In the coming months, we believe that the pace of economic activity could continue to moderate amid slower consumption and greater uncertainty that could impact investment, leading to further downward revisions in growth expectations, which currently average 2.0% for this year.

Chart 1



Sources: Scotiabank Economics, INEGI.

RETAIL SALES SLOWED IN MAY, WITH DECLINES IN FOUR OUT OF NINE COMPONENTS

May retail sales slowed 0.3% y/y from 3.2% y/y previously (chart 2). By components, the slower pace of grocery and tobacco trade stood out 0.1% (12.9% previously), textiles fell -2.4% (-7.9% previously), health care -4.6% (-1.3% previously), see chart 3, while internet sales increased 52.7% (18.2% previously), see chart 4. In its monthly comparison, sales increased 0.1% m/m. On an annual basis, wholesale trade fell -4.1% y/y from -2.1%. The deepest fall was in textiles at -15.7% (-23.9% previously), and the largest increase was in intermediation 22.9% (14.7% previously). In monthly terms, wholesale rose 3.3% m/m from -4.3% previously.

In the January to May period, retail sales have increased by 0.8%, compared to the 4.4% in the same period last year, while wholesale has fallen by -3.0% (vs -2.4% in 2023), more related to investment indicators and continuing with the slower pace of the Mexican economy. In contrast, the services sector showed an increase in total income of 5.4% y/y in May, with a lower effect on monetary policy.

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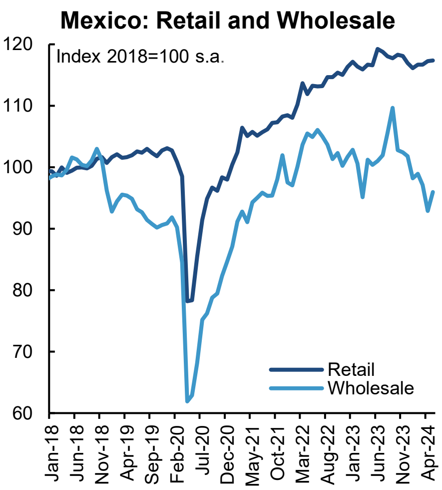
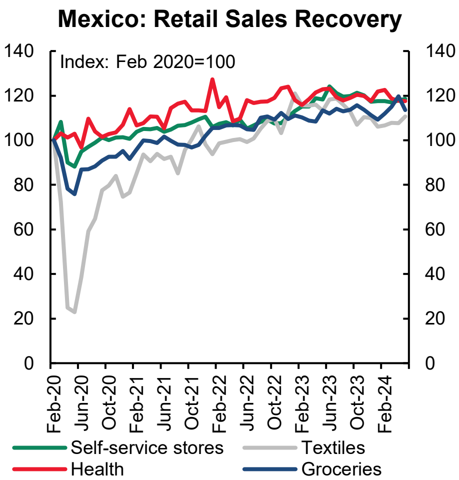
These data show a slowdown in sales in most of its components, which can be a good indicator for inflation, mainly in non-food merchandise, although internet sales and intermediation would be the components with the greatest resistance. On the wholesale side, results continue to be weak and without changes in their trend after seventeen months with negative annual variations, suggesting certain weakness in the companies' growth plans (chart 2 again).

Chart 2



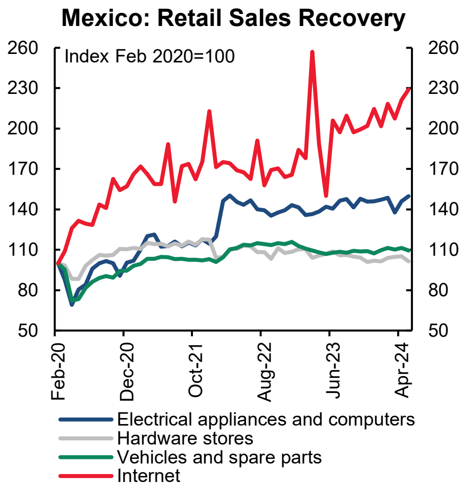
Sources: Scotiabank Economics, INEGI.

Chart 3



Sources: Scotiabank Economics, INEGI.

Chart 4



Sources: Scotiabank Economics, INEGI.

—Brian Pérez & Miguel Saldaña

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