

WEEKLY ECONOMIC REPORT

January 25, 2019

**Lower prospects for economic growth**

At Friday's closing, January 25, the spot exchange rate closed at 18.99 pesos per dollar, which implies a weekly appreciation of 0.58%, and leaves the advance in the year at 3.49%. The M bond yield stands at 8.38%, down 26 basis points from the close of the previous week; after reaching levels above 9% in mid-December. In contrast, the Mexbol Index closed at 43,639 points for a setback in the week of (-) 1.36% which leaves accumulated gains in the year at 4.81%.

This good performance is consistent with the decrease in global risk factors such as the possibility of a trade agreement between China and the United States —its delegates will meet next Wednesday, January 30 and 31 in Washington— and the Federal Reserve's position to not raise its main reference rate soon. However, there are indicators associated with the new government's economic policy that are affecting the indicators of the real economy, and that could eventually generate volatility in the markets. Further details:

- It seems that the cancellation of the International Airport of Mexico City (NAIM) had a negative impact on the industrial production in November, which presented an annual drop of (-) 0.8%. It does not seem coincidental that the most significant drop in the components has been in the construction industry of (-) 2.5%.
- In December the number of affiliates to the Mexican Social Security Institute (IMSS) decreased (-) 378,561 workers, that is, 40% of the jobs created in 2018 were lost in a month; this, without considering the loss of public officials affiliated to the Institute of Security and Social Services of State Workers (ISSSTE). According to this data, the unemployment rate published by the National Institute of Statistics and Geography (INEGI) was 3.57%, its highest level in two years.
- Possibly, a consequence of what happened in employment was due to a slowdown in private consumption. The National Association of Department Stores (ANTAD) reflected a fall in the Same Stores Sales (SSS) indicator of 6.0% in November to 3.4% in December. Also, the sales growth of Walmart de Mexico went from 5.9% in November to 4.7% in December.
- The costs of fuel shortage neither go unnoticed. Some organisms and institutions, among them the Confederation of Industrial Chambers (CONCAMIN), estimated the losses for every 15 days of shortage fluctuate in around 20 billion pesos; This is 0.1% of GDP. At the time of writing, Nuevo León and Jalisco still face scarcity problems.
- Finally, since January 14, 2019 barricades were installed by members of the National Coordination of Education Workers (CNTE) in municipalities of Michoacán; which has prevented the passage of at least 150 trains to the terminals at Lazaro Cárdenas and Manzanillo. The losses in 10 days amount to more than 10 billion pesos. The preceding could be reflected in the quarterly reports of Grupo México for the first quarter of the year.

In the United States, the Dow Jones, Standard & Poor's and Nasdaq indexes remained with marginal changes to leave the accumulated earnings in the year of the Dow Jones in 6.16%, the Standard & Poor's in 6.41% and the Nasdaq in 8.01%.

The foregoing, facing the meeting of the Federal Reserve next Wednesday, January 30, in which the main reference rate in the United States is expected to remain unchanged, and on the meeting between delegates from China and the United States, next January 30 and 31; whose favorable outcome could have adverse side effects for markets in Europe.

**Economic Indicators**

**IGAE**

Global Indicator of Economic Activity (IGAE) increased by 0.45% in November, compared to the previous month and 1.73% respect to 2017. This deceleration is the cause of the falls in industrial production (-0.6% monthly and -0.8% annual), particularly in the mining sector (-7.9% YoY) and construction (-2.5% YoY), combined with a moderate advance in the manufacturing sector (+ 0.4% MoM and + 1.6% YoY), which is the most representative in the weighting of secondary activities.

In a monthly comparison within its components, primary activities registered a surprising increase in primary of 9.2%, the largest since February 2014, the secondary sector shows the most significant drop in the year with a decrease of 0.6%, and the tertiary sector recorded a growth of 0.4% derived from an increase in six of the nine subsectors that make it up.

**Inflation**

During the first two weeks of 2019, inflation decelerated by 99 basis points compared to the same period in 2018, when it was 4.52%. This figure is lower than market estimates and represents the best start to the year in the last three years. Despite being subject to conditions that could encourage an acceleration of inflation —such as the increase in the minimum wage, the reduction of taxes at the border and even the first symptoms of the impact on the shortage of gasoline— the deceleration is due to a decrease in the price of energy and air transport and tourist services by the end of the holiday season.

**Unemployment rate**

The unemployment rate in December showed a rebound to stand at 3.57%, the highest rate in two years. This increase is mainly due to three reasons: i) the austerity plan of the new administration, which resulted in several dismissals in federal agencies and autonomous agencies, ii) the slowdown in the formal creation of jobs in the last months of 2018, and iii) the deceleration of economic activity according to leading indicators such as business confidence or industrial production.

**Same Store Sales**

Same Store Sales (SSS) reported by the National Association of Department Stores (ANTAD) registered a deceleration in December, showing a growth of 3.4% compared to the average of 5.2% from January to November. This is its lowest growth for December in 4 years, the product of the increase in unemployment, the uncertainty related to the change of government and some legislative proposals that generated adverse reactions in the markets.



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Definitions

**Mexbol:** The S&P/BMV IPC seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. It is not possible to invest in an index.  
**AMDA:** Mexican association of automotive distributors, founded in 1945, we group more than 2,000 dealers of new vehicles established in the 210 most important cities in Mexico.  
**AMIA:** Mexican Association of the Automotive Industry.  
**CONCANAMIN:** the Confederation of Industrial Chambers of Mexico represents 60 national and regional chambers and 46 associations of different industrial sectors in Mexico since 1918.  
**CONCANACO:** Autonomous institution that represents, promotes and defends national and institutional activities of commerce, services and tourism.  
**Consumer Protection Agency:** **decentralized and sectorized public body of the Ministry of Economy of the Mexican Federal Government. It was created to promote and protect consumer rights.**  
**COPARMEX:** Independent, non-partisan and voluntary membership union that brings together entrepreneurs of all sizes and sectors, united by a deep commitment to Mexico, and to those we represent in the labor, economic, social and political spheres, inside and outside the country.  
**NAIM:** New International Airport of Mexico City  
**IGAE:** The Global Indicator of Economic Activity measures monthly evolution of the real sector of the economy.  
**IMSS:** The Mexican Institute of Social Security is a federal institution that provides health and social security services.  
**ISSSTE:** The Institute of Security and Social Services for State Workers is a federal institution that provides health and social security services to State Workers.  
**M-Bond:** Mexico Federal Government fixed-rate development bonds with semi-annual coupon payments that have a maturity greater than one year.  
**GDP:** Is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.  
**CNTE:** The National Coordinator of Education Workers created on December 17, 1979.  
**ANTAD:** National Association of Self-Service and Departmental Stores.  
**INEGI -** The National Institute of Statistics and Geography. It is the institution responsible for performing the population census every ten years; as well as the economic census every five years and the agricultural, livestock and forestry census of the country.  
**Same-store Sales:** Same-store sales measures the sales of a company's existing stores that have operated for more than one year, excluding sales of new stores.  
**Dow Jones:** The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The DJIA was invented by Charles Dow in 1896.  
**S&P 500:** The Standard & Poor's 500 Index - S&P 500 is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. The S&P 500 is a market value or market-capitalization-weighted index and one of the most common benchmarks for the broader U.S. equity markets.  
**NASDAQ:** The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depository receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests.  
**Basis point (BPS):** Refers to a common unit of measure for interest rates and other percentages in finance.

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