

## Aggregate demand – Stronger domestic demand maintains a positive outlook

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- **Aggregate demand (2Q15): 3% yoy; Banorte-Ixe: 2.5%; consensus: 3.1% (range of estimates: 2% to 4.6%); previous: 3.5%**
- **In seasonally adjusted terms, private consumption increased 1.9% q/q saar in 2Q15, while private GFI posted a 7% expansion**
- **We expect that the recovery of domestic demand will continue in 2015 on the back of better employment levels and contained inflation during the rest of the year**

**According to INEGI, aggregate demand and supply expanded 3% yoy in 2Q15.** From the supply side, this number comes on the back of a 2.2% increase in GDP and a 5.5% yoy expansion in imports. From the viewpoint of aggregate demand, the 3% growth in 2Q15 was explained by a 3% yoy hike in private consumption. Moreover, government spending increased a scant 0.1% yoy. In addition, GFI edged-up 5.5% yoy, as a result of an 1.4% yoy contraction in public GFI, and a 7% increase in private investment. We highlight that the significant hike in private investment was explained by a 3.7% yoy increase in construction, and an 11.2% expansion in machinery and equipment. Finally, exports increased 8.9% yoy, as shown in the table on the next page.

**In seasonally adjusted terms, aggregate demand grew 2.9% q/q saar.** This number comes on the back of a 1.9% q/q saar expansion in private consumption (vs. 4.7% in 1Q15). Similarly, GFI grew 3.6% q/q saar (vs. 2.7% in 1Q15). Taking a look at the breakdown, private investment posted a significant recovery (+7% q/q saar in 2Q15 vs. 2.1% in 1Q15), while public investment fell 9.6% q/q saar (vs. +4.9% in 1Q15). Finally, exports increased 4.1% q/q saar, as shown in the following table.

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**Aggregate supply & demand: 2Q15**

<b>% anual</b>	<b>2Q15</b>	<b>1Q15</b>	<b>2015</b>	<b>2014</b>
<b>Aggregate Supply</b>	3.0	3.5	3.3	3.0
GDP	2.2	2.6	2.4	2.1
Imports	5.5	6.6	6.0	5.6
<b>Aggregate Demand</b>	3.0	3.5	3.3	3.0
Private consumption	3.0	3.2	3.1	2.0
Government consumption	2.6	3.2	2.9	2.5
Gross fixed investment	5.5	5.3	5.4	2.2
Private	7.0	6.1	6.6	4.7
Construction	3.7	4.1	3.9	4.3
Machinery and Equipment	11.2	8.7	10.0	5.2
Public	-1.4	1.5	0.0	-6.9
Construction	-2.5	1.1	-0.8	-8.4
Machinery and Equipment	9.4	6.1	7.8	9.8
Inventories	8.6	-16.4	-0.6	214.8
Exports	8.9	12.0	10.4	7.2
<b>% trimestral anualizado</b>	<b>2Q15</b>	<b>1Q15</b>	<b>4Q14</b>	
<b>Aggregate Supply</b>	2.9	2.3	4.0	
GDP	2.0	1.7	2.8	
Imports	2.5	0.9	14.0	
<b>Aggregate Demand</b>	2.9	2.3	4.0	
Private consumption	1.9	4.7	1.9	
Government consumption	0.1	4.2	-2.7	
Gross fixed investment	3.6	2.7	5.6	
Public	-9.6	4.9	-2.6	
Private	7.0	2.1	8.2	
Inventories	36.4	19.5	-32.3	
Exports	4.1	6.8	14.4	

Source: INEGI

**We expect the recovery of domestic demand to continue in 2H15.** In seasonally adjusted terms, domestic demand posted a better performance. In particular, investment managed to achieve a stronger recovery led by a rebound in the private sector. Looking ahead, and in line with our expectations, recent indicators suggest that Mexico's domestic demand has reached a turning point in terms of growth. Retail sales and other private indicators such as *ANTAD* total sales report, show that private consumption maintains an upward trend supported by stronger employment and historical-low inflation levels that have resulted in higher real incomes. In our view, these factors will continue to provide a better framework for private demand for the rest of 2015.

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