

Aggregate demand recovers in 1Q17 despite the significant fall in investment

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- **Aggregate demand (1T17): 4% yoy; Banorte-Ixe: 2.2%; consensus: 3.1%; previous: 1.9%**
- **In seasonally adjusted terms, aggregate demand increased 2% q/q (8.4% saar), above the 0.6% observed in 4Q16**
- **However, there is a significant discrepancy between the headline figure and its components**
- **Private consumption posted a moderate 0.7% q/q expansion (2.7% saar); while government consumption decreased 0.5% (-2% saar)**
- **In addition, private investment fell 0.7% q/q (-2.9% saar), while public investment declined 3.7% (-14.1% saar)**
- **Looking ahead, we believe that aggregate demand will decelerate as a result of the downward trend in investment**

Aggregate demand increased 2% q/q (8.4% saar). According to the *INEGI's* report published today, aggregate demand increased 4% yoy in 1Q17 (original figures). In seasonally adjusted terms, aggregate demand increased 2% q/q (8.4% saar), above the 0.6% observed in 4Q16.

The 2% increase in aggregate demand could be interpreted as a positive sign alluding to a possible recovery of the Mexican economy. However, there is a significant discrepancy between the headline figure and its components. Private consumption posted a moderate 0.7% q/q expansion (2.7% saar); while government consumption decreased 0.5% (-2% saar). In addition, private investment fell 0.7% q/q (-2.9% saar), while public investment declined 3.7% (-14.1% saar). By contrast, exports grew 4.4% q/q (18.9% saar), while imports increased 6.2% q/q (27.4% saar).

Looking ahead, we believe that aggregate demand will decelerate. While private consumption has remained as Mexico's main growth driver, the contraction observed in other determinants suggests a more negative outlook. Looking ahead, we believe that aggregate demand will decelerate, as a result of the contraction in public spending (consumption and investment), given the fiscal consolidation policy implemented by the federal government. In addition, we believe that private investment will maintain a downward trend as a result of the political and economic uncertainty.

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Aggregate supply and demand

% q/q

	1Q17	4Q16
Aggregate Supply	2.0	0.6
GDP	0.8	0.8
Imports	6.2	-0.5
Aggregate Demand	2.0	0.6
Private consumption	0.7	0.8
Government consumption	-0.5	0.2
GFI	-0.7	0.2
Public	-3.7	1.0
Private	-0.7	0.4
Change in inventories	86.3	-49.0
Exports	4.4	1.4

Source: Banorte-ixe with data from INEGI

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