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Domestic demand drove growth in 1Q18

- **Aggregate demand (1Q18): 2.4% y/y; Banorte: 2.6%; consensus: 2.4%; previous: 3%)**
- **Seasonally adjusted figures show that private consumption expanded 6.2% q/q saar in 1Q18 vs. 1.4% in previous quarter**
- **Meanwhile, gross fixed investment expanded 13.5% q/q saar (previous: 0%)**
- **Regarding external demand, exports increased 10.6% q/q saar, while imports were up 13.1% during the first quarter of the year**

According to *INEGI*, aggregate supply and demand expanded 2.4% yoy in 1Q18 slightly below our expectations. On the supply side, this number is explained by a 1.3% increase in GDP, coupled with imports increasing 5.7% y/y. On the demand side, private consumption was up 2.6% y/y, similar to the rate of expansion in the last quarter of last year. Meanwhile government consumption expanded 1.1% y/y, after contracting 0.2% in previous quarter.

Gross fixed investment expanded 1.5% y/y. By components, public investment is up 6.4% on an annual basis, while private investment expanded 0.8%. In the case of private investment, the expansion was explained by a decline of 2.4% in construction, while investment in machinery and equipment was up 4.4% in the period in question. Finally, exports expanded 1.6% y/y, as shown in the following table.

Aggregate supply and demand in 1Q18

% yoy, nsa

	Mar-18	Dec-17	Jan-Mar,'17
Aggregate supply	2.4	3.0	3.2
GDP	1.3	1.5	2.1
Imports	5.7	7.3	6.5
Aggregate demand	2.4	3.0	3.2
Private consumption	2.6	2.5	3.0
Public consumption	1.1	-0.2	0.1
Gross fixed investment	1.5	-2.4	-1.5
Private	0.8	-2.3	-0.5
Construction	-2.4	-3.7	-3.4
Machinery & Eq.	4.4	-0.9	2.7
Public	6.4	-2.9	-6.7
Construction	6.4	0.3	-4.7
Machinery & Eq.	6.2	-20.9	-17.6
Inventories	17.0	32.4	1.5
Exports	1.6	2.4	3.9

Source: INEGI

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Seasonally adjusted figures show that aggregate demand expanded 6.9% q/q saar. Private consumption was up 6.2% (vs. 1.4% in 4Q18), while government consumption resulted higher than in previous quarter, with an expansion rate of 4.3% (vs. 2.8%). Gross fixed investment increased 13.5% q/q saar (vs. 0% in 4Q17). Private investment picked up (12.7% q/q saar in 1Q18 vs. -1.8% in previous quarter), while public investment increased 19.7% (vs. 14.4% in 4Q17). Finally, exports expanded 10.6% q/q saar.

Aggregate supply and demand in 1Q18

% sa

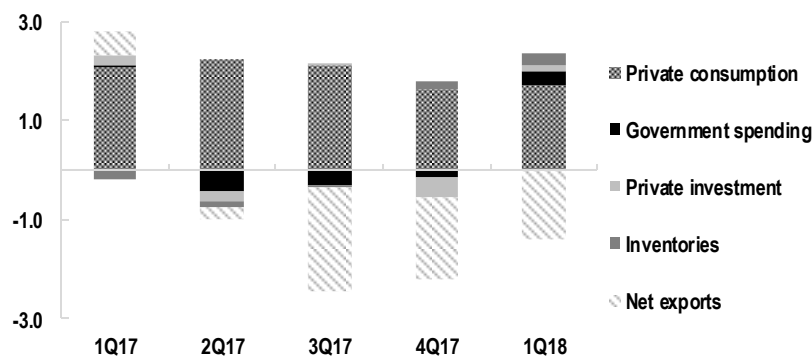
	Mar.-18	Dec.-17	Mar.-18	Dec.-17
	q/q	q/q	saar	saar
Aggregate supply	1.6	1.4	6.9	5.8
GDP	1.1	0.9	4.6	3.6
Imports	3.1	2.8	13.1	11.8
Aggregate demand	1.6	1.4	6.9	5.8
Private consumption	1.5	0.4	6.2	1.4
Public consumption	1.1	0.7	4.3	2.8
Gross fixed investment	3.2	0.0	13.5	0.0
Private	4.6	3.4	19.7	14.4
Public	3.0	-0.4	12.7	-1.8
Inventories	15.7	2.7	79.0	11.5
Exports	2.5	4.1	10.6	17.5

Fuente: INEGI

Aggregate demand figures in 1Q18 begin to show the boost coming from government spending. According to our forecast, the economy will grow 2.5% y/y in 2018, explained on the back of a more dynamic performance of this component -which includes government spending and public investment-, given that it is an electoral year. In this context, the report shows a positive contribution of government spending (0.31%-pts) for the first time in the last three quarters. In addition, although there is a slight deceleration of private consumption, this component continues to be the main engine of growth, adding 1.7%-pts to GDP variation in 1Q18. Finally, private investment also showed a positive contribution, particularly given the surge in investment in machinery and equipment, which suggests more production in the future (see chart below).

Aggregate supply and demand in 1Q18

% SA



Source: INEGI

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