GDP – The Mexican economy grew 2% in 2017

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- ***INEGI* released today its GDP revised figures for 4Q17**
- **Gross Domestic Product (4Q17): 1.5% yoy; Banorte: 1.65%; consensus: 1.8% (range of estimates: 1.65% to 2.1%); preliminary figure: 1.8%**
- **With today's figures, the Mexican economy grew 2% in 2017, below the 2.9% in 2016**
- **GDP growth in 4Q17 was explained by three factors:**
  - **(1) The better growth dynamics in domestic demand reflected in the 1% q/q increase within the services;**
  - **(2) The contraction in oil output; and**
  - **(3) The moderate growth in manufacturing production**
- **In seasonally-adjusted terms, the economy posted a 0.74% q/q expansion (Banorte: 0.78%)**
- **The Mexican economy will face significant challenges in the first half of 2018**

The Mexican economy grew 2% yoy in 2017. According to *INEGI*, GDP expanded 1.5% yoy in the fourth quarter of the year, marginally below our 1.65% forecast (consensus: 1.8%; preliminary estimate: 1.8%). With today's figures, the Mexican economy grew 2% in 2017, below the 2.9% in 2016.

In seasonally-adjusted terms, the economy posted a 0.74% q/q expansion (Banorte: 0.78%;3.2% saar growth), which implies a significant recovery from the 0.1% q/q contraction observed in 3Q17. On the positive side, we observed a more dynamic domestic demand, reflected in an improvement in services (4.2% q/q saar). Taking a look at the breakdown, wholesale and retail sales expanded 1.5% q/q and 4.8% q/q, respectively.

By contrast, industrial production posted a 0.1% q/q contraction explained by the recession in the mining industry (-1.1% q/q) and the moderate increase in manufacturing production (0.7% q/q). In addition, construction output posted a scant 0.4% q/q growth given the fiscal consolidation efforts made by the federal government, which has translated into a significant contraction in public infrastructure projects.

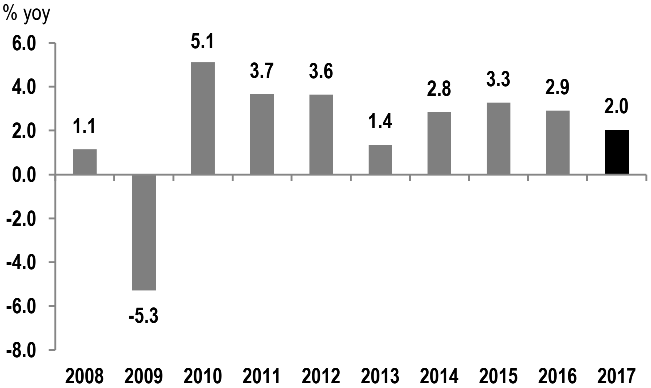
The Mexican economy will face significant challenges in the first half of 2018. Looking ahead, the Mexican economy will face important challenges that could affect economic growth. In particular, private consumption could show a marginal deceleration due to inflation, but this effect could be partially offset by a persistent improvement in the labor market. Nevertheless, domestic spending will continue to be one of the main growth engines of the Mexican economy.

Regarding industrial activity, we expect a higher growth in manufacturing production –at least during the first half of 2018–, as a result of the greater uncertainty regarding the future of the commercial relationship between Mexico and the United States, which could encourage higher flows of goods exported, in anticipation of a possible scenario of stronger trade restrictions. However, this uncertainty will affect the flows of private investment in the manufacturing industry.

In addition, public construction investment will show a significant recovery as early as in the first quarter of 2018, generated by increased government spending by the federal entities and municipalities, as a result of the presidential elections. By contrast, the uncertainty regarding the political and economic landscape could translate into a reduction in private investment flows. Moreover, the recession in the mining industry will continue at least during the first half of 2018, affecting the general growth dynamics of the Mexican economy.

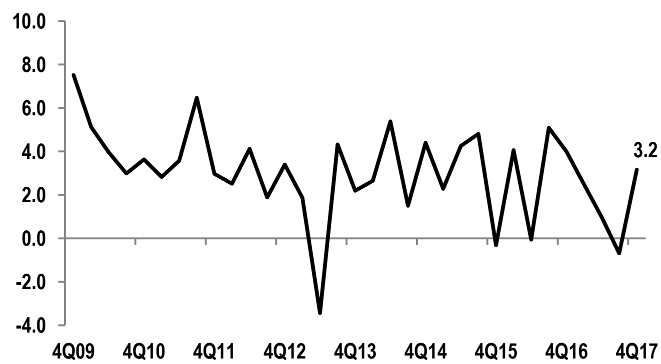
In the aggregate, we believe that the GDP will continue to decelerate during the first half of the year, as a result of the uncertainty associated with both the renegotiation of NAFTA and the electoral process that will take place in our country on the 1st of July. However, it is important to remember that despite the moderate economic growth of the country, the strength of the macroeconomic fundamentals has been maintained. Public finances have exhibited greater stability thanks to the fiscal consolidation efforts carried out by the Federal Government. In addition, despite the fact that inflation had a rebound towards the end of last year, the timely intervention of Banxico has maintained inflationary expectations anchored. To the extent that the uncertainty surrounding the above-mentioned events dissipates, the Mexican economy will be able to generate greater economic growth, accompanied by declining inflation, in an environment of stability and without external imbalances.

GDP
% yoy



Source: Banorte

GDP
% q/q saar



Source: Banorte

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