

Preliminary GDP report – The Mexican economy grew 2.1% in 2017

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- **INEGI released today its preliminary GDP report for 4Q17**
- **Gross Domestic Product (4Q17 P): 1.8% yoy; Banorte: 1.6%; consensus: 1.6% (range of estimates: 1.3% to 2%); previous: 1.5%**
- **Gross Domestic Product (4Q17 P): 1% q/q; Banorte: 0.9%; consensus: 0.6% (range of estimates: 0.3% to 1.1%); previous: -0.3%**
- **In 2017, the Mexican economy grew 2.1%, in line with our forecast, but below the 2.9% observed in 2016**
- **Services increased 2.6% yoy (1.2% q/q), which suggests that domestic demand continues to be Mexico's main growth driver**
- **Looking ahead, we believe that the Mexican economy will continue to decelerate**
- **The revised figure will be published in February 23**

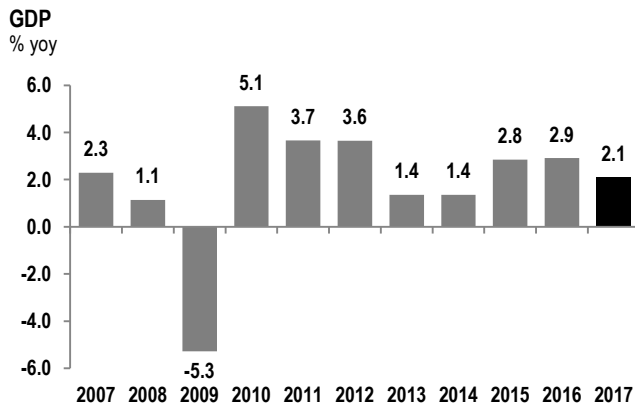
The Mexican economy grew 2.1% in 2017. INEGI published today its preliminary GDP report. With original figures, the Mexican economy increased 1.8% yoy in 4Q17 (refer to the chart below), above the 1.5% observed in 3Q17 (Banorte: 1.6%).

Taking a look at the breakdown, primary activities increased 4.2% yoy, while the industrial sector fell 0.7% yoy as a result of the recession in the mining industry, coupled with the deceleration in both construction and manufacturing output. Finally, services expanded 2.6% yoy, which suggests that domestic demand continues to be Mexico's main growth driver.

We highlight that the Mexican economy grew 2.1% in 2017, below the 2.9% observed in 2016. The lower growth was explained by the 0.6% contraction in industrial output (+0.4% in 2016); coupled with a moderate expansion in services (3.1% in 2017 vs. 3.9% in 2016).

In seasonally adjusted terms, GDP increased 1% q/q (Banorte: 0.9%). Taking a look at the breakdown, primary activities edged up 3.1% q/q, while industrial production posted a marginal 0.1% gain. In addition, services increased 1.2% q/q. Given that INEGI has not published an updated time series for the seasonally adjusted series, we can't compare this 1% q/q growth in 4Q17 with the -0.3% reported for the third quarter of 2017, considering that these figures are usually revised with the publication of new data.

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Source: Banorte; INEGI



Source: Banorte; INEGI

Looking ahead, we believe that the Mexican economy will continue to decelerate. We continue to appraise significant risks to Mexico’s growth scenario, where we highlight the deceleration in services, as a result of the country’s persistently high inflation.

Regarding industrial production, we expect a more visible recovery in manufacturing production given the uncertain trade relation with the US, which will probably foster a higher flow of exports, hedging a scenario of future tariffs. In addition, we expect a higher growth in construction output as soon as 1Q18 derived from the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico’s political and economic environment will continue to discourage private investment projects.

Moreover, we believe that Mexico’s mining industry will continue to fall throughout the first half of the year, as a result of the Federal Government’s fiscal consolidation plan, which has affected Mexico’s drilling projects. All in all, we expect that the positive effects coming from the higher manufacturing and public construction output will over-compensate the negative impact of a lower mining activity. As a result, we expect a marginal deceleration of the Mexican economy in the first quarter of 2018.

Methodological note. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP presented today covers 80% with the direct information available, and will estimate the remaining 20%.

Unlike other preliminary reports -as the U.S. GDP conducted by the *Bureau of Economic Analysis (BEA)*-, *INEGI*'s report only includes the three main sectors. BEA's preliminary report contains a complete breakdown of the quarterly GDP. The revised and final figure will be published by *INEGI* in February 23.

Disclaimer

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