

GDP – Domestic demands stands out as Mexico’s main growth driver in 3Q16

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- **INEGI** released today its GDP figures for 3Q16, along with September’s economic activity indicator (IGAE)
- **Gross Domestic Product (3Q16): 2% yoy; Banorte-Ixe: 1.9%; consensus: 2% (range of estimates: 1.8% to 2.1%); preliminary figure: 2%**
- **Gross Domestic Product (3Q16): 1% q/q; Banorte-Ixe: 0.9%; consensus: 1% (range of estimates: 0.8% to 1.1%); preliminary figure: 1%**
- **Global Economic Indicator, IGAE (September): 1.6% yoy; Banorte-Ixe: 1.4%; consensus: 1.7% (range: 1.4% to 2.2%); previous: 2.9%**
- **Mexico’s economic growth in 3Q16 was explained by three factors:**
 - (1) **The higher growth in domestic demand, reflected in the 3.4% yoy increase within the services;**
 - (2) **The contraction in oil output, which now adds nine consecutive quarters in contraction; and**
 - (3) **The significant deceleration in construction output**
- **In seasonally-adjusted figures, the economy increased 1% q/q (4% saar), above the 0.1% observed in previous quarter**
- **We maintain our 2% GDP growth forecast for 2016**

GDP’s growth in line with our forecast. According to *INEGI*, GDP expanded 2% yoy in the third quarter of the year, marginally above our 1.9% forecast (consensus: 2%; preliminary figure: 2%). Taking a look at the breakdown, agricultural activities expanded 5.3% yoy, above the 2.9% observed in the previous quarter; while industrial output fell 0.8% yoy, resenting the contraction in the mining sector (-8.2% yoy), along with a moderate growth in manufacturing activities (+1.2% yoy). In addition, construction output posted a null annual growth given the contraction in public construction projects as a result of the fiscal cuts implemented by the federal government.

Moreover, services expanded 3.4% yoy, despite the deceleration in the subsectors that hold a strong correlation with manufacturing output, such as trade (+1.3% yoy) and transportation (+2.3%). In this context, today’s figures regarding trade differ significantly from others related to this industry, such as retail sales also reported by *INEGI*, which showed an average 8.4% yoy increase in July and August; and *ANTAD*’s total store sales, whose growth was 6.3% in the third quarter.

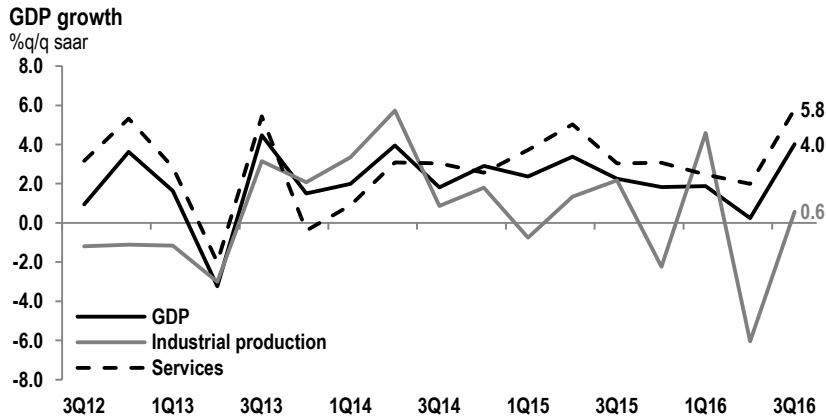
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Seasonally-adjusted figures show a 1 q/q expansion. As a result, economic activity posted a 4% annualized growth, above the 0.2% observed in the second quarter of the year (refer to the chart on the next page). Taking a look at the breakdown, agricultural output edged-up 2% q/q, while industrial activities expanded 0.1% (0.6% annualized) from the 1.5% contraction observed in 2Q16. Within this sector, manufacturing output was up 0.8% from 0.1% in the previous quarter, while construction output declined 0.3% from the -1.4% in 2Q16. Finally, the services sector expanded 1.4% (5.8% annualized), above the 0.5% observed in the second quarter of the year.

GDP growth

% yoy (nsa figures)	3Q16	2Q16	1Q16	2015	2014
Gross domestic product	2.0	2.6	2.3	2.3	2.7
Agriculture	5.3	2.9	-0.6	2.4	2.0
Industrial	-0.8	0.9	0.1	0.0	1.3
Mining	-8.2	-4.8	-2.9	-5.3	-4.7
Utilities	3.5	5.7	1.1	3.4	2.3
Construction	0.0	3.1	1.5	1.5	3.7
Manufactures	1.2	1.6	0.6	1.1	2.8
Services	3.4	3.3	3.5	3.4	3.4
Whole and Retail sales	1.3	2.3	3.7	2.4	4.9
Transportation and storage	2.3	3.3	2.9	2.8	4.4
Mass media information	13.3	9.2	10.5	11.0	4.9
Financial services	8.0	7.5	8.2	7.9	3.7
Real estate	1.8	1.8	2.1	1.9	2.6
Educational services	1.5	2.4	-0.1	1.2	-0.3
Temporary lodging services	3.0	2.4	6.8	4.0	5.0
% q/q (sa figures)	3Q16	2Q16	1Q16		
Gross domestic product	1.0	0.1	0.5		
Agriculture	2.0	1.8	0.7		
Industrial	0.1	-1.5	1.1		
Mining	-2.5	-3.9	-0.1		
Utilities	0.6	1.8	0.2		
Construction	-0.3	-1.4	3.3		
Manufactures	0.8	0.1	0.1		
Services	1.4	0.5	0.6		
Retail & wholesales	1.5	0.0	-0.7		
Transportation and storage	1.4	1.2	-0.4		
Mass media information	5.7	1.1	-1.1		
Financial services	2.2	1.2	2.5		
Real estate	0.2	0.6	0.6		
Educational services	0.2	0.7	0.1		
Temporary lodging services	1.4	-0.3	0.0		

Source: INEGI



We believe that the Mexican economy will decelerate in 4Q16. Domestic demand has stood out as Mexico’s main growth driver during the last five quarters. In this context, we believe that the current growth dynamics in domestic demand will continue throughout the last quarter of the year given the following factors: (1) The recovery in households’ income derived from significant gains in real wages; (2) the better growth prospects of credit to the private non-financial sector; and (3) the higher growth in remittances inflows (now adding a 6.6% yoy growth in the first eight months of the year).

However, the fiscal adjustments implemented by the Ministry of Finance will bound Mexico’s economic growth, although its effect will be limited. While the measures taken so far this year amount to 0.9% of GDP, we believe their negative impact on economic growth could be of 0.7%-pts taking into account the multiplier effect of government spending, and that this fiscal cut is ensuring that the federal government is taking the right steps to warrant the fiscal stability of our country. In addition, we believe that the overall growth in 4Q16 will be constrained by the recession in the mining industry, as a result of the significant contraction in Mexico’s oil production, and the lower investment in Mexico’s drilling projects. In this context, we maintain our 2% growth forecast for 2016.

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