

# GDP – Marginal adjustments to our growth forecasts

October 20, 2016

www.banorte.com  
www.ixe.com.mx  
@ analisis\_fundam

**Gabriel Casillas**  
Chief Economist and Head of Research  
gabriel.casillas@banorte.com

**Delia Paredes**  
Executive Director of Economic Analysis  
delia.paredes@banorte.com

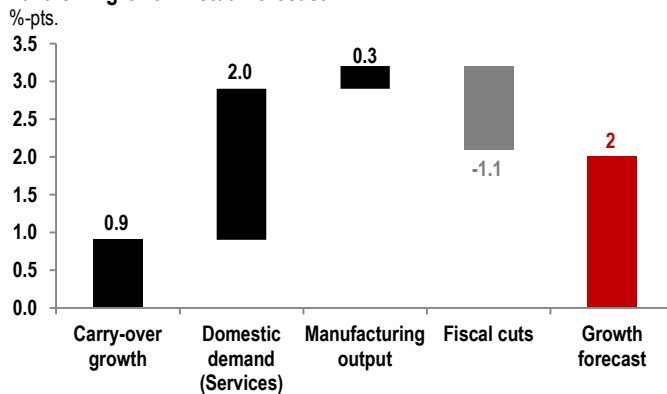
**Alejandro Cervantes**  
Senior Economist, Mexico  
alejandro.cervantes@banorte.com

- We revised our 2016 GDP growth forecast to 2% from 2.3% as a result of:
  - (1) A lower contribution of manufacturing output (-0.3%-pts);
  - (2) A higher contribution of domestic demand, reflected in the higher growth of services (+0.4%-pts);
  - (3) A lower contribution from the carry-over growth (-0.1%-pts); and
  - (4) A significant negative contribution of the fiscal cuts implemented by the federal government (-0.2%-pts)
- Against this backdrop, we also revised our GDP growth forecast for 2017 to 2.3% from 2.5%. Mexico’s economic growth will be explained by the following factors:
  - (1) Next year’s carry-over growth rate will contribute with 1%-pt;
  - (2) A resilient domestic demand, which will have a 1.3%-pts incidence on total GDP;
  - (3) Mexico’s manufacturing sector will contribute with 0.4%-pts; and
  - (4) Lower public spending given the fiscal cuts announced for 2017, along with lower levels of oil output could subtract around 0.3%-pts to next year’s GDP

**We now expect an economic expansion of 2% in 2016.** While economic data in recent months have resulted in line with our expectations, we revised our Mexico’s GDP growth forecast for this year to 2% from 2.3%. The downward revision to our forecast is explained by the following factors: (1) A lower contribution of manufacturing output (-0.3%-pts); (2) a higher contribution of domestic demand, reflected in the higher growth of services (+0.4%-pts); (3) a lower contribution from the carry-over growth (-0.1%-pts); and (4) a significant negative contribution of the fiscal cuts implemented by the federal government (-0.2%-pts; refer to the following charts).

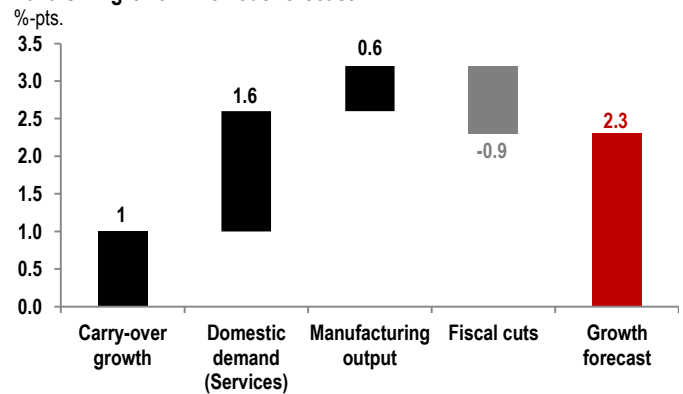
Document for distribution among public

**2016 GDP growth: Actual forecast**



Source: Banorte-Ixe  
Note: Contributions might not add due to the number of decimals allowed in the chart

**2016 GDP growth: Previous forecast**

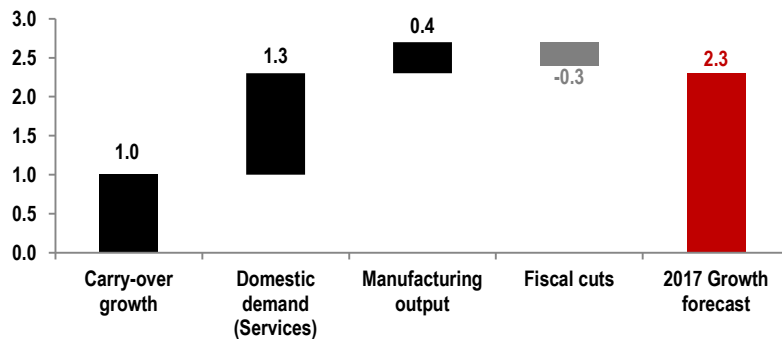


Source: Banorte-Ixe; US Census Bureau  
Note: Contributions might not add due to the number of decimals allowed in the chart

**Balanced engines of growth in 2017.** Against this backdrop, we also revised our GDP growth forecast for 2017 to 2.3% from 2.5%. Mexico’s economic growth will be explained by the following factors: (1) Next year’s carry-over growth rate will contribute with 1%-pt; (2) a resilient domestic demand, which will have a 1.3%-pts incidence on total GDP; (3) Mexico’s manufacturing sector will contribute with 0.4%-pts; and (4) lower public spending given the fiscal cuts announced for 2017, along with lower levels of oil output could subtract around 0.3%-pts to next year’s GDP growth rate.

**2017 GDP growth forecast**

%-pts.



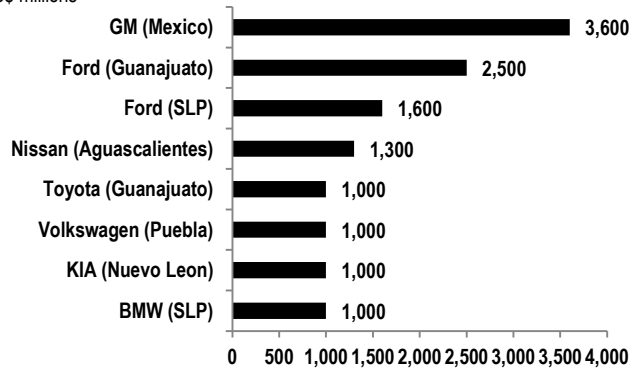
Source: Banorte-Ixe

**(1) Carry-over growth will contribute with 1%-pt.** Mexico’s economic activity fell 0.2% q/q saar, resulting in a 2.5% annual expansion of GDP in 2Q16. Moreover, with the release of the second quarter figures, the statistics team at *INEGI* re-ran their seasonal adjustment model, allowing us to see the new “carry-over” growth rate which, by the way, came in well below what we obtained from *INEGI*’s previous model. The “carry-over” rate of growth takes into account both, the inertia of economic activity, as well as the base of comparison effects. For 2017 –and taking into account our 2016 quarterly estimates–, we believe that the contribution of the inertial growth rate will be around 1%-pts.

**(2) Resilient domestic demand.** For 2017, we believe that better growth prospects for domestic demand will have a positive incidence of 1.3%-pts on total GDP. In particular, we believe that private consumption will be driven by the following factors: (i) The better growth dynamics in the Mexican labor market, which will likely result in a significant drop in the unemployment rate and higher incomes; (ii) the fact that inflation will remain around 3.4% will encourage a greater expenditure; and (iii) the upward trend in banking credit, which will support households and firms investment decisions.

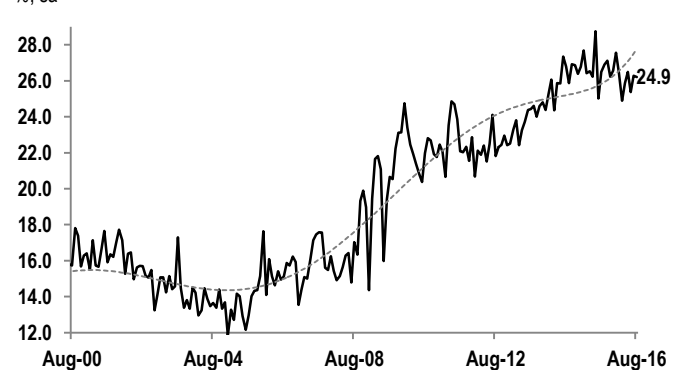
**(3) Manufacturing production will continue to grow.** While Mexico’s manufacturing industry posted a marginal growth in 2016 as a result of the deceleration in the US manufacturing sector, we believe that manufacturing output will maintain a moderate growth in 2017. On the positive side, we expect a greater contribution of the automotive industry. In recent years, Mexico’s vehicle production has experienced a strong momentum which has been substantiated by the significant flows of foreign direct investment (refer to the chart on the left). Thus, Mexican auto-exports have managed to increase its share of the US market from 11% to 25% over a 11-year period (refer to the chart on the right).

**FDI flows in the auto-industry: 2014-2016**  
US\$ millions



Source: Banorte-lxe

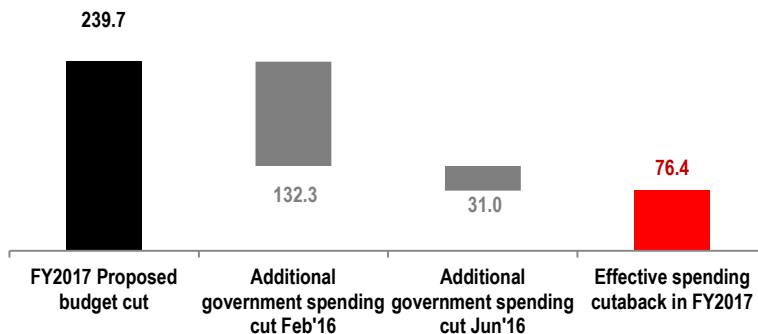
**Mexico's share of auto-exports within total US imports**  
%, sa



Source: Banorte-lxe; US Census Bureau

**(4) Spending cuts.** As expected, the Federal Government is putting on the table a 6.2% reduction in 2017 programmable spending vs. 2016 budget, while non-programmable spending will expand 12.1%. We highlight that the reduction in programmable spending is equivalent to MXN239.7bn. However, taking into account the anticipated cuts already announced for MXN132.3bn in February 2016; and for MXN31bn in June, the effective amount to be reduced in 2017 is around MXN76.4bn, as shown in the chart below. Thus, fiscal consolidation in 2017 will be smaller than the one in 2016, allowing the government to achieve better fiscal goals, but without such a negative impact on economic activity.

**2017 Spending cuts**  
MXNmn



Source: Ministry of Finance

**Higher growth in 2017 than in 2016.** In conclusion, we revised our GDP growth forecast for 2017 from 2.5% to 2.3%, because we estimate a negative impact of the fiscal cut that the government will implement in 2017. However, we believe that the economy will probably see a slightly higher growth than in 2016.

**Disclaimer**

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**
**Research and Strategy**

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

**Economic Analysis**

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

**Fixed income and FX Strategy**

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

**Equity Strategy**

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates / Financials/ Mining / Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food / Beverages / Specialized Commerce	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250

**Corporate Debt**

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

**Wholesale Banking**

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454