

Dynamism in demand-side GDP figures in 2Q18 were supported by the electoral process

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- **Aggregate demand (2Q18): 4% yoy; Banorte: 3.6%; consensus: 3.4%; previous: 2.4%)**
- **Seasonally adjusted figures show that private consumption declined 0.2% q/q saar in 2Q18 vs. +5.8% in previous quarter**
- **Meanwhile, gross fixed investment declined 2.6% q/q saar (previous: +11.7%)**
- **Regarding external demand, exports increased 9.7% q/q saar, while imports declined 1.7% during the second quarter of the year**
- **We expect aggregate demand to moderate in 2H18 as government spending recedes after the electoral process**

Private consumption expanded 2.8% in 1H18. According to *INEGI*, aggregate supply and demand expanded 4% yoy in 2Q18 above our estimates. It is worth noting that figures in the second quarter of the year were favored by a calendar effect as the *Holy Week* took place in March vs. April 2017. With these figures, aggregate demand posted a 3.3% yoy growth in the first half of 2018. Aggregate supply in 2S18 was explained by a 2% increase in GDP -as already published-, coupled with imports increasing 6.9% yoy. On the demand side, private consumption was up 2.8% yoy year-to-date while government consumption expanded 2% yoy in the same period.

Gross fixed investment expanded 2.7% y/y in the first half of the year. By component, public investment is up 6.3% on an annual basis, while private investment expanded 2.1% in 1H18. Both figures represent a significant recovery from levels observed in same period last year. In the case of private investment, the expansion is explained by an increase of 5.6% in construction, while investment in machinery and equipment was down 1.1% in the period in question. Moreover, public investment in the construction sector was up 6.3% yoy, while investment in machinery vs. the 9.3% contraction in the first half of last year. Finally, exports expanded 5.2% y/y, as shown in the following table.

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Aggregate supply and demand in 2Q18

%, nsa

	Jun-18	Mar-18	Jan-Jun, '18	Jan-Jun, '17
Aggregate supply	4.0	2.5	2.5	3.6
GDP	2.6	1.4	2.6	2.5
Imports	7.9	5.9	2.1	6.6
Aggregate demand	4.0	2.5	2.5	3.6
Private consumption	3.0	2.6	2.8	3.3
Public consumption	2.9	1.1	2.0	0.9
Gross fixed investment	3.9	1.4	2.7	-1.4
Private	3.5	0.7	2.1	0.0
Construction	0.1	-2.3	-1.1	-3.2
Machinery & Eq.	6.9	4.1	5.5	3.6
Public	6.3	6.2	6.3	-9.2
Construction	6.5	6.2	6.3	-9.1
Machinery & Eq.	4.5	6.2	5.4	-9.6
Inventories	-21.5	16.1	-2.7	-11.2
Exports	8.3	2.2	5.2	6.9

Source: INEGI

Seasonally adjusted figures show that aggregate demand expanded 11.2% q/q saar. Private consumption was down 0.2% (vs. 5.8% in 1Q18), while government consumption resulted lower than in previous quarter, with an expansion rate of 3.4% (vs. 4.6%). Gross fixed investment declined 2.6% q/q saar (vs. 11.7% in 1Q18). Private investment declined (-1.7% q/q saar in 2Q18 vs. 11.4% in previous quarter), while public investment declined 16.6% (vs. the 17.9% expansion in 1Q18). Finally, exports expanded 9.7% q/q saar.

Aggregate supply and demand in 2Q18

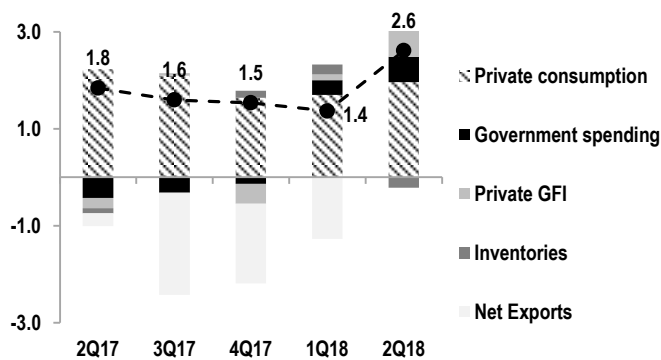
%, sa

	jun.-18 q/q	mar.-18 q/q	jun.-18 saar	mar.-18 saar
Aggregate supply	2.7	-3.9	11.2	-14.7
GDP	1.9	-2.5	7.8	-9.5
Imports	-0.4	2.9	-1.7	12.0
Aggregate demand	-0.1	1.4	-0.6	5.9
Private consumption	-0.1	1.4	-0.2	5.8
Public consumption	0.8	1.1	3.4	4.6
Gross fixed investment	-0.7	2.8	-2.6	11.7
Private	-4.4	4.2	-16.6	17.9
Public	-0.4	2.7	-1.7	11.4
Inventories	-37.5	22.6	-84.7	125.8
Exports	2.3	3.0	9.7	12.5

Source: INEGI

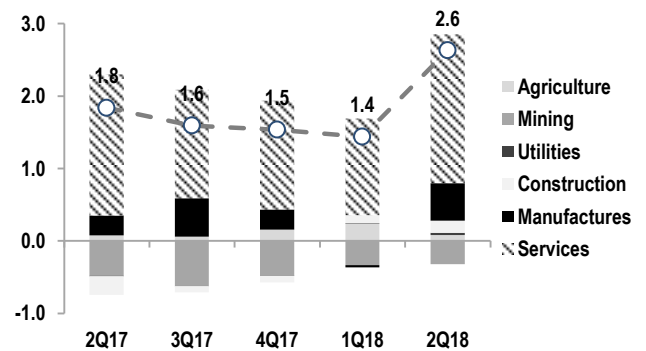
Demand-side GDP in 2Q18 show an increased contribution of government spending in the first half of the year. Such contribution including both government consumption and public investment was 0.4%-pts, below the range observed in previous years in which an electoral process took place (0.7% -pts on average). In this context, let us remember that, with the publication of GDP on the supply side (see note "*Economic expands 2.6% yoy in 1Q18*" <[here](#)>), we modified our growth estimate for 2018 from 2.5% to 2.1% yoy. In the meantime, private consumption continues to be the main driver of growth, with a contribution of 1.8%-pts on average in the first half of the year (see chart below on the left), which is consistent with the strength shown by the data on the supply side, where the services sector contributed 1.7% -pts to growth during the period in question (see chart below to the right). Looking ahead, we consider that aggregate demand will moderate in the in the second half of the year, given that it will no longer have the boost from the electoral process. Nevertheless, private consumption will continue to be the main driver of growth in 2018.

Demand-side GDP in 2Q18
Contribution to yoy GDP growth



Source: INEGI

Supply-side GDP in 2Q18
Contribution to yoy GDP growth



Source: INEGI

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