

Preliminary GDP report – Stronger economy in 2Q17

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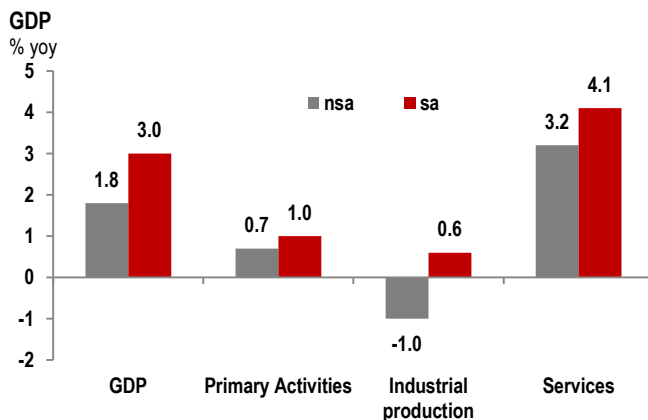
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- **INEGI** released today its preliminary GDP report for 2Q17
- **Gross Domestic Product (2Q17 nsa): 1.8% yoy; Banorte-Ixe: 1.5%; consensus: 1.8% (range of estimates: 1.4% to 2.7%); previous: 2.8%**
- **Gross Domestic Product (2Q17 sa): 0.6% q/q; Banorte-Ixe: 0.3%; consensus: 0.2% (range of estimates: 0.2% to 0.3%); previous: 0.7%**
- **Mexico’s annual growth during the second quarter was affected by the Holy Week, which subtracted working days to the annual comparison**
- **In seasonal adjusted terms, Mexico’s GDP grew 3% yoy, as a result of the upward trend in services (4.1% yoy; 0.8% q/q)**
- **We maintain our 1.9% GDP forecast for 2017**
- **The revised figure will be published on August 22**

The Mexican economy grew 3% in 2Q17. INEGI published today its preliminary GDP report. With original figures, the Mexican economy increased 1.8% yoy in 2Q17 (refer to the chart below), above our 1.5% forecast (consensus 1.8%). However, GDP growth during the second quarter was affected by the Holy Week, which subtracted working days to the annual comparison. In seasonally adjusted terms, GDP expanded 3% yoy.

Taking a look at the breakdown, and analyzing the seasonally adjusted figures, primary activities fell 2% q/q (+1% yoy), while the industrial sector increased a scant 0.1% q/q (0.6% yoy), as a result of the recession in the mining industry, despite the higher growth in manufacturing output. Finally, services expanded 0.8% q/q (4.1% yoy), which suggests that domestic demand continues to be Mexico’s main growth driver.

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Source: INEGI



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We maintain our 1.9% GDP forecast for 2017. Today's GDP report exhibits that the Mexican economy has shown not only resiliency, but strength during the first half of the year as a result of the following factors: (1) Lower uncertainty around the impact of Trump's policies on the Mexican economy; (2) a quicker recovery of the manufacturing industry; and (3) higher growth dynamics in household spending, which has been reflected in the upward trend of the services sector. Given these factors, we maintain our 1.9% GDP growth forecast for 2017.

Nevertheless, we continue to appraise significant risks to Mexico's growth scenario. We expect a marginal deceleration of private consumption, as a result of inflation's upward trend. However, this will be partially offset by the higher growth of the labor market. In addition, we believe that construction activity will maintain a downward trend as a result of the Federal Government's austerity program. Moreover, we believe that the recession of the mining industry –mainly due to lower oil production– will continue during the second half of the year, which will continue to partially offset the positive effects of a higher manufacturing output

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