

## Aggregate demand – Stronger domestic demand maintains a positive outlook

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- **Aggregate demand (1Q14): 3.5% yoy; Banorte-Ixe: 2.7%; consensus: 2.9% (range of estimates: 2.1% to 4.3%); previous: 4%**
- **In seasonally adjusted terms, private consumption increased 4.9% q/q saar in 1Q15, while GFI posted a 4% expansion**
- **We expect that the recovery of domestic demand will continue in 2015 on the back of better employment levels and contained inflation during the rest of the year**

**According to INEGI, aggregate demand and supply expanded 3.5% yoy in 1Q15, above our 2.7% yoy estimate.** From the supply side, this number comes on the back of a 2.5% increase in GDP and a 6.6% yoy expansion in imports. From the viewpoint of aggregate demand, the 3.5% growth in 1Q15 was explained by a 3.2% yoy hike in private consumption. Moreover, government spending increased 3.2% yoy. In addition, GFI edged-up 5.4% yoy, as a result of a 1% expansion in public works, and a 6.3% increase in private investment. We highlight that the significant hike in private investment was explained by a 4.4% yoy increase in construction, and an 8.8% expansion in machinery and equipment. Finally, exports increased 12.1% yoy, as shown in the table on the next page.

**In seasonally adjusted terms, aggregate demand grew 1.9% q/q saar.** This number comes on the back of a 4.9% q/q saar expansion in private consumption (vs. 2% in 4Q14). Similarly, GFI grew 4% q/q saar (vs. 5.8% in 4Q14). Taking a look at the breakdown, private investment grew more slowly (+2.4% q/q saar in 1Q15 vs. 8.8% in 4Q14), while public investment surged 4.7% q/q saar (vs. -2.6% in 4Q14). Finally, exports increased 7.3% q/q saar, as shown in the following table.

**Aggregate supply & demand: 1Q15**

<b>% yoy</b>	<b>1Q15</b>	<b>2014</b>	<b>2013</b>
<b>Aggregate Supply</b>	3.5	3.0	1.7
GDP	2.5	2.1	1.4
Imports	6.6	5.6	2.6
<b>Aggregate Demand</b>	3.5	3.0	1.7
Private consumption	3.2	2.0	2.3
Government consumption	3.2	2.5	1.2
Gross fixed investment	5.4	2.2	-1.5
Private	6.3	4.7	-1.5
Construction	4.4	4.3	-6.5
Machinery and Equipment	8.8	5.2	5.7
Public	1.0	-6.9	-1.6
Construction	0.5	-8.4	0.9
Machinery and Equipment	6.2	9.8	-23.3
Inventories	-16.3	214.8	-75.7
Exports	12.1	7.2	2.3
<b>% q/q saar</b>	<b>1Q15</b>	<b>4Q14</b>	
<b>Aggregate Supply</b>	1.9	3.9	
GDP	1.6	2.7	
Imports	1.4	14.2	
<b>Aggregate Demand</b>	1.9	3.9	
Private consumption	4.9	2.0	
Government consumption	4.6	-2.6	
Gross fixed investment	4.0	5.8	
Public	4.7	-2.6	
Private	2.4	8.8	
Inventories	32.8	-34.6	
Exports	7.3	14.4	

Source: INEGI

**We expect the recovery of domestic demand to continue in 2015.** In seasonally adjusted terms, domestic demand posted a better performance. In particular, investment managed to achieve a stronger recovery led by a rebound in the public sector, private consumption surged 4.9% q/q saar while exports moderated due to the contraction in U.S. 1Q15 GDP. Looking ahead and in line with our expectations, recent indicators suggest that the Mexican economy has reached a turning point in terms of growth. External demand is gaining momentum, as shown in the most recent exports figures, while consumer confidence and retail sales show signs of better dynamics supported by stronger employment and contained inflation levels that have resulted in higher real incomes as evidenced in recent total wage bill recent data. In our view, the latter should continue providing a better backdrop for private demand for the rest of 2015.

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