

GDP – The Mexican economy grew 2.6% in 1Q16

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- **INEGI released today its GDP figures for 1Q16, along with March's economic activity indicator (IGAE)**
- **Gross Domestic Product (1Q16): 2.6% yoy; Banorte-Ixe: 2.6%; consensus: 2.6% (range of estimates: 2.2% to 3.1%); previous: 2.4%**
- **We highlight that the annual growth rate was negatively affected by a seasonal effect, given that the *Holy Week* subtracted two working days in March**
- **Controlling for this calendar effect, the Mexican economy grew 2.8% yoy in 1Q16**
- **Growth was explained by three factors:**
 - (1) **The better growth dynamics in domestic demand reflected in the 3.7% yoy increase within the services;**
 - (2) **The contraction in oil output, which now adds two consecutive years in contraction; and**
 - (3) **The significant deceleration in manufacturing production, and a visible recovery in construction output**
- **In seasonally-adjusted figures, the economy expanded 0.8% q/q (3.3% saar), above the 0.5% observed in previous quarter**
- **We maintain our 2.3% GDP growth forecast for 2016**

GDP's growth in line with our forecast. According to *INEGI*, GDP expanded 2.6% yoy in the first quarter of the year, in line with our forecast (consensus: 2.6%; previous: 2.4%). However, we highlight that the annual growth rate was negatively affected by a seasonal effect, given that the *Holy Week* holiday subtracted two working days in March. Controlling for this calendar effect, the Mexican economy grew 2.8% yoy in 1Q16.

On the positive side, we observed a more dynamic domestic demand, reflected in an improvement in the services (+3.7% yoy, calendar adjusted figures). However, the recession in the mining sector (accumulating two consecutive years in contraction) has affected Mexico's growth dynamics.

Taking a look at the breakdown, agricultural activities expanded 3.1% yoy, above the 1.1% reduction observed in the previous quarter; while industrial output increased 1.9% yoy, resending the already mentioned contraction in the mining sector (-3.6% yoy), along with a moderate growth in manufacturing activities (+1.3% yoy). In addition, construction output increased 4% yoy given the higher growth of private investment, and the deceleration in public construction projects given the fiscal cut implemented by the federal government.

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GDP growth

% yoy

% yoy (original figures)	1Q16	4Q15	1Q15	2015
Gross domestic product	2.6	2.4	2.6	2.5
Agriculture	3.1	-1.1	3.2	1.0
Industrial	0.4	0.2	1.7	1.2
Mining	-3.3	-4.5	-5.6	-6.3
Utilities	1.7	3.7	6.6	4.2
Construction	2.0	-0.5	4.7	3.7
Manufactures	1.0	2.0	3.1	3.0
Services	3.7	3.7	2.9	3.2
Whole and Retail sales	3.6	4.0	4.9	4.7
Transportation and storage	3.2	3.1	3.2	3.5
Mass media information	11.8	18.9	5.6	7.1
Financial services	6.8	2.6	-0.3	0.4
Real estate	2.3	2.1	1.8	2.4
Educational services	0.2	1.7	-0.6	0.3
Temporary lodging services	6.8	8.2	3.7	5.1
% yoy (adjusted by calendar effect)	1Q16	4Q15	1Q15	
Gross domestic product	2.8	2.4	2.6	
Agriculture	3.1	-1.1	3.2	
Industrial	1.9	0.2	1.7	
Mining	-3.6	-4.1	-5.2	
Utilities	1.7	3.7	6.6	
Construction	4.0	-0.5	4.7	
Manufactures	1.3	1.3	3.7	
Services	3.6	3.7	2.9	
Whole and Retail sales	2.4	4.0	5.8	
Transportation and storage	1.7	3.5	3.5	
Mass media information	11.8	18.9	5.6	
Financial services	6.8	2.6	-0.3	
Real estate	2.3	2.1	1.8	
Educational services	1.0	1.7	0.0	
Temporary lodging services	6.2	8.0	3.6	

Source: INEGI

Seasonally-adjusted figures show a 0.8 q/q expansion. As a result, economic activity increased at a 3.3% seasonally adjusted annualized rate (saar), above the 2.2% observed in 4Q15 (refer to the on the next page). Taking a look at the breakdown, agricultural output edged-up 14.7% q/q saar, while industrial activities expanded 5% from the 1.2% reduction in 4Q15. Within this sector, manufacturing output was up 1% from -1.3% in 4Q15, while construction increased 14.7% from -5.1%. Finally, the services sector expanded 3.2%, below the 3.7% observed in the last quarter of 2015, but still above its potential growth.



Source: Banorte-ixe with data from INEGI

We maintain our 2.3% GDP growth forecast for 2016. Domestic demand has stand out as Mexico’s main growth driver during the last four quarters. In this context, we believe that the upward trend in domestic demand will continue throughout the second quarter of the year given the following factors: (1) The recovery in households’ income derived from significant gains in real wages; (2) the subdued levels of inflation; and (3) the better growth dynamics in the Mexican labor market.

However, seasonally adjusted figures show that manufacturing output has maintained a slower growth, as a result of the deceleration in the U.S. manufacturing sector (given that both hold a strong correlation). Nevertheless, we believe that Mexico’s manufacturing industry of final goods will strengthen in the second quarter of the year given: (1) The still depreciated peso will boost Mexico’s manufacturing exports of final goods; and (2) the better growth prospects of the Mexican labor market will translate into a stronger domestic demand for manufactured goods.

In addition, the fiscal adjustments announced 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 0.8% of GDP, we believe their negative impact on economic growth could be of 0.5%-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. Taking into account all of the above-mentioned factors, we maintain our GDP 2.3% growth forecast for 2016.

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