

## GDP – The Mexican economy grew 2.5% in 2Q16, in line with our forecast

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

- **INEGI** released today its GDP figures for 2Q16, along with June's economic activity indicator (IGAE)
- **Gross Domestic Product (2Q16): 2.5% yoy; Banorte-Ixe: 2.5%; consensus: 2.4% (range of estimates: 2.1% to 2.5%); preliminary figure: 2.4%**
- **Gross Domestic Product (2Q16): -0.2% q/q; Banorte-Ixe: -0.2%; consensus: -0.3% (range of estimates: -0.4% to 0%); previous: -0.3%**
- **Global Economic Indicator, IGAE (June): 2.2% yoy; Banorte-Ixe: 2.2%; consensus: 1.9% (range: 1% to 2.5%); previous: 2.1%**
- **We highlight that the annual growth rate was positively affected by a seasonal effect, given that the *Holy Week* added two working days in April**
- **Controlling for this calendar effect, the Mexican economy grew 1.4% yoy in 2Q16**
- **The scant expansion in Mexico's economic activity was explained by three factors:**
  - (1) **The lower growth in domestic demand, reflected in the 2.4% 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**
- **In seasonally-adjusted figures, the economy fell 0.2% q/q (-0.7% saar), below 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 2.5% yoy in the second quarter of the year, in line with our forecast (consensus: 2.4%; preliminary figure: 2.4%). However, we highlight that the annual growth rate was positively affected by a seasonal effect, given that the *Holy Week* holiday added two working days in April. Controlling for this calendar effect, the Mexican economy grew 1.4% yoy in 2Q16.

Taking a look at the breakdown, and using the calendar-adjusted figures, agricultural activities expanded 3.8% yoy, above the 3% observed in the previous quarter; while industrial output fell 0.4% yoy, resenting the contraction in the mining sector (-4.5% yoy), along with a moderate growth in manufacturing activities (+0.4% yoy). In addition, construction output increased 1.3% yoy given the higher growth of private investment, and the significant deceleration in public construction projects given the fiscal cut implemented by the federal government.

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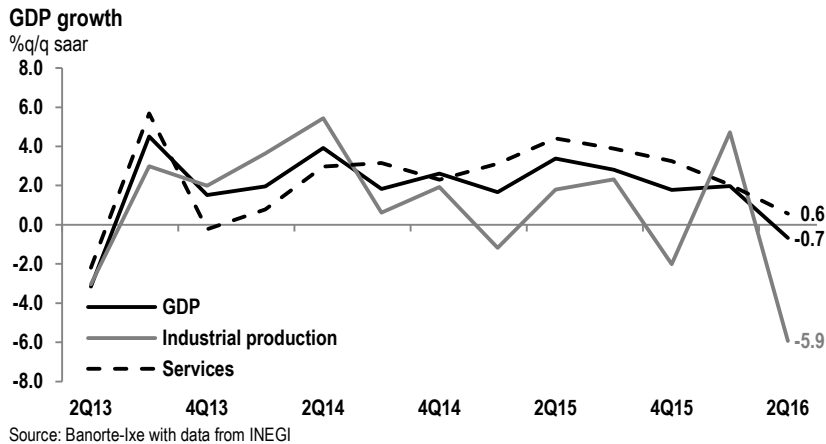
Moreover, services expanded 2.4% yoy, as a result of the deceleration in the subsectors that hold a strong correlation with manufacturing output, such as trade (+1.4% yoy) and transportation (+1.9%). In this context, today's figures regarding trade differ significantly from others related to this industry, such as retail sales also reported by *INEGI*, which showed an average 9.6% yoy increase in April and May; and *ANTAD*'s total store sales, whose growth was 6.6% in the second quarter.

#### GDP growth

% yoy	2Q16	1Q16	1H16	2015
<b>Gross domestic product</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>
<b>Agriculture</b>	<b>3.8</b>	<b>3.0</b>	<b>3.4</b>	<b>1.0</b>
<b>Industrial</b>	<b>1.0</b>	<b>0.3</b>	<b>0.7</b>	<b>1.2</b>
Mining	-4.3	-3.2	-3.7	-6.3
Utilities	6.4	1.9	4.1	4.2
Construction	3.1	1.7	2.4	3.7
Manufactures	1.6	1.0	1.3	3.0
<b>Services</b>	<b>3.2</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>
Whole and Retail sales	2.3	3.6	2.9	4.7
Transportation and storage	2.9	2.7	2.8	3.5
Mass media information	8.4	10.6	9.5	7.1
Financial services	7.2	6.7	6.9	0.4
Real estate	1.8	2.2	2.0	2.4
Educational services	2.6	0.2	1.4	0.3
Temporary lodging services	2.4	6.8	4.6	5.1
<b>% yoy (adjusted by calendar effect)</b>	<b>2Q16</b>	<b>1Q16</b>	<b>1H16</b>	
<b>Gross domestic product</b>	<b>1.4</b>	<b>2.5</b>	<b>2.0</b>	
<b>Agriculture</b>	<b>3.8</b>	<b>3.0</b>	<b>3.4</b>	
<b>Industrial</b>	<b>-0.4</b>	<b>1.8</b>	<b>0.7</b>	
Mining	-4.5	-3.4	-4.0	
Utilities	6.4	1.9	4.1	
Construction	1.3	3.5	2.4	
Manufactures	0.4	1.2	0.8	
<b>Services</b>	<b>2.4</b>	<b>3.4</b>	<b>2.9</b>	
Whole and Retail sales	1.4	2.3	1.9	
Transportation and storage	1.9	1.4	1.7	
Mass media information	8.4	10.6	9.5	
Financial services	7.2	6.7	6.9	
Real estate	1.8	2.2	2.0	
Educational services	1.8	1.0	1.4	
Temporary lodging services	2.9	6.1	4.5	

Source: INEGI

**Seasonally-adjusted figures show a 0.2 q/q contraction.** As a result, economic activity fell at a 0.7% seasonally adjusted annualized rate (saar), below the 2% observed in 1Q16 (refer to the chart on the next page). Taking a look at the breakdown, agricultural output edged-down 1.4% q/q saar, while industrial activities decreased 5.9% from the 4.7% expansion in 1Q16. Within this sector, manufacturing output was down 0.3% from +0.8% in the previous quarter, while construction output declined 4.4% from +13.7%. Finally, the services sector expanded 0.6%, below the 2% observed in the first quarter of the year.



**We maintain our 2.3% GDP growth forecast for 2016.** Domestic demand has stand out as Mexico’s main growth driver during the last five quarters. In this context, we believe that the current growth dynamics in domestic demand will continue throughout the second half 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; (3) the better growth prospects of credit to the private non-financial sector; and (4) the higher growth in remittances inflows (now adding a 8.9% yoy growth in the first half of the year).

However, seasonally adjusted figures show that manufacturing output has maintained a downward trend, as a result of the deceleration in the US 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 half 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 0.9% of GDP, we believe their negative impact on economic growth could be of 0.7%-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 2.3% growth forecast for 2016.

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**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 – 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
Eugenia Ivonne Arias Medina	Analyst	eugenia.arias.medina@banorte.com	(55) 1670 - 2251

**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