

Preliminary GDP report (4Q15) – The Mexican economy grew 2.5% in 2015

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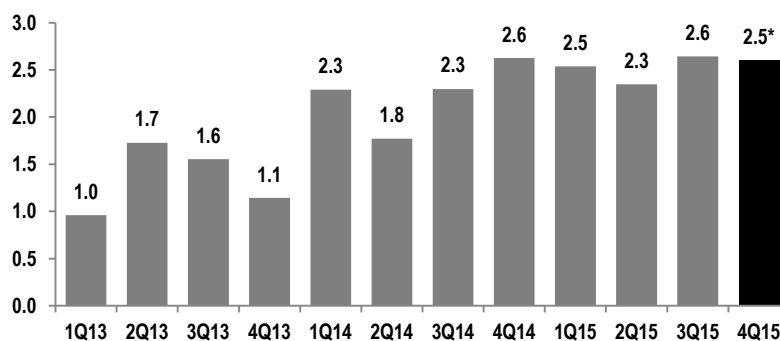
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- **INEGI released today its preliminary GDP report for 4Q15**
- **GDP (4Q15 P): 0.6% q/q; 2.5% yoy**
- **For the estimation of this preliminary figure, INEGI uses the economic reports published for the first two months of each quarter, and estimated using econometric models some variables for the third month**
- **Domestic demand was the main growth driver for the Mexican economy in 4Q15**
- **The revised figure will be published in February 23**
- **Looking ahead, we continue to believe that the Mexican economy will show a more visible recovery in 1Q16**

The Mexican economy grew 2.5% in 2015. INEGI presented today its “Preliminary Estimation of GDP” report. With original figures, the Mexican economy expanded 2.5% yoy in 4Q15 (refer to the chart below). Primary activities increased 3% yoy, while the industrial sector grew a scant 0.6% yoy. Finally, services expanded 3.5% yoy. With these preliminary figures, Mexico’s GDP grew 2.5% in 2015.

In seasonally adjusted terms, GDP increased 0.6% q/q. Taking a look at the breakdown, primary activities decreased 1.7% q/q, while industrial production posted a null growth. Moreover, services expanded 0.9% q/q. Given that INEGI has not published a comparable time series for the seasonally adjusted series, we can’t compare this 0.6% q/q growth of 4Q15 with the 0.6% reported for the third quarter, considering that these figures are usually revised with the publication of new data. However, taking into account the 0.9% q/q expansion in services, we believe that domestic demand was the main growth driver for the Mexican economy in 4Q15.

GDP
% yoy



Source: INEGI

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Looking ahead, we continue to believe that the Mexican economy will show a more visible recovery in 1Q16. Domestic demand has stand out as Mexico's main growth engine. In particular, Mexican households are beginning to spend more given the significant gains in real wages, while firms have increased their investment spending given the more positive outlook that prevails for the Mexican economy. We believe that the recent upward trend in domestic demand will continue throughout the first quarter of 2016 given the following factors: (1) The recovery of the labor market; (2) the recent downward trend in inflation that will hold throughout the year; and (3) the better growth prospects in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, despite the recent deceleration in manufacturing output, other indicators show that this sector will show a more visible recovery. In this regard, we believe that manufacturing production of final goods will strengthen in the first quarter of 2016 given: (1) Mexico's manufacturing exports will recover given the recent and significant depreciation of the Mexican currency; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger demand for domestic manufactured goods. However, production and exports of intermediate goods will continue to fall given the deceleration of the U.S. manufacturing industry.

Methodological note. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP presented today will cover 80% with the direct information available, and will estimate the remaining 20%. Unlike other preliminary reports -as the U.S. GDP conducted by the *Bureau of Economic Analysis* (BEA)-, *INEGI*'s report only includes the three main sectors. BEA's preliminary report contains a complete breakdown of the quarterly GDP.

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