

GDP – Strong deceleration in 3Q17 as a result of September’s earthquakes

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- *INEGI* released today its GDP revised figures for 3Q17
- **Gross Domestic Product (3Q17): 1.5% yoy; Banorte-Ixe: 1.7%; consensus: 1.6% (range of estimates: 1.5% to 1.7%); preliminary figure: 1.6%**
- **In seasonally-adjusted terms, the economy posted a 0.3% q/q contraction (-1.2% saar)**
- **GDP contraction in 3Q17 was explained by three factors:**
 - (1) **The economic impact of the earthquakes in September’s figures;**
 - (2) **The recession in the mining industry; and**
 - (3) **The contraction in construction output, as a result of the Federal Government’s austerity program**
- **We maintain our 2.1% GDP growth forecast for 2017**

The Mexican economy grew 1.5% yoy in 3Q17. According to *INEGI*, GDP expanded 1.5% yoy in the third quarter of the year, marginally below our 1.7% forecast (consensus: 1.6%), and *INEGI*’s preliminary 1.6% growth (nsa figures). In seasonally-adjusted terms, GDP posted a 0.3% q/q contraction (-1.2% saar), below the 1.1% expansion observed in 2Q17 (refer to the chart below). GDP contraction in the third quarter was explained by three factors: (1) The economic impact of the earthquakes in September’s figures; (2) the recession in the mining industry; and (3) the contraction in construction output as a result of the Federal Government’s austerity program.

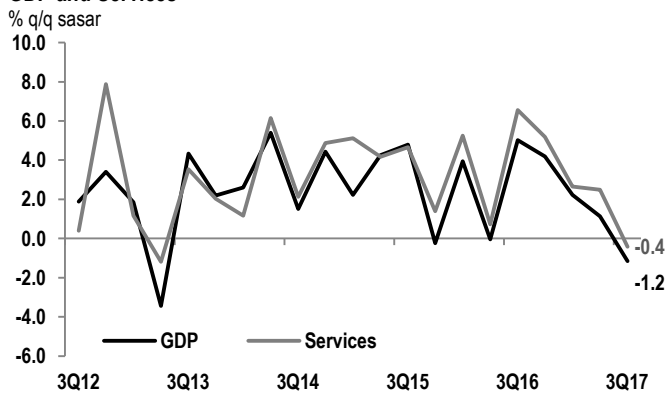
In the first case, we believe that the contraction of Mexico’s GDP was explained by the impact of the earthquakes on September’s economic figures. Taking a look at September’s IGAE (also published today), educational services posted a 5.3% yoy contraction, given the federal mandate to suspend classes in the federal entities affected by the 9/19 earthquake. In addition, wholesale and retail sales posted a marginal 0.4% yoy expansion, whereas other services were also affected by the suspension of work during the two weeks following the earthquake. However, we believe that this effect will be temporary, and October’s figure will show a substantial recovery.

In the second case, we believe that the recession in the mining was exacerbated during the third quarter as a result of the reduction of oil production in the Gulf of Mexico derived from the hurricane season and the earthquake of September 7, which affected the refining capacity in Salina Cruz, Oaxaca. Regarding hurricane season, we highlight the impact that *Harvey* and *Katia* had on Mexico’s refining capacity, which derived in a significant reduction in *PEMEX* oil production, given that inventories were already at maximum levels. Finally, we believe that construction output was mostly affected by the Federal Government’s austerity program, which translated in a significant contraction in public infrastructure projects.

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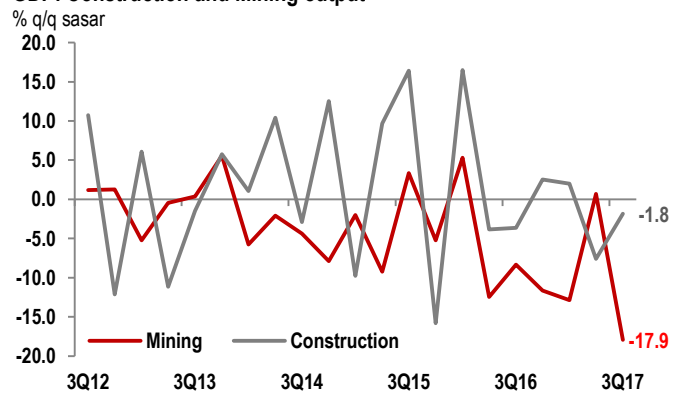
We maintain our 2.1% GDP growth forecast for 2017. Despite that today's GDP figure was marginally lower than our estimate, we maintain our 2.1% growth forecast for GDP in 2017. Looking ahead, we believe that Mexico's growth will be determined by the following factors: (1) A marginal deceleration of private consumption, as a result of inflation's upward trend. However, this will be partially offset by the higher growth of the labor market; (2) construction activity will maintain a downward trend as a result of the Federal Government's austerity program, which will affect the construction of infrastructure projects throughout the fourth quarter; and (3) the recession of the mining industry –mainly due to Mexico's lower oil production– will continue during the fourth quarter of the year, which will continue to partially offset the positive effects of Mexico's domestic demand.

GDP and Services



Fuente: Banorte-Ixe

GDP: Construction and Mining output



Fuente: Banorte-Ixe

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