

## GDP – The Mexican economy grew 2.3% in 2016

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- *INEGI* released today its GDP figures for 4Q16, along with December's economic activity indicator (IGAE)
- **Gross Domestic Product (4Q16): 2.4%yoy; Banorte-Ixe: 2.3%; consensus: 2.2% (range of estimates: 2.0% to 2.3%); previous: 2.1%**
- **With today's figures, the Mexican economy grew 2.3% in 2016, marginally below the 2.6% in 2015**
- **Growth in 4Q16 was explained by three factors:**
  - (1) **The better growth dynamics in domestic demand reflected in the 3.4% yoy increase within the services;**
  - (2) **The contraction in oil output; and**
  - (3) **The deceleration in manufacturing output**
- **In seasonally-adjusted figures, the economy expanded 0.7% q/q (Banorte-Ixe: 0.7%), below the 1.1% observed in previous quarter**
- **We maintain our 1.1% GDP growth forecast for 2017**

**The Mexican economy grew 2.3% in 2016.** According to *INEGI*, GDP expanded 2.4% yoy in the fourth quarter of the year, marginally above our 2.3% forecast (consensus: 2.2%; previous: 2.1%). With today's figures, the Mexican economy grew 2.3% in 2016, below the 2.6% in 2015.

On the positive side, we observed a more dynamic domestic demand, reflected in an improvement in services (+3.4% yoy). However, the recession in the mining sector (accumulating ten consecutive quarters in contraction) has affected Mexico's growth dynamics.

Taking a look at the breakdown, agricultural activities expanded 6.4% yoy, below the 6.8% growth rate observed in the previous quarter, while industrial output posted a null expansion, resenting the already mentioned contraction in the mining sector (-9.4% yoy), along with a moderate growth in manufacturing activities (+1.9% yoy). In addition, construction output increased 3% yoy given the higher private expenditure in construction projects despite the fiscal cut implemented by the federal government which impacted public infrastructure projects.

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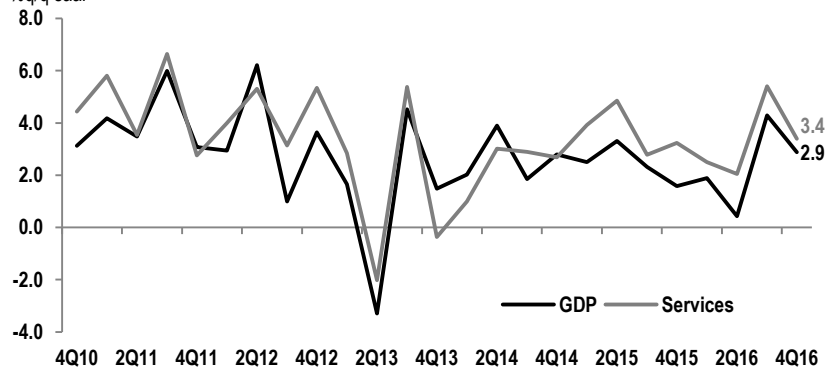
**GDP growth**  
% yoy

	4Q16	3Q16	2Q16	1Q16	2016	2015
<b>Gross domestic product</b>	<b>2.4</b>	<b>2.1</b>	<b>2.6</b>	<b>2.2</b>	<b>2.3</b>	<b>2.6</b>
<b>Agriculture</b>	<b>6.4</b>	<b>6.8</b>	<b>3.7</b>	<b>-0.7</b>	<b>4.1</b>	<b>1.5</b>
<b>Industrial</b>	<b>0.0</b>	<b>-0.8</b>	<b>0.8</b>	<b>0.0</b>	<b>0.0</b>	<b>1.0</b>
Mining	-9.4	-8.2	-4.8	-3.2	-6.4	-4.6
Utilities	2.8	3.9	5.7	1.0	3.3	2.3
Construction	3.0	0.0	3.0	1.3	1.8	2.5
Manufactures	1.9	1.1	1.5	0.7	1.3	2.5
<b>Services</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.5</b>
Whole and Retail sales	2.6	1.3	2.3	3.6	2.4	4.7
Transportation and storage	2.7	2.3	3.3	2.9	2.8	4.3
Mass media information	8.6	13.3	9.2	9.1	10.1	7.8
Financial services	7.2	7.9	7.5	8.2	7.7	4.3
Real estate	1.8	1.8	1.8	2.1	1.9	2.5
Educational services	0.5	1.5	2.4	-0.1	1.0	0.0
Temporary lodging services	3.1	3.0	2.4	6.8	3.8	5.8

Source: INEGI

**Seasonally-adjusted figures show a 0.7 q/q expansion.** As a result, economic activity increased at a 2.9% seasonally adjusted annualized rate (saar), below the 4.3% observed in 3Q16. Taking a look at the breakdown, agricultural output fell 1.2% q/q saar, while industrial activities edged-up 0.7% from 0.3% in 3Q16. Within this sector, manufacturing output was up 4.6% from +3.3% in the previous quarter, while construction increased 3% from 0.8%. Finally, the services sector expanded 3.4% (previous: 5.4%), as shown in the chart below.

**GDP growth**  
%q/q saar



Source: Banorte-ixe with data from INEGI

**We maintain our 1.1% GDP growth forecast for 2017.** Donald Trump's presidency will possibly imply lower economic growth for 2017 in the face of the uncertainty generated by the recent changes in the bilateral relationship. The first impact on growth will most likely come in the first half of 2017, with the transmission channel being a strong deterioration of consumer confidence and business climate, leading to a significant deceleration in economic activity. However, it is likely that the negative perception of the new administration will gradually fade and confidence levels will begin to recover towards the second half of the year. In this context, we expect a 1.1% growth in 2017. For 2018, we believe that the recovery of the Mexican economy will continue and will grow around 2.5% given the fiscal expenditure as a result of the election process.

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