

Aggregate demand – Significant deceleration in consumption and private investment

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- **Aggregate demand (4T17): 3% yoy; Banorte: 2.1%; consensus: 2.6%; previous: 2.6%**
- **In 2017, aggregate demand rose 3.2% yoy, driven by the 3% expansion in private consumption and the 3.8% growth in exports**
- **In seasonally adjusted terms, aggregate demand increased 1.2% q/q (4.7% saar), above the 0.1% observed in 3Q17**
- **However, there is a significant discrepancy between the headline figure and its components, particularly those associated with domestic demand**
- **Private consumption posted a scant 0.2% q/q expansion (0.9% saar); while government consumption increased 0.6% (2.4% saar)**
- **In addition, private investment slowed down 1.1% q/q (-4.4% saar)**
- **However, public investment edged-up 1.1% (4.3% saar)**
- **Looking ahead, we believe that aggregate demand will continue to be subdued**

Aggregate demand increased 3% yoy in 4Q17. According to the *INEGI's* report published today, aggregate demand increased 3% yoy in 4Q17 (original figures), above both our estimate (2.1% yoy) and *Bloomberg's* median forecast (2.6% yoy).

With these figures, aggregate demand presented 3.2% yoy growth, driven by the 3% expansion in private consumption and 3.8% in exports. On the contrary, the total investment presented a 1.5% yoy decline. Within this component, private investment fell 0.6% yoy, while the public sector showed a 6.4% decline, mainly explained by the fiscal consolidation effort carried out by the federal government.

Aggregate supply and demand: 2017

% yoy, nsa

	2017	2016
Aggregate Supply	3.2	2.9
GDP	2.0	2.9
Imports	6.4	2.9
Aggregate Demand	3.2	2.9
Private Consumption	3.0	3.7
Government Consumption	0.1	2.4
GFI	-1.5	1.1
Public	-6.4	-4.2
Private	-0.6	2.2
Inventories	-3.7	13.0
Exports	3.8	3.5

Source: INEGI

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In seasonally adjusted terms, aggregate demand increased 1.2% q/q (4.7% saar), above the 0.1% observed in 3Q17. The significant 1.2% increase in aggregate demand could be interpreted as a positive sign alluding to a significant deceleration of the Mexican economy. However, there is a strong discrepancy between the headline figure and its components, particularly those related to domestic demand. Private consumption posted a 0.2% q/q expansion (0.9% saar), while government consumption increased 0.6% (2.4% saar). In addition, private investment fell 1.1% q/q (-4.4% saar). However, public investment increased 1.1% (4.3% saar), as a result of the start of public investment projects before the electoral process that will take place in July of 2018. Finally, exports rose 4.1% q/q (16.6% saar), while imports increased 1.7% q/q (6.8% saar).

Aggregate supply and demand: 4Q17

% q/q sa; % q/q saar

	% q/q		% q/q saar	
	4Q17	3Q17	4Q17	3Q17
Aggregate Supply	1.2	0.1	4.7	0.4
GDP	0.8	-0.2	3.1	-0.7
Imports	1.7	1.1	6.8	4.6
Aggregate Demand	1.2	0.1	4.7	0.4
Private Consumption	0.2	0.6	0.9	2.4
Government Consumption	0.6	-0.5	2.4	-2.1
GFI	-1.0	-0.4	-4.0	-1.7
Public	1.1	1.8	4.3	7.2
Private	-1.1	-0.7	-4.4	-2.6
Inventories	4.0	-8.1	15.9	-32.3
Exports	4.1	-2.1	16.6	-8.6

Source: Banorte with data from INEGI

Looking ahead, we believe that aggregate demand will remain subdued in the first half of 2018. In our opinion, the report published today reflects the impact of higher inflation on private consumption. Likewise, we consider that the conditions of uncertainty regarding the Mexican economy in the first half of the year, particularly derived from the renegotiation of the NAFTA and the electoral process, will continue to weigh on investment decisions in the private sector. However, we expect that the higher government spending derived from the same electoral process can help offset the negative impacts described above.

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