

GDP – The Mexican economy grew 2.8% in 1Q17

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

- **INEGI** released today its GDP figures for 1Q17, along with March's economic activity indicator (IGAE)
- **Gross Domestic Product (1Q17): 2.8%yoy; Banorte-Ixe: 2.9%; consensus: 2.7% (range of estimates: 2.2% to 3%); preliminary figure: 2.7%**
- **Global economic indicator (March): 4.4%yoy; Banorte-Ixe: 4.6%; consensus: 4.2% (range of estimates: 1.8% to 5%); previous: 0.9%**
- **Growth in 1Q17 was explained by three factors:**
 - (1) **The better growth dynamics in domestic demand reflected in the 3.7% yoy increase within the services;**
 - (2) **The contraction in oil output; and**
 - (3) **The higher growth in manufacturing output**
- **In seasonally-adjusted terms, the economy expanded 0.7% q/q (Banorte-Ixe: 0.8%)**
- **We maintain our 1.6% GDP growth forecast for 2017**

The Mexican economy grew 2.8% in 1Q17. According to *INEGI*, GDP expanded 2.8% yoy in the first quarter of the year, marginally below our 2.9% forecast (consensus: 2.7%; preliminary figure: 2.7%). On the positive side, we observed a more dynamic domestic demand, reflected in an improvement in services (+3.7% yoy). However, the recession in the mining sector (accumulating three consecutive years in recession) has affected Mexico's overall growth dynamics.

Taking a look at the breakdown, agricultural activities expanded 6.6% yoy, above the 5.3% observed in the previous quarter, while industrial output posted a 0.5% expansion, resenting the already mentioned contraction in the mining sector (-10.8% yoy), along with a moderate growth in construction output (+1.5% yoy) given the fiscal cut implemented by the federal government which impacted public infrastructure projects. In addition manufacturing production expanded 4.8% yoy, as a result of a stronger external demand.

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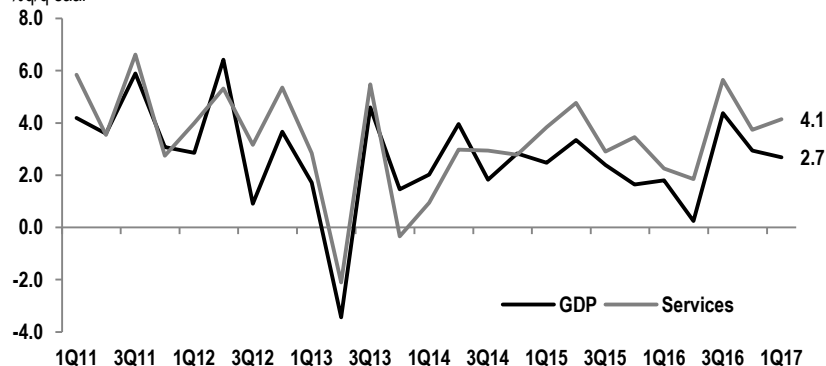
GDP growth
% yoy

	1Q17	4Q16	3Q16
Gross domestic product	2.8	2.3	2.0
Agriculture	6.6	5.3	5.5
Industrial	0.5	-0.1	-0.9
Mining	-10.8	-9.5	-8.2
Utilities	-0.5	2.8	3.9
Construction	1.5	3.0	0.0
Manufactures	4.8	1.9	1.1
Services	3.7	3.4	3.4
Whole and Retail sales	3.3	2.5	1.3
Transportation and storage	4.0	2.7	2.3
Mass media information	5.3	8.8	13.4
Financial services	9.5	7.2	7.9
Real estate	2.5	1.8	1.8
Educational services	3.1	0.5	1.5
Temporary lodging services	0.5	3.1	3.0

Source: INEGI

Seasonally-adjusted figures show a 0.7 q/q expansion. As a result, economic activity increased at a 2.7% q/q saar, below the 2.9% observed in 4Q16. Taking a look at the breakdown, agricultural output increased 4.5% q/q saar, while industrial activities edged-up 0.6% from 0.5% in 4Q16. Within this sector, manufacturing output was up 8.5% from 5.9% in the previous quarter, while construction increased a scant 0.7%. Finally, the services sector expanded 4.1% (previous: 3.7%), as shown in the chart below.

GDP growth
%q/q saar



Source: Banorte-ixe with data from INEGI

We maintain our 1.6% GDP growth forecast for 2017. We believe that the uncertainty surrounding the future of the US-Mexico trade relationship has led to a greater flow of both exports and manufacturing production during the first quarter of the year. We estimate that this trend will continue during the second and third quarter. Similarly, we expect a slight deceleration in domestic demand stemming from the upward trend in inflation. However, it will be partially offset by the upward trend in formal employment and the strong performance of banking credit. As a result, we believe that domestic demand will continue to be the Mexico's main growth driver.

In addition, we expect that domestic demand will be curtailed by the deceleration in construction activity, as a result of the fall of public investment projects, given the fiscal consolidation efforts of the Federal Government. In addition, we believe that the recession in the mining industry will continue throughout the year, which will continue to offset the positive effects of Mexico's higher manufacturing output

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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
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2759
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
José Itzamna Espitia Hernández	Equity Research Analyst – Airlines / 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

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

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