

Aggregate demand confirms GDP deceleration in the first half of 2019

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- **Aggregate demand (2Q19): -1% y/y; Banorte: -1.2%; consensus: -1%; previous: 1.4%)**
- **Figures are negatively affected by a calendar effect as the Holy Week took place in late April vs. March-April in 2018**
- **Seasonally adjusted figures show that aggregate demand declined 0.2% q/q**
- **This figure comes on the back of a 2.4% q/q decline in GFI, partially offset by a 0.2% expansion in private consumption**
- **Regarding external demand, exports increased 3% t/t, while imports were up 0.3% during the second quarter of the year**
- **Demand side GDP report confirms the economic slowdown in the first half of the year**
- **Looking ahead, we expect further deceleration of economic activity in 2H19**

According to INEGI, aggregate supply and demand declined 1%y/y in 2Q19. These figures were negatively affected by a calendar effect as the Holy Week took place in late April this year vs. March-April in 2018. On the supply side, this number was explained by a 0.8% decline in GDP, coupled with imports down 1.4%y/y. On the demand side, private consumption declined 0.3% y/y. Year to date, private consumption has expanded 0.4% vs. the 2.7% in same period last year. Meanwhile government consumption edged down 2.3% y/y, with year to date rate at 1.6% vs. 2.1% in same period last year.

Gross fixed investment declined 7.3% y/y. By component, public investment was down 14.5% on an annual basis, while private investment edged down 6.2%. In the case of private investment, the decline is explained by a contraction of 3.2% in construction, while investment in machinery and equipment was down 9.1% in the period in question. Finally, exports expanded 2.5% y/y, as shown in the following table.

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Aggregate supply and demand: 2Q19

% y/y

	Jun-19	Mar-19	Jan-Jun,'19	Jan-Jun,'18
Aggregate supply	-1.0	1.4	2.5	3.1
GDP	-0.8	1.2	2.6	1.9
Imports	-1.4	1.9	2.1	6.4
Aggregate demand	-1.0	1.4	2.5	3.1
Private consumption	-0.3	1.1	0.4	2.7
Public consumption	-2.3	-0.8	-1.6	2.1
Gross fixed investment	-7.3	-0.8	-4.1	2.2
Private	-6.2	0.3	-3.0	2.0
Construction	-3.2	2.8	-0.2	0.0
Machinery & Eq.	-9.1	-2.7	-5.9	4.3
Public	-14.5	-7.5	-11.0	3.0
Construction	-14.9	-8.2	-11.6	3.9
Machinery & Eq.	-7.9	-0.9	-4.4	-6.4
Inventories	-14.7	4.3	-5.2	-4.0
Exports	2.5	2.7	2.6	5.1

Source: INEGI

Seasonally adjusted figures show that aggregate demand declined 0.2% t/t. Private consumption was up 0.2% -in line with previous quarter-, while government consumption was virtually flat (0.01% vs. 0.3%). Gross fixed investment declined 2.4% q/q (vs. +0.1% in 1Q19). Private investment further deepened its decline (-2% q/q in 2Q19vs. -0.1% in previous quarter), while public investment edged down 3.9% (vs. 1% in 1Q19). Finally, exports expanded 3%q/q.

Aggregate supply and demand: 2Q19

%, seasonally adjusted

	jun.-19 q/q	mar.-19 q/q	jun.-19 saar	mar.-19 saar
Aggregate supply	-0.2	-0.6	-0.6	-2.5
GDP	0.0	-0.3	0.1	-1.0
Imports	0.1	-2.1	0.3	-8.1
Aggregate demand	-0.2	-0.6	-0.6	-2.5
Private consumption	0.2	0.2	0.9	0.7
Public consumption	0.1	-0.3	0.3	-1.1
Gross fixed investment	-2.4	0.1	-9.3	0.4
Private	-3.9	1.0	-14.8	3.9
Public	-2.0	-0.1	-7.6	-0.4
Inventories	-28.6	-0.1	-74.0	-0.5
Exports	3.0	0.8	12.7	3.3

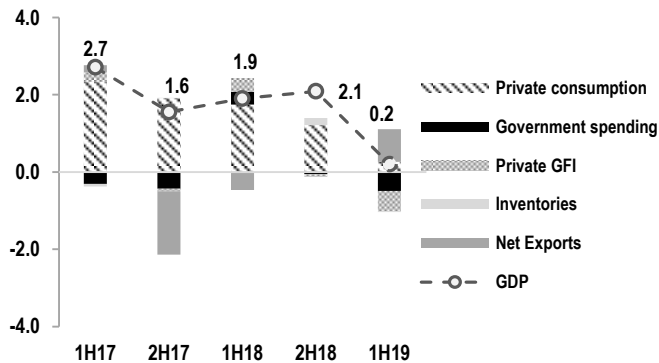
Source: INEGI

Demand side GDP report confirms the slowdown in the first half of the year. As we already mentioned, the report is affected by a negative calendar effect, since Holy Week in 2019 took place in April vs. March-April in 2018. Nevertheless, year-to-date figures point to a strong slowdown in economic activity, mainly explained by the weakness of both government spending and gross fixed investment, each of them subtracting 0.5%-pts respectively to growth in 1H19. By contrast, in line with our estimates, private consumption remains the main engine of growth, adding 0.6%-pts to the total GDP variation, although below the 1.4%-pts added in the first half of last year. Moreover, net exports added 0.2%-pts (see chart below on the left).

These figures are consistent with the weakness showed on the supply side, with construction and mining output dragging down economic growth, while the services and the manufacturing sector practically explained the expansion in the first half of the year (see chart below right). Looking ahead, we believe that aggregate demand will continue to moderate due to the weakness suggested by the most recent economic activity data. However, we believe that private consumption will continue to be one of the main drivers of growth in 2019.

Demand side GDP 1H19

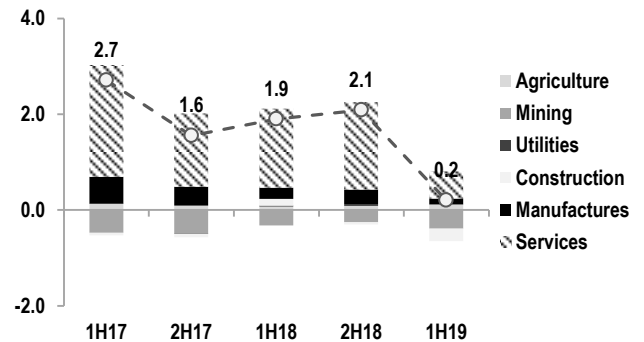
Contribution to annual GDP in %



Source: INEGI

Supply side GDP 1H19

Contribution to annual GDP in %



Source: INEGI

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