

Preliminary GDP report – We now expect a 2.1% growth in 2017

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- **INEGI released today its preliminary GDP report for 3Q17**
- **Gross Domestic Product (3Q17 nsa): 1.6% yoy; Banorte-Ixe: 1.6%; consensus: 1.6% (range of estimates: 1.4% to 1.7%); previous: 1.9%**
- **With today's GDP preliminary report, INEGI also published the revised historical series of Mexico's National Accounts System with 2013 as the new base year**
- **Although GDP growth during the third quarter came in line with our forecast, the new base year implies a 2.5% yoy expansion of the Mexican economy during the first half of the year, above the 2.3% initially reported by INEGI**
- **As a result, we now expect 2017 GDP growth at 2.1% yoy (previous: 1.9%)**
- **The revised GDP figure will be published on November 24**

The Mexican economy grew 1.6% in 3Q17, in line with our forecast. *INEGI* published today its preliminary GDP report. With original figures, the Mexican economy increased 1.6% yoy in 3Q17, in line with our forecast (consensus 1.6%). Taking a look at the breakdown, industrial production decreased 0.5% yoy, while services output increased a scant 2.4% yoy (refer to the chart on the next page).

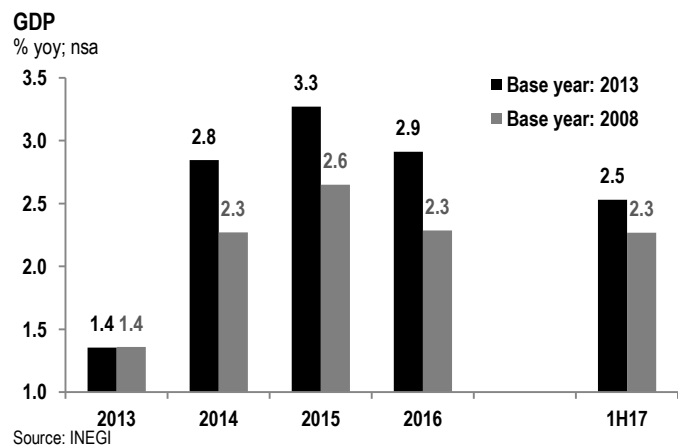
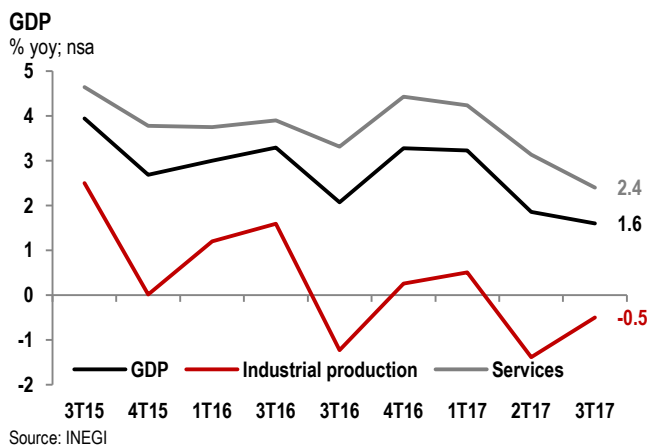
We believe that the lower growth of the Mexican economy during the third quarter of the year was partially explained by the impact of the earthquakes on September's economic figures. In the particular case of Mexico City, manufacturing activity and some services were affected by the suspension of work 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 seasonally adjusted terms, GDP fell 0.2% q/q. Taking look at the breakdown, industrial production fell 0.5%, as a result of the recession in the mining industry. Finally, services posted a 0.1% q/q reduction.

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We now expect GDP growth at 2.1% in 2017. With today’s GDP preliminary report, *INEGI* also published the revised historical series of Mexico’s National Accounts System with 2013 as the new base year, which will allow to reflect the structural changes in the Mexican economy within the last 5 years. Although GDP growth during the third quarter came in line with our forecast, the new base year implies a 2.5% yoy expansion of the Mexican economy during the first half of the year, above the 2.3% initially reported by *INEGI*. The 0.2%-pts difference is explained by the lower weight of the mining industry, coupled with the greater relative weight of services. In fact, Mexico’s GDP growth for the last three years substantially increased as a result of the new base year (refer to the chart on the right).

Taking into account the higher growth of the Mexican economy during the first half of the year, as a result of the statistical effect of the new base year, we now expect GDP growth at 2.1% yoy in 2017 (previous: 1.9%). Looking ahead, we expect 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. In addition, we believe that construction activity will maintain a downward trend as a result of the Federal Government’s austerity program. Moreover, we believe that 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 a higher manufacturing output.



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