

Preliminary GDP report – Domestic demand stands out as Mexico’s main growth driver

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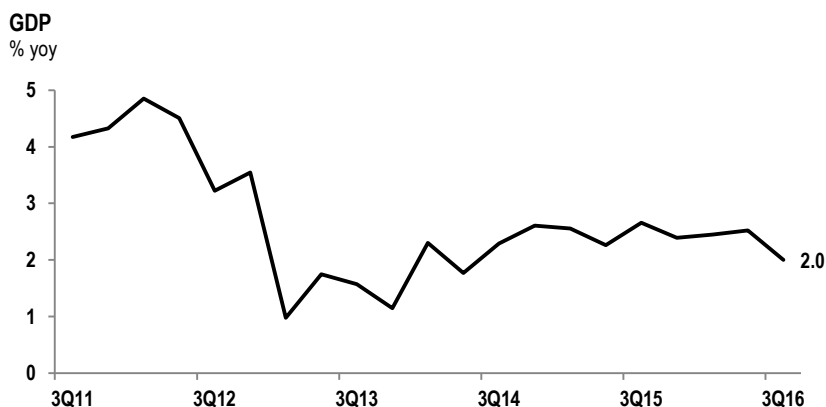
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- **INEGI released today its preliminary GDP report for 3Q16**
- **Gross Domestic Product (3Q16 P): 2% yoy; Banorte-Ixe: 1.9%; consensus: 1.9% (range of estimates: 1.2% to 2.3%); previous: 2.5%**
- **Gross Domestic Product (3Q16 P): 1% q/q; Banorte-Ixe: 0.9%; consensus: 0.8% (range of estimates: 0.4% to 1.2%); previous: -0.2%**
- **Services increased 3.3% yoy (1.5% q/q), which suggests that domestic demand continues to be Mexico’s main growth driver**
- **Looking ahead, we believe that the Mexican economy will decelerate given the recession in the mining industry coupled with the fall in public investment projects**
- **The revised figure will be published in November 23**

The Mexican economy grew 2% in 3Q16, marginally above our 1.9% forecast. INEGI published today its preliminary GDP report. With original figures, the Mexican economy increased 2% yoy in 3Q16 (refer to the chart below), below the 2.5% observed in 2Q16. Taking a look at the breakdown, primary activities increased 4.9% yoy, while the industrial sector fell 1% yoy, as a result of the deceleration in manufacturing output and the recession in the mining industry. Finally, services expanded 3.3% yoy, which suggests that domestic demand continues to be Mexico’s main growth driver.

In seasonally adjusted terms, GDP increased 1% q/q (Banorte-Ixe: 0.9%). Taking a look at the breakdown, primary activities edged up 1.2% q/q, while industrial production posted a 0.1% q/q contraction. Moreover, services increased 1.5% q/q. Given that INEGI has not published an updated time series for the seasonally adjusted series, we can’t compare this 1% q/q growth in 3Q16 with the -0.2% reported for the second quarter of 2016, considering that these figures are usually revised with the publication of new data.



Source: INEGI; * Preliminary figure

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Looking ahead, we believe that the Mexican economy will decelerate.

Domestic demand has stood out as Mexico's main growth driver during the last five quarters. In this context, we believe that the current growth dynamics in domestic demand will continue throughout the last quarter of the year given the following factors: (1) The recovery in households' income derived from significant gains in real wages; (2) the better growth prospects of credit to the private non-financial sector; and (3) the higher growth in remittances inflows (now adding a 6.6% yoy growth in the first eight months of the year).

However, the fiscal adjustments implemented by the Ministry of Finance will bound Mexico's economic growth, although its effect will be limited. While the measures taken so far this year amount to 0.9% of GDP, we believe their negative impact on economic growth could be of 0.7%-pts taking into account the multiplier effect of government spending, and that this fiscal cut is ensuring that the federal government is taking the right steps to warrant the fiscal stability of our country. In addition, we believe that the overall growth in 4Q16 will be constrained by the recession in the mining industry, as a result of the significant contraction in Mexico's oil production, and the lower investment in Mexico's drilling projects. In this context, we maintain our 2% growth forecast for 2016.

Methodological note. For the estimation of this preliminary figure, *INEGI* uses the economic reports published for the first two months of each quarter, and adds the available information for the third month. The missing figures for the last month of the quarter are estimated using econometric models. In this regard, the preliminary estimation of GDP presented today will cover 80% with the direct information available, and will estimate the remaining 20%. Unlike other preliminary reports -as the U.S. GDP conducted by the *Bureau of Economic Analysis* (BEA)-, *INEGI's* report only includes the three main sectors. BEA's preliminary report contains a complete breakdown of the quarterly GDP.

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