

## Preliminary GDP report – The Mexican economy grew 2.3% in 2016

January 31, 2017

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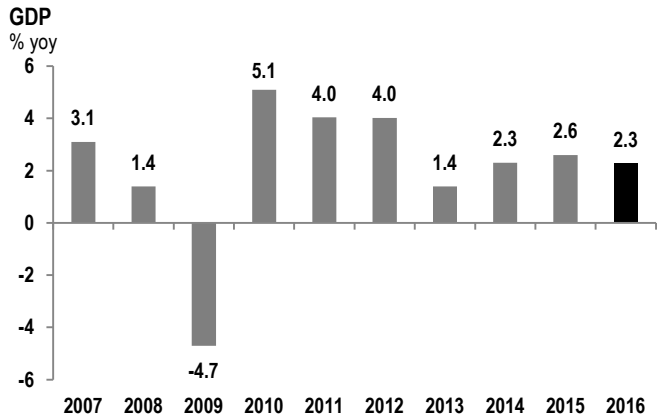
- **INEGI released today its preliminary GDP report for 4Q16**
- **Gross Domestic Product (4Q16 P): 2.2% yoy; Banorte-Ixe: 2.3%; consensus: 2.2% (range of estimates: 1.9% to 2.8%); previous: 2%**
- **Gross Domestic Product (4Q16 P): 0.6% q/q; Banorte-Ixe: 0.9%; consensus: 0.6% (range of estimates: 0.4% to 0.9%); previous: 1%**
- **In 2016, the Mexican economy grew 2.3%, below the 2.6% observed in 2015**
- **Services increased 3.2% yoy (0.7% 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 uncertainty surrounding the impact of Trump's policies to the Mexican economy**
- **The revised figure will be published in February 22**

**The Mexican economy grew 2.3% in 2016.** INEGI published today its preliminary GDP report. With original figures, the Mexican economy increased 2.2% yoy in 4Q16 (refer to the chart below), above the 2% observed in 3Q16 (Banorte-Ixe: 2.3%). Taking a look at the breakdown, primary activities increased 6.2% yoy, while the industrial sector fell 0.2% yoy, as a result of the recession in the mining industry, despite the higher growth in manufacturing output. Finally, services expanded 3.2% yoy, which suggests that domestic demand continues to be Mexico's main growth driver.

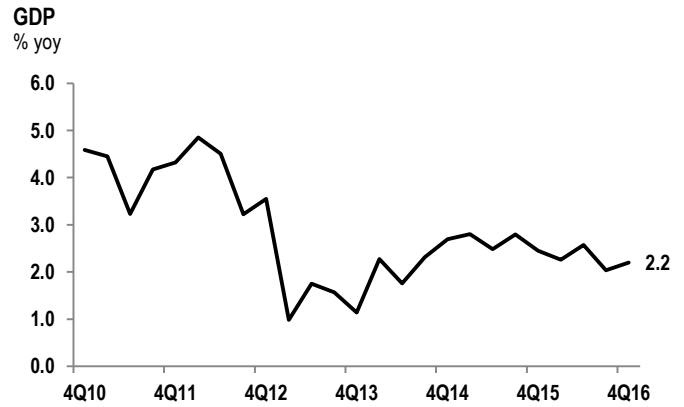
We highlight that the Mexican economy grew 2.3% in 2016, below the 2.6% observed in 2015. The lower growth was explained by the null growth in industrial output (1% in 2015); coupled with the marginal lower growth in services (3.3% in 2016 vs. 3.5% in 2015).

**In seasonally adjusted terms, GDP increased 0.6% q/q (Banorte-Ixe: 0.9%).** Taking a look at the breakdown, primary activities edged up 0.4% q/q, while industrial production posted a null quarterly growth. In addition, services increased 0.7% q/q. Given that INEGI has not published an updated time series for the seasonally adjusted series, we can't compare this 0.6% q/q growth in 4Q16 with the 1% reported for the third quarter of 2016, considering that these figures are usually revised with the publication of new data.

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Source: Banorte-Ixe; INEGI



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

Donald Trump’s administration will imply lower growth for the Mexican economy in 2017, given the uncertainty around the future prospects of the US-Mexico trade relationship. The first impact on growth will most likely come in the first half of 2017, with the transmission channel being a strong deterioration of consumer confidence and business climate, leading to a significant deceleration in private consumption and investment.

However, it is likely that the negative perception of a Donald Trump presidency will gradually fade, and confidence levels will begin to recover towards the second half of the year. In this context, we expect a 0.7% yoy growth during the first half, and a 1.5% yoy growth in the second half, which would lead to a 1.1% growth throughout the year.

**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 covers 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. The revised and final figure will be published by *INEGI* in February 22.

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