

GDP – Stronger than expected performance in 1Q18

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- **INEGI released today its final GDP report in 1Q18**
- **Gross Domestic Product (1Q18): 1.3% yoy; Banorte: 1.3%; consensus: 1.3% (range of estimates: 1.2% to 1.7%); preliminary figure: 1.2%**
- **In seasonally-adjusted terms, the economy expanded 2.3% yoy (1.1% q/q; 4.6% saar)**
- **Growth in 1Q18 was explained by the following factors:**
 - (1) **A calendar effect due to the fact that Easter took place in March vs. April in 2016;**
 - (2) **A considerable recovery in construction activity; which offset**
 - (3) **The ongoing recession in the mining sector**
- **We maintain our 2.5% GDP growth forecast in 2018**

GDP expanded 1.3% yoy in 1Q18, slightly better than preliminary figures.

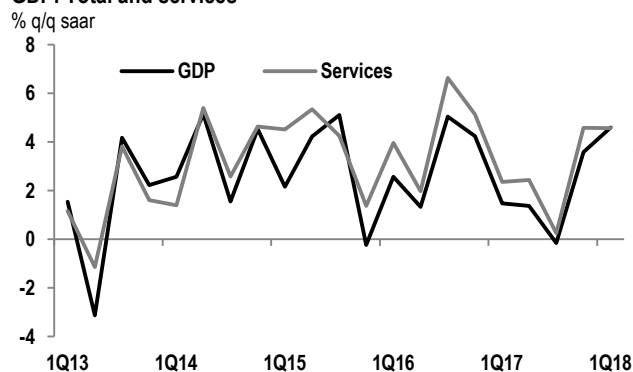
According to *INEGI*, GDP expanded 1.3% yoy in the first quarter of 2018, in line with our forecast -and consensus-, but above preliminary figure of 1.2% yoy (nsa). We highlight that GDP growth in the first quarter was affected by a calendar effect which reduced working days in the annual comparison as Easter took place in March vs. April in 2016. In seasonally adjusted terms, GDP expanded 2.3% yoy (1.1% q/q; 4.6% q/q saar).

Taking a look at the breakdown, the services sector posted a 4.6% q/q saar expansion on the back of the increase in both wholesale commerce and retail sales, which grew 5.6% and 14.5% q/q saar, respectively. In addition, we highlight the growth in the transportation (4.9% q/q saar) and financial services (4.5% q/q saar). Agricultural output expanded 3.6% q/q saar. Meanwhile, industrial activities edged-up 3.7% q/q saar mainly explained by a 11.7% q/q saar surge in construction output, offsetting the 3.5% q/q saar and 0.1% q/q saar contraction in mining and manufacturing activities, respectively.

Looking ahead, we believe that the Mexican economy will pick up steam in 2Q18. The adverse calendar effect abovementioned will be reverted in 2Q18. Moreover, we believe that lower inflation levels will imply higher real wages contributing to the services sector. Regarding industrial production, we believe that better global growth prospects, coupled with a depreciated exchange rate in 2Q18 –on the back of uncertainty surrounding NAFTA renegotiation and the electoral process– will lead to a pickup in external demand and manufacturing output. In addition, we believe that the expected boost coming from higher levels of government spending will be reflected in construction activity levels. Nevertheless, the recession in the mining sector will extend into 2Q18, starting to show better prospects in 2H18.

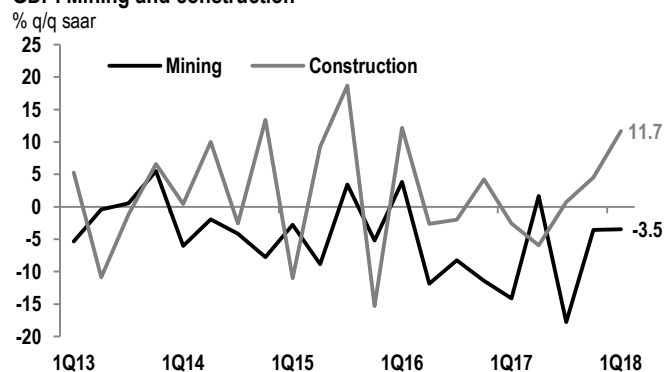
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GDP: Total and services



Source: Banorte with data from INEGI

GDP: Mining and construction



Source: Banorte with data from INEGI

GDP growth

% q/q saar

	1Q18	4Q17	3Q17
Total GDP	4.6	3.6	-0.2
Agriculture	3.6	11.6	4.0
Industrial activity	3.7	0.6	-1.5
Mining	-3.5	-3.6	-17.8
Utilities	2.7	-0.7	-1.8
Construction	11.7	4.5	0.7
Manufacturing	-0.1	1.7	1.7
Services	4.6	4.6	0.2
Wholesale commerce	5.6	6.3	5.6
Retail sales	14.5	21.2	-16.9
Transportation and storage	4.9	4.8	-0.2
Mass media and information	-2.8	0.0	11.8
Financial services	4.5	1.2	6.5
Real estate	4.2	1.2	0.0
Professional services	14.0	2.2	-15.5
Corporations	1.6	-9.6	-7.7
Business support	-4.1	3.4	11.5
Education	1.5	8.4	-6.4
Healthcare	3.7	0.9	-0.5
Recreation, sports and cultural events	-4.8	-5.2	3.0
Temporary lodging services	-2.6	0.6	2.9
Other services	-4.1	1.0	4.0
Government activities	6.8	2.1	0.6

Source: INEGI

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