

# The Mexican economy decelerated in 2Q17

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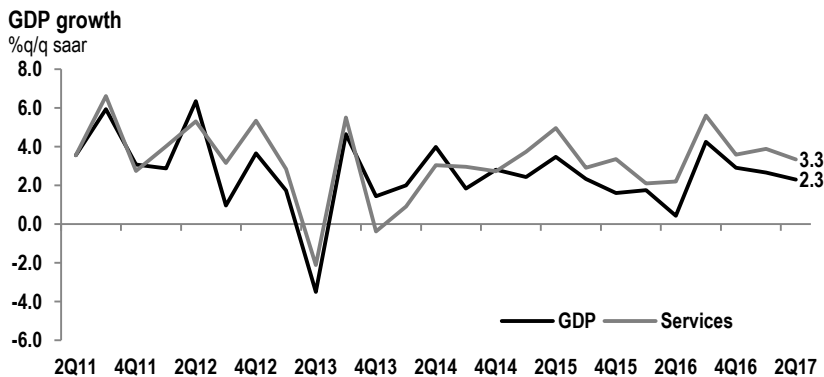
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- **INEGI** released today its GDP revised figures for 2Q17
- **Gross Domestic Product (2Q17): 1.8% yoy; Banorte-Ixe: 1.6%; consensus: 1.8% (range of estimates: 1.6% to 1.8%); preliminary figure: 1.8%**
- **In seasonally-adjusted terms, the economy expanded 0.6% q/q (2.3% saar)**
- **Growth in 2Q17 was explained by three factors:**
  - (1) **The better growth dynamics in domestic demand reflected in the expansion of services;**
  - (2) **The deceleration in manufacturing output; and**
  - (3) **The contraction in construction, as a result of the Federal Government’s austerity program**
- **We maintain our 1.9% GDP growth forecast for 2017**

**The Mexican economy grew 1.8% yoy in 2Q17.** According to *INEGI*, GDP expanded 1.8% yoy in the second quarter of the year, marginally above our 1.6% forecast (consensus: 1.8%), but in line with *INEGI*’s preliminary figure (nsa figures).

In seasonally-adjusted terms, GDP expanded 2.3% q/q saar, below the 2.7% observed in 1Q17 (refer to the chart below). Growth in 2Q17 was explained by three factors: (1) The better growth dynamics in domestic demand reflected in the expansion of services; (2) the deceleration in manufacturing output; and (3) the contraction in construction, as a result of the Federal Government’s austerity program, which has already impacted public infrastructure projects.

Taking a look at the breakdown, agricultural output fell 7.4% q/q saar, while industrial activities edged-down to 0.1% saar from 0.6% in 1Q17, despite that all of the sub-indexes posted a lower performance. Within this sector, manufacturing output was down 1% saar from 7% in the previous quarter, while construction also fell 1% saar. Finally, the services sector expanded 3.3% saar (previous: 3.9%), as shown in the table in the following page.



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**We maintain our 1.9% GDP growth forecast for 2017.** Today's GDP report exhibits that the Mexican economy has shown not only resiliency, but strength during the first half of the year as a result of the following factors: (1) Lower uncertainty around the impact of Trump's policies on the Mexican economy; and (2) the sustained growth dynamics in household spending, which has been reflected in the upward trend of the services sector. Given these factors, we maintain our 1.9% GDP growth forecast for 2017.

Nevertheless, we continue to appraise significant risks to Mexico's growth scenario. 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 lower oil production– will continue during the second half of the year, which will continue to partially offset the positive effects of a higher services output.

**GDP growth**  
% q/q saar

	2Q17	1Q17	4Q16
<b>Gross domestic product</b>	<b>2.3</b>	<b>2.7</b>	<b>2.9</b>
<b>Agriculture</b>	<b>-7.4</b>	<b>3.4</b>	<b>2.1</b>
<b>Industrial</b>	<b>0.1</b>	<b>0.6</b>	<b>0.7</b>
Mining	-2.6	-8.2	-12.2
Utilities	0.0	-7.2	-1.3
Construction	-1.0	0.1	1.8
Manufactures	-1.0	7.0	6.2
<b>Services</b>	<b>3.3</b>	<b>3.9</b>	<b>3.6</b>
Whole and Retail sales	2.3	3.2	6.5
Transportation and storage	4.4	5.2	3.7
Mass media information	11.6	-6.4	4.1
Financial services	8.9	14.5	7.3
Real estate	0.7	3.0	2.3
Educational services	0.7	2.6	-0.5
Temporary lodging services	18.6	-8.3	10.7

Source: INEGI

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