

Preliminary GDP – The Mexican economy grew 2.6% yoy in 3Q18, with a broad-based improvement

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- **Gross Domestic Product (3Q18 nsa): 2.6% yoy; Banorte: 2.4%; consensus: 2.4% (range of estimates: 1.7% to 2.9%); previous: 2.6%**
- **Gross Domestic Product (3Q18 sa): 0.9% q/q; Banorte: 0.7%; consensus: 0.5% (range of estimates: 0.1% to 0.9%); previous: -0.2%**
- **After a slight contraction in 2Q18, economic activity rebounded broadly, with all components higher and in positive territory. Primary activities increased 0.8% q/q, industrial activity 0.5% and services 0.8%**
- **We maintain our 2018 GDP forecast at 2.1% yoy. Nevertheless, we see a modest upward bias after today's report**
- **The revised figure will be published on November 23rd**

The Mexican economy grew 2.6% in 3Q18. INEGI published today its preliminary GDP report. With original figures, the Mexican economy grew 2.6% yoy in 3Q18, matching the 2.6% of 2Q18 (Banorte: 2.4%; consensus: 2.4%). Nevertheless, we believe this print is significantly more positive considering that the previous quarter benefitted from a calendar effect that increased working days in the annual comparison. Therefore and using seasonally adjusted figures, GDP grew 0.9% q/q, reversing the 0.2% contraction in 2Q18. In particular, we highlight the positive contribution of all major components, with primary activities at 0.8% q/q, above the 2.4% fall in the previous quarter. The industrial sector grew 0.5% (previous: -0.3%) and services picked up 0.8% from 0.2%.

GDP

% yoy (nsa); % q/q (sa)

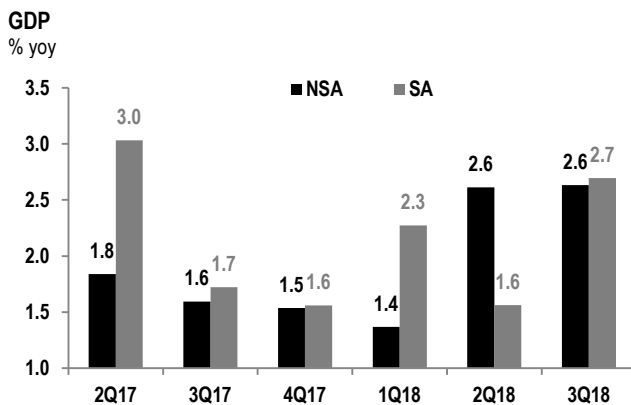
Nsa	3Q18	2Q18	1Q18
Total	2.6	2.6	1.4
Agricultural	2.2	1.8	5.4
Industrial production	1.1	1.3	-0.8
Services	3.4	3.3	2.1
Sa			
Total	0.9	-0.2	1.0
Agricultural	0.8	-2.1	0.6
Industrial production	0.5	-0.3	0.8
Services	0.8	0.2	1.0

Source: INEGI

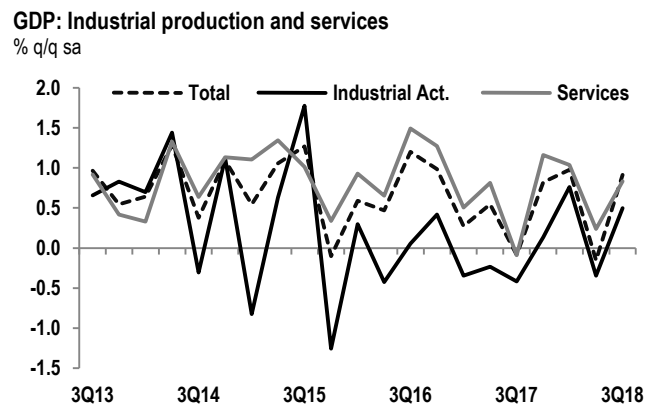
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As mentioned in our preview, GDP was supported by a relatively strong performance of services, particularly retail sales. The jump in industrial activity was at least partially explained by a benign base effect, given the strong contraction of the year-ago figure due to natural disasters in September 2017 (earthquakes and Hurricane Katia). In terms of manufacturing, it is our take that performance has held up well and built upon the strength observed in 2Q18, which in our view was driven in the previous quarter by companies bringing forward some of their production plans due to the uncertainty about trade with the US and Canada.

A modest upward bias for activity after today’s report. We maintain our GDP forecast for 2018 at 2.1% yoy, waiting for the details to reassess our estimate and seeing a modest upward bias after today’s figure. In this respect, GDP in the first nine months of the year is tracking at 2.2% yoy. The main positive drivers for growth include: (1) A tight labor market, with low unemployment and higher-than-average wage gains, coupled with strong growth in remittances and banking credit likely supporting retail sales; and (2) lower trade uncertainty with the US and Canada, particularly with strong industrial activity in the former. On the contrary, market stress has increased, resulting in higher interest rates and a weaker peso that could impact the outlook, particularly in terms of confidence, which remain high. Investment outlays are still contained as the Federal Government keeps its focus on fiscal consolidation, while international oil prices have recently decreased. Lastly, inflation remains stubbornly high, limiting growth in real incomes and consumption.



Source: INEGI



Source: INEGI

A brief reminder on the methodology. For today’s release, INEGI uses economic reports already published for the first two months of the quarter and those available so far for the third month. In particular, available hard data up until today makes up 80% of the inputs needed for the final figure, with the 20% left estimated using econometric models. Revised data will be released on November 23rd

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