# Preliminary GDP report – The Mexican economy grew 1.2% yoy in 1Q18

April 30, 2018

www.banorte.com
www.ixe.com.mx
@analisis_fundam

**Alejandro Cervantes**
Senior Economist, Mexico
alejandro.cervantes@banorte.com

- ***INEGI* released today its preliminary GDP report for 1Q18**
- **Gross Domestic Product (1Q18 nsa): 1.2% yoy; Banorte: 1.4%; consensus: 1.7% (range of estimates: 1.3% to 2.1%); previous: 1.5%**
- **Gross Domestic Product (1Q18 sa): 1.1% q/q; Banorte: 0.8%; consensus: 0.7% (range of estimates: 0.2% to 0.9%); previous: 0.8%**
- **Services increased 3.1% yoy sa (1.2% q/q), which suggests that domestic demand continues to be Mexico's main growth driver**
- **Looking ahead, we believe that the Mexican economy will show a more vigorous growth in 2Q18**
- **The revised figure will be published in May 23**

**The Mexican economy grew 1.2% in 1Q18.** *INEGI* published today its preliminary GDP report. With original figures, the Mexican economy increased 1.2% yoy in 1Q18, marginally below the 1.5% observed in 4Q17 (Banorte-Ixe: 1.4%; consensus: 1.7% yoy). However, we highlight that GDP growth in the first quarter was affected by a seasonal effect which reduced working days in the annual comparison. In seasonally adjusted terms, GDP expanded 2.4% (1.1% q/q).

Taking a look at the breakdown, and analyzing the seasonally adjusted figures, primary activities increased 5.1% yoy (0.8% q/q), while the industrial sector posted a null annual growth (0.7% q/q). Finally, services expanded 3.1% yoy (1.2% q/q), which suggests that domestic demand continues to be Mexico's main growth driver.

**Looking ahead, we believe that the Mexican economy will show a more vigorous growth in 2Q18.** We believe that inflation's accelerated rate of convergence towards its 3% target would imply higher real wages that would contribute to a faster growth of private consumption. In addition, private consumption and services recovery will also be supported by the better growth prospects of formal employment and private banking credit

Regarding industrial production, we believe that Mexican manufacturing output will show a higher growth in the next months. Specifically, we consider that the uncertainty surrounding the presidential elections that will take place in our country on the 1st of July will probably result in a greater depreciation of the Mexican currency during the second quarter of the year. This would imply a greater external demand for Mexican products, which will have a positive impact on Mexican manufacturing production and exports.

In addition, we believe that the recovery in construction output will continue in 2Q18, as a result of the electoral process, which will trigger a higher public expenditure within the federal entities and municipalities concentrated in infrastructure projects. By contrast, we believe that the uncertainty generated by Mexico's political and economic environment will continue to discourage private investment projects.

All in all, we expect that the positive effects coming from the higher services, manufacturing, and public construction output will over-compensate the negative impact of a lower private investment. As a result, we believe that the Mexican economy will show a more vigorous growth in 2Q18

**GRUPO FINANCIERO BANORTE S.A.B. de C.V.**

| | | | |
|---|---|---|---|
| **Research and Strategy** | | | |
| Gabriel Casillas Olvera | Chief Economist and Head of Research | gabriel.casillas@banorte.com | (55) 4433 - 4695 |
| Raquel Vázquez Godinez | Assistant | raquel.vazquez@banorte.com | (55) 1670 - 2967 |
| **Economic Analysis** | | | |
| Delia María Paredes Mier | Executive Director of Economic Analysis | delia.paredes@banorte.com | (55) 5268 - 1694 |
| Alejandro Cervantes Llamas | Senior Economist, Mexico | alejandro.cervantes@banorte.com | (55) 1670 - 2972 |
| Katia Celina Goya Ostos | Senior Global Economist | katia.goya@banorte.com | (55) 1670 - 1821 |
| Miguel Alejandro Calvo Domínguez | Economist, Regional & Sectorial | miguel.calvo@banorte.com | (55) 1670 - 2220 |
| Francisco José Flores Serrano | Economist, Mexico | francisco.flores.serrano@banorte.com | (55) 1670 - 2957 |
| Lourdes Calvo Fernández | Analyst (Edition) | lourdes.calvo@banorte.com | (55) 1103 - 4000 x 2611 |
| **Fixed income and FX Strategy** | | | |
| Alejandro Padilla Santana | Head Strategist – Fixed income and FX | alejandro.padilla@banorte.com | (55) 1103 - 4043 |
| Juan Carlos Alderete Macal, CFA | FX Senior Strategist | juan.alderete.macal@banorte.com | (55) 1103 - 4046 |
| Santiago Leal Singer | Strategist Fixed income and FX | santiago.leal@banorte.com | (55) 1670 - 2144 |
| **Equity Strategy** | | | |
| Manuel Jiménez Zaldivar | Director Equity Research — Telecommunications / Media | manuel.jimenez@banorte.com | (55) 5268 - 1671 |
| Victor Hugo Cortes Castro | Technical Analysis | victorh.cortes@banorte.com | (55) 1670 - 1800 |
| Marissa Garza Ostos | Equity Research – Conglomerates / Financials/ Mining / Petrochemicals | marissa.garza@banorte.com | (55) 1670 - 1719 |
| José Itzamna Espitia Hernández | Equity Research – Airlines / Airports / Cement / Infrastructure / REITs | jose.espitia@banorte.com | (55) 1670 - 2249 |
| Valentín III Mendoza Balderas | Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail | valentin.mendoza@banorte.com | (55) 1670 - 2250 |
| Itzel Martínez Rojas | Analyst | itzel.martinez.rojas@banorte.com | (55) 1670 - 2251 |
| **Corporate Debt** | | | |
| Tania Abdul Massih Jacobo | Director Corporate Debt | tania.abdul@banorte.com | (55) 5268 - 1672 |
| Hugo Armando Gómez Solís | Senior, Corporate Debt | hugoa.gomez@banorte.com | (55) 1670 - 2247 |
| Gerardo Daniel Valle Trujillo | Analyst, Corporate Debt | gerardo.valle.trujillo@banorte.com | (55) 1670 - 2248 |
| **Wholesale Banking** | | | |
| Armando Rodal Espinosa | Head of Wholesale Banking | armando.rodal@banorte.com | (55) 1670 - 1889 |
| Alejandro Eric Faesi Puente | Head of Global Markets and Institutional Sales | alejandro.faesi@banorte.com | (55) 5268 - 1640 |
| Alejandro Aguilar Ceballos | Head of Asset Management | alejandro.aguilar.ceballos@banorte.com | (55) 5268 - 9996 |
| Arturo Monroy Ballesteros | Head of Investment Banking and Structured Finance | arturo.monroy.ballesteros@banorte.com | (55) 5004 - 1002 |
| Gerardo Zamora Nanez | Head of Transactional Banking, Leasing and Factoring | gerardo.zamora@banorte.com | (81) 8318 - 5071 |
| Jorge de la Vega Grajales | Head of Government Banking | jorge.delavega@banorte.com | (55) 5004 - 5121 |
| Luis Pietrini Sheridan | Head of Private Banking | luis.pietrini@banorte.com | (55) 5004 - 1453 |
| René Gerardo Pimentel Ibarrola | Head of Asset Management | pimentelr@banorte.com | (55) 5268 - 9004 |
| Ricardo Velázquez Rodríguez | Head of International Banking | rvelazquez@banorte.com | (55) 5004 - 5279 |
| Víctor Antonio Roldan Ferrer | Head of Corporate Banking | victor.roldan.ferrer@banorte.com | (55) 5004 - 1454 |