

## Preliminary GDP report – The Mexican economy builds momentum in 1Q16

April 29, 2016

- **INEGI released today its preliminary GDP report for 1Q16**
- **Gross Domestic Product (1Q16 P): 2.7%yoy; Banorte-Ixe: 3%; consensus: 2.4% (range of estimates: 1.2% to 3%); previous: 2.5%**
- **Gross Domestic Product (1Q16 P): 0.8% q/q; Banorte-Ixe: 0.7%; consensus: 0.7% (range of estimates: 0.2% to 0.9%); previous: 0.5%**
- **Domestic demand was the main growth driver for the Mexican economy in 1Q16**
- **The revised figure will be published in May 20**
- **Looking ahead, we believe that the Mexican economy will show a similar growth in 2Q16**

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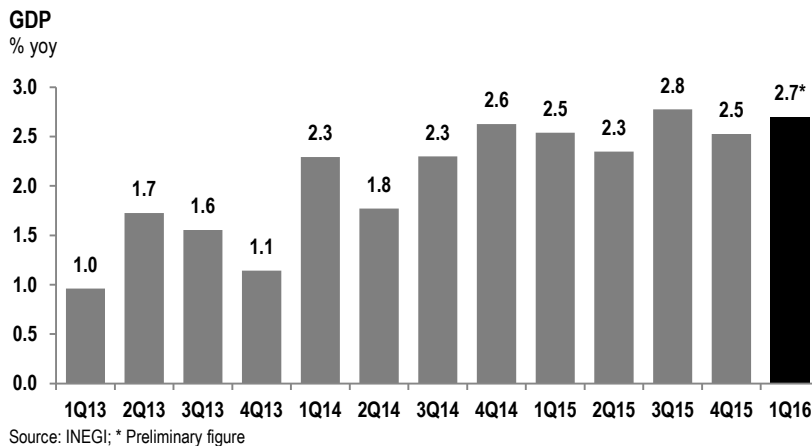
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**The Mexican economy grew 2.7% in 1Q16.** INEGI presented today its “*Preliminary Estimation of GDP*” report. With original figures, the Mexican economy expanded 2.7% yoy in 1Q16 (refer to the chart below), higher than the 2.5% observed in 4Q15. However, we highlight that the annual growth rate was negatively affected by a seasonal effect, given that the *Holy Week* holidays subtracted two working days in March. Controlling for this calendar effect, the Mexican economy grew 2.9% yoy in 1Q16, similar to our 3% forecast.

Taking a look at the breakdown, and analyzing the seasonal adjusted figures, primary activities increased 3% yoy, while the industrial sector grew 2.2% yoy. Finally, services expanded 3.7% yoy, which suggests that domestic demand continues to be the main growth driver for the Mexican economy.

**In seasonally adjusted terms, GDP increased 0.8% q/q.** Taking a look at the breakdown, primary activities increased 1.7% q/q, while industrial production posted a 1.5% q/q growth. Moreover, services expanded 0.8% q/q. Given that INEGI has not published a comparable time series for the seasonally adjusted series, we can’t compare this 0.8% q/q growth of 1Q16 with the 0.5% reported for the fourth quarter of 2015, considering that these figures are usually revised with the publication of new data. However, taking into account the 0.8% q/q expansion in services, we believe that the Mexican economy has shown a more visible recovery in the first quarter of the year.

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**Looking ahead, we believe that the Mexican economy will show a similar growth in 2Q16.** Domestic demand has stand out as Mexico’s main growth engine. In particular, Mexican households are spending more given the significant gains in real wages, while firms have increased their investment spending given the more positive outlook that prevails for the Mexican economy. We believe that the recent upward trend in domestic demand will continue throughout the second quarter of 2016 given the following factors: (1) The recovery of the labor market; (2) the contained levels of inflation that will hold throughout the year; and (3) the better growth prospects in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, despite the recent deceleration in manufacturing output, other indicators show that this sector will begin to recover. In this regard, we believe that manufacturing production of final goods will strengthen in the second quarter of 2016 given: (1) Mexico’s manufacturing exports will recover given the still depreciated Mexican peso; and (2) the better growth prospects of the Mexican labor market, which will translate into a stronger demand for domestic manufactured goods. However, production and exports of intermediate goods will continue to show a marginal growth given the deceleration of the U.S. manufacturing industry.

**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 will cover 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.

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