

## Economic activity expands 2.6% yoy in 2Q18

August 24, 2018

- **INEGI released today its final GDP report for 2Q18**
- **Gross Domestic Product (2Q18): 2.6% yoy; Banorte: 2.8%; consensus: 2.7% (range of estimates: 2.5% to 2.8%); preliminary figure: 2.7%**
- **In seasonally-adjusted terms, the economy expanded 1.6% yoy (-0.2% q/q; -0.6% saar)**
- **This figure is lower than the 2.7% initially estimated by INEGI three weeks ago**
- **With these data, growth in 1H18 resulted lower than we were expecting so we are modifying our GDP growth forecast in 2018 to 2.1% from 2.5%**

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 @analisis\_fundam

**Gabriel Casillas**  
 Chief Economist and Head of Research  
 gabriel.casillas@banorte.com

**Delia Paredes**  
 Executive Director of Economic Analysis  
 delia.paredes@banorte.com

**Francisco Flores**  
 Economist, Mexico  
 francisco.flores.serrano@banorte.com

### **GDP expanded 2.6% yoy in 2Q18, slightly lower than preliminary figures.**

According to *INEGI*, GDP expanded 2.6% yoy in the second quarter of 2018, below our forecast and consensus, as well as the preliminary figure of 2.7% yoy (nsa). We highlight that GDP growth in the second quarter was favored by a calendar effect which increased working days in the annual comparison as Easter took place in March vs. April in 2016. In seasonally adjusted terms, GDP expanded 1.6% yoy, while the quarter-on-quarter comparison shows a 0.2% contraction (-0.6% q/q saar).

**GDP**  
 % yoy

<b>NSA</b>	<b>2Q18</b>	<b>1Q18</b>	<b>1H18</b>	<b>1H17</b>
<b>Total</b>	<b>2.6</b>	<b>1.4</b>	<b>2.0</b>	<b>2.5</b>
Agricultural	1.8	5.4	3.5	2.3
Industrial production	1.3	-0.8	0.3	-1.1
Services	3.3	2.1	2.7	2.8
<b>SA</b>				
<b>Total</b>	<b>1.6</b>	<b>2.3</b>		
Agricultural	2.0	5.1		
Industrial production	0.1	0.2		
Services	2.4	2.9		

Fuente: INEGI

**Taking a look at the breakdown, and using seasonally adjusted figures, we highlight the deceleration of the services sector.** In annual terms, services activities posted a 2.4% yoy expansion, but the annualized rate edged down to 0.9% from 4.2% in the previous quarter on the back of the deceleration in wholesale and retail sales, down -6.4% and -5.8% q/q saar, respectively. Nevertheless, this was partially offset by the 18.9% q/q saar surge in mass media and information services, due to the events that took place during the period in question, *i.e. FIFA's World Cup* and the election process. Meanwhile, agricultural and construction output contracted 8.2% q/q saar (after expanding 2.6% and 6.8% saar, respectively).

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Finally, industrial activities edged-down 1.4% q/q saar with manufacturing output expanding a scant 0.9% q/q saar.

#### GDP growth

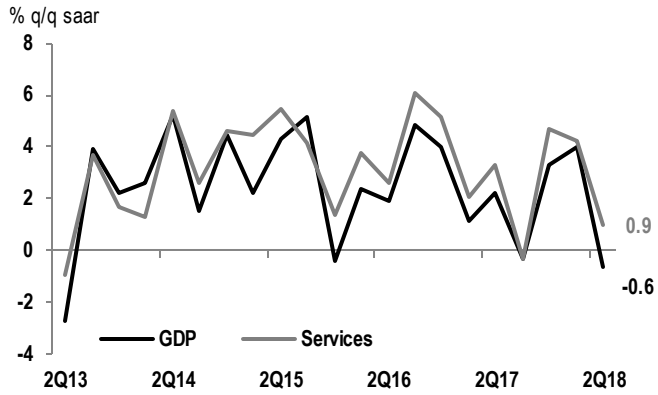
%yoy sa; % q/q, %q/q saar

	% yoy		% q/q		% q/q saar	
	2Q18	1Q18	2Q18	1Q18	2Q18	1Q18
<b>Total GDP</b>	<b>1.6</b>	<b>2.3</b>	<b>-0.2</b>	<b>1.0</b>	<b>-0.6</b>	<b>4.0</b>
<b>Agriculture</b>	<b>2.0</b>	<b>5.1</b>	<b>-2.1</b>	<b>0.6</b>	<b>-8.2</b>	<b>2.6</b>
<b>Industrial activity</b>	<b>0.1</b>	<b>0.2</b>	<b>-0.3</b>	<b>0.8</b>	<b>-1.4</b>	<b>3.1</b>
Mining	-6.2	-6.0	-0.2	-0.6	-0.9	-2.4
Utilities	1.1	1.6	0.3	1.2	1.0	4.9
Construction	1.3	2.2	-1.7	2.2	-6.8	9.3
Manufacturing	1.6	1.4	0.2	0.7	0.9	2.9
<b>Services</b>	<b>2.4</b>	<b>2.9</b>	<b>0.2</b>	<b>1.0</b>	<b>0.9</b>	<b>4.2</b>
Wholesale commerce	1.3	4.7	-1.6	0.6	-6.4	2.2
Retail sales	1.5	5.3	-1.5	3.3	-5.8	13.7
Transportation and storage	2.7	3.3	0.4	1.1	1.5	4.4
Mass media and information	7.7	4.0	4.4	-0.2	18.9	-0.7
Financial services	5.0	4.4	2.0	1.1	8.3	4.3
Real estate	2.3	1.0	0.5	1.2	2.0	5.1
Professional services	-1.4	-2.0	-0.1	2.4	-0.3	9.9
Corporations	0.9	-2.8	4.0	0.7	17.0	2.7
Business support	7.4	4.5	2.6	0.3	10.9	1.3
Education	0.1	0.6	-0.4	0.2	-1.4	0.8
Healthcare	2.1	3.1	1.0	1.0	4.1	3.9
Recreation, sports and cultural events	-1.3	0.6	0.6	-1.2	2.2	-4.7
Temporary lodging services	0.8	2.6	0.5	-0.6	2.1	-2.6
Other services	-1.0	-1.0	-0.4	-1.2	-1.7	-4.6
Government activities	4.0	2.6	1.2	1.9	5.0	7.8

Fuente: INEGI

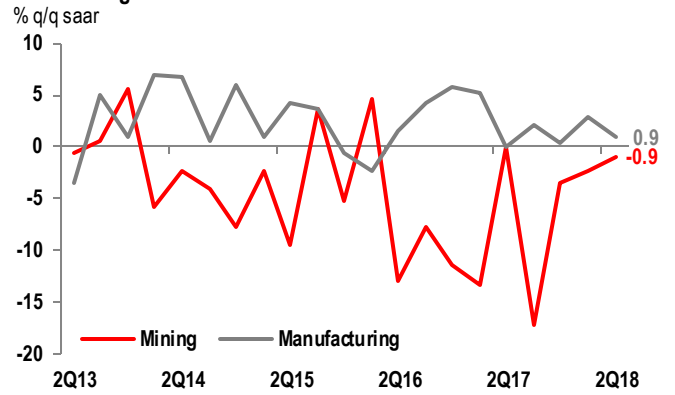
**We modify our growth estimate to 2.1% from 2.5% for 2018.** Today's figures show a lower dynamism of the Mexican economy, mainly explained by the scant growth of industrial production –mainly driven by the recession in the mining sector–, as well as a slight deceleration in the services sector. Looking ahead, we believe that services activities could show a slight recovery, stemming from lower uncertainty. In addition, activity in the industrial sector, and particularly in the manufacturing subsector, will continue to be pressured by the renegotiation of NAFTA, while the recent appreciation of the Mexican currency could lead to lower exports in the coming months. Moreover, we believe that the reduction in oil output will continue to drag mining down in 3Q18, to finally stabilize during the last quarter of the year. Taking these factors into account, we modify our 2018 growth forecast to 2.1% from 2.5%, while we maintain our expectation of a 1.8% growth in 2019.

**GDP: Total and services**



Source: Banorte with data from INEGI

**GDP: Mining and construction**



Source: Banorte with data from INEGI

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**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 Godínez	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
Katía Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional	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	hugo.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.cebillos@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
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454