

Aggregate demand supported by private consumption in 1Q16

June 20, 2016

- **Aggregate demand (1Q16): 2.5% y/y; Banorte-Ixe: 2.1%; consensus: 2.5%; previous: 2.3%**
- **Seasonally adjusted figures shows that private consumption expanded 2.2% q/q saar in 1Q16 vs. 3.7% in previous quarter**
- **Meanwhile, gross fixed investment expanded 5.6% q/q saar (previous: -2.4%)**
- **Regarding external demand, exports increased 1.6% t/t saar, while imports declined -1.1% during the first quarter of the year**
- **Looking ahead, demand will continue to be supported by private consumption**

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According to *INEGI*, aggregate demand expanded 2.5% yoy in 1Q16 in line with consensus. On the supply side, this number is explained by a 2.6% increase in GDP, coupled with imports increasing 2.1%y/y. On the demand side, private consumption was up 3.3% y/y. Meanwhile government consumption was down 0.4% y/y during the period in question. Gross fixed investment expanded a scant 0.6% y/y on the back of a 13.7% contraction in public investment, while the private component expanded 3.6% with investments in the construction sector increasing 6%yoy, and of 0.5% in machinery and equipment. Finally, exports expanded 1.4% y/y, as shown in the following table.

Aggregate supply and demand in 1Q16 % yoy, NSA

	Mar-16	Dec-15	Jan-Mar,'16	Jan-Mar,'15
Aggregate supply	2.5	2.3	2.5	3.1
GDP	2.6	2.4	2.6	2.5
Imports	2.1	2.2	2.1	5.0
Aggregate demand	2.5	2.3	2.5	3.1
Private consumption	3.3	3.5	3.3	3.1
Public consumption	-0.4	1.9	-0.4	2.3
Gross fixed investment	0.6	0.6	0.6	3.8
Private	3.6	3.4	3.6	6.3
Construction	6.0	1.6	6.0	5.4
Machinery & Eq.	0.5	5.6	0.5	9.7
Public	-13.7	-11.4	-13.7	-6.8
Construction	-15.0	-13.0	-15.0	-6.5
Machinery & Eq.	-2.0	5.9	-2.0	9.5
Inventories	-56.4	-21.5	-56.4	-16.3
Exports	1.4	5.1	1.4	9.0

Source: INEGI

Seasonally adjusted figures show that aggregate demand expanded 5.8% t/t saar. Private consumption is up 2.2% (vs. 3.7% in 4Q16) while government consumption expanded 3.3% t/t saar. Gross fixed investment increased 5.6% q/q saar (vs. 2.4% in 4Q15). Private investment picked up (7.2% q/q saar in 1Q16 vs. 0.1% in previous quarter), while public investment declined 11.3% (vs. -13.7% in 4Q15). Finally, exports expanded 1.6% q/q saar.

Aggregate supply and demand in 1Q16

%, seasonally adjusted

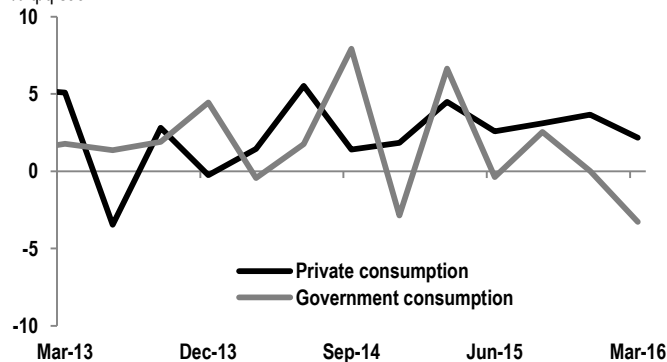
	mar-16	dic-15	mar-16	dic-15
	q/q	q/q	saar	saar
Aggregate supply	1.4	0.4	5.8	1.8
GDP	1.3	0.7	5.4	2.9
Imports	-0.3	-1.1	-1.1	-4.4
Aggregate demand	1.4	0.4	5.8	1.8
Private consumption	0.5	0.9	2.2	3.7
Public consumption	-0.8	0.0	-3.3	0.0
Gross fixed investment	1.4	-0.6	5.6	-2.4
Private	-3.0	-3.6	-11.3	-13.7
Public	1.8	0.0	7.2	0.1
Inventories	7.8	-22.6	35.1	-64.2
Exports	0.4	-0.5	1.6	-2.0

Source: INEGI

Looking ahead, demand will continue to be supported by private consumption. This component contributed 2.2% to GDP growth in the first quarter, while gross fixed investment and exports added only 0.6%. In our view, aggregate demand is set to moderate in the coming month with a lower rate of expansion of both private and public consumption, on the back of the spending cuts announced by the federal government. Similarly, gross fixed investment in the public sector will continue to decline, although this will be offset by a modest increase in private investment. Nevertheless, households fundamentals continue to be solid on the back of the increase in formal employment, low levels of inflation and rising banking credit.

Consumption

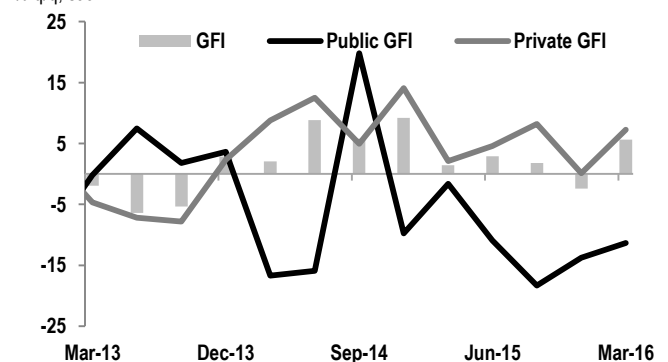
% q/q saar



Source: INEGI

Gross fixed investment

% q/q, saar



Source: INEGI

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