

GDP – The Mexican economy posted a visible recovery explained by domestic demand

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- **INEGI** released today its GDP figures for 3Q15, along with September's economic activity indicator (IGAE)
- **Gross Domestic Product (3Q15): 2.6%yoy; Banorte-Ixc: 2.5%; consensus: 2.4% (range of estimates: 2.2% to 2.6%); previous: 2.3%**
- **Growth in 3Q15 was explained by three factors:**
 - (1) **The better growth dynamics in domestic demand;**
 - (2) **The contraction in oil output; and**
 - (3) **A moderate growth in manufacturing output**
- **In seasonally-adjusted figures, the economy expanded 0.8%q/q, above the 0.6% observed in previous quarter**
- **We maintain our 2.5% GDP growth forecast for 2015**

Visible recovery explained by domestic demand. According to *INEGI*, GDP expanded 2.6% yoy in the third quarter of the year, marginally above our 2.5% yoy forecast (consensus: 2.4%; previous: 2.3%). On the positive side, we observed a more dynamic domestic demand, reflected in an improvement in the services (+3.3% yoy). However, the recession in the mining sector (accumulating six consecutive quarters in contraction) has affected Mexico's growth dynamics.

Taking a look at the breakdown, agricultural activities expanded 4.1% yoy, above the 2.6% growth rate observed in the previous quarter, while industrial output increased 1.2% yoy, resenting the already mentioned contraction in the mining sector (-5.6% yoy), along with a moderate growth in manufacturing activities (+2.8% yoy). In addition, construction output expanded 3.5% yoy, driven by the recovery of residential construction, and the deceleration in non-residential construction, as shown in the table on the next page.

GDP growth
% yoy

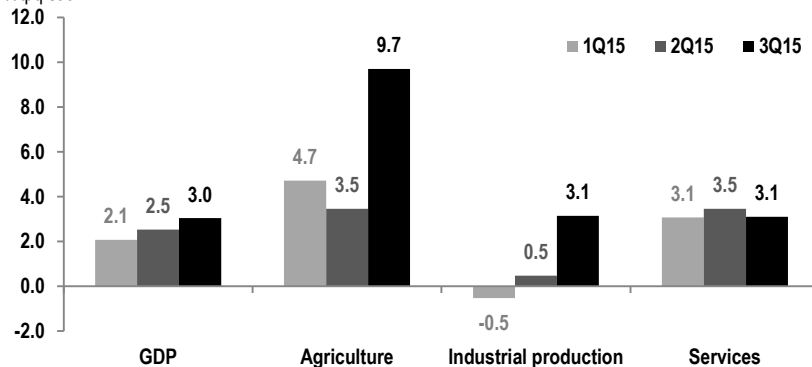
	3Q15	2Q15	1Q15	YTD
Gross domestic product	2.6	2.3	2.5	2.5
Agriculture	4.1	2.6	2.9	3.1
Industrial	1.2	0.6	1.7	1.2
Mining	-5.6	-7.6	-5.6	-6.3
Utilities	3.8	2.1	5.8	3.9
Construction	3.5	2.9	4.4	3.6
Manufactures	2.8	3.1	3.2	3.1
Services	3.3	3.1	2.9	3.1
Whole and Retail sales	4.8	4.4	4.9	4.7
Transportation and storage	4.0	3.0	3.1	3.4
Mass media information	9.3	4.6	5.6	6.5
Financial services	1.7	-0.4	-0.3	0.3
Real estate	2.2	3.3	1.7	2.4
Educational services	0.5	0.0	-0.6	0.3
Temporary lodging services	7.1	3.6	3.7	5.1

Source: INEGI

Seasonally-adjusted figures show a 0.8 q/q expansion. As a result, economic activity increased at a 3% seasonally adjusted annualized rate (saar), above the 2.5% observed in 2Q15. Taking a look at the breakdown, agricultural output increased 9.7% q/q saar, while industrial activities edged-up 3.1% from 0.5% in 2Q15. Within this sector, manufacturing output was up 4.8% q/q saar from 2% in 2Q15, while construction increased 5.9% q/q saar from 2.4%. Finally, the services sector expanded 3.1%, as shown in the chart below.

GDP growth

%q/q saar



Source: Banorte-lxe with data from INEGI

We maintain our 2.5% GDP growth forecast for 2015. Domestic demand has stand out as Mexico's main growth engine. In particular, Mexican households are beginning to spend 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 given the following factors: (1) The recovery of the labor market; (2) the recent downward trend in inflation that will hold throughout the year; and (3) the recovery in private consumption reflected in the recent spike observed in *INEGI* and *ANTAD* sales.

Moreover, seasonally adjusted figures now show that the manufacturing sector has begun to recover. In this regard, we believe that this industry will strengthen given: (1) The recovery in external demand, particularly from the U.S.; (2) Mexico's manufacturing exports will show a much more visible recovery given the significant depreciation of the Mexican currency; and (3) the better growth prospects of the Mexican labor market, which will translate into a stronger domestic demand for manufactured goods.

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