

2016's aggregate demand driven by private consumption

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- **Aggregate demand (4T16): 1.9% y/y; Banorte-Ixe: 2.3%; consensus: 2.2%; previous: 1.6%**
- **With these results, aggregate demand increased 2% during 2016, down from the 4.1% seen in 2015**
- **Moreover, consumption expanded 2.8% in the year (2015: 2.3%), while gross fixed investment grew 0.4% (2015: 4.2%)**
- **Regarding external demand, exports grew 1.2% while imports increased 1.1% in the year**
- **Looking ahead, we believe that aggregate demand will slow down as a result of the uncertainty surrounding the performance of the Mexican economy**

Aggregate demand increased 1.9% y/y during the last quarter of 2016. According to the *INEGI's* report published today, aggregate demand increased 1.9% in Q416. On the supply side, GDP increased 2.4% y/y, while imports expanded 0.5% y/y. On the demand side, private consumption grew 2.8% y/y, while government consumption increased 1.5% y/y. In addition, gross fixed investment expanded 1% y/y. By components, private investment advanced 2.4% y/y, while public investment contracted 6.5%, mainly due to the 11.9% reduction in machinery and equipment, as well as the 5.9% fall in construction. In addition, exports grew by 2% y/y.

During 2016, aggregate demand registered a 2% increase. On the supply side, GDP increased 2.3%, while imports grew 1.1%. On the demand side, private consumption expanded 2.8%, while government consumption climbed 1.1%. Gross fixed investment posted a 0.4% expansion, driven by a 2.2% growth in private investment despite a 9.2% contraction in public investment. Finally, exports edged up 1.2%, as shown in the table below.

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Aggregate supply and demand

% yly,nsa

	4Q16	3Q16	2016	2015
Aggregate Supply	1.9	1.6	2.0	4.1
GDP	2.4	2.1	2.3	2.6
Imports	0.5	0.3	1.1	8.6
Aggregate Demand	1.9	1.6	2.0	4.1
Private consumption	2.8	3.0	2.8	2.3
Government consumption	1.6	1.6	1.1	2.3
GFI	1.0	-0.7	0.4	4.2
Private	2.4	1.4	2.2	8.0
Construction	3.5	-0.2	2.8	7.1
Machinery and equipment	1.2	3.4	1.6	9.1
Public	-6.5	-12.4	-9.2	-12.0
Construction	-5.9	-12.9	-9.3	-12.7
Machinery and equipment	-11.9	-8.0	-8.6	-4.6
Exports	2.0	1.0	1.2	10.3

Source: Banorte-lxe with data from INEGI

With seasonally adjusted figures, aggregate demand increased by 2% q/q saar in the last quarter of 2016. On the supply side, GDP increased 2.9% q/q saar, while imports contracted 2.2% q/q saar. On the demand side, consumption grew at a quarterly seasonally adjusted annualized rate of 3.1%, while government spending showed no progress. Gross fixed investment increased 2.9% q/q saar, as a result of the 8.3% q/q saar expansion of public investment. Finally, exports grew by 4.3% q/q saar.

Aggregate supply and demand

% q/q saar

	4Q16	3Q16
Aggregate Supply	2	4.3
GDP	2.9	4.3
Imports	-2.2	9.9
Aggregate Demand	2	4.3
Private consumption	3.1	6.1
Government consumption	0	1.9
GFI	2.9	0.6
Private	3	4.7
Public	8.3	-26.7
Inventories	-95.2	-42.1
Exports	4.3	16.7

Source: Banorte-lxe with data from INEGI

Looking ahead, we believe that aggregate demand will slow down as a result of the uncertainty. Donald Trump's presidency will possibly imply lower economic growth for 2017 in the face of the uncertainty generated by the recent changes in the bilateral relationship. The first impact on growth will most likely come in the first half of 2017, with the transmission channel being a strong deterioration of consumer confidence and business climate, leading to a significant deceleration in economic activity. However, it is likely that the negative perception of the new administration will gradually fade and confidence levels will begin to recover towards the second half of the year.

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