

Preliminary GDP – The Mexican economy grew 2% yoy in 2018

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- **Gross Domestic Product (4Q18 nsa): 1.8% yoy; Banorte: 2.0%; consensus: 2.0% (range of estimates: 1.8% to 2.2%); previous: 2.5%**
- **Gross Domestic Product (4Q18 sa): 0.3% q/q; Banorte: 0.2%; consensus: 0.2% (range of estimates: -0.1% to 0.4%); previous: 0.8%**
- **With this figure, GDP expanded 2.0% yoy in 2018, marginally below our 2.1% and similar to previous year's rate**
- **By major components, primary activities increased 1.9% q/q, industrial activity contracted 1.1% and services remained relatively healthy, expanding at 0.8%**
- **We maintain our 2019 GDP forecast at 1.8% yoy, although recognizing that risks are skewed to the downside due to the deceleration in global economic activity and trade, along the possibility of some impact from recent fuel distribution delays, among others**
- **The revised figure will be published on February 25th**

The Mexican economy grew 2% in 2018. INEGI published today its preliminary GDP report showing a GDP expansion of 1.8% yoy in 4Q18, below consensus. We highlight that both industry (-0.7%) and services (2.9%) decelerated in their annual comparison when compared to the previous quarter, while primary activities were actually stronger at 2.8%. Using seasonally adjusted figures, GDP grew 0.3% q/q, still positive but confirming the expected deceleration in economic activity as it moderated from 0.8% in 3Q18. In particular, we highlight the decline of 1.1% in industrial activities, its weakest print since 4Q15. By contrast, primary activities increased 1.9% q/q, above the 0.4% in previous quarter. Moreover, services remained quite healthy expanding 0.8%, practically the same figure as in 3Q18 and in positive territory for the fifth consecutive quarter.

GDP

% yoy (nsa); % q/q (sa)

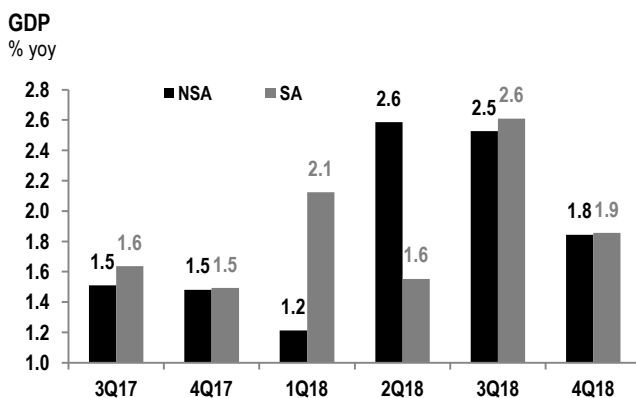
Nsa	4Q18	3Q18	2Q18	1Q18	2018
Total	1.8	2.5	2.6	1.2	2.0
Agricultural	2.8	2.2	1.5	3.1	2.4
Industrial production	-0.7	1.1	1.3	-0.9	0.2
Services	2.9	3.2	3.2	2.0	2.8
Sa					
Total	0.3	0.8	-0.1	1.1	--
Agricultural	1.9	0.4	-1.0	0.0	--
Industrial production	-1.1	0.5	-0.3	0.7	--
Services	0.8	0.8	0.3	1.0	--

Source: INEGI

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During the first two months of the quarter, growth averaged 2.3% yoy according to the monthly GDP proxy, suggesting a deceleration in December (in annual terms). As mentioned in our preview, one factor behind this is a negative calendar effect in the last month of the year, particularly given that Christmas and New Year's Eve were on Monday, giving an additional incentive to employees to further lengthen their vacations. In contrast, in 2017 both of these were on a Sunday. Nevertheless, there are also tentative signs, both external and local, of a broader deceleration in activity, such as in ANTAD's same-store sales, vehicle sales, and manufacturing production. In this respect and despite the calendar effect, we believe this report helps confirm our expectation of more modest growth in economic activity at the turn of the year.

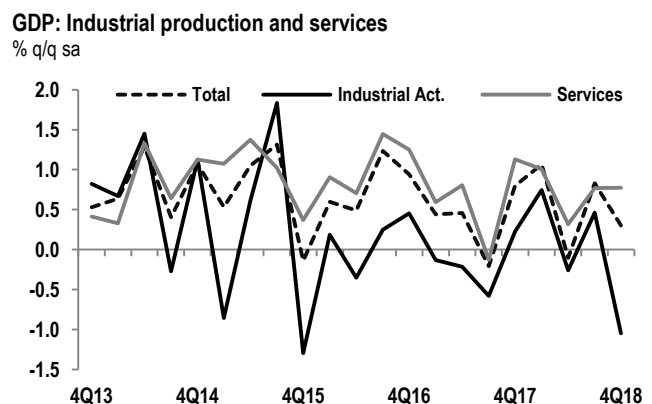
We maintain our 2019 GDP forecast at 1.8% yoy, although recognizing that risks are skewed to the downside. In this respect, we highlight our expectation of a modest impact from fuel distribution delays in several states, which exacerbated by the end of December and the first half of January. For details, see: *"Limited impact on GDP from fuel shortage"*, January 25th, 2019, [pdf](#). Moreover and as previously mentioned in other publications, the economy typically decelerates in the first year of a new federal administration, a situation that we believe will repeat in 2019. On the other hand, global growth seems to be decelerating, including in the US (our main export partner), which will likely be a slight headwind for the manufacturing sector on the back of lower dynamism in trade. In this respect, growth in industrial activity could moderate, albeit likely returning to positive territory after plunging in 4Q18. On the other hand, primary activities were quite strong, although this could reverse somewhat in coming quarters. Lastly, services remains as the most resilient sector, which is expected to remain the case, with consumption still as the main driver of economic growth. An expected gradual decrease in inflation, the increase in minimum wages, tax incentives at the Northern Border, and new government transfers programs could help keep this sector relatively resilient. Nevertheless, recent data suggest a weaker performance at the margin, including the increase in the unemployment rate in December, which in our view could limit a strong pickup from the healthy pace of growth already observed during the last two quarters.



Source: INEGI

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Source: INEGI

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