Aggregate demand – Stronger domestic demand suggests a positive outlook

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- **Aggregate demand (4Q14): 4% yoy; Banorte-Ixe: 3.2%; consensus: 3.6% (range of estimates: 2.4% to 4.1%); previous: 3.2%**
- **In 2014, aggregate demand posted a 3% yoy expansion, higher than the 1.7% observed in 2013**
- **In seasonally adjusted terms, private consumption increased 1.8% saar in 4Q14, while GFI posted a 5.7% saar expansion**
- **We expect that the recovery of domestic demand will continue in 1H15 on the back of a more dynamic external demand**

According to *INEGI*, aggregate demand and supply expanded 4% yoy in 4Q14, below our 3.2% yoy estimate. From the supply side, this number comes on the back of a 2.6% increase of GDP and an 8.1% yoy expansion in imports. From the aggregate demand viewpoint, the 4% growth in 4Q14 was explained by a 2.7% yoy hike in private consumption, slightly above the 2.2% observed in the previous quarter. Moreover, government spending increased 1.9% yoy. In addition, GFI edged-up 5.8%yoy, as a result of an 8.8% contraction in public investment, and a 9.9% increase in private investment. We highlight that the significant hike in private investment was explained by a 9.6% yoy increase in construction, and a 10.3% expansion in machinery and equipment. Finally, exports increased 10.3%yoy, as shown in the table on the next page.

In 2014, aggregate demand expanded 3% (vs. 1.7% in 2013). In addition, private consumption increased 2% in 2014, slightly below the 2.2% observed in 2013. However, in 2014 GFI posted a 2.2% expansion, which was significantly higher than the 1.5% contraction observed throughout 2013. Private investment grew 4.7%, while public investment fell 7.3%. Finally, exports edged-up 7.2%, while imports increased 5.6%, as shown in the table on the next page.

In seasonally adjusted terms, aggregate demand grew 4.1% q/q saar. This number comes on the back of a 1.8% q/q saar expansion in private consumption (vs. 2% in 3Q14). Similarly, GFI grew 5.7% saar (vs. 7.2% in 3Q14). Taking a look at the breakdown, private investment displayed a significant recovery (+10.9% saar in 4Q14 vs. 8.8% in 3Q14), while public investment fell 6.1% saar (vs. +5% in 3Q14). Finally, exports increased 14.9% saar, as shown in the on the next page.

Aggregate supply & demand: 4Q14

% yoy (nsa)	4Q14	3Q14	2Q14	1Q14	2014	2013
Aggregate Supply	4.0	3.2	2.0	2.7	3.0	1.7
GDP	2.6	2.2	1.6	2.0	2.1	1.4
Imports	8.1	6.0	3.3	5.0	5.6	2.5
Aggregate Demand	4.0	3.2	2.0	2.7	3.0	1.7
Private consumption	2.7	2.2	1.3	1.6	2.0	2.2
Government consumption	1.9	3.2	1.9	2.9	2.5	1.4
Gross fixed investment	5.8	4.3	-0.7	-0.5	2.2	-1.5
Private	9.9	7.0	1.5	0.6	4.7	-1.4
Construction	9.6	6.9	1.4	-1.1	4.2	-6.2
Machinery and Equipment	10.3	7.2	1.6	2.8	5.4	5.5
Public	-8.8	-5.8	-9.4	-5.0	-7.3	-1.9
Construction	-10.4	-6.9	-10.4	-5.7	-8.4	0.1
Machinery and Equipment	10.4	6.2	1.6	2.9	5.3	-20.0
Inventories	1.0	1684.3	15.8	-841.8	214.8	-75.7
Exports	10.3	7.1	5.0	6.4	7.2	2.2

% q/q saar (sa)	4Q14	3Q14	2Q14	1Q14
Aggregate Supply	4.1	2.9	5.4	3.3
GDP	2.7	2.1	4.2	1.4
Imports	16.5	6.8	-3.5	25.5
	0.0	0.0	0.0	0.0
Aggregate Demand	4.1	2.9	5.4	3.3
Private consumption	1.8	2.0	4.7	2.4
Government consumption	-3.1	10.6	0.4	-0.3
Gross fixed investment	5.7	7.2	9.1	0.9
Public	-6.1	5.0	-10.2	-22.9
Private	10.9	8.8	10.4	9.7
Inventories	-47.7	124.0	-81.9	402.5
Exports	14.9	11.0	17.9	-1.8

Source: INEGI

We expect that the recovery of domestic demand will continue in 1H15. In seasonally adjusted terms, domestic demand posted a better performance. In particular, private investment managed to achieve a significant recovery, while the 14.9% q/q saar expansion in exports suggests that the external demand will continue to be the main growth driver. Looking ahead, recent indicators suggest that the Mexican economy has reached a turning point in terms of growth. External demand is gaining momentum, as shown in the most recent exports figures, while consumer confidence and retail sales show signs of recovery.

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