

Preliminary GDP report – We now forecast a 1.6% growth for the Mexican economy in 2017

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- *INEGI* released today its preliminary GDP report for 1Q17
- **Gross Domestic Product (1Q17 nsa): 2.7% yoy; Banorte-Ixe: 2.5%; consensus: 2.5% (range of estimates: 2% to 3.2%); previous: 2.4%**
- **Gross Domestic Product (1Q17 sa): 0.6% q/q; Banorte-Ixe: 0.5%; consensus: 0.5% (range of estimates: 0% to 0.8%); previous: 0.7%**
- **Services increased 3.8% yoy (1% q/q), which suggests that domestic demand continues to be Mexico's main growth driver (sa figures)**
- **Given Mexico's higher economic growth in 1Q17, we revise our GDP forecast for 2017 to 1.6% from 1.1%**
- **The revised figure will be published in May 22**

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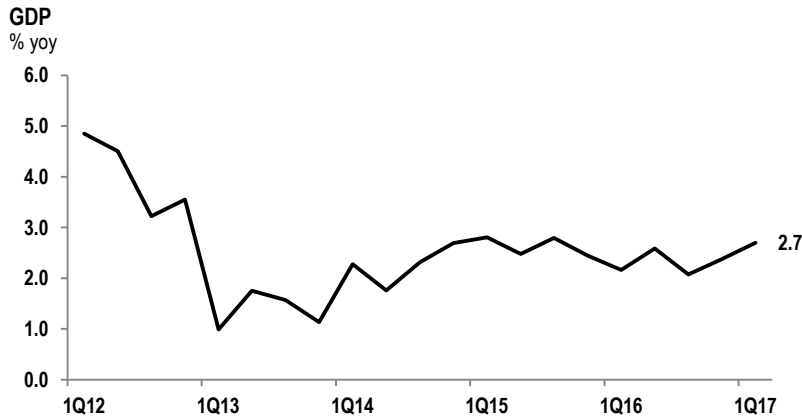
The Mexican economy grew 2.7% in 1Q17. *INEGI* published today its preliminary GDP report. With original figures, the Mexican economy increased 2.7% yoy in 1Q17 (refer to the chart below), above the 2.4% observed in 4Q16 (Banorte-Ixe: 2.5%). However, GDP growth in the quarter benefitted from a seasonal which added working days to the annual comparison. In seasonally adjusted terms, GDP expanded 2.5%.

Taking a look at the breakdown, and analyzing the seasonally adjusted figures, primary activities increased 6.5% yoy, while the industrial sector fell 1.3% yoy, as a result of the recession in the mining industry, despite the higher growth in manufacturing output. Finally, services expanded 3.8% yoy, which suggests that domestic demand continues to be Mexico's main growth driver.

In seasonally adjusted terms, GDP increased 0.6% q/q (Banorte-Ixe: 0.5%).

Taking a look at the breakdown, primary activities edged up 0.7% q/q, while industrial production posted a null quarterly growth. In addition, services increased 1% q/q. Given that *INEGI* has not published an updated time series for the seasonally adjusted series, we can't compare this 0.6% q/q growth in 1Q17 with the 0.7% reported for the fourth quarter of 2016, considering that these figures are usually revised with the publication of new data.

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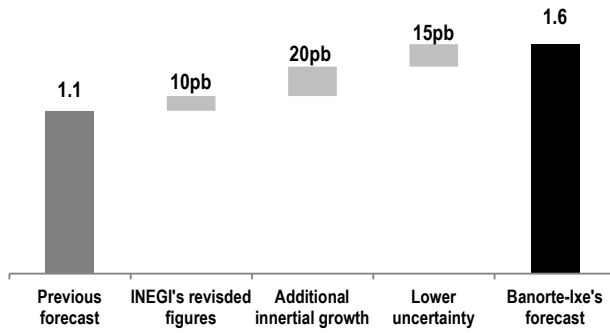
Source: Banorte-Ixe; INEGI

We modified our GDP growth forecast for the Mexican economy in 2017 to 1.6% from 1.1%. This revision comes as a result of three factors: (1) The revision made two weeks ago by *INEGI* to the historical series, which modified the basis of comparison of our estimates, making it more favorable, which added 10bp to our original estimate of growth; (2) the Mexican economy posted a higher-than-expected growth in 4Q16, which reflected in a higher inertial growth; and (3) the uncertainty generated by the first 100 days of Trump management has dissipated faster than we originally anticipated. This has allowed a recovery of confidence levels (refer to the chart on the left).

Nevertheless, we continue to appraise significant risks to Mexico’s growth scenario. Among others, we expect a deceleration of private consumption as a result of the upward trend of inflation, which will be partially offset by the upward trend in formal employment and the strong performance of banking credit.

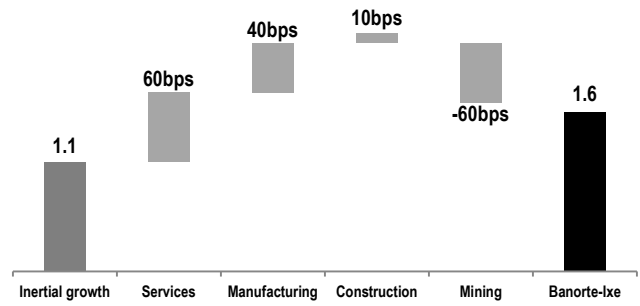
In addition, it is difficult to identify at the aggregate level in which part of the investment cycle we were before the US election, so we are not clear how long the investments that started before November 9 will last and when we would really begin to observe a significant deceleration. This is in a context in which construction activity has been curtailed by the fall of public investment projects, given the fiscal consolidation efforts of the Federal Government. In addition, we believe that the recession in the mining industry will continue for at least the first half of the year, which will continue to offset the positive effects of Mexico’s higher manufacturing output (refer to the chart on the right).

GDP
%-pts contribution to growth



Source: Banorte-Ixe; INEGI

GDP
%-pts contribution to growth



Source: Banorte-Ixe; INEGI

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