

## GDP – The Mexican economy grew 2.5% in 2015

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- **INEGI** released today its GDP figures for 4Q15, along with December's economic activity indicator (IGAE)
- **Gross Domestic Product (4Q15): 2.5%yoy; Banorte-Ixe: 2.5%; consensus: 2.5% (range of estimates: 2.4% to 2.7%); previous: 2.6%**
- **With today's figures, the Mexican economy grew 2.5% in 2015, marginally above the 2.3% in 2014**
- **Growth in 4Q15 was explained by three factors:**
  - (1) **The better growth dynamics in domestic demand reflected in the 3.7% yoy increase within the services;**
  - (2) **The contraction in oil output; and**
  - (3) **The significant deceleration in manufacturing and construction output**
- **In seasonally-adjusted figures, the economy expanded 0.5%q/q (2.2% saar), below the 0.8% observed in previous quarter**
- **We maintain our 2.3% GDP growth forecast for 2016**

**The Mexican economy grew 2.5% in 2015.** According to *INEGI*, GDP expanded 2.5% yoy in the fourth quarter of the year, in line with our 2.5% yoy forecast (consensus: 2.5%; previous: 2.6%). With today's figures, the Mexican economy grew 2.5% in 2015, above the 2.3% in 2014.

On the positive side, we observed a more dynamic domestic demand, reflected in an improvement in the services (+3.7% yoy). However, the recession in the mining sector (accumulating seven consecutive quarters in contraction) has affected Mexico's growth dynamics.

Taking a look at the breakdown, agricultural activities expanded 2.7% yoy, below the 4.4% growth rate observed in the previous quarter, while industrial output increased a scant 0.2% yoy, resenting the already mentioned contraction in the mining sector (-4.5% yoy), along with a moderate growth in manufacturing activities (+2% yoy). In addition, construction output decreased 0.5% yoy given the fiscal cut implemented by the federal government.

### GDP growth

% yoy

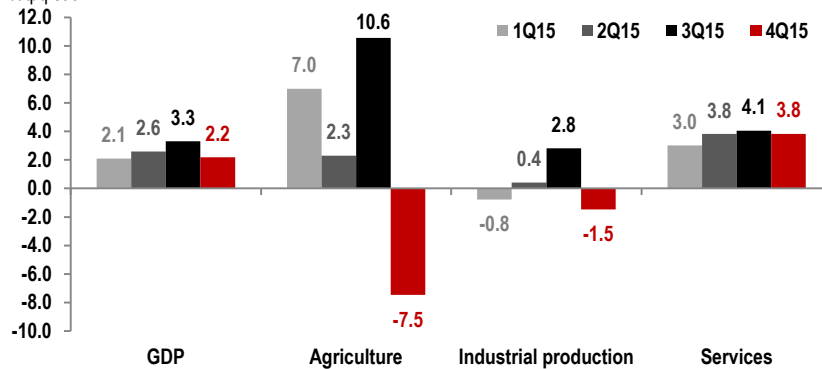
% yoy	4Q15	3Q15	2Q15	1Q15	2015	2014
<b>Gross domestic product</b>	2.5	2.8	2.3	2.5	2.5	2.3
<b>Agriculture</b>	2.7	4.4	2.6	2.9	3.2	5.4
<b>Industrial</b>	0.2	1.3	0.6	1.7	1.2	2.5
Mining	-4.5	-5.6	-7.6	-5.6	-6.3	-0.2
Utilities	3.7	3.7	2.1	5.8	3.9	8.3
Construction	-0.5	3.5	2.9	4.4	3.6	0.7
Manufactures	2.0	3.1	3.1	3.2	3.1	3.7
<b>Services</b>	3.7	3.4	3.1	2.9	3.2	1.7
Whole and Retail sales	4.0	4.7	4.4	4.9	4.7	2.4
Transportation and storage	3.0	4.4	3.0	3.1	3.5	3.2
Mass media information	18.9	11.3	4.6	5.6	7.1	0.2
Financial services	2.6	1.9	-0.4	-0.3	0.4	-0.6
Real estate	2.1	2.2	3.3	1.7	2.4	2.0
Educational services	1.7	0.5	0.0	-0.6	0.3	0.3
Temporary lodging services	8.2	7.1	3.6	3.7	5.1	2.7

Source: INEGI

**Seasonally-adjusted figures show a 0.5 q/q expansion.** As a result, economic activity increased at a 2.2% seasonally adjusted annualized rate (saar), below the 3.3% observed in 3Q15. Taking a look at the breakdown, agricultural output fell 7.5% q/q saar, while industrial activities edged-down 1.5% from +2.8% in 3Q15. Within this sector, manufacturing output was down 1% from +3.1% in 3Q15, while construction decreased 7.3% from +5%. Finally, the services sector expanded 3.8%, as shown in the chart below.

### GDP growth

%q/q saar



Source: Banorte-lxe with data from INEGI

**We maintain our 2.3% GDP growth forecast for 2015.** Domestic demand has stand out as Mexico's main growth engine during the last two quarters. In this context, we believe that the recent upward trend in domestic demand will continue throughout the first quarter of the year given the following factors: (1) The recovery in households' income derived from significant gains in real wages; (2) the subdued levels of inflation; and (3) the better growth dynamics in the Mexican labor market.

However, seasonally adjusted figures now show that the manufacturing sector has decelerated significantly, as a result of the slower growth in the U.S. manufacturing sector, given that both hold a strong correlation. Nevertheless, we believe that Mexico's manufacturing industry of final goods will strengthen in the first quarter of the year given: (1) The still depreciated peso will boost Mexico's manufacturing exports of final goods; and (2) the better growth prospects of the Mexican labor market will translate into a stronger domestic demand for manufactured goods.

In addition, the fiscal cut of MXN\$132.3 billion (around USD\$7.3 billion) recently announced by the Ministry of Finance will bound Mexico's economic growth, although its effect will be limited. While the measures taken last week amount to 0.7% of GDP, we believe their negative impact on economic growth could be of 0.3%-pts taking into account the multiplier effect of government spending, and that this fiscal cut is ensuring that the federal government is taking the right steps to warrant the fiscal stability of our country.

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