Economic Analysis

Given the slow growth in the first quarter, annual GDP growth for 2015 was revised downwards from 3.5% to 2.5%

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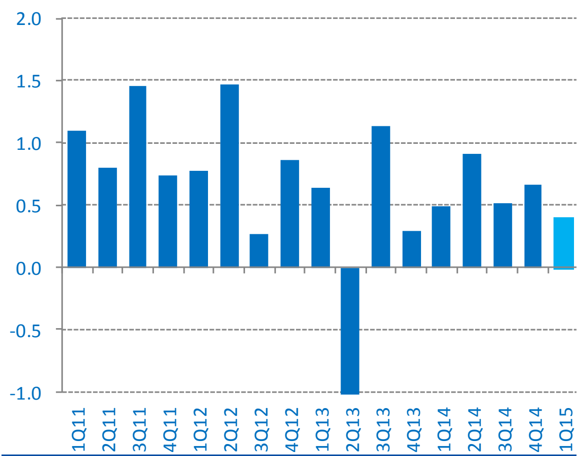
According to INEGI, the GDP growth in the first quarter of 2015 (1Q15) was 0.4% quarterly (QoQ), seasonally adjusted (sa), and 2.5% in annual terms (YoY). This expansion was in line with our forecast and the market´s (BBVAe: 2.5% YoY; consensus: 2.4% YoY, sa).

The quarterly GDP growth rate of the first quarter of 2015 was 0.40%, sa (see Figure 1). This moderation is the result of a weak performance in both the manufacturing and the services sectors. Primary activities increased 3.0% QoQ, above the 2.2% QoQ drop observed in the first quarter of 2014. The services sector grew by only 0.5% QoQ, a rate similar to the one observed in the same period in 2014 (0.3% QoQ). The manufacturing sector fell 0.2% QoQ, in contrast to the expansion of 0.7% in the same period of 2014 (see Figure 2).

As a result of the slow growth in the first quarter, and considering a moderate improvement of the economy in the next quarter as the US economy accelerates and the public expenditure increases in the elections period (though tempered in the second part of the year given the announcement of cut in public expenditure), we adjust our GDP growth projection for this year to 2.5% from 3.5%. Behind the revision major unfavorable economic factors are present. First, a decline in Mexican oil prices and production led to a decline in government revenue. Second, the US economy had a weak performance during the first quarter caused by negative climatic conditions and the appreciation of the dollar, thereby reducing the demand for Mexican manufactured goods. Third, the weakness of the domestic market has resulted in a modest consumption and low investment levels influenced both by the slow recovery in construction and the delay in the implementation of the energy reform given the low international oil prices. It is expected that these negative factors will continue in 2016, which would result in an annual GDP growth of around 2.7%.

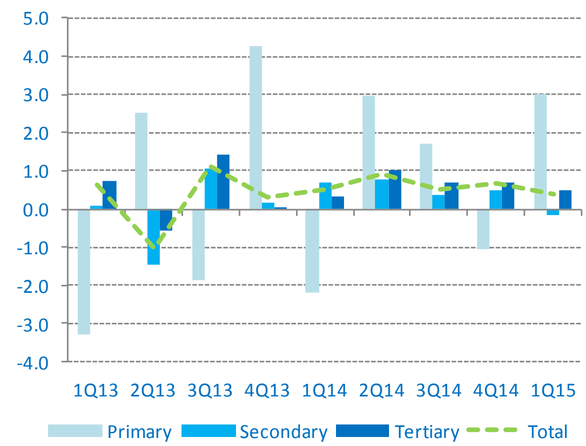
The performance of economic activity has been lower than expected earlier this year. This slowdown was reflected in the monthly evolution of the Global Economic Activity Indicator (IGAE). Monthly growth rates of this indicator in January and February were respectively 0.32% and 0.30%, sa, suggesting a limited expansion of the GDP in the first quarter. This was reaffirmed by the negative performance of the IGAE in March (-0.64% MoM, sa). In this month, all the IGAE components suffered a contraction: agriculture, -4.41% MoM; services, -0.17% MoM; and industrial production, -0.02% MoM, all in seasonally-adjusted terms.

Figure 1
Mexico GDP growth (QoQ %, sa)



Source: BBVA Research with INEGI data; sa = seasonally adjusted.

Figure 2
Mexico GDP growth, total and components (QoQ %, sa)



Source: BBVA Research with INEGI data; sa = seasonally adjusted.