



GDP Observatory

February 22, 2010

Mexico grows more than expected in 4Q09

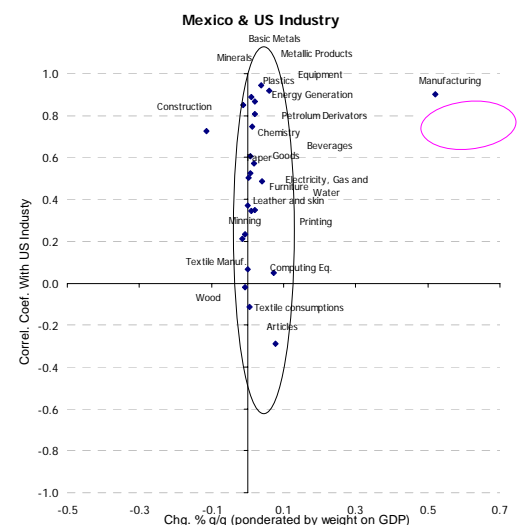
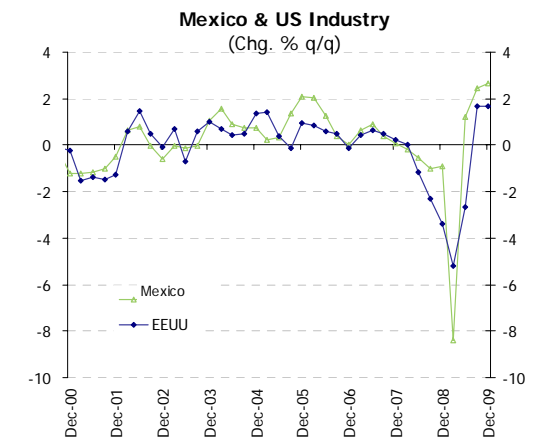
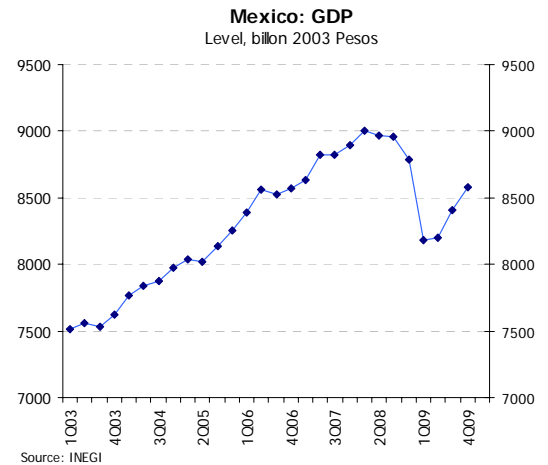
- GDP grew by a surprising quarterly 2.0% in 4Q09, compared with our forecast of 1.1% (consensus: 1.4%).
- The foreign sector, and in particular the most cyclical sectors such as the automotive industry, continue to be the main supports of the recovery. The sectors less exposed to foreign trade and more dependent on domestic disposable income continue to lag behind.

Recovery continued in the last quarter of 2009, supported by more cyclical foreign demand...

Mexican GDP grew by 2.0% q/q in 4Q09, higher than the figure expected by BBVA (1.1%) and by analyst consensus (1.4%). This left the GDP down (-)6.5% over 2009, below even the 1995 crisis level when it contracted by (-)6.2%. The fall in economic activity was a rapid -8.8% from 2Q08 to 1Q09, and although the upturn is not as quick as expected, at 4.9 pp in three quarters, it has exceeded what was previously expected.

Mexico's economic integration with the U.S. is leading the recovery, in the same way as it determined the intensity of the previous adjustment. The performance of industrial output, and particularly Mexican manufacturing industry, is responding swiftly and strongly to activity in the same sector in the U.S. In part, the drastic fall in the Mexican economy is related to the greater volatility of its manufacturing activity (see chart). It is worth focusing at this point on the automotive industry, whose activity is completely dependent on export demand, since it sells 80% of production abroad. As this industry collapsed as a result of the adjustment in demand for durable goods and the financial problems of automotive industries in the U.S., the national industry suffered the biggest contraction in its history. In contrast, over recent months the Mexican automotive industry has chalked up two quarterly rises of more than 20%, thus contributing to the overall upturn of output in 2009 with 1.6 pp of the 4.9 pp accumulated by the Mexican GDP. As long as these upturns in activity are linked to improvements in disposable income and consumer demand in the U.S. rather than to temporary reallocation of stocks or tax support to help boost spending, Mexican economic growth will be more sustained throughout the next few quarters. Until now this branch of industry is so far confirming its position as the driving force behind recovery, and it is the only major branch that has returned to the output levels of a year ago.

The other branches of manufacturing and the industrial sector continued to post slightly positive quarterly growth rates. It is to be noted that in recent quarters the branches with the closest links to the foreign sector have performed best. Meanwhile, industries such as construction and mining (including oil) continue to lag behind in the process of recovery.



Note: In the case of not counting with unseasoned series by manufacture branches, we made an approximation with unseasoned series based on monthly index.
Source: INEGI

With regard to construction, it is works mainly related to the private sector (building) are those lagging behind most, while those associated with public works (water, irrigation and water treatment, transport, electricity, gas and the oil and petrochemical industry) have continued to contribute positively to the value of production of the construction industry in real terms. This was particularly the case in the first half of the year as a result of the countercyclical fiscal policy.

... and those that lag behind most were services closely associated with the stimulus to domestic demand.

While industry has shown consistently better rates starting in the second quarter of last year, activity in the tertiary sector suffered a significant adjustment in the last quarter, following a positive upturn related to the end of the health emergency caused by the flu outbreak. Thus towards the last quarter of the year, services grew at an annual 1%, which is positive, but far from the 4.9% q/q rate in the previous quarter.

As was the case with industry, except commerce, among the branches of services that performed best were those most directly related to foreign demand, such as transport and storage services and management of companies.

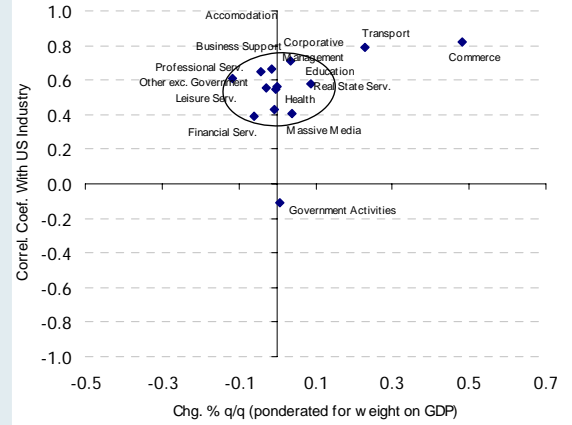
It is possible to relate the late recovery in services (if we look at the trend growth in the series, the improvement is even less apparent) to the fall in the real wage sum. Although it is true that in this period formal employment has resisted much more than in periods prior to the recession, it is also worth pointing out that average wage growth in real terms for those workers registered in the formal sector of the economy has been negative for more than a year. This has contributed decisively to the late recovery in branches such as Leisure Services, Restaurants/Hotels and Professional Services, and also in construction, in the case of industry. In addition, a broader measure of employment that includes independent and even informal workers constitutes a wage sum that is performing more positively than the formal.

Outlook

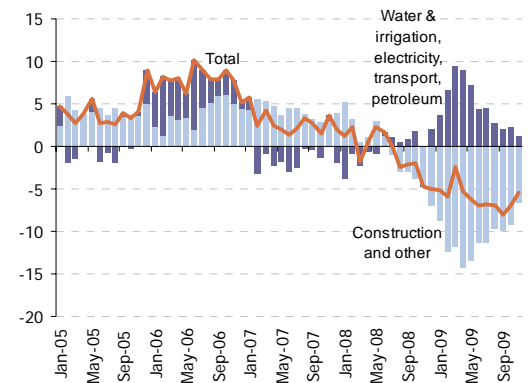
The close trading links between Mexico and the U.S. will mean that recovery in demand in the U.S. will determine the rate and speed of recovery in the domestic economy, whose domestic demand so far has lagged behind in its recovery. Maintaining the accumulated boost in the most cyclical sectors of foreign demand (such as the automotive industry) requires a sustained growth of demand for vehicles among U.S. households, together with an increase in their disposable income that will allow them to continue with the deleveraging process while acquiring consumer durable goods.

We maintain our outlook of a gradual improvement in the economic performance, which in 2010 will have a positive growth of close to 4%. In all, given the intensity of the accumulated fall, the output gap will still be negative, particularly given the performance of the indicators of real disposable income. Our estimates are that recovery to pre-recession output levels will not be achieved until mid-way through 2011.

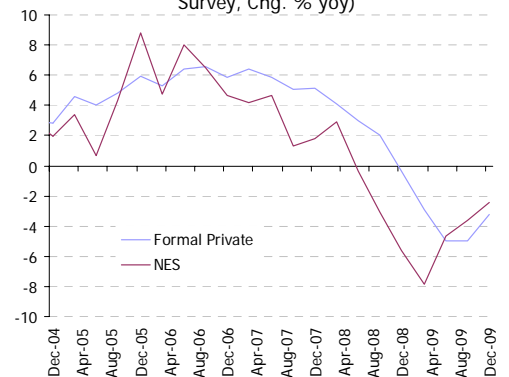
Mexico Services & US Industry



Construction: Production Value
(Growth Contribution & Chg. % real yoy)



Wage sum
(Formal sector & National Employment Survey, Chg. % yoy)



	GDP (2003=100)								S.A		
	S.O.				yoy				y/y	q/q	Contribut Growth
	2006	2007	2008	2009	1Q09	2Q09	3Q09	4Q09			
GDP	4.9	3.3	1.5	-6.5	-7.9	-10.0	-6.1	-2.3	-2.4	2.0	-2.4
Agriculture	6.3	2.4	1.2	1.8	0.1	3.4	1.3	2.1	2.0	0.9	0.1
Industry	5.7	2.0	-0.6	-7.3	-9.6	-11.1	-6.3	-1.9	-2.1	3.0	-0.6
Mining	1.4	-0.6	-1.4	1.0	-1.1	1.1	2.4	1.4			
Electricity & Gas	12.2	3.7	-2.3	1.2	-2.1	-0.4	3.9	3.2			
Construction	7.8	4.4	0.6	-7.5	-7.3	-8.8	-6.9	-7.0			
Manufactures	5.9	1.7	-0.6	-10.2	-13.5	-16.1	-9.4	-1.4			
Services	4.9	4.6	3.1	-6.6	-7.3	-10.2	-6.2	-2.9	-2.9	1.0	-1.9
Commerce	6.5	5.0	2.2	-14.5	-17.5	-20.6	-16.0	-3.6			
Transport & storage	5.8	3.7	0.1	-8.1	-10.4	-13.3	-7.5	-1.0			
Massive Media	10.7	11.6	8.0	1.6	0.5	0.3	2.1	3.5			
Financial Services	9.7	17.3	18.6	-3.8	-0.7	-5.8	-2.2	-6.3			
Real State Services	4.1	3.1	3.2	-5.3	-8.7	-6.6	-3.2	-2.6			
Professional Services	3.0	3.1	3.1	-5.7	-2.8	-5.0	-5.2	-8.8			
Corporate Management	20.1	-3.1	-3.1	-3.7	1.6	-4.1	-2.8	-9.2			
Business Support	3.7	3.1	1.6	-5.4	-1.9	-7.5	-5.5	-6.5			
Education	0.1	1.8	1.6	-4.5	1.0	-17.4	-0.7	-0.7			
Health	7.8	2.5	-1.1	-0.1	-2.3	4.3	-1.2	-1.2			
Leisure Services	2.3	3.1	1.5	-2.3	-3.5	-4.0	-2.1	-0.2			
Accommodation	1.6	2.6	0.9	-9.6	-7.9	-17.1	-8.3	-5.1			
Other Services	3.3	3.9	0.6	-2.7	-2.2	-4.7	-1.5	-2.2			
Government Activities	0.1	2.1	1.2	3.7	5.8	5.9	2.1	1.0			

S.O. = Original Services / S.A. = Seasonal Adjusted

Source: INEGI

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