

Mexico GDP Flash

The GDP growth estimate for this year is revised to 1.4% and the scenario for 2014 remains without relevant changes in 3.1%

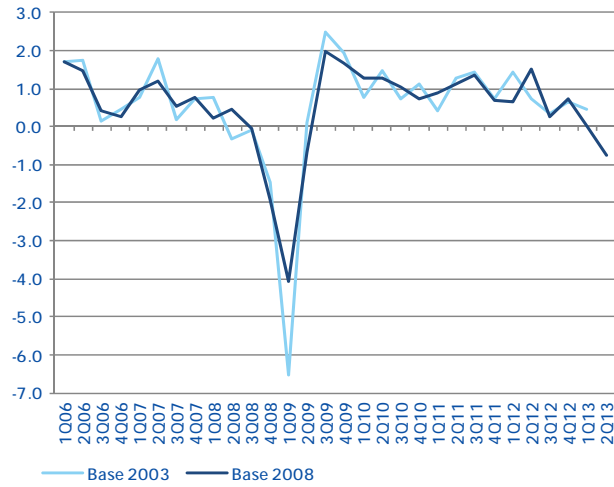
- INEGI revised to the downside the GDP growth in the first quarter of the year and published a decline in the second quarter. As a result, the annual GDP growth in the first half of the year turned out to be 1.0%. Given this deceleration and considering that economic activity will accelerate in the second half of the year, it is estimated that the GDP will grow 1.4% in 2013 and 3.1% in 2014.
- The industrial sector has continued declining in the last three quarters, and the services sector was battered by contagion from this decline. As a consequence, the output in the services sector had its first quarterly fall since the 2008 crisis (-0.4% qoq seasonally-adjusted).
- The downward GDP growth revision considerably increases the probability that the BBVA Research perspective of a rate cut in September materializes. However, the recent volatility in the financial markets and Banxico's perspective of acceleration in economic activity in the second semester could limit this possibility.

In a context of a change of base year of the series of GDP that goes from 2003 to 2008, the new data from the first half of the year published yesterday incorporate a deceleration greater than the previously considered, which suggests a weaker annual growth. As a result, BBVA Research estimates that the annual GDP growth for 2013 will be 1.4% (previous estimate 2.7%). However, INEGI did not publish the seasonally-adjusted series of the subsectors of the GDP, and could disclose them subsequently and perform additional revisions to the historical series, which would have implications in the annual estimate. The publication of the GDP growth in the second quarter surprised to the downside with a -0.7% q/q in the seasonally-adjusted series (SA), and the GDP growth in the 1Q13 was revised downward from 0.5% q/q to 0.0% q/q. As a result, the annual GDP growth in the first half of the year turned out to be 1.4% in the seasonally-adjusted series and 1.0% in the original series. In the second half of the year, it is expected an acceleration in economic activity resulting from a higher growth in the US, and marginally because of a higher public expenditure.

By components, while the industrial sector had continued declining in the last three quarters (-0.7% q/q SA on average in 4Q12-2Q13), the services sector had maintained a moderate growth. However, in the 2Q13, this sector had its first quarterly decline since the 2008-2009 crisis (-0.4% q/q SA). In the industry sector the slight acceleration observed in manufactures was a favorable sign, however, it was not enough to offset the weakness in the construction, mining, and electricity, water and gas sectors. The data suggest that various branches of the services sector that are related to the industry sector were those with the largest declines, however, other branches more related to the domestic economy also remain weak.

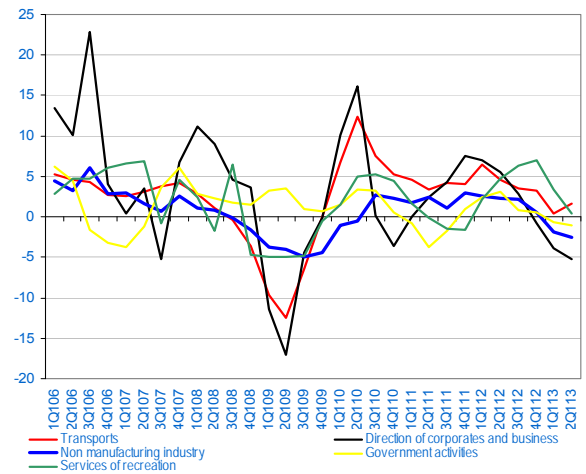
The downward revision in GDP resulting from the null growth in the first quarter and the negative print in the second quarter considerably increases the probability that the BBVA Research perspective of a rate cut in September materializes. However, the recent volatility in the financial markets given the perspective that the Federal Reserve will reduce the pace of its assets purchases and Banxico's perspective of acceleration in economic activity in the second semester could limit this possibility.

Chart 1
GDP Mexico, qoq % SA



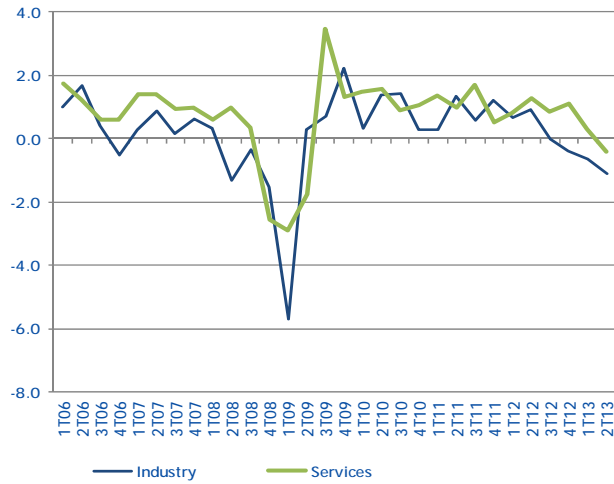
Source: BBVA Research with INEGI data. SA=seasonally adjusted.

Chart 2
GDP Mexico: Non manufacturing industry and selected branches of services sector, yoy % SA



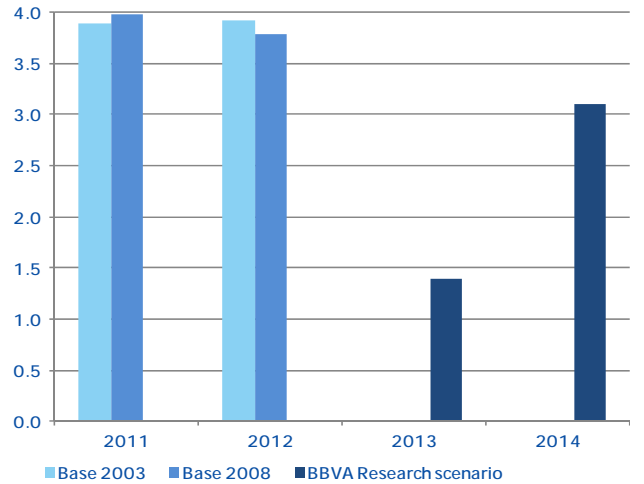
Source: BBVA Research with INEGI data. SA=seasonally adjusted.

Chart 3
GDP Mexico by sector, qoq % SA



Source: BBVA Research with INEGI data. SA=seasonally adjusted.

Chart 4
GDP Mexico, yoy %



Source: BBVA Research.

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