



GDP Observatory

August 20, 2009

Economy decline slows down more than expected in 2Q09: -1.1% qoq vs -5.8% in 1Q09 (-2.3% est.)

In 2Q09 the changes in the manufacturing sector stopped and the trend in the services sector surprised in a positive sense

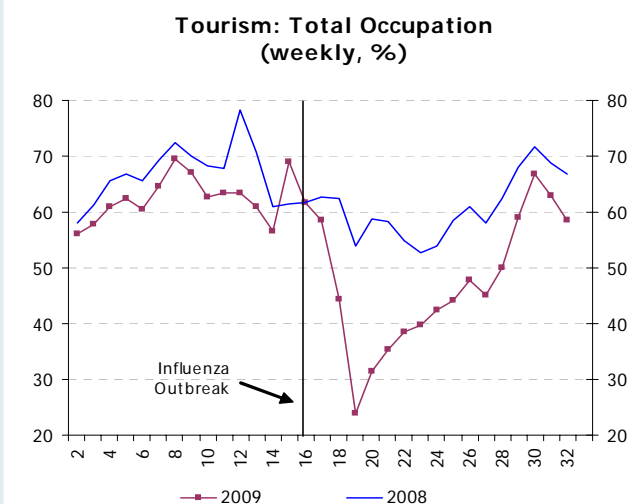
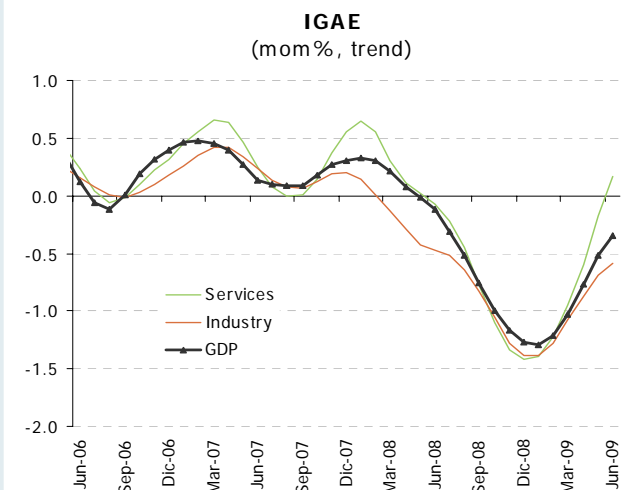
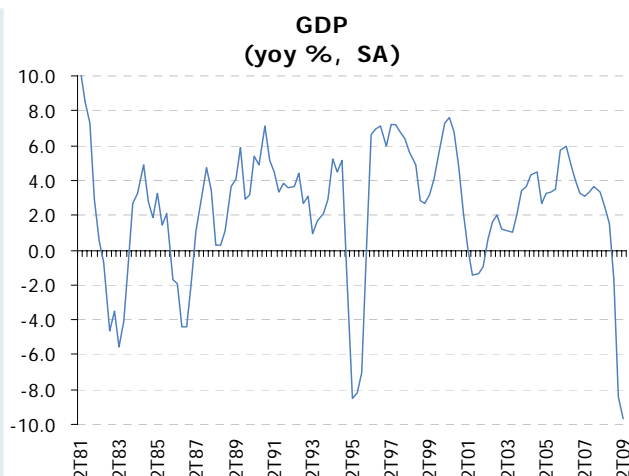
Although the GDP in 2Q09 was the worst annual variation for one quarter in history, once seasonally-adjusted the quarterly fall was significantly lighter than expected: -1.1% recorded vs -2.3% BBVA estimate (-2.1% consensus).

The slowing down of change is linked to a less intense negative effect in the services sector at the end of the period (June) and a less heavy impact from swine flu than predicted. It is worth noting that relevant and early indicators for the tertiary sector available for May already hinted at a slowdown in the rate of decline, for example, indicators such as retail sales, professional sales or transport services. However, IGAE figures for June show a monthly growth in services, partly due to the seasonal adjustment method¹.

As regards the impact of the flu outbreak in April and May, in terms of representative tourism variables such as weekly hotel occupancy, the upturn weeks after the outbreak has been considerable, which could result in higher rates of growth in services for the third quarter.

The industrial sector GDP fell at an annual rate of -11.5%. The collapse in the manufacturing sector is particularly noteworthy, which was down by up to 16.4% yoy brought about by falls of around 20% in key branches in exports such as manufacturing of metal products, machinery and equipment, and computers, and the effect of the motor vehicle GDP which was 44% down on a year ago.

¹ Remember that as a result of the change in the base year of the INEGI Domestic Accounts series, the seasonal adjustments involve changes in the historical series. In the second quarter, the GDP series in the services sector includes adjustments that produce more variability than previous periods. It is important to mention the significant difference between adjusted and non-adjusted figures in the services sector in annual terms: -5.7% and -10.4%, respectively.



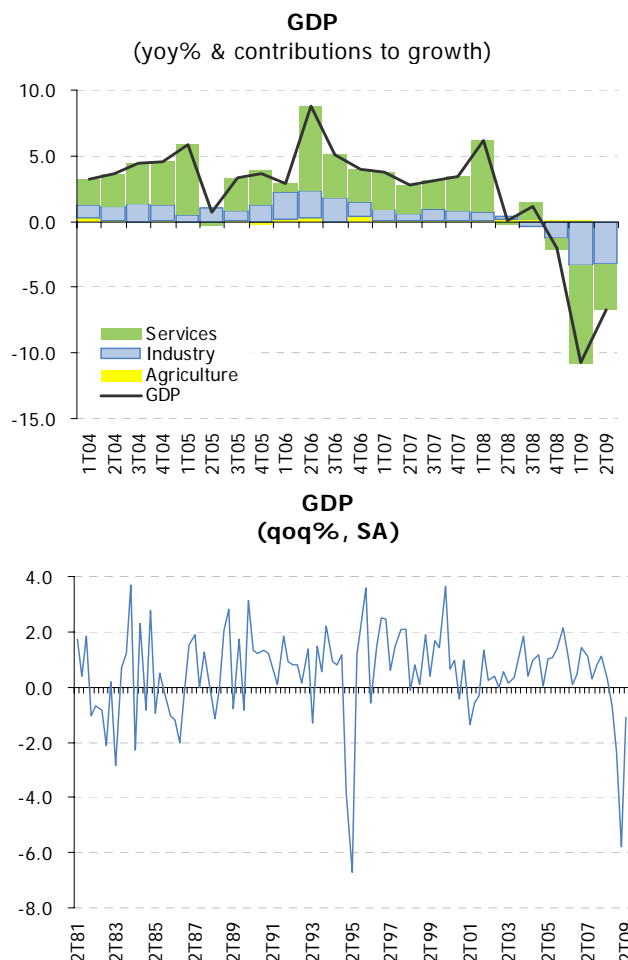
In spite of these results, in the second quarter the quarterly fall in the Mexican industry was significantly lower than in the four previous quarters and is a sign that the recovery process has begun in the industrial sector: qoq rate: -0.8% in 2Q09 vs -2.8% in the average for the four previous months and -5.9% in 1Q09.

Appraisal

The data published today back up our forecast of an improvement in the Mexican economy. This is based on a sustained recovery in the US economy. It is worth pointing out, however, that this recovery must take factors into account, such as the breakdown of Mexican exports concentrated in durable goods (slow recovery). In addition, should a further cutback in public spending be confirmed, infrastructure works are likely to be delayed or some projects even cancelled.

The outlook of a second six months with positive quarterly growth in the GDP therefore becomes more solid.

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	GDP (2003=100)											
	S.O.								S.A			
	yoy								y/y	q/q	Contribut	
	2006	2007	2008	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09		Growth	
GDP	5.1	3.3	1.3	2.6	2.9	1.7	-1.6	-8.0	-10.3	-9.7	-1.1	-6.7
Agriculture	6.3	2.0	3.2	-1.1	6.5	3.9	3.3	1.5	1.1	0.3	1.5	0.0
Industry	5.7	2.5	-0.7	1.2	1.6	-1.2	-4.2	-9.8	-11.5	-10.5	-0.8	-3.2
Mining	1.4	-0.6	-2.3	-1.0	-4.4	-2.2	-1.7	-1.2	0.6			
Electricity & Gas	12.2	3.7	2.2	7.4	4.4	0.4	-2.8	-3.0	-1.4			
Construction	7.6	4.4	-0.6	0.7	2.0	-0.7	-4.4	-7.2	-9.2			
Manufactures	5.9	2.6	-0.4	1.5	3.0	-1.2	-4.9	-13.8	-16.4			
Services	5.3	4.0	2.1	3.6	3.3	2.7	-0.9	-7.6	-10.4	-5.7	-1.3	-3.5
Commerce	6.5	4.7	2.8	5.4	5.5	5.7	-4.8	-17.2	-20.9			
Transport & storage	5.6	3.7	0.8	3.8	1.9	0.7	-2.8	-10.3	-13.7			
Massive Media	10.7	10.0	8.0	8.5	10.7	7.0	6.0	2.4	2.5			
Financial Services	16.7	11.1	-1.2	4.6	2.0	-4.8	-6.0	-5.1	-7.1			
Real Estate Services	4.1	3.1	3.2	3.7	3.1	3.4	2.6	-9.8	-6.6			
Professional Services	3.2	3.2	2.2	0.0	1.1	4.6	2.7	-3.4	-5.1			
Corporate Management	20.1	-3.1	4.2	3.2	2.4	2.6	8.8	3.6	-3.8			
Business Support	3.7	3.1	1.3	2.5	1.1	1.7	0.2	-2.0	-7.5			
Education	0.1	2.2	0.9	0.5	2.4	0.7	0.1	0.7	-17.3			
Health	7.8	-0.5	1.1	-1.1	0.6	2.1	2.9	-1.4	4.1			
Leisure Services	2.3	3.3	2.0	1.8	-0.4	4.1	1.3	-3.6	-4.1			
Accommodation	1.6	2.6	1.0	4.1	1.4	1.6	-3.3	-7.8	-17.2			
Other Services	3.3	3.9	1.8	2.6	3.0	1.2	0.6	-2.0	-4.7			
Government Activities	-0.3	1.2	0.0	1.4	-0.1	-0.3	-1.0	5.1	6.1			

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

Source: INEGI