



GDP Observatory

November 20, 2009

GDP grew by more than expected in 3Q09, strengthened by external demand and the resilience of employment.

GDP in 3Q09 confirmed that the economy is gradually coming out of the recession, supported to a large extent by the foreign sector, in both manufacturing...

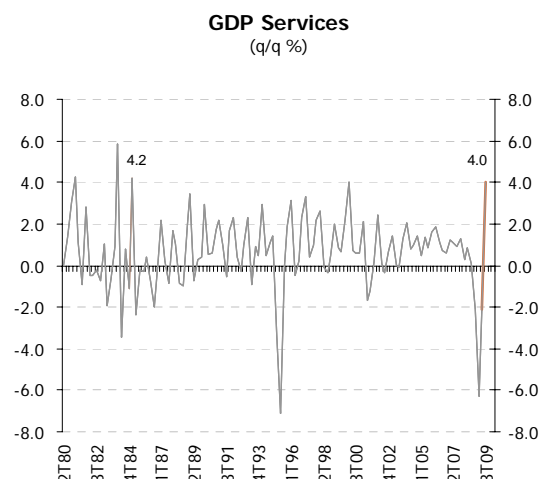
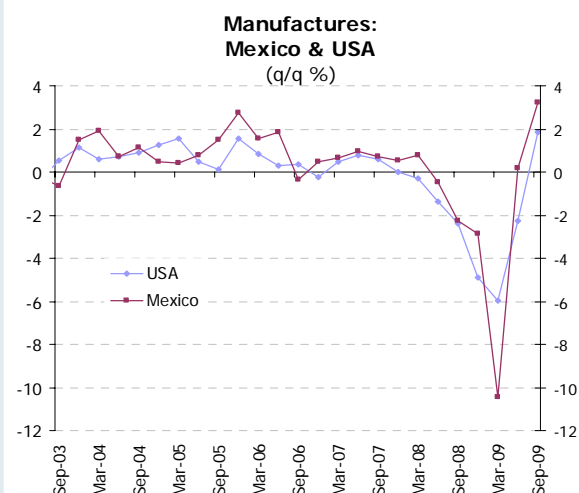
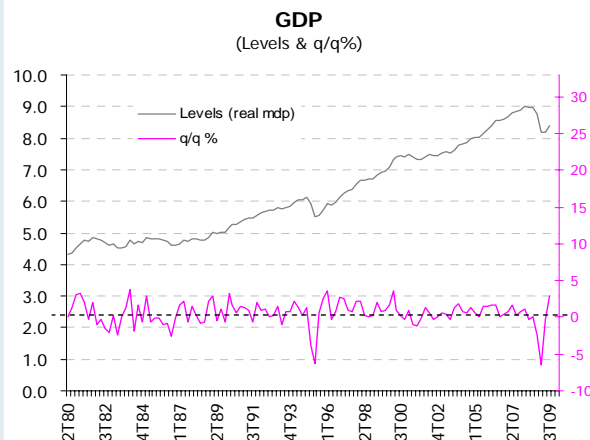
There was a surprise in third quarter GDP, which at -6.3% on a seasonally adjusted basis was better than the expected figure of -7.0%. The quarterly growth of +2.9% (2.3% forecast) marked the start of a period of recovery following falls in output in the previous four quarters.

It is worth noting that the intense commercial relationship between Mexico and the United States was the most important factor in the falls in output in previous quarters, and was the main factor in the recovery in the most recent quarter. However, the changes in Mexican manufacturing output have been more volatile, as shown by the sharper falls seen in Mexico in the first quarter of the year, whilst the quarterly growth in industrial output is strongly related to the increase in manufacturing exports.

It is also worth noting that whilst there were falls in all areas of manufacturing output, the recoveries in those areas with the strongest connections to the North American market -such as transport and computing equipment and furniture (-41% vs -26%, -27% vs -19%, -16% vs -4%, respectively, for these three sectors comparing the first and third quarters of 2009)- have had a significant impact on the improved performance of manufacturing since 2Q09.

... and in some services, a sector which has also benefited to some extent from a rebound following the flu crisis and the support given by the performance of employment.

The economic activity data for the services sector in 3Q09 provided a positive surprise, with a quarterly increase (4%, -6.6% year-on-year) the size of which had only ever previously been seen in 1985, nearly 25 years ago.



This significant growth is due to positive growth in twelve of the fourteen categories into which services are classified by the INEGI, and is related to better performances by services which are strongly connected to the export sector, and manufacturing in particular. This is the case, for example, with transport and trade services.

It is also due to the recovery from the flu crisis, which has had a positive effect on services such as hospitality and restaurants, and added value in commercial services.

This positive performance may in turn be related to a relatively rapid recovery in private formal employment as shown by the payroll bill, which has been growing in year-on-year terms since 2Q09, and which it turn could be reflected in the recovery in private consumption in 3Q09. It should be noted that the measurement of the payroll bill which has improved the most is that which includes independent workers and even the informal sector of the economy, which has softened the drastic fall in employment over recent quarters, although at predominately lower salary levels.

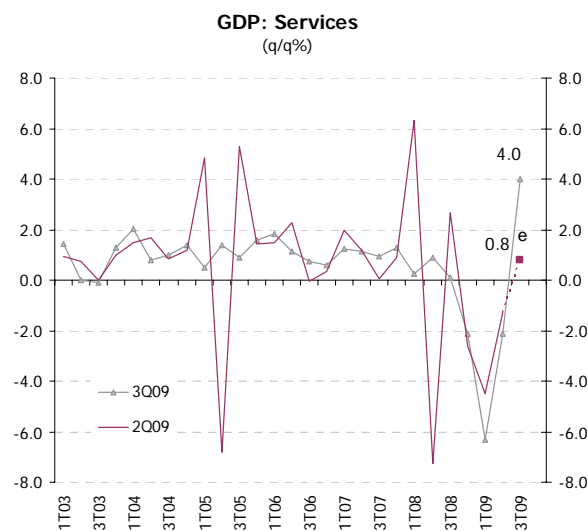
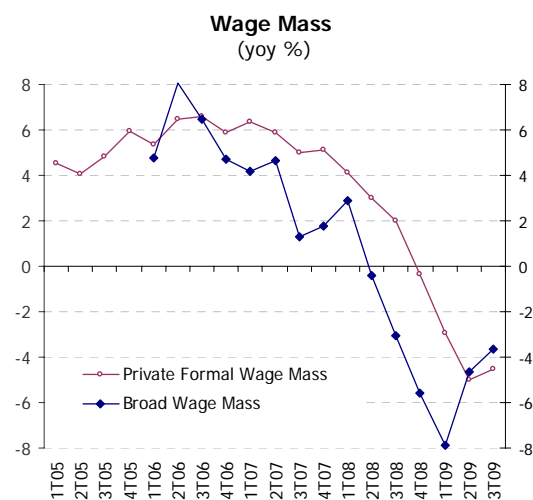
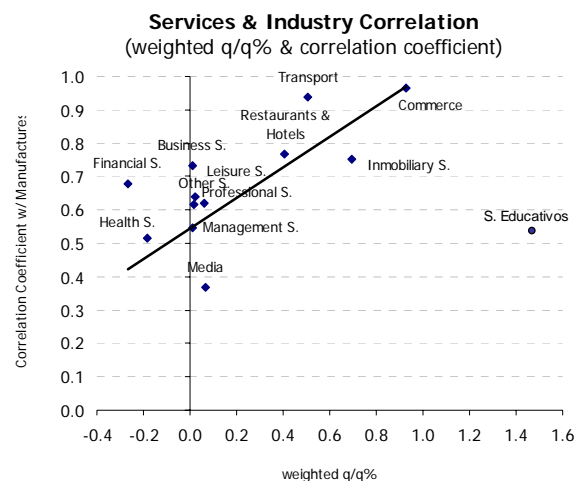
According to the corrected data, the fall in services was more pronounced, and the recovery is stronger.

In addition to these factors, when publishing its 3Q09 data INEGI also issued corrections to its previously published data. The revisions to figures for services are of particular interest, as the changes in these categories had biased the figures. This quarter, in addition to softening the figures for services, INEGI has revised the quarterly falls in services for the first and second quarters of the year downwards. We can conclude from this that the deterioration in the tertiary sector was greater than initially estimated, although it has recovered more quickly.

Outlook

We expect the quarterly recovery rate to slow over coming quarters as the impulse from restocking in mid-2009 and the effects of the currency depreciation work their way through the system; however, the economy will continue to grow to the extent that the world economy, and, in particular, the economy of our main trading partner, continue to recover.

Overall, taking into account the surprise increase seen in the third quarter this would result in revising our forecast for the average fall in activity in 2009 downwards from -7.2% to -6.9%. The revision to our forecast for 2010 is somewhat lower –changing by around two decimal points, from the previous forecast of 3.1% to the current 3.3%¹.



¹ These figures are provisional, and do not take into account the figures for demand which will be released on 22 December)

GDP (2003=100)													
	S.O.								S.A				
	yoy												
	2006	2007	2008	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	y/y	q/q	Contribut Growth
GDP	5.1	3.3	1.3	2.6	2.9	1.7	-1.6	-7.9	-10.1	-6.2	-6.3	2.9	-6.3
Agriculture	6.3	2.0	3.2	-1.1	6.5	3.9	3.3	0.9	2.7	-1.1	-1.0	-2.6	0.0
Industry	5.7	2.5	-0.7	1.2	1.6	-1.2	-4.2	-9.8	-11.5	-6.6	-6.8	2.1	-2.0
Mining	1.4	-0.6	-2.3	-1.0	-4.4	-2.2	-1.7	-1.2	0.7	2.0			
Electricity & Gas	12.2	3.7	2.2	7.4	4.4	0.4	-2.8	-2.7	-1.4	2.4			
Construction	7.6	4.4	-0.6	0.7	2.0	-0.7	-4.4	-7.2	-8.7	-6.6			
Manufactures	5.9	2.6	-0.4	1.5	3.0	-1.2	-4.9	-13.8	-16.5	-9.9			
Services	5.3	4.0	2.1	3.6	3.3	2.7	-0.9	-7.4	-10.2	-6.5	-6.6	4.0	-4.2
Commerce	6.5	4.7	2.8	5.4	5.5	5.7	-4.8	-17.1	-20.8	-16.3			
Transport & storage	5.6	3.7	0.8	3.8	1.9	0.7	-2.8	-10.4	-13.6	-7.2			
Massive Media	10.7	10.0	8.0	8.5	10.7	7.0	6.0	2.4	2.5	4.4			
Financial Services	16.7	11.1	-1.2	4.6	2.0	-4.8	-6.0	-4.4	-5.2	-7.6			
Real State Services	4.1	3.1	3.2	3.7	3.1	3.4	2.6	-8.9	-6.6	-3.0			
Professional Services	3.2	3.2	2.2	0.0	1.1	4.6	2.7	-3.4	-5.1	-5.0			
Corporate Management	20.1	-3.1	4.2	3.2	2.4	2.6	8.8	3.6	-3.8	-3.5			
Business Support	3.7	3.1	1.3	2.5	1.1	1.7	0.2	-2.0	-7.6	-5.5			
Education	0.1	2.2	0.9	0.5	2.4	0.7	0.1	0.6	-17.4	-0.1			
Health	7.8	-0.5	1.1	-1.1	0.6	2.1	2.9	-1.4	4.1	-1.4			
Leisure Services	2.3	3.3	2.0	1.8	-0.4	4.1	1.3	-3.6	-4.1	-2.1			
Accommodation	1.6	2.6	1.0	4.1	1.4	1.6	-3.3	-7.8	-17.2	-8.3			
Other Services	3.3	3.9	1.8	2.6	3.0	1.2	0.6	-2.0	-4.6	-1.6			
Government Activities	-0.3	1.2	0.0	1.4	-0.1	-0.3	-1.0	5.1	6.1	2.0			

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

Source: INEGI

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