

Mexico

Economic Watch

March 22, 2011

The last quarter of 2010 saw consolidation of household consumption driven by employment growth. Foreign trade fell more than expected

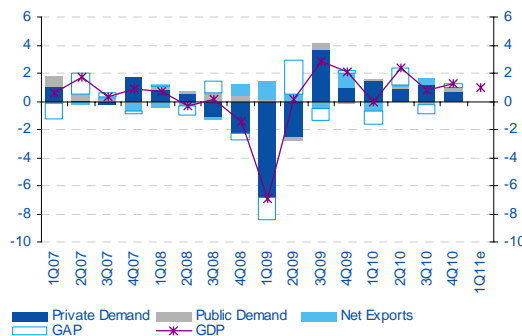
Economic Analysis

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GDP Q4 2010, demand perspective

- The positive surprise in GDP performance in Q4 2010, which involved a 4.4% increase in annual terms (1.3% q/q), was based on growth in private consumption and public investment, particularly in the construction industry, while private investment remains sluggish.
- Domestic demand continues to improve although at a slightly slower pace than in the previous quarter, with improvement in private consumption (1.1% in Q4 2010, 1.9% in Q3 2010) and slower inventory depletion. One negative aspect was the performance of private investment, which declined during the quarter (-1.4% q/q in Q4 2010, 2.1% in Q3 2010) and was partially offset by increased public investment (5.1% q/q in Q4 2010 vs. -2.3% q/q in Q3 2010). The other component of public demand, government spending, fell by (-)0.2% over the previous quarter, when a decline was also reported (-)0.8%.
- Among the components related to the foreign sector, both exports and imports declined significantly: exports (-)1.6% vs. 1.5% in Q3 2010, imports (-)1.4% q/q in Q4 2010 vs. (-)0.1% q/q in Q3 2010¹. Taking into account that around 75% of imports of goods are concentrated in intermediate goods (production supplies) and 15% are consumer goods, the decline in the import of goods and services during the last quarters of 2010 could be related to the fall in exports and a lower than expected expansion in consumption.
- Based on the known performance of the indicators available so far, it can be assumed that foreign trade could pick up and household consumption could continue to improve during the first months of this year. Aggregate dynamics for Q1 2011 could be similar to the figure for the previous quarter, and in any case consistent with growth for the year in 4 – 4.5% range.

Chart 1
GDP: Demand
(% change and contribution to growth)



Source: BBVA based on INEGI data

Table 1
GDP: domestic and foreign demand
(y/y and q/q % change and contribution to growth, seasonally adjusted)

	2008	2009	2010	1Q10	2Q10	3Q10	4Q10	YoY	QoQ	pp.
								4Q10		
GDP	1.5	-6.1	5.5	5.0	7.4	5.3	4.4	4.4	1.3	1.3
Internal (pp)	2.2	-8.0	5.2	3.9	7.8	4.5	4.6	4.6	1.0	1.0
Consumption	1.7	-5.7	0.0	3.7	6.8	4.1	4.1	4.1	0.9	0.8
Private	1.8	-7.1	5.0	4.2	7.0	4.4	4.5	4.5	1.1	0.8
Public	1.1	3.5	2.8	1.2	5.3	2.6	2.1	2.1	-0.2	0.0
Investment	5.3	-10.9	2.4	-2.2	2.0	3.4	6.6	6.6	0.3	0.1
Private	2.1	-16.7	2.8	-3.8	1.8	6.3	7.7	7.7	-1.4	-0.2
Public	18.3	9.4	1.2	2.2	2.5	-3.7	3.9	3.9	5.1	0.3
Inventory Ch. (pp)	-0.3	-0.8	0.9	1.3	2.0	0.5	0.0	0.0	0.2	0.2
Exports	0.9	-13.1	24.5	23.4	33.8	27.0	15.1	15.1	-1.6	-0.5
Imports	3.4	-18.3	22.3	20.4	32.3	22.2	15.3	15.3	-1.4	-0.5
External Net (pp)	-0.9	2.2	0.2	0.4	-0.1	0.9	-0.2	-0.2	0.0	0.0
Gap (pp)*				0.8	-0.3	-0.1	0.0	0.0	0.3	0.3

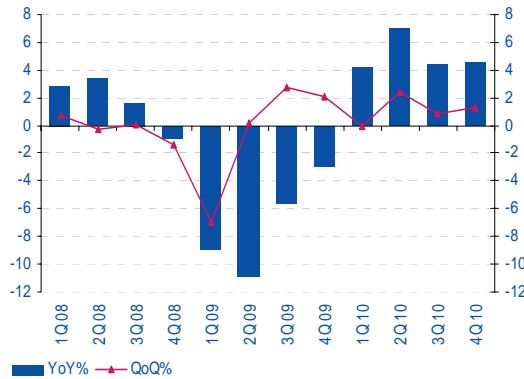
SA: Seasonal Adjustment.

*GAP of seasonal adjustment aggregation

Source: BBVA based on INEGI data

¹ Among the revisions to data published previously, we should mention exports, whose change was revised for Q3 2010 from the -4.1% q/q published previously to the current 1.5% q/q.

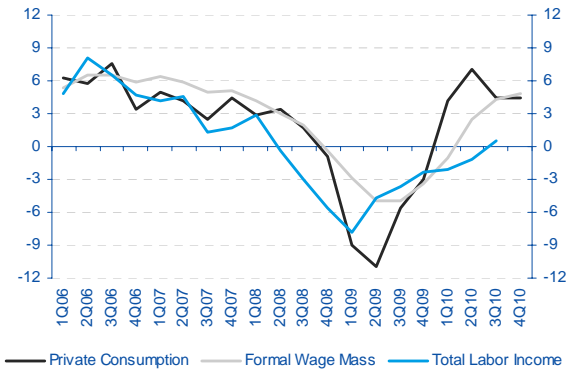
Chart 2
Private consumption
(y/y and q/q % change)



Recovery in private consumption in line with the gradual improvement in income from wages.

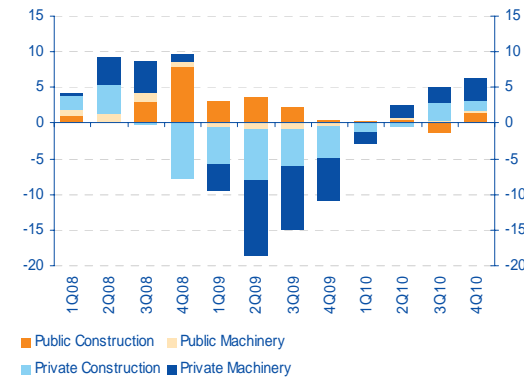
Source: BBVA Research based on INEGI data

Chart 3
Income from Wages and Private Consumption
(y/y % change)



Source: BBVA Research based on INEGI data

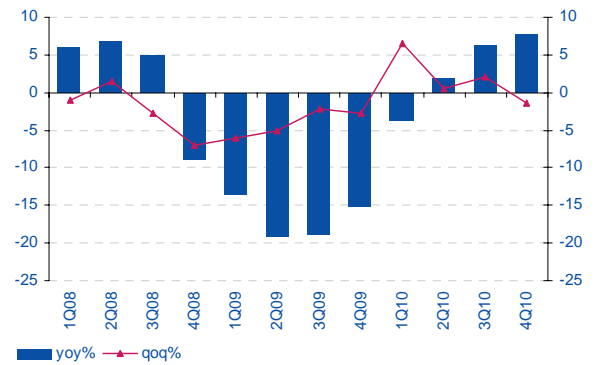
Chart 4
Total investment
(y/y % change and contributions)



Private investment was a negative surprise in Q4 2010, and the main factor of consolidation of progress toward potential growth.

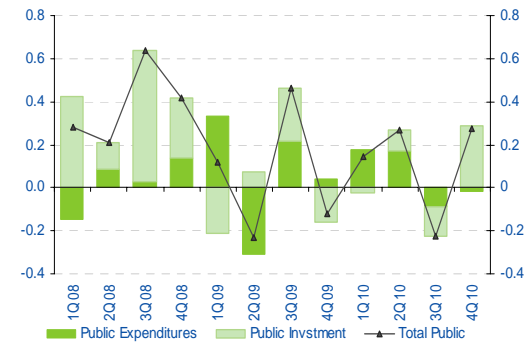
Source: BBVA Research based on INEGI data

Chart 5
Private investment
(y/y and q/q % change)



Source: BBVA Research based on INEGI data

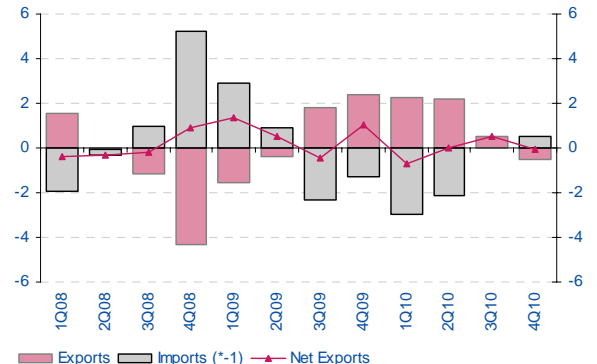
Chart 6
Public components
(q/q contribution)



Disappointing performance of the foreign sector, with no foreign demand contribution

Source: BBVA Research based on INEGI data

Chart 7
Net Exports
(y/y and q/q % change and contribution to growth)



Source: BBVA Research based on INEGI data

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