

Economic Watch

Mexico

GDP slows more than expected: 0.5% q/q, 4.4% y/y

GDP 1Q11

- Mexico grows slower than expected in 1Q11, with the foreign environment also less dynamic.
- On the positive side, the growth components most related to the domestic markets have improved.
- Data available for 2T11 suggest that the slowdown will continue.
- The growth forecast for 2011 has been maintained; it is supported increasingly by public and private domestic demand, with a less marked contribution from exports. The 4.7% growth expected for the year still appears a reasonable figure.

As new data have become available for the first few months of the year, the slowdown in growth appears increasingly marked: 1.1%q/q was the growth estimate for GDP at the start of the quarter and 0.7% taking into account all the available data up to last week¹. Manufacturing industry and services, which account for 30% and 60% respectively of the aggregate value of output, grew at a slightly lower rate than in the second half of last year: 0.7% and 0.9% respectively in the first quarter compared with 1.1% and 1.2% on average in the second half of 2010. The volatile primary sector contracted by (-)2.3% q/q. Seasonally adjusted GDP at constant and prices has already exceeded its highest pre-crisis level thanks to the service sector, while manufacturing industry is still lagging slightly behind following a much more pronounced fall. In all, this result is consistent with foreign demand (particularly in the U.S.) also slowing down more than expected in the first part of the year.

Most branches of the industrial sector, and in particular manufactured goods, performed similarly or slightly below the previous quarter. The branch of transport equipment grew at close to 7.6% q/q (3.2% in 4Q10), boosted mainly by growth in March, which was the highest since July 2009. In contrast, car manufacturing in April was affected in its chain of production by the tsunami that devastated Japan in March. Thus in April vehicle production fell by 10.4% year-on-year, and Japanese vehicles were down 31%. We believe this shock is temporary and related to early implementation of summer technical slowdowns, so July and August will probably see a reversal of this effect. The performance of the construction industry was also down, at 0.6% q/q compared with 1.4% average growth in the second half of 2010.

The service sector continued to stand out due to its sound recovery at a steady rate of close to 1% (average quarterly rate over the last six quarters of 0.9% in 1Q11). Particularly notable are sectors such as retail trade and transport services, which are highly cyclical, while others such as real estate services and hotels and restaurants are also recovering, although they are lagging somewhat behind. In all, despite performing slightly below expectations, the economy is continuing with its recovery, which is spreading to other sectors. This is positive news as it points to the good shape of household and business spending capacity. As a result, the forecast growth scenario of 4.7% has been maintained. It is now supported increasingly by domestic demand and less so by demand for exports of goods and services.

May 19, 2011

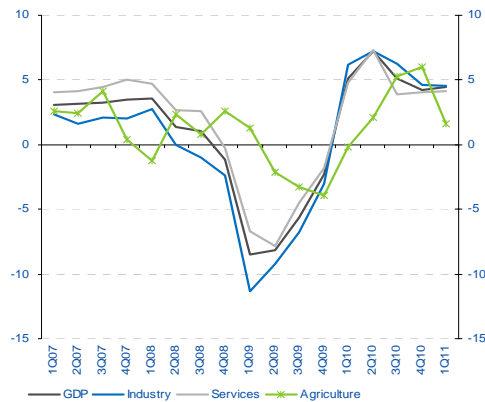
Economic Analysis

Julian Cubero
juan.cubero@bbva.bancomer.com

Cecilia Posadas
c.posadas@bbva.bancomer.com

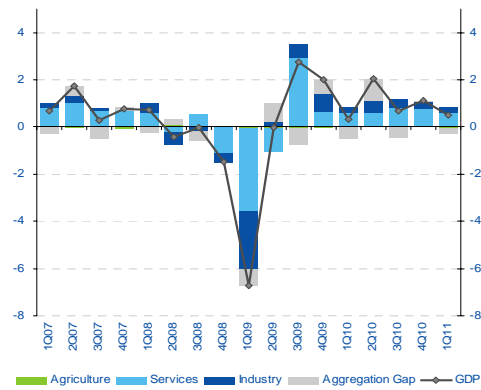
¹MICA model, based on concurrent indicators of activity, expenditure, expectations and the financial sector.

Chart 1
GDP: y/y % change



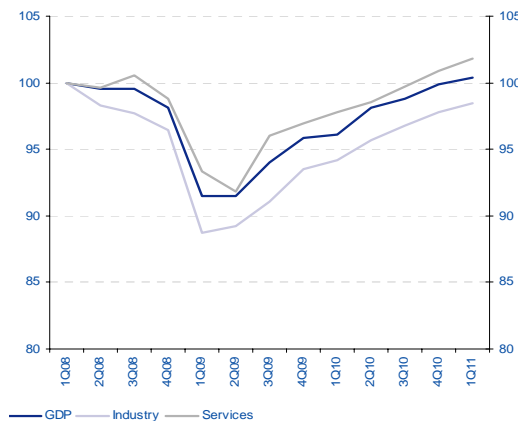
Source: BBVA Research with INEGI data

Chart 2
GDP: q/q % change and components



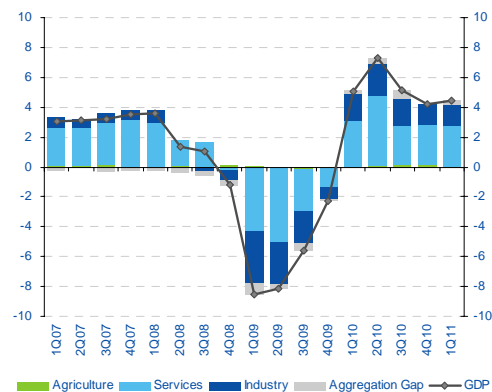
Source: BBVA Research with INEGI data

Chart 3
GDP: 1Q08 = 100



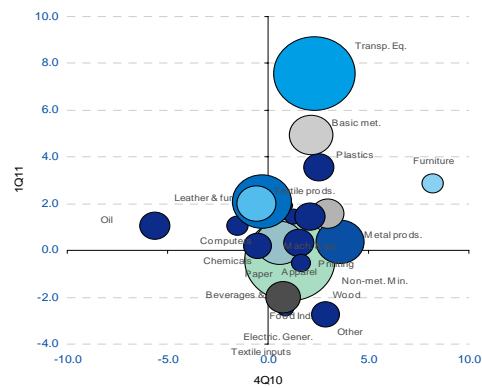
Source: BBVA Research with INEGI data

Chart 4
GDP: y/y % change and components



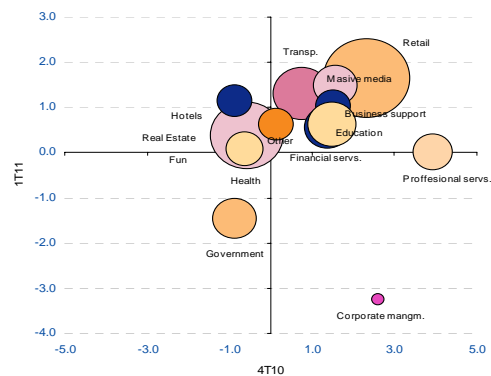
Source: BBVA Research with INEGI data

Chart 5
GDP Manufactures: q/q % change



Source: BBVA Research with INEGI data

Chart 6
GDP services: q/q % change



Source: BBVA Research with INEGI data

GDP by sector (2003=100)

	S.O.						S.A.			
	yoy						y/y	q/q	Contrib. Growth	
	2009	2010	1Q10	2Q10	3Q10	4Q10				1T11
GDP	-6.1	5.4	4.5	7.6	5.1	4.4	4.6	4.4	0.5	4.4
Agriculture	-2.2	3.3	-1.0	2.6	5.1	6.2	1.2	1.6	-2.3	0.1
Industry	-7.6	6.0	5.1	8.0	6.2	4.8	5.2	4.5	0.7	1.4
Mining	-2.9	2.2	1.4	3.0	2.9	1.4	-2.5			
Electricity & Gas	2.0	2.4	1.1	2.0	3.1	3.4	8.6			
Construction	-7.3	0.0	-3.7	-1.7	1.0	4.5	4.9			
Manufactures	-9.8	9.9	10.4	14.2	9.6	6.0	7.4			
Services	-5.2	5.0	4.3	7.5	4.0	4.1	4.4	4.2	0.9	2.7
Commerce	-14.1	13.3	13.7	19.2	11.8	9.4	9.5			
Transport & storage	-6.5	6.4	6.6	11.3	5.1	3.1	3.8			
Massive Media	0.8	5.6	4.2	5.2	6.3	6.7	7.7			
Financial Services	-4.5	2.7	0.1	5.7	-3.0	8.7	2.6			
Real State Services	-1.6	1.7	3.3	0.9	1.1	1.7	2.1			
Professional Services	-5.1	-3.0	-4.9	-3.3	-1.8	-2.3	6.9			
Corporate Management	-8.1	2.0	-5.6	-2.5	10.1	4.8	3.5			
Business Support	-4.8	1.4	-0.2	1.4	1.1	2.9	3.8			
Education	0.5	3.0	1.6	14.0	-0.7	-1.1	1.6			
Health	0.8	-1.7	1.4	-10.2	0.9	1.4	0.2			
Leisure Services	-4.6	1.9	-2.6	1.4	2.8	4.7	4.5			
Accommodation	-7.7	3.8	-0.9	11.8	2.8	2.6	0.8			
Other Services	-1.1	0.6	-1.0	-1.3	1.8	2.9	2.9			
Government Activities	4.8	4.4	1.1	8.5	4.8	3.2	0.7			

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

Source: BBVA Research with INEGI data

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