

Economic Watch

Mexico

Private demand and exports strong, slump in public investment

GDP in 1Q11 from the demand perspective

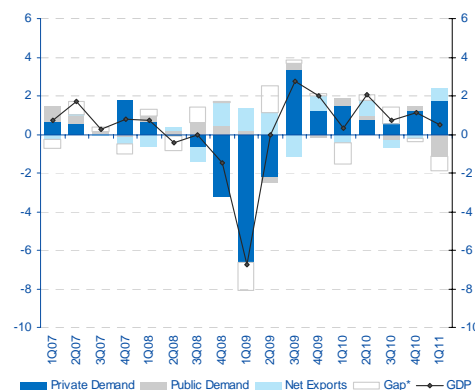
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Economic Analysis

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- **Aggregate demand (consumption, investment and exports) was up 0.7% on the previous quarter, with positive contributions from all the private components of demand, and a surprising (given the information available) fall in public investment.**
- **Sustained improvement in private consumption consistent with increased household income, above all formal income.** Private consumption, the biggest component, grew in line with expectations (expected: 0.7% q/q; observed: 0.9%), maintaining its recovery based on increased disposable income and demand for finance. In other words, it is supported above all by income from the formal sector of the economy. Indicators of retail sales show particularly strong sales of non-durable goods, while sales of durables are still considerably below pre-crisis levels.
- **Private investment is responding to cyclical expansion, while public investment has slowed surprisingly (and, we think, temporarily).** Investment was a surprise, with a growth of 2.1% q/q vs. an expected 0.2%. It is worth noting that the outstanding component of investment is private, with a rise of 11% on the previous quarter, while public investment fell nearly 22% on 4Q10. The fall in public investment is the biggest since the publication of National Accounting statistics began to use the new base (2003), while the upturn in private investment is also the biggest since 2003. It is important to note that the available economic indicators related to public investment and investment in construction suggest a gradual slowdown in public investment in the first few months of the year, but not the sharp drop now posted by INEGI. The positive prospects for public revenues should in fact allow public investment to grow again over the coming quarters. Although expectations of future demand will undoubtedly not provide an additional boost to private investment, the favorable financing conditions should continue to help.
- Exports are in line with expectations (4.4% q/q), with a rise of 4.7% in the quarter, while imports rose somewhat less (2.6% vs. expected 4.8%). As a result, net exports contributed 0.6 pp to quarterly growth.

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



Source: BBVA Research based on INEGI data

Table 1:

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

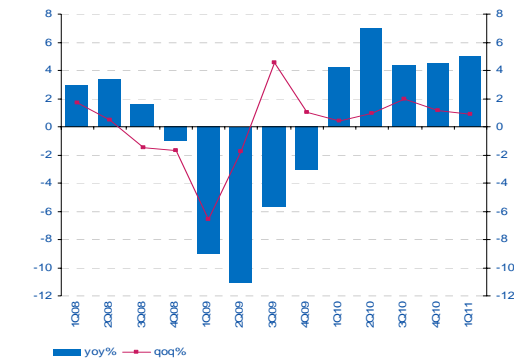
	2008	2009	2010	1Q10	2Q10	3Q10	4Q10	yoy	q/q	pp
Aggregate Demand	1.7	-9.3	9.5	8.9	12.6	9.4	7.3	5.6	0.7	1.4
GDP	1.2	-6.1	5.4	5.1	7.3	5.1	4.2	4.4	0.5	0.5
Internal (pp)	1.9	-8.2	5.2	4.2	7.8	4.3	4.6	3.4	0.6	0.6
Consumption	1.6	-5.8	0.0	3.7	6.8	4.1	4.1	4.5	0.9	0.7
Private	1.7	-7.2	5.0	4.2	7.0	4.3	4.5	5.0	0.9	0.6
Public	1.1	3.8	2.8	1.2	5.3	2.5	2.0	1.3	0.7	0.1
Investment	5.3	-11.5	2.4	-2.5	2.0	3.5	6.9	5.1	2.2	0.5
Private	2.1	-16.8	2.9	-4.1	2.0	6.3	7.9	15.1	11.0	1.7
Public	18.3	7.1	1.2	2.0	2.3	-3.6	4.2	-21.1	-21.6	-1.2
Inventories (pp)	-0.6	-0.9	0.9	1.7	1.9	0.2	-0.1	-1.3	-0.5	-0.5
Exports	0.7	-13.5	25.7	24.7	34.6	27.9	16.9	14.0	4.7	1.6
Imports	3.2	-18.4	23.5	21.8	33.1	23.5	17.0	10.8	2.6	0.9
Net Exports (pp)	-0.8	2.2	0.2	0.3	0.1	0.7	-0.2	0.9	0.6	0.6
Gap (pp)*				0.6	-0.6	0.1	-0.1	0.2	-0.7	-0.7

SA: Seasonally Adjusted Series. Investment is constructed as the sum of public and private components.

*GAP is related with seasonal adjustment process

Source: BBVA Research based on INEGI data

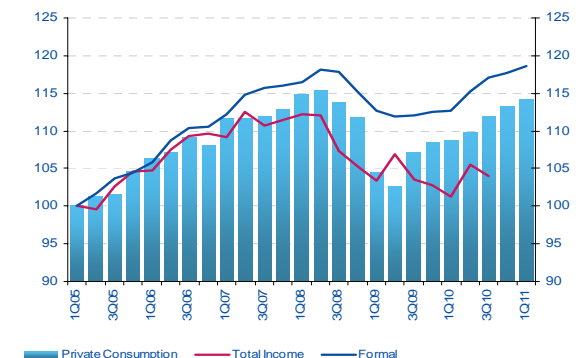
Chart 2
Private consumption (% y/y and q/q change)



Source: BBVA Research based on INEGI data

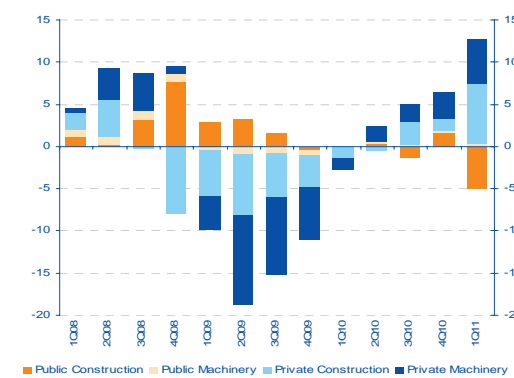
Private consumption continues to grow in line with increased household disposable income, above all for those who work in the formal labor market

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



Source: BBVA Research based on INEGI data

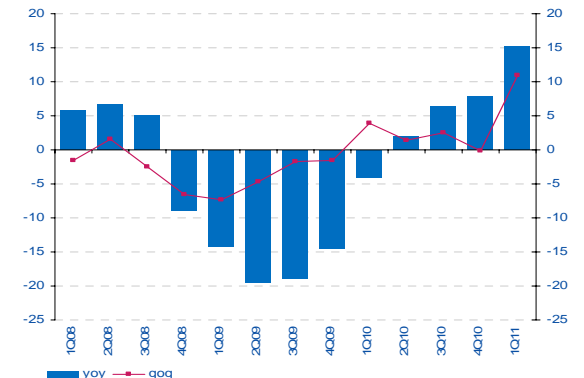
Chart 4
Total Investment (% y/y change and breakdown)



Source: BBVA Research based on INEGI data

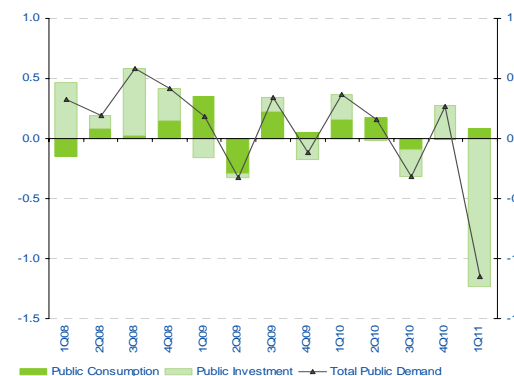
Strong upturn in private investment, in both machinery and equipment and construction, while public investment fell, though this should be temporary

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



Source: BBVA Research based on INEGI data

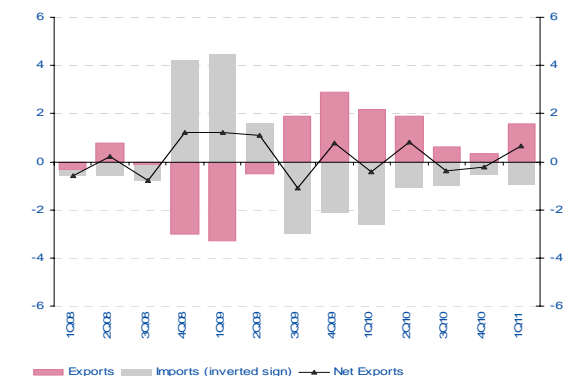
Chart 6
Public components (q/q contribution)



Source: BBVA Research based on INEGI data

Significant loss in the contribution of public investment to growth. However, the contribution of net exports to growth was slightly positive.

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



Source: BBVA Research based on INEGI data

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