

Mexico Flash

GDP 3T11: more domestic spending and fewer exports. Outlook for 2012 slowdown

- Positive surprise in private consumption which grows higher than expected in 3T11. In contrast, the contribution of net external demand was lower than expected, with falling exports of goods and services.
- The public demand grows driven by the seasonal political six-year cycle.
- The published data are consistent with an expansion of GDP of 3.8% in 2011 and 3.3% in 2012, although dominated by downside risks related to external economic environment both in terms of demand and financing conditions.

Positive surprise in private consumption which grows higher than expected in the 3Q11 (0.8% q/q 2.0% expected vs. observed), confirming the relatively greater strength of the internal components of demand. The set of domestic demand from private sources expected keeps pace with the expected increased contribution of private consumption and less investment. The good behavior of employment and labor income formal support by the funding capacity of the banking system increased spending, while the outlook for global activity to the downside, may have impact on the private investment growth in an environment without pressures capacity utilization.

In line with the behavior of investment, there is a negative surprise in exports (1% expected, -0.1% q / q observed), which adds to the downward revision in the previously published data of 2Q11. Thus, the latest data from Mexico's trade balance suggest that exports of goods slowed in August about a slight recovery in the following, while imports of goods have not had a severe restraint, except in areas as capital goods imports, which would be consistent with a lower investment growth in coming quarters.

The components of public demand, both consumption and investment increased their contribution to quarterly GDP from previous quarter 0.3 pts, up to half the growth in the reference quarter (0.6pts). This is consistent with the seasonal effect six-year budget cycle

It is worth noting that the revisions made INEGI rise to previously published data on demand, from 8.7% q / q to 12.7% for the public demand, and a decrease in exports, from 0.8% to -0.3%, the most relevant.

The latest information points to be slowing GDP on a quarterly basis in 4Q11 to rates close to 0.2%-0.3% per quarter, which implies an annual increase in the whole year of 3.8% or 3.9%. The outlook for 2012 growth is still lower than in 2011, at around 3.3%, since not seem likely to further improve the financing conditions in which they operate homes and businesses, especially favorable in 2010 and the first part 2011. And the momentum of the political cycle on household spending should accumulate only in the first half of 2012 and foreign demand have no further improvement in the coming quarters. This would end up being transmitted to a slower growth of employment and private domestic spending.

Finally, this scenario has a range of uncertainty that accumulates low given the very complex global environment financially, especially in Europe, slowing down the confidence of agents and may involve higher risk premiums for long time.

Chart 1

GDP: Supply and Demand (Var% quarterly contribution to growth, AE)

	2009	2010	1Q11	2Q11	3Q11	y/y	q/q	pp.
GDP	-6.1	5.4	4.3	3.6	4.4	4.4	1.3	1.3
Internal (pp)	-8.2	5.2	3.0	3.2	4.9	4.9	1.8	1.8
Consumption	-5.8	0.0	4.5	3.5	4.3	4.3	2.0	1.6
Private	-7.2	5.0	5.1	4.5	5.0	5.0	2.0	1.4
Public	3.8	2.8	1.5	-2.5	0.5	0.5	2.1	0.2
Investment	-11.5	2.4	5.1	8.5	8.8	8.8	1.3	0.3
Private	-16.8	2.9	15.2	16.7	11.5	11.5	-0.6	-0.1
Public	7.1	1.2	-21.2	-12.6	1.1	1.1	7.8	0.4
Inventories (pp)	-0.9	0.9	-1.8	-1.4	-0.4	-0.4	-0.2	-0.2
Exports	-13.5	25.7	14.2	7.6	4.4	4.4	-0.1	0.0
Imports	-18.4	23.5	10.3	7.0	6.2	6.2	2.2	0.8
Net Exports (pp)	2.2	0.2	1.1	0.1	-0.7	-0.7	-0.8	-0.8
Gap (pp)*			0.3	0.3	0.2	0.2	0.4	0.4

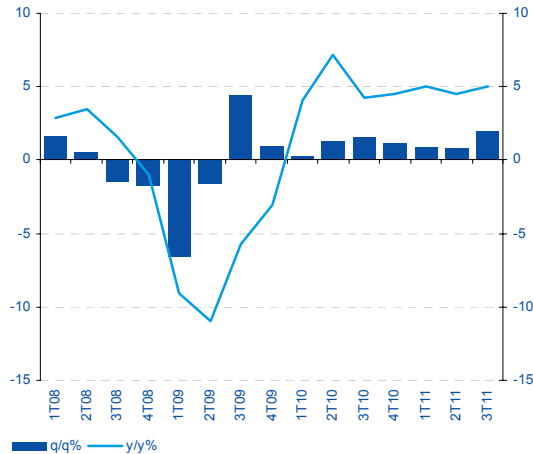
SA: Seasonally adjusted, investment is the sum of public and private components.

*GAP: due to seasonal adjustment

Source: BBVA Research with INEGI data

Chart 3

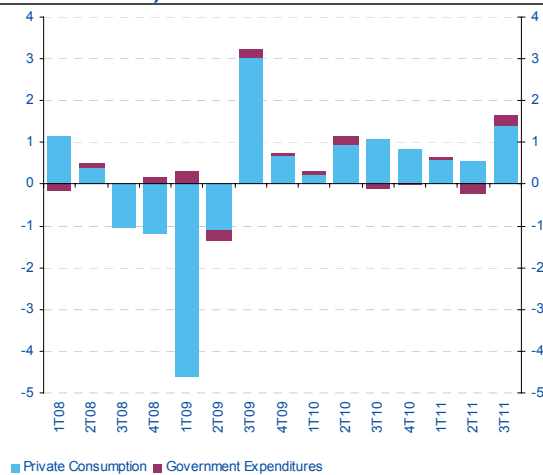
Private Consumption (q/q and y/y%)



Source: BBVA Research with INEGI data

Chart 5

Consumo Privado y Gasto Público (Contribuciones al crecimiento t/t)

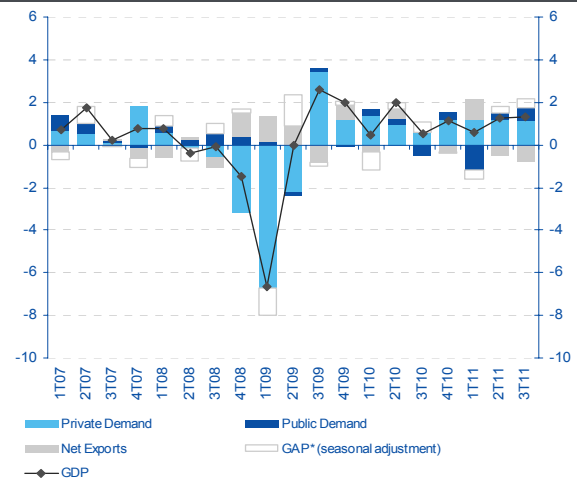


Source: BBVA Research with INEGI data

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Chart 2

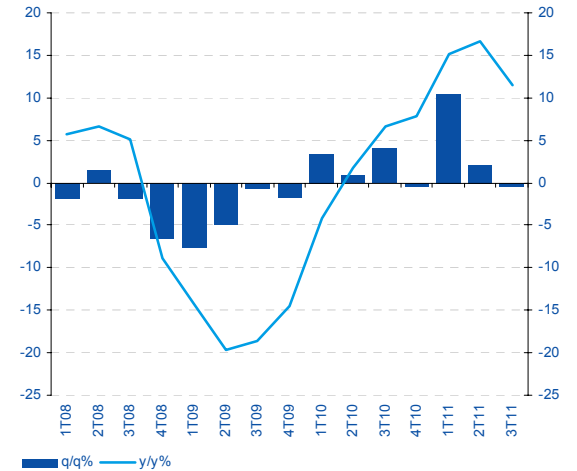
GDP: Contributions to growth q / q%



Source: BBVA Research with INEGI data

Chart 4

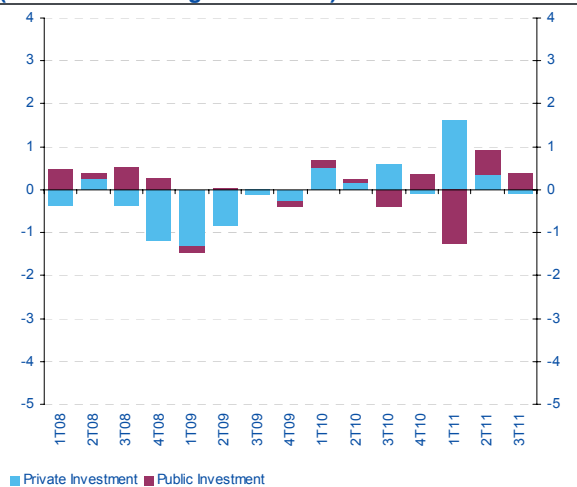
Private Investment (q/q and y/y%)



Source: BBVA Research with INEGI data

Chart 6

Public and Private Investment (Contributions to growth in t / t)



Source: BBVA Research with INEGI data

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