

Mexico Flash

GDP 4Q11: growing household spending, private investment falling and public demand picks up

- While private consumption continues with good growth, private investment surprised on the downside.
- The growing public demand driven by the end of political six-year cycle.
- The economic indicators forecast bias upwards the first quarter of the year. For now we maintain our forecast for 2012 growth at 3.3% but with an upward revision in perspective.

Private consumption grew slightly less than expected (0.8% m/m e, 0.6% o, growth in this component previously published for the 3Q11 was revised down from 2.0% to 1.8%), which is consistent with moderation in the pace of expansion of the measure of disposable income in real terms in the formal sector, which grew although deceleration profile throughout 2011. For the whole economy, labor income is hampered by wage moderation, while employment partially offset the rise. Access to credit in an environment of overall favorable financing conditions is a support for household spending on consumption.

In contrast, private investment negatively surprised (1% m/m e, -4.3% o), with smaller contributions from its two components, construction and mainly machinery and equipment. In the last months of the year the capacity utilization of manufacturing firms continued growing, while credit expansion remained near the previous quarter. Public investment grew at 10.7% q/q, (9.9% e), with important recovery on construction, its main destination. In this context, investment in public sector construction grew by 5.4% y/y in the last quarter, slightly higher than private with 2.3%, which contrasts with the average dynamic of the previous quarters: (-6% public, and 8.6% private).

Exports did not grow from the previous quarter, but its behavior was relatively better than in the 3Q11 (-1.6%), while imports slightly accelerated its growth dynamics on the one hand related to the behavior of investment in turn linked with external demand and on the other hand, due to maintenance on private consumption. It is worth noting that the import of capital goods grew in the last three months of 2011 at a monthly average rate of 2%, (-) 2.1% the previous three months, the same profile observed rise in public sector investment. As regards public expenditure, current and in capital investment, both grew at a pace consistent with the six-year political cycle.

Finally, we should mention the impact on the figures of the variation of stocks and seasonal gap aggregation of components, which in this quarter has been offset.

However, the latest conjuncture data: industrial production, employment and confidence for the first months of 2012 suggests that the first quarter could be better than estimated a quarter ago and specifically involve an upward bias in the forecast growth for 2012 (3.3%), which can be up to half a percentage point.

Table 1

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

	2010	2011	1Q11	2Q11	3Q11	4Q11		
						y/y	q/q	pp.
GDP	5.5	4.0	3.9	3.9	4.4	3.7	0.4	0.4
Internal (pp)	5.5	4.0	3.6	3.5	5.1	4.2	0.7	0.7
Consumption	0.0	0.0	4.6	3.7	4.1	3.8	0.7	0.5
Private	5.3	4.6	5.1	4.5	4.6	4.1	0.6	0.4
Public	2.1	0.6	1.2	-1.4	0.7	1.9	0.9	0.1
Investment	6.3	8.4	10.4	10.5	8.8	5.5	0.0	0.0
Private	6.4	12.1	14.5	17.4	10.3	6.7	-4.3	-0.7
Public	6.6	-1.8	-5.2	-9.4	4.0	3.8	10.7	0.6
Inventories (pp)	0.0	0.0	-2.0	-1.9	-0.3	0.8	0.7	0.7
Exports	21.7	6.8	11.6	8.7	4.4	3.0	0.0	0.0
Imports	20.6	6.8	9.3	6.8	6.5	4.9	0.4	0.1
Net Exports (pp)	0.0	0.0	0.5	0.5	-0.7	-0.7	-0.1	-0.1
Gap (pp)*			-0.3	0.2	0.2	-0.7	-0.6	-0.6

SA: Seasonally adjusted

* GAP: due to seasonal adjustment

Chart 1

GDP: Contributions to growth y/y%

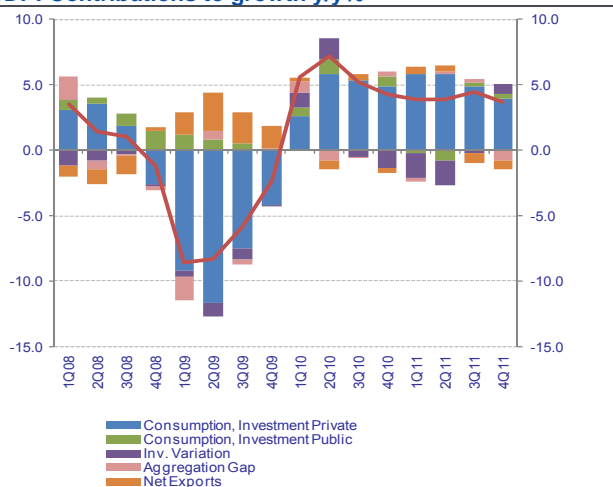
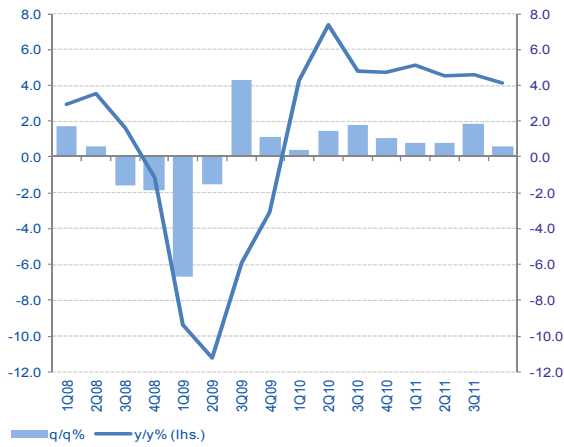
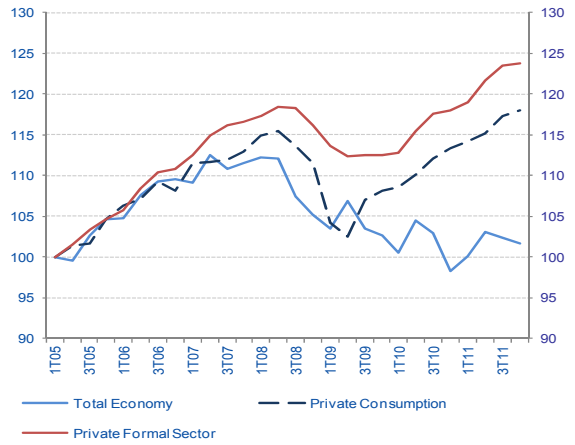


Chart 2
Private Consumption (q/q and y/y%)



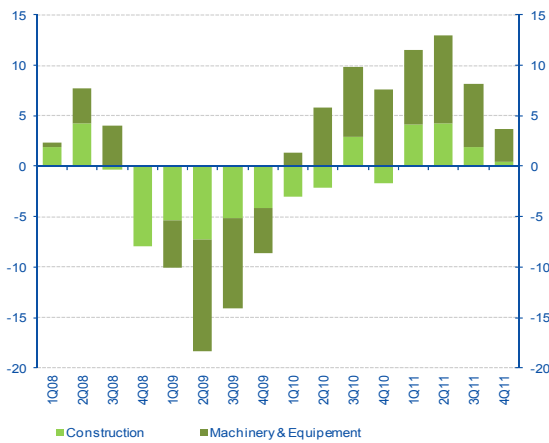
Source: BBVA Research with INEGI data

Chart 3
Private Consumption & Disposable Income (1Q05=100)



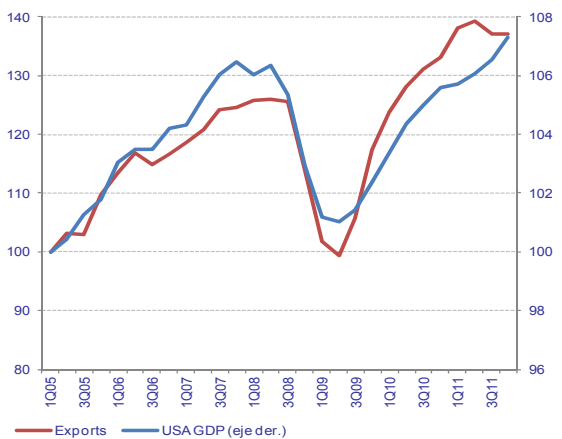
Source: BBVA Research with INEGI data

Chart 4
Private Investment: Annual growth contributions



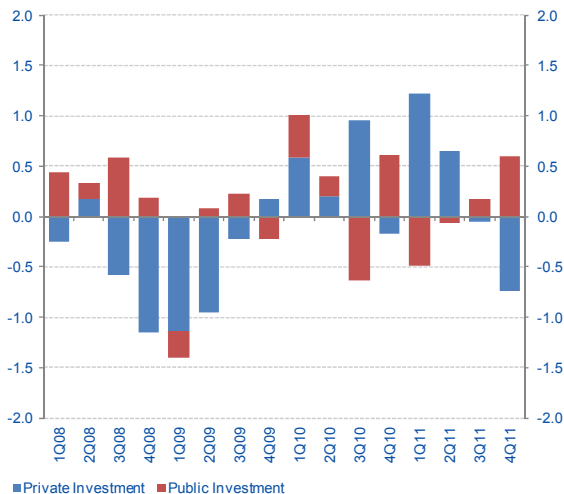
Source: BBVA Research with INEGI data

Chart 5
Exports & USA GDP (1Q05=100)



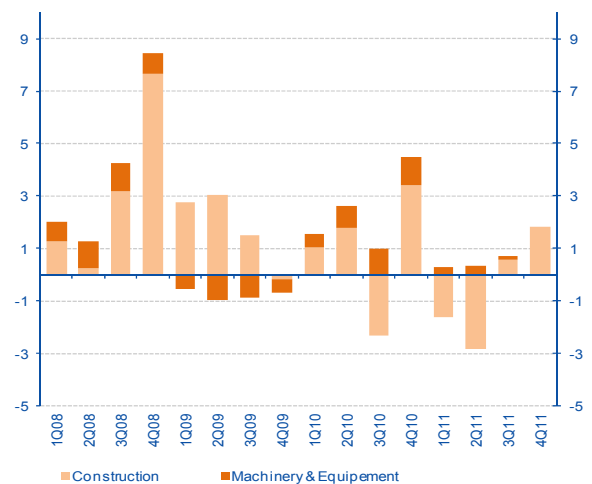
Source: BBVA Research with INEGI and Bloomberg data

Chart 6
Public & Private Investment (quarterly contributions)



Source: BBVA Research with INEGI data

Chart 7
Public Investment: Annual growth contributions



Source: BBVA Research with INEGI data

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