

Mexico GDP Flash

1Q12 GDP: growth based on private spending and exports, disposable income and access to financing

- Growth in the 1Q12 rested in private demand, household spending and business investment and in exports, reflecting the driving factors of the Mexican economy: employment, favorable financing conditions and external demand.
- The result of the 1Q12 and economic indicators available from 2Q12 would be consistent with growth in all of 2012 above the 3.7% published by BBVA Research in early May. However, the complex global financial environment and the recent moderation in the U.S. balance of new forecast, which in any case comes with a higher degree of uncertainty.

Continued strength of the components of domestic demand, particularly from private sources which contributed 0.8 percentage points (pp) to the quarterly growth of 1.3% of GDP over the 1Q12. The contribution from public demand was null and net exports contributed 0.5 pts.

The largest component in demand, **household consumption, grew at rate of 1% qoq in the first months of this year, virtually unchanged from the previous quarter (0.9%)**. In annual terms, the variation has remained almost constant at 4.3% in the last four quarters. Within the private consumption component it is worth noting the participation of national origin services (45% of total consumption) while its growth rate highlights the consumption of imported goods, which is related to the exchange rate effect. **The growth of household consumption is based on sustained growth in household disposable income, especially those with labor income from the formal sector.** The growing support of the claim, a banking system able to meet the effective demand for financing, it is also a supporting factor of the household spending on consumption. At the same time, we must not forget that according to ENOE's data, the total income from the labor market is falling for four years (-1.5% annually in the 1Q12) as a result of increased number of persons employed that does not offset the decline in hourly earnings in real terms.

The other major component of domestic demand, investment, grew 4.6% qoq in the first quarter, which was particularly relevant to the advancement of investment from private sources (6.4% qoq) while the public source fell (-)1.5%. In annual terms, however, advancing from public investment stood at 12.8%, the highest rate in three years, while the private investment was 7.5% higher than a year ago. Among the components of investment highlights the return on investment in construction and particularly the non-residential, mainly linked to the public sector, which has also increased its share on total investment.

Finally, the components of exports and imports had a significant improvement, with the largest increase in two years, 5.4% qoq and 3.6% of exports and imports respectively. In the case of exports 1Q12 expansion compares favorably against the average expansion of 0.9% per quarter during 2011. The strengthening of external demand and a favorable exchange rate are the variables that justify the behavior of foreign sales. Stresses in this regard, the recovery in services exports in recent quarters, consistent with the growth of tourism revenues.

The information available for the second quarter suggests that it has a good performance though somewhat below the 1Q12. It should be remembered that during 2Q12 two statistical effects took place: leap year effect and base effects related to output recovery from the Tsunami of 2011. **We maintain a forecast for the year at around 3.7% but do not rule it can be somewhat higher.**

Table 1

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

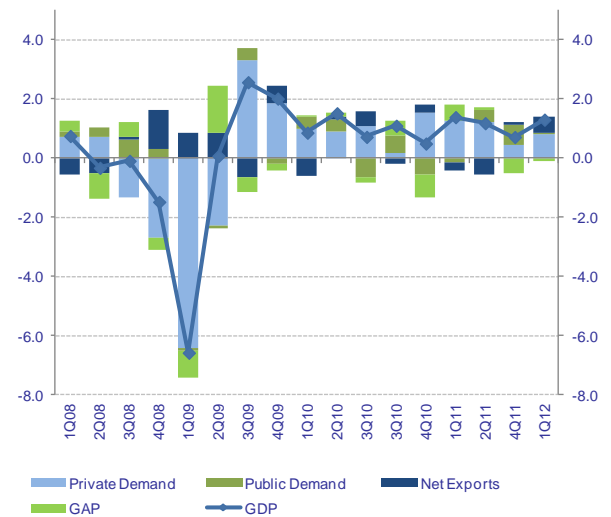
	2010	2011	1Q11	2Q11	3Q11	1Q12	1Q12		
							y/y	q/q	pp.
GDP	5.6	3.9	3.9	3.8	4.2	3.9	4.7	1.3	1.3
Internal (pp)	5.5	4.0	3.5	3.6	5.0	4.2	4.8	0.8	0.9
Consumption	4.6	4.0	4.5	3.5	3.9	3.9	4.1	1.0	0.8
Private	5.0	4.5	5.0	4.4	4.4	4.3	4.3	1.0	0.7
Public	2.4	0.6	1.3	-1.4	0.7	1.8	2.8	1.2	0.1
Investment	6.2	8.5	10.3	10.6	9.0	6.0	8.6	4.6	0.1
Private	6.3	12.3	14.4	17.5	10.4	7.4	7.5	6.4	1.1
Public	6.1	-1.9	-5.6	-9.4	4.2	3.8	12.8	-1.5	-0.1
Inventories (pp)	0.4	0.0	-1.8	-1.5	-0.5	0.4	-0.4	-0.9	-0.9
Exports	21.7	6.8	11.4	8.4	4.4	3.4	5.8	5.4	1.7
Imports	20.7	6.8	8.9	7.2	6.5	4.6	6.2	3.6	1.2
Net Exports (pp)	0.0	0.0	0.6	0.3	-0.8	-0.5	-0.2	0.5	0.5
Gap (pp)*			-0.3	0.1	0.4	-0.6	0.0	-0.1	-0.1

SA: Seasonally adjusted

* GAP: due to seasonal adjustment

Chart 1

GDP: Contributions to growth q/q%

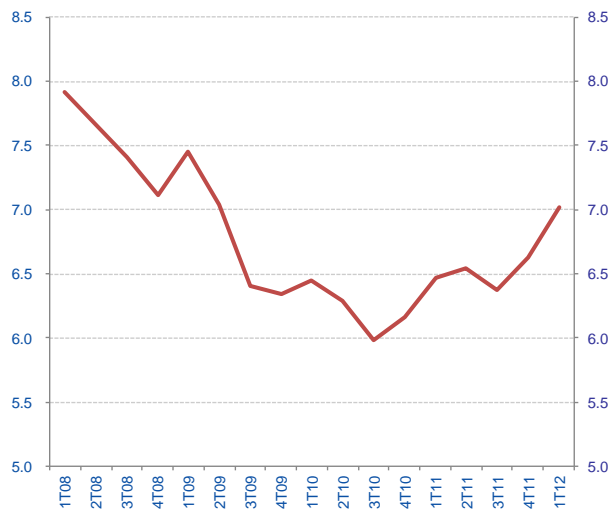


Source: BBVA Research with INEGI data

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Chart 2

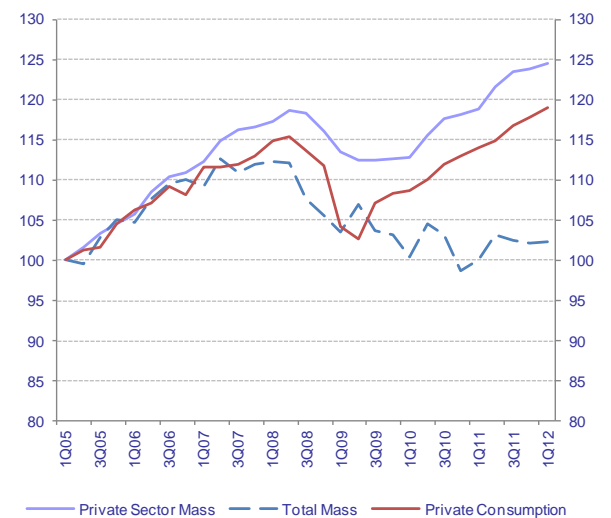
Ratio of consumer finance and total private consumption



Source: BBVA Research with INEGI data

Chart 3

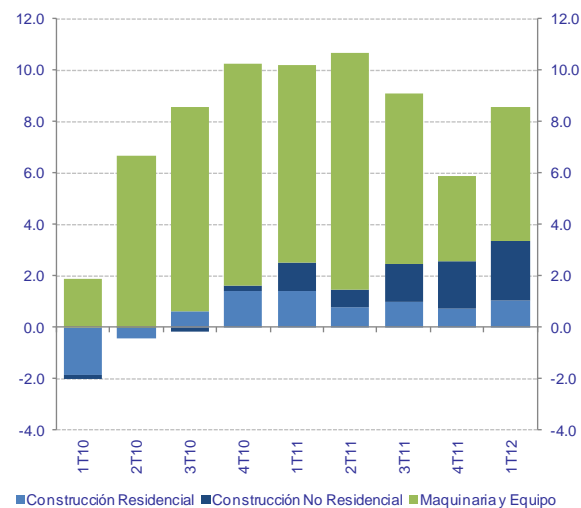
Private Consumption & Disposable Income Proxy (Mass) (1Q05=100)



Source: BBVA Research with INEGI data

Chart 4

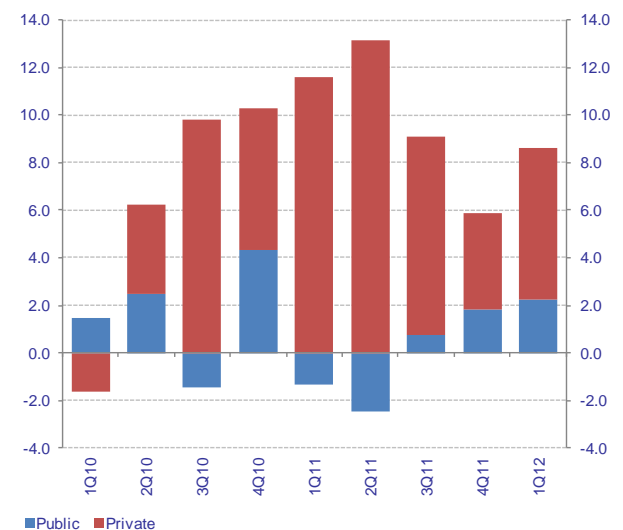
Total Investment (y/y% & components)



Source: BBVA Research with INEGI data

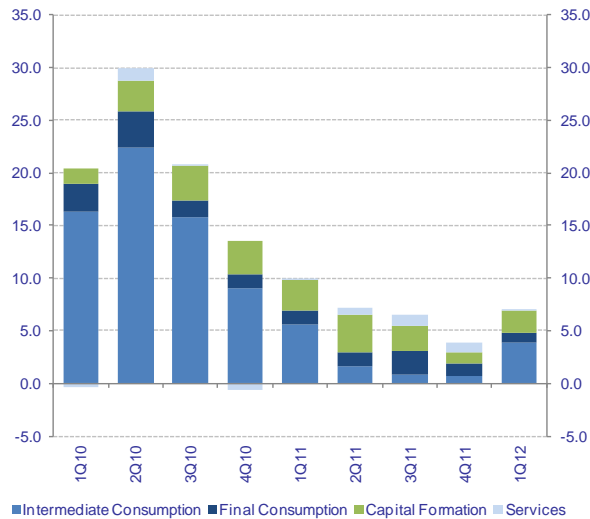
Chart 5

Total Investment (y/y% & components)



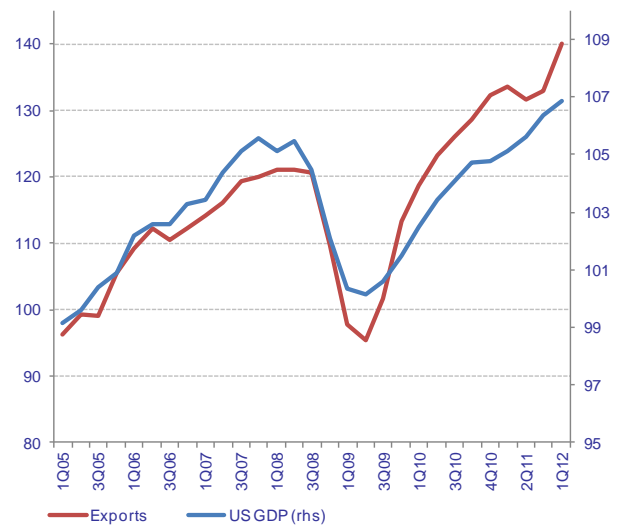
Source: BBVA Research with INEGI data

Chart 6

Imports (y/y% & components)

Source: BBVA Research with INEGI data

Chart 7

Exports & US GDP (1Q05=100)

Source: BBVA Research with INEGI data

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