

Mexico GDP Flash

GDP surprises to the downside with a reduction of -0.7% q/q. This mainly as a result of the strong decline in the industrial output

- The GDP declines in the 2Q13 and its 1Q13 print is revised to the downside. As a result, the annual GDP growth in the first half of the year is 1.4% in the seasonally-adjusted series (SA)
- It is worth noting the quarterly decline in the industrial sector (-1.1% q/q SA), and the first reduction in the services sector since the 2008 crisis (-0.4% q/q SA)
- The magnitude of the GDP reduction in the 2Q13 suggests that the GDP growth for this year will be significantly below expectations, and keeps the door open for a monetary rate cut in September

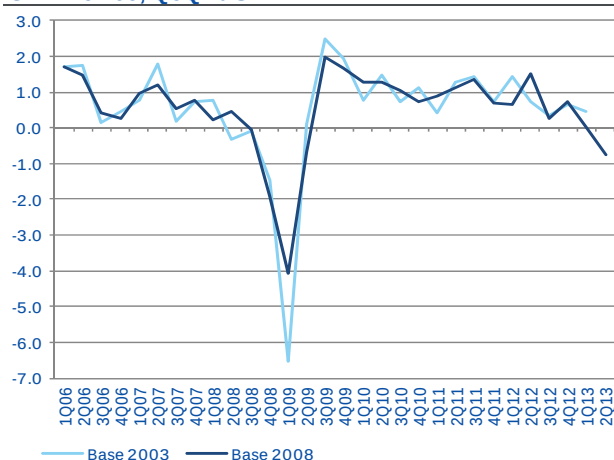
Quarterly GDP growth in the 2Q13 came out far below expectations (BBVA Research 0.2% q/q) at -0.7% q/q seasonally-adjusted (SA). This is the first quarterly GDP fall since the 2008 crisis. In addition, the GDP growth in the 1Q13 was revised downward from 0.5% to 0.0% q/q. As a result, the annual GDP growth in the first half of the year turned out to be 1.4% in the seasonally-adjusted series and 1.0% in the original series.

By components, the highlights are the quarterly fall in the industrial sector (-1.1% q/q SA), and the first reduction in the services sector since the 2008 crisis (-0.4% q/q SA). Regarding the industry component, the manufactures shows a slight acceleration that does not offset the weakness in the construction, mining, and electricity, water and gas sectors. In the services sector, 60% of its sub-sectors showed a quarterly reduction.

The lower than expected GDP figure had no significant effect on financial markets. The yields of the TIE IRS fell marginally, between 2 and 5 basis points for maturities below 12 months. The peso depreciated as the data was released. However, it strengthened afterwards.

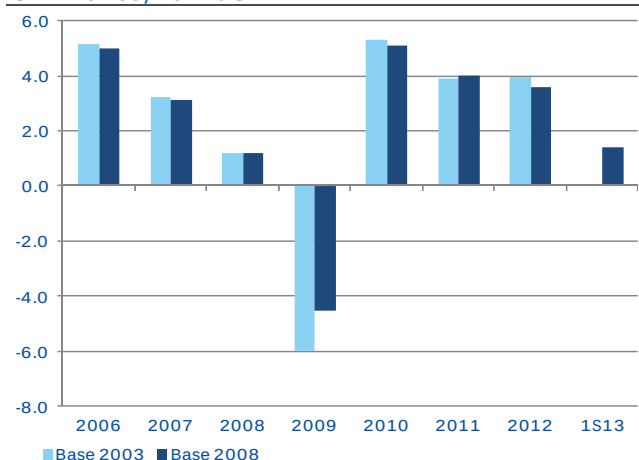
It is estimated that the GDP will accelerate in the second half of the year, however there is uncertainty about its magnitude given the scarcity of 3Q13 data. With less than 10% of the relevant data, the MICA-BBVA model estimates that the GDP growth in the 3Q13 will be around 0.6% q/q. The magnitude of the deceleration in the first half of the year suggests that the GDP growth for this year will be significantly below our previous forecast, and keeps the door open for a monetary rate cut in September.

Chart 1
GDP Mexico, QoQ % SA



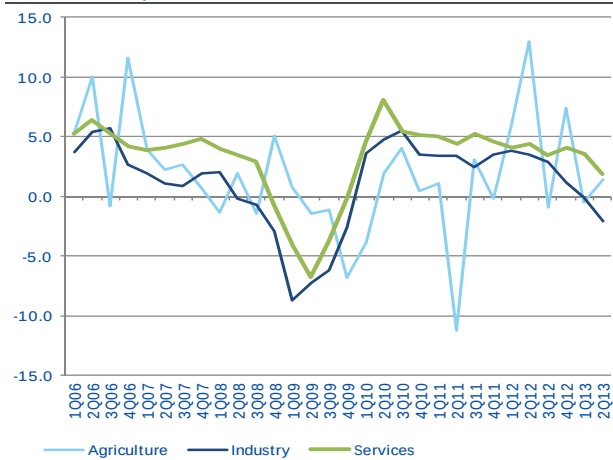
Source: BBVA Research with INEGI data. SA=seasonally adjusted.

Chart 2
GDP Mexico, YoY % SA



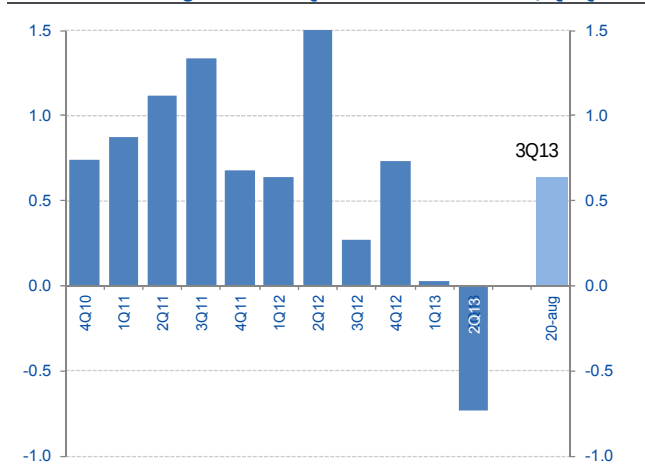
Source: BBVA Research with INEGI data. SA=seasonally adjusted.

Chart 3

GDP Mexico, YoY % SA

Source: BBVA Research with INEGI data. SA=seasonally adjusted.

Chart 4

Estimated GDP growth in 3Q: model MICA-BBVA, QoQ %

Source: BBVA Research.

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