# Mexico GDP Flash

## BBVA Bancomer revises its 2014 growth forecast downwards to 2.5% and raises its 2015 estimate to 3.5%, a result of lower-than-expected growth in the first quarter

- The quarterly growth rate (QoQ) of GDP in the first quarter of 2014 (1Q14) was 0.28%, seasonally adjusted (sa), equivalent to yearly (YoY) growth of 0.64%, below our forecasts and those of the market (BBVA Research: 0.64% QoQ; consensus: 0.60% QoQ).[1] The low growth in 1Q14 was the result of weak performance in the US economy caused by weather problems, of a greater-than-expected effect on consumption and investment of increased taxation, and of other internal factors such as the slow recovery of construction and lower oil production.
- In terms of GDP components, in 1Q14 primary activities recorded the best performance, with an annual growth rate of 4.9%. After this came tertiary activities, with an annual growth of 1.0%. Finally, secondary activities contracted over the year by 0.1%, all in seasonally adjusted terms.
- Due to lower-than-expected growth in the first quarter, and bearing in mind that the economy will accelerate in the coming quarters as a result of efficient expenditure and public-sector investment execution, as well as an improvement in the US economy, we believe that economic growth this year will be 2.5%. These factors are expected to remain stable throughout 2015, while structural reforms may start to show their first, still modest, results, which will be reflected in growth of around 3.5% that year.

Based on seasonally adjusted figures, GDP grew 0.28% in the first quarter of 2014 over the previous quarter. This reveals that the increase in economic activity was lower than expected at the beginning of the year. This deceleration was reflected in the monthly change of the Global Economic Activity Indicator (IGAE). This indicator's monthly growth rates for January and February respectively were 0.12% and 0.71%, seasonally adjusted, which suggested limited GDP growth for the first quarter. However, the IGAE monthly growth figure in March (-0.81%) was much worse than expected because of the fall in its three components: industrial production fell 0.13% MoM, sa, the services sector dropped 0.27% MoM, sa and agriculture slumped 3.83% MoM, sa.

GDP's quarterly growth rate of 0.28% in the first quarter of 2014 was below our estimate and that of the market, of 0.6% QoQ, accounted for by weak performance in the manufacturing and services sectors. Secondary activities fell 0.1 YoY, a similar level to the decrease of 0.1% YoY in the first quarter of 2013. The services sector recorded growth of just 1.0% YoY; this rate was much lower than the 3.8% YoY recorded in the same period in 2013. The primary sector was the only one to show an improvement over the same quarter's growth in 2013, at 4.9% YoY, whereas in the same period in 2013 it shrank 2.18%.

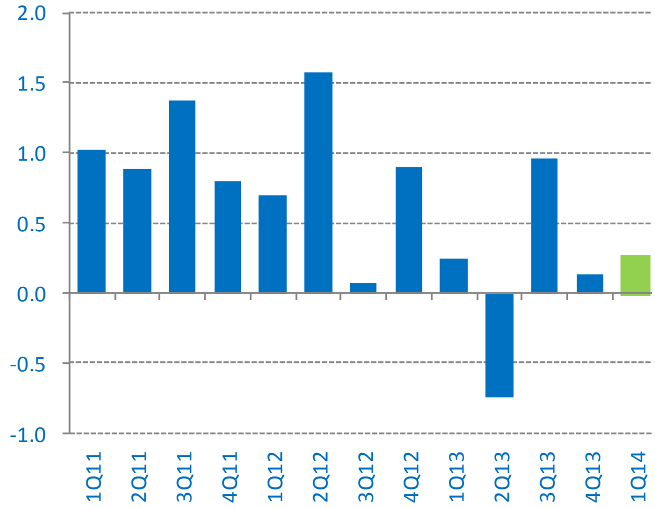
Major negative factors were behind this limited GDP performance in the first quarter: the low growth of the US economy over the first quarter (0.1% QoQ, sa) as a result of heavy storms in January and February; the weak domestic market, which was apparent in very modest consumption and low investment flows, both influenced by the increase in taxation; and lower oil production. Of the sectors with falls in investment, construction and mining suffered the most.

Due to the lower-than-expected growth of GDP in the first quarter, we have adjusted our economic growth scenario for 2014 downwards to 2.5%, from the YoY 3.4% that we have held to since the middle of 2013. This forecast is pegged to the following factors: that US GDP grows 2.5% in 2014, and that spending in the public sector flows as it

[1] See 16 May 2014 Weekly Flash: http://www.bbvaresearch.com/KETD/fbin/mult/140516_SemanalMexico_447_eng_tcm348-451027.pdf?ts=2652014

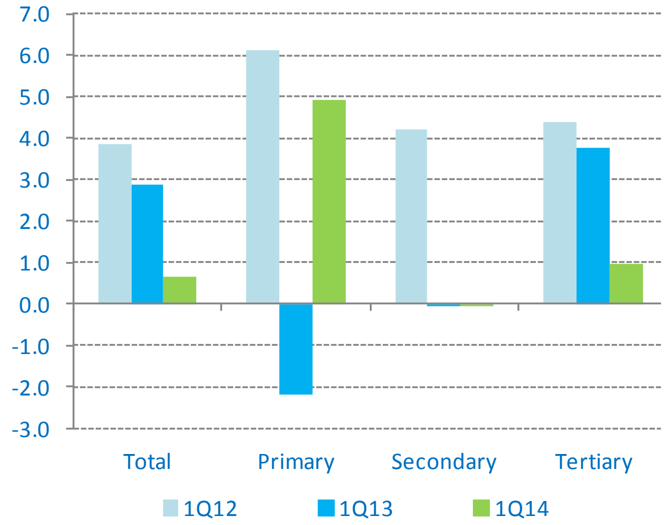
is needed, efficiently and in greater amounts, supported by the approved fiscal deficit of 1.5% of GDP. We estimate that these new factors should carry over into next year, at the same time as structural reforms may begin to show their first results in 2015, although still modest, which should be reflected in growth of around 3.5% for that year.

Figure 1
**GDP growth in Mexico, 2011-14**
**(QoQ % change, sa)**




Source: BBVA Research, with data from INEGI.

Figure 2
**Total GDP in Mexico and by activity sectors, first quarters, 2012-14**
**(YoY % change, sa)**




Source: BBVA Research, with data from INEGI.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