



Economics Group

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Mexican First Quarter GDP Surprises on the Upside

The Mexican economy grew 1.1 percent sequentially and by 2.4 percent on a year-earlier seasonally adjusted basis in Q1. However, the economy only grew 1.2 percent on a non-seasonally adjusted basis.

Services Continue to Drive Growth

The Mexican economy grew a better-than-expected 1.1 percent in Q1 compared to the previous quarter, and by 2.4 percent compared to the same quarter a year earlier, seasonally adjusted. However, on a non-seasonally adjusted basis, the economy only posted a 1.2 percent growth rate in Q1 compared to 2017 (top chart). That is, there appears to be a lot of noise in the data due to the differences in timing of the Easter holiday this year compared to last year.

The service sector, once again, delivered another solid performance in Q1; growing 1.2 percent on a quarter-over-quarter basis, while posting a growth rate of 3.1 percent year over year. However, on a non-seasonally adjusted year-over-year basis the service sector grew only 2.1 percent. The primary sector, which includes agriculture, cattle and fisheries, grew 0.8 percent during the quarter sequentially and by a strong 5.1 percent year over year. This sector was a bit stronger, up 5.3 percent, on a year-over-year non-seasonally adjusted basis.

The industrial sector also posted a strong performance sequentially, up 0.7 percent. However, the sector remained flat on a year-over-year seasonally adjusted basis. On a non-seasonally adjusted year-over-year basis, the sector was down 1.1 percent, the fourth consecutive year-over-year decline.

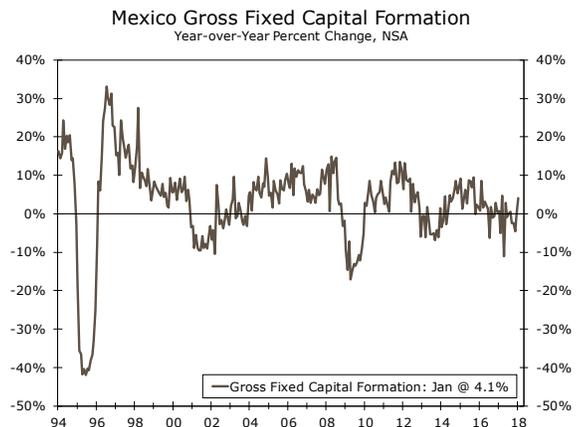
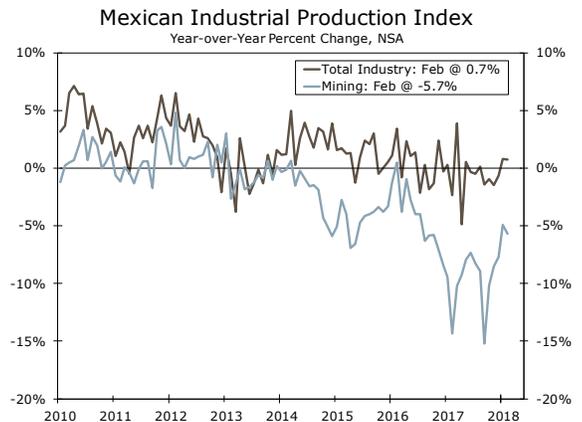
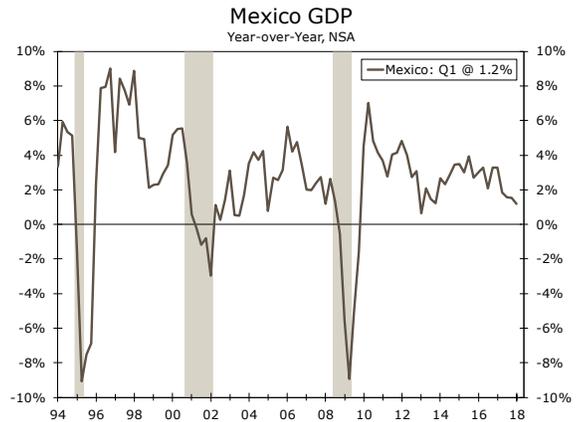
The results for first quarter growth should be taken with caution, however. As we previously mentioned, the difference in timing of the Easter holiday week, which fell mostly in March, is causing a lot of noise in the data.

However, we can observe that the seasonally-adjusted number for Q1, up 1.1 percent, not annualized, may be overstating the strength of the Mexican economy, while the year-over-year, non-seasonally adjusted growth rate, up 1.2 percent may be understating the true rate of growth. Thus, we will wait to make any changes to our forecast for the Mexican economy until we get more data on the second quarter of the year, when some of this data noise will be absent.

Political Noise Will Take Center Stage

What we can say regarding the Mexican economy, is that there has not been much change in this first quarter compared to what was happening at the end of last year. The service side of the economy, i.e., driven by domestic consumption, continues to deliver growth, while the industrial sector is still relatively weak, perhaps due to a weak mining sector.

The uncertainty in the data will probably be more than matched by uncertainty regarding the upcoming presidential elections. Andrés Manuel López Obrador (AMLO), from the Morena party, is expected to win the July 1 election, if election polls are to be trusted. Its ambiguous messages on the economy could lead to some uncertainty in the Mexican business community.



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