



Economics Group

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Mexico GDP: Service Sector to the Rescue in Q4

With an increase of 0.9 percent in Q4, the Mexican service sector came to the rescue amid a dismal performance from the primary sector and a flat reading from the industrial sector.

Mexican Economy Grew 2.5 Percent in 2015

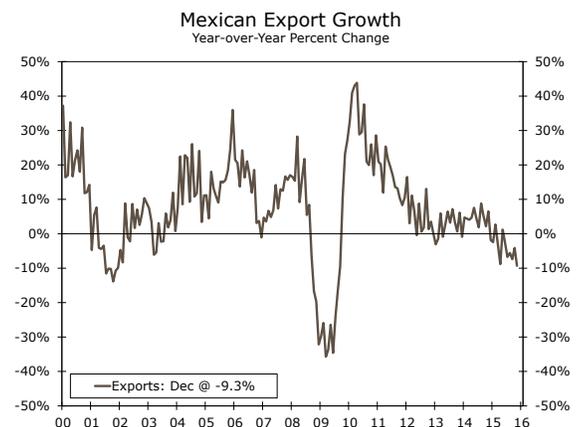
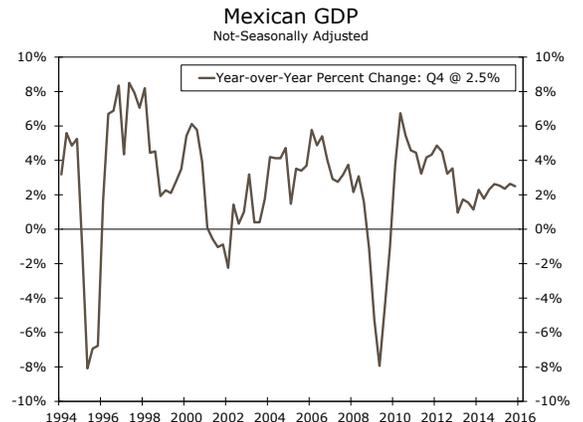
According to a new “flash” release for the Mexican economy that does not yet include the actual data for the different sectors of the economy but an overall performance of the broad sectors, i.e., primary (agriculture, cattle, and fisheries), secondary (industrial) and tertiary (services), the service sector came to the rescue in Q4 for the Mexican economy. On a seasonally adjusted basis, the Mexican economy grew 0.6 percent compared to the third quarter and 2.5 percent on a year-earlier basis. The service sector increased 0.9 percent in Q4 versus the previous quarter and by 3.5 percent versus a year earlier. The industrial sector performance was weak, reflecting the slowdown in automobile production and sales to the U.S. market. Industrial output was flat during the quarter and up only 0.6 percent versus a year earlier. Meanwhile, the primary sector plunged 1.7 on a sequential basis but increased strongly versus the previous year, by 3.1 percent. The behavior of the primary sector is not uncommon as it is the most volatile of all sectors from the supply side of the economy.

Overall, the Mexican economy grew a paltry 2.5 percent in 2015, in line with our forecast. The normal release of GDP, which includes a more comprehensive view of the supply side of the economy but not on the demand side, will be released on February 23.

Economic Growth Will Remain Constrained in 2016

Although there is no data to do a deep dive in the analysis of the Mexican economy in 2015 yet, the prospects for this year are not much better than last year. The story is, perhaps, the same as last year but with the addition of further pressures coming from the low price of petroleum, which will continue to affect the overall economy in general and Mexican government expenditures in particular. That is, the Mexican government is in full retreat today as it continuously accompanied any increase in revenues coming from the petroleum sector with increases in government expenditures. This means that Mexican fiscal policy, which has been highly expansionary during the past decade and a half or so should further become contractionary and act as a drag on economic activity in 2016.

Furthermore, if the automobile sector, and the industrial sector in general, continues to show a weakening performance as it showed during the fourth quarter of the year driven by slowing demand for autos from the U.S. market, then there is an increased possibility that our current GDP forecast for the Mexican economy in 2016, a 2.3 percent increase, may be correct. There are still 11 more months to go but we feel pretty good with our current forecast for the Mexican economy this year.



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