

Economics Group

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Mexico Surprises on the Upside in Q3

After several years of disappointing markets, the Mexican economy surprised on the upside in Q3 2015 by posting a growth rate of 2.6 percent on a year-over-year basis and 0.8 percent on a sequential basis.

Relatively Strong Domestic Demand Growth

The Mexican economy grew at a stronger-than-expected 2.6 percent rate in the third quarter, helped by a strong performance from the agriculture, fisheries, and forestry (primary) sector and the services sector. Output in the primary sector grew at a 3.8 percent year-over-year rate while the service sector printed a 3.2 percent rate. The weakest sector was the industrial sector, with a growth rate of only 1.2 percent.

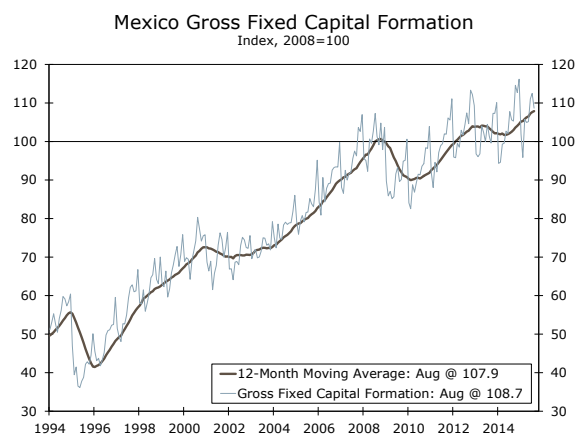
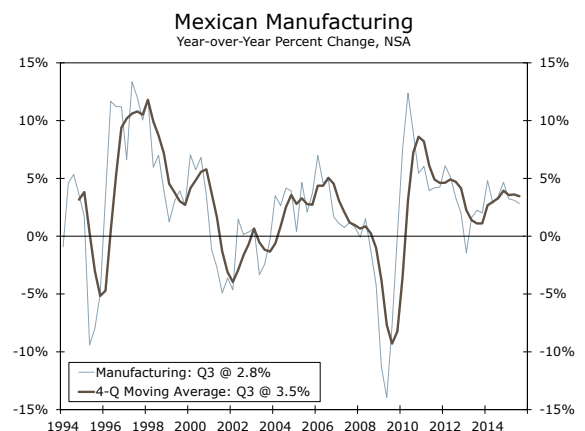
Although economic numbers from the demand side will not be available for more than a month, we can use some of the data on sectoral output to get a sense of how demand-side components performed during the quarter. For example, commerce output was very strong on a year-over-year basis with a growth rate of 4.8 percent while hotel and food services output increased 7.1 percent. Furthermore, entertainment and cultural services output posted a strong 5.3 percent year-earlier rate. This means that consumer spending likely remained relatively strong during the third quarter.

However, exports may not have been particularly strong as manufacturing output growth slowed down to a year-ago pace of 2.8 percent in the third quarter compared to a 3.1 percent rate in the second. Once again, mining output contracted, down 5.6 percent from a year ago, marking the sixth consecutive quarterly decline. The construction sector also strengthened during the quarter to post a growth rate of 3.5 percent, up from a 2.9 percent reading in the second quarter.

Output in the construction sector also accelerated, posting a growth rate of 3.5 percent compared to a 2.9 percent print during the second quarter. This is good news because the second quarter result was the slowest growth recorded since the construction industry recovered from its recession in 2013 and 2014.

Investment Probably Remained Weak in Q3

Overall, the Mexican economy did a bit better than expected during the quarter, driven by stronger domestic demand. Perhaps the biggest disappointment during the quarter was gross fixed investment. We already have two months of fixed investment data for third quarter and those numbers were not particularly strong. Fixed investment grew 4.4 percent in July and only 2.9 percent in August. September's gross fixed investment number has to be especially strong in order to reverse the weakening trend we have seen for Mexican investment and we are probably not going to see much here, especially due to the still-disappointing performance of the country's mining sector, but especially the energy sector. Thus, investment is the key to an even better performance by the Mexican economy going forward.



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