



# Economics Group

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## Argentina's Economic Recovery Strengthened in Q1 2017

**The Argentine economy grew 1.1 percent during the first quarter of the year, quarter on quarter, and by 0.3 percent year-over-year. Domestic demand was the main driver of growth in the quarter.**

### Private Consumption and Investment are Back

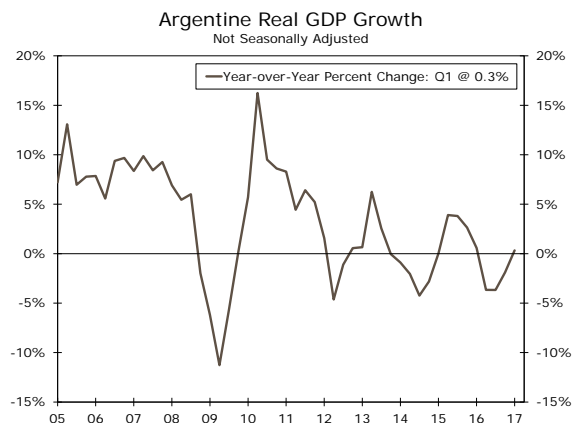
The Argentine economy grew 1.1 percent in the first quarter of the year, quarter on quarter, marking the third consecutive quarter-over-quarter improvement in economic activity. The quarter showed an important improvement from domestic demand, especially personal consumption expenditures (PCE) and gross fixed capital formation. PCE grew 0.9 percent on a year-ago basis—the first year-over-year increase since Q1 2016. Meanwhile, gross fixed capital formation improved 3.0 percent year-over-year in Q1—marking the first year-over-year increase since Q4 2015. Both measures show that the economy is on the mend and that the effects of the severe adjustments implemented by the Macri administration are finally abating.

Another sign that the economy is on the mend was reflected in the 4.3 percent year-over-year increase in real imports of goods and services. Meanwhile, real exports of goods and services declined 1.8 percent during the period, after a very strong performance during Q4 2016 and for the year as a whole.

When looking at the economy from the supply side, it is clear that there is still plenty of room for improvement and this is what the Macri administration is counting on. However, mid-term elections are threatening to disrupt the reforms made during the past several years. Although the manufacturing sector remained weak in the first quarter of the year, declining 2.2 percent from a year earlier, the severity of the manufacturing weakness lessened. Meanwhile, the construction and real estate sectors led the recovery in the first quarter after a severe contraction in 2016. Construction activity improved 1.9 percent on a year-ago basis in Q1 after plunging 11.0 percent in 2016, while real estate activities improved 2.7 percent year over year in Q1 after declining 0.4 percent for 2016 as a whole.

### Will the Recovery be Enough?

As we have been saying for several quarters, the Macri administration needs the economy to surge this year in order for the governing coalition to be able to keep the reform process in place. The recent return of ex-President Cristina Fernández de Kirchner to the political fray will probably add some risks for the political season. However, the Macri administration is probably betting that Mrs. Kirchner's irruption into the political scenery will help him and his coalition by dividing the Peronist party instead of unifying it behind the ex-President, as other individuals within the party try to contest her leadership. Still, it is too early to tell whether this new leadership is going to be able to unseat her as the leader of the party. For now, President Macri is counting on an improving economy to do the trick.



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