

# Mexico Weekly Flash

May 9, 2014  
Economic Analysis

Mexico

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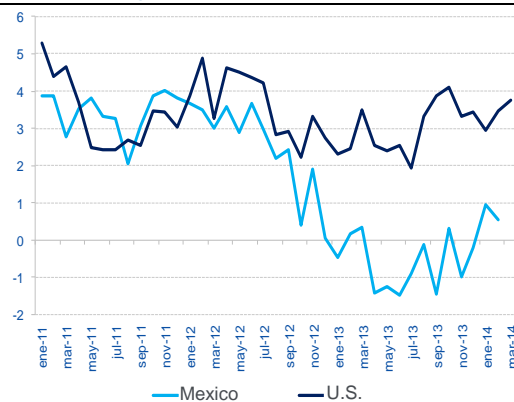
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## What happened this week ...

- Producer and consumer confidence reported weak performance in April (-0.5% and +0.1% MoM, sa, respectively).** The producer confidence index (PC) fell 0.5% MoM and seasonally adjusted (-8.5% YoY, sa), although the expected order volume went up by 0.6%, sa. Meanwhile, the consumer confidence index for April reported a monthly increase of barely 0.1%, sa (-6.1% YoY, sa). The key issue here was the drop in expectations of a better economic outlook for the country in twelve months' time, compared to now (-2.9% MoM, sa). Everything points to the perception of weak economic activity prevailing in the next few months. More job creation, which is expected, might help to reverse this sentiment.

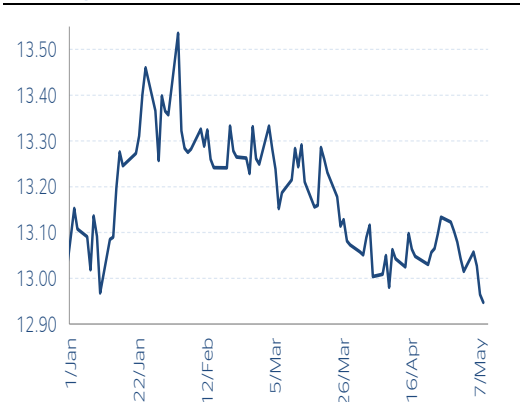
**Annual inflation's lowest point in 2014 has probably passed.** Headline inflation fell 0.19% MoM in April. This monthly drop was greater than anticipated (BBVAe: -0.10%, consensus: -0.13%). In annual terms, headline inflation went down to 3.50% from 3.76% in March. The surprise was due to lower core inflation than expected, led by a large reduction in the component prices of other services in the second half of the month (-0.53% QoQ), as well as an unexpected fall in fruit and vegetable prices in the second half (-3.26% QoQ). Core inflation went up 0.29% MoM, a little below our forecast (BBVAe: 0.34%, consensus: 0.36%). In annual terms, it went up to 3.11% from 2.89% in March. What is to come? We anticipate that the annual rate of inflation will stay at around 3.5% in May, and will then go up gradually towards 4.0% over the next few months, before falling to 3.7% by the end of the year. Core inflation, for its part, will, we believe, remain slightly above 3.0% in the next few months, before curving up slightly in the second half of the year towards an average of 3.2%, if, as expected, the economy strengthens.

Figure 1  
**Industrial production in Mexico and the United States, 2011-14**  
(YoY % change, sa)



Source: BBVA Research with data from INEGI. sa = seasonally adjusted.

Figure 2  
**Exchange rate MXNUSD**



Source: BBVA Research with data from Bloomberg

- **The February 2014 gross fixed investment index published by INEGI reported better performance than expected.** For that month the index showed a negative real growth rate of -0.5%, a consequence of the 2.7% contraction in its construction component and of the favourable surprise of 3.3% growth in the machinery and equipment component. The real annual average growth rate from January 2013 to February 2014 of the gross fixed investment index and its construction and machinery and equipment components was -1.7%, -4.7% and 4.0% respectively. It should be borne in mind that the volatility (i.e. standard deviation) of the machinery and equipment item is very high and much greater than that of the construction item, so we can expect better performance in construction investment to show itself slowly, while the performance of investment in machinery and equipment may be more variable.
- **Greater demand for risk assets in the view of the likelihood that US quantitative easing will continue.** In her testimony to the US Congress mid-week, the Federal Reserve Chair stated that high monetary support is assured and repeated that the federal fund rate will stay at its current level for a considerable time after asset buying is completed, given the prevailing weakness of the labour market. These declarations drove the demand for risk assets, which translated into gains on the stock markets (S&P 500 +0.59%, IPC +0.80%) and a 0.48% appreciation of the peso, which closed at under US\$MXN 13.00. In fact, the peso closed the week at its lowest levels this year. In the bond market, the yield on 10-year bonds fell 4bp after the Chair of the Fed had spoken and 17bp over the week. Towards the end of the week, long-term rates in the US went up, in the context of the fall in demand at auctions of new instruments.

### ...What is coming up next week

- **March industrial production will go up 1.6% YoY, seasonally adjusted (sa), equivalent to 0.93% MoM, sa.** We estimate that this increase will be accompanied by good performance from the US monthly industrial production indicator in March (0.7% MoM, sa). In February, Mexico's industrial production grew 0.54% YoY, sa. In monthly terms it grew 0.28%, linked to a major increase in construction (1.24% MoM, sa) and a smaller one in mining (0.47% MoM, sa) and manufacturing (0.17% MoM, sa). Meanwhile, the electricity, gas and water sub-sector fell (-0.65% MoM, sa).
- **The ANTAD same-store sales (SS) index for April should begin to reflect a slower deterioration in consumption.** On 12 May the National Association of Self-service and Departmental Stores (ANTAD) will publish the April 2014 figure for its same-store (SS) sales, indicating the nominal growth rate of sales recorded by stores belonging to this association. In March, the ANTAD SS indicator showed a negative annual growth rate of -2.4%. We expect the April ANTAD index for same-store sales to be -0.6%. If this occurs, consumption will be improving inasmuch as it is weakening less. As the process of economic activity expansion accelerates, the increase which is also coming through in consumption should also be reflected in the ANTAD SS index.
- **Markets next week ....** The US industrial production figures for April will have to be followed closely to confirm the greater momentum shown in activity since the winter months. Likewise, it will be important to track the housing sector data, particularly now that the Fed Chair has noted the slowdown in this sector as one of the risks to growth.

## Indicator Calendar

<b>Mexico</b>	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Industrial production (YoY % change, sa)	March	12 May	1.61%	--	0.54%
Industrial production (MoM % change, sa)	March	12 May	0.93%	--	0.28%
ANTAD Sales (YoY % change, SS, nom)	April	12 May	-0.6%	--	-2.4%

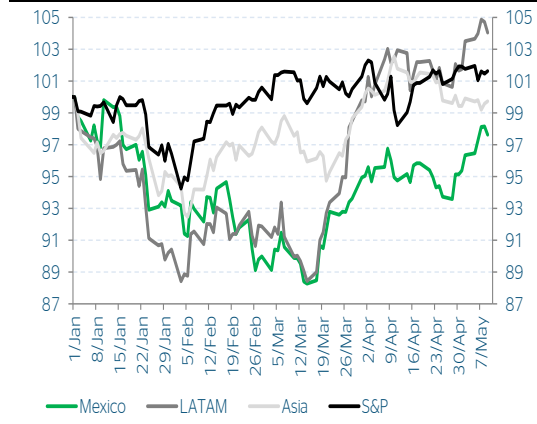
  

<b>United States</b>	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Empire State Manufacturing Survey General Business Conditions (Index, sa)	May	15 May	5.0	6.0	1.3
Industrial production (MoM % change, sa)	April	15 May	0.2%	0.0%	0.7%
Capacity Utilization (% of total capacity, sa)	April	15 May	79.2%	79.1%	79.2%
National Association of Home Builders Market (Index)	May	15 May	48.0	49.0	47.0
Private Housing Authorized by Bldg Permits by Type (SAAR)	April	16 May	1000	1015	997
University of Michigan Survey of Consumer Confidence Sentiment (Index)	May	16 May	84.3	84.5	84.1

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted.

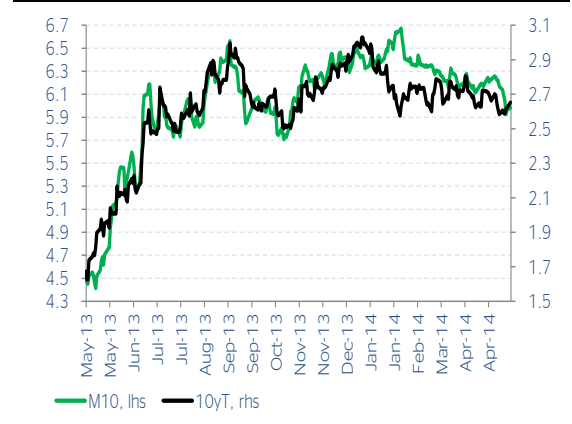
## Markets

Figure 3  
**MSCI stock market indexes**  
(1 Jan 2014 index=100)



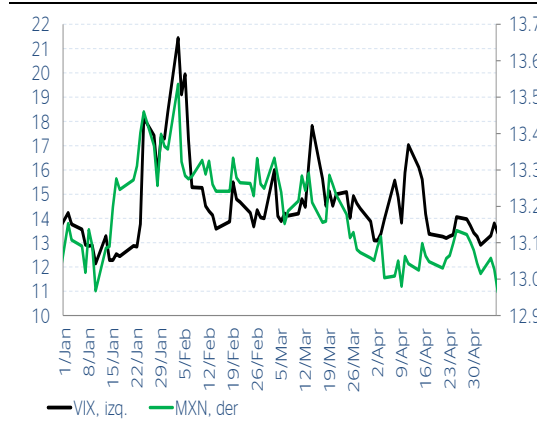
Source: BBVA Research, Bloomberg

Figure 4  
**10-year government bond yields (%)**



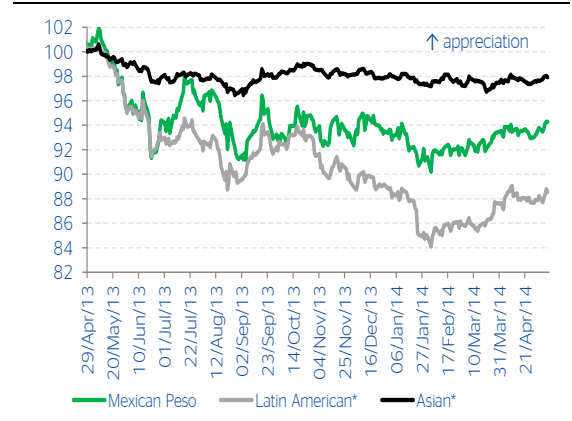
Source: BBVA Research, Bloomberg.

Figure 5  
**Global risk and exchange rate**  
(VIX index & MXNUSD)



Source: BBVA Research, Bloomberg

Figure 6  
**Currencies to USD**  
(29 April 2013 index=100)



\* JP Morgan's indices of Latin American and Asian currencies against the US dollar; weighted averages by trade & liquidity.  
Source: BBVA Research, Bloomberg

## Yearly information and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	3.9	1.1	3.4
Headline inflation (Avg.)	4.1	3.8	4.0
Core inflation (Avg.)	3.4	2.7	3.1
Monetary Policy Rate (Avg.)	4.5	3.8	3.5
M10 (% change Avg.)	5.7	5.7	6.6
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research.

## Recent publications

Date	Description
5 May 2014	➡ <a href="#">Mexico Migration Flash. Remittances to Mexico grew at double digit in March: increased 16% in annual rate</a>
5 May 2014	➡ <a href="#">Mexico Economic Watch. Mexican manufacturing exports gained competitiveness in 2002-2012</a>
9 May 2014	➡ <a href="#">Mexico Flash. There are signs that economic activity has started to improve</a>

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