

Economic Analysis

April's Global Economic Activity Index (IGAE*) will show an annual acceleration of 1.6%

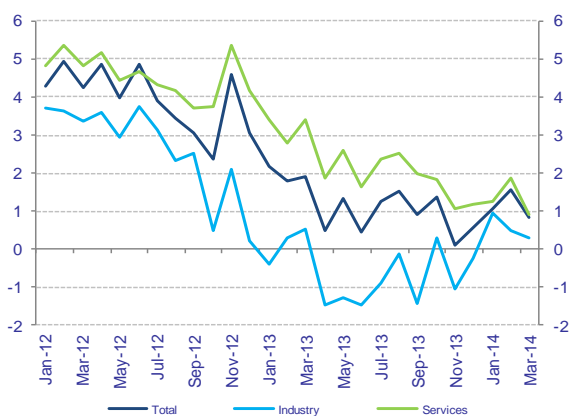
Arnoldo López / Juan Carlos Rivas / Javier Amador / Iván Martínez / Javier Morales

What happened this week ...

The minutes of the meeting to discuss June's monetary rate policy decision show that the surprising rate cut was approved after a split vote. In particular, two of the five members of the governmental committee voted to keep the rate unchanged. The exchange of opinions focussed on the effects of keeping a real negative rate for a prolonged period of time, the possible under-estimate of inflationary risks, the lag until a change in monetary policy has an effect and the cut's potential credibility cost. The members of the central bank's steering committee acknowledged that the first quarter's GDP figures, the IGAE's fall in March and the downwards GDP correction in the first quarter in the US are leading towards a downwards revision of growth for this year.

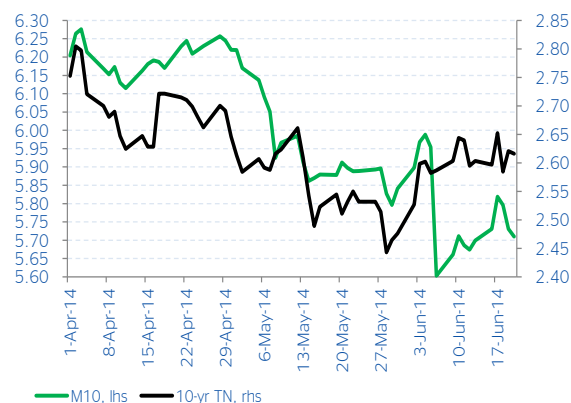
Retail sales in April reported an annual (YoY) increase of 2.0%, seasonally adjusted (sa), equivalent to a monthly rise of 1.1%, sa. This result, above our expectations (BBVAe: 1.2% YoY and 0.8% MoM), apart from being due to revisions of earlier figures, seems also to be linked to a slight recovery in employment and inflation's stability over the month in question. Nevertheless, consumption overall is still weak, which casts uncertainty over the strength of the recovery in the second quarter.

Figure 1
IGAE by components, 2012-14
(% annual variation, sa)



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

Figure 2
M10 and 10-year T-bond (%)



Source: BBVA Research with data from Bloomberg.

* IGAE: Índice Global de Actividad Económica

On 19 June, the INEGI announced the components of GDP in the first quarter of 2014. During this period the quarterly growth rate of GDP with seasonally adjusted figures was 0.28%. The seasonally adjusted quarterly growth of the GDP components was as follows: private sector consumption, 0.2%; public sector consumption, -0.3%; total gross investment, -0.5%; exports, 1.9%, and imports, 4.5%. The most important component of GDP is private consumption, which in the first quarter made up 68% of the whole, and its slow growth rate is one of the principal factors accounting for the country's limited economic activity. The variation of consumption in the public sector was lower than expected, as was the growth of gross fixed investment, which may be an indication that the effect on GDP of higher consumption and investment in the public sector may become visible in coming quarters. Exports, meanwhile, showed moderate improvement over earlier quarters, while imports showed a significant increase, which may be a factor limiting GDP growth.

The Fed beefed up support for emerging markets assets this week. The more relaxed tone of the FOMC statement this week had the knock-on effect of a small rally in treasury bonds and gains in emerging markets assets. The recent measures by the ECB, plus a Federal Reserve which is still indicating that the beginning of the bull cycle remains far off, together with low volatility and gradual improvement in the global cycle, are all combining at the moment to foment a supportive environment for higher risk assets. In this context, stock markets are enjoying gains, as are emerging currencies in the main, among them the Mexican peso. Long-term interest rates, both in Mexico and in the US, ended the week at levels close to those of the previous Friday (after having increased at the beginning of the week, yields fell in response to the Fed's statement). Next week, possibly the most important event in terms of global sentiment will be the publication of China's PMI manufacturing demand index on Monday.

...What is coming up next week

The unemployment rate will increase to around 4.89% in May. On Monday the INEGI will publish the May occupation and employment figures. These indicators will report on the labour market's performance and will give us measurements of how economic activity has performed so far during the second quarter. Given the slow pace of the economy, we expect the unemployment rate to rise a little and come in at 4.89% in May, up from 4.84% in April this year.

April's Global Economic Activity Index, the IGAE, will post annual growth (YoY) of 1.63%, sa, equivalent to a monthly increase (MoM) of 0.47%, sa. This is a result of improvement not only in the industrial sector but also in services, with a rise in both cases of 0.6% MoM, sa. In March the IGAE suffered a monthly fall of 0.8%, sa, due to the slump in agriculture (-3.8% MoM, sa), services (-0.3% MoM, sa) and industry (-0.1% MoM, sa). However, there was a correction to industrial GDP in March from -0.13% to +0.24%, so it is likely that the March IGAE will correct upwards slightly.

We anticipate that the inflation figure for the first half of June will benefit again from favourable supply factors. We forecast a fortnightly rise of 0.03% in the general price index and an uptick of 0.06% in the core index. Our agriculture and fisheries price monitor points to a significant fortnightly fall in prices in the fruit and vegetable component, which will be partly offset by an increase in fish prices (driven mainly by the considerable increases in beef and pork prices). In annual terms, we estimate that headline inflation will come in at 3.65% (compared to 3.51% in May) and that core inflation will be 3.03% (as against 3.00% in May).

To close the week, on 27 June the INEGI will publish the country's May balance of trade figures. We estimate that for that month there will have been a positive balance of USD975mn. This would make it bigger than the previous month's balance (USD510mn), as well as contrasting with the deficit the year before, in May 2013 (-USD460mn). The surplus estimated for May's trade balance will be the result of annual growth during that month of 2.1% in goods exports and a 2.2% contraction in imports.

Indicator Calendar

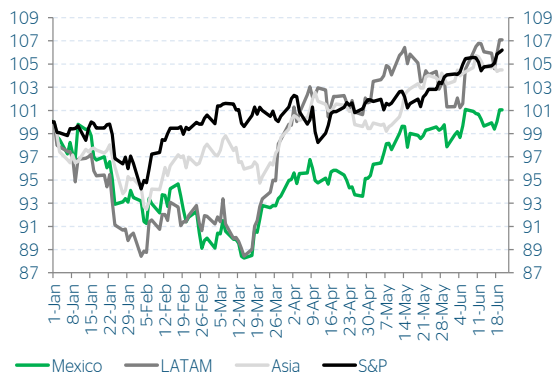
Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	Mayo	23 June	4.89	4.79	4.84
IGAE (YoY % change, sa)	April	24 June	1.63	--	0.55
Headline inflation (YoY % change)	1HJune	24 June	3.65	3.71	3.58
Headline inflation (FoF % change)	1HJune	24 June	0.03	0.12	0.15
Core inflation (FoF % change)	1HJune	24 June	0.06	0.09	0.15
Trade Balance (USD mn)	May	27 June	975	492	510

United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Consumer confidence (1985 index=100, sa)	June	24 June	84.1	83.5	83.0
GDP (QoQ % change, saar)	1Q14	25 June	-0.5	-1.8	-1.0
Personal consumption (QoQ % change, saar)	1Q14	25 June	3.1	2.5	3.1
Personal income (MoM % change, sa)	May	26 June	0.4	0.4	0.3

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. saar = seasonally-adjusted, annualized rate. 1Q14 = First quarter 2014.

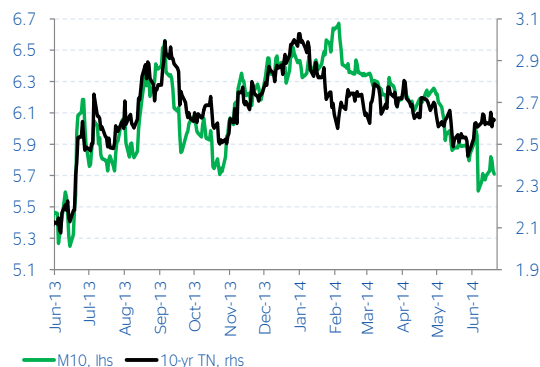
Markets

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



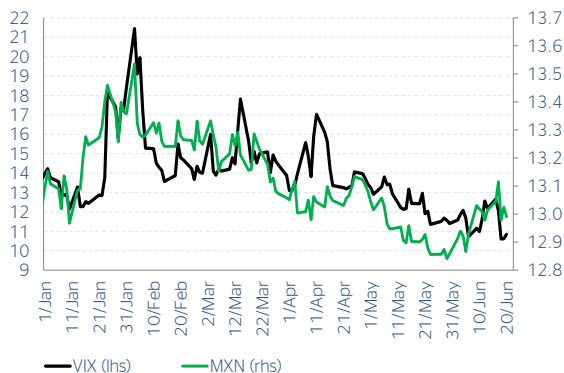
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



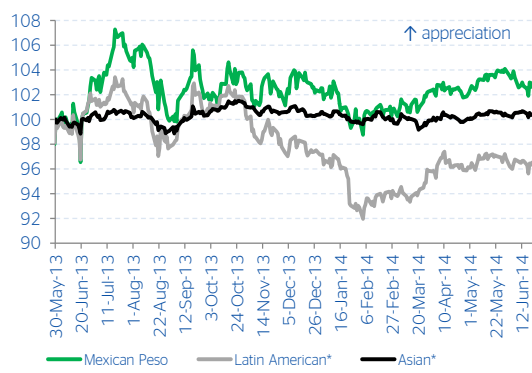
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies to USD
(20 June 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

Annual information and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	4.0	1.1	2.5
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	3.2
M10 (avg. %)	5.7	5.7	6.1
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research

Recent publications

Date	Description
16 Jun 2014	➔ Mexico Banking Flash. Bank deposits: with accelerated growth in April
19 Jun 2014	➔ Mexico Economic Outlook Second Quarter 2014
20 Jun 2014	➔ Banxico Flash. Rate cut decision made by simple majority

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