

Economic Analysis

Producer and consumer confidence will improve at the end of the second quarter this year

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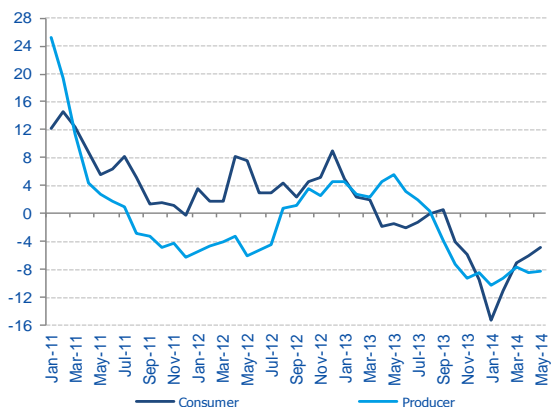
What happened this week ...

As we anticipated, May's unemployment rate increased to 4.92%, in line with our forecast, and above the consensus (BBVAe: 4.89%; consensus: 4.78%). This performance is indicative of a slow change in the labour market and suggests a weak recovery of consumption and of the domestic market towards the end of the second quarter of the year.

According to the INEGI, Mexico's Global Economic Activity Indicator (IGAE) rose 2.9% in April over the same month in 2013, with seasonally adjusted figures (sa). Thus, the monthly growth rate (MoM) was 1.2% sa. The acceleration of the IGAE, for the first time since December 2012, was principally due to an annual (YoY) increase in the services sector (3.1%). Industry expanded 2.5% YoY and agriculture grew by 1.5% YoY, all with seasonally adjusted figures. In monthly terms, the IGAE grew by 1.2%, which was higher than our forecast (BBVAe: 0.5% sa). Services enjoyed a substantial increase of 1.1% MoM and industry grew 0.6% MoM. However, in monthly terms, agriculture experienced no growth.

The figure for inflation in the first half of June crept up by 0.08% in the general price index and there was 0.12% growth in the core index. In annual terms, core inflation was recorded at 3.71% (compared to 3.51% in May) and core inflation came in at 3.09% (compared to 3.00% in May).

Figure 1
Producer and consumer confidence indexes, 2011-14
 (annual % change, sa)



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

Figure 2
DB currency volatility index (%)



Source: BBVA Research with data from Bloomberg. Note: calculated on the basis of the implicit 3-month volatility of the 9 major exchange rates worldwide.

The INEGI reported that in May the trade balance recorded a USD132mn surplus. The country's goods exports over the first five months of 2014 have performed much more favourably than in the same period in 2013, with the average annualised growth rate coming in at 3.4%, in contrast to an average rate of 0.1% over the same period last year.

Downward correction of first quarter growth in the US increases the likelihood that monetary support will continue for a long time. The US economy reported negative growth of -2.9% at an annualised rate in the first quarter, its worst performance since the first quarter of 2009. This figure, which considerably flattens the US economy's growth expectations for 2014, vindicates the easing stance emphasised by the Fed in its latest statement and is reflected in expectations that the monetary rate rises will not be brought forward. In view of these forecasts and the historically low volatility levels in the FX markets (see Figure 2), the MXN appreciated 0.18% over the week, closing at just under USDMXN 13.00. Lower growth expectations for the North American economy predominated in the stock market and influenced a fall over the week of around 0.8% in the CPI. In the government debt market, yields on the 10-year bond fell by 4bp, similar to the 7bp fall recorded by the equivalent US T-bonds.

...What is coming up next week

Next week the IMEF will publish its indicators for performance forecasts in manufacturing and non-manufacturing for June. These indicators will provide signals as to Mexican economic activity up to the close of the second quarter. We estimate that these IMEF indicators will be positive, in the light of the improvements in economic activity over the last few months in the US.

Remittances may have grown by 3.4% in May, equivalent to revenue of USD2.12bn. If this figure is confirmed, May could be the month with the biggest income from this foreign cash flow item, slightly bettering the remittance figures for March. Thus, after a first quarter with an average annualised jump of 11.7%, we estimate that this trend will soften in subsequent months, but staying on the path of growth.

Producer and consumer confidence will report an improvement in June (1.0% and 0.5% MoM, sa, respectively). On Friday 4 July, the INEGI will publish the figures for the producer (PCI) and consumer (CCI) confidence indexes for June. We forecast that the PCI will stand at 51.5 points, in other words, a monthly increase of 1.0%, sa. Meanwhile, in view of the continued, although slow, growth in formal employment in May (47,853 jobs), we expect the CCI to rise by 0.5% MoM, sa, and to reach a level of 90.8 points, sa. This will be equivalent to a level of 91.1 points with original series (see Figure 1).

Employment and manufacturing activity reports in the US will focus the attention of markets. On Thursday 3 July the change in the US non-farm payroll will be published, which is expected to hold growth at over 200k jobs, and thus reinforce expectations of higher growth in the US economy for the rest of the year. In addition, June unemployment and manufacturing orders figures will be announced. The Fed Chair Janet Yellen's words to the IMF will also be of interest, after the greater-than-expected fall in US economic activity in the first quarter.

Indicator calendar

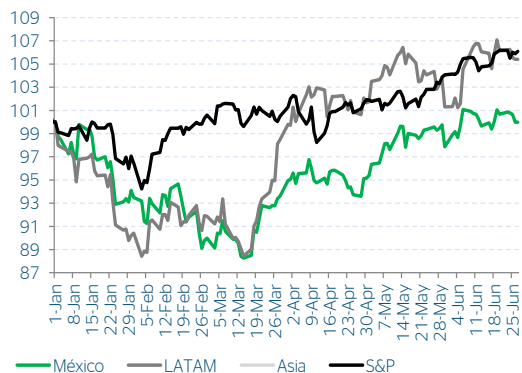
Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
IMEF manufacturing indicator (index, sa)	June	1 July	52.6	52.5	52.2
IMEF non-manufacturing indicator (index, sa)	June	1 July	--	--	50.1
Family remittances (USD mn)	May	1 July	2,121.0	2,172.5	1,980.3
Producer confidence (Index, sa)	June	4 July	51.5	--	51.0
Consumer confidence (index)	June	4 July	91.1	90.8	90.7

United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Total car sales (mn)	June	1 July	16.8	16.3	16.7
Manufacturing Orders Index (Index, sa)	June	1 July	56.3	55.8	55.4
Balance of trade (USD bn, sa)	May	3 July	-46.9	-45.0	-47.2
Non-manufacturing Orders Index (Index)	June	3 July	57.1	56.3	56.3

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

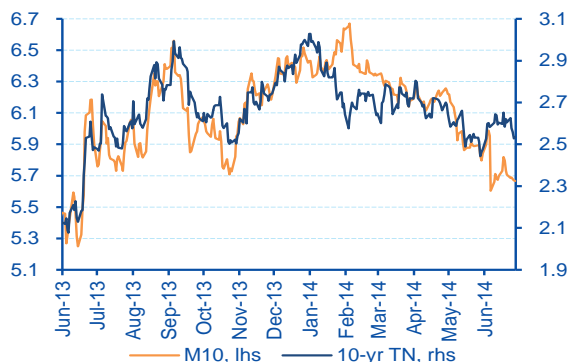
Markets

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



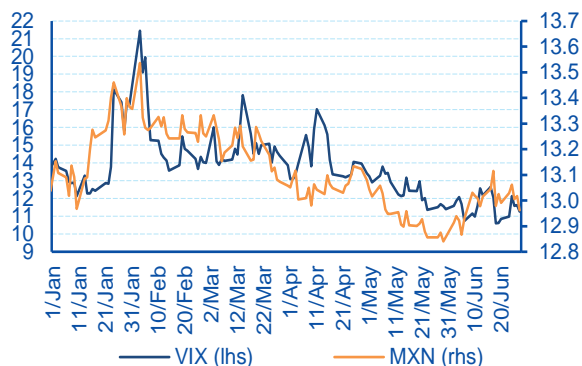
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



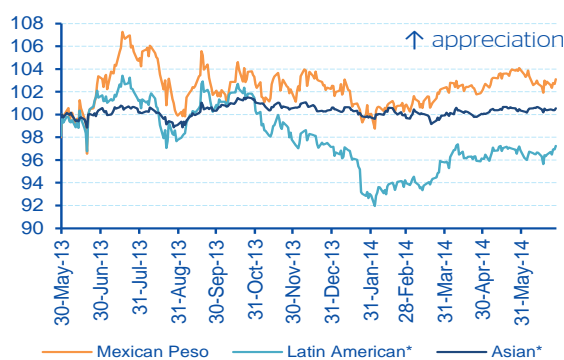
Source: BBVA Research, Bloomberg

Figure 5
Global risk and exchange rate (VIX index & 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
24 June 2014	➔ Mexico Banking Flash. Credit to the private sector: growth of 8.5% in April
24 June 2014	➔ Mexico Flash. IGAE shows a robust increase in April, mainly driven by Services and Industry
27 June 2014	➔ Mexico Flash. Trade Balance from February to May it presented a surplus position, which reflects a better performance of total exports in those months

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