

Economic Analysis

We expect the unemployment rate to increase slightly to reach 4.96% in June

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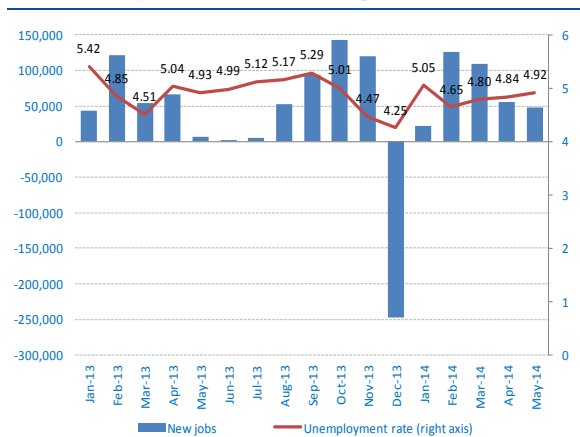
What happened last week...

June inflation confirmed the start of a rising trend due to base effects in the annual comparison, but also shows an absence of inflationary pressures. General inflation increased 0.17% MoM in June, below expectations (BBVAe: 0.22%; consensus: 0.20%), while annual inflation accelerated to 3.75% from 3.51% in May. Meanwhile, core inflation rose 0.21% MoM, also less than anticipated (BBVAe: 0.25%; consensus: 0.24%). In annual terms, core inflation increased to 3.09% from 3.00% in May, which confirms the absence of demand pressures. Annual inflation will accelerate in the coming months due to base effects. We anticipate that this measure will reach the upper target limit for inflation between July and August, and will be a little outside the target range in September and October, before falling to 3.7% at year-end.

May industrial production reached 2.1% YoY sa, equivalent to 0.11% MoM, sa. This small increase in the month was just a reflection of the increase in manufactured goods (0.40% MoM, sa). Meanwhile, the other subsectors declined: electricity, gas and water fell 1.21% MoM, sa, mining fell 0.20% MoM, sa and construction contracted 0.13% MoM, sa. All in all, the indications are for slow growth in the second quarter of the year.

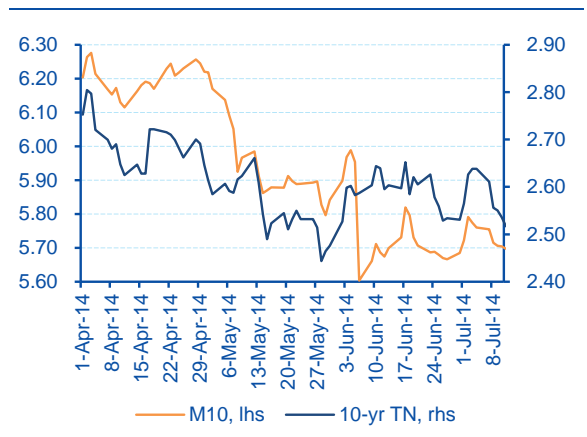
The central bank maintained the monetary policy rate unchanged at 3.0%. The press release maintained the same relaxed tone, given that internal consumption is still not showing signs of a clear recovery, that the output gap will probably remain in negative territory until end-2015, and that inflation will fall to around 3.0% from January 2015. We are not expecting any additional movements in the policy rate for the rest of the year, due to the slack in the economy, the absence of demand pressure on prices and the explicit signals from Banxico that it does not consider advisable any further cuts in the foreseeable future.

Figure 1
Formal job-creation and unemployment rate (number of jobs & YoY % change)



Source: BBVA Research based on data from INEGI

Figure 2
Yield on 10-year government bonds, Mexico vs. US (%)



Source: Bloomberg

The gross fixed investment index for April 2014 rose 11.27% MoM, sa. Note that growth has sometimes been positive in recent months (January -0.76%, February +1.39%, March -0.08%, April +1.27%, sa), which could be a reflection of a gradual recovery in investment.

A relatively calm week in the markets. Concerns over the Portuguese Banco Espirito Santo (BES) caused some nervousness in the markets, but there were no significant secondary effects in the emerging economies. In spite of the strength of the US labour market in recent months, volatility in the markets continued to be low, which continues to support the search for higher yield. Thus, the context for EM financial markets remained favourable. Much of the attention was focused on the minutes of the June FOMC meeting. The fact that the degree of economic slack continues to be an important factor for the Federal Reserve supported the markets in a week in which trade data for June disappointed in China, as did the downward revisions for growth data in the eurozone and Japan. In this context of risks to the downside for global growth in the second quarter, although still supporting a continuation of stimulus policies, the stock markets saw no significant movements and EM currencies remained relatively stable. In Mexico, hand in hand with the decline in 10-year rates in the US (by 12bp to 2.52%), the yield on the M10 bond contracted by 6bp last week to 5.70% (see Figure 2).

...and what's coming up

Unemployment should reach 4.96% in June. On Friday 18 July, INEGI will publish the occupation and employment data for June. This indicator will give us indications of how economic activity was performing at the end of the second quarter. Given the slow growth in the economy, we are expecting the unemployment to come in slightly higher at 4.96% in June from 4.92% in May 2014 (see Figure 1).

Indicator calendar

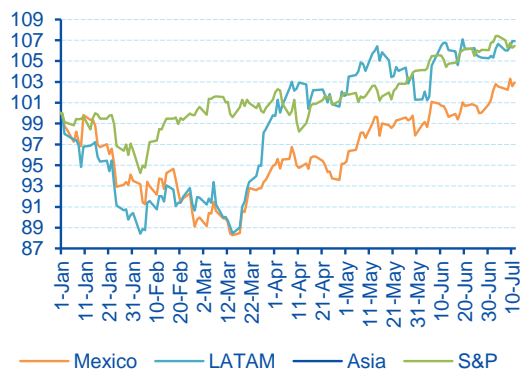
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Unemployment (YoY % change)	June	18 July	4.96	4.90	4.92

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Manufacturing survey, US Empire State (points, sa)	July	15 July	15.5	17.0	19.3
Industrial production index (MoM % change, sa)	June	16 July	0.4	0.3	0.6
Capacity utilisation index (% tot. cap., sa)	June	16 July	79.2	79.3	79.10
Consumer confidence, University of Michigan (index)	July	18 July	83.1	83.0	82.5
Leading indicator, Conference Board (MoM % change)	June	18 July	0.5	0.5	0.5

Source: BBVA Research based on Bloomberg. sa = seasonally adjusted. p = Preliminary

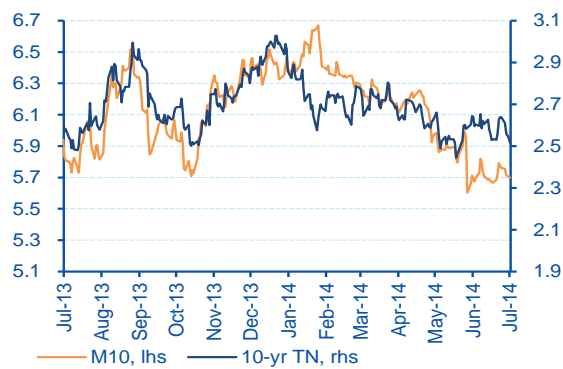
Markets

Figure 3
MSCI stock market indices
(Index 1Jan2014=100)



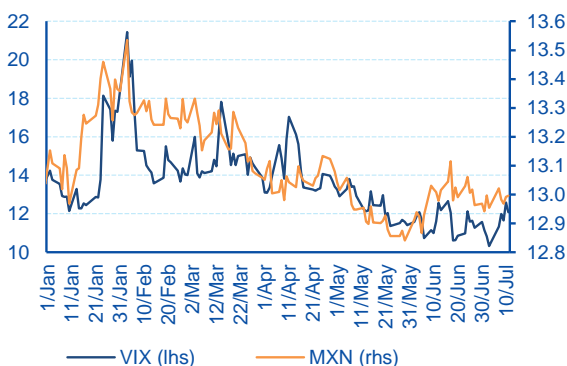
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



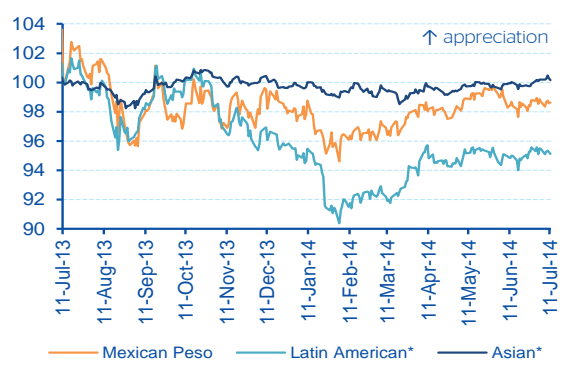
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(11Jul2013=100)



* JP Morgan indices of Latin American and Asian currencies vs. USD; 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
General inflation (% , average)	4.1	3.8	3.9
Core inflation (% , average)	3.4	2.7	3.2
Monetary Policy Rate (% , average)	4.5	3.8	3.2
M10 (% , average)	5.7	5.7	6.1
US GDP (YoY % change)	2.8	1.9	2.5

Source: BBVA Research

Recent publications

Date	Description
9 July 2014	➔ Mexico Inflation Flash. Inflation remains under control
11 July 2014	➔ Banxico Flash. Monetary rate unchanged in 3.0%. The dovish tone remains as the improvement in economic activity is bounded to the external demand
11 July 2014	➔ Mexico Flash. Industrial production shows a small monthly increase in May (0.1%, sa)
11 July 2014	➔ Mexico Flash. Data of IMSS of June indicates that formal employment keeps on increasing

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