Economic Analysis

We estimate that industrial production will have accelerated in September, with annualised growth of 3.1%, after seasonal adjustments

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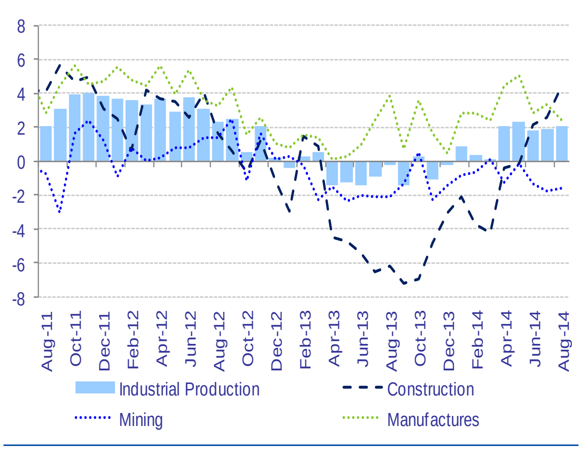
What happened this week…

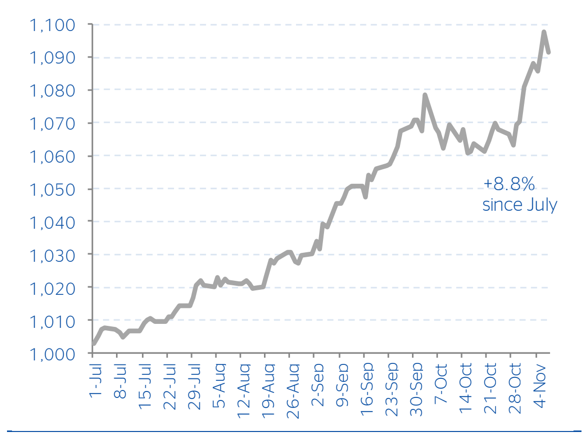
In October the IMEF's manufacturing and non-manufacturing expectation indicators posted positive performances. The IMEF indicator rose from 53.1 points (pt) in September to 54.8pt in October, with seasonally adjusted figures (sa), increasing the acceleration of its expansionary trend. Of the five sub-indexes in the IMEF manufacturing index, four showed growth, the exception being production, which was virtually unchanged. Meanwhile, the non-manufacturing index rose from 51.8pt to 52.2pt (sa) over the same period. Both indicators posted slightly higher than expected (IMEF manufacturing, BBVAe: 52.6pt; consensus: 52.5pt, sa; IMEF non-manufacturing, BBVAe: 51.6pt consensus: 52.0pts, sa), and reflect the fact that expansion is principally coming from the external sector, whereas the domestic market is still performing moderately.

Figure 1
Industrial production and its components (YoY % change, sa)



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

Figure 2
USD against 10 principal currencies*



1 Bloomberg dollar spot index. 31 Dec, 2004=1000
Source: BBVA Research with data from Bloomberg.

14 consecutive months of growth, with a 7.1% increase in September. This September's remittance receipts came to USD1.958bn, in line with expectations (BBVAe: USD1.957bn; consensus: USD1.950bn). This represents an annual increase of 7.1% over the same month the previous year. The increase in the number of remittance transactions accounted for most of this growth, growing by 5.2% on an annual rate, to a total of 6.75 million operations; the average amount sent, however, grew by 1.8% over the year before, coming in at USD289.80. Thus, remittances have achieved 14 straight months of growth since August 2013. The reduction in the overall US unemployment rate in September (to 5.9%) and the increase in the number of Mexican migrants in full-time jobs in the States, are the factors driving remittances. Although remittances are estimated to continue growing in the next few months, attention needs to be paid to economic activity data in the US, given that these have shown mixed signals.

Consumer and producer confidence increased in October. The consumer confidence indicator showed an increase in October of 0.7% over the month before (MoM), after seasonal adjustments (sa), but fell when compared annually, which demonstrates that it has not totally recovered (90.6 points in October in its series without seasonal adjustments). Households surveyed were more optimistic about their own current situations than a year ago (1.0% MoM), but were unsure about what would happen in the next 12 months (-0.2%). In particular, "household" perception about "the country's situation" was interesting, inasmuch as it depicted a much worse situation than a year ago (-3.7% MoM) and worse expectations for the next 12 months (-0.8% MoM). For their part, producers remain in optimistic territory (above the 50pt threshold), and although there was a slight fall in manufacturing orders from the month before (-1.8% MoM), there was also positive statistical news in terms of people in work (0.9% MoM). The producer confidence indicator went up by 1.5% MoM, sa, with progress made in the "right time to invest" segment, which rose by 3.7% MoM, sa.

Inflation has started to slow down. Headline inflation increased 0.55% MoM in October, slightly less than we forecast (BBVAe: 0.57%; consensus: 0.55%). Annual inflation came in at 4.30% in October (compared to 4.22% in September), but began to decline in the second half of the month (4.28% in the second half, compared to 4.32% in the first). Core inflation was 0.17% MoM, as expected (BBVAe: 0.18%; consensus: 0.17%). In annual terms, core inflation remained relatively stable at 3.32% (3.34% in September). As we forecast, fruit and vegetable prices rose sharply in the second half of the month, but over the same period fisheries prices, against our expectations, did not. Core inflation continues reflecting the lack of demand pressures. In response, we are making marginal revisions to the downside of our end-of-year forecast for core inflation, down to 3.31% from 3.35%. Meanwhile, although headline inflation surprised slightly to the downside, the risks to our end-of-year prognosis have remained biased to the upside, so we have adjusted our forecast for inflation by year-end to 3.88% from 3.84%. Despite this small correction, we continue to expect inflation to close the year under 4.0%.

This week the financial markets were focused on the cyclical differences between the US and the remaining developed economies, and the implications of the divergence in monetary policies. In this context, the dollar index held to its general trend of appreciation, reaching its strongest level for over four years. At the start of the week, negativity predominated in the markets because of the eurozone's poor macroeconomic results (weaker-than-expected industrial PMI indicators and downward corrections by the European Commission and the OECD to GDP). On Thursday, sentiment improved a little after Mario Draghi's press conference at the end of the ECB meeting, which unanimously agreed to expand balance sheets. In this risk-off climate, risk assets lost value throughout the week and assets perceived as having less risk (above all the dollar and T-bonds) enjoyed gains. In the case of long-term interest rates, these gains were seen on Friday because, even though the job creation figure for October was positive (and came on the back of upward revisions in the August and September figures), wage gains surprised to the downside. This, together with low inflation expectations, caused the markets to continue pricing in their belief that the Federal Reserve will set a gradual pace for the cycle of rate hikes expected next year. Yields on the 10-year T-bond fell by 9bp on Friday (to 2.30%). By the end of the week, the stronger cycle in the US helped Mexican markets. Of emerging currencies, the Mexican peso appreciated the most over the day (+0.9%), closing the week at USDMXN13.51 (having at one point reached USDMXN13.64, its highest level this year) The Mexican stock exchange showed positive differentiation, suffering less than exchanges in other regions during the week.

…What is coming up next week

We expect the gross fixed investment indicator to grow in August at an annual rate of 2.9%. On 10 November 2014 the INEGI will publish the August 2014 figures for the monthly gross fixed investment index. In the previous month, this index showed an annual growth rate of 3.1%, whereas in August 2013 it had posted negative growth of 5.8%. The estimated improvement in August involves annual expansion of 0.9% in its Machinery and Equipment component, and 3.4% annual growth in the Construction component. If the improvement expected in this indicator materialises, it is highly likely that the contribution of investment to GDP growth will begin to be positive in the third quarter of the year.

We estimate industrial production in September to have grown by 3.1% at an annual rate (YoY), seasonally adjusted (sa), which translates into a monthly growth (MoM) of 0.38%. This estimation takes into account the close relationship between this variable and its US equivalent, which grew at monthly rates of -0.2% and 1.0% sa in August and September respectively. In August Mexico's industrial production grew 2.1% YoY, sa (illustrated in Figure 1), and in monthly terms increased by 0.37%, linked principally to an increase in construction components (1.2% MoM, sa); electricity, gas and water (1.0% MoM, sa), and mining (0.3% MoM, sa). Manufacturing, on the other hand, fell 0.3% MoM, sa. The performance of industrial production will give a clearer signal about the rate of economic growth in Mexico in the third quarter.

In October 2014 we expect the total number of workers paying in to Social Security to grow by 151,000. In the week of 10 to 14 November, the Mexican Social Security Institute (IMSS in the Spanish acronym) will report the total number of workers paying in contributions in October 2014. According to IMSS figures, October is the month with the highest increase in workers paying in to the IMSS. On average, between 2010 and 2013, IMSS worker numbers increased during this month by nearly 148,000 (93,000 workers with a permanent labour contract and 45,000 with a temporary contract). A noticeable increase in the number of jobs in the formal economy is expected in November too, although in December a significant cut in the jobs created throughout the year is expected, for seasonal reasons after the Christmas sales.

Calendar of indicators

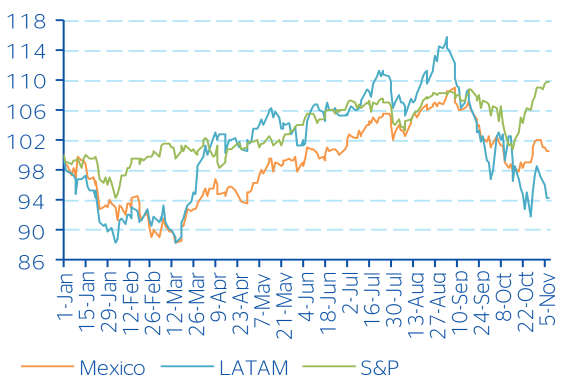
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Fixed gross capital formation (YoY % change)	August	10 Nov	2.9	3.2	3.1
Industrial production (YoY % change, sa)	September	11 Nov	3.1	--	2.1
Industrial production (MoM % change, sa)	September	11 Nov	0.38	0.5	0.37
Formal job creation (Workers contributing to the IMSS, '000s)	October	11-18 Nov	151.0	--	156.4

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Job Openings By Industry Total ('000s, MoM, sa)	September	13 Nov	4,810	4,775	4,835
Adjusted Retail & Food Services Sales (MoM % change, sa)	October[p]	14 Nov	0.1	0.2	-0.3
University of Michigan Survey of Consumer Confidence Sentiment (index, sa)	November[p]	14 Nov	87.2	87.5	86.9

Source: BBVA Research with data from Bloomberg. YoY = annual rate of variation. sa = seasonally adjusted. MoM = monthly rate of variation. P = provisional

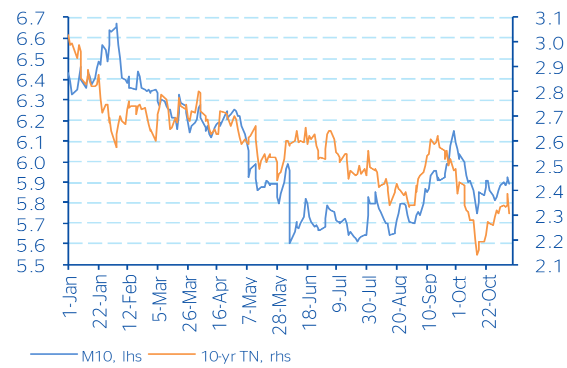
Markets

Figure 3
MSCI stock market indices (Index 1 Jan 2014=100)



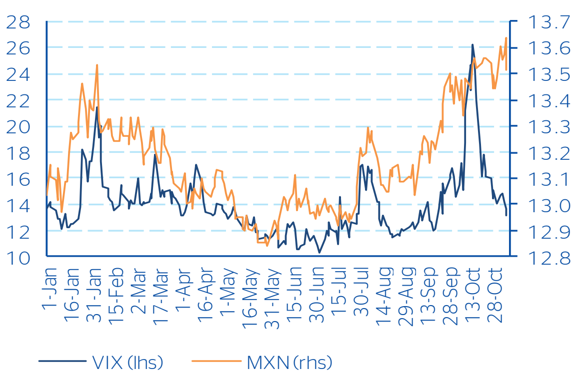
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



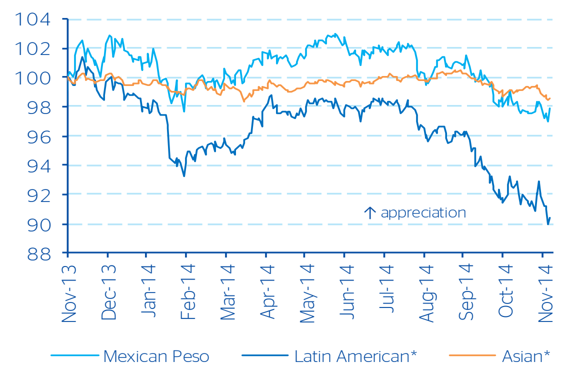
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (7 Nov 2013 index=100)



* J 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	4.0
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	6.0
US GDP (YoY % change)	2.8	1.9	2.0

Source: BBVA Research

Recent publications

Date		Description
3 Nov 2014	➡	Mexico Migration Flash. Remittances post 14 consecutive months of growth, increasing by 7.1% in September
5 Nov 2014	➡	Mexico Real Estate Outlook Second Half 2014 (Spanish version)