

Economic Analysis

# We estimate that industrial production in December will grow by 2.7% annually, after seasonal adjustments

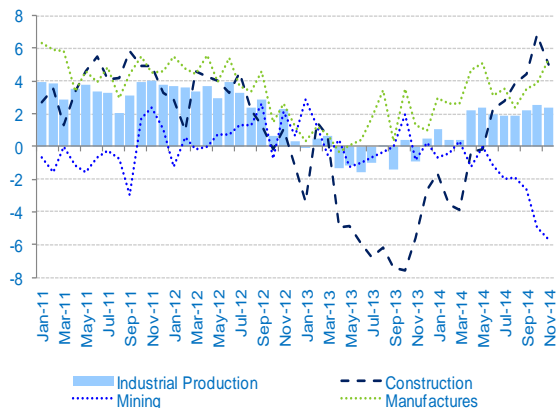
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## What happened this week...

**The IMEF indicators for January's manufacturing and non-manufacturing activity expectations reported very slow performance, suggesting a slow start to the year.** The IMEF Manufacturing indicator rose by 0.9 points (pt) over the previous month, coming in at 50.9pt in January (just above the threshold of 50pt for optimistic expectations), with seasonally adjusted figures (sa). The non-manufacturing index slipped from 49.9pt in December to 49.2pt (sa) in January (under the threshold of 50pt). Both indicators reflect a slow start to the Mexican economy for 2015.

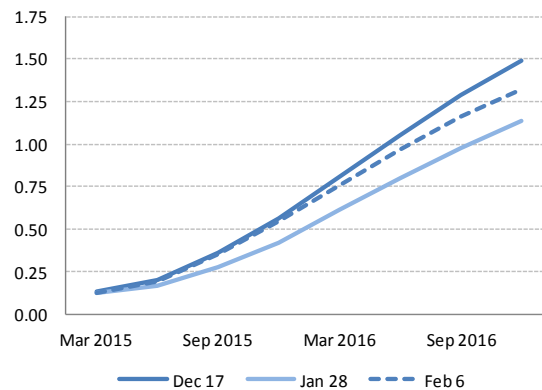
**Consumer and manufacturing business confidence both fell in January.** The consumer confidence index (CCI) decreased from 92.7pt in December to 91.8pt in January, a monthly (MoM) fall of 1.0%, seasonally adjusted (sa). Four of its five components fell. Only one, "What do you think the country's economic situation will be like in 12 months, compared with today?", showed a monthly increase of 2.8%, sa, compared to the -2.3% MoM, sa, posted in December 2014. In its original series, the ICC reached 91.1pt, lower than market expectations (BBVAe: 92.8pt.; consensus: 93.6pt). Meanwhile, business confidence, although remaining in optimistic territory for 59 consecutive months (that is, over the 50pt threshold), wobbled a little when it came to expectations for the country's economic activity. The index edged down from 50.7pt in December 2014 to 50.4pt in January 2015, with seasonally adjusted figures.

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



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

Figure 2  
**1-month futures on the federal monetary rate, %**



Source: BBVA Research with data from Bloomberg

**In December 2014, remittances came in at USD2.196bn, equivalent to an 18.8% increase over the same month the year before, accumulating 17 consecutive months of rises.** Thus, in 2014, Mexico received remittances to the value of USD23.607bn, 7.8% higher than in 2013. Despite the employment recovery in the US last year, the number of Mexican migrants there did not grow significantly, although it remains the main source of remittances to Mexico. The increase in remittances to Mexico in 2014 is accounted for, for the most part, by the increased employment experienced by Mexican migrants already in the country, and by full-time jobs substituting for part-time occupations.

**Expectations of an early start to the US monetary normalisation cycle are having an impact on the peso's depreciation.** Higher-than-expected growth in the US non-farm payroll and the increase in salaries in January revived expectations of an earlier-than-anticipated hike in the federal monetary rate. Specifically, the number of jobs rose by 257,000, meaning that growth in the last three months is one of the highest in the last 17 years; furthermore, income per hour worked rose by 0.8%, the biggest monthly increase since November 2008. Reacting to these figures, the US dollar strengthened against most emerging currencies, reflected in a daily MXN depreciation of 0.52 %, leading to an exchange rate of USDMXN14.78. Nevertheless, over the week as a whole, the peso appreciated by 0.75%, as a result of a recovery in the oil price. Moving on to stock indexes, the S&P 500 gained 3.03% over the week, and the IPC rose by 4.3%. On the debt market, yields on the 10-year *Mbono* widened by around 37bp, in line with the 32bp hike on the US T-bond with similar maturity dates.

### ...What to expect next week

**We forecast that December industrial production will grow by 2.7% YoY, seasonally adjusted (sa).** This estimate prices in the recent performance of US industrial production, with monthly variations of 1.3% and of -0.1%, sa, in November and December respectively. We should remember that, in November, industrial production in Mexico grew by 2.4% YoY, sa (see Figure 1). How industrial production performs will provide greater certainty about the rate of economic growth to the end of last year.

**We estimate that annual inflation will fall to 3.07% in January.** We anticipate a MoM fall of 0.08% in headline inflation and an increase of 0.02% in core inflation during January. If our forecasts are correct, in annual terms headline inflation will shrink to 3.07% (compared to 4.08% at the end of 2014), while core inflation will come in at 2.39% (compared to 3.34% in December). After the shock to the downside in the first half of January, we have adjusted our forecasts downwards; we now expect headline inflation to close the year at 2.9% (compared to 3.2% in 2013) and for core inflation to report at 2.8% (compared to 3.0% the year before).

**During the week from 9 to 13 February, the Mexican Social Security Institute (IMSS) will report the number of workers signed up with the institute as of January 2015.** The number of workers registered with the IMSS is the key employment indicator for the private sector in the formal economy. We estimate that, in January 2015, the monthly increase in the total number of workers registered with the IMSS compared to the month before will be 43,400 people. This figure is higher than January 2014 by nearly 22,000 workers and slightly under the figure for the same month in 2013, of close to 44,200. Note that the monthly increase in the number of workers registering with the IMSS in January will to a large degree reflect the momentum of economic activity as the year begins.

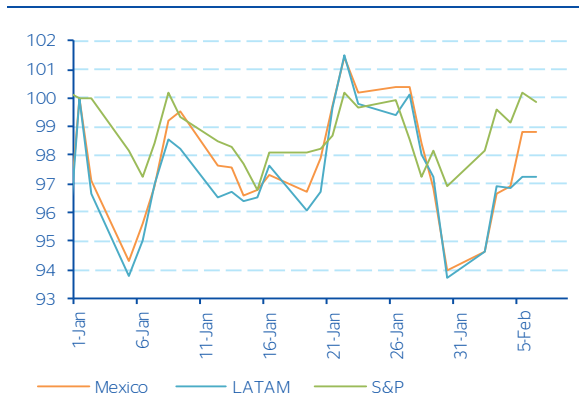
## Calendar of indicators

<b>Mexico</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Headline inflation (MoM % change)	January	9 Feb	-0.08%	-0.07%	0.49%
Headline inflation (YoY % change)	January	9 Feb	3.07%	3.08%	4.08%
Core inflation (MoM % change)	January	9 Feb	0.02%	0.01%	0.23
Core inflation (YoY % change)	January	9 Feb	2.39%	2.38%	3.24
Industrial production (YoY % change, sa)	December	11 Feb	2.71	--	2.39
Industrial production (MoM % change, sa)	December	11 Feb	0.28	0.20	0.23
Workers contributing to the IMSS ('000s)	December	09 -13 Feb	43.4	--	-235.5
<b>USA</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Retail and food sales (MoM % change, sa)	January	12 Feb	-0.30	-0.50	-0.90
Retail sales exc. cars and fuel (MoM % change, sa)	January	12 Feb	-0.10	0.40	-0.30
Manufacturing and trade inventories (MoM % change, sa)	December	12 Feb	0.20	0.20	0.20
Consumer confidence, University of Michigan <sup>P</sup> (index)	February	13 Feb	98.70	98.20	98.10

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

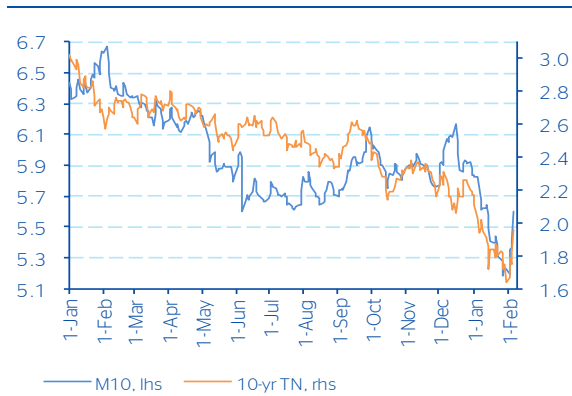
**Markets**

**Figure 3**  
**MSCI stock market indices**  
**(Index 1 Jan 2015=100)**



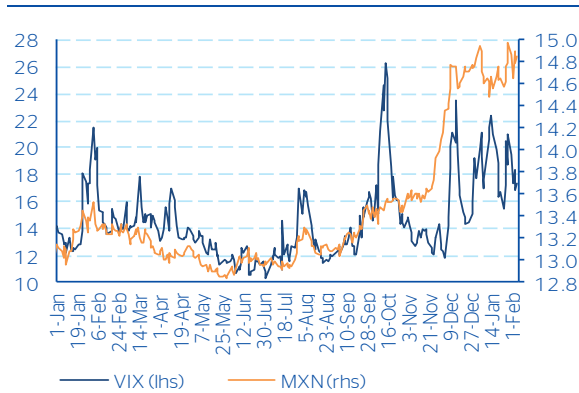
Source: BBVA Research, Bloomberg

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



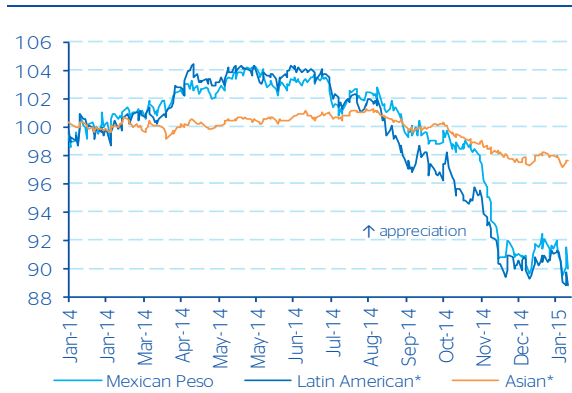
Source: BBVA Research, Bloomberg

**Figure 5**  
**Global risk and exchange rate :VIX index (lhs) and**  
**USDMXN (rhs)**



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
**(23 Jan 2014 index=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**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
Mexico GDP (YoY % change)	1.4	2.1	3.5
General inflation (% , average)	3.8	4.0	3.1
Core inflation (% , average)	2.7	3.2	2.6
Monetary Policy Rate (% , average)	3.8	3.2	3.2
M10 (% , average)	5.7	6.0	5.7
US GDP (YoY % change)	1.9	2.4	2.5

Source: BBVA Research.

## Recent publications

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Date	Date
3 Feb 2015	➔ Mexico Banking Flash. Credit to the private sector: 2014 closes with growth of 8.2%; housing and corporate credit continue to make progress
3 Feb 2015	➔ Mexico Migration Flash. In 2014, Remittances to Mexico reached 23.6 billion dollars (+7.8% y/y)
4 Feb 2015	➔ Mexico Real Estate Flash. To November, mortgages grew by 5.8%

### Disclaimer

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