

Economic Analysis

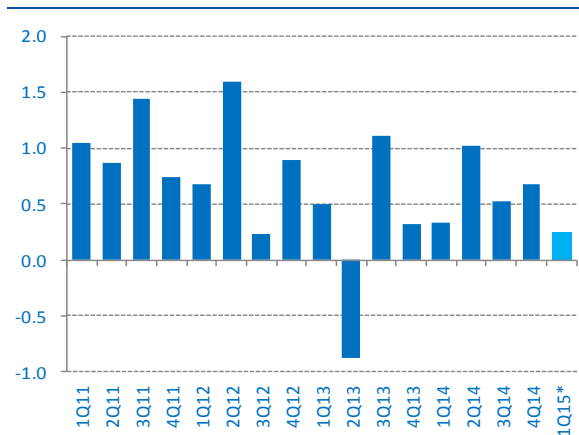
We estimate that the GDP will have achieved QoQ growth of 0.3% in Q1 of the year

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What happened this week ...

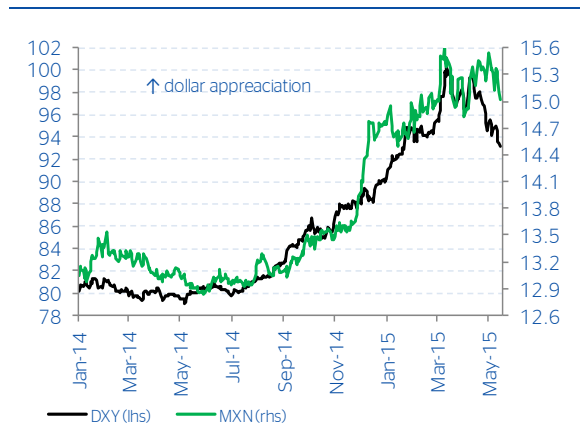
Industrial production came to a standstill in March, falling back 0.02% MoM seasonally adjusted (sa), while in YoY terms it grew 1.4%, sa. The sluggishness in the monthly reading for industrial production was mainly due to the fall in mining (-1.6% MoM, sa) and manufactures (-1.0% MoM, sa). Meanwhile, construction was up (3.0% MoM, sa) and electricity, gas and water held unchanged (0.0% MoM, sa). This result was below market estimates (BBVA Research: 0.35% MoM, sa; consensus: 0.40% MoM, sa) and confirms expectations of a weak first quarter of the year. Mexican industrial production's poor performance relates to the disappointing progress in oil extraction, the slow recovery in construction and the weak demand for Mexican manufacturing products from the United States, as manufacturing production in the latter only grew by 0.1% MoM, sa, in March (see [Mexico Flash: Industrial Production](#)).

Figure 1
Observed quarterly GDP and estimate for 1Q15 (QoQ % change, sa)



Source: BBVA Research with INEGI data. *1Q15e = BBVA Bancomer estimation. QoQ = Quarterly % change. sa = seasonally-adjusted

Figure 2
Index showing main currencies against the USD and exchange rate (DXY and USD/MXN)



Source: Bloomberg, BBVA Research

Global bond yields appear to have stabilised at relatively high levels this week. The 10-year T-Note ended the week yielding 2.14%, which was 1bp down on the close the previous week, although this was after it had come down by 15bp over Thursday and Friday in response to the spate of negative surprises among US economic activity indicators (retail sales, industrial production and consumer confidence all came as big surprises on the downside) which continue to translate into a delay in terms of expectations of a start to the cycle of rises for the federal funds rate. Perhaps for this reason, discounting a possible continuation of global yields at historical lows for longer than was thought only a few weeks ago, higher risk assets have not been affected by the rise in US long-term interest rates. In fact, the USD stuck to its depreciating trend over this last week, and

after firming for nine months in a row up until March this year, the USD has lost steam, building up an overall depreciation of 6.3% against the key currencies since mid-April. In this context, last week the currencies of the emerging economies strengthened virtually across-the-board against the USD, and the MXN was no exception as, after hitting 15.36 on Monday, the USD/MXN closed the week at 15.01 (an appreciation of 2.3%).

...What to expect next week

We expect QoQ GDP growth for 1Q15 to be 0.25%, sa. INEGI will release GDP growth figures for 1Q15 on 21 May. After growth of 0.68% in 4Q14, we forecast that the Mexican economy will slow down sharply, which will be seen in GDP growth of around 0.25% QoQ in the first quarter of the year (see figure 1). The main elements underlying this slowdown are: the fall in the oil price and production of it in Mexico, which led to a decrease in public revenues and a delay to infrastructure projects; the lacklustre performance by the US economy, caused by weather problems and the rising USD; and the weakness of the domestic market. If such a slowdown in economic activity in the first quarter is confirmed, the annual growth rate for GDP in 2015 would have to come down too.

We predict that the Global Economic Activity Indicator (IGAE) for March will show YoY growth of 2.66%, sa. The March figure will be published by INEGI on 21 May, while we expect growth in economic activity to have ended the first quarter of the year modestly, due to the languid performances of services and industrial activity, as both of these started the year off slowly. We should recall that in February the IGAE grew 2.23% YoY, sa, which translated into a decrease of 0.03% MoM.

We forecast that annual inflation will hold relatively stable in the first half of May compared to the second half of April (an estimated 3.06%, relative to 3.10% in the previous fortnight). For the first half of May, we predict a fall over the two weeks of 0.41% for headline inflation and a rise for the half-month of 0.11% in core inflation. If our estimates prove correct, in annual terms headline inflation should be 3.06% (compared to 3.10% in the second half of April), whereas core inflation should be 2.44% (against 2.39% for the previous half-month). We still expect the transmission of the exchange rate through to inflation to be limited, largely because of the weakness of domestic demand, and that the upturn in goods inflation will still be offset by an encouraging performance by the services component. On the non-core inflation side, most of the electricity subsidies for the warm season will be seen in the first half of May, which will be reflected in the energy prices sub-index and will explain the negative figure for the first half of the month. We also forecast that drops in the prices of eggs and chickens will additionally contribute to the bi-weekly dip in inflation. Finally, we expect YoY core inflation to hold at close to 2.5% for most of the year, before gently ticking upwards in the last few months to reach 2.65% at the year-end. On the other hand, we see annual headline inflation staying at around the central bank's target (3.0%) throughout the entire year, before ebbing back to 2.75% at the close of 2015, mainly on the helpful effects from the base for comparison.

Calendar of indicators

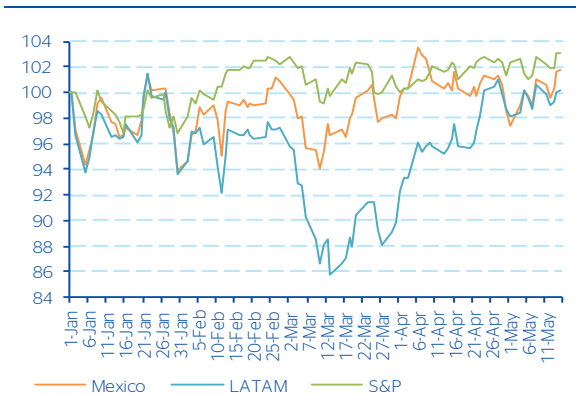
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Gross Domestic Product (QoQ % change, sa)	1Q15	21 May	0.25	0.30	0.68
IGAE (YoY % change, sa)	March	21 May	2.66	--	2.23
Headline inflation (FoF % change)	1F May	22 May	-0.41%	-0.43%	0.02%
Headline inflation (YoY % change)	1F May	22 May	3.06%	3.03%	3.10%
Core inflation (FoF % change)	1F May	22 May	0.11%	0.10%	0.08%
Core inflation (YoY % change)	1F May	22 May	2.44%	2.43%	2.39%

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
New Privately Owned Housing Units Started by Structure Total (thousands, saar)	April	19 May	955.00	1020.0	926.00
Chicago Fed National Activity Index (MoM % change, sa)	April	21 May	-0.10	--	-0.42
Conference Board US Leading Index (MoM % change, sa)	April	21 May	0.20	0.30	0.20
Existing Homes Sales (MoM % change, sa)	April	21 May	-1.16	0.61	6.13

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

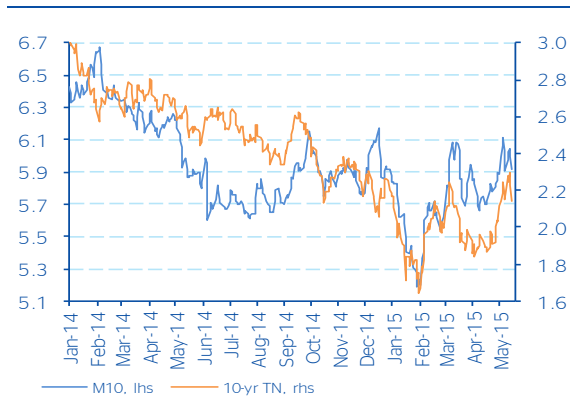
Markets

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



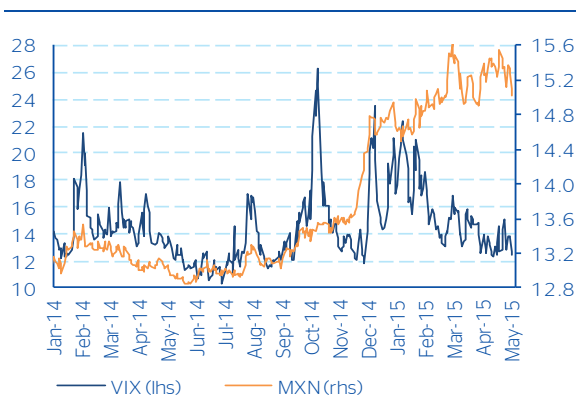
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



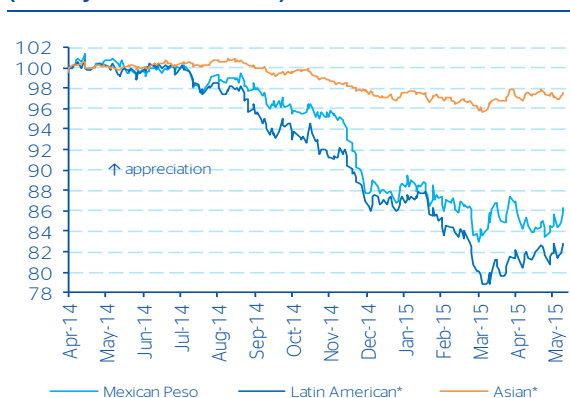
Source: BBVA Research, Bloomberg

Figure 5
Global risk and exchange rate:
VIX index and USDMXN



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(15 May 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

	2013	2014	2015
Mexico GDP (YoY % change)	1.4	2.1	3.5
General inflation (% , average)	3.8	4.0	3.0
Core inflation (% , average)	2.7	3.2	2.5
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	2.9

Source: BBVA Research.

Recent publications

Date	Description
11 May 2015	➔ Mexico Banking Flash. Private sector credit: slight upturn at the close of 1Q15, with growth of 10.1%
11 May 2015	➔ Mexico Migration Flash. In March 2015 Mexico received USD2,257.9mn in remittances (+7.6% YoY)
11 May 2015	➔ Working Paper. Evaluation of the effects of the Free Trade Agreement between the European Union and Mexico on bilateral trade and investment
12 May 2015	➔ Mexico Flash. Industrial production in total pause. Had zero growth in March (-0.02% MoM, sa)
12 May 2015	➔ Working Paper. Mexico's monetary policy communication and money markets

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