

Economic Analysis

# We are expecting an improvement in the confidence indicators and an unchanged MPR

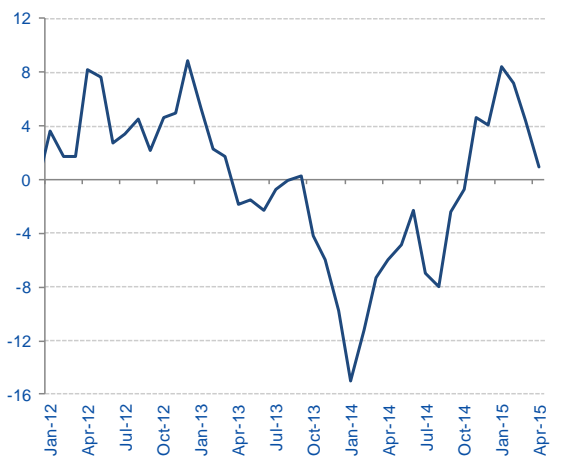
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## What happened this week...

**Retail sales rose by 5.5% YoY in March, both in terms of the initial figures and after seasonal adjustment (sa).** This was in line with our forecast and above the market estimate (BBVAe: 5.6% YoY; consensus: 4.5%) and equated to a MoM variation of 0.2%, sa. This result suggests that the progress in consumption is continuing, though at a more modest pace. We are standing by our prediction that the retail sales performance will pick up in Q2, before trailing off again towards the end of the year.

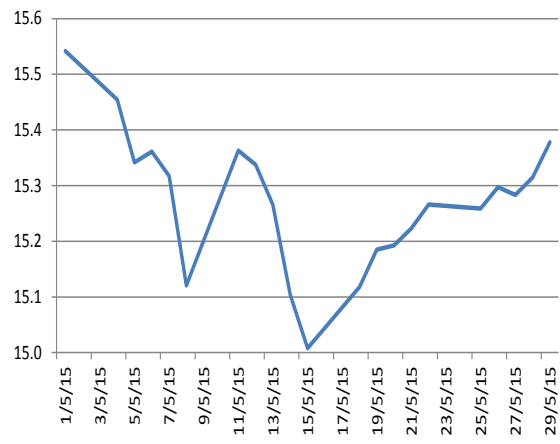
**The unemployment rate reached 4.32% in April 2015, sa,** which was in line with our forecast and above what the market was anticipating (BBVAe: 4.28%, sa; consensus: 4.17%, sa). This again arises in the context of a marginal decrease in the economically active population aged 15 or over (participation rate) from 59.8% in April 2014 to 59.2% in April 2015, and in initial series terms the unemployment rate was 4.31%. In addition to this, the employment rate within the informal sector (TOSI1 to use the Spanish abbreviation), which includes all those who work for no- livestock and farming economic units, that operate without accounting records and use household resources, came down by 0.4 percentage points, sa (from 27.3% in March to 26.9% in April 2015). This indicates that economic activity in Mexico is showing signs of recovery.

Figure 1  
**Consumer confidence indexes (YoY % change, sa)**



Source: BBVA Research with INEGI data.

Figure 2  
**USD/MXN**



Source: Bloomberg, BBVA Research

**The dollar exchange rate stands at over MXN15.3, in spite of lower-than-expected figures for the US economy, which would suggest that liquidity could be maintained for longer.** The USD recorded its second week in a row of gains against the world's major currencies in a situation of heightened divergence

among the economic cycles of the developed economies. On the one hand, the recent statement by members of the Federal Reserve signals a federal funds rate rise this year based on expectations of a better performance by the US economy in H2, which is a view that the market to a large extent seems to share. On the other hand, in a climate of unconventional monetary policy measures in Europe and Japan, concerns over a scenario of default by Greece have risen. All this led the MXN to depreciate by 0.73% over the week despite the downward revision for US first quarter growth, where this figure was clouded by an increase in annual inflation, which stands at 0.8%, and by the lack of agreement about Greek debt. In the government bond market, the redemption yield on the 10-year Mbono closed without significant variations over the week at 5.97%, while the Mexican stock market was down 0.37% for the week.

### ...What to expect next week

**The monetary policy rate is expected to remain unchanged, while the Federal Reserve remains as the prime catalyst for a potential cycle of rises.** Next Thursday, the central bank will make known its decision on monetary policy. There being no significant changes to the economic scenario since its last meeting, we expect the central bank to keep to its message that it will begin the cycle of rate hikes according to moves by the Federal Reserve (Fed), given the risk that these pose to inflation via exchange rate depreciation. With respect to the pace of the cycle of rises by the central bank, we think that this could be slower than the Fed's pattern, given the lower growth expectations for Mexico (for example, the central bank brought down its forecast range in its last inflation report to 2.0-3.0%) which will be reflected in a slower take-up of the slack in the economy, as well as the reduced distance from the natural rate in the case of the central bank. All in all, we are standing by our forecast of a 25 basis point rise at the September meeting.

**We are forecasting that expectations concerning the performance of manufacturing and non-manufacturing activity in May, as expressed in the IMEF indicators (from the Mexican Institute of Financial Executives), to show an improvement.** Specifically, we expect the May manufacturing IMEF index to show a level slightly above that of the previous month on expectations of an improvement in manufacturing production in the US economy with respect to April. We also think that the non-manufacturing IMEF index will reveal a mild rise compared to the previous month because of a stronger services sub-sector.

**In April, remittance inflows into Mexico could have reached USD2.156bn (+9.1% YoY).** In the first quarter of this year remittances were up 4.9% YoY, meaning that around USD5.7bn was sent in this time. This inflow outstripped that of currency from tourism in Mexico (USD4.8bn) for the same period and, given the price weakness of Mexican blend oil, it also topped currency inflows from crude oil sales (USD5.1bn). With the encouraging situation for the US economy, from where around 98% of all remittances into Mexico originate, remittances are estimated to have possibly grown by as much as 9.1% YoY in April, which is more than in previous months.

**We forecast that the consumer confidence indicator will have improved in May,** and on 5 June INEGI is due to release the consumer confidence index (ICC) figures for that particular month. Looking at job creation in the formal sector in April (65,117 jobs registered with the IMSS), we expect the ICC to reach a level of 92.6 points, compared to 91.3 last month, in initial series terms.

**We expect YoY growth for the gross fixed investment indicator in March to be 6.1%**, which is up on the figure of 1.3% for the previous month, and on Wednesday 3 June INEGI is set to publish the official data for March 2015. With respect to how this indicator breaks down, we expect annual growth for the construction component to be 3.9% (0.9% the previous month) and machinery and equipment investment to have grown by 10.9% (1.9% a month earlier). We should make the point here that, given the expected rate of 6.1% for March, the AAGR for the fixed investment indicator will be 5.1%, which contrasts with the average rate for the previous quarter (5.8% in 4Q14) and with the same month the year before (-0.5% in 1Q14).

**We estimate that the rise in the number of workers registered with the IMSS in May will be 55,700.** This addition to the overall figure for IMSS-registered workers in May 2015 should be higher than in the same month in 2014 (47,853 workers) and lead to an increase in the growth rate for this figure from 4.5% to 4.6%. As has been said on previous occasions, a high proportion of the rise in the number of IMSS-registered workers will originate from the current campaign by the Mexican authorities to encourage job formalisation.

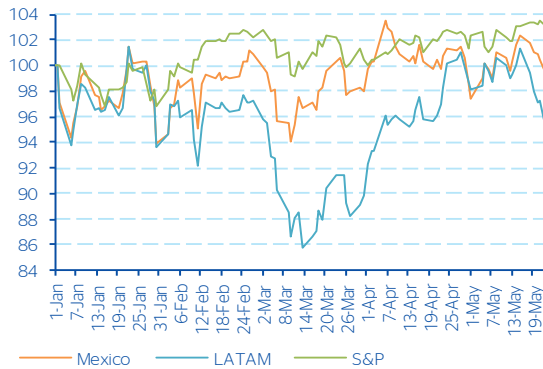
## Calendar of indicators

Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
IMEF manufacturing indicator (index, sa)	May	2 Jun	--	51.7	51.4
IMEF non-manufacturing indicator (index, sa)	May	2 Jun	--	51.0	51.3
Family remittances (USD million)	April	2 Jun	2,156.0	2,123.7	2,257.9
Gross Fixed Investment (YoY % change)	March	3 Jun	6.1	6.9	1.3
Monetary Policy Rate	June	4 Jun	3.0	3.0	3.0
Consumer Confidence (index)	May	5 Jun	92.6	92.2	91.3
Formal Employment IMSS-Registered (Number of workers)	May	1-5 Jun	55,700	--	47,853
United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
ISM Manufacturing PMI (index, sa)	May	1 Jun	51.9	52.0	51.5
Employees on Nonfarm Payrolls Total (MoM net change, sa)	May	5 Jun	227.0	225.0	223.0
Unemployment Rate	May	5 Jun	5.4	5.4	5.4

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

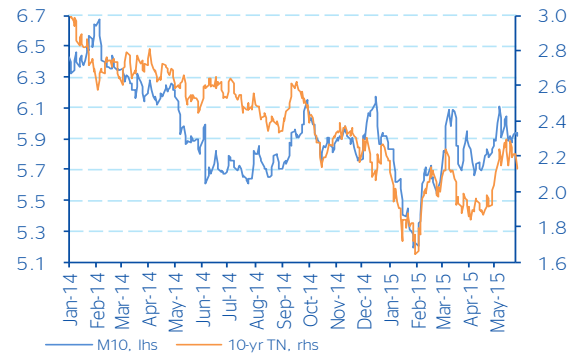
**Markets**

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



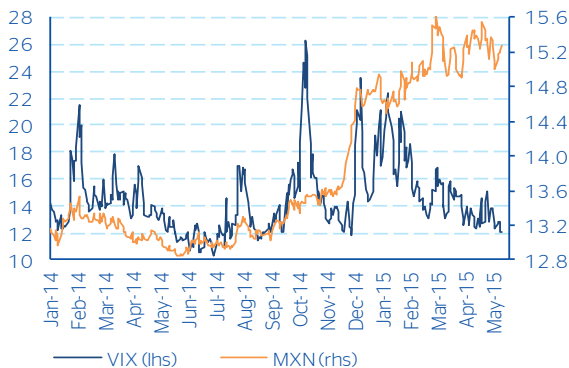
Source: BBVA Research, Bloomberg

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



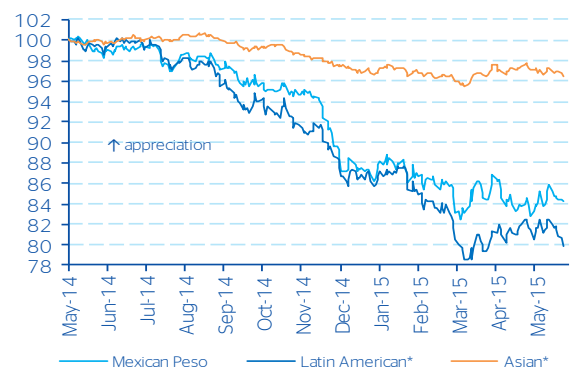
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(29 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**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
Mexico GDP (YoY % change)	1.4	2.1	2.5
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

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**Date****Description**

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26 May 2015



Mexico Real Estate Flash. In February the number of loans stands at a rate of over 15%

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