

# Mexico Weekly Flash

February 28, 2014  
Economic Analysis

Mexico

Arnoldo López Marmolejo  
arnoldo.lopez@bbva.com

Juan Carlos Rivas Valdivia  
juancarlos.rivas.valdivia@bbva.com

Javier Amador Díaz  
javier.amadord@bbva.com

Iván Martínez Urquijo  
ivan.martinez.2@bbva.com

Javier Morales Ercambrack  
jv.morales@bbva.com

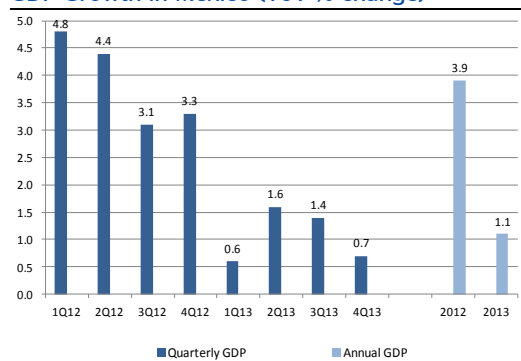
Juan José Li Ng  
juan.li@bbva.com

Juan Carlos Sánchez Salinas  
juancarlos.sanchez.salinas@bbva.com

## This week's information ...

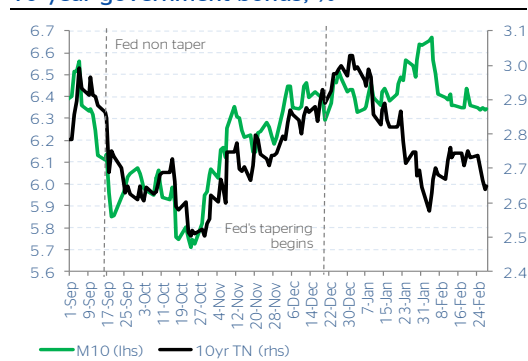
- In 2013 GDP growth rate was 1.1%, in line with our forecast at BBVA Research of 1.2%. In GDP component terms, in 2013 tertiary activities recorded the best performance, with annual growth of 2.1%. Then came primary activities (0.3%), and finally the secondary sector (-0.7%). All this was due, among other issues, to the negative behaviour of construction, the internal market and the slow performance of external demand, mainly from the US.
- Goods balance of trade in January recorded a deficit of USD3.195bn. This deficit was 12% higher than the same month in 2013 (USD2.854bn). Goods exports (USD27.039bn) were 1% down YoY, while this January's imports (USD30.234bn) were 0.3% up from the same month in 2013. The similarity in these figures, between January 2013 and 2014, indicates the possibility of external demand at the outset of this year being similar to that of last.
- In the US, negative surprises in most indicators (consumer confidence, manufacturing regional indexes, GDP revision in 4Q13, durable goods orders excluding defence and aerospace), turned into drops in long-term interest rates. In this context, the Chair of the Federal Reserve reiterated that "significant" changes are needed in US growth prognosis to alter the current rate of asset purchase reduction. In Mexico, government bonds held stable over the week, for example, the 10-year bond rate closed at 6.34%, just 2bp down from last Friday. Emerging currencies were relatively stable, while the euro strengthened against the dollar (reaching 1.38dpe) after inflation came in higher than expected, making it difficult for the ECB to take any action in this upcoming week to limit the tail risks of a possible eurozone deflation.

Chart 1  
GDP Growth in Mexico (YoY % change)



Source: BBVA Research with INEGI data

Chart 2  
10 year government bonds, %



Source: BBVA Research with Bloomberg data

## Next week's information...

- **INEGI will report on the Consumer Confidence Index (ICC) and Producer Confidence Index (ICP) figures for February.** We estimate that the figures for this month will confirm expectations we have for a slow ramp-up to the year. In view of the sluggish rate of formal job creation in January (21,979 jobs), we expect the consumer confidence index to fall slightly, reaching 82.2 points, equivalent to a monthly drop of 1.5%, sa. When it comes to the producer confidence index, due to the fall in US manufacturing production over January (-0.8% sa) and its drag on Mexican production, we estimate it will come in at 50 points, that is, a monthly decrease of 1.1%, sa.
- **The IMEF manufacturing and non-manufacturing index will post its February data for Mexico.** This figure is relevant since it is a forward indicator of industrial output performance in the country. The fall in US manufacturing output in January (-0.8% MoM, seasonally adjusted) suggests we will see a slight deterioration in this indicator.
- **February inflation will be reported, which will confirm the one-off nature of the fiscal shock in January.** We forecast a monthly increase in headline inflation of 0.25% (4.23% YoY) and of 0.27% (2.97% YoY) for core inflation. Inflation in the first half of January already showed the absence of second round effects. We believe that the monthly figure will also confirm that inflation continues to benefit from economic weakness.
- **Remittances received in January could reach USD1.552bn (+6.2% annually).** This increase may be linked to the positive economic growth outlook for the US this year, a country where most Mexican migrants live, also to the growth in new home sales (+9.6%) and the reduction in the unemployment rate (to 6.6%) in the US during January.
- **The ISM's PMI figures in the US, and in particular job creation in the US, will weigh on global financial markets.** However, both indicators may be influenced by weather-related issues, so possible negative surprises may have a lower impact than on other occasions, particularly considering that the week before her testimony, the Chair of the Federal Reserve, Janet Yellen, suggested that, in order to modify the rate of asset purchase reduction, substantial changes in growth perspectives would be needed.

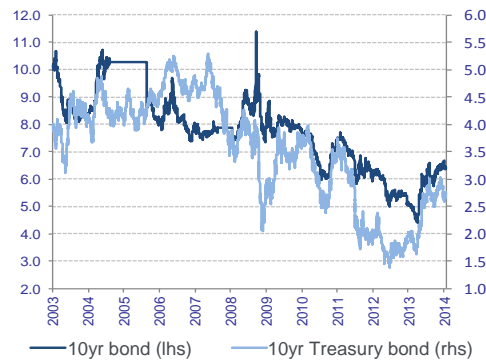
## Indicator Calendar

<b>Mexico</b>	Date of Publication	Reporting Period	Consensus	BBVA Estimation	Current figure	Former figure
IMEF manufacturing indicator (Index sa)	3 Mar	Feb	51.0	--	--	49.7
Family remittances (USD mn)	3 Mar	Jan	1,538	1,552	--	1,799
Consumer confidence (Index sa)	5 Mar	Feb	--	82.2	--	83.4
Producer confidence (Index sa)	5 Mar	Feb	--	50.0	--	50.6
Headline inflation (MoM change)	7 Mar	Feb	0.25%	0.25%	--	0.89%
Headline inflation (FoF change)	7 Mar	Feb	0.09%	0.14%	--	0.12%
<b>United States</b>	Date of Publication	Reporting Period	Consensus	BBVA Estimation	Current figure	Former figure
Personal Income (MoM)	3 Mar	Jan	0.20%	0.10%	--	0.00%
Personal Expenditure (MoM)	3 Mar	Jan	0.10%	0.20%	--	0.40%
PCE deflator (MoM)	3 Mar	Jan	0.10%	0.20%	-	0.10%
ISM Manufacturing Production Index	3 Mar	Feb	52.00	52.50	--	51.30
ISM Non-Manufacturing Index	5 Mar	Feb	53.50	54.20	--	54.00
Non-Farm payroll (thousands)	7 Mar	Feb	150	195	--	113
Unemployment rate	7 Mar	Feb	6.60%	6.50%	--	6.60%

Source: BBVA Research with Bloomberg data. sa = seasonally-adjusted

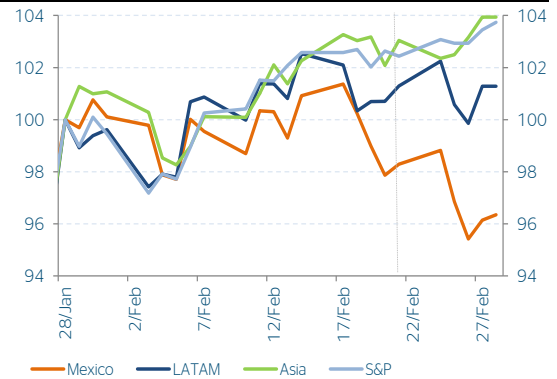
### Markets

Chart 3  
10 year government bond rate, %



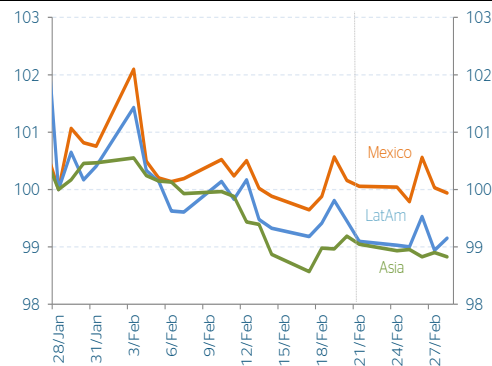
Source: BBVA Research with Bloomberg data

Chart 4  
MSCI stock indexes  
(28 Jan index =100)



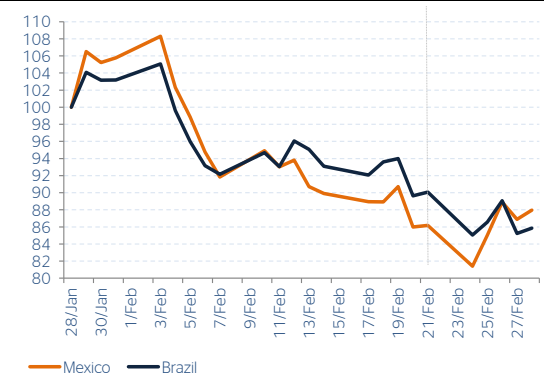
Source: BBVA Research with Bloomberg data

Chart 5  
Exchange rates  
(28 Jan index=100)



Source: BBVA Research with Bloomberg data

Chart 6  
Credit default derivatives  
(5 year CDS, 28 Jan index=100)



Source: BBVA Research with Bloomberg data

### Yearly data & forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	3.9	1.1	3.4
Headline inflation (Avg.)	4.1	3.8	4.2
Core inflation (Avg.)	3.4	2.7	3.2
Monetary policy rate (Avg.)	4.5	3.8	3.5
M10 (% change, Avg.)	5.7	5.7	6.6
GDP USA (% var. YoY)	2.8	1.9	2.5

Source: BBVA Research.

## Recent publications

Date	Description
25-Feb-2014	➡ Mexico Real Estate Flash. In 2013, mortgage banking grew, at a rate of 14%
24-Feb-2014	➡ Mexico Inflation Flash. Inflation surprised on the downside in the first fortnight of February
21-Feb-2014	➡ Mexico GDP Flash. In 2013 the GDP growth rate was 1.1%

### Disclaimer

This document has been prepared by BBVA Research at the Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and by BBVA Bancomer. S. A., Institución de Banca Múltiple and the BBVA Bancomer Finance Group, on their own behalf and is for information purposes only. The opinions, estimates, forecasts and recommendations contained in this document refer to the date appearing in the document, and, therefore, they may undergo changes due to market fluctuations. The opinions, estimates, forecasts and recommendations contained in this document are based on information obtained from sources deemed to be reliable, but BBVA does not provide any guarantee, either explicit or implicit, of its exactitude, integrity or correctness. This document does not constitute an offer, invitation or incitement to subscribe to or purchase securities.