

Mexico Weekly Flash

March 21, 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

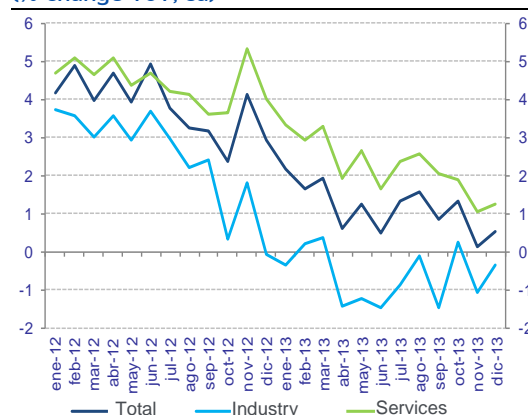
Iván Martínez Urquijo
ivan.martinez.2@bbva.com

Javier Morales Ercambrack
fj.morales@bbva.com

What happened this week ...

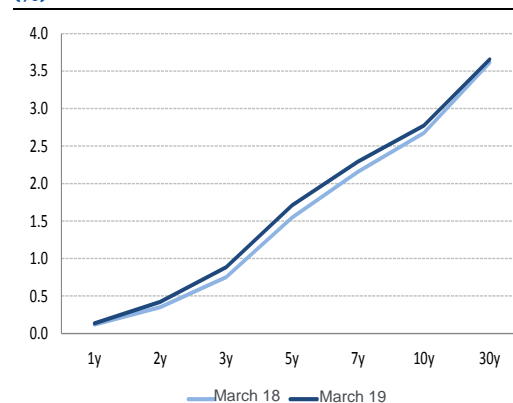
- **Global Goods and Services Supply and Demand for 4Q13 reported 0.4% growth with original series.** Growth in internal demand in 4Q13 was due to a 1.6% increase in total consumption of 1.6%; to a 3.0% contraction in total gross capital formation; and to a 6.7% expansion in goods and services exports. These figures corroborate the weak economic activity reported at the end of 2013.
- **January retail sales fell 0.3%, seasonally adjusted (sa), over the same month in 2013 (-0.3% MoM, sa).** This performance was affected by a pause in employment creation that month (only 21,979 new jobs).
- **Monetary policy rate was unchanged at 3.5%. The tone of the communiqué was relaxed about the absence of a clear recovery in activity.** Concerns about activity returned to centre stage, though, in the central bank's notification, once the absence of second-round effects enabled the inflation risk balance to improve. Banxico pointed out that changes in the economy's expansion will be particularly scrutinized when monetary stance is analyzed.
- **FOMC members' economic projections generate volatility on the markets.** In its monetary policy meeting, the Federal Reserve eliminated the 6.5% unemployment rate threshold for its forward guidance and decided to cut another USD10bn off its asset purchasing. Despite these changes, what attracted the markets' attention were increased expectations for the federal funds rate at year-end 2015 on the part of FOMC members, whose average went from 0.75% to 1.0%. On top of this, at the press conference the Chair of the Fed indicated that the first rise in the federal funds rate may occur six months after ending the asset purchase program. Both factors were interpreted in the markets as anticipating the beginning of the upward cycle of the US monetary rate. As a result, yield curves went up for all governmental bond terms in the US and Mexico. The 10-year T-bond yield widened by 10bp, while the 10-year MBono rose by 11bp. In turn, the exchange rate depreciated by 0.9%, from 13.16 to 13.28 pesos per dollar. Stock markets in the US and Mexico fell 0.6% and 0.1% respectively.

Chart 1
IGAE by components, 2012-13
(% change YoY, sa)



Source: BBVA Research and INEGI. sa=seasonally adjusted

Chart 2
US governmental yield curve
(%)



Source: BBVA Research and Bloomberg.

...What's coming up next week

- **The unemployment rate will fall slightly to levels of 4.9% in February.** Next week, February's occupancy and employment indicator will be published, which will give us a guide as to how the labor market is moving in the first quarter of the year. Given the slight recovery of economic activity in Mexico, particularly January manufacturing (0.5% MoM, sa), we expect the unemployment rate to fall slightly to 4.90% from its January 2014 level of 5.05%.
- **Inflation figures for the first half of March will confirm that underlying inflation remains contained and changes in prices are still helped by the slow economic recovery.** We forecast a fortnightly increase of 0.18% for headline inflation, so in YoY terms it will drop to 3.90% from 4.23% in February. For core inflation we forecast a fortnightly increase of 0.13%, equivalent to 2.86% YoY (2.98% in February). We expect headline inflation to be higher than core because of fruit and vegetable prices, lemons in particular, which will undoubtedly have a second consecutive fortnightly hike. However, pressures on this product category may be partially offset by reductions in the prices of others, such as tomatoes.
- **January's Global Economic Activity Index, the IGAE, will report annual growth of 1.0%, sa (0.24% MoM, sa).** In December the IGAE showed YoY growth of 0.5%, sa. This slight rise was due to growth in services (1.3% YoY, sa) and agriculture (0.7% YoY, sa). The industry sector, however, slipped 0.4% YoY, sa. Bearing in mind on the one hand the boost from industrial production in January (0.5% MoM, sa), but on the other the moderate performance from the services sector (suggested by the slight uptick in formal employment in the services sector i.e., 0.2% MoM sa), we forecast that the IGAE will report monthly growth of 0.24% MoM sa and 1.0% growth YoY sa. The IGAE's performance in January is important because it will provide clues about the strength or otherwise of the recovery in economic activity for 2014, after a very weak 2013.
- **We forecast February's balance of trade deficit at USD440mn.** On 27 March, February 2014's balance of trade figure will be published, which we estimate at USD440 mn. We should point out here that in the same month in 2013 there was a small surplus in this account of USD80mn, and that we expect the February 2014 result to factor in a YoY drop of 0.8% in exports, and a 1.0% increase in imports. If the figure for February's balance of trade is in positive territory, this may possibly be the result of fewer imports than expected, leading us to think that the rate of expansion of economic activity is showing little impetus, as was the case in 1Q13.

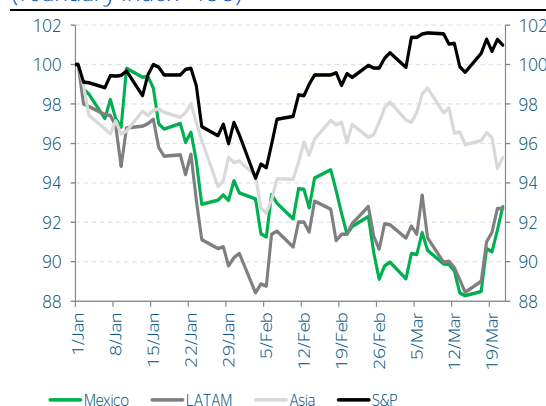
Indicator Calendar

Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Unemployment rate (% change YoY)	February	24 Mar	4.90%	4.90%	5.05%
Average inflation (% change YoY)	1 st half March	24 Mar	3.90%	3.93%	4.26%
IGAE (% change YoY, sa)	January	25 Mar	1.0%	--	0.5%
Balance of trade (USD mn)	February	27 Mar	-440	-188	-3,195
United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
New house sales (thousands)	February	25 Mar	460	445	468
Orders for durable goods (MoM change)	February	26 Mar	0.9%	0.7%	-1.0%
Orders for durable goods w/out transport (MoM chge.)	February	26 Mar	0.4%	0.3%	-1.1%
Personal expenses (MoM % change)	February	28 Mar	0.2%	0.3%	0.4%
Consumer confidence Univ. Michigan (points)	March	28 Mar	80.3	80.5	79.9

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

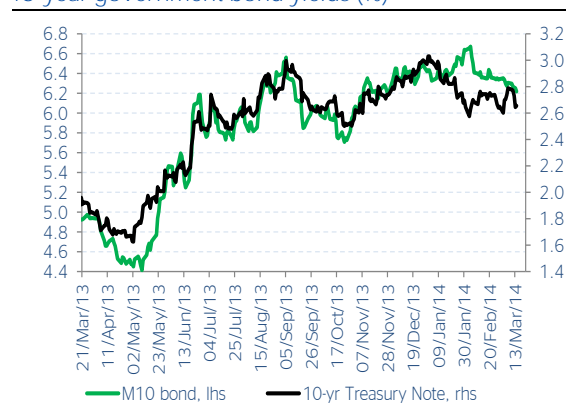
Markets

Chart 3
 MSCI share indexes
 (1 January Index =100)



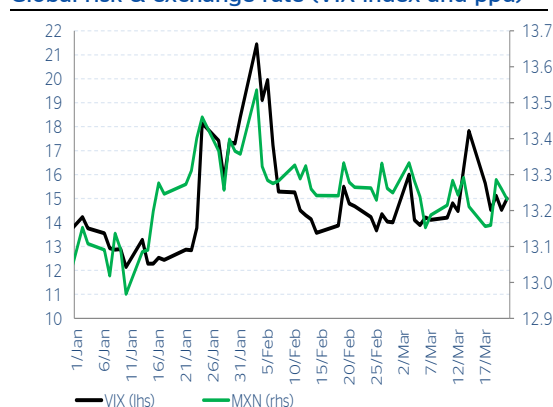
Source: BBVA Research, Bloomberg

Chart 4
 10-year government bond yields (%)



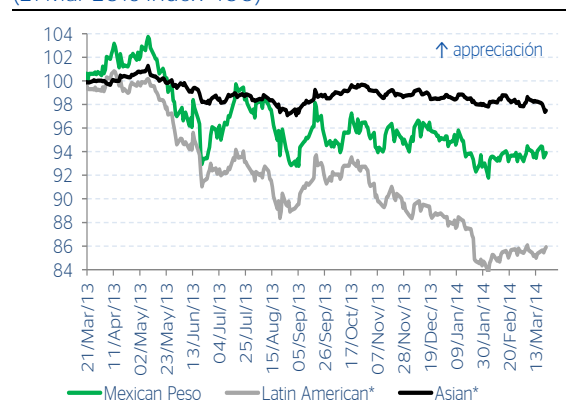
Source: BBVA Research, Bloomberg.

Chart 5
 Global risk & exchange rate (VIX index and ppp)



Source: BBVA Research, Bloomberg

Chart 6
 Currencies against USD
 (21 Mar 2013 index=100)



* JP Morgan's Index on Latin American and Asian currencies against the US dollar; weighted averages by trade & liquidity.
 Source: BBVA Research, Bloomberg

Annual information and 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 (Avg., %)	5.7	5.7	6.6
US GDP (YoY % change)	2.8	1.9	2.5

Source: BBVA Research

Recent publications

Date	Description
19-Mar 2014	➡ Fed Watch. FOMC Statement March 18-19
21-Mar 2014	➡ Banxico Flash. Fondeo rate unchanged at 3.5%. Slightly dovish tone given the absence of a clear economic recovery

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