

Mexico Weekly Flash

April 11, 2014
Economic Analysis

Mexico

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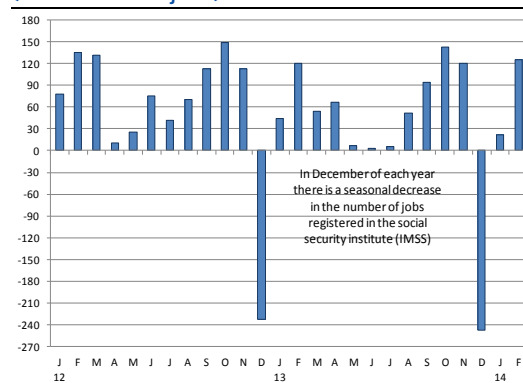
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What happened this week ...

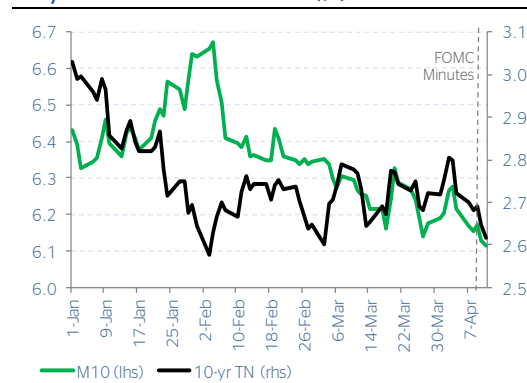
- **Inflation returned to within Banxico's target band in March.** Headline inflation went up by 0.27% MoM in March, exactly in line with our forecast (BBVAe: 0.27%, consensus: 0.30%). In annual terms, headline information slowed down to 3.76% from 4.23% in February. Core inflation went up by 0.21% MoM, slightly above expectations (BBVAe: 0.18%, consensus: 0.19%). In annual terms, it went down to 2.89% from 2.98% in February. (see [Inflation Flash](#)).
- **The gross fixed investment index for January recorded a YoY negative variation of -2.4%.** In January the two investment components, Construction and Machinery and Equipment, showed YoY growth rates of -2.7% and -1.9%, which caused this indicator to contract. We expected a reduction of -2.2% in construction investment and growth of 7.5% in machinery and equipment. The fact that this latter component has recorded a negative growth rate in January leads us to believe that the economy's recovery process will take more time than previously thought.
- **Industrial production in February grew 0.7% YoY, while the monthly variation was 0.28% with seasonally adjusted figures (sa).** This indicator was slightly below analysts' forecasts (BBVAe: 0.96% YoY, consensus: 1.0% YoY). In February and with seasonally adjusted figures, manufacturing recorded low growth, 0.17% MoM, mining went up by 0.47% MoM and construction grew 1.24% MoM. Meanwhile, electricity, gas and water fell 0.65% MoM, sa. In view of some signs of greater foreign demand, provided that in the next few months positive demand in construction persists, the industrial production index might register greater growth rates.

Figure 1
Employment creation, 2012-14
(Thousands of jobs)



Source: BBVA Research with data from IMSS

Figure 2
10-year interest rates 2014 (%)



Source: BBVA Research with data from Bloomberg

- **In March 2014 ANTAD's Same Store sales index recorded negative YoY growth of -2.4%.** The annual fall in Same Store (SS) sales according to the National Association of Self-Service and Department Stores (ANTAD) in March continues to reflect weak consumption. With the March data this ANTAD index is showing an average YoY growth rate of -1.4% for 1Q14. We expected the SS index's annual nominal growth rate in March to be positive at 1.5%, which would have indicated better consumption performance.
- **This week the rally in emerging assets continued in a context of volatility after the minutes of the Fed's latest meeting were published, and despite greater concerns about the weak trading data from China.** Emerging market assets have enjoyed a noticeable uptick in the last two weeks (see Figure 3), probably as a result of attractive valuations after the losses at the beginning of the year and in a context in which global monetary policy continues to support the quest for yield. In this environment, emerging market stock indexes showed gains in contrast with losses on US indexes. Currencies were also helped by appetite for emerging assets. Despite the favorable performance of assets perceived as higher risk, the publication of the minutes from the Fed's March meeting added volatility, by surprising markets with a tone of greater caution than perceived after this meeting. It would appear that the transition from a quantitative orientation to a qualitative one implies greater flexibility for the Fed (less commitment) and it is by employing this more subjective approach that the Fed continues to look for new methods for anchoring monetary rate expectations as to its exit strategy (see [Fed Watch](#)). In response to the minutes, US 10-year interest rates dropped over the week, with the M-10 mimicking that movement (see Figure 2).

...What's coming up next week

- **We expect the number of new workers signing on to as contributors to the IMSS, a measure of formal employment creation, to be around 70,000 people in March.** In the second half of April, the INEGI will publish new occupation and employment figures, and of these they emphasize those referring to the total number of permanent and temporary workers contributing to the Mexican Social Security Institute (IMSS) in March. The monthly increase in the number of workers contributing to the IMSS is taken as an indicator of formal employment creation in the economy; it also represents a guide to the country's macro-economic environment. We estimate that in March the total number of workers signed on with the IMSS will increase by 69,250 people. In March 2012 and March 2013 the monthly increase in formal employment was slightly over 132,000 and 54,000 people respectively. Our estimate for March takes into account a moderate reactivation in economic activity; nevertheless, the figure may be higher should the efforts being made to formalize existing employment continue.

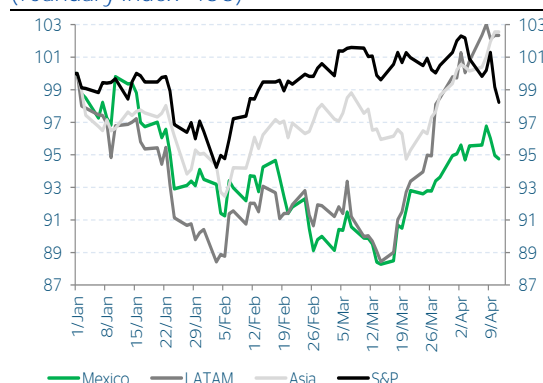
Indicator Calendar

Mexico	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Employment creation, formal economy ('000s of jobs)	March	16-21 Apr	69.25	--	125.6
United States	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Retail sales USD bn)	March	14 Apr	0.5%	0.8%	0.3%
Headline consumer price index (MoM % change)	March	15 Apr	0.0%	0.1%	0.1%
Core consumer price index (MoM % change)	March	15 Apr	0.1%	0.1%	0.1%
Industrial production (MoM % change)	March	16 Apr	0.2%	0.5%	0.6%
Leading indicators (MoM % change)	March	18 Apr	0.4%	--	0.5%

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

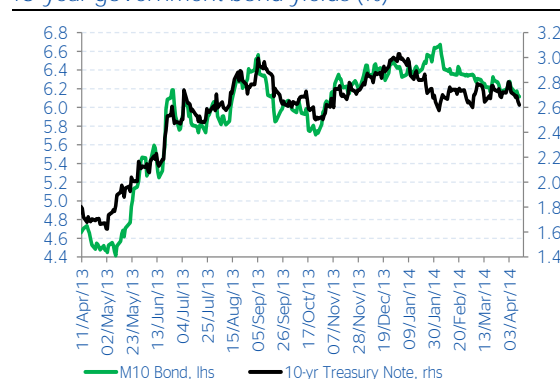
Markets

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



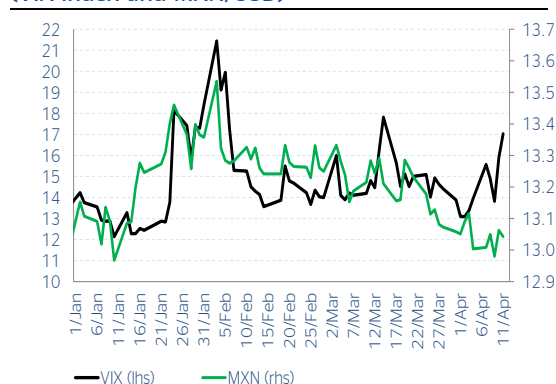
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



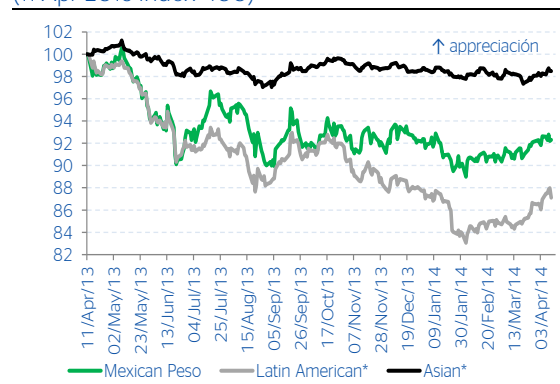
Source: BBVA Research, Bloomberg.

Figure 5
Global risk & exchange rate
(VIX index and MXN/USD)



Source: BBVA Research, Bloomberg

Figure 6
Currencies against USD
(11 Apr 2013 index=100)



* JP Morgan's indices of 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
9 Apr 2014	➡ Mexico Inflation Flash. Inflation returned to Banxico's tolerance interval in March
9 Apr 2014	➡ Mexico Economic Watch. Social Security Reform

Disclaimer

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