

Mexico

Economic Watch

27 January 2011

Positive surprise in the accumulated November IGAE (Economic Activity Index) in the volatile primary sector

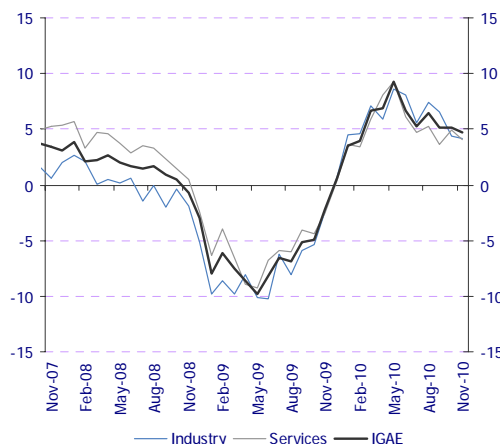
November 2010 IGAE, 5.8% year-on-year confirmed (expected: 4.1% BBVA Research, 4.0% Consensus). 0.4% with seasonal adjustment, 0.7% observed.

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- The positive surprise of the IGAE evolution during November is in good part due to the volatility of the primary sector (Chart 2) and not the rest of sectors—industry and services—which grew at a moderate rate (0.2% and 0.3% month-on-month, respectively).
- As mentioned at the time that industrial production data were published for the month in question, the clearly divergent evolution of sectors strongly linked to domestic demand compared to that of those linked to external demand is striking. This is particularly clear in the case of manufacturing is clear: the sub-sectors of the first group grew at a rate approaching 1.7% year-on-year and those of the second group around 9.3%. A similar situation has occurred with the recent retail sales data in the same month, with a monthly contraction of (-)0.5%, and with the automotive production indicator for the internal market contracting at about (-)6.8% month-on-month during the eleventh month of the year.
- In this respect, an important factor is the payroll bill, measured as the combination of employment and real salaries. Employment has been characterized by the high recovery speed (Charts 5 and 6), in contrast to the recent crisis episodes such as 2001 and 1995. In fact, the number of employees registered with social security is greater now than at the start of the crisis and this is the case in almost every sector. However, the buying power of workers has evolved very unfavorably (Charts 7 and 8): considering the effect of inflation, the positive trend that characterized salaries up to mid-2007 has been reversed, and annual variations have been negative in almost every sector (except for workers in “other industries”, in particular extractive industries).
- Considering the expected trend of the foreign cycle as well as the continuation of favorable employment data, it is probable that a progressive moderation of activity will take place during the first part of the year.

Chart 1
IGAE (Economic Activity Index), CVE (y/y % change)



Source: BBVA based on INEGI data

Table 1
IGAE (Economic Activity Index)

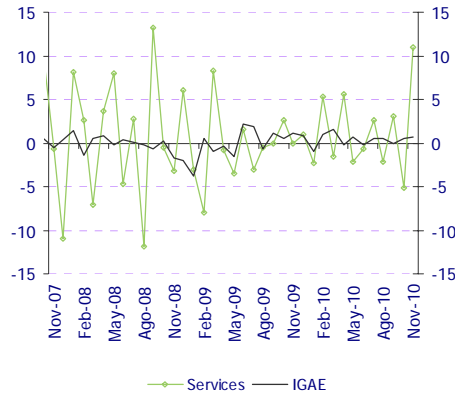
	yoy %			yoy %			
	yoy SO	yoy SA	mom SA	Total	Agriculture	Industry	Services
Jan-10	2.6	3.6	-1.0	2.6	-6.3	3.4	2.7
Feb	3.9	4.0	1.0	3.9	7.6	4.5	3.2
Mar	7.1	6.7	1.6	7.1	-2.1	7.6	7.0
Abr	7.4	6.9	-0.2	7.4	6.4	6.7	7.7
May	9.1	9.2	0.6	9.1	5.7	8.5	9.3
Jun	6.9	6.7	-0.2	6.9	3.5	8.4	6.2
Jul	4.8	5.3	0.5	4.8	10.1	4.8	4.0
Ago	6.9	6.5	0.5	6.9	6.8	7.6	5.9
Sep	5.0	5.1	-0.1	5.0	11.1	6.6	3.5
Oct	4.2	5.1	0.5	4.2	2.3	3.5	4.3
Nov	5.8	4.7	0.7	5.8	14.4	5.3	5.0

SO: Original Series SA: Seasonal Adjusted

SO: Original Series

Source: BBVA based on INEGI data

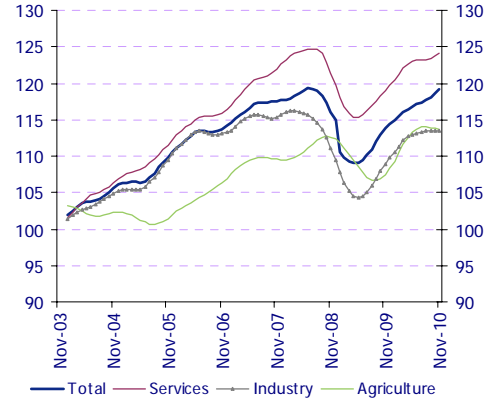
Chart 2
IGAE Total and Agriculture, SA data
 (% change m/m)



The volatile primary sector boosted activity in November.

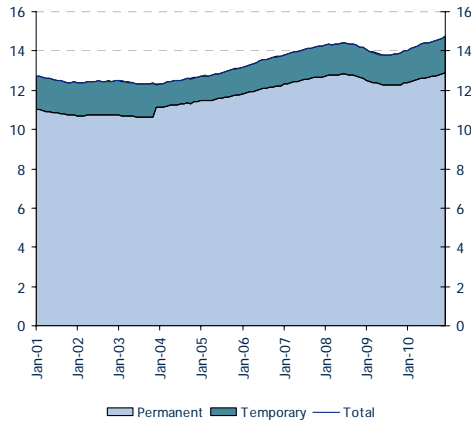
Source: BBVA Research based on INEGI data

Chart 3
IGAE: Trend
 (Index 2003=100)



Source: BBVA Research based on INEGI data

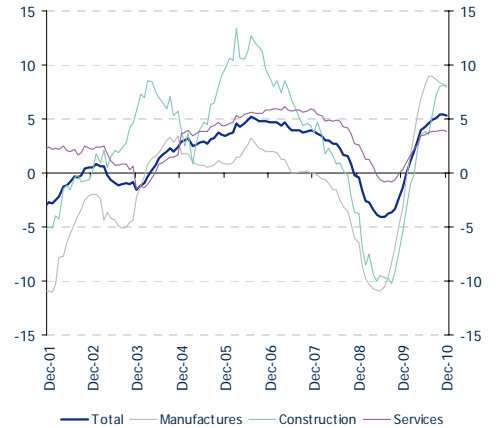
Chart 4
Formal private-sector employment
 (Millions of workers)



Although employment has recovered pre-crisis levels...

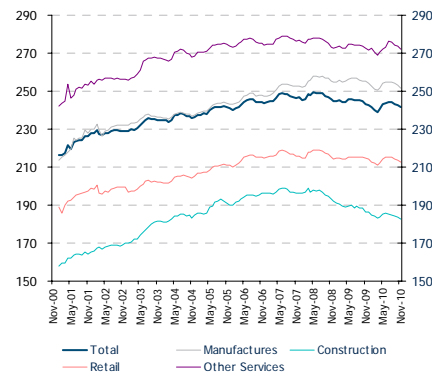
Source: BBVA Research based on INEGI data

Chart 5
Formal private-sector employment
 (y/y % change)



Source: BBVA Research based on INEGI data

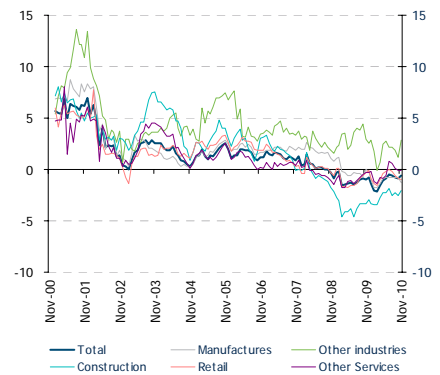
Chart 6
Real wages IMSS
 (Level)



... the lag in real salaries limits the positive evolution of domestic demand

Source: BBVA Research based on INEGI data

Chart 7
Real wages IMSS
 (y/y % change)



Source: BBVA Research based on INEGI data

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