

Mexico

Economic Watch

27 January 2011

Julián Cubero Calvo
 juan.cubero@bbva.bancomer.com

Cecilia Posadas Pérez
 c.posadas@bbva.bancomer.com

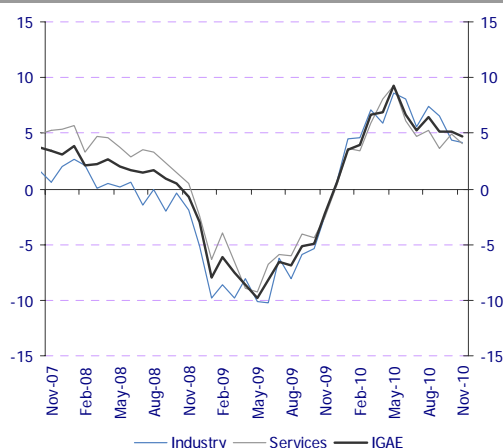
Positive surprise in the accumulated November IGAE (Economic Activity Index) in the volatile primary sector

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.

- 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)

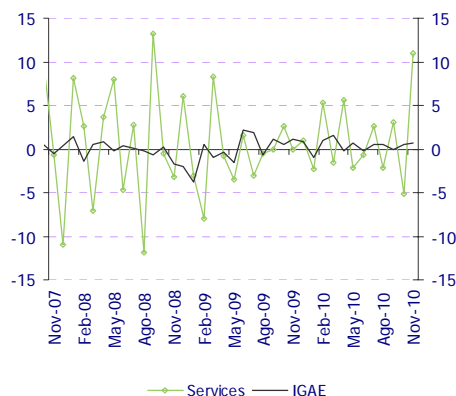
				yoy %				
	yoy SO	yoy SA	mom SA		Total	Agriculture	Industry	Services
Jan-10	2.6	3.6	-1.0	Jan-10	2.6	-6.3	3.4	2.7
Feb	3.9	4.0	1.0	Feb	3.9	7.6	4.5	3.2
Mar	7.1	6.7	1.6	Mar	7.1	-2.1	7.6	7.0
Abr	7.4	6.9	-0.2	Abr	7.4	6.4	6.7	7.7
May	9.1	9.2	0.6	May	9.1	5.7	8.5	9.3
Jun	6.9	6.7	-0.2	Jun	6.9	3.5	8.4	6.2
Jul	4.8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

SO: Original Series SA: Seasonal Adjusted

SO: Original Series

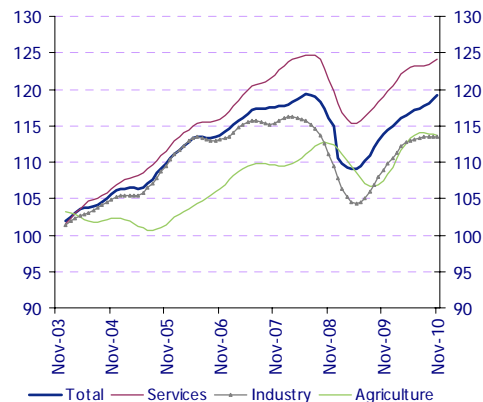
Source: BBVA based on INEGI data

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



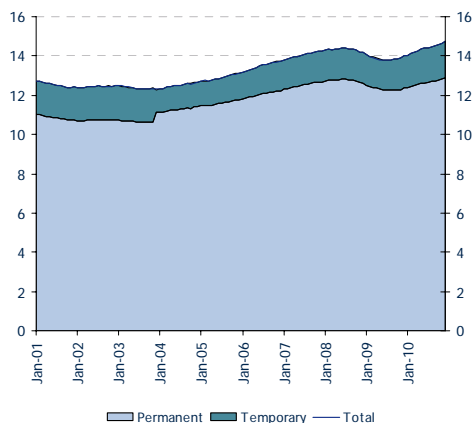
Source: BBVA Research based on INEGI data

Chart 3
IGAE: Trend
(Index 2003=100)



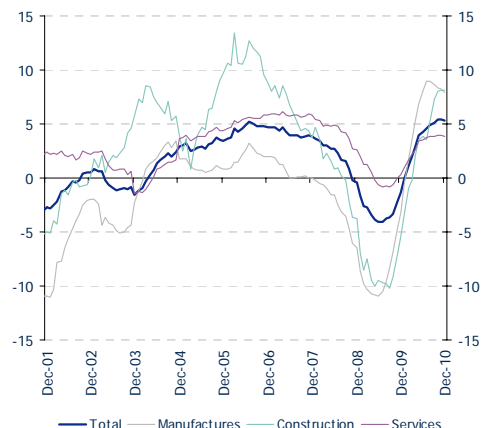
Source: BBVA Research based on INEGI data

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



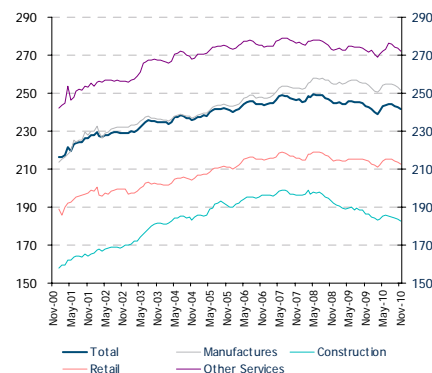
Source: BBVA Research based on INEGI data

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



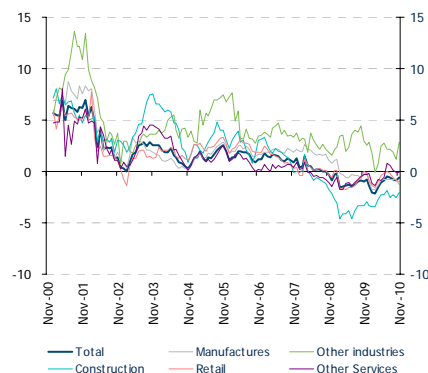
Source: BBVA Research based on INEGI data

Chart 6
Real wages IMSS
(Level)



Source: BBVA Research based on INEGI data

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



Source: BBVA Research based on INEGI data

The volatile primary sector boosted activity in November.

Although employment has recovered pre-crisis levels...

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

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.