

Economic Watch

Mexico

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Economic Analysis

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

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

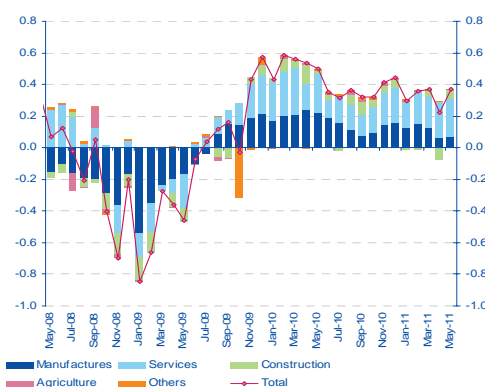
Formal employment recovers in May from the April slump, sustaining prospects of improved domestic spending

Formal private-sector employment in May

- Employment in the private sector recovered its average rate of growth over the last 12 months in May, suggesting that the April slowdown in employment and indicators of consumer and manufacturer expectations, as well as the general state of the Mexican economy, was only temporary.
- By sectors, there was a notable increase in the number of workers registered in the Social Security system in the service sector, a relative improvement in manufacturing industry and a recovery in the construction sector.
- The strength of the employment component of the wage mass will continue to point to a recovery in the indicators of domestic demand, retail sales and private consumption.

Chart 1

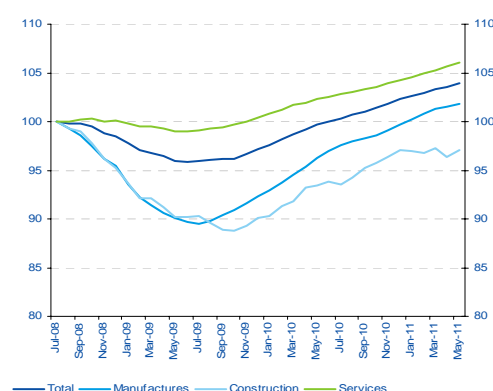
Formal private-sector employment (components and % m/m change)



Source: BBVA Research with STPS data

Chart 2

Formal private-sector employment (Jul 08 = 100)



Source: BBVA Research with STPS data

In May, formal private-sector employment registered an upturn of 0.4% on the previous month, thus recovering the average rate of growth of the previous 12 months. It suggests that the surprising fall in April was related more to temporary factors such as moderation in the manufacturing sector caused by interruption in the automotive industry's supply chain following the tsunami in Japan in March. In all, the global outlook, and in particular that of the U.S., shows some loss of cyclical strength, though its intensity and duration still has to be seen. Employment growth in the manufacturing sector continues to be limited (0.3% m/m in May vs. 0.2% in April and 0.6% in the 20 previous months); however, this has been offset by the greater contribution of the service sector (0.4% in April and May, 0.3% on average over the last 12 months), as well as the recovery in employment in the construction industry.

The recovery in formal employment goes hand-in-hand with the discreet but positive growth in real wages over the last few months. This implies a recovery in the wage mass, which is the main determinant of private consumption. We can thus expect improvements in retail sales after the recent slowdown, given that other timely indicators of expectations such as consumer confidence point in the same direction of a recovery in the domestic market.

In any event, the return of employment to higher rates of growth should be measured in a global context of reduced cyclical strength in the second quarter of 2011. With the lack of information available at the moment on 2Q11, it would be reasonable to think that GDP could grow by 0.7% q/q in the quarter in Mexico, 0.2 pp more than the 0.5% registered in 1Q11.

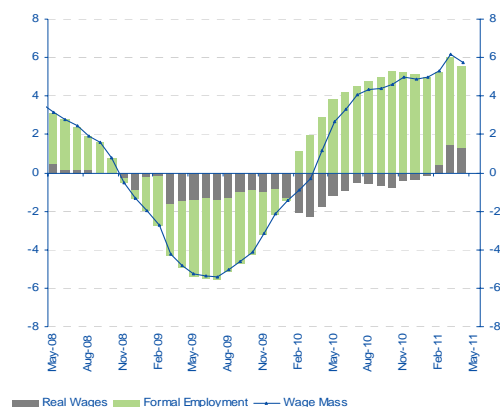
Table 1:

Formal private-sector employment

	2009				2010				2011		
	I	II	III	IV	I	II	III	IV	I	May-11	
										YoY	MoM
Total	-2.3	-3.8	-3.8	-2.3	1.0	3.7	4.9	5.4	4.9	4.3	0.4
Agriculture	-1.5	-2.1	0.4	-2.0	-0.9	0.0	1.4	3.3	3.9	3.8	0.2
Manufactures	-9.6	-10.8	-9.4	-4.9	1.5	6.7	8.9	8.2	7.5	5.8	0.3
Construction	-7.7	-9.6	-9.9	-7.3	-1.6	3.3	5.3	7.8	6.4	3.8	0.7
Rest Ind.	5.0	3.9	2.7	-13.4	-11.9	-11.8	-11.2	7.5	7.0	6.7	0.0
Services	1.5	-0.1	-0.8	-0.1	1.6	3.2	3.8	3.9	3.6	3.6	0.4

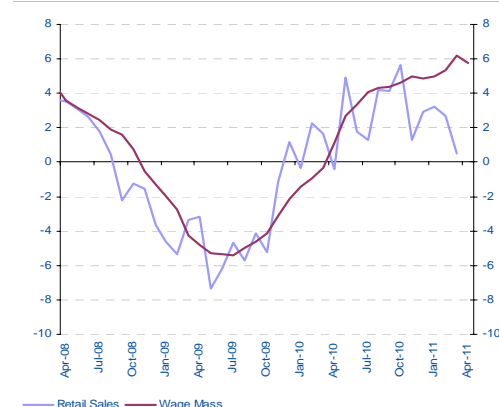
Source: BBVA Research with STPS data

Chart 1

Formal-sector wage mass (% y/y change)


Source: BBVA Research with STPS data

Chart 2

Wage mass and retail sales (% y/y change)


Source: BBVA Research with STPS and INEGI data

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