

Weekly Watch

Mexico

Next week...

December 23, 2011

Economic Analysis

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Public finance indicators will provide more information on domestic demand performance which saw strong growth in the third quarter...

This week sees the release of demand component performance in Q3 of the year. A positive surprise saw private consumption grow above expectations (expected 0.8% q/q vs. 2.0% observed). This confirms the relative strength of domestic demand components. All private domestic demand maintained expected rates, with a higher-than-expected contribution from private consumption and lower for investment. Good jobs performance and formal employment income support increased spending alongside the banking system's financing capacity. Meanwhile, the outlook for global activity is down. This could be having an impact on private investor dynamism in an environment free from pressure in capacity utilization.

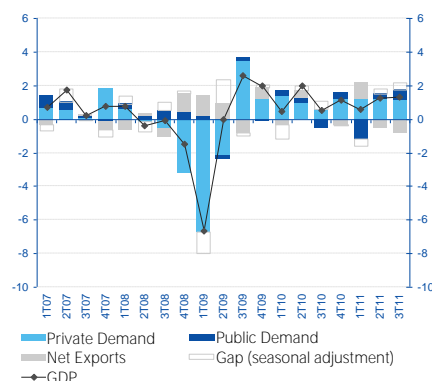
Recent figures point to GDP slowing in quarterly terms in 4Q11 to levels near 0.2%-0.3% q/q. This means an annual increase for the whole year of 3.8% or 3.9%. The outlook for 2012 continues to be lower growth than in 2011, around 3.3%, since it seems unlikely that financing conditions for households and business improve as well which were especially favorable in 2010 and the first part of 2011. In addition, the political drive in domestic spending should only accumulate in the first half of 2012 with foreign demand seeing no additional improvement in coming quarters. In all, this should lead to lower job and private domestic spending growth.

Market Analysis

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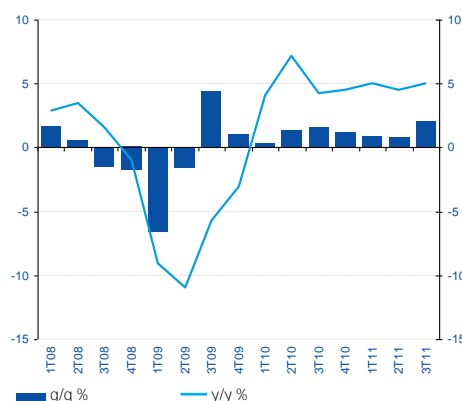
The published data are in line with GDP growth of around 3.8% in 2011 and 3.3% in 2012 although downward risks predominate linked to the overseas economic environment both in terms of demand and financing conditions.

Chart 1
GDP and demand components (y/y % change and components)



Source: BBVA Research and INEGI

Chart 2
Private Consumption (q/q and y/y %)



Source: BBVA Research and Bloomberg on Friday

Calendar: Indicators

Public finances in November

Forecast: N.A.

Consensus: N.A.

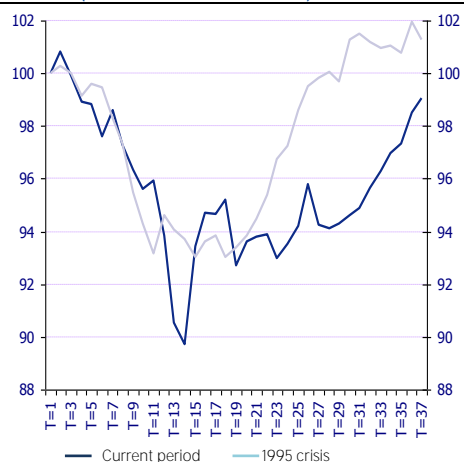
Previous:

Economic Analysis

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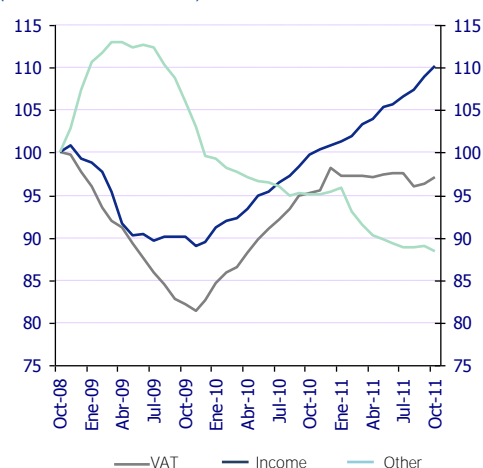
Next week sees the release of data on public finances for November. As we have stated previously, these are important to see the performance of federal government revenue and spending with the first being particularly important given the country's high dependence on non-tax revenue such as oil sales. Tax income saw aggregate growth of 3.5% over the year to October which compares negatively to the 13.6% growth in oil revenue and the 7.6% from organizations and business. This poor performance is mainly due to VAT in 2011 which saw an accumulated fall of -1.3% since income tax (ISR) saw 11.1% growth and IEPS (special tax on products and services) came in 10% higher. It should be stated that from 2010 on, the VAT rate increased from 15 to 16%. Therefore, despite the fall in collection reducing over the months, it is worrying that it is negative in a setting showing continuous recovery in economic output. In this way, although it is undeniable that the forecast public deficit for this year is 2.5%, the slow recovery in revenue after the 2009 crisis is worrying. This is why fiscal matters always have a predominant place in discussions on economic policy in Mexico and will surely be mentioned by candidates this coming year in the presidential election race.

Chart 3
Federal government revenue in crisis periods (crisis start index=100)



Source: BBVA Research with INEGI data

Chart 4
Tax revenue from the start of the crisis (Index Oct. 08=100)

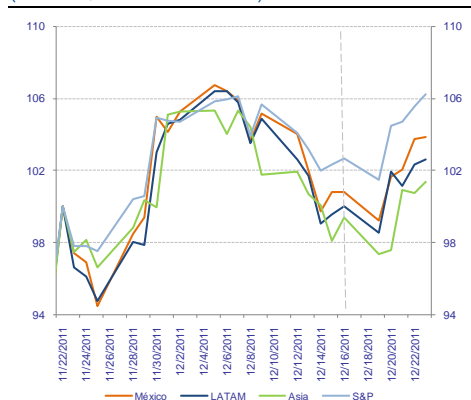


Source: BBVA Research with INEGI data

Markets

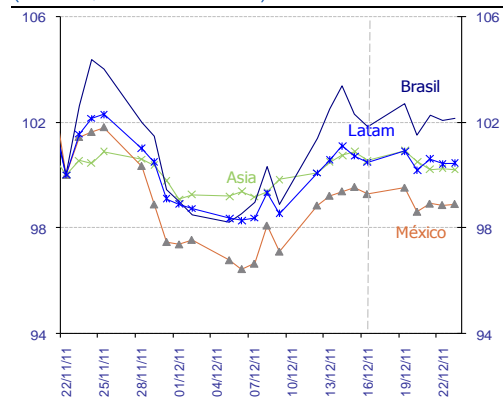
Stock markets up over the week after the release of higher-than-expected US data on jobs, housing and durable goods orders. The exchange rate saw slight appreciation over the week.

Chart 7
Stock Markets: MSCI Indices
(Nov 22, 2011 index=100)



Source: Bloomberg & BBVA Research

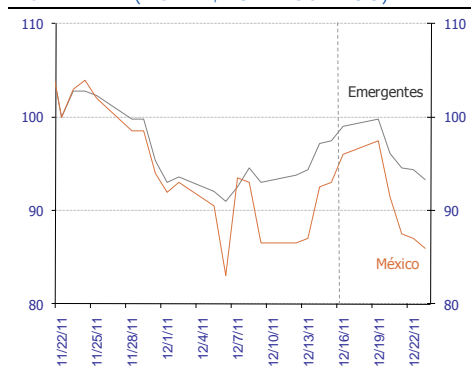
Chart 8
Foreign exchange: dollar exchange rates
(Nov 22, 2011 index=100)



Source: Bloomberg and BBVA Research. Note: LATAM includes Argentina, Brazil, Chile, Colombia and Peru. Asia includes the Philippines, South Korea, Taiwan, Singapore, Indonesia and Thailand. Non-weighted averages

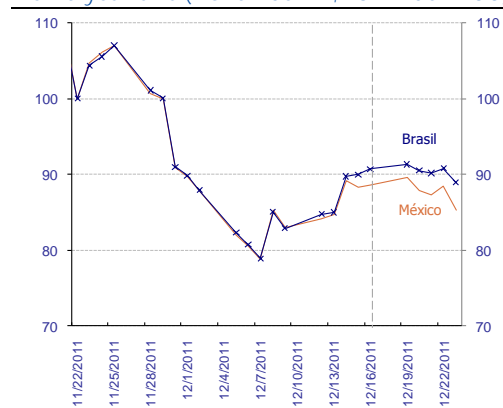
Slight fall in risk aversion over the week

Chart 9
Risk: EMBI+ (Nov 22, 2011 index=100)



Source: Bloomberg & BBVA Research

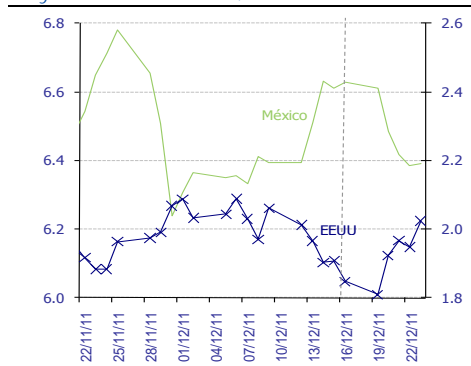
Chart 10
Risk: 5-year CDS (November 22, 2011 index=100)



Source: Bloomberg & BBVA Research

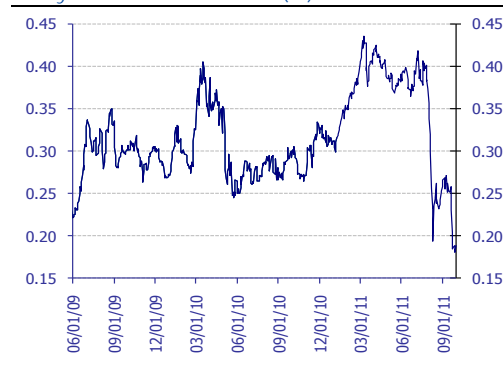
Fall in Mexico's rate and rise in US treasury rates due to greater investor optimism thanks to better-than-expected US data.

Chart 11
10-year interest rates*, last month



Source: Bloomberg & BBVA Research

Chart 12
Carry-trade Mexico index (%)



Source: BBVA Research with data from Bloomberg

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