

# Mexico Weekly Flash

March 7, 2014  
Economic Analysis

## Mexico

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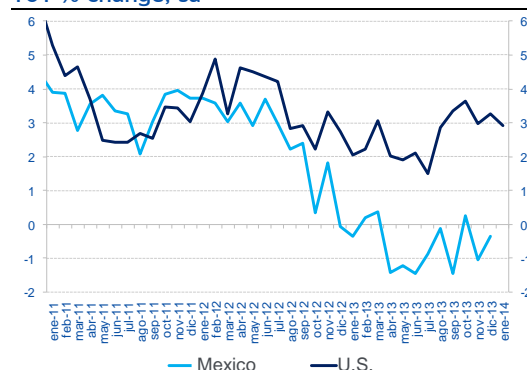
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## What happened this week...

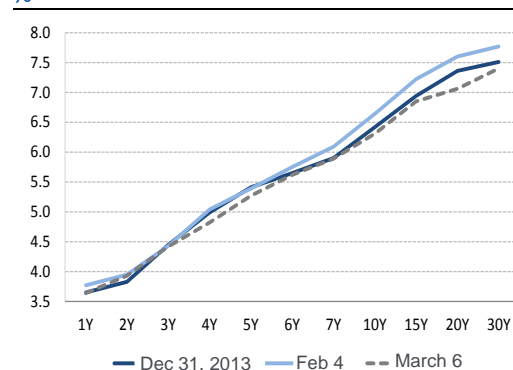
- Remittances in January came in at USD1.578 bn, representing an 8.0% increase over the same month in 2013. This growth was probably associated with the US economy's favourable growth outlook for this year, growth in new house sales (+9.6%) and a reduction in the unemployment rate (to 6.6%) in the US in January.
- Mexico's IMEF manufacturing and non-manufacturing activity indicators reported mixed, although still weak, performances in February 2014. The former went up to 50.8 points over the 49.7 points it had reached in January, seasonally adjusted (sa). The second slid from 53.5 to 52.3 points sa, over the same period. Both indicate that perception at the start of 2014 is that performance will be weak.
- Consumer confidence (CCIs) and producer confidence (PCI) indexes for February confirmed expectations we held for a sluggish start to the year. Both indicators went up in monthly terms by 3% and 0.4%, sa, respectively. In annual terms, however, they marked a downward trend (decrease of -11.3% for the CCI and -9.3% for the PCI), also seasonally adjusted. So, perception is that progress will be slow in achieving better economic performance in 2014, both for consumers and for producers.
- Headline inflation is trending downwards as expected after the transitory rise in January, while core stays low. Headline inflation went up by 0.25% MoM in February, exactly in line with our forecast (BBVAe: 0.25%, consensus: 0.23%), driven to the upside as we expected due to the increase in fruit and vegetable prices in the second half of the month (0.98% QoQ). YoY, it slowed down to 4.23% from 4.48% in January. Core inflation went up 0.28% MoM, in line with expectations (BBVAe: 0.27%, consensus: 0.28%), mainly driven up by the increase in the prices of other services (0.63% MoM; BBVAe: 0.56%), which in turn were pushed upwards by a monthly increase of 1.7% in mobile phone tariffs. As we anticipated, core inflation continues to benefit from expansion in the economy; prices of other goods did not go up (0.00% MoM; BBVAe: 0.02%). YoY, it went down to 2.98% from 3.21% in January (see [Mexico Inflation Flash](#)).

Chart 1  
Industrial production Mexico and the U.S.,  
YoY % change, sa



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

Chart 2  
Government yield curve,  
%



Source: BBVA Research with data from Bloomberg.

- **Reduction in geopolitical tensions and better than expected data in the US economy support demand for risk assets.** During the week the exchange rate went up by 0.35%, as a result of reduced concern over a conflict of larger proportions arising from Russia's incursion into Ukrainian territory. This currency appreciation was also influenced by higher than anticipated data on employment and ISM manufacturing orders in the US, which underpin the expectation of an uptick in activity once weather conditions improve. In the government bond market, yield on the 10 year M bond fell by around 5bp in line with the behaviour of US T bonds.

### ...What's coming up next week

- **Mexico's January 2014 industrial production is indicating a very slow start to the year.** We expect this index to grow very slowly in the first month of the year (0.3% MoM, sa and 0.1% YoY, sa), affected by poor US industrial production figures for January (-0.3% MoM, sa). Mexico's industrial production had already slipped in December -0.36% (YoY), sa. In monthly terms it dropped 0.53%, linked to decreases in manufacturing (-1.10% MoM, sa) and mining (-0.85% MoM, sa). Meanwhile, electricity, gas and water, and also construction went up (1.26% and 0.16% MoM, sa, respectively), but their improvement was not enough to offset the losses in other output areas.
- **The December 2013 gross fixed investment index will show a contraction, which will reflect reduced GDP growth from last year.** Given the country's sluggish economic growth in 4Q13, and poor investment performance over the last few months (-4.5% in November), we estimate the annual growth rate in December for this indicator's original series will be -1.7% (-0.7% MoM, sa). Expected investment performance in December will bring this indicator's average growth rate for the year as a whole down to -1.9%. This rate will be similar to the national accounts investment series for 4Q13, which INEGI will publish on 20 March.
- **ANTAD's February 2014 annual nominal growth rate for same store sales (SS) will be -2.3%.** Expected dynamism from ANTAD (National Association of Self-Service and Department Stores) sales is due to the moderate rate of economic activity at the beginning of the year. What is more, in January 2014 the growth of these sales was -1.7% and the average rate of these sales in the second half of 2013 was -0.5%. If November is excluded because of the effect of Black Friday (*Buen Fin*), average growth in the remaining five months was -1.3%, which also reflected the weakness of economic activity.

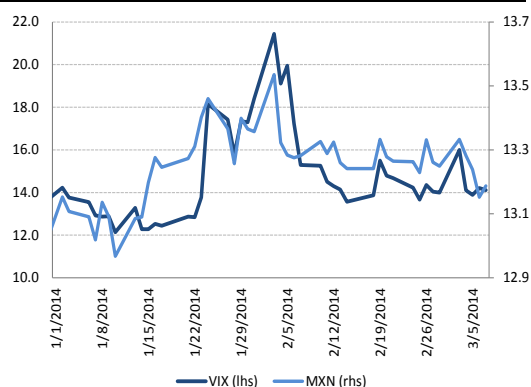
### Indicator Calendar

Mexico	Month covered	Publication date	BBVA estimate	Consensus	Previous figure
Gross fixed investment (YoY change)	Dec	11 Mar	-1.7%	-0.1%	-4.5%
ANTAD sales (YoY change, nom SS)	Feb	11 Mar	-2.3%	-0.1%	-1.7%
Industrial activity indicator (YoY change, sa)	Jan	13 Mar	0.1%	0.6%	-0.4%
United States	Month covered	Publication date	BBVA estimate	Consensus	Previous figure
Retail Sales (MoM change)	Feb	13 Mar	-0.1%	0.20%	-0.4%
Retail Sales exc. auto (MoM change)	Feb	13 Mar	0.0%	0.10%	0.0%
Business Inventories (MoM change)	Jan	13 Mar	0.30%	0.4%	0.5%
University of Michigan Consumer Sentiment	Mar	14 Mar	82.0	81.8	81.6

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

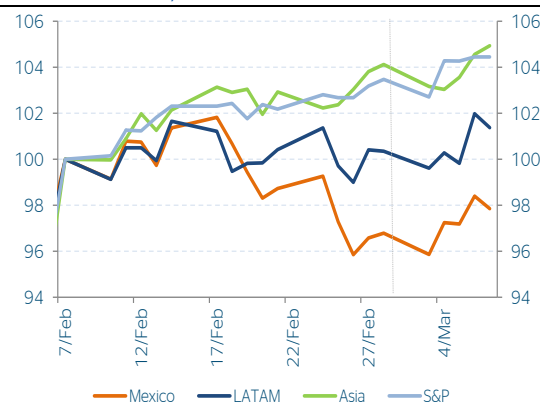
## Markets

Chart 3  
 Global risk and exchange rate (VIX index & pesos per dollar)



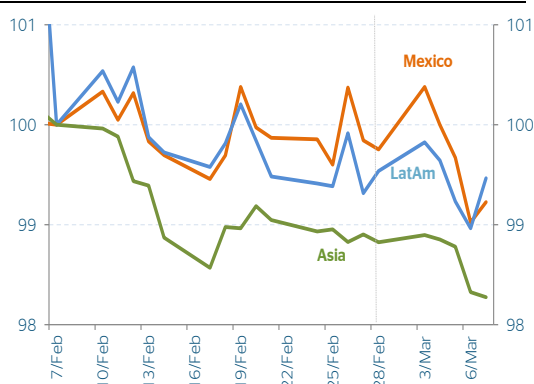
Source: BBVA Research with data from Bloomberg.

Chart 4  
 MSCI stock indexes  
 (7 Feb index=100)



Source: BBVA Research with data from Bloomberg.

Chart 5  
 Exchange rates  
 (7 Feb index=100)



Source: BBVA Research with data from Bloomberg.

Chart 6  
 10-year Government yield, %



Source: BBVA Research with data from Bloomberg.

## Annual information and forecasts

	2012	2013	2014
Mexico GDP ( % var. YoY)	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 (% var. Avg)	5.7	5.7	6.6
US GDP (% var. YoY)	2.8	1.9	2.5

Source: BBVA Research.

## Recent publications

Date	Description
Mar 7, 2014	➡ <a href="#">Mexico Inflation Flash. Inflation is on a declining trend as expected following the one-off increase in January</a>

### Disclaimer

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