

Mexico Weekly Flash

April 4, 2014
Economic Analysis

Mexico

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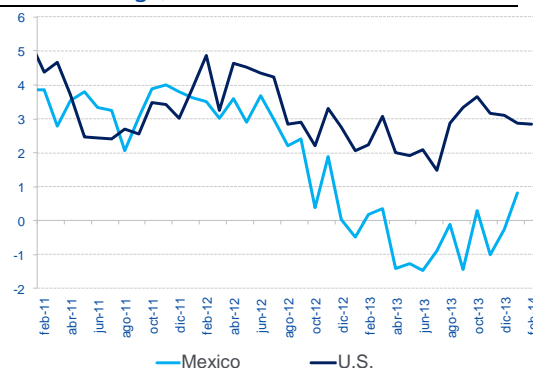
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What happened this week ...

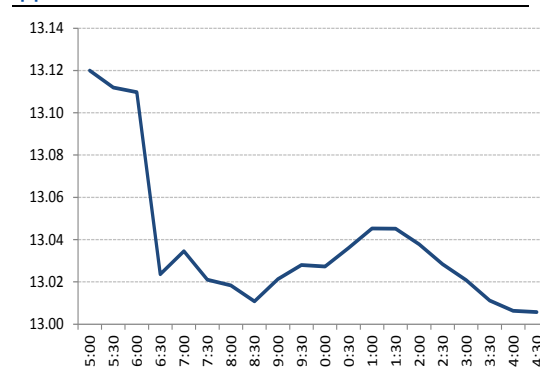
- **Remittances to Mexico in February held their growth curve, reaching USD1.677bn (+5.7% YoY).** This growth is associated with good economic performance in the US, since in February the unemployment rate stayed relatively low (6.7%) and the ISM manufacturing index for March showed growth of 1.9% over the month before.
- **The Mexican IMEF manufacturing and non-manufacturing indicators showed mixed and still weak performance in March 2014.** The first grew 52.7 points, vs. 50.8 points in February, seasonally adjusted (sa). This is to a large degree accounted for by the positive effect of the increase in US manufacturing production in February (0.8% MoM, sa). The second dropped from 52.3 points to 51.2 points, sa, making two consecutive months trending downwards. This suggests weak economic performance for the first quarter of 2014.
- **Producer and consumer confidence in March both showed MoM improvements (+1.1% and +4.7%, sa, respectively), but in annual terms are still in negative territory (-7.8% and -5.7%, sa, respectively).** This suggests progress, although still slow, in expectations for better economic performance in 2014, from both consumers and producers.
- **Employment and manufacturing production reports indicate an uptick in the North American economy.** The US non-farm payroll expanded by 192,000 jobs in March, slightly under the analysts' consensus figure of 200,000. The data review added 37,000 jobs to the January and February figures, so the trend is once again close to 200,000 jobs in the last six months. All jobs created in March came from the private sector, in particular from the construction and retail trade sectors. So, the unemployment rate remained at 6.7% even when the participation rate increased. A few days later it was reported that the US ISM managers purchasing index had risen to 53.7 points in March from 52.2 in February, with a significant increase in new orders and production components.

Figure 1
Mexico and US industrial production, 2011-14
(YoY % change, sa)



Source: BBVA Research and INEGI. sa=seasonally adjusted

Figure 2
Intraday exchange rate 4 April 2014
(ppd)



Source: BBVA Research and Bloomberg

- In the financial markets, there was greater demand for higher risk assets as a result of the improved economic data from the US. The increase in the US non-farm payroll, very close to analysts' expectations, in addition to the recent communications on the part of the members of the Fed, reduced concerns of an earlier-than-expected rise in the reference rate. This translated into a fall in Treasury bond rates. In particular, the yield on 10-year bonds fell 6bp to 2.73%, very close to where it stood before the Federal Reserve's last meeting. In Mexico, the yield on 10-year M-bonds fell 7bp to 6.21%. In the FX market, the peso appreciated 0.82% against the dollar after the US employment figure was released, closing at MXN/USA 13.00. The Mexican stock market showed a marginal rise of 0.09% by the end of the week, while in the US the S&P500 dropped 1.25% as a result of profit-taking after the record high reached during the week.

...What is coming up next week

- Gross fixed investment will improve in the short term if the Machinery and Equipment component keeps up its recent improvement. On 8 April INEGI will publish the Gross Investment Indicator figure for January. In December 2013 its annual growth rate was 0.7%. We estimate that in January 2014 total gross investment will report a growth rate of 0.9%. Annual growth, as of December 2013, of total investment was affected by an 8.9% increase in the Machinery and Equipment component and a -3.6% drop in the Construction investment component. This latter investment component is highly correlated with the movement in construction as part of the global economic activity index, the IGAE. Thus, in January 2014 total IGAE growth rates and of the construction component in IGAE were 0.8% and -2.5% respectively. The former may indicate that in January 2014 investment in construction will record a fall which we forecast could be -2.2%. In view of this, total investment may grow 0.9% if Machinery and Equipment grows at a rate of around 7.5%, as was the case in December 2013.
- Inflation will come in within Banxico's tolerance interval in March, while core inflation will stay below 3.0%. We anticipate a monthly increase of 0.27% for headline inflation, which in annual terms will slacken to 3.75% from 4.23% in February (and 3.89% in the first half of March). For core inflation we forecast a MoM rise of 0.18%, equivalent to 2.85% in annual terms (2.98% in February; 2.84% in the first half of March). Unlike the first half of the month, in the second fortnight lemon prices will have gone down after the sharp jumps in the two previous fortnights, but this fall may be partially offset by increases in prices of other staples such as tomatoes.
- We forecast that in March 2014 ANTAD's same-store sales indicator will show an improvement over previous months. Next week, ANTAD, the National Association of Self-Service and Departmental Stores, will publish the YoY nominal growth rate of its Same Store (SS) indicator for March 2014. In January and February of this year, nominal growth was -1.7 and -0.2 respectively, probably reflecting weak spending behaviour. We forecast that ANTAD's SS index will report nominal YoY growth of 1.5% in March, reflecting greater dynamism in economic activity from March onwards.
- February's industrial production will go up by 1.0% YoY, sa, equivalent to 0.96% monthly, sa. This performance is affected to a large extent by the upturn in the US monthly industrial production index in February (0.6% MoM, sa). In January, industrial production in Mexico increased 0.81% YoY, sa. In monthly terms it grew 0.51%, helped by a significant rise in manufacturing (2.34% MoM, sa). Meanwhile, mining fell (-0.06% MoM, sa), as did electricity, gas and water (-0.90% MoM, sa), and construction (-1.23% MoM, sa).
- The minutes from the Fed's most recent monetary policy meeting will demonstrate whether the FPMC members have altered their accommodating stance. Next Wednesday, the minutes of the FOMC meeting on 18-19 March will be published. Given the upturn in expectations about the federal fund rate for late 2015 shown in FOMC member projections, it will be important to learn of their opinions about economic recovery and the rate of monetary stimulus withdrawal.

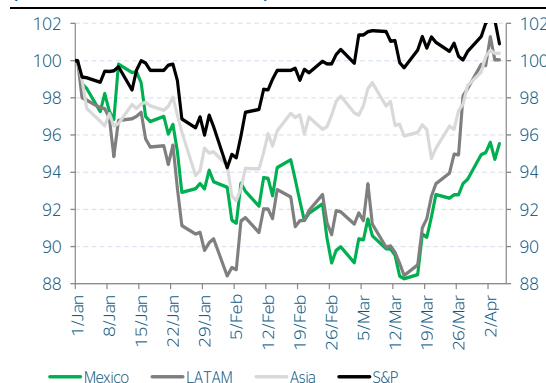
Indicator Calendar

Mexico					
	Index Period	Publication Date	BBVA Estimate	Consensus	Earlier figure
Gross fixed investment (YoY % change)	January	8 April	0.9%	0.6%	0.7%
Headline inflation (MoM % change)	March	9 April	0.27%	0.30%	0.25%
Core inflation (MoM % change)	March	9 April	0.18%	0.18%	0.28%
ANTAD sales (YoY change, nom. \$)	March	9 April	1.5%	-0.9%	-0.2%
Industrial production (MoM % change, sa)	February	11 April	0.96%	0.50%	0.51%
United States					
	Index Period	Publication Date	BBVA Estimate	Consensus	Earlier figure
Consumer credit (USDbn)	February	7 April	16.2	14.0	13.7
Monetary policy meeting minutes	March	9 April	NA	NA	NA
Producer prices, final demand (MoM % change)	March	11 April	0.2%	0.1%	-0.1%
Producer prices, core (MoM % change)	March	11 April	0.2%	0.2%	-0.2%
Consumer confidence (index)	April	11 April	80.5	81.5	80.0

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

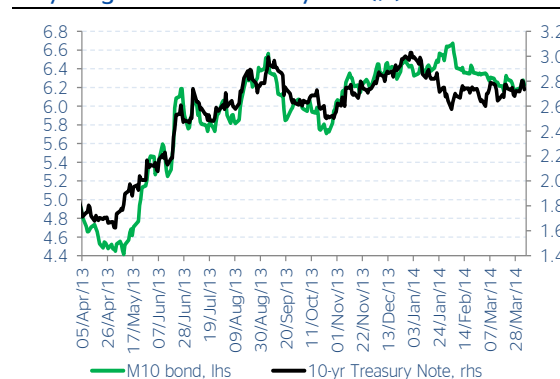
Markets

Figure 3
MSCI stock market indexes
 (1 Jan 2014 index=100)



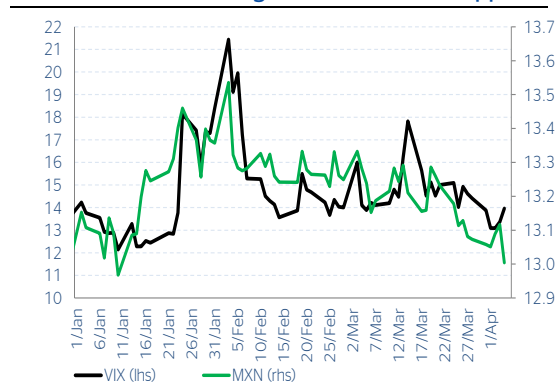
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



Source: BBVA Research, Bloomberg.

Figure 5
Global risk and exchange rate (VIX index & ppp)



Source: BBVA Research, Bloomberg

Figure 6
Currencies to USD
 (4 April 2013 index=100)



* JP Morgan's indices of Latin American and Asian currencies against the US dollar; weighted averages by trade & liquidity.
 Source: BBVA Research, Bloomberg

Yearly data and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	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 (Avg., %)	5.7	5.7	6.6
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research.

Recent publications

Date	Description
1 April 2014	➡ Mexico Migration Flash. Remittances stay on growth path: increased 5.7% in February
3 April 2014	➡ Mexico Banking Flash. Credit to the private sector: 8.7% growth in February

Disclaimer

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