

Mexico Weekly Flash

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Economic Analysis

Mexico

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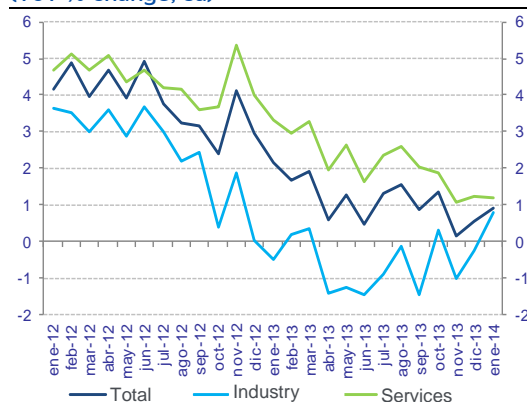
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What happened this week ...

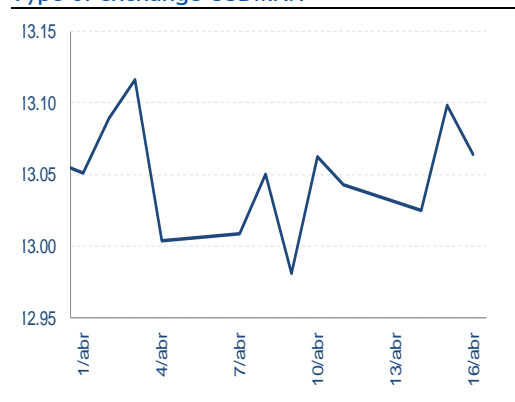
- Because of Easter, few important indicators were published on the country's economic activity. **Nevertheless, the total number of workers signed on as contributors to the IMSS in March went up by over 108,000 people.** Formal employment, using the figure of the number of workers registered through the IMSS, went up in March by 108,726 people, 65.7% of whom were workers with permanent jobs (71,436 people) and the remaining 34.3% were temporary contributors to the system (37,290 people). The March data for IMSS-affiliated workers was above our estimate of 70,000 additional workers, indicating a bigger improvement than expected in employment.
- US economic figures take precedence over geopolitical tensions in financial market behaviour.** Industrial production in the US grew 0.7% MoM in March (consensus: 0.5%), and the February growth rate was reviewed upwards from 0.6% to 1.2%. These figures, together with the declarations by the Chair of the Federal Reserve about the continuous commitment to economic recovery on the part of the central bank, influenced a greater demand for risk assets. This is in spite of the announcement that Chinese economic growth fell to 7.4% during the first quarter (7.7% YoY 4Q13). In this context the exchange rate went up 0.42% this Wednesday, to recover part of the depreciation from the day before, associated with higher concerns about a war in Ukraine, which took it to levels close to USDMXN13.10. On the stock markets, there were gains all round; in particular the Mexican market went up by around 0.5% this Wednesday. Finally, in the government debt market, yields on 10-year bonds went up over last Friday, closing at 6.19%.

Figure 1
IGAE by components, 2012-14
(YoY % change, sa)



Source: BBVA Research and INEGI. sa=seasonally adjusted

Figure 2
Type of exchange USDMXN



Source: BBVA Research and Bloomberg.

...What's coming up next week

- February's Global Economic Activity Index (IGAE) will report YoY growth of 0.86%, sa (0.18% MoM, sa).** In January the IGAE showed YoY growth of 0.91%, sa. This increase was due to growth in services (1.2% YoY, sa) and industry (0.8% YoY, sa). Meanwhile, the agriculture sector fell 1.8% YoY, sa. Bearing in mind both the weak performance of Mexico's industrial activity in February (0.28% MoM, sa) and only moderate performance in the services sector (suggested by the growth in formal employment in this sector, 0.2% MoM, sa), we estimate that IGAE will show MoM growth of 0.18% and YoY growth of 0.86%, with seasonally adjusted figures.
- The unemployment rate will go up to around 4.85% in March.** Next Tuesday the occupation and employment indicator for March will be published. This indicator will give us clues as to how the labor market is performing at the end of the first quarter of 2014. Given the behavior of economic activity in Mexico, particularly the lack of dynamism in service sectors, we expect the unemployment rate to go up slightly and settle at 4.85% in March from 4.65% in February 2014.
- Retail sales for February will show an annual rise of 0.48%, sa, (0.58% MoM, sa), caused by a slight recovery in employment and inflation stability.** In January, retail sales decreased 0.3% YoY, sa, affected by sluggish employment creation and the lack of growth in wages throughout the country.
- We forecast that annual inflation will drop to 3.59% in the first half of April.** We anticipate fortnightly headline inflation of -0.12%, meaning that in annual terms it will drop to 3.59% from 3.76% in March. For core inflation we anticipate a fortnightly rise of 0.06%, equivalent to 2.95% in annual terms (2.89% in March). We forecast that annual inflation will slow to 3.6% in April and rise slightly in May, before beginning to speed up in June when the unfavorable base effects start kicking in. We expect core inflation to stay at around 3.0% in 2Q14 before starting to go up slightly during the second half of the year, if, as expected, the economy strengthens. Nevertheless, a weaker economic acceleration than that expected in 1Q14 and the forecast that prices will rise in the second part of the year have made us downgrade our expectation for headline inflation by the end of the year to 3.7% (formerly 3.9%) and for core inflation down to 3.2% (former forecast: 3.4%).
- Unchanged monetary rates.** On Friday 25 April, Banxico will announce its monetary policy. In view of the absence of second round inflationary effects deriving from fiscal modifications and weak activity in the first quarter, we believe that the scenario of a prolonged monetary pause is more likely. We expect the announcement to retain the relaxed tone shown in March, particularly since the most recent domestic demand data (e.g. investment, ANTAD sales) are still not showing a clear recovery.

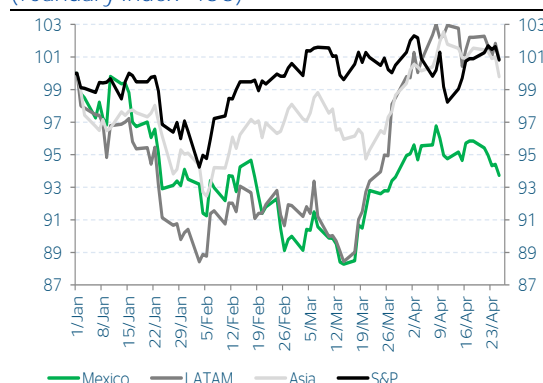
Indicator Calendar

Mexico	Period covered	Publication date	BBVA Estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	March	22 Apr	4.85%	4.42%	4.65%
Retail sales (YoY change sa)	February	23 Apr	0.48%	-	-0.31%
Headline inflation (MoM % change)	1 Q April	24 Apr	-0.12%	-0.18%	0.05%
IGAE (YoY % change, sa)	February	25 Apr	0.86%	-	0.91%
Monetary policy decision	April	25 Apr	3.5%	3.5%	3.5%

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

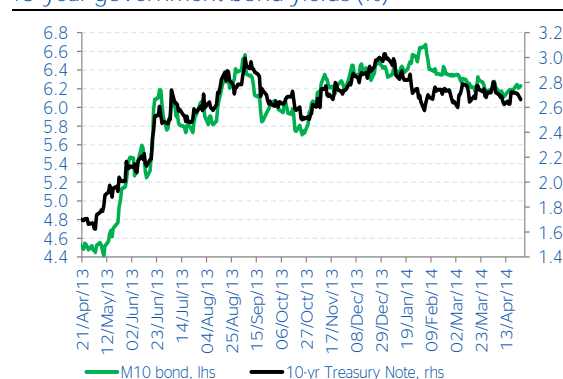
Markets

Figure 3
 MSCI share indexes
 (1 January Index =100)



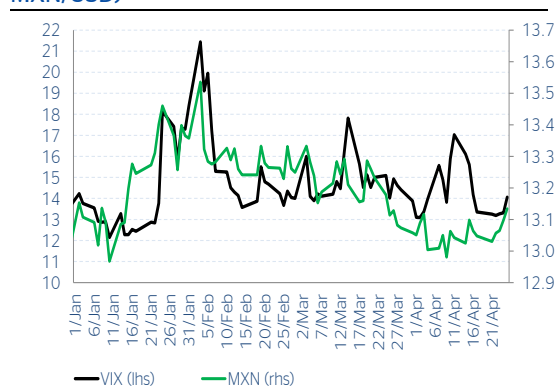
Source: BBVA Research, Bloomberg

Figure 4
 10-year government bond yields (%)



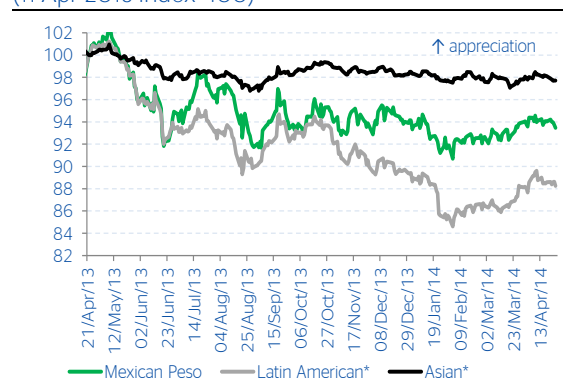
Source: BBVA Research, Bloomberg.

Figure 5
 Global risk and exchange rate (VIX index and
 MXN/USD)



Source: BBVA Research, Bloomberg

Figure 6
 Currencies against USD
 (11 Apr 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

Annual information and forecasts

	2012	2013	2014
Mexico GDP (Var % YoY)	3.9	1.1	3.4
Headline inflation (Avg.)	4.1	3.8	4.0
Core inflation (Avg.)	3.4	2.7	3.1
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
14 Apr 2014	➡ Mexico Banking Flash. Bank deposits: uneven behaviour by components

Disclaimer

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