

Mexico Weekly Flash

April 25, 2014
Economic Analysis

Mexico

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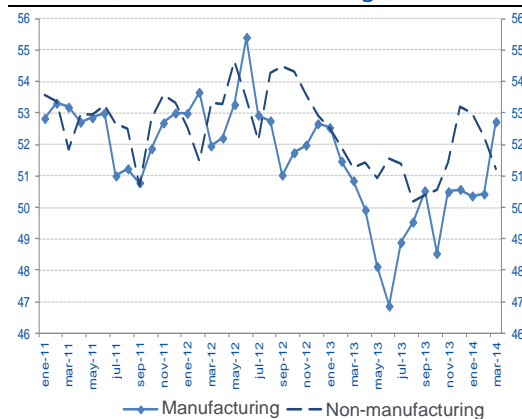
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What happened this week ...

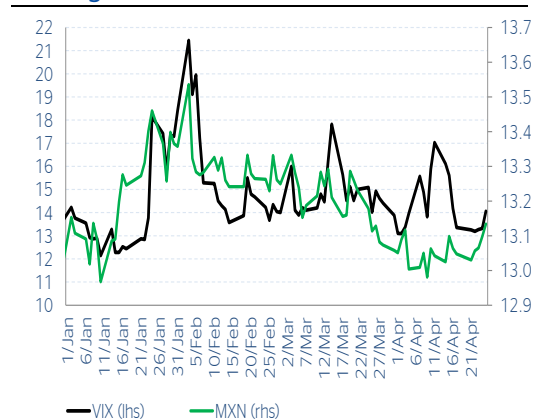
- **The unemployment rate went up to 4.80% in March from 4.65% in February.** In line with our prognosis and above the consensus forecast (BBVA: 4.85%, consensus: 4.46%) the unemployment rate at the close of the first quarter of 2014 reached 4.80%, with original series. This result was influenced by the increase in the Economically Active Population (EAP), which went from 57.8% in March 2013 to 58.8% in March 2014. This indicates that more people were looking for jobs in the expectation of an improvement in the country's economic activity.
- **The February Global Economic Activity Index (IGAE) reported annual growth of 1.7%, sa (0.54% MoM, sa).** Above our prognosis and that of the consensus (BBVA: 0.86%, consensus: 1.59%), the February IGAE went up 1.7% YoY, with seasonally adjusted series. This increase was due to the growth in the farm sector (11.7% YoY, sa), services (1.9% YoY, sa) and industry (0.5% YoY, sa). This suggests that although in the first quarter there will be slower economic activity than expected at the beginning of the year, there are signs that acceleration will begin in the next few months.
- **Inflation surprised to the downside, helped by a sharp fall in fruit and vegetable prices.** Headline inflation dropped 0.19% QoQ in the first half of April (BBVAe: -0.12%, consensus: -0.18%), slowing down in annual terms to 3.53%. This figure was helped by a slightly greater reduction than expected in electricity tariffs (-3.3% QoQ vs. the expected -3.0%) and by a 2.9% QoQ fall in prices in the fruit and vegetable component. Meanwhile, core inflation went up by 0.26% QoQ, a rise in annual terms of 3.17%. This increase was a result of the seasonal increase in tourism-related services because of the Easter holidays, so we anticipate that it will be transitory.

Figure 1
IMEF Manufacturing and Non-manufacturing indicators, 2011-14 (YoY % change, sa)



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

Figure 2
Exchange rate and VIX (USDMXN and index)



Source: BBVA Research, Bloomberg.

- **Retail sales in February posted a monthly fall of 1.3%, sa, (-1.7% YoY, sa).** According to the INEGI and using seasonally adjusted figures, sales in retail outlets went down 1.3% in February this year over January. Compared to February last year the drop was 1.7%. This is accounted for by reductions in the subsections of hardware articles, ironwork and glass; household goods, computers and interior decoration articles; textiles, clothing accessories and footwear, convenience and department stores, stationery, leisure and other items for personal use. This is a sign of the weakness of internal demand over the first few months of the year.
- **Banxico held its monetary policy rate unchanged and moderated the relaxed tone of its earlier communiqué in view of the marginal improvement in output.** Even though Banxico acknowledged that the data suggest lower growth in the first quarter than had been anticipated a few months ago, the greater dynamism in the US economy influenced the marginal improvement in the balance of risks for activity. In the area of inflation, Banxico maintained its risk balance unchanged. Going forward, we expect greater growth in subsequent quarters this year driven basically by exports and public spending in an environment of no demand pressure on prices, which will lead inflation to close the year around 3.7%. In this context we retain our outlook for a monetary pause for the rest of the year.
- **Higher tensions in Ukraine affected market sentiment at the end of the week.** Markets closed the week with a negative tone because of increased tension as a result of the Russia-Ukraine conflict. Partly as a response to this, higher risk assets held their downward trend which started last week after the rally in previous weeks. In the future we forecast a recovery, bearing in mind that the Russia-Ukraine conflict is at the moment a regional problem, and in particular considering that the global cyclical recovery may strengthen, with signs of greater strength in the US and recovery in the eurozone, added to the economic policy actions which China has implemented to deal with its own weak economic data.

...What is coming up next week

- **On 28 April the INEGI will publish the national goods trade balance figures for March 2014.** Since 2010 the foreign trade balance has always been positive in March, and in 2013 it reported this as USD1.753bn. We estimate that in March 2014 the positive balance will go up 4.4% over the results in the same month last year, to USD 1.83bn. This figure is the result of an expansion in goods exports which is higher than the increase in imports, both on an annual comparison and in MoM differences. In other words, we expect the annual growth rate of exports in March to post at 2.6% and imports at 2.4%. We also estimate exports to have grown from February to March by nearly USD2.2bn and imports to have increased by USD1.3bn. The MoM dynamism of exports would reflect to a certain degree in greater dynamism in the country's export activity.
- **Remittances in March may grow by 5.4% (to USD1.869bn), a similar change to last February.** Estimates for the first quarter of the number of Mexican migrants in the United States indicate that it grew by 1.3% over the same period last year, so this indicator has improved, although only moderately. This increase was mainly visible in jobs in the construction sector over a wide number of US states, but principally in Texas.
- **The IMEF manufacturing activity indicator is expected to post a small increase in April (reaching 53.7 points) and the non-manufacturing figure is expected to remain practically unchanged (at 51.1 points).** These indicators will be published on 2 May. The rise in US manufacturing production in March (0.5% MoM, seasonally adjusted) suggests that there will be a small rise in Mexico's manufacturing index and no change in the non-manufacturing index for April, which would point to the onset of the expected improvement in economic activity from the second quarter of 2014 onwards.
- **Next week the market focus may return to the US.** Job creation figures and the April ISM data will be published, as well as the initial estimate for growth in the first quarter. Markets will also be paying particular attention to Wednesday's meeting of the Federal Reserve.

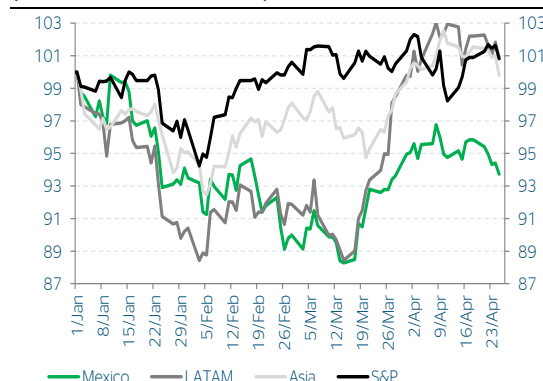
Indicator calendar

Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Trade balance (USDmn)	March	28 Apr	1,830	1,600	976.3
Remittances (USDmn)	March	2 May	1,869	1,896	1,677.3
IMEF manufacturing indicator (sa index)	April	2 May	53.7	--	52.7
IMEF non-manufacturing indicator (index sa)	April	2 May	51.1	--	51.2
United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Consumer confidence (index)	April	29 Apr	--	83.2	82.3
Gross Domestic Product (QoQ % change)	1Q14	30 Apr	--	1.2%	2.6%
Monetary policy rate	April	30 Apr	--	0.0%-0.25%	0.0%-0.25%
Personal income (YoY % change)	March	1 May	--	0.4%	0.3%
ISM manufacturing index	April	1 May	--	54.3	53.7
Total vehicle sales (mn of vehicles YoY)	April	1 May	--	16.2	16.3
Change in non-farm payroll, (thousands)	April	2 May	--	215	192
Unemployment rate (YoY % change)	April	2 May	--	6.6%	6.7%

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

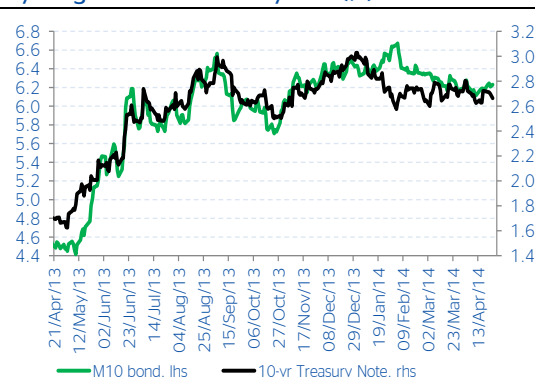
Markets

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



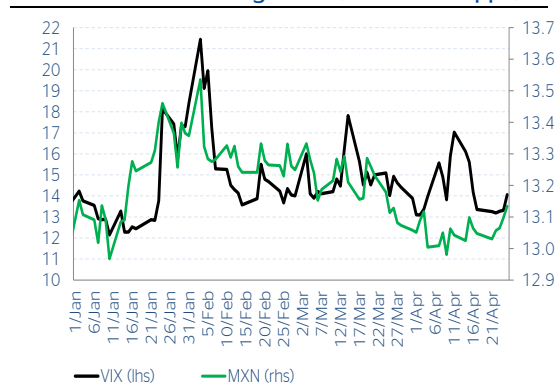
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



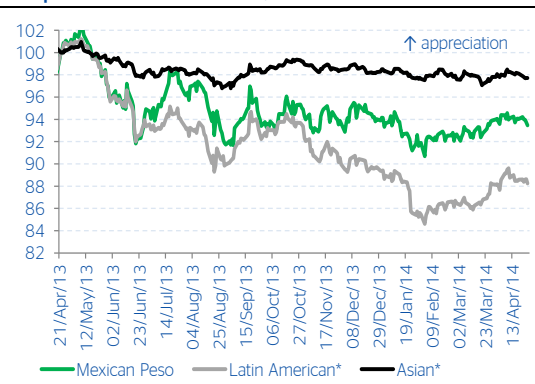
Source: BBVA Research, Bloomberg.

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies to USD
 (21 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 information and forecasts

	2012	2013	2014
Mexico GDP (YoY % change)	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
GDP USA (% Var. YoY)	2.8	1.9	2.5

Source: BBVA Research.

Recent publications

Date	Description
25 Apr 2014	➡ Banxico Flash. Fondeo rate remains at 3.5%. Banxico tamed its dovish tone by indicating that economic activity improved marginally

Disclaimer

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