BBVA | RESEARCH

Mexico Weekly Flash

May 2, 2014
Economic Analysis

Mexico
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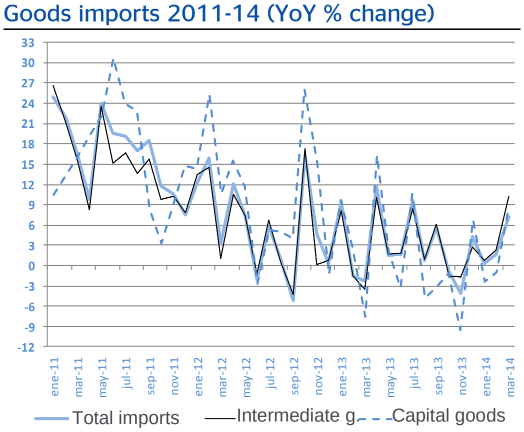
What happened this week…

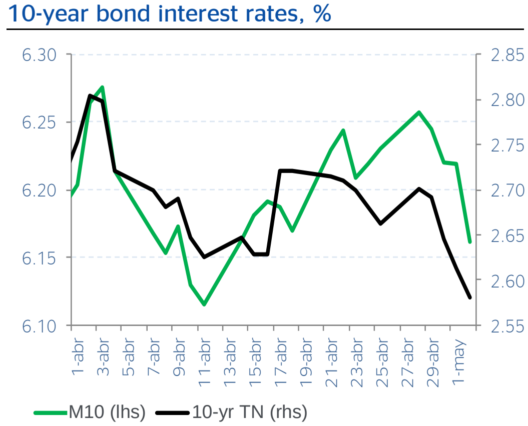
- **Mexico's balance of trade recorded a lower surplus than expected as a result of import dynamism.** In March 2014 the balance of trade surplus was USD1.027bn, whereas we had estimated that it would be USD1.830bn. The principal source of the error in our prognosis was the high rate of annual growth in total merchandise imports, with a 7.2% growth rate recorded in March. For their part, imports of intermediate goods and capital goods this month also grew at high rates, with the first rising by 10.2% and the second by 8.2%. It is possible that behaviour in March of this type of merchandise imports, linked to the level of economic activity, is indicating that the country's productive activity is already increasing its rate of expansion.
- **Family remittances surprised to the upside.** In March, family remittances grew 16% in annual terms, reaching USD2.056bn, a higher amount than the market was expecting (consensus: USD1.89bn; BBVA Research: USD1.869bn). Although a rise in remittances had been expected because the number of Mexican migrant workers in the United States has grown, this figure appears to suggest that labour conditions in the sector and in general in the US are improving.
- **The IMEF manufacturing activity indicator surprised to the downside in April, by falling to 51.1 sa (BBVAe: 53.7; consensus: 53.5) from 52.7 sa in March.** In turn, the non-manufacturing activity figure was also worse than expected, coming in at 50.6 sa (BBVAe: 51.1; consensus 51.2), a slight fall from the March figure (51.2 sa). These figures suggest that at the beginning of the second quarter the rate of expansion of economic activity may be a little more moderate than expected.

Figure 1
Goods imports 2011-14 (YoY % change)



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

Figure 2
10-year bond interest rates, %



Source: BBVA Research with data from INEGI.

- **No surprises from the Federal Reserve despite disappointing 1Q14 growth; the strong job creation figure indicates an acceleration in activity from 2Q14 onwards.** The markets presented relatively moderate movements over the week despite the negative surprise in US growth in 1Q14 (0.1% QoQ annualised vs. 1.2% expected). There were no surprises in the report of the Federal Reserve's monetary policy meeting. The communiqué contained few novelties, perhaps the most important being the indication that economic activity was accelerating after having "decelerated drastically" over the winter, as the GDP figures previously mentioned testified. Perhaps the most interesting information this week was the fact that the ISM figures (54.9 in April vs. 54.3 expected and 53.7 in March) and particularly the job creation figures (+288,000 in April vs. 218,000 expected) point to a significant improvement in economic activity in 2Q14. These figures, together with signs in China suggesting that stimulus policies are starting to bear fruit (e.g., that manufacturing PMI grew to 50.4 in April) translated into a positive sentiment on the markets. In this context of appetite for risk, emerging currencies held their recent appreciation trend (related to carry operations) and the Mexican peso differentiated positively, appreciating by 0.9% over the week. The positive market sentiment also translated into a fall in Mexican bond yields (the M10 went down by 10bp during the week) and into gains on emerging stock markets.

…What's coming up next week

- **Producer and consumer confidence indicators are expected to report slight improvements (+1.4% and +1% MoM, sa, respectively).** On 6 May the INEGI will publish the figures for the producer confidence (PCI) and consumer confidence (CCI) indexes for this April. Due to an increase in manufacturing production in the United States in March (0.5% MoM, sa) and its carryover to Mexican manufacturing, we estimate that the producer confidence index will come in at 52.2 points, that is, that it will have a MoM rise of 1.4%, sa. Meanwhile, in view of the creation of formal employment in March (108,726 jobs) and its potential effect on spending and confidence, we expect the consumer confidence index to rise slightly and reach a level of 91.3 points, equivalent to a MoM increase of 1.0%, sa.
- **April inflation will reflect favourable seasonal and supply factors.** We anticipate a MoM drop of 0.10% in the general price index and an increase of 0.34% in the core index. The fall in prices is accounted for mainly by lower electricity prices because of seasonal adjustment (subsidies for better temperatures) in the first half of the month, and by supply-side factors which caused significant falls in the prices of fruit and vegetables over the same period. The monthly figures mean that these supply conditions will have become less favourable in the second half of the month. The increase in core inflation is principally a response to the seasonal increase in prices linked to Easter tourism. In annual terms, headline inflation will be 3.59% (3.76% in March) and core will be 3.16% (2.89% in March). We estimate that during May and June inflation will remain within Banxico's tolerance range (3% +/- 1pp) for the third and fourth consecutive months before possibly breaking this range from July onwards if the supply side factors in the markets, with more volatile prices, do not repeat the favourable performance they showed during the summer of 2013.
- **Gross fixed investment will reduce its deterioration in February, and by the second quarter may already be recording positive growth rates.** On 9 May the INEGI will publish the monthly gross fixed investment indicator. The annual rate of growth which this index recorded in January 2014 was -2.4%. This contraction was caused by negative growth rates of -2.7% and -1.9% registered by its construction investment components, and also in machinery and equipment, respectively. By February we expect this indicator's YoY growth rate for investment to be -1.8%, due to the contractions forecast in its construction components (-2.1%) and also machinery and equipment (-1.2%). In the second half of 2013 the gross fixed investment indicator went down sharply, which was reflected in an average annual real growth rate for these six months of -3.3%. Its real growth rate in January, and expected rate for February, would indicate that in the second quarter of 2014 we might already be seeing positive annual growth rates in this indicator.
- **Minutes from the monetary policy meeting on 25 April**. In these minutes it would be helpful to know which variables were weighted when signalling the incipient improvement in some consumption and private investment indicators, which it would be important to track

going forward. Another discussion to which attention should be paid, because it is becoming relevant for future monetary policy in Mexico, is on the possible effects on the Mexican economy of potential changes in US monetary positioning.

- **Next week there will be fewer significant events for the markets.** After the publication of important data last week by the US and China, there will be fewer economic indicators being published of relevance to the markets. Nevertheless, markets will pay particular attention to the testimony of the Federal Reserve Chair, Janet Yellen, on 7 May and the monetary policy decision to be taken by the European Central Bank on Thursday, in view of the fact that Germany's April inflation figures were below expectations, as such increasing the likelihood of a monetary policy response in a forthcoming meeting.

Indicator Calendar

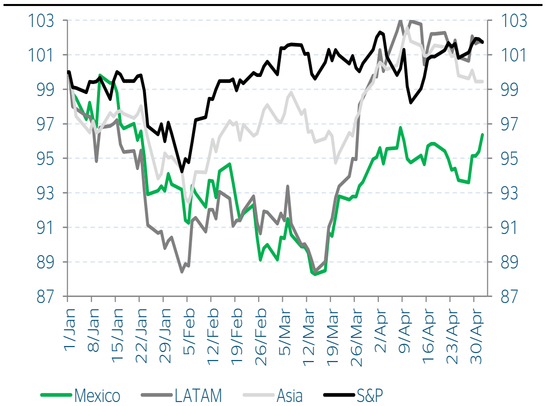
Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Producer confidence (index, sa)	April	6 May	52.2	--	51.5
Consumer confidence (index, sa)	April	6 May	91.3	89.8	90.4
Headline inflation (YoY % change)	April	8 May	3.59%	3.57%	3.76%
Gross fixed investment (YoY % change)	February	9 May	-1.8%	-1.5%	-2.4%

United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Non-manufacturing ISM (index)	April	5 May	53.8	54.0	53.1
Balance of trade (USDbn)	March	6 May	-40.80	-40.15	42.30
Consumer credit (USDmn)	March	7 May	16.20	16.10	16.49

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

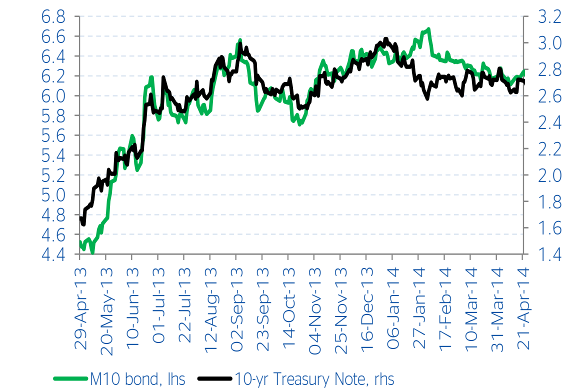
Markets

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



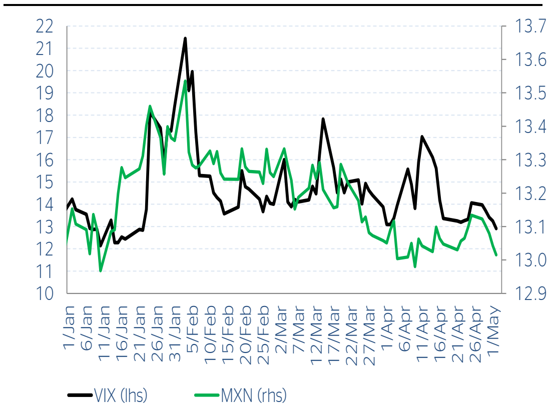
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



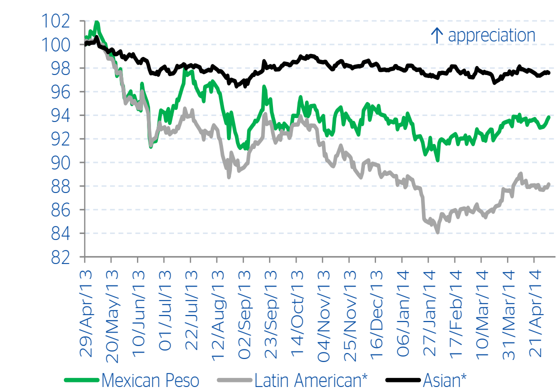
Source: BBVA Research, Bloomberg.

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies to USD (29 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 (YoY % change)	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