

Mexico Weekly Flash

May 16, 2014
Economic Analysis

Mexico

Arnoldo López Marmolejo
arnoldo.lopez@bbva.com

Juan Carlos Rivas Valdivia
JuanCarlos.rivas.valdivia@bbva.com

Javier Amador Díaz
javier.amadord@bbva.com

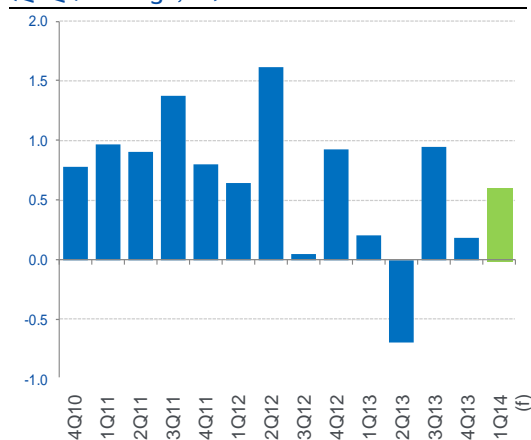
Iván Martínez Urquijo
ivan.martinez.2@bbva.com

Javier Morales Ercambrack
fj.morales@bbva.com

What happened this week...

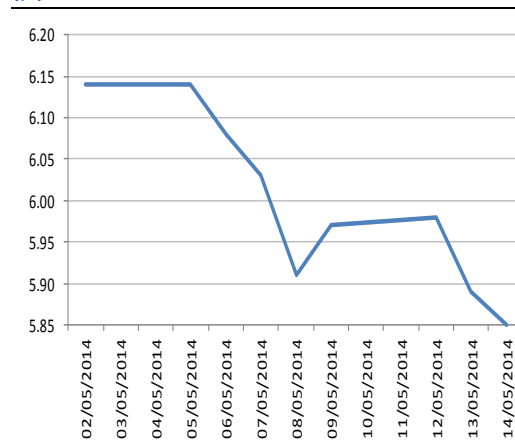
- **Industrial production fell unexpectedly in March 0.1% on a month-on-month comparison (MoM), seasonally adjusted (sa).** There were more surprises, also MoM, in the form of reductions in the mining and manufacturing sectors, -0.5% MoM, sa and -0.3% MoM, sa, respectively. This monthly contraction is the first negative indicator of the year. In annual terms, industrial production also contracted 0.1%, sa. This figure has led us to revise downwards our forecast for economic growth for the first quarter to 0.64% in quarterly terms. Nevertheless, we continue to expect a stronger recovery in the second quarter of the year onwards, driven by the recovery in the US.
- **In April 2014 the ANTAD index of same store (SS) sales reported an annual nominal growth rate of 2.4%.** We had estimated an annual nominal growth rate of -0.6%, which represented an improvement, since in the previous months of January (-1.7%), February (-0.2%) and March (-2.4%) on average the deterioration was greater. The better-than-expected result seems to have been influenced by the effect of the Easter date, which was highlighted in ANTAD's communiqué. In view of the fact that Easter is an extraordinary event, this leaves open the possibility that in the near future the performance of ANTAD's same store sales indicator might be less positive than in its April report.

Figure 1
Actual GDP and 1Q14 estimate
(QoQ % change, sa)



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

Figure 2
10-year M-bond yield
(%)



Source: BBVA Research with data from Valmer

- **US economic indicators moderate demand for risk assets.** Over the week, movements in the markets were influenced by expectations of greater loosening of monetary policy on the part of the European Central Bank, more so after growth in the first quarter in the eurozone (0.8% QoQ) came in below expectations. This has generated more demand for risk assets, although this was largely interrupted by lower-than-expected growth in US industrial production in April (-0.6% MoM). In this context, over the week the exchange rate appreciated 0.33%, after the higher-than-expected figure on start-up construction in the US reversed almost completely the depreciation caused by the industrial production data (-0.47%) last Thursday. The yield on the 10-year government bond fell 12bp over the week, in line with the 12bp fall in the T-bond with the same maturity, which closed at 2.5% (see Figure 2). The Mexican stock market went up 0.6% over the week, influenced mainly by the US start-up construction figure on the last day of trading.

...What is coming up next week

- **Retail sales reported a YoY increase to March of 0.43%, seasonally adjusted (sa).** On a monthly measurement they rose by 2.16%, sa, supported by a slight recovery in employment and inflation stability. In February, retail sales decreased 1.7% YoY, sa.
- **1Q14 inflation report.** In a context of a slow recovery in economic activity, indicating more sluggish growth in the first quarter than expected in previous months, we will need to watch out for a possible cut in the 2014 growth prognosis on the part of the central bank. This range currently stands between 3.0% and 4.0%.
- **The unemployment rate will increase to 4.96% in April.** Next Thursday sees the publication of April's occupation and employment indicator. This indicator will provide clues as to the possibility of a more vigorous or slower recovery going into 2Q14. Given how economic activity in Mexico has behaved, particularly the lack of dynamism and consumption and production, we expect the unemployment rate to rise slightly and come in at 4.96% in April, up from 4.80% in March 2014.
- **The Global Economic Activity Index (IGAE in the Spanish acronym) for March will report annual growth of 1.54%, sa (0.15% MoM, sa).** This result is mainly a consequence of bad performance in the industrial sector (-0.2%, MoM, sa), which we expect to be partly offset by growth of 0.3% MoM, sa, in the services sector. February's IGAE had YoY growth of 1.7%, sa, driven by an increase in agriculture (11.7% YoY, sa), services (1.9% YoY, sa) and industry (0.5% YoY, sa).
- **First quarter 2014 GDP will be published. We expect the quarterly growth rate to come in at 0.64% (with sa series).** On 23 May, GDP for 1Q14 will be announced. After quarterly growth of 0.2% in the fourth quarter of 2013 economic recovery is expected, although slower than anticipated earlier, reflected in GDP growth of 0.64% QoQ (see Figure 1). The fall of industrial production in 2014 (-0.2% YoY, sa) and on the other hand, the resilience of the services sector shown in the IGAE data, are among the main factors that will sustain this performance. Nevertheless, if this gradual quarterly growth is confirmed, our economic growth scenario for 2014 of 3.4% YoY will have a strong bias to the downside.
- **Inflation in the first half of May will continue to reflect favourable seasonal and supply side factors.** We anticipate a fortnightly reduction in the general price index of -0.37% and an increase in the core index of 0.11%. The price fall will be mainly accounted for by lower electricity prices because of the seasonal adjustment (subsidies for higher temperatures) and by supply-side factors which appear to have stayed favourable in the first half of May. Our fruit and vegetable price monitor points to new falls in lemon and onion prices, and to drops in tomato and other vegetable prices. In annual terms, headline inflation will be 3.44% (3.50% in the second half of April) and core inflation 3.02% (3.11% in the previous fortnight). We estimate that in May annual inflation will remain relatively stable and that in June it will stay within Banxico's tolerance range (3% +/- 1pp), before possibly breaking out of that range from July onwards.

- On 23 May the Bank of Mexico will publish the country's 1Q14 current account data. We should recall here that in the first quarter of 2013 the current account deficit was a little over USD6.5bn. Some of the principal items on the current account performed better in 1Q14 than they had over the same period in 2013. For example, in the first quarter of 2014 the international travellers' (tourism) balance was higher than in the same period the year before: USD2.5bn vs. USD1.9bn. This also happened in the case of remittances the country received (USD5.3bn vs. USD4.8bn). In terms of the trade balance in the first quarter, this was slightly higher in 2014 than the figures recorded in 2013 (-USD1.2bn vs. -USD1.0bn). These figures and the general behaviour of economic activity in the country suggest that the current account deficit in 1Q14 will be USD5.3bn.

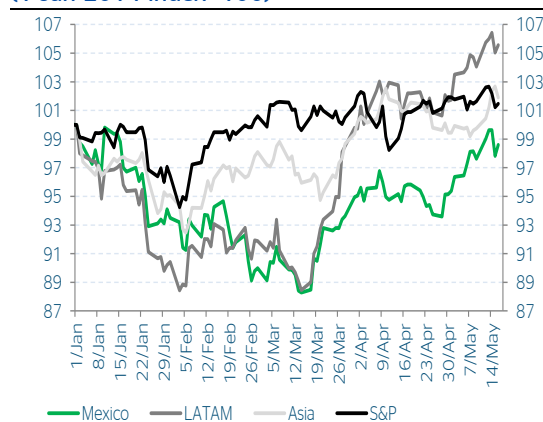
Indicator Calendar

Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Retail sales (YoY % change, sa)	March	21 May	0.43%	--	-1.65%
Bank of Mexico Inflation Report	1Q14	21 May	NA	NA	NA
Unemployment rate (YoY % change)	April	22 May	4.96%	4.90%	4.80%
Headline inflation (FoF % change)	1HMay	22 May	-0.37%	-0.40%	-0.05%
Headline inflation (YoY % change)	1HMay	22 May	3.44%	3.42%	3.47%
IGAE (YoY % change, sa)	March	23 May	1.54%	--	1.65%
GDP (QoQ % change, sa)	1Q14	23 May	0.64%	0.6%	0.18%
Current account deficit (USDmn)	1Q14	23 May	-5,300	-6,370	-4,660
United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Conference Board leading indicator (MoM % change)	April	22 May	0.4%	0.4%	0.8%
Existing home sale (MoM % change, sa)	April	22 May	3.5%	2.0%	-0.2%
Total annual sales of new homes (MoM % change, sa)	April	23 May	12.0%	9.4%	-14.5%

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. First quarter 2014 = 1Q14. 1HMay = First half of May.

Markets

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



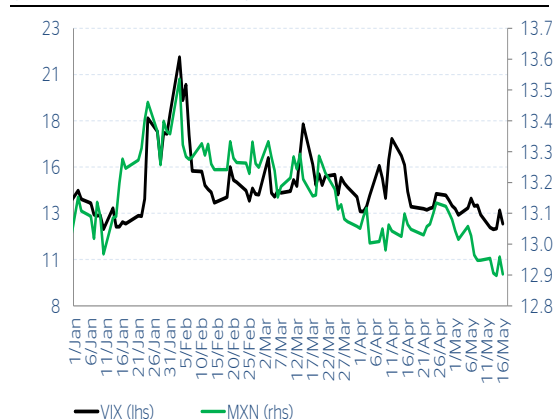
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



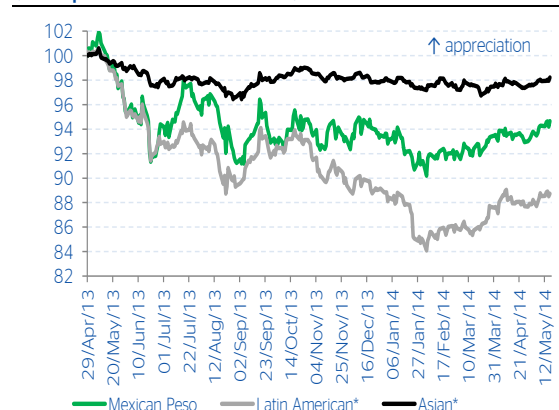
Source: BBVA Research, Bloomberg

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

Annual 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 (Avg. %)	5.7	5.7	6.6
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research.

Recent publications

Date	Description
13 May 2014	➡ Mexico Banking Flash. Credit to the private sector: the quarter closed with 8.5% growth
13 May 2014	➡ Mexico Economic Watch. The secondary legislation in the energy sector will bolster oil revenues if the private sector eagerly participates
13 May 2014	➡ Mexico Banking Flash. Banking deposits: getting stronger, driven by overnight deposits
15 May 2014	➡ Mexico Real Estate Flash. Mortgage banking grew 18.7% to the end of the first quarter

Disclaimer

This document has been prepared by BBVA Research at the Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and by BBVA Bancomer, S. A., Institución de Banca Múltiple and the BBVA Bancomer Finance Group, on their own behalf and is for information purposes only. The opinions, estimates, forecasts and recommendations contained in this document refer to the date appearing in the document, and, therefore, they may undergo changes due to market fluctuations. The opinions, estimates, forecasts and recommendations contained in this document are based on information obtained from sources deemed to be reliable, but BBVA does not provide any guarantee, either explicit or implicit, of its exactitude, integrity or correctness. This document does not constitute an offer, invitation or incitement to subscribe to or purchase securities.