

Mexico Weekly Flash

May 23, 2014
Economic Analysis

Mexico

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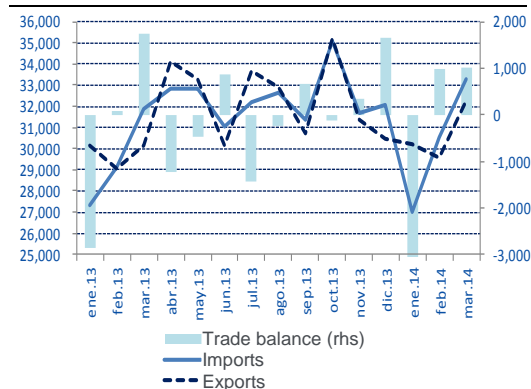
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What happened this week ...

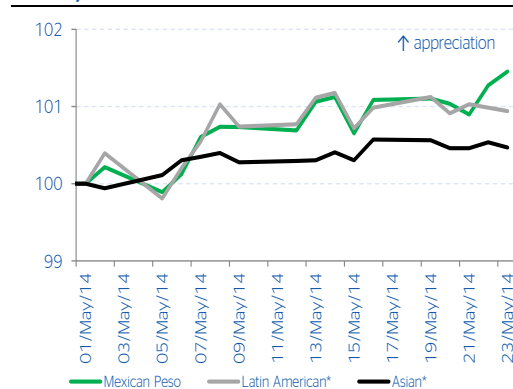
- Quarterly GDP growth (QoQ) in the first quarter of 2014 (1Q14) was 0.28%, seasonally adjusted (sa), equivalent to annual growth (YoY) of just 0.64%, below our forecasts and those of the market (BBVA Research: 0.64% QoQ; consensus: 0.60% QoQ).¹** The low rate of growth in 1Q14 was a result of the US economy's weak performance due to weather problems, a greater-than-expected impact on consumption and investment because of the increase in taxation and other internal factors, such as the slow recovery of construction and the fall in oil production. Due to lower-than-expected growth in the first quarter, and bearing in mind that the economy will speed up over the next few quarters as a result of efficient execution in expenditure and public sector investment, as well as an improvement in the US economy, we believe that economic growth this year will come in at 2.5%. These factors are expected to remain stable throughout next year, while structural reforms may begin to show their first results in 2015, although still modest, which should be reflected in growth of around 3.5% for that year (see Mexico GDP Flash from 23 May 2014²). Meanwhile, the Bank of Mexico reduced its growth forecast for 2014 from a 3% to 4% band to between 2.3% and 3.3%. For their part, the Inland Revenue and Public Credit Department reduced its GDP growth forecast for this year from 3.9% to 2.7%.
- The slowdown in GDP was mirrored in the monthly performance of the IGAE (Global Economic Activity Indicator).** This indicator's monthly growth rates in January and February were 0.12% and 0.71% respectively, when seasonally adjusted, which would suggest limited GDP expansion during the first quarter. However, the IGAE monthly growth figure for March (-0.81%) was much worse than expected as a result of the fall in its three components: industrial production fell 0.13% MoM, sa, the services sector dropped 0.27% MoM, sa, while agriculture slumped 3.83% MoM, sa.

Figure 1
Trade balance
(USD mn)



Source: BBVA Research with data from INEGI.

Figure 2
Currencies against the dollar
(1 May 2014 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

¹ See 16 May 2014 Weekly Flash: http://www.bbva.com/KETD/fbin/mult/140516_SemanalMexico_447_eng_tcm348-451027.pdf?ts=2652014

² Available in http://www.bbva.com/KETD/fbin/mult/140523_FlashPIBMexico_19_eng_tcm348-452152.pdf

- **Inflation remains under control.** Headline inflation fell 0.37% QoQ in the first half of May. The figure was exactly as we had forecast (BBVAe: -0.37%; consensus: -0.36%). In annual terms, headline inflation dropped to 3.44% from 3.47% in the second half of April. Core inflation rose 0.06% QoQ, slightly below expectations (BBVAe: 0.11%; consensus: 0.11%). The principal surprise came from the core component of other services, which fell a little more than anticipated (-0.14% QoQ), and to a lesser degree by a smaller increase than expected in the other goods component (0.02% QoQ). In annual terms, core inflation shrank to 2.97% from 3.11% in the second half of April, which suggests that economic moderation continues.
- **The unemployment rate went up to 4.84% in April.** After reaching 4.80% in March, the rate crept up to 4.84%, because of slow progress in economic activity. The greater momentum forecast for the rest of the year may keep this rate below 5.0%.
- **Retail sales in March reported an annual (YoY) fall of 0.63%, seasonally adjusted (sa).** On a month by month basis the increase was 0.78%, sa, driven by a slight recovery in employment and inflation stability. This closes a very weak first quarter of 2014 and creates uncertainty about the speed of the recovery in the second quarter.
- **The country's current account in 1Q14 reached USD4.533bn.** This is the equivalent of 1.5% of the first quarter's GDP. This deficit compares favourably with the USD7.545bn recorded in the fourth quarter of 2013.
- **Calm week on the markets.** Stock markets in developed economies continued to be sluggish, with slight upturns in response to the signs of gradual improvement from housing market data in the US and the PMIs in developed countries. LatAm and Mexican markets showed positive differentiation this week. Financial assets in these regions (stock markets and FX), and particularly in Mexico, performed better in relative terms (see figures 2, 3 and 6). The euro weakened after slightly disappointing activity figures (e.g., Germany's IFO index for industrial activity) and expectations about the ECB's next meeting. Long-term interest rates moved sideways this week and stayed close to this year's minimums in both the US and in Mexico (5.89% and 2.53% respectively for 10-year Mexican and US government bonds; both +1bp over the week).

...What is coming up in the next

- **April's trade balance will report a deficit of USD877mn.** On 26 May the INEGI will publish the country's trade balance figures for April 2014. It should be said that in the same month in 2013 the trade balance was in deficit, and came in at just over USD1.2bn. For this year we estimate that in April the trade balance will again be in deficit, but will fall to USD 877mn. This is a result of annual growth of 3.2% in April 2014 of total goods exports, and of 2.1% in total goods imports. While the magnitude of the annual growth rates in exports and imports shows that performance has been solid in April, insofar as exports are still growing, these also point to a moderate rate of expansion in the foreign sector, since for the first four months of the year total goods exports and imports showed an annual growth rate of 2.9% and 2.8% respectively.

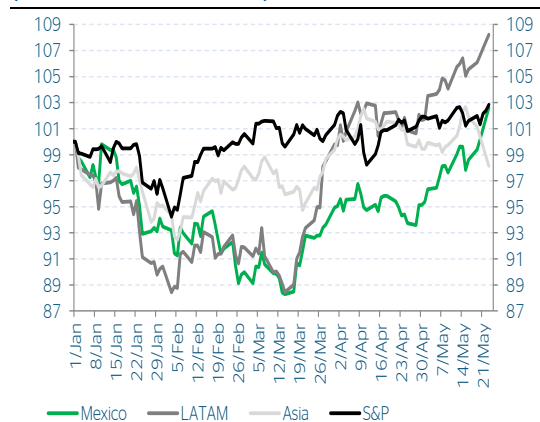
Indicator Calendar

Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Trade balance (USD mn)	April	26 May	-877	758.4	-1,026.6
United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Conference Board consumer confidence (index, sa)	May	27 May	82.6	83.0	82.3
Quarterly GDP in 2009 dollars, second revision (QoQ % change, sa, annualised)	1Q14	29 May	0.7	-0.5	0.1
Personal income (MoM % change, sa)	April	30 May	0.2%	0.3%	0.5%

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

Markets

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



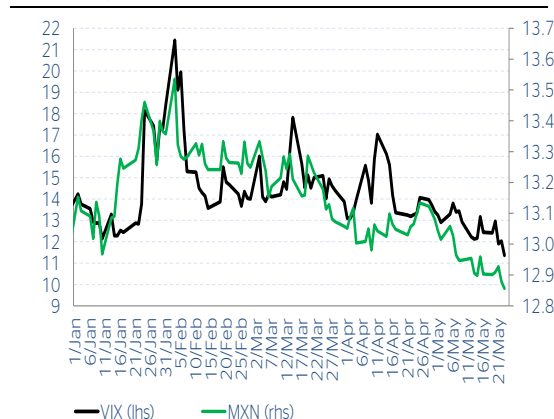
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



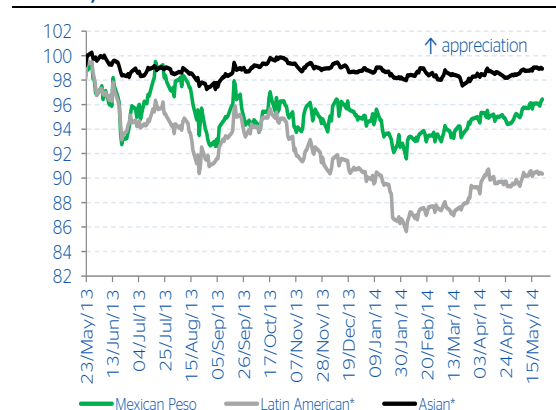
Source: BBVA Research, Bloomberg.

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies to USD
(23 May 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)	4.0	1.1	2.5
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
22 May 2014	➡ Mexico Inflation Flash. Inflation remains under control
22 May 2014	➡ Mexico GDP Flash. BBVA Bancomer revises its 2014 growth forecast downwards to 2.5% and raises its 2015 estimate to 3.5%

Disclaimer

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