

ECONOMIC ANALYSIS

Mexican GDP surprised slightly to the upside in 2Q14

Chile Unit / Colombia Unit / Latin America Unit / Mexico Unit / Peru Unit

The quarterly growth (1.0%) was driven mainly by the expansion in the services sector. We maintain our forecast for 2014 GDP growth at 2.5% YoY. Also in Mexico, today we expect the unemployment rate to have increased slightly in July and annual inflation to remain marginally above 4.0% from August to October.

Mexico – GDP in 2Q14 was slightly better than expected, growing 1.0% QoQ, mainly driven by the services sector

According to INEGI, the quarterly growth rate (QoQ) of the second quarter of 2014 (2Q14) GDP was 1.04%, seasonally adjusted (sa), equivalent to an annual growth (YoY) of 2.73%. This expansion was slightly above our estimates and the market (BBVAe: 0.85% QoQ; consensus: 0.80% QoQ). In terms of GDP components, in the 2Q14 tertiary activities (services) recorded the best performance, with a quarterly growth rate of 1.1%. Meanwhile, secondary activities (manufacturing) grew 1.0% and primary activities (Agriculture) reported a quarterly increase of 0.9%, all seasonally adjusted. Given this improvement in economic activity, the expectation of an efficient execution of public investment and a continued improvement in the US economy, we maintain our estimate for economic growth this year at 2.5% YoY (see our [Mexico Flash](#) for more details).

Mexico – Global Economic Activity Indicator (IGAE) shows acceleration

Based on the seasonally adjusted series, GDP rose 1.04% in the second quarter of 2014 compared to the previous quarter. This acceleration was reflected in the monthly evolution of Global Economic Activity Indicator. The monthly growth rates of this indicator in April, May and June were respectively 1.09%, 0.12% and 0.23%, sa. The monthly data in the June IGAE was better than expected due to the expansion in the services sector, which increased 0.33% MoM, sa. Meanwhile, industrial production fell 0.18% MoM, sa, and agriculture declined 3.27% MoM, sa.

What to watch today

Mexico – Unemployment rate (July, 09:00hrs NYT)

Today INEGI will publish the occupation and job index for July. Given the economy's sluggish performance, we expect the unemployment rate to increase slightly and to come in at 4.86% in July, up from 4.80% in June 2014.

Mexico – Inflation (August, 09:00hrs NYT)

We expect annual inflation to remain slightly above 4.0% from August to October. For the first half of August we anticipate a fortnightly increase of 0.16% in the general price index and of 0.11% in the core index. If our forecasts are correct, in annual terms headline inflation will come in at 4.04% (compared to 4.07% in July) while core inflation will be around 3.30% (compared to 3.25% in July). As far as core prices go, the end of the summer holiday season will account for a fortnightly fall in prices in the other services sub-index. This fall should be more than offset by the onset of seasonal rises in school fees (although the rises are higher in September, they are also noticeable in August because of the start of the higher education term). Our price monitoring suggests an increase in the four main components in

the agriculture and fisheries sub-index and significant upticks in the prices of chicken and other meat, particularly pork. These increases more than offset the monthly fall in the price of LP gas. As far as our outlook for the year is concerned, and as we have already forecast, inflation came in above the upper variability limit of Banxico's target in July, and we forecast that it will remain slightly over this threshold from August to October, before slipping to 3.8% in November and to 3.7% by the end of the year. We forecast that core inflation, on the other hand, will remain relatively stable at 3.3% for the rest of the year.

Calendar: Indicators

Brazil	Date	Period	Consensus	BBVAe	Actual	Prior
FGV CPI IPC-S	18 Aug	Aug	0.15%	--	0.08%	0.16%
CNI Industrial Confidence	18 Aug	Aug	--	--	46.5	46.4
IGP-M Inflation 2nd Preview	19 Aug	Aug	-0.32%	--	-0.35%	-0.51%
IBGE Inflation IPCA-15 MoM	20 Aug	Aug	0.15%	--	0.14%	0.17%
Formal Job Creation Total	21 Aug	Jul	7,000	--	11,796	25,363
Unemployment Rate	21 Aug	Jul	5.0%	--	4.9%	--
Tax Collections	22 Aug	Jul	99,350M	--	--	91,387M
Current Account Balance	22 Aug	Jul	-\$5,800M	--	--	-\$3,345M
Foreign Investment	22 Aug	Jul	\$5,450M	--	--	\$3,924M
Chile						
GDP QoQ	18 Aug	2Q	0.00%	-0.03%	0.20%	0.60%
Current Account Balance	18 Aug	2Q	-\$500.0M	\$156.0M	\$28.0M	-\$666.7M
PII MoM	22 Aug	Jul	--	--	--	-0.7%
Colombia						
Trade Balance	19 Aug	Jun	-\$209.5M	--	-\$64.0M	\$347.4M
Vehicle Sales	22 Aug	Jul	--	--	--	23,742
Mexico						
Economic Activity IGAE Y oY	21 Aug	Jun	2.54%	2.54%	2.73%	1.69%
GDP SA QoQ	21 Aug	2Q	0.8%	0.85%	1.04%	0.4%
Unemployment Rate SA	22 Aug	Jul	4.80%	4.81%	--	4.84%
Bi-Weekly CPI	22 Aug	Aug	0.16%	0.16%	--	0.12%
Bi-Weekly Core CPI	22 Aug	Aug	0.12%	0.11%	--	0.05%
Bi-Weekly CPI Y oY	22 Aug	Aug	4.03%	4.04%	--	4.14%

Most recent Latam reports

Date	Description
08.21.2014	Mexico Flash: GDP in the second quarter of 2014 was slightly above expected
08.21.2014	Mexico Flash: Our view on minimum wage (in Spanish)
08.20.2014	Mexico Economic Outlook Third Quarter 2014 (in Spanish)
08.20.2014	Brazil Economic Outlook Third Quarter 2014
08.14.2014	Peru Flash: Weak output growth in June (in Spanish)

- 08.14.2014 [Chile Flash: Central bank cut policy rate by 25bp and kept its dovish bias \(in Spanish\)](#)
- 08.13.2014 [Mexico Banxico Flash: Banxico reduces its growth estimate for 2014 to a range between 2.0% and 2.8% \(in Spanish\)](#)
- 08.13.2014 [Chile Flash: Impact of tax reform on inflation wouldn't exceed 0.9pp between 2014 and 2016 \(in Spanish\)](#)
- 08.13.2014 [Colombia Economic Outlook: Third quarter 2014 \(in Spanish\)](#)
- 08.12.2014 [Peru Flash: The external deficit would have remained high in the second quarter \(in Spanish\)](#)
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