

Economic Analysis

# Industrial production in May is expected to rise by 2.6% in annual terms, a sign that the recovery is continuing

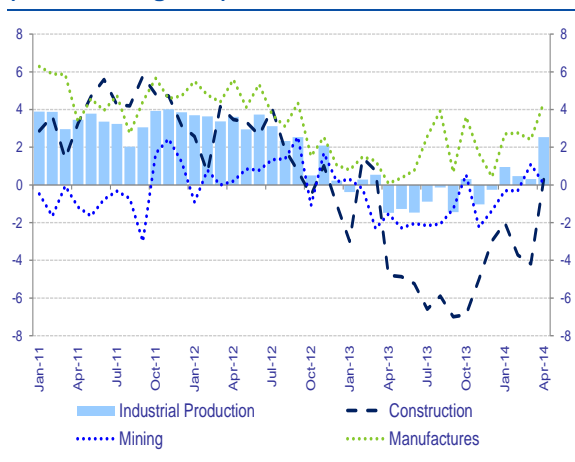
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## What happened this week ...

**The IMEF performance expectations indicators for manufacturing and non-manufacturing activity in July showed a slight fall.** Contrary to expectations, the IMEF manufacturing indicator slid from 52.6 points in May to 50.3 points in June, with seasonally adjusted (sa) figures. Likewise, the non-manufacturing indicator for June slipped down to 50.3 points, sa, from 50.5 points, sa, the previous month. This poorer-than-expected performance is generating uncertainty about economic activity performance in Mexico in the second quarter.

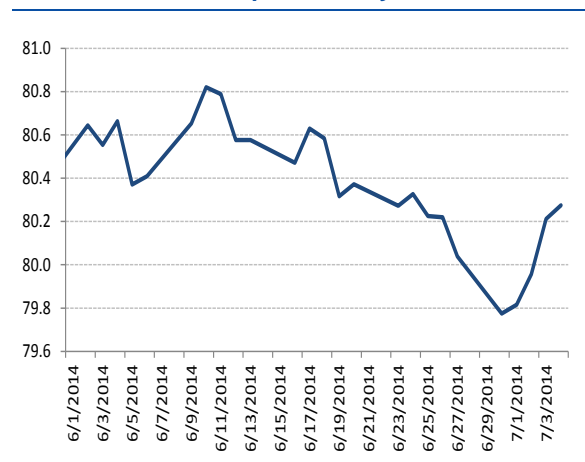
**Producer confidence in June was unchanged (0.0% MoM, sa), while consumer confidence reported a slight improvement (0.8% MoM, sa).** On Friday 4 July INEGI published the figures for the producer (PCI) and consumer (CCI) confidence indexes for June. Both indexes were in line with our forecasts. The producer confidence index held at 51.1 points in June (BBVA Research: 51.5 points, sa), while the consumer confidence index reached 91.3 points (BBVA Research: 91.1 points, sa), leading to a prevalent perception that there will be a degree of improvement in economic activity in the next few months.

Figure 1  
**Industrial production and its components (YoY % change, sa)**



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

Figure 2  
**DXI index. USD compared to key currencies**



Source: BBVA Research with data from Bloomberg.

**In May, remittances reached USD2.145bn, similar to our forecast (BBVA Research: USD2.121bn), and equivalent to an annual increase of 4.6%.** Remittances have achieved ten straight months of growth. The rise in jobs for Mexican migrants in the construction sector in the US is a factor driving remittances over the first months of the year. We estimate that remittances for coming months will maintain their upward trend, but with moderate growth.

**Higher-than-expected employment figures in the US increase the demand for higher risk assets.** The non-farm payroll in the US jumped by 288K in June (consensus: 215K), bringing to five the number of consecutive months with growth of over 200K jobs, which in turn means that in 2014 average monthly job creation is 231K. These figures favour the consensus expectation among analysts of a clear recovery in the US economy over the next few quarters, which has influenced the increased demand for higher risk assets. In the stock markets, the Dow Jones and S&P 500 reached historic maximums after the figure was published, while T-bond interest rates went up for all maturities. In particular, the yield on the 10-year T-bond increased by 6bp (basis points) to close at 2.62%, its highest level for two months. In Mexico the CPI rose 2.50% over the week, accounted for mainly by the 0.88% uptick when employment figures in the US were released, while the exchange rate recorded a marginal depreciation over the week of 0.10%, remaining below USDMXN13.00. During the week, the dollar appreciated against the main industrialised countries' currencies, while it depreciated slightly against several emerging market currencies. Finally, in the government debt market, yield to maturity of the ten-year Mbono closed with a gain of 9bp, at 5.76%.

### ...What is coming up next week

**June's inflation will confirm the beginning of a trend to the upside due to basis effects.** We forecast a monthly increase of 0.22% in the general price index, and one of 0.25% in the core index. In annual terms, we estimate that general inflation will come in at 3.81% (compared to 3.51% in May) and core inflation will be 3.13% (compared to 3.00% in May). We forecast that the annual inflation rate will be slightly above Banxico's upper tolerance limit (3.0% +/- 1%) in the next few months (4.07% on average between July and October) before returning to a decreasing trend in November. We forecast that by the end of the year it will stand at 3.7%.

**The gross fixed investment index will not rise, because of weakness in construction and the fall in capital goods imports.** On 10 July, INEGI will publish the gross fixed investment index for April 2014. The month before, this index's original series registered a positive annual growth rate of 1.7%, although the MoM growth rate in its seasonally adjusted series was -0.43%. For the month of April we estimate that the investment index will show an annual growth rate of its original series of -3.2%, which will be reflected in a monthly growth rate in its seasonally adjusted series of -0.80%. We should note that the gross fixed investment index has two components: investment in construction, and investment in machinery and equipment. In view of the fact that investment in construction is correlated with the construction industry's own global economic activity index, and that in April 2014 this indicator reported a negative annual growth rate of -2.6%, investment in construction will show weakness. For its part, investment in machinery and equipment is highly correlated with capital goods imports, which reported a negative annual growth rate of -9.1%.

**Industrial production in May will jump by 2.6% annually (YoY), seasonally adjusted (sa), equivalent to 0.31% monthly (MoM), sa.** This increase is estimated, bearing in mind the improvement in the US monthly industrial production indicator in May (0.9% MoM, sa), given the close relationship with this variable. In April this indicator grew 2.54% YoY, sa, in Mexico (see Figure 1). In monthly terms it increased by 0.64%, linked to a major increase in manufacturing (1.09% MoM, sa) and in construction (0.56% MoM, sa). Meanwhile, the electricity, gas and water sub-sector also rose (1.29% MoM, sa), although mining fell (-0.44% MoM, sa).

**Monetary policy rate unchanged.** On Friday, Banxico will announce its monetary policy decision. No changes to the refi rate are expected, given the explicit mention in its latest statement of the fact that the government steering committee did not think an additional cut to the rate is a good idea in the foreseeable future. Attention will again focus on the paragraph in the statement about economic activity, which has shown some signs of improvement in recent months, such as the higher-than-expected IGAE figure for April and the favourable employment data in the US, which may contribute to higher external demand for Mexican products. Bearing in mind that the signs of recovery are still thin, we do not anticipate a noticeable change in the tone of the statement, in particular if we factor in the fall in 2014 growth expectations and the surprising cut in June.

## Indicator Calendar

<b>Mexico</b>	<b>Indicator Period</b>	<b>Date of Publication</b>	<b>BBVA Estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Headline inflation (MoM % change)	2HJun	9 July	0.22	0.17	-0.32
Core inflation (MoM % change)	2HJun	9 July	0.25	0.24	0.09
Fixed gross investment (YoY % change)	April	10 July	-3.2	-2.5	1.7
Industrial production (YoY % change, sa)	May	11 July	2.59	--	2.54
Industrial production (MoM % change, sa)	May	11 July	0.31	0.2	0.64
Monetary policy decision (%)	July	11 July	3.0	3.0	3.0

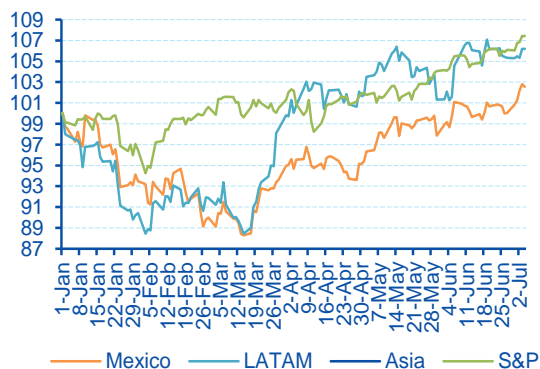
  

<b>United States</b>	<b>Indicator Period</b>	<b>Date of Publication</b>	<b>BBVA Estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Small business optimism index NFIB (points)	June	8 July	97.0	--	96.6
Total job openings by industry (Vacancies, sa)	May	8 July	4,395.0	--	4,455.0
Total net consumer credit (USD bn, sa)	May	8 July	16.30	10.05	26.85
Initial jobless claims ('000s, sa)	5 July	10 July	310.0	313.0	312.0

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

**Markets**

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



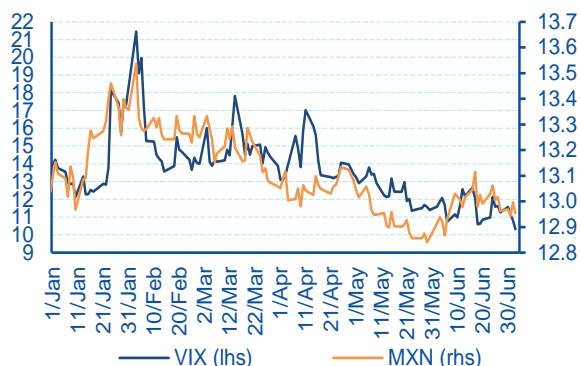
Source: BBVA Research, Bloomberg

Figure 4  
**10-year government bond yields (%)**



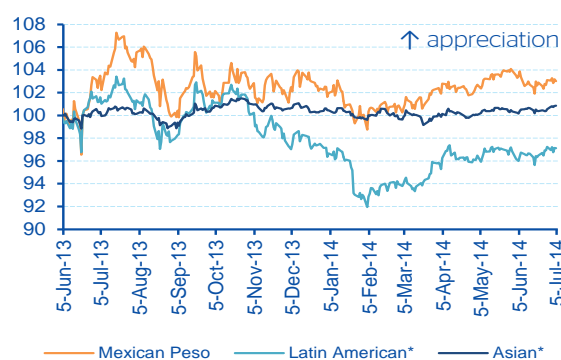
Source: BBVA Research, Bloomberg

Figure 5  
**Global risk and exchange rate (VIX index and USDMXN)**



Source: BBVA Research, Bloomberg

Figure 6  
**Currencies to USD (20 June 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	3.9
Core inflation (avg. %)	3.4	2.7	3.2
Monetary Policy Rate (avg. %)	4.5	3.8	3.2
M10 (avg. %)	5.7	5.7	6.1
GDP USA (YoY % change)	2.8	1.9	2.5

Source: BBVA Research

## Recent publications

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Date	Description
1 July 2014	➔ Mexico Migration Flash. Remittances have risen for 10 consecutive months, increasing by 4.6% in May (Spanish)
2 July 2014	➔ Mexico Migration Outlook First Half 2014 (Spanish)

### Disclaimer

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