

Economic Analysis

We expect the global economic activity indicator for May will increase 2.6%

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What happened this week...

June unemployment surprised to the downside, falling to 4.80% of the working population (consensus: 4.90%, BBVA Research: 4.96%). Unemployment was lower than in either May 2014 or June 2013 (4.92% and 4.99%, respectively). The fall was influenced by a lower participation rate (i.e. the percentage of the economically active population aged 14 or more), falling from 59.64% in July 2013 to 58.45% in July 2014, such that the improvement in the labour market still appears to be limited..

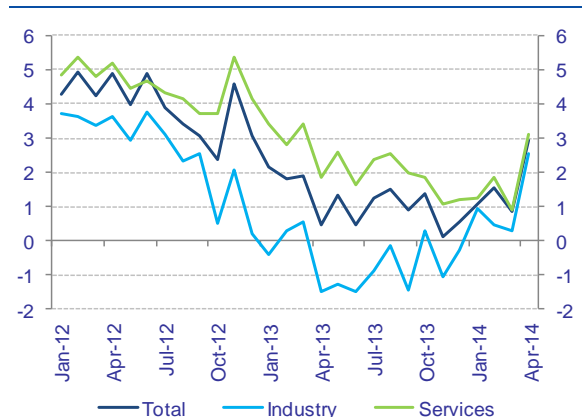
Geopolitical tensions have temporarily increased risk aversion. The resurgence of conflict in the Middle East and the assumed destruction by pro-Russian insurgents of a commercial aircraft in the conflict zone in Ukraine resulted in the VIX – a global risk-aversion indicator – rising 3.54% on Thursday 17 July to 14.54%, its highest level in the last three months. The increased risk aversion was reflected in losses on the principal stock market indices, EM currency weakness and lower Treasury yields. Nevertheless, at the end of the week these losses were partially reversed in the face of predominantly above-forecast company results in the US, once investors perceived that the possibilities of geopolitical events driving sustained increases in risk aversion were limited. Thus the week closed with MXN appreciating 0.33% to close the week at USDMXN 12.95, the second-biggest appreciation among the EM currencies. In the stock market, the IPC accumulated a gain of 1.85% over the week, while the YtM on the 10Y Mbono fell 3bp and closed at 5.66%, a similar performance to the 10Y Treasury note.

...and what's to come

We estimate that the Global Economic Activity Indicator (IGAE) for May will improve 2.6% YoY, seasonally adjusted (sa), equivalent to a MoM increase of 0.3%, sa. This performance will be related to slight improvements both in the industrial and the services sectors. In April the IGAE rose 1.2% MoM, sa as a reflection of dynamic services growth (+1.1% MoM, sa) as well as in industry (+0.6% MoM, sa), although agriculture stagnated +0%, MoM, sa). On non-seasonally adjusted figures, the IGAE increased 1.73% in May vs. 0.50% in April (see Figure 1).

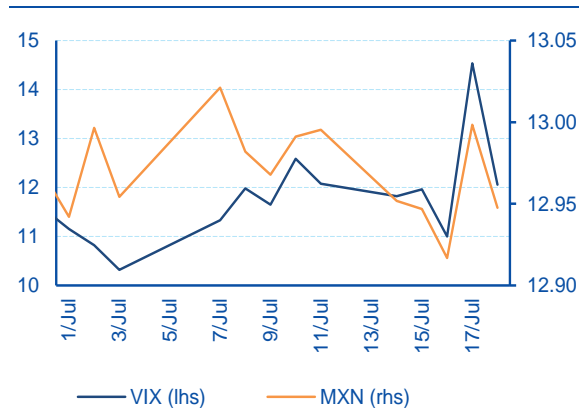
We expect May retail sales to post 1.1% growth YoY, sa. In monthly terms, they should increase by only 0.1%, sa as a reflection of the slow rate of job-creation in the previous months and the weakness of ANTAD sales. In April, retail sales expanded 2.0% YoY and 1.1% MoM, both seasonally adjusted.

Figure 1
IGAE by component, 2012-14
(YoY % change, sa)



Source: BBVA Research based on INEGI data. sa = seasonally adjusted.

Figure 2
MXN (ppd) and global risk aversion (VIX, %)



Source: Bloomberg.

Even though we consider the increase in prices in the first fortnight of July moderate, it will maintain the annual inflation trend at high levels due to the base effect. We are forecasting a MoM increase in CPI inflation of 0.16% and +0.12% in core inflation. In annual terms, we think that general inflation will reach 3.96% (vs. 3.75% in June) and core inflation at 3.18% (vs. 3.09% in June). We anticipate that the annual inflation rate to be around 4.0% between July and October, and then fall to close the year at around 3.7%.

The balance of trade posted a surplus of USD756mn. This compares positively with the USD132 reported for the previous month, and reflects YoY growth in exports of goods of 4.7% (the same rate as in May), and an annual increase of 5.4% in exports, above the rate reported in the immediately preceding month.

Indicator calendar

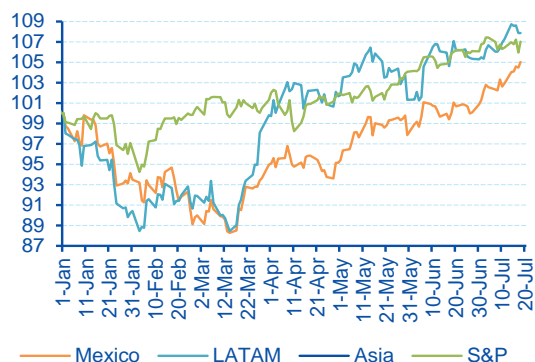
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retail sales (YoY % change, sa)	May	22 Jul	1.1	1.00	2.0
IGAE (YoY % change, sa)	May	24 Jul	2.57	NA	2.93
IGAE (YoY % change, original figures)	May	24 Jul	1.73	2.00	0.50
General inflation (MoM % change)	1F July	24 Jul	0.16	0.16	0.04
Core inflation (MoM % change)	1F July	24 Jul	0.12	0.10	0.04
Trade Balance (USD mn)	June	25 Jul	756	650	131.8

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Chicago Fed, National Activity Index (MoM % change)	June	21 Jul	0.35	0.18	0.21
CPI (MoM % change, sa)	June	22 Jul	0.30	0.30	0.35
Existing home sales (YoY % change, sa)	June	22 Jul	4.98	4.99	4.89
New home sales (MoM % change, sa)	June	24 Jul	4.17	-5.56	18.60
New durable goods orders (MoM % change, sa)	June	25 Jul	0.6	0.5	0.0

Source: BBVA Research based on Bloomberg. sa = seasonally adjusted. 1F July = First fortnight in July 2014. NA = not available.

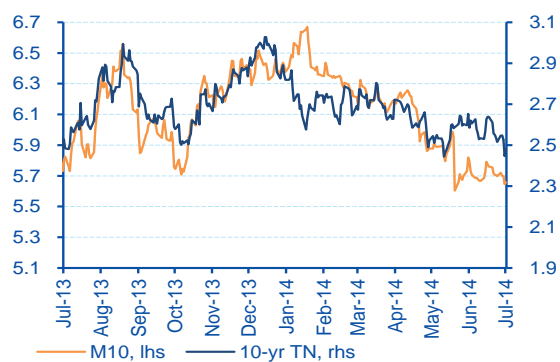
Markets

Figure 3
MSCI stock market indices
(Index 1Jan2014=100)



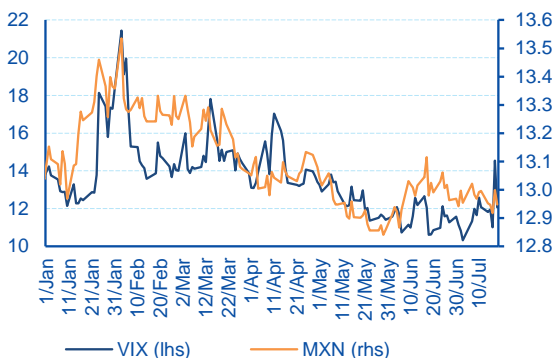
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



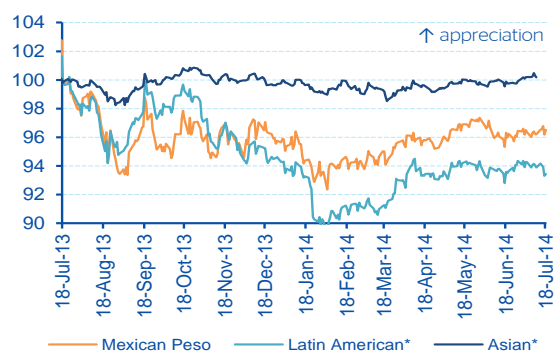
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(11jul2013=100)



* JP Morgan indices of Latin American and Asian currencies vs. USD; 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
General inflation (% , average)	4.1	3.8	3.9
Core inflation (% , average)	3.4	2.7	3.2
Monetary Policy Rate (% , average)	4.5	3.8	3.2
M10 (% , average)	5.7	5.7	6.1
US GDP (YoY % change)	2.8	1.9	2.5

Source: BBVA Research

Recent publications

Date	Description
16 Jul 2014	➔ Mexico Real Estate Flash. Only bank's mortgage lending grew in the year to May, this time by 11%

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