Economic Analysis

We expect the producer and consumer confidence indicators to have improved in July

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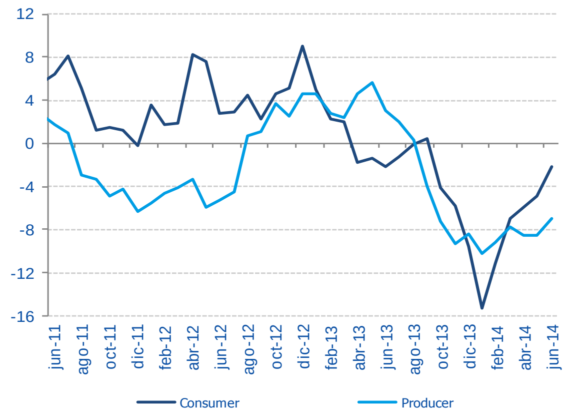
What happened this week…

The IMEF indicators of performance expectations for manufacturing and non-manufacturing activity in July showed a slight fall. Contrary to expectations, the IMEF indicators fell for the second month in a row. The IMEF manufacturing indicator slipped from 50.3 points in June to 49.1 points in July, with seasonally adjusted figures (sa). The non-manufacturing index for July also fell, dropping to 50.1 points from 50.3 points, sa, the month before. These below-expectations indicators for the country's economic performance suggest that the uptick of economic activity will not be robust.

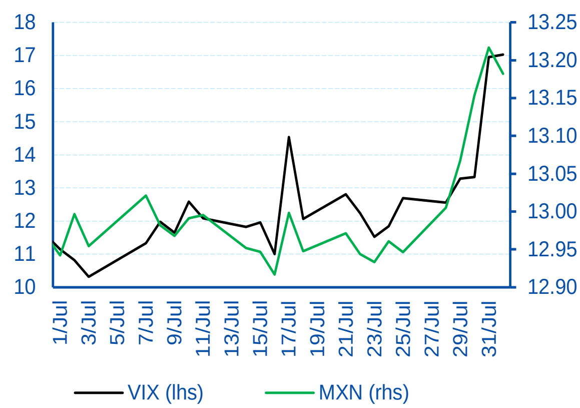
Remittances were up by 4.5% in June and have accumulated 11 consecutive months of growth. In June, remittances to Mexico reached USD2.038bn, equivalent to a YoY increase of 4.5%. Of the federal states, Michoacán and Guanajuato continue to receive the most remittances, at USD1.074bn and USD1.046bn in the first half of the year, respectively. Two factors which have recently affected inward remittances are the downward adjustment to economic growth forecasts in the United States, on the one hand, and the relatively low rate of unemployment in this country (6.1%), the lowest since 2008.

Figure 1
Producer and consumer confidence indexes, 2011-14 (YoY % change, sa)



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

Figure 2
Exchange rate and global risk (USDMXN and VIX index



Source: BBVA Research, Bloomberg

Risk aversion as July closed. After several weeks of risk-on appetite and low volatility in global markets, this week the surprise to the upside in the GDP figure for 2Q14 in the US drove expectations in the markets that the Federal Reserve might begin an upward cycle in its monetary policy rate by the middle of next year. The statement by the FOMC contained no major surprises and was careful not to feed these expectations, even extending its description of the labour market's expansiveness, thus implying that the beginning of the upwards cycle is still far off. Although geopolitical risks (with the EU expanding its economic sanctions against Russia, the problem of Argentine debt and the attacks between Israel and Hamas) had less of an effect on market movements throughout the week, they did make some contribution to the increased volatility. In this context, the dollar appreciated to its highest level in four months, volatility experienced an uptick to a two-month high, emerging market currencies depreciated and stock markets suffered noticeable losses. This dynamic was partly offset on Friday after the figures for job creation in the US in July, which surprised to the downside. All of the above indicate that the market adjustment was also a response to profit-taking after the significant increase in financial asset valuations over the last few months. Altogether, the MXN depreciated 1.9% over the week and the interest rate on the M10 bond rose by 16bp (although -3bp on Friday), closing the week at 5.80%. Emerging markets, for the most part, continue to offer high yields in what is still a low-volatility environment, making them attractive for investors.

…What is coming up next week

Producer and consumer confidence indicators to post a slight improvement in July (0.9% MoM, sa, both indexes). On 5 August the INEGI will publish the figures for the producer (PCI) and consumer (CCI) confidence indexes for July. We estimate that PCI will come in at 51.5 points, i.e. a monthly increase of 0.9%, sa, as a result of a good performance by the manufacturing sector, particularly autos. On the other hand, in view of the moderate formal job creation during June (43,295 jobs), we expect the CCI to rise by 0.9% MoM, sa, reaching 92.1 points, sa. This will be equivalent to 91.8 points in original series (see Figure 1).

The annual comparison effect will drive YoY inflation slightly over 4.0% in July. We foresee a monthly rise of 0.23% in the general price index and of 0.16% in the core index. As we forecast, in the first half of July, core inflation increased by 0.14% (BBVAe: 0.15%, consensus: 0.15%) driven by the high summer holiday season. In the second half of the month, inflation will be helped by the seasonal sales, which will cause a MoM fall in the prices of this component. For this reason, we forecast that core inflation will not rise in the second half of the month, meaning that the monthly increase will be 0.16%. Meanwhile, our farm prices monitor suggests a moderate fall in the first half of the month. For the month as a whole, we anticipate a 0.23% rise in headline inflation. In annual terms, we estimate that headline inflation will come in at 4.03% (compared to 3.75% in June) and that core inflation will be 3.22% (compared to 3.09% in June).

We estimate that May's gross fixed investment index will post negative annual growth of -1.5%. On 8 August the INEGI will publish the May 2014 monthly indicator figure for gross fixed investment. In April this investment indicator, in the original series, recorded an annual growth rate of -3.5%, so we expect this deterioration to diminish in May. Our estimate factors in that during this month the construction investment component will have experienced negative annual growth of -1.3%, and that the investment in machinery and equipment component will show a variation of -0.2%.

Indicator calendar

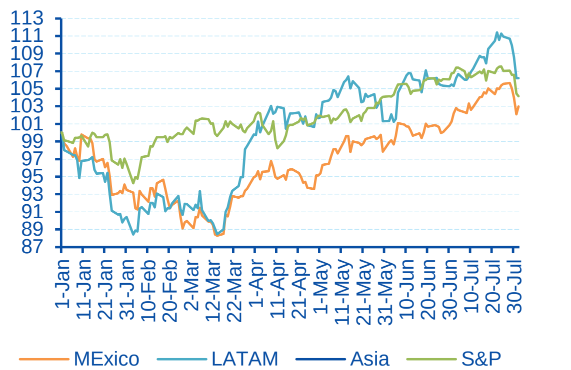
Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Producer confidence (index, sa)	July	5 Aug	51.5	--	51.1
Consumer confidence (index)	July	5 Aug	91.8	93	91.0
Headline inflation (MoM % change)	July	7 Aug	0.23	0.25	0.17
Headline inflation (YoY % change)	July	7 Aug	4.03	4.05	3.75
Core inflation (MoM % change)	July	7 Aug	0.16	0.17	0.21
Core inflation (YoY % change)	July	7 Aug	3.22	--	3.09
Fixed gross investment (YoY % change)	May	8 Aug	-1.5%	0.3%	-3.5%

United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Non-manufacturing ISM (index)	July	05 Aug	56.50	56.50	56.00
New manufacturing orders (MoM % change, sa)	June	05 Aug	0.90	0.60	-0.50
Balance of trade (USD bn)	June	06 Aug	-45.00	-44.90	-44.39
Total consumer credit, Federal Reserve (USD bn)	June	07 Aug	55.90	56.00	55.30

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. YoY = annual variation rate. MoM = monthly variation rate. USD bn=billions of US dollars.

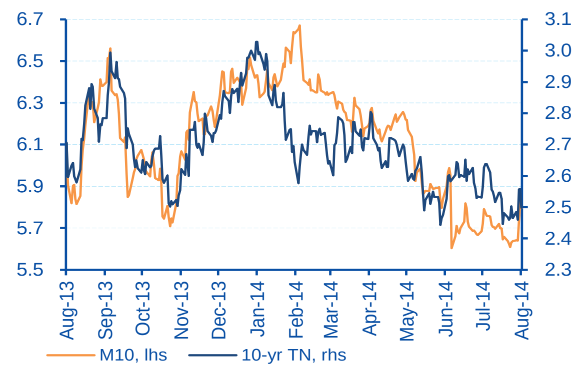
Markets

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



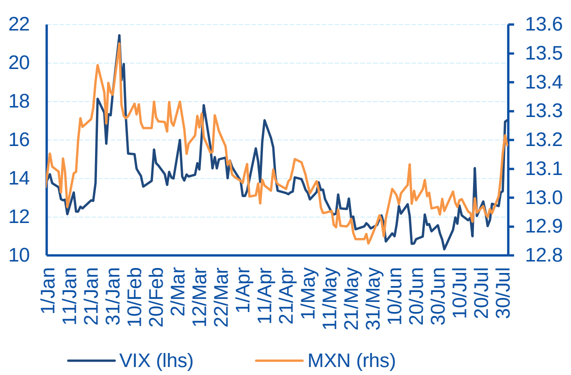
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



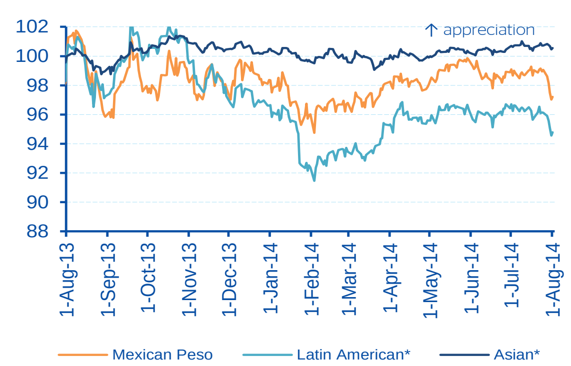
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (1 Aug 2013 index=100)



* JP Morgan Latin American and Asian currency indices 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
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
US GDP (YoY % change)	2.8	1.9	2.0

Source: BBVA Research

Recent publications

Date		Description
1 Aug 2014	➡	Mexico Migration Flash. Remittances on the rise, increased 4.5% in June and accumulated 11 consecutive months of growth