

Macroeconomic Analysis

# We estimate that June's Industrial Production will show annual growth of 2.1%

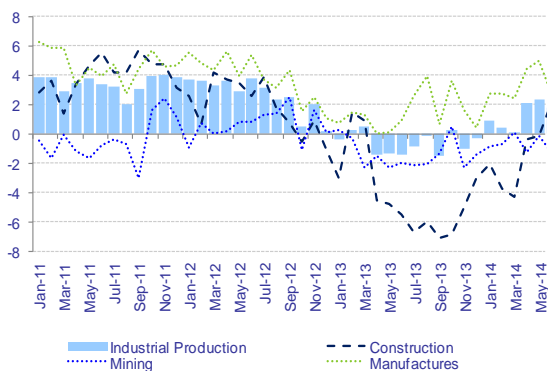
Arnoldo López / Juan Carlos Rivas / Javier Amador / Iván Martínez / Javier Morales

## What happened this week...

The producer and consumer confidence indexes showed mixed signals. In July, the **Producer Confidence Index (PCI) increased (1.1% MoM, sa)**, but the **Consumer Confidence (CCI) posted a fall (-2.5% MoM, sa)**. Coming in close to our forecast (BBVA Research: 51.5 points, sa), the PCI stood at 51.8 points in July, up from 51.2 points in June, sa. Meanwhile, the CCI reached 88.1 points, sa. This was equivalent to a level of 90.5 points in the original series, which was in line with our estimate and below the consensus (BBVA Research: 91.8 points, consensus: 93.0 points). This reveals a perception of an improvement in economic activity in the next few months for producers, but not for consumers.

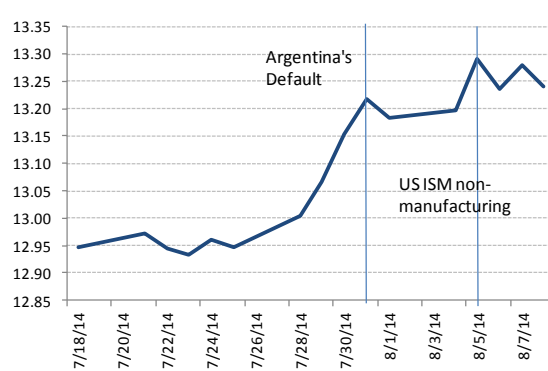
**Inflation increased more than 4.0% YoY in July.** The CPI increased 0.28% in July vs. the month before, which was above market expectations (BBVA Research: 0.23%; consensus: 0.25%). YoY inflation accelerated to 4.07% from 3.75% in June, while core inflation rose 0.19% in monthly terms, also slightly above market expectations (BBVA Research: 0.16%; consensus: 0.17%). In annual terms, core inflation rose to 3.25% from 3.09% in June. As we warned, annual inflation will accelerate over the coming months due to base effects and is likely to remain close to the upper limit of the inflation target, before falling back towards 3.7% by the end of the year.

Figure 1  
**Industrial Production and its components, 2011-14 (% var., YoY, sa)**



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

Figure 2  
**Exchange rate and global risk (USDMXN)**



Source: BBVA Research with data from Bloomberg

**Gross fixed investment registered for May rose 0.4% in its original series, equivalent to MoM growth of 2.5%.** This data was above market expectations (BBVA Research: -1.5% YoY, consensus: 0.0% YoY). Investment in machinery and equipment showed signs of improvement, with rising 4.5% YoY, compared to -4.1% the month before, while investment in construction was negative again, at -2.2%, reflecting an uneven and gradual reactivation of investment.

**Better-than-expected economic activity data in the US and increased geopolitical tensions were reflected in lower demand for risk assets during the week.** In an environment of uncertainty as to the future of the conflicts in Ukraine and the Middle East, the improvement in the activity figures in the US services sector to levels not seen since 2005 revived concerns that the Federal Reserve's monetary tightening cycle might start sooner than expected. And in fact, half way through the week, when these figures were released, the Mexican peso depreciated by 0.72%, bottoming-out at USDMXN 13.29, not seen since last March. On the stock markets there were falls too, of as much as 0.97% in the case of the S&P 500 and 0.25% in the case of the IP&C, the main Mexican Stock Exchange index. Towards the end of the week both the depreciations and the losses on the stock markets eased, allowing the peso to end the week around 0.42% lower, at USDMXN 13.22, with the IP&C closing with marginal losses. In the government debt market, the yield on the 10-year T bond closed the week with a fall of 13bp, at 2.38%, a level not seen since June 2013, as a result of higher demand for lower-risk assets. In Mexico, the yield on the 10-year government bond fell 1bp over the week, closing at 5.76%, after peaking at 5.87% mid-week.

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

**Industrial production for June should come in at 2.1% YoY, sa, or 0.2% MoM, sa.** Our forecast of a moderate increase is in view of the close correlation between this variable and the slow performance of the US industrial production monthly indicator in June (0.2% MoM, sa). In May, the Mexican equivalent of this indicator rose 2.1% YoY, sa, (see Figure 1). In monthly terms it grew just 0.1%, linked exclusively to the increase in manufacturing (0.4% MoM, sa).

**In July, new formal employment generated by the private sector could generate 54,000 jobs.** In the week starting 11 August, the Mexican Social Security Institute (IMSS) will publish the figure for the total number of workers registered with the IMSS. All private-sector formal workers register with this institute. To June 2014, the number of workers signed up with the IMSS increased by 403,000, meaning that in the first six months of 2014 the average MoM increase of workers with the IMSS was 67,000. This figure was achieved because in February and March an average of 117,000 jobs were created. From April to June, however, this figure fell to a MoM average of 49,000 new formal jobs each month. Our estimate of 54,000 new jobs for July, if reached, would indicate greater momentum in the country's formal sector in the third quarter of 2014, compared to the second.

**Awaiting the central bank's GDP growth forecasting interval.** Next Wednesday Banxico will release its inflation report for 2Q14. After an unexpected cut in the monetary policy rate, driven partly by the negative surprise in GDP growth in the first quarter, attention will focus on the reduction in the forecasting interval for this year's economic activity. In addition, attention will be on any references to the economy's current rate of growth and outlook, in the light of a less robust first half than expected. Finally, the prognosis the central bank will make for 2Q growth will be another key piece of data.

## Indicator calendar

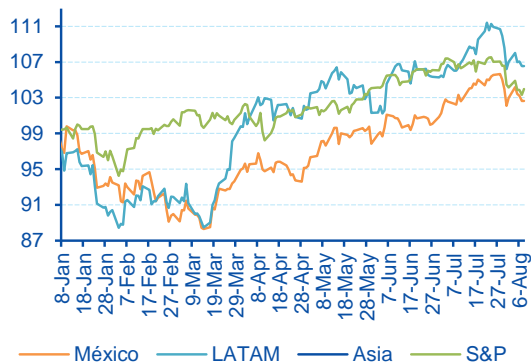
<b>Mexico</b>	<b>Indicator Period</b>	<b>Date of Publication</b>	<b>BBVA Estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Industrial production (% var., YoY, sa)	June	11 Aug	2.1	--	2.1
IMSS ('000s of workers)	July	11-15 Aug	54.0	--	43.3
Central bank inflation report	NA	13 Aug	--	--	--

Source: BBVA Research with data from Bloomberg. YoY = Annual rate of variation. sa = seasonally adjusted.

**Markets**

Figure 3

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



Source: BBVA Research, Bloomberg

Figure 4

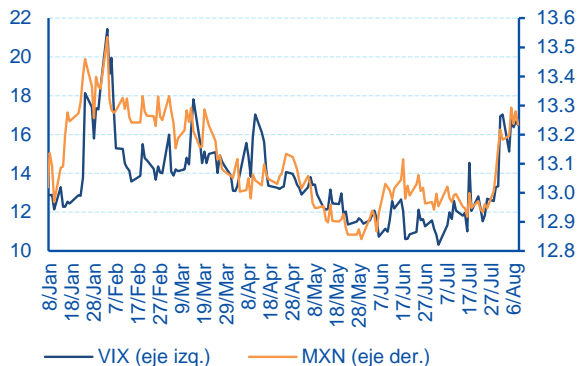
**10-year government bond yields (%)**



Source: BBVA Research, Bloomberg

Figure 5

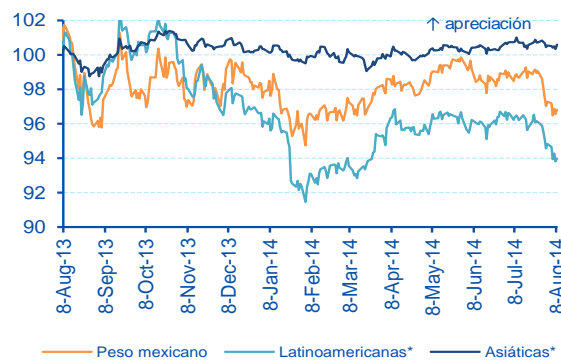
**Global risk and exchange rate (VIX index and USDMXN)**



Source: BBVA Research, Bloomberg

Figure 6

**Currencies vs. USD (8 Aug 2013 index=100)**



\* JP Morgan Latin American and Asian currency indexes vs. USD; weighted averages by trade & liquidity. Source: BBVA Research, Bloomberg

**Annual information and forecasts**

	2012	2013	2014
Mexico GDP ( % var. YoY)	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 (% var. avg.)	5.7	5.7	6.1
US GDP (% var. YoY)	2.8	1.9	2.0

Source: BBVA Research

## Recent publications

---

Date	Description
4 Aug 2014	➡ <a href="#">Credit to the private sector: moderate increase of 8.6% in June</a>

### AVISO LEGAL

Este documento ha sido preparado por BBVA Research del Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) y por BBVA Bancomer. S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer, por su propia cuenta y se suministra sólo con fines informativos. Las opiniones, estimaciones, predicciones y recomendaciones que se expresan en este documento se refieren a la fecha que aparece en el mismo, por lo que pueden sufrir cambios como consecuencia de la fluctuación de los mercados. Las opiniones, estimaciones, predicciones y recomendaciones contenidas en este documento se basan en información que ha sido obtenida de Sources estimadas como fidedignas pero ninguna garantía, expresa o implícita, se concede por BBVA sobre su exactitud, integridad o corrección. El presente documento no constituye una oferta ni una invitación o incitación para la suscripción o compra de valores.