

Economic Analysis

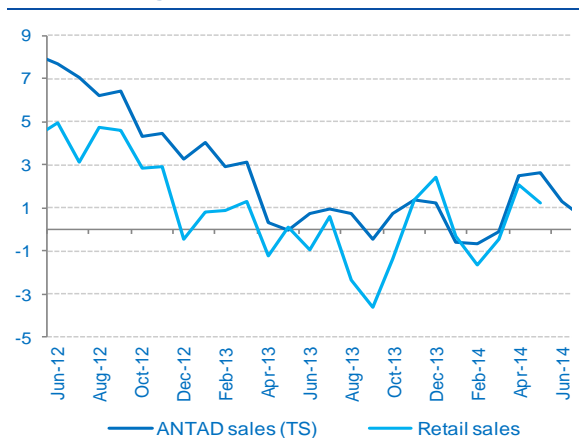
2Q14 GDP growth was slightly better than we expected at 1.0% QoQ, mainly driven by the services sector

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What happened this week...

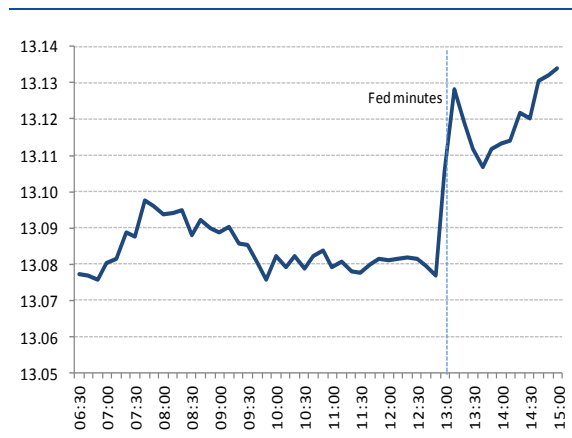
GDP growth (QoQ) in 2Q14 reached 1.04%, seasonally adjusted (sa), equivalent to YoY growth of 2.73%. This expansion was slightly better than both our and consensus forecasts (BBVAe: 0.85% QoQ; consensus: 0.80% QoQ). In terms of GDP components, in the second quarter it was tertiary activities (services) that were the main driver, with quarterly growth of 1.1%. In second place came secondary activities (manufactures) with growth of 1.0%. And finally, primary activities (agriculture and livestock) posted QoQ growth of 0.9%, all seasonally adjusted. Given this improvement in economic activity, expectations of efficient execution of public expenditure and investment and the continuing improvement of the US economy, we are sticking to our estimate for full-year economic growth of 2.5% YoY.

Figure 1
Retail sales and ANTAD sales
(YoY % change, sa)



Source: BBVA Research based on INEGI and ANTAD data.
YoY = annual change. sa = seasonally adjusted. TS = total stores.

Figure 2
Intraday USDMXN, 20 August 2014
(ppd)



Source: BBVA Research based on Bloomberg

The Global Economic Activity Indicator (IGAE) accelerated slightly in June. In April, May and June, this indicator increased by 1.09%, 0.12% and 0.23%, MoM sa, respectively. The June growth was better than we expected due to the expansion in the services sector, which rose 0.33% MoM sa. Meanwhile, industrial production fell 0.18% MoM sa and agriculture by 3.27% MoM sa.

The July unemployment rate surprised by rising to 5.47% of the active population (PEA in the Spanish acronym), vs. BBVAe: 4.86% and consensus: 4.97%. The unemployment rate rose, both MoM (from 4.80%) and vs. July last year (5.12%). This increase was linked to the gradual recovery of the economy and the increased search for work. The net participation rate (i.e. the percentage of the economically active population aged 14 and over) rose from 58.45% in June to 59.19% in July.

Inflation in the first fortnight of August was in line with our estimate (actual: 0.19%, BBVAe: 0.16% MoM), taking YoY inflation to 4.07%. As we expected, the increase reflected the seasonal increases in school fees, and the increase in livestock prices, as suggested by our wholesale price monitoring. Downward pressure was exerted by the end of summer holiday season, which led to a fortnightly fall in prices in the Other Services sub-index.

The slightly less dovish tone of the FOMC minutes had a bearing on peso depreciation during the week.

According to the minutes, various members of the FOMC considered that if convergence towards the objectives of full employment and 2% annual inflation took place faster than expected, it could be appropriate to start to reduce monetary easing sooner than anticipated. As a reflection of these statements, the peso depreciated 0.67% on Wednesday 20 August, in the context of generalised depreciation of EM currencies. Towards the end of the week the peso strengthened slightly, to close the week 0.48% down at the USDMXN 13.13 level. The stock markets sold off slightly immediately after the minutes were published, but by the end of the day had recovered the ground lost. In terms of interest rates, the yield on the 10-year UST increased 6bp to close the week at 2.40%, and the yield on the 10-year Mbono rose 14bp to close at around 5.80%. At the end of the week, the speech made by the Fed Chair, Janet Yellen at its Kansas City (Jackson Hole) Economic Symposium had no effect on the financial markets. The speech focused on the difficulties of analysing economic slack, in particular the cyclical and structural influences that affect labour market variables. As part of her conclusion, Yellen said that although significant advances had been made in the last year in terms of the labour market, an in-depth analysis of labour market indicators suggests that the fall in the unemployment rate over the period overestimates the improvement in that market.

...and what's coming up next week

We expect June retail sales to increase 0.64% YoY, sa. In MoM terms, they would fall 0.33%, sa, due to the slow rate of job-creation in earlier months and in line with the weakness in ANTAD sales. Note that in May, retail sales increased by 1.24% YoY but fell 0.06% MoM, and ANTAD sales (total stores) in June rose 1.3% YoY, although they also fell by 0.4% MoM (all data seasonally adjusted) (see Figure 1).

The balance of trade for July to post a deficit of USD560mn. On 27 August, INEGI will publish the trade balance for July 2014, which we expect to come in at a deficit of USD560mn. This would reflect annual growth of 7.3% in exports of goods and an increase of 4.5% in imports. Note that in the previous month, the balance of trade was a surplus of USD424mn. Nonetheless, in every year from 2000 to 2013, the July balance has been a deficit, due a seasonal factor that results in imports being higher than exports.

Calendar of indicators

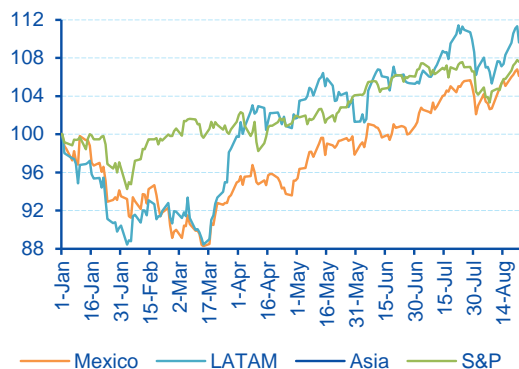
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retail sales (YoY % change, sa)	June	25 Aug	0.64	--	1.24
Balance of trade (USD mn)	July	27 Aug	-560.0	-861.6	423.7

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
New durable goods orders (MoM % change, sa)	July	26 Aug	1.1	7.6	1.7
Consumer Confidence Indicator, Conference Board (Index, sa)	August	26 Aug	89.5	88.5	90.9
GDP YoY chained (QoQ % change, sa)	2Q14	28 Aug	3.5	3.9	4.0
Personal income (MoM % change, sa)	July	29 Aug	0.2	0.3	0.4
Personal consumption (nominal dollars, MoM % change, sa)	July	29 Aug	0.3	0.1	0.4

Source: BBVA Research based on Bloomberg. sa = seasonally adjusted.. QoQ = quarter on quarter. sa = seasonally adjusted. 2Q14 = Second quarter of 2014.

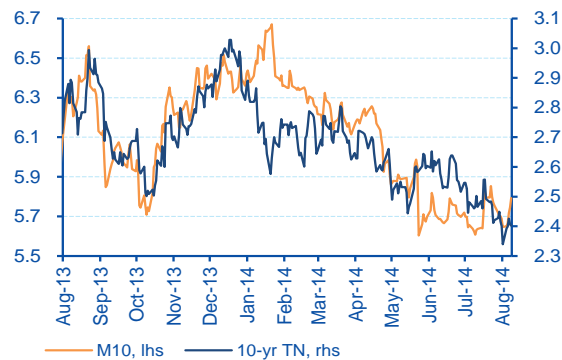
Markets

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



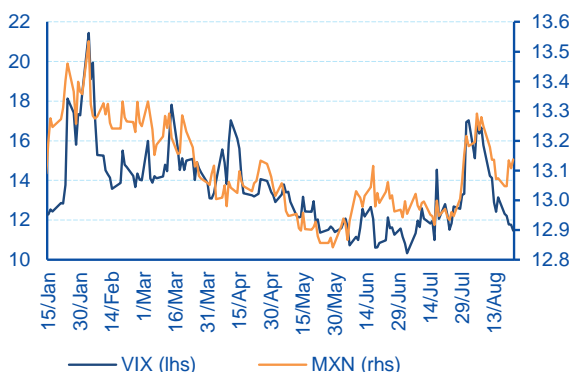
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



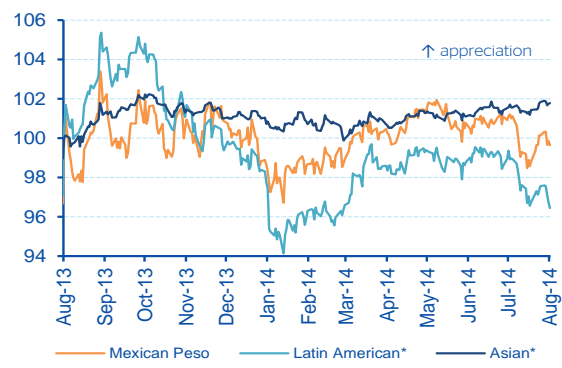
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(22Aug2013=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	2.0

Source: BBVA Research

Recent Publications

Date	Description
20 Aug 2014	➔ Mexico Economic Outlook Third Quarter 2014 (Spanish)
21 Aug 2014	➔ Mexico GDP Flash. GDP in the second quarter of 2014 was slightly above expected, with a quarterly growth of 1.0%, driven mainly by the Services sector
21 Aug 2014	➔ Mexico Flash. BBVA Research discussion points on the minimum wage

Disclaimer

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