Economic Analysis

We expect July's IGAE to post annual growth of 2.1%

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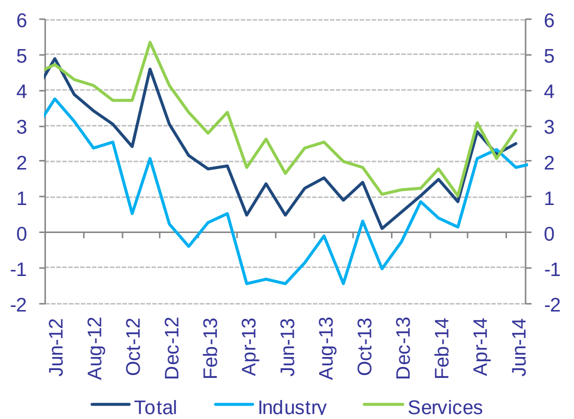
What happened this week …

Supply and demand of goods and services for the second quarter of 2014. The INEGI published the figures on supply and demand of goods and services for 2Q14. This information indicates the growth of GDP components on the demand side (i.e. total consumption, total gross fixed capital formation and exports) and on the supply side (GDP and imports). The annual growth of these variables in 2Q14 in original series was as follows: total consumption, 1.3% (BBVAe: 1.4%); gross fixed capital formation, -0.5% (BBVAe: -0.4%); exports, 5.8% (BBVAe: 5.5%); and imports, 2.9% (BBVAe: 3.8%). These figures confirm that most of the momentum in GDP growth in the second quarter of 2014 came from the exports sector.

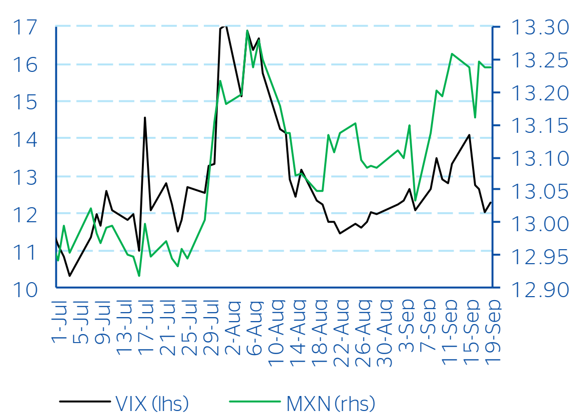
The minutes from September's monetary decision meeting reveal the central bank's very favourable outlook for inflation in 2015, with core inflation under 3.0%. The minutes show that the central bank's board believes that economic activity will continue to improve in the next few quarters and that inflation will continue converging towards the target 3.0%. Specifically, most of the members of the board expect annual inflation to come in at 3.0% by the end of 2015, with core inflation below this level.

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



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

Figure 2
VIX volatility index and exchange rate (ppd and points)



Source: BBVA Research with data from Bloomberg.

Marginal movements in the financial variables in a week full of important news. Many pre-programmed events occurred this week with significant market impact (Federal Reserve decision, the ECB's first TLTRO and the Scottish referendum), together with the injection of liquidity by the Chinese central bank (PBOC).

Nevertheless, financial variables moved slowly in a context of decreasing global volatility (see Figure 2), in doing so consolidating recent trends. The most important news, the statement about the Federal Reserve (Fed)'s monetary policy decision, brought no major surprises. The Fed left unchanged the phrase about forward guidance for monetary policy, confirming that there will be "a considerable" time lapse between the end of QE3 and the first rise in interest rates, but on the other hand its forecasts for the reference rate imply higher rates by the end of 2015 (1.375% vs. 1.125% before). On the bond markets, the Fed's statement caused slight rises at the short end of the US curve, with the yield on the two-year T-note rising a little (accumulating a gain of 9bp in the month), while yields on the 10-year bond fell by 3bp over the week. By the end of the week, some assets had risen in relief at the results of the Scottish referendum, particularly sterling. This result was also reflected in the lower levels of implicit volatility. In this context, US stocks expanded their gains over the week, with the S&P 500 reaching new highs. The dollar continued to strengthen against most currencies. In fact, the dollar gained against emerging currencies pretty much across the board, with only four hardening slightly, among them the Mexican peso. With a much less busy calendar of events coming up next week, we may see a continuation in the trend of slowing volatility in the markets, as we saw this week.

…What is coming up next week

We forecast that the unemployment rate will reach 5.2% in August. On Wednesday 24 September the INEGI will publish the occupation and employment index for August. Given the improved recent performance in some sectors of economic activity, we expect the unemployment rate to fall slightly and post at 5.2% in August, down from 5.5% in July 2014.

We estimate that retail sales in July will enjoy annual (YoY) growth of 1.2%, seasonally adjusted (sa). This result will be linked to the moderate performance of ANTAD sales, whose total store sales rose 1.4% YoY in July, sa, and to a greater rate of formal job creation in August (57,689 jobs). In June retail sales rose by an annual rate of 1.4%, sa.

We expect the Global Economic Activity Index (IGAE) for July to reach YoY growth of 2.1%, seasonally adjusted (sa). This favourable performance will be influenced by the increase in Industrial Production, whose monthly (MoM) growth rate in July was 0.3%, and 2.0% in annual terms (see Figure 1). Furthermore, we expect moderate growth rates for the Services and Agriculture sectors. Note that in June the IGAE posted a YoY increase of 2.5%, sa (0.23% MoM, sa) due mainly to growth in the services sector (0.33% MoM, sa), since the monthly variation of the remaining components was negative.

We anticipate that YoY inflation will remain at 4.15% in the first half of September. We anticipate fortnightly increases of 0.27% and 0.25%, respectively, for headline and core inflation in the first half of September. If these forecasts are correct, headline inflation will be 4.15% (compared to 4.15% in August) in annual terms, while core will be 3.36% (compared to 3.37% in August). In terms of core inflation, we are expecting a significant monthly increase in the education sub-index (2.09% MoM), concentrated, as it is every year, in the first half of the month. This increase will be partly offset by a fall in the sub-index for other services. When it comes to prices being more volatile, our wholesale price tracking leads us to expect that pressure on chicken and beef prices will continue in the first half of September. By the end of the year we forecast that headline and core inflation will stand at 3.8% and 3.4% respectively.

Calendar of indicators

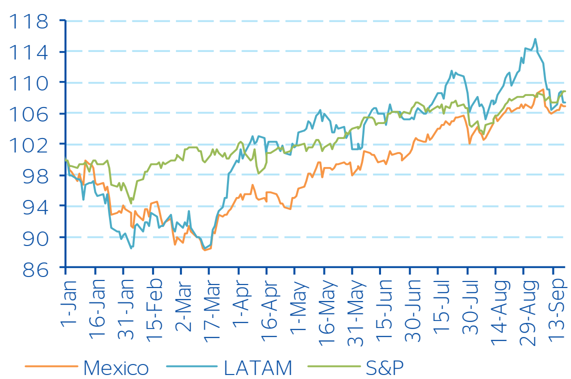
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	August	22 Sept	5.2	5.1	5.5
Retail sales (YoY % change, sa)	July	23 Sept	1.2	--	1.4
IGAE (YoY % change, sa)	July	24 Sept	2.1	--	2.5
Headline inflation (FoF % change)	1H Sept	24 Sept	0.27%	0.15%	0.22%
Headline inflation (YoY % change)	1H Sept	24 Sept	4.15%	4.12%	4.23%
Core inflation (FoF % change)	1H Sept	24 Sept	0.25%	0.05%	0.08%
Core inflation (YoY % change)	1H Sept	24 Sept	3.36%	3.16%	3.41%

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Chicago Fed National Activity Index	August	22 Sept	0.37	0.33	0.39
New One Family Houses Sold Annual Total MoM, sa	August	24 Sept	4.37	4.37	-2.40
Durable Goods New Orders Industries MoM, sa	August	25 Sept	-3.10	-17.90	22.60
Chained 2009 Dollars QoQ SAAR	2Q14	26 Sept	4.30	4.60	4.30
University of Michigan Survey of Consumer Confidence Sentiment	September	26 Sept	85.00	84.70	84.60

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

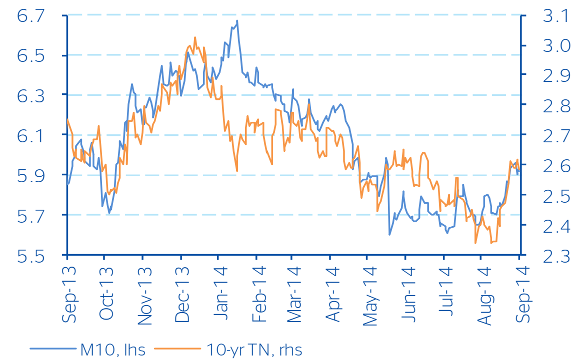
Markets

Figure 3
MSCI stock market indices (Index 1 Jan 2014=100)



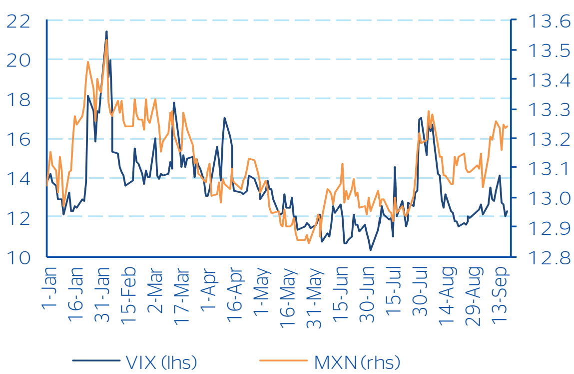
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



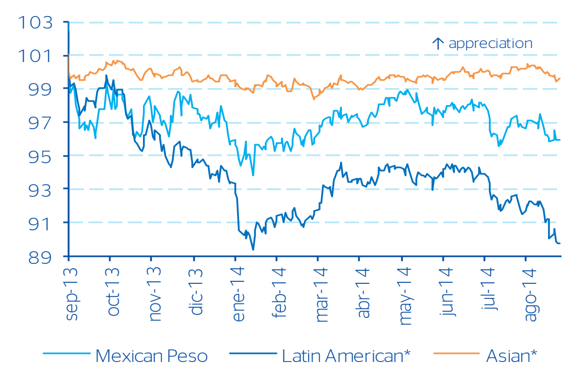
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (19 Sept 2013 index=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	4.0
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
10 Sept 2014	Mexico Banking Flash. Banking deposits: performance improves after a brief pause