Economic Analysis

Data on economic activity in the US and increased global risk weigh on the financial markets in Mexico

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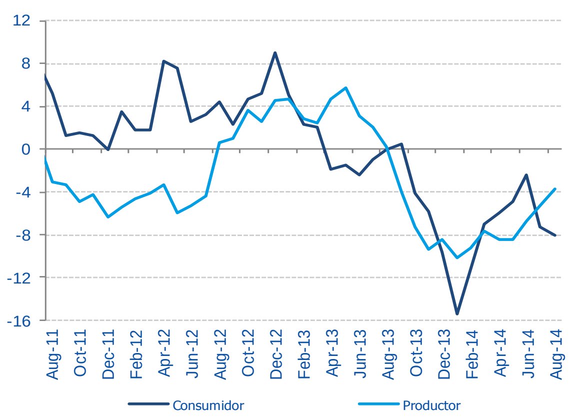
What happened this week …

The unemployment rate fell to 5.2% of the economically active population (EAP) in August (from 5.5% in July). The unemployment rate in August 2014 was as we forecast, and below the consensus (BBVA Research: 5.2%; consensus: 5.4%). The result was due essentially to a reduction in the EAP from 59.3% in August 2013 to 58.2% in August 2014. With seasonally adjusted series, the unemployment rate came in at 4.9%.

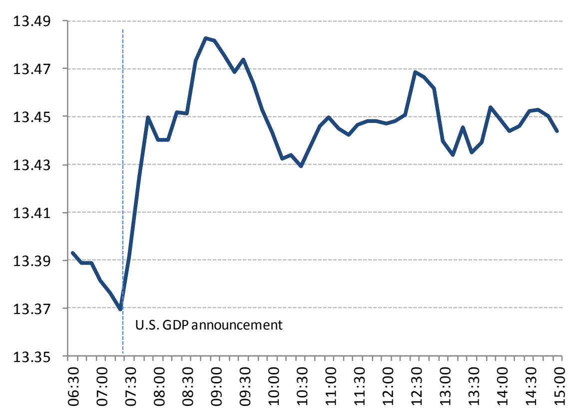
The Global Economic Activity Indicator (IGAE) accelerated significantly in July. According to the INEGI, the IGAE grew 2.5% in July compared to the same month a year before (YoY), with seasonally adjusted figures (sa). IGAE's slightly-better than-expected performance (BBVA Research: 2.1% YoY, sa), was due to a surprise increase in Agriculture (6.8% in July vs. 2.4% in June) and Services (2.6% in July vs. 2.9% in June), while Industry grew in line with expectations (2.0% vs. 1.8% in June), all with seasonally adjusted figures. IGAE grew at 0.4%, MoM, sa, influenced by major increases in Agriculture (3.98% MoM, sa), Services (0.34% MoM, sa) and Industry (0.28% MoM, sa), representing significant momentum for growth in the third quarter of the year.

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



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

Figure 2
Intraday exchange rate 26/09/2014 (USDMXN)



Source: BBVA Research with data from Bloomberg.

Retail sales increased 1.6% in July YoY, seasonally adjusted (sa). This slightly higher than estimated growth (BBVA Research: 1.2% YoY, sa), represents four consecutive months of annual increase. However, the acceleration in retail sales is still moderate, given that the MoM variation in July was 0.4%, sa, and driven by only three of its eight components, given that the other five shrank. The rises occurred in: motor vehicle sales and spare parts; domestic goods, computers and decoration; and household items, ironmongery and glass (2.8%, 2.5% and 1.4% MoM, sa, respectively). The moderate rate of employment generation and almost flat real wages suggest a rather sluggish domestic market in the third quarter. For example, total ANTAD store sales had 0.0% growth in July and 0.6% in August, MoM, sa.

The Mexican peso is at its lowest since February, because of increased geopolitical tensions and better-than-expected US economic data. The revision to the upside of second quarter GDP in the US provided fuel for speculation about the Fed tightening earlier than anticipated, which influenced the depreciation of the peso to over USDMXN13.40 for the first time since last February. During the week, the peso depreciated by 1.76%, the fourth biggest depreciation among emerging currencies, affected by increased geopolitical tensions in the Middle East, as well as stronger than expected economic data from the US. In fact the VIX index, a global risk aversion measurement, exceeded 15% over the week, not seen since the beginning of August when tensions started rising between Russia and Ukraine. On the government debt market, yields on the 10-year bond rose by around 20bp over the week to close at 6.11%, their highest level since last June, in a contrasting movement to the fall of around 4bp of the T-bond with the same yield. In terms of real rates, the higher than expected inflation figure for the first half of September influenced the cut of up to 13bp on the day that the Udibono, which matures in December 2014, was launched. The Mexican stock market recorded a loss over the week of 1.9%, in line with the 1.4% fall of the S&P 500, which was influenced by the announcement of new tax measures for North American companies seeking to merge with overseas businesses for 'tax inversion' benefits, changing their tax domicile with the aim of reducing their rates of corporate taxes.

The balance of trade in August recorded a deficit of USD1.123bn. This was the second highest deficit in the year after January, which came in at -USD3.128bn. The August deficit was a result of a low rate of YoY growth in total exports that month, with growth of 2.1%, compared to a YoY leap in in total imports of 4.8%. Note that the annual growth rate of oil exports was -10.6%, while non-oil exports rose by 4.0%. In terms of imports, YoY growth of consumer goods imports rose by 0.6%; intermediate goods imports jumped by 6.3%; and capital goods imports slipped YoY by -0.3%. These figures indicate a slower growth rate of external demand in August, which we expect to be transitory, meaning that the external sector will continue to be a major source of economic growth in the country in the next few months.

…What is coming up next week

On 1 October the IMEF will publish its indicators on manufacturing and non-manufacturing activity performance expectations for September. These indicators will set the context for expectations for the country's economic activity performance at the end of 3Q14. We estimate that the IMEF indicators will perform weakly, due to the growth of industrial activity in the US in August (-0.3% MoM, sa) and the slow recovery of the domestic market in Mexico.

Remittances in August may be as high as USD2.048bn (7.7% in annual growth terms). Over the month, the relatively low unemployment levels in the United States (6.1%) may also be reflected in the favourable performance of jobs for Mexican migrants in the neighbouring country. For this group, the unemployment rate has remained at levels below the national average, which may lead to greater capacity for sending remittances to Mexico. Throughout this year, the construction sector continues to be the most dynamic in terms of job creation for Mexican migrants living in the US.

We expect the producer confidence indicator to continue improving in September, and the consumer confidence indicator to rise slowly. On 3 October the INEGI will post its figures for the producer (PCI) and consumer (CCI) confidence indicators for September. We forecast that the PCI will be reported at 53.7 points, sa, up from 52.5 points, sa, the month before, thanks to good performance in the manufacturing sector, particularly automotive. Furthermore, in view of the creation of formal employment in August (57,689 jobs), we expect the CCI to reach 88.1 points, sa, against 87.9 points the previous month. This would be equivalent 89.9 points, with original series (see Figure 1).

Calendar of indicators

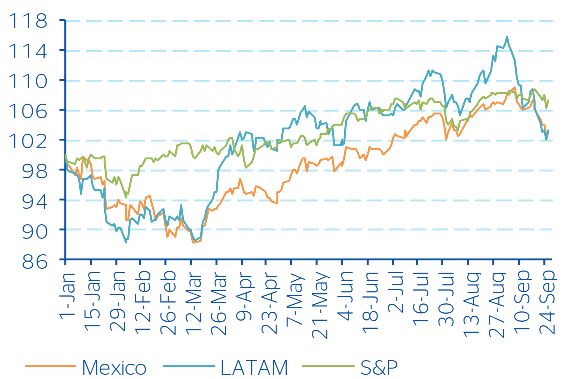
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
IMEF manufacturing indicator (index, sa)	Sept	1 Oct	51.7	52.0	51.6
IMEF non-manufacturing indicator (index, sa)	Sept	1 oct	52.3	53.0	52.7
Household remittances (USD mn)	August	1 Oct	2,048.0	2,050.0	1,995.7
Producer confidence (Index, sa)	Sept	3 Oct	53.7	--	52.5
Consumer confidence (Index)	Sept	3 Oct	89.9	89.6	89.7

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Conference Board Consumer Confidence SA 1985=100 (Index, sa)	Sept	30 Sept	93.00	92.45	92.40
ISM Manufacturing PMI (index, sa)	Sept	1 Oct	59.7	58.3	59.0
Manufacturers New Orders Total (MoM % change, sa)	August	2 Oct	-5.1	-9.3	10.5
Trade Balance (USDbn, sa)	August	3 Oct	-41.00	-40.95	-40.55
ISM Non-Manufacturing NMI (index)	Sept	3 Oct	60.1	58.5	59.6

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

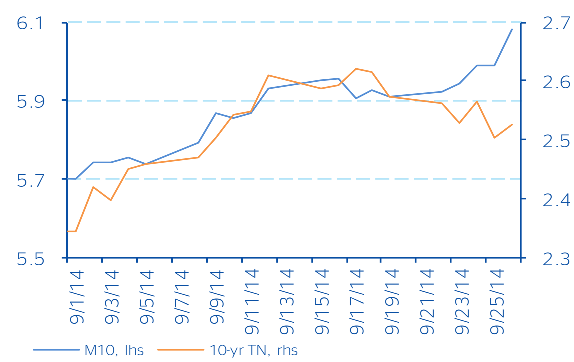
Markets

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



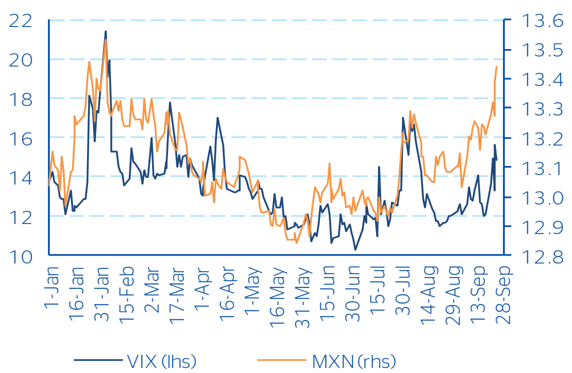
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



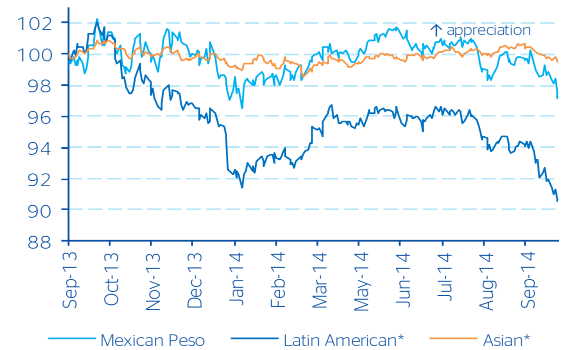
Source: BBVA Research, Bloomberg

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
24 Sept 2014	➡	Mexico Inflation Flash. Headline inflation surprises to the upside while core inflation points to some improvement in domestic demand
24 Sept 2014	➡	Mexico Flash. In July the IGAE shows an unexpected positive annual performance (2.5% YoY, sa)