Economic Analysis

We estimate that August industrial production will post annual growth of 2.2%, seasonally adjusted

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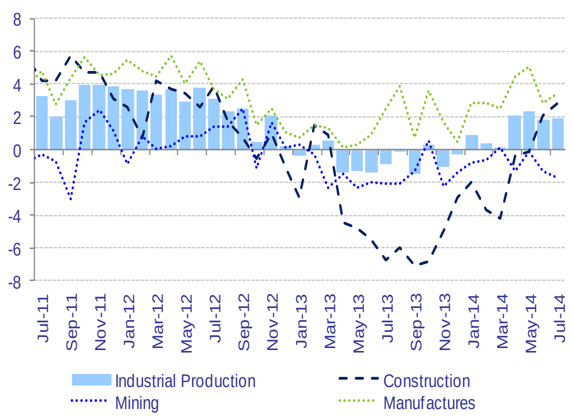
What happened this week …

September's IMEF manufacturing and non-manufacturing performance expectations indicators reported mixed results. On the one hand, the IMEF manufacturing index rose from 51.7 points (pts) in August to 52.7 pts in September, continuing its expansionist trend, with seasonally adjusted figures (sa). However, September's non-manufacturing index fell, down to 51.8 pts from 52.7 pts (sa) the previous month. In the case of the IMEF manufacturing indicator, expectations were a little higher than expected (BBVA Research: 51.7 pts, sa; consensus: 52.0 pts, sa), whereas the estimates for the non-manufacturing index came closer (BBVA Research: 52.3 pts, sa; consensus: 53.0 pts, sa). These figures suggest that in the third quarter economic improvement will be for the most part linked to the manufacturing sector.

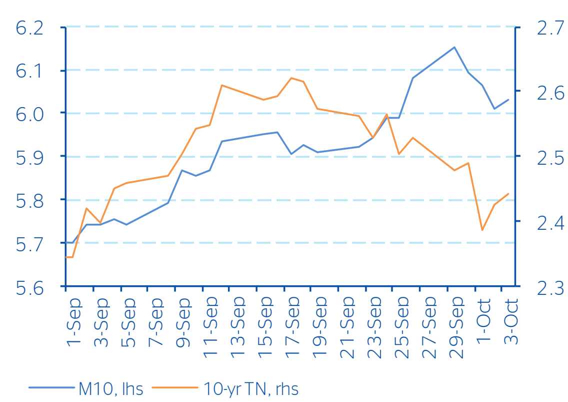
Producer and consumer confidence indicators showed signs of recovery. In September, the Producer Confidence Index (PCI) rose moderately (0.9% MoM, sa), while the Consumer Confidence Index (CCI) surprised with a significant increase (2.3% MoM, sa). A little below our estimate (BBVA Research: 53.7 pts, sa), the CPI came in at 53.2 pts in September, sa. Meanwhile, the CCI jumped up to 90.4 pts, sa. This was equivalent to a level of 91.8 pts with original series, above our estimate and that of the consensus (BBVA Research: 89.9 pts, consensus: 90.0 pts). These results demonstrate the prevailing perception that the economy will improve over the next few months, and this time across the board, in the opinion of both producers and consumers, which could pass through into improved consumption figures in the final quarter.

Figure 1
Industrial production and its components (YoY % change, sa)



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

Figure 2
10 year interest rates (%)



Source: BBVA Research with data from Bloomberg.

During August, Mexico received USD2.01bn in remittances, equivalent to a 5.8% annualised increase; this brings the consecutive months of growth up to 13. The relatively low rate of unemployment in the US, and the substitution over the year of part-time jobs with full-time ones among Mexican migrants, are factors which impact on the growth of remittances. We estimate that dollar remittances in September will be lower than in the last few months, although higher than the same period last year.

Risk-off appetite continued this week. The environment of global risk aversion continued throughout this week. Investor sentiment was negatively affected by concerns about global growth, and particularly by disappointing figures from the eurozone (moderation in inflation, low PMIs and weak consumer confidence). Together with this, on Friday the US job creation figure for September turned out to be higher than expected (+248k compared to the +217k predicted by the consensus) and the unemployment rate fell more than anticipated (to 5.9%). In this context, in which the US economic data are suggesting greater momentum and the figures in other areas (particularly in the eurozone) are suggesting the opposite, the dollar continued to strengthen across the board, just a month before the Fed's extraordinary monetary stimulus (QE3) programme ends. The dollar appreciated throughout the week (DXY +1.15%, 1.3% against the euro) and more strongly on Friday against emerging currencies, once the employment data was known. The Mexican peso closed at 13.49, four cents above its price at the end of the previous week. In the context of risk aversion, the safe-haven effect was visible again in yields on US T notes (10-year TN at 2.44%, -9bp down on the previous week's close). Mexican 10-year sovereign bond (M10) yields slipped 5bp over the preceding Friday and 12bp on Monday's level, closing the week at 6.03%. Stock indexes on emerging market exchanges suffered further losses over the week.

…What is coming up next week

We expect August Industrial Production to rise by 2.2% annually (YoY), seasonally adjusted (sa). This estimate takes into account the close relationship between this variable and the performance of the US monthly Industrial Production indicator in July and August (0.2% and -0.1% MoM, sa, respectively). In July, this indicator in Mexico grew 2.0% YoY, sa (see Figure 1) and in monthly terms increased by 0.3%, linked principally to a rise in manufacturing (1.2% MoM, sa). In non-adjusted terms, we expect an annual growth rate of 2.4% for August. The performance of industrial production will provide more certain clues as to the rate of economic acceleration in Mexico for the third quarter of the year.

We estimate that the gross fixed investment index for July 2014 will grow at an annual rate of 2.5%. On 8 October, the INEGI will publish the figures for the July gross fixed monthly index. We anticipate that the annual growth rate of this indicator's original series will be 2.5%, a higher figure than last month (2.2%) and that of the same month in 2013 (-0.2%). The two key investment components are: investment in construction and investment in machinery and equipment. In view of the 3.5% annual expansion in the construction sector's global economic activity index (IGAE construction) in July, we expect investment in construction in July to grow 2.6%, up from 1.3% in June. When it comes to machinery and equipment, we expect the annual growth rate in July to come in at 2.3%, a lower rate than the month before (3.7%). Expected growth of gross fixed investment for July, together with this indicator's positive behaviour in the two preceding months, indicate that a process of greater momentum in economic activity is underway, which is starting to show in investment levels.

Between 10 and 17 October, the IMSS will publish the total number of contributors in September. The total number of workers contributing to IMSS allows us to infer the formal employment generated by the private sector, and its behaviour is an important indicator of the prevailing macro-economic environment. We estimate that in September 2014 the monthly increase in the number of workers signed up at the IMSS will be a shade over 78k people; the month before this increase was a little under 58k people. The estimate for September implies that the annual increase in the total number of workers contributing to the IMSS will be 3.6%. As long as formal employment is posting monthly rises of over 50k workers, employment performance and, as such, economic activity will show favourable expansion conditions.

Calendar of indicators

Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Fixed gross capital formation (YoY % change)	July	8 Oct	2.5	3.3	2.2
Headline inflation (MoM % change)	September	9 Oct	0.44	0.47	0.36
Headline inflation (YoY % change)	September	9 Oct	4.22	4.25	4.15
Core inflation (MoM % change)	September	9 Oct	0.30	0.31	0.21
Core inflation (YoY % change)	September	9 Oct	3.35	3.36	3.37
Industrial production (YoY % change, sa)	August	10 Oct	2.2	--	2.0
Formal job creation (Workers contributing to the IMSS, ‘000s)	September	10-17 Oct	78.34	--	57.70

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Job Openings By Industry Total, sa	August	7 Oct	4666.00	--	4673.00
Federal Reserve Consumer Credit Total Net Change, sa	August	7 Oct	21.00	21.00	26.01
Merchant Wholesalers Inventories Total Monthly % Change	August	9 Oct	0.40	0.30	0.10
Import Price Index by End Use All, MoM % change	September	10 Oct	-0.20	-0.55	-0.90

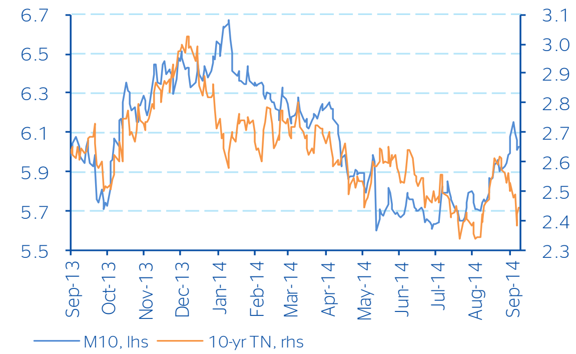
Source: BBVA Research with data from Bloomberg. YoY = annual rate of variation. sa = seasonally adjusted. MoM = monthly rate of variation MoM. P = provisional.

Markets

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

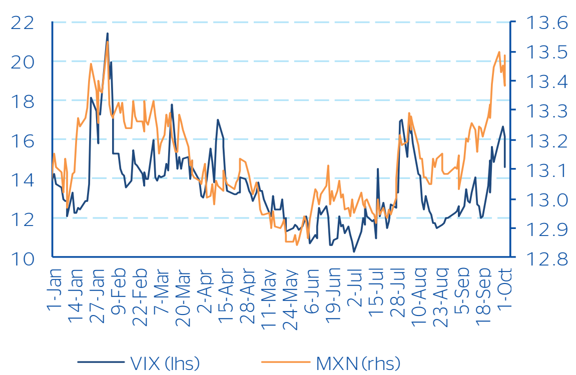
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



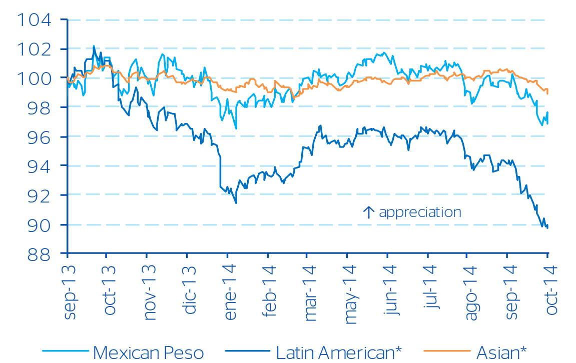
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (3 Oct 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
1 Oct 2014	➡	Mexico Regional Sectorial Outlook Second half 2014 (in Spanish)
1 Oct 2014	➡	Mexico Migration Flash. Remittances enjoy 13 months in a row of increases, growing by 5.8% YoY in August
1 Oct 2014	➡	Mexico Banking Flash. Credit to the private sector: timid 7.7% growth in August