Macroeconomic Analysis

We expect unemployment to edge down to a rate of 5.16%

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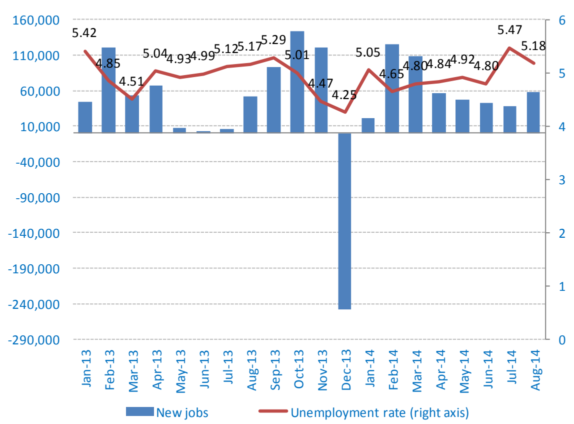
What happened this week …

Industrial production in August grew at an annual (YoY) rate of 2.1%, with seasonally adjusted (sa) figures, and in monthly terms (MoM) expanded by 0.37%. This performance was in line with our estimate (BBVAe: 2.2% YoY, sa). The improvement is principally accounted for by an acceleration in construction (1.17% MoM, sa), electricity, gas and water (0.97% MoM, sa) and mining (0.29% MoM, sa). Manufacturing, however, slipped (-0.31% MoM, sa).

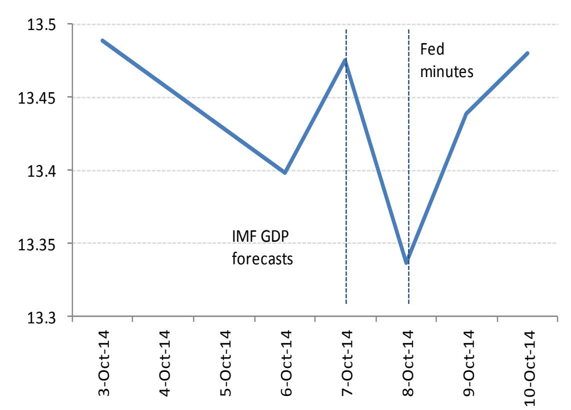
Pressures on agricultural prices softened in the second fortnight of September, as we had anticipated. Headline inflation increased 0.44% MoM in September, in line with our forecast (BBVAe: 0.44%; consensus 0.47%), as agricultural prices fell in the second half of the month, according to our estimates. In annual terms, inflation rose to 4.22%, up from 4.15% in August. Core inflation came in at 0.29% MoM, practically in line with our forecast (BBVAe: 0.30%; consensus: 0.31%). In annual terms, core inflation stayed at 3.34%. We maintain our position on annual inflation: that it will have peaked in September and will start to fall slowly from October onwards. However, if the increase in meat prices turns out to be more persistent, inflation may not have reached its peak. All in all, even though today's figure backs up our scenario, the risks for our prognosis to the end of the year of 3.84% are still slightly biased to the upside. Core inflation was very low in the second half of the month, as we had anticipated, helped by economic expansion. We expect annual core inflation to remain relatively stable between October and December, posting 3.4% by the end of the year.

Figure 1
Unemployment rate and formal employment (Annual % change & workers contributing to the IMSS)



Source: BBVA Research with data from INEGI.

Figure 2
Exchange rate (USDMXN)



Source: BBVA Research with data from Bloomberg.

In July 2014 gross fixed investment grew 3.1% YoY, a higher than expected expansion (BBVAe: 2.5% YoY). This indicator's YoY variation rates have been growing steadily: May (0.4%), June (2.3%) and now July (3.1%) which suggests that gross fixed investment is in a process of gradual expansion in the country, which may also herald greater momentum in productive activity over the next few months.

In September, the number of workers affiliated to the IMSS increased by 156,432, well above the level expected (BBVAe: 78k). This brought the YoY growth rate in the total number of workers registered with this institute to 4.1%. Of the total new workers affiliated to the IMSS in September, 44% have temporary contracts (68,830 people) and the remaining 56% (87,602 people) had found permanent jobs. The greater YoY increase in workers took place in the construction and agriculture sectors, with 9.4% and 6.7% respectively, and in the context of a major increase in the temporary contracts filed, it is very likely that a high proportion of these new temporary affiliates to the IMSS have been contracted in these sectors. The major growth in employment in the construction sector may be starting to reflect higher public-sector spending on infrastructure. We should point out that nearly 35% of the number of new workers taken on temporarily between January and September were taken on in September. The number of new workers with permanent contracts also seems high in the light of the moderate figures for economic activity, which might be a sign that some of these permanent jobs are in fact existing ones coming into the formal economy. Whatever the possible nuances of this significant job increase in the IMSS in September, this is a piece of news that may indicate that the economy is starting to grow in a more dynamic fashion.

Return to global risk aversion in the light of concerns about lower economic activity. The reduction in the IMF's growth forecasts and the Fed's mention of a risk of deceleration in the US because of lower global growth caused global risk aversion to rise to its highest level since February. The VIX volatility index rose by nearly 7% over the week, topping 20% for the second time this year. In terms of stock indexes, the S&P 500 registered a weekly fall of 3.1%, the steepest since May 2012, while the IPC lost 2.78%. The minutes of the Fed meeting, published during the week, reduced concerns about an early tightening of monetary policy, but put emphasis on the activity rate worldwide and the possible risks of a slowdown in the US, which was reflected in a marginal depreciation of the Mexican peso by 0.06% over the week, even though it had risen 1.04% after the Fed's meeting notes were published, the second biggest appreciation among emerging market currencies. 10-year T-bond yields fell by 15 bp over the week, closing at 2.43%, their lowest level this year. By contrast, yields on the equivalent Mexican bond rose by over 30bp, in a clear episode of global risk aversion.

…What is coming up next week

We forecast that the unemployment rate will be 5.16% in September. On 17 October the INEGI will publish September's employment indicator figures. Given the improved recent performance in certain sectors of economic activity, we expect the unemployment rate to fall slightly, and come in at 5.16% in September, from 5.18% in August 2014. In seasonally adjusted terms, we expect the unemployment rate to stand at 4.87% in September, similar to the month before.

Indicator calendar

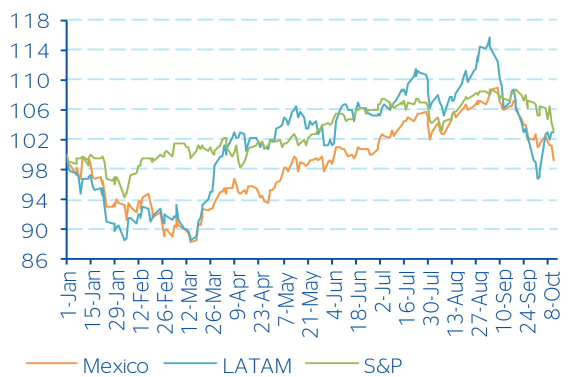
Mexico	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	September	17 Oct	5.16	5.21	5.18
Unemployment rate (YoY % change, sa)	September	17 Oct	4.87	4.81	4.87

United States	Indicator Period	Date of Publication	BBVA Estimate	Consensus	Previous figure
Empire State Manufacturing Survey General Business Conditions, sa	October	15 Oct	20.90	20.00	27.54
Adjusted Retail & Food Services Sales, sa Total Monthly % Change	September	15 Oct	0.10	-0.10	0.60
Industrial Production MoM 2007=100, sa	September	16 Oct	0.30	0.40	-0.10
University of Michigan Survey of Consumer Confidence Sentiment	October	17 Oct	85.00	84.00	84.60

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

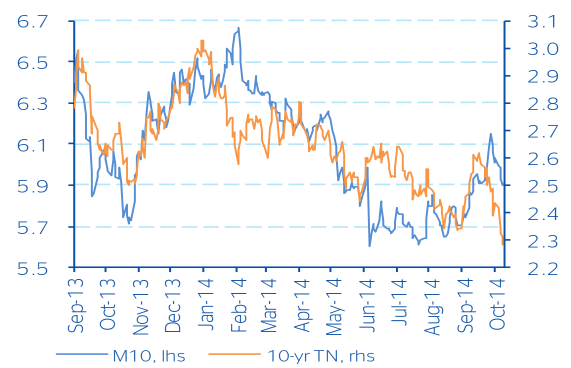
Markets

Figure 3
MSCI stock market indexes (1 Jan 2014 index=100)



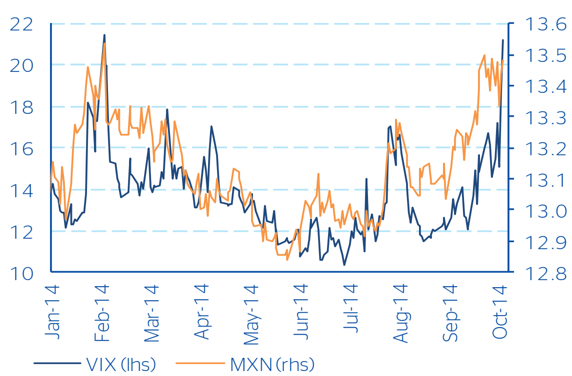
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



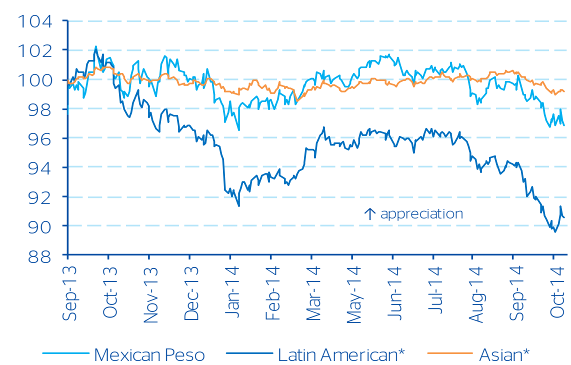
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (3 Oct 2013 index=100)



* JP Morgan Latin American and Asian currency indices 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
Headline inflation (avg., %)	4.1	3.8	4.0
Core inflation (avg., %)	3.4	2.7	3.2
Monetary Policy Rate (avg., %)	4.5	3.8	3.2
M10 (avg., %)	5.7	5.7	6.1
US GDP (YoY % change)	2.8	1.9	2.0

Source: BBVA Research

Recent publications

Date		Date
9 Oct 2014	➡	Mexico Inflation Flash. Non-core food price pressures receded in the second half of the month as we expected
10 Oct 2014	➡	Mexico Flash. August's Industrial Production increased 2.1%, YoY, sa, in August
10 Oct 2014	➡	Mexico Flash. In September 2014 formal employment registered a higher annual growth rate (4.1%), than the one of the previous month (3.1%)