

## Economic Analysis

## We estimate that the August IGAE will post annual growth of 2.7%

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### What happened this week ...

**The unemployment rate fell to 5.08% of the EAP (Economically Active Population) in September (from 5.18% in August).** The unemployment rate surprised to the downside in September (BBVA Research: 5.16%; consensus: 5.20%). This result was mainly due to a reduction in the EAP from 58.93% in September 2013 to 58.64% in September this year. With seasonally adjusted series, the unemployment rate came in at 4.75% (BBVA Research: 4.87%, consensus: 4.80%) compared to 4.83% the previous month.

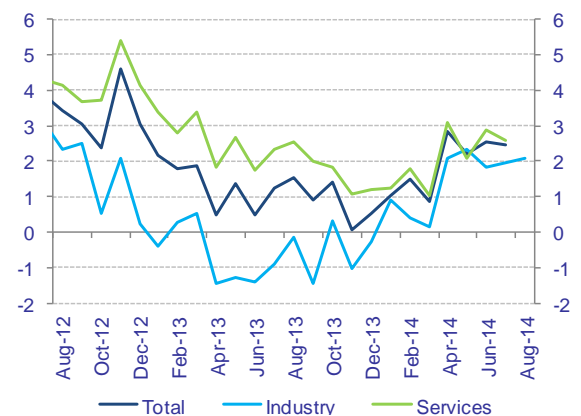
**Fear of a setback in the global recovery dominated financial market movements this week.** Weak economic activity and inflation data in Europe, together with some surprises to the downside in the US economic indicators (particularly the September retail sales published on Wednesday), stoked up concerns about downside risks on global growth and even gave rise to a delay in the expectations for monetary policy normalisation in the economies where growth is expected to be relatively firm, mainly the USA. Futures markets postponed the date when the cycle of interest rate hikes on the part of the Federal Reserve (Fed) is expected to begin, from mid-2015 to the end of 2015. Financial markets were very jittery and the climate of greater uncertainty about world growth translated into a massive sell-off of high-risk assets – with the most frenzied moment being last Wednesday – and the resulting flight to financial assets perceived as lower risk (particularly US T-bonds). The assets which lost most were the stock exchange indexes (both developing and emerging economies) and raw materials. Among emerging-market financial assets, bonds ended the week with gains as they returned to keeping in step with US bond interest rates. However, if the global risk aversion climate continues, they will find it hard to keep up. A good number of the abrupt movements on Wednesday were corrected on Thursday, and more so on Friday; nevertheless, the highest risk assets have made significant losses since the start of September. In the future, risk appetite is likely to remain low in the markets as long as uncertainty about the global economic cycle remains, increasing the downside risks on world growth. In the current context of risk aversion it is also likely that surprises to the downside will have more effect on markets than possible surprises to the upside. Having said this, lower energy prices represent a risk to the upside for consumption in the US in the near future (by increasing household disposable income), which, taken with the Fed's bias of caution in its monetary policy normalisation, ought gradually to limit concerns about the impact of the deceleration in other regions on the US economy.

### ...What is coming up next week

**We estimate that August's Global Economic Activity Index (IGAE) will reach annual growth (YoY) of 2.7%, seasonally adjusted (sa).** The INEGI will publish the August IGAE on 24 October. We expect economic activity to continue growing, in view of the fact that industrial production enjoyed monthly (MoM) growth in August of 0.37% (2.1% in annual terms, see Figure 1), together with forecasts that the Services and Agriculture sectors will maintain a moderate rate of increase. We should note that in July the IGAE posted an annual increase of 2.5%,

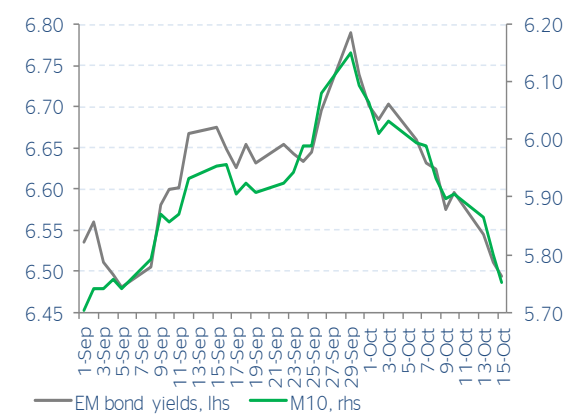
sa (0.41% MoM, sa) due to significant growth in all the sectors that shape it; viz, Farming (3.98% MoM, sa ), Services (0.34% MoM, sa) and Industry (0.28% MoM, sa).

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



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

Figure 2  
Emerging markets' bond yields\* and M10 (%)



\* JPMorgan GBI-EM Global Diversified Index  
Source: BBVA Research with data from Bloomberg.

**We forecast that retail sales in August will show YoY growth of 2.7%, seasonally adjusted (sa).** This result, which will be published on 22 October by the INEGI, is linked to the performance of ANTAD total store sales, which increased to August by 1.3% YoY, sa, and to a higher rate of formal job creation in August (57,689 jobs). July's retail sales showed an annual increase of 1.6%, sa. On the same day, the INEGI will provide the new figures on sales outlets, based on a more robust statistical design which combines the choice of trading companies on the basis of probability and non-probability; the coverage of the research variables will be improved; results will be collated by state, and the trade activity indicators will use 2008 as their base year (instead of 2003 as has been the case up to now), in line with the calculation method used in Mexico's National Accounts System. Meanwhile, the INEGI has announced that it is adopting the 2007 version of the North American Industry Classification System (NAICS) and that statistically precise indicators are being added to the publication.

**We forecast that annual inflation will edge up to 4.29% in the first half of October.** We anticipate fortnightly rises, of 0.46% and 0.16% respectively, for headline and core inflation in the first half of October. If our forecasts are accurate, in annual terms headline inflation will be 4.29% (up from 4.22% in September) while core inflation will be 3.37% (compared to 3.34% in September). The main explanation for the severe increase in inflation in the first half of this month is the start of the seasonal increase in electricity tariffs, now that the subsidies in place during the hot season have ended. Furthermore, our price tracker suggests that pressure on beef prices has continued. We continue to expect headline and core inflation to come in at 3.84% and 3.39% respectively by the end of the year.

## Calendar of indicators

<b>Mexico</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Retail sales (YoY % change, sa)	August	22 Oct	2.7	2.7	1.6
Headline inflation (FoF % change)	1H Oct	23 Oct	0.46%	0.46%	0.02%
Headline inflation (YoY % change)	1H Oct	23 Oct	4.29%	4.29%	4.22%
Core inflation (FoF % change)	1H Oct	23 Oct	0.16%	0.14%	0.03%
Core inflation (YoY % change)	1H Oct	23 Oct	3.37%	3.35%	3.34%
IGAE (YoY % change, sa)	August	24 Oct	2.7	2.3	2.5

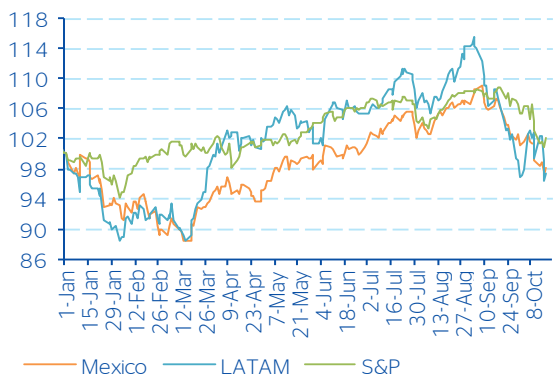
  

<b>USA</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Existing Homes Sales (millions)	September	21 Oct	5.10	5.10	5.05
CPI Urban Consumers (MoM % change, sa)	September	22 Oct	-0.10	0.00	-0.20
CPI Urban Consumers Less Food & Energy (MoM % change, sa)	September	22 Oct	0.00	0.20	0.01
New One Family Houses Sold Annual Total ('000s)	October	24 Oct	475.00	470.00	504.00

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

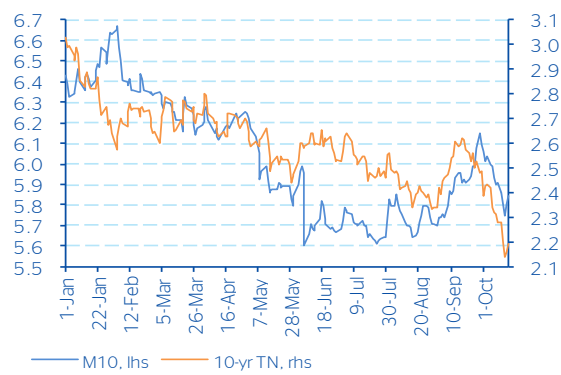
**Markets**

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



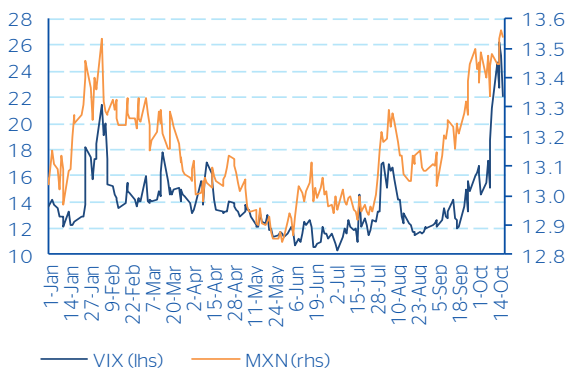
Source: BBVA Research, Bloomberg

**Figure 4**  
**10-year government bond yields (%)**



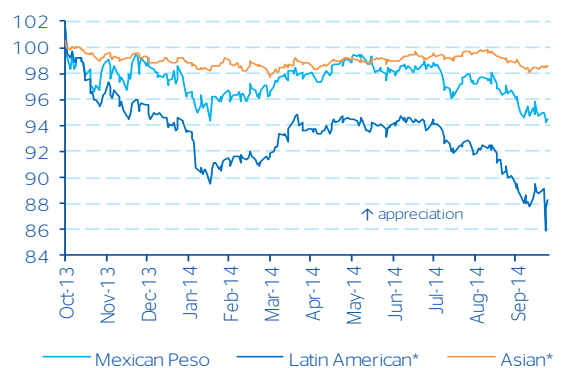
Source: BBVA Research, Bloomberg

**Figure 5**  
**Global risk and exchange rate (VIX index and USD/MXN)**



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(17 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**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
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	6.0
US GDP (YoY % change)	2.8	1.9	2.0

Source: BBVA Research

## Recent publications

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Date	Description
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%)

### Disclaimer

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