

Economic Analysis

# All eyes on the third quarter GDP, which we expect to grow by 0.65% QoQ, after seasonal adjustments

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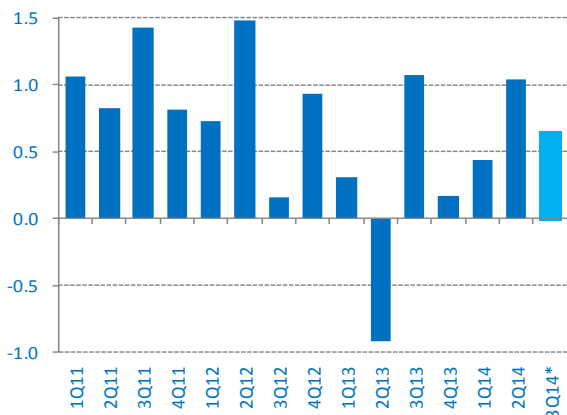
## What happened this week ...

### Industrial production grew by 2.3% annually (YoY) in September, with seasonally adjusted (sa) figures.

Nevertheless, in monthly terms (MoM) it fell by 0.1%, sa. In original series, industrial production grew by 3.0% at an annual rate (BBVAe: 3.2 % YoY, sa). This annual rate of growth in industrial production in September was mainly due to a jump in construction (4.8% YoY, sa), manufacturing (3.3% YoY, sa) and utilities - electricity, gas and water - (2.4% YoY, sa); although mining dropped again, this time by -2.6% YoY, sa. The surprise monthly fall in industrial production, which in turn suggests that the services sector could not bounce back from the reduction the previous month, implies a bias to the downside in our expectations for 2014 growth. The monthly fall in industrial production is accounted for by the reduction in production in the mining (-0.7% MoM, sa) and construction (-0.1% MoM, sa) sub-sectors. Meanwhile, electricity, gas and water (0.5% MoM, sa) and manufacturing (0.3% MoM, sa) showed moderate growth. This confirms the slow economic recovery in 2014.

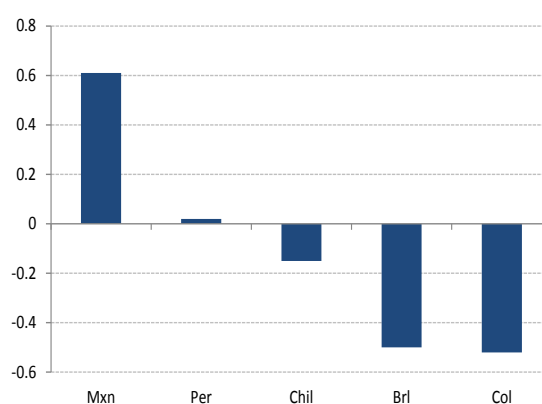
**Annual growth in the gross fixed capital formation index in August was 4.3%.** This is higher than we expected (BBVAe: 2.9%). The growth rate in the construction component was 3.3%, while the machinery and equipment component grew by 5.8%. Note that in August gross investment posted its fourth consecutive annual positive growth rate, the highest rate the index has recorded between January and August 2014.

Figure 1  
GDP and estimate for 3Q14  
(QoQ % change, sa)



Source: BBVA Research with data from INEGI. 3Q14\* = Estimate for the third quarter of 2014. QoQ = quarterly rate of variation. sa = seasonally adjusted.

Figure 2  
Appreciation/depreciation in LatAm currencies,  
14 November 2014



Source: BBVA Research with data from Bloomberg.

**In October 2004 the annual growth rate of workers making Social Security contributions was 4.2%.** So it was that in October the number of workers signed up with the IMSS came to 172,134 (BBVAe: 151k). The number of people registering as formally employed in the private sector through the IMSS has risen significantly, thanks to the Job Formalisation Programme being implemented by the Department for Work and Social Security; it is likely that around 60% of the new employment recorded in the IMSS is a result of this programme.

**The minutes from the monetary policy meeting support the neutral tone of the latest statement.** The absence of changes in the balance of risks for inflation and economic activity were backed up by most of the members of the governmental committee. All the committee members expect the reactivation of the economy in the second quarter to hold firm in the third, although at a more moderate rate. One person even indicated that the IGAE's fall in August did not mark a change in trend. Meanwhile, most members also agreed that the fall in production and the oil price are the key risks for economic growth. Finally, there was an interesting observation by one committee member about the need for fiscal policy to be more cautious in the context of risks to public finance as a result of the drop in oil revenues, together with the lack of room for manoeuvre for further loosening in monetary policy.

**US confidence and economic activity data shore up the peso at the end of the week.** The peso appreciated during the week's final session thanks to higher-than-expected retail sales and consumer confidence figures in the US. This appreciation reversed its fall throughout the week, a response to the return of some geopolitical risks and the dollar's appreciation against emerging currencies because of the strength in the US cycle. In fact, the peso's appreciation, at around 0.61% this Friday, was the highest of all the LatAm currencies, and the third among emerging currencies. This is the second occasion in recent weeks in which the higher-than-expected results in the US have been reflected in an appreciation of the peso against the dollar. This improved outlook for the US economic cycle showed up in the stock markets, where the S&P 500 reached a new record high, while in the bond market yields on 10-year T bonds showed marginal growth over the week of 3bp, closing at 2.32%, in a low inflation environment. By contrast, and affected by the positive differentiation of US assets, in Mexico the BMV IPC lost 2.79% over the week, while yields on the 10-year M-bono widened 3bp, mirroring the movements in the US..

### ...and what to expect in the coming week

**Third quarter inflation report.** On Wednesday 19 November the central bank will publish its quarterly inflation report. The most important piece of data will be the modification to its prognosis for the growth rate this year, which currently stands at between 2.0% and 2.8%. Another interesting figure will be its estimate on the effects of the investment prompted by the structural reforms, an issue which the authorities have commented as possibly coming up in this report.

**We estimate that retail sales in September will mark annual (YoY) growth of 4.1%, seasonally adjusted (sa).** This result, which will be published on 20 November by the INEGI, will be related to the performance of ANTAD sales which in the aggregate of all their stores increased in September by 0.6% YoY, sa, and to the jobs recorded in the IMSS (156,432 new jobs in September). Note that in August retail sales grew at an annual rate of 5.0%, sa.

**We expect the quarterly (QoQ) growth rate of GDP in the third quarter of 2014 (3Q14) to post at 0.65%, with seasonally adjusted (sa) series.** On 21 November the INEGI will publish third quarter GDP growth. After a quarterly increase of 1.04% in the second quarter, we estimate that the Mexican economy will have risen slowly, with GDP growth of around 0.65% QoQ in the third (see Figure 1). The key elements underpinning this growth

are, on the one hand, a moderate increase in the rate of industrial production growth in July, August and September (1.9%, 1.8% and 2.3% YoY, sa, respectively) and on the other, the acceleration in exports, particularly manufacturing, from July to September (7.6%, 4.4% and 11.2% YoY, respectively). If this quarterly growth is confirmed, the annual growth rate for 2014 may be slightly below the 2.5% originally forecast.

**We expect the Global Economic Activity Indicator (IGAE) for September to report YoY growth of 2.3%, seasonally adjusted (sa).** The September IGAE will be published by the INEGI on 21 November. We expect economic activity to grow slowly, given that industrial production in September decreased MoM by 0.1% (2.3% YoY) and that we estimate that performance in the services and agriculture sectors will be similar. In August the IGAE grew at an annual rate of 1.9%, sa, although in monthly terms it showed a fall of 0.2%, sa, due to a fall in services (-0.2% MoM, sa).

## Calendar of indicators

Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retail sales (YoY % change, sa)	September	20 Nov	4.1	--	5.0
Gross Domestic Product (QoQ % change, sa)	3Q14	21 Nov	0.65	0.6	1.04
IGAE (YoY % change, sa)	September	21 Nov	2.3	--	1.9

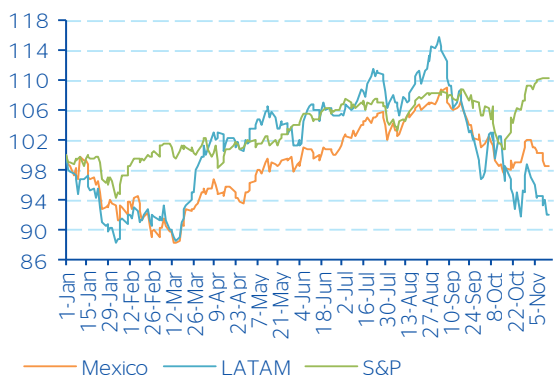
  

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Industrial production (MoM % change, sa)	October	17 Nov	0.2	0.2	1.0
Manufacturing production (MoM % change, sa)	October	17 Nov	0.2	0.3	0.5
Leading index (MoM % change, sa)	October	20 Nov	0.5	0.6	0.8

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. YoY = annual rate of variation. QoQ = quarterly rate of variation. MoM = monthly rate of variation. FoF = fortnightly rate of variation. 3Q14 = third quarter 2014.

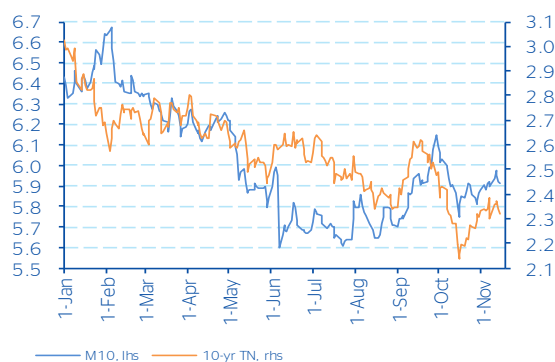
**Markets**

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



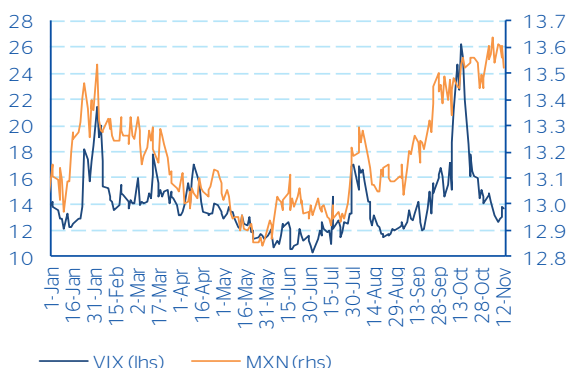
Source: BBVA Research, Bloomberg

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



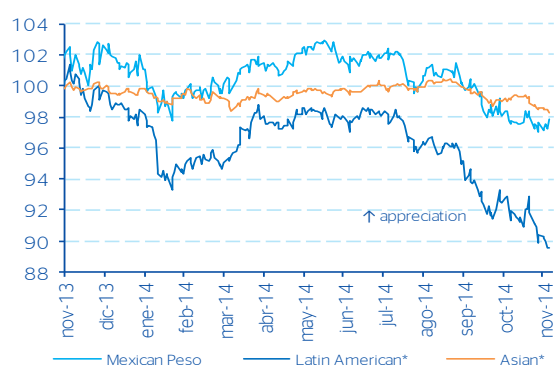
Source: BBVA Research, Bloomberg

**Figure 5**  
**Global risk and exchange rate:**  
**VIX index (lhs) and USDMXN (rhs)**



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(14 Nov 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
11 Nov 2014	➔ Mexico Flash. Industrial production increased 2.3%, YoY, sa, in September
12 Nov 2014	➔ Mexico Flash. October's 2014 formal employment annual rate of growth (4.2%) was greater than the one of the previous month (4.1%)

### Disclaimer

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