Economic Analysis

We have adjusted GDP downwards from 2.5% to 2.1% in the light of rather slow growth in 3Q and a revision to the downside of growth in 1Q and 2Q

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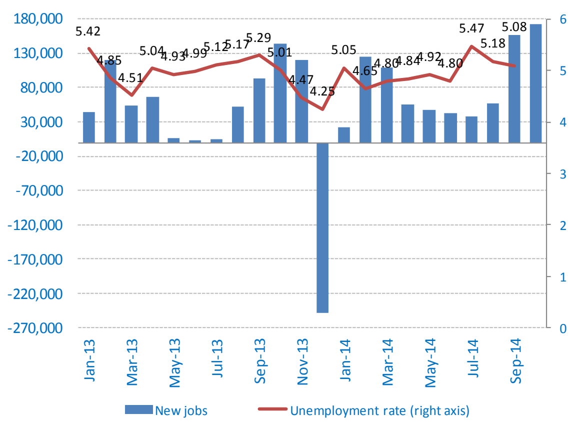
What happened this week …

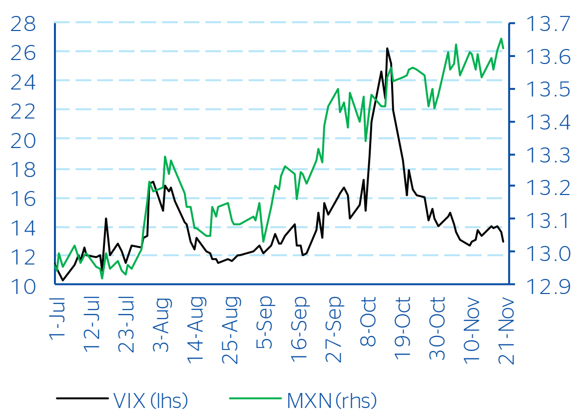
The quarterly (QoQ) growth rate of GDP in the third quarter of 2014 (3Q14) was 0.50%, seasonally adjusted (sa), equivalent to annual (YoY) growth of 2.1%. This rate was below our forecast and that of the consensus (BBVAe: 0.65% QoQ; consensus: 0.60% QoQ). In the third quarter, primary activities (agriculture and livestock) performed best, at a quarterly growth rate of 2.5%. Tertiary activities (services) came in second, with 0.5% growth, while secondary activities (industry) posted quarterly growth of just 0.4%, all in seasonally adjusted terms. In addition, quarterly growth was adjusted downwards in the first two quarters of the year (1Q14: from 0.44% to 0.36% QoQ sa; 2Q14: from 1.04% to 0.90% QoQ sa), which indicates that economic activity has performed slowly in the first nine months of the year, leading us to revise our annual growth for 2014 from 2.5% to 2.1%.

Figure 1
Formal unemployment and employment rates (YoY % change and workers contributing through the IMSS)



Source: BBVA Research with data from INEGI.

Figure 2
Global risk and exchange rate (VIX index and USDMXN)



Source: BBVA Research with data from Bloomberg.

Retail sales in September rose by 4.3% YoY, seasonally adjusted (sa). This increase was in line with our forecast and above the consensus (BBVAe: 4.1% YoY, sa; consensus: 3.2% YoY). However, this equated to a monthly rate of -0.7%, sa, making it the second fall this year. This indicates that activity in the internal market in September was marginal.

The financial authorities revise downwards their growth estimate for 2014. In their 3Q inflation report, the central bank cut its forecast range for 2014 from between 2.0% and 2.8% to between 2.0% and 2.5%. Furthermore, the Inland Revenue Department adjusted its growth estimate for this year from 2.7% to a range of 2.1-2.6%.

Even though the economic data for the global cycle disappointed once again this week, the expectation of expansionary policies in the eurozone, Japan and China, and positive data in the US at the end of the week all contributed to increases in the stock and bond markets. Japan's GDP contracted unexpectedly in the third quarter, and the PMI manufacturing surveys in China and the eurozone were weaker than anticipated. Nevertheless, the European Central Bank's hints about a likely quantitative easing programme, the postponement in the rise in sales tax in Japan and monetary loosening in China were the factors supporting higher risk assets. In the US, the minutes from the October monetary policy meeting contained no surprises, and the negative industrial activity data for October published on Monday was offset by other data which continue to reflect economic recovery. Against this backdrop, the dollar stayed strong, while T-bonds also enjoyed gains over the week. Yields on the 10-year T-note were relatively stable, closing the week at 2.31% (-1bp compared to last Friday). Yields on the M10 *bono* came in at 5.84% (-8bp over the week), a similar performance to that of bonds in other emerging markets, which also appreciated in a context of global economic policies supporting the cycle, a favourable factor for emerging market assets. The exception continues to be currencies, which have not recovered their value, despite the reduction of global volatility in recent weeks (see Figure 2).

…What is coming up next week

We forecast that the unemployment rate will reach 5.0% in October. On 24 November, INEGI is due to publish October's unemployment figures. Given improved performance recently in certain sectors of economic activity and in formal job creation in October (172,134 jobs logged with the IMSS), we expect the unemployment rate to fall to 5.0% in October, from 5.1% in September 2014. In seasonally adjusted terms, we expect the unemployment rate to reach 4.8% in October, a shade better than the previous month's 4.9%.

We estimate that annual inflation will begin trending downwards from the first half of November. We forecast fortnightly rises of 0.66% and 0.11% respectively for headline and core inflation in the first half of November. If these forecasts come about, in annual terms headline inflation will go down to 4.08% (compared to 4.30% in October), while core inflation will post 3.31% (against 3.32% in October). The principal factor accounting for the notable bump in inflation in the first half of this month is the continuation of the seasonal increase in electricity tariffs, now that the subsidies which were in place during the hot season have ended. Furthermore, our agriculture and livestock price tracker suggests that increases in fruit and vegetable prices will be partially offset by a slight drop in livestock prices. We still believe that, by the end of the year, headline inflation will stand at 3.9% and underlying at 3.3%.

We expect the balance of trade in October 2014 to be in deficit by USD587mn. The balance of trade deficit that we expect for October takes into account the fact that in this month the annual growth rate of its total exports component will be 4.9% (with the oil exports growth rate at -9.0% and 6.9% in non-oil exports growth). In the previous month, total exports grew by 9.2% and in the same month in 2013 they did so by 3.4%. Likewise, we expect the annual growth rate of total imports to be 6.2%. This rate is less than the results posted by imports the month before (9.6%) and higher than their results in the same month in 2013 (-1.0%). As suggested by the growth rates which we expect for the balance of trade components, the contraction of oil exports is a factor which reduces the growth rate of total exports and, as such, makes it more likely that the balance of trade will be negative.

Calendar of indicators

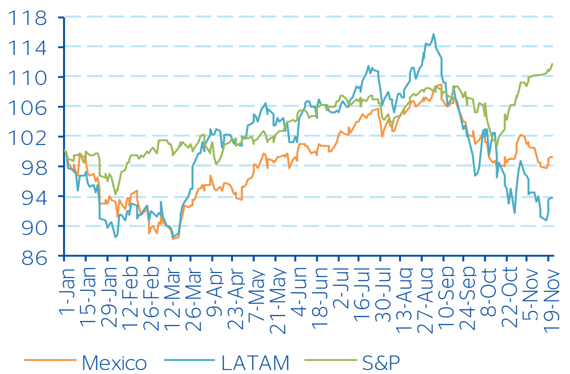
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	October	24 Nov	5.0	4.90	5.1
Unemployment rate (YoY % change, sa)	October	24 Nov	4.8	4.72	4.9
Headline inflation (FoF % change)	1F Nov	24 Nov	0.66%	0.76%	0.09%
Headline inflation (YoY % change)	1F Nov	24 Nov	4.08%	4.15%	4.28%
Core inflation (FoF % change)	1F Nov	24 Nov	0.11%	0.15%	0.07%
Core inflation (YoY % change)	1F Nov	24 Nov	3.31%	3.35%	3.31%

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
GDP Chained 2009 Dollars QoQ SAAR)	3Q14	25 Nov	3.0	3.3	3.5
GDP Personal Consumption Chained 2009 Dlrs % Change from Previous Period SAAR	3Q14	25 Nov	1.8	1.9	1.8
University of Michigan Consumer Sentiment Index	November	26 Nov	90.10	90.00	89.40
New One Family Houses Sold Annual Total SAAR	October	26 Nov	470.00	470.25	467.00

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 of 2014.

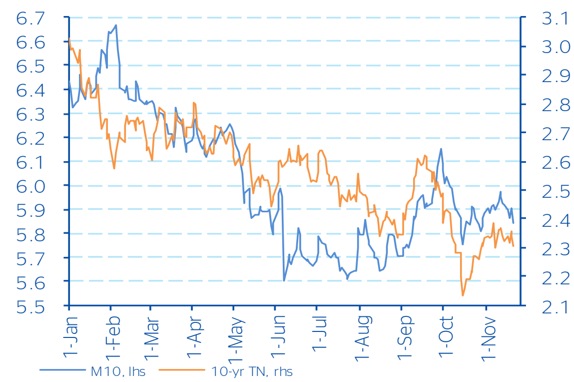
Markets

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



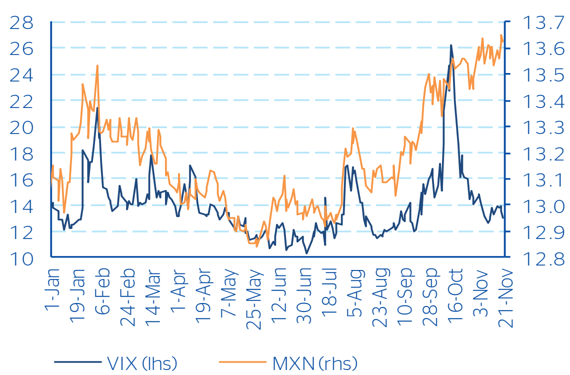
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



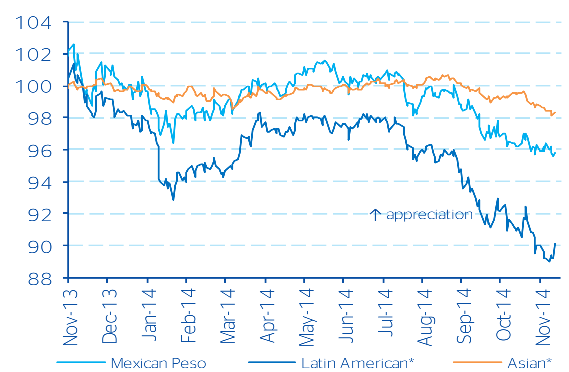
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (22 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

	2012	2013	2014
Mexico GDP (YoY % change)	4.0	1.1	2.1
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

Date	Description
21 Nov 2014 ➡	Mexico GDP Flash. In 3Q14 Mexico´s GDP growth rate was moderate. This fact along with a downward revision of previous quarters induced us to lower our GDP growth rate for 2014 from 2.5% to 2.1%