Economic Analysis

We estimate that industrial production in November grew by an annualised 2.38%, seasonally adjusted

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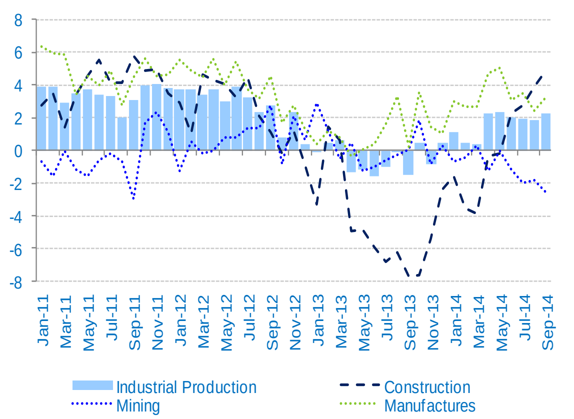
What happened this week …

The November IMEF indicators for manufacturing and non-manufacturing expectations reported less vigorous performance than expected. The IMEF Manufacturing indicator slipped from 54.6 points (pt) in October to 53.0pt in November, with seasonally adjusted figures (sa). Meanwhile, the non-manufacturing indicator moved from 52.1pt to 51.2pt (sa) over the same period. Both indicators were lower than expected (manufacturing IMEF, BBVAe: 54.9pt; consensus: 54.0pt., sa; and the non-manufacturing IMEF, BBVAe and consensus: 52.2pt, sa), and reflect the slow rate of the Mexican economy throughout 2014.

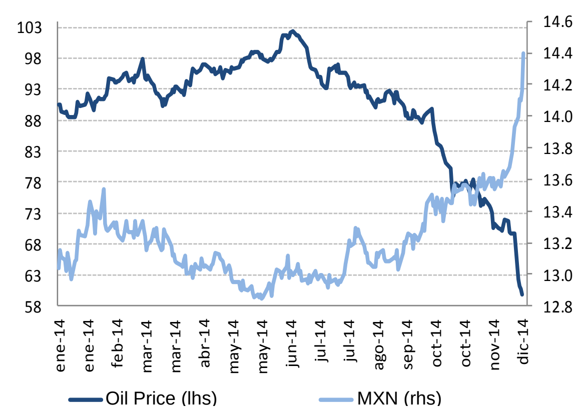
October remittances came in at USD2.036bn, a figure in line with expectations (BBVAe: USD2.016bn; consensus: USD2.001bn). Favourable employment indicators from the US this year have resulted in better labour conditions for Mexican migrants and their remittances. Buoyed by the executive actions taken by President Obama in recent days on the migration issue, this growth path is estimated to continue in the next few months. If this trend of rising remittances continues, 2014 will close with the highest receipts of the last six years.

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



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

Figure 2
Price of Mexican mixed crude oil and the MXN (USD/bl and MXN)



Source: BBVA Research with data from Bloomberg.

Consumer confidence grows, but that of producers wanes in November. The CCI, the consumer confidence index, rose by 91.8pt in October to 94.9pt in November, with this recording a monthly (MoM) increase of 3.3% in November, seasonally adjusted (sa). Of its five components, only one, "What do you think of the country's current economic situation, compared with 12 months ago?" showed a fall of -0.03% in November; in general there was a slight improvement in consumer perceptions of their situation. In its original series the CCI stood at 92.9pt (BBVAe and consensus: 90.0pt). Meanwhile, producers, although remaining in optimistic territory (above the 50-point threshold), lowered their expectations a little as to the country's economic activity. The index edged down from 53.5pt in October to 52.7pt in November.

Monetary policy rate unchanged at 3.0%. A marginally more relaxed stance in view of the moderation of growth in the third quarter. There was a deterioration in the balance of activity risk in view of the slowdown in growth in the third quarter, as a result of the lack of clear recovery signals in consumption and a very limited contribution of public spending. The risks to the upside of inflation are growing in the light of a possible sustained depreciation in the peso. Nevertheless, this increase is a nuanced one since it is partly offset by the expansiveness in the economy. The Bank of Mexico points out that it expects short-term real interest rates to rise in the next few months, even if the reference rate remains the same. With this outlook, the central bank seems to be hinting that the default scenario is for a gradually more restrictive monetary posture, even if this is without rate changes.

The fall in the oil price predominates over the positive activity surprises in the US and takes the peso to over USDMXN14.30. The peso has suffered an aggregate fall of 5.16% in the last two weeks, the third biggest among emerging currencies; in the same period the price of export Mexican mix crude oil has dropped 20.5%. On top of this depreciation, there is the factor of slow economic growth this year, which contrasts with the recovery in the US, which has been reflected in the decoupling of the peso from the better-than-expected economic activity figures in the US. To take an example, on Friday 5 December the non-farming wage bill in the US was published: up by 321,000 jobs, the biggest monthly increase in the last three years. Nevertheless, the peso did not profit from this print, and fell 1.41% to USDMXN14.35, its lowest since 2012, influenced by an additional fall of nearly 80 cents in the price of Mexican mix crude. On the stock market, the IPC registered a weekly fall of 2.2%, contrasting with the 0.4% rise in the S&P 500. On the governmental debt market, 10-year bond maturities increased by 24bp over the week, in line with the 14bp rise of T-bonds with similar maturities.

…what is coming up next week

We forecast that October's industrial production will rise by 2.38% at an annual rate (YoY), seasonally adjusted (sa), which translates into a MoM rise of 0.68%. This estimate takes into account the close relationship between this variable and industrial production in the US, which grew at a monthly rate of 0.8% and -0.1% sa in September and October respectively. Note that in September industrial production in Mexico grew by 2.3% YoY, sa (see figure 1), but that in monthly terms it actually dropped by 0.1%, linked principally to the fall in construction components (-0.1% MoM, sa) and mining (-0.7% MoM, sa). Meanwhile, manufacturing increased by 0.3% MoM, sa. The performance of industrial production will give us a signal as to the strength of economic activity at the end of the year.

We estimate that annual inflation will post at 4.16% in November. We anticipate monthly increases of 0.80% and 0.15% respectively for headline and core inflation in November. If our forecasts materialise, in annual terms headline inflation will stay as it was in the first half of the month, that is, at 4.16% (compared to 4.30% in October), whereas core inflation will print at 3.34% (as against 3.32% in October). The factor accounting for most of the strong increase in inflation over the month is the seasonal rise in electricity tariffs as the subsidies for the hot season come to an end, together with persistence in upward pressure on beef and pork. Our price tracker does not suggest additional pressures on the most volatile products in the second half of the month. By the end of the year, we forecast that headline inflation will come in at 4.0%, while we hold to our forecast of 3.3% for core inflation.

We believe that the YoY increase in September's fixed gross investment index will be 5.8%. On 10 December, the INEGI will publish the figure for September's fixed gross investment index. The rate expected for total investment, of 5.8% (up from 4.3% in August and -4.9% in September of last year), is calculated on the basis of an estimated 4.3% expansion in its construction investment component, and of 9.3% in the machinery and equipment component. The positive progress expected for total investment in September will mean that, for every month in the third quarter of 2014, the annualised growth of this index has been positive. This fact will undoubtedly have a favourable impact on the aggregate growth of that quarter's GDP.

We expect that in November the number of workers contributing to the IMSS will show a monthly rise of nearly 124,000 jobs. We expect that in the week of 8 to 12 December the Mexican Social Security Institute (IMSS) will announce the number of workers who made social security payments through the institute in November 2014. We estimate that in November 2014 the monthly increase in the number of workers registered on the IMSS will be 123,700. This increase implies an annual growth rate of 4.2% in the total number of workers registered on the IMSS. This rate is similar to this indicator's result for formal employment the month before. Note that between 2009 and 2013, on average, the increase in the number of workers registered with this Institute in November has been 118,000.

Calendar of indicators

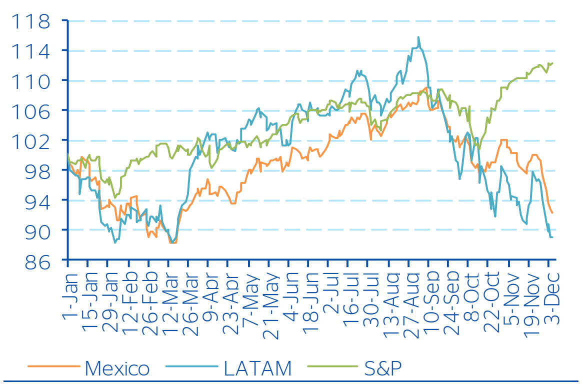
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Headline inflation (MoM % change)	November	9 Dec	0.80	0.82	0.55
Headline inflation (YoY % change)	November	9 Dec	4.16	4.17	4.30
Core inflation (MoM % change)	November	9 Dec	0.15	0.16	0.17
Core inflation (YoY % change)	November	9 Dec	3.34	--	3.32
Fixed gross capital formation (YoY % change)	September	10 Dec	5.8	6.6	4.3
Industrial production (YoY % change, sa)	October	12 Dec	2.38	--	2.3
Industrial production (MoM % change, sa)	October	12 Dec	0.68	0.7	-0.1
Workers contributing to the IMSS ('000s)	November	11-18 Dec	123.7	111.0	172.1

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retails and food sales (MoM % change, sa)	November	11 Dec	0.4	0.4	0.3
Retail sales excl. cars & auto fuel (MoM % change, sa)	November	11 Dec	0.5	0.4	0.6
Manufacturing & trade inventories (MoM % change, sa)	October	11 Dec	0.5	0.2	0.3
Consumer confidence, University of Michigan[p] (index)	December	12 Dec	89.0	89.6	88.8

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

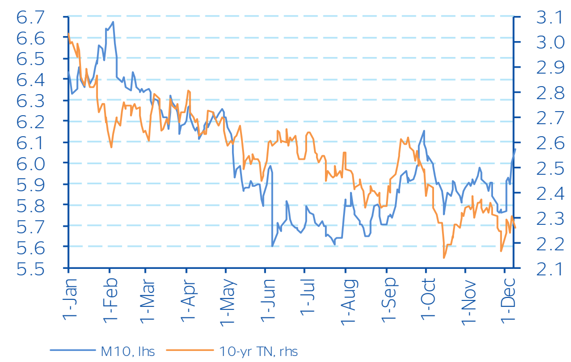
Markets

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



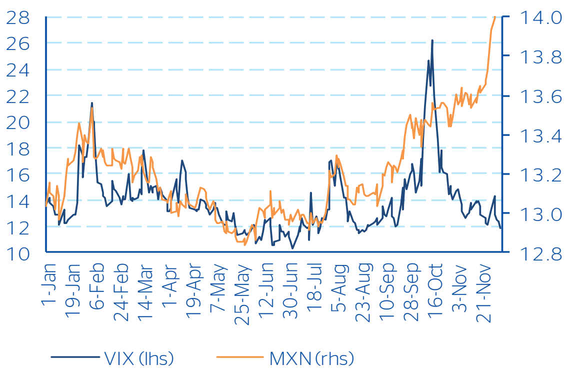
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



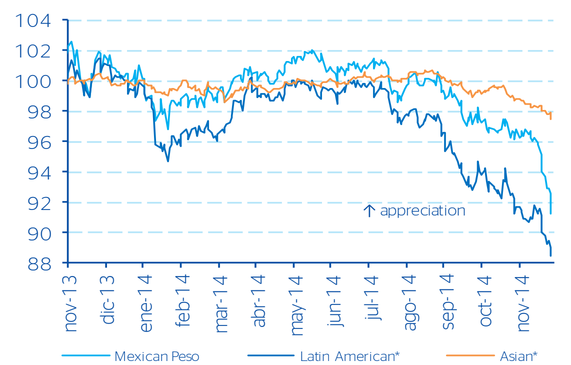
Source: BBVA Research, Bloomberg

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	1.4	2.1
Headline 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
1 Dec 2014	➡	Mexico Migration Flash. Remittances increase by 6.5% in October, clocking up 15 consecutive months of growth
2 Dec 2014	➡	Mexico Banking Flash. Credit to the private sector: growth unchanged at 7.7%, with more movement in credit for housing