

Economic Analysis

We estimate that the October IGAE will grow at an annualised 2.0%, seasonally adjusted

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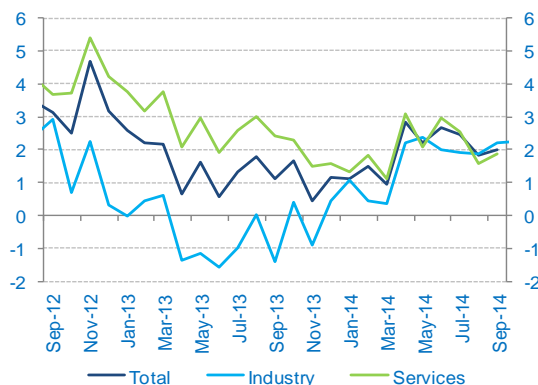
What happened this week...

The INEGI reported that industrial production grew an annual (YoY) 2.25% in October, seasonally adjusted (sa). This result was a little below our forecast (BBVAe: 2.38% YoY, sa). In original series, industrial production grew by 2.12% YoY. The annual growth of industrial production was mainly due to the rise in construction (6.0% YoY, sa), manufacturing (3.5% YoY, sa) and electricity, gas and water (2.3% YoY, sa); although mining fell again, coming in at -5.0% YoY, sa. In monthly terms (MoM) industrial production grew by 0.3%, sa, below both our forecast and that of the consensus (BBVAe: 0.68% MoM, sa; consensus: 0.70% MoM, sa). The increase in manufacturing production was significant (0.7% MoM, sa), while construction and mining both saw low growth (0.2% MoM, sa, each). Electricity, gas and water, meanwhile, fell (1.4% MoM, sa).

Retail sales rose by 5.6% YoY in October. This increase was close to our forecast and above the consensus (BBVAe: 5.9% YoY; consensus: 4.3% YoY). This was equivalent to a monthly rate of 6.1%, sa, making it the third biggest increase so far this year. In seasonally adjusted figures, the YoY increase was 5.0%, vs. 4.2% the month before. This figure suggests a slight improvement in the domestic market at the end of 2014.

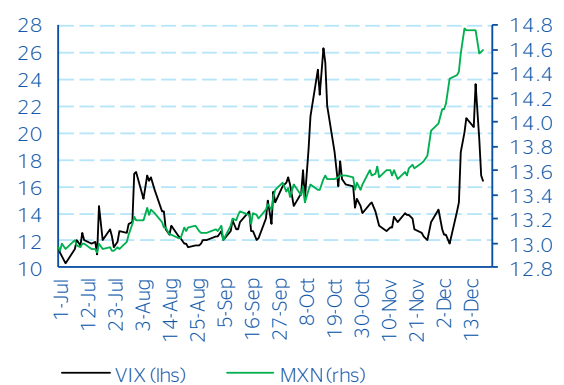
The unemployment rate fell to 4.71% in November, with seasonally adjusted figures (from 4.73% in October). This reduction was in line with market expectations (BBVAe: 4.68%; consensus: 4.66%). This result, similar to that in October (4.71%), was driven by a reduction in the Economically Active Population (EAP) from 60.81% in November 2013 to 59.63% in November 2014. In original series, the unemployment rate dropped to 4.53% in November 2014 from 4.78% the month before, the lowest rate since December 2013 (4.27%).

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



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

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



Source: BBVA Research with data from Bloomberg.

Volatility continued in the financial markets, but the perception that the Fed will remain cautious in its monetary policy normalisation process in 2015 brought about a change of trend in the prices of risk assets. The Federal Reserve's declaration in December was not far off our expectations, displaying a slight change in the language used to refer to the direction of travel and alluding to the modest adjustments made in the economic forecasts. As was to be expected, the statement removed the expression "considerable time" in its reference to the calendar for federal fund rates and specified instead that "the Committee considers that it can be patient as to when the monetary policy normalisation begins". However, the declaration declared that this new language is "consistent with its earlier declaration", giving the Committee the opportunity to moderate this correction in an attempt to prevent any negative interpretation or uncontrolled market reaction. In this context, the risk assets started to recover value from that moment on. The stock exchange indexes enjoyed strong gains, partially reversing the losses of the last few weeks. Emerging currencies, some of them also influenced by the uptick in the oil prices seen during the week, appreciated against the dollar. Nevertheless, the Mexican peso showed negative differentiation, and, of the currencies which have depreciated most in recent weeks, appreciated the least. The reduction in the perception of risk also favoured Mexican bonds. M10 yields fell 31bp in the last three sessions of the week, closing the week at 5.87%.

...What is coming up next week

We anticipate that the Global Economic Activity Indicator, the IGAE, will reach an annual growth rate of 2.0% in October, seasonally adjusted (sa). The October IGAE figure will be published by the INEGI on 23 December. We expect economic growth to continue, but slowly, due to the slow recovery in all sectors of the Mexican economy. Note that in September IGAE had an annual rise of 2.0%, sa, although in monthly terms (MoM) it showed a slight fall of 0.07%, sa, due to a decrease in industry (-0.05% MoM, sa) and the slow progress of services (0.06% MoM, sa).

We estimate that the balance of trade in November 2014 will show a surplus of USD503mn. The surplus we forecast is the result of an annual growth rate in merchandise exports of 9.7% in November and of 9.2% for imports. These growth rates are substantially higher than those of the same month last year (0.7% in exports and -4.1% in imports). This year the momentum in the country's export sector has been greater than in 2013, since the average annual growth rate in 2014 between January and October was 4.6%, and only 1.6% during the same period in 2013. Merchandise imports have not increased their momentum much, since in the first 10 months of 2013 their average annual growth rate was 3.9%, and in 2014 this grew slightly to 4.2%.

We estimate that annual inflation will temporarily halt its downward path in the first half of December to stand at 4.2%. We forecast fortnightly increases of 0.43% and 0.32% for headline and core inflation respectively during the first half of December. If our forecasts are correct, in annual terms headline inflation will come in at 4.21% (compared to 4.17% in November) while core inflation will post at 3.37% (as against 3.34% in November). The main factor affecting our forecast, which is above that of the market consensus (see table below) is that our price tracker suggests significant increases for the sub-index of fruit and vegetables, driven mainly by the price of tomatoes. We also anticipate greater core inflation than expected by the consensus, since we estimate that most of the increase in core prices will occur in the first half of the month, and we have a bias that the sub-index of other merchandise will present a slightly higher increase than in recent half-month periods, as a result of the peso's recent depreciation.

Calendar of indicators

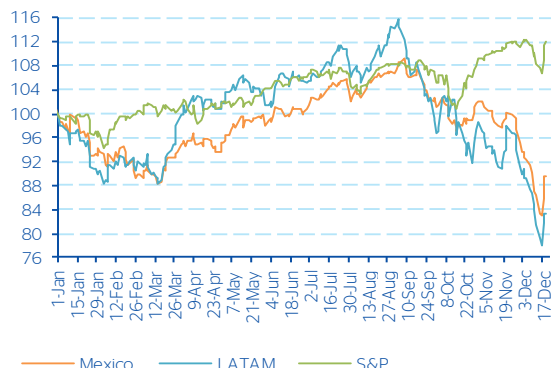
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
IGAE (YoY % change, sa)	October	23 Dec	2.0	--	2.0
Headline inflation (FoF % change)	1H Dec	23 Dec	0.43	0.35	0.04
Headline inflation (YoY % change)	1H Dec	23 Dec	4.21	4.13	4.18
Core inflation (FoF % change)	1H Dec	23 Dec	0.32	0.26	0.00
Core inflation (YoY % change)	1H Dec	23 Dec	3.37	3.31	3.36
Balance of trade of merchandise (USD mn)	November	26 Dec	503.0	--	143.0

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Annualised GDP (QoQ % change, sa)	3Q14	23 Dec	3.80	4.30	3.90
Consumer spending (QoQ % change, sa)	3Q14	23 Dec	2.20	2.60	2.20
New durable goods orders (MoM % change, sa)	November	23 Dec	0.70	3.00	0.30
Sales of single-family homes (MoM % change, sa)	November	23 Dec	0.44	0.44	0.70

Source: BBVA Research with data from Bloomberg. sa = seasonally adjusted. YoY = annual rate of variation. MoM = monthly rate of variation. FoF = fortnightly rate of variation. 1H Dec = first half of December. QoQ = quarterly rate of variation. 3Q14 = third quarter of 2014.

Markets

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



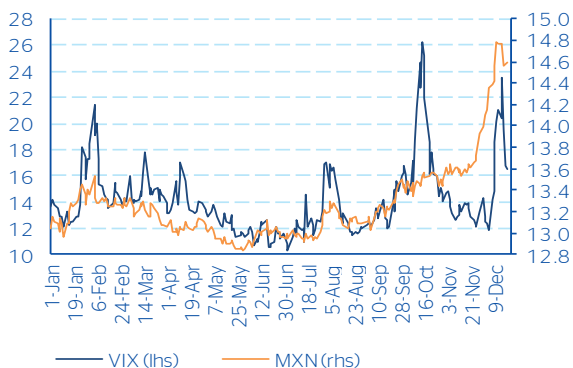
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



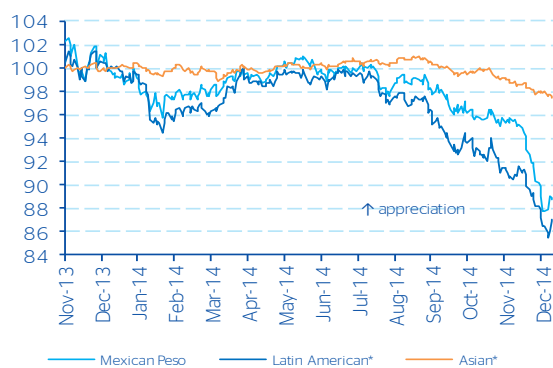
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(19 Dec 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
9 Dec 2014	➡ Mexico Inflation Flash. Annual inflation is on a downward trend and the outlook remains favorable

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