

Economic Analysis

We estimate that the unemployment rate will fall in December to 4.27%

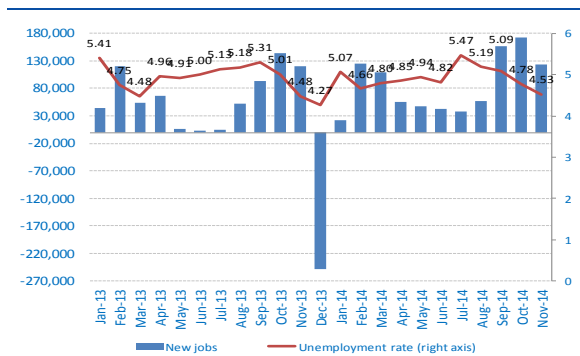
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What happened this week ...

Industrial production grew by 2.4% annually (YoY) in November, seasonally adjusted (sa). This result was slightly above our forecast (BBVAe: 2.2% YoY, sa). In original series, industrial production grew by 1.8% YoY. The annual growth in industrial production can be accounted for by the 5.3% YoY jump in manufacturing, the 5.0% YoY (sa) increase in construction and the 0.6% YoY (sa) upward move of electricity, gas and water; although mining accentuated its drop, posting -5.7% YoY, sa. In monthly terms (MoM), industrial production rose by 0.2%, sa, just under our forecast, and a little further from that of the market consensus (BBVAe: 0.3% MoM, sa; consensus: 0.4% MoM, sa). Note the increase in manufacturing production (0.7% MoM, sa) and construction (0.8% MoM, sa), and the fall in electricity, gas and water, together with mining (1.1% and 0.4% MoM sa respectively).

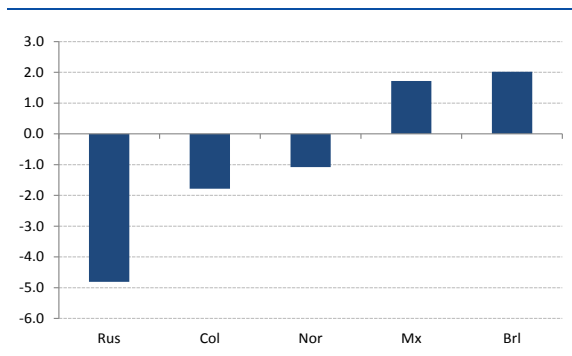
Annual inflation shrank for the second month in a row, and will brake sharply in January. Headline inflation rose 0.49% MoM in December. This figure came in a little below our expectations (BBVAe: 0.52%; consensus: 0.51%). In annual terms, inflation fell for the second consecutive month, to 4.08% from 4.17% in November. The drop in headline inflation would have been greater during the final two months of 2014 had it not been for the sharp increase in agriculture and livestock prices. These prices shot up by 5.0% in the last two months of the year. Core inflation came in at 0.23% MoM, also a shade below expectations (BBVAe: 0.26%; consensus: 0.26%). In yearly terms, core inflation slid to 3.24% from its 3.34% position in November. In an environment of weak demand, there are no signs of pressure on prices. We expect annual inflation to brake sharply in January. Although the risks to the upside have increased as a result of the peso's sharp depreciation, the outlook is still positive because the exchange rate pass-through to inflation ought to remain contained, in view of weak domestic demand.

Figure 1
Unemployment and formal employment rate (YoY % change and workers contributing to the IMSS)



Source: BBVA Research with figures from INEGI.

Figure 2
Currency depreciation (-)/appreciation (+) against the USD (%). 01/02/2015 – 12/09/2015



Source: BBVA Research with figures from Bloomberg.

The peso appreciated over the week, as a reaction to the Federal Reserve's "patience" about monetary normalisation, plus better-than-expected employment figures in the US. The peso gained 1.6% over the week, influenced by the minutes from the latest FOMC (Federal Open Market Committee) meeting, reiterating that it would adopt a wait-and-see position as to when it would begin the monetary normalisation. Furthermore, the increase in the US non-farm payroll, to the tune of 252,000 jobs during December, higher than the 240,000 anticipated in the analysts' consensus, generated a spike of around 0.5% on the week's last day of trading. The peso's appreciation over the week was the fourth strongest among emerging markets and shows a differentiation between Mexico and other oil-exporting countries, such as Russia, Norway and Colombia, which posted further depreciations as a result of the contraction of close to 10% in the oil price over the week. On the stock markets the -0.2% monthly wage growth figure for December influenced the reversal in gains which had been recorded half-way through the month on the back of the Fed meeting. Thus, the S&P 500 slipped 0.7% during the week, whereas gains on the IPC held at around 0.25%. On the fixed income markets, the combination of stronger employment creation and a backdrop of low inflation affected the demand for T-bonds, with 10-year bonds posting a drop over the week of 17 basis points (bp), closing with yields on maturity of 1.94%. In Mexico, yields on similar maturities fell by 19bp, closing at 5.62%.

For the first time since January 2014, confidence fell on both the consumer and producer indexes. The consumer confidence index (CCI) slid from 95.0 points (pt) in November to 93.0pt in December, representing a MoM fall of 2.1%, after seasonal adjustments (sa). Two of its five components plummeted: "What do you think the country's economic situation will be like in 12 months' time compared to the current situation?" (-2.7% MoM, sa) and "What do you think of the country's economic situation today compared to 12 months ago?" (-0.6% MoM, sa); the remaining components, on the other hand, edged up a little. In its original series the CCI reached 93.6pt (BBVAe: 94.2pt; consensus: 94.0pt). Meanwhile producers, while remaining in optimistic territory (above the 50pt threshold), sharply reduced their expectations for the country's economic activity (-3.0% MoM, sa). The index moved from 52.0pt in November to 50.4pt in December.

...What awaits us next week

We estimate that the unemployment rate will reach 4.27% in December. On 16 January the INEGI will publish the unemployment rate for December 2014. As a result of reduced job seeking in December, we expect the unemployment rate to fall, coming in at 4.27%, down from the November 2014 figure of 4.53%. In seasonally adjusted terms, we estimate that the unemployment rate will post at 4.84% in December, a little higher than the previous month's figure of 4.71%.

During the week starting 12 January, the Mexican Social Security Institute (IMSS in the Spanish acronym) will report on how many workers were contributing to the institute in December last year. We should bear in mind that every year in December there is a drop in the number of workers contributing to the IMSS, due to the seasonal effect of the December holidays coming to an end. Once Christmas orders and sales are over, workforces shrink. For example, in December 2013 the number of workers contributing to the IMSS decreased by 247,910 people, while the average fall each December between 2005 and 2013 was nearly 256,000 (57% of whom were workers with permanent contracts, and 43% with short-term agreements). We estimate that in December 2014 the total number of workers signed up with the IMSS will shrink by 185,000 people, bringing the total of new workers in 2014 to 743,000. As of January 2015, the number of workers contributing to the IMSS will rise again, given the expectations of moderate improvements in activity.

Calendar of indicators

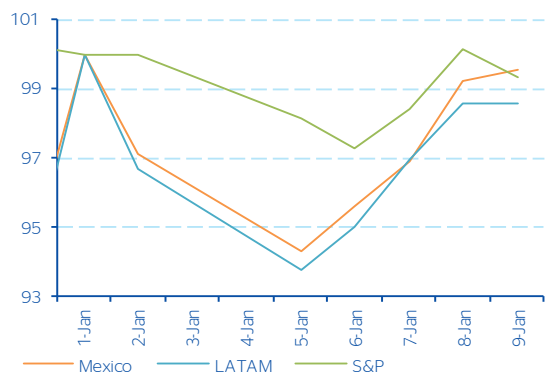
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	December	16 Jan	4.27	4.22	4.53
Unemployment rate (YoY % change, sa)	December	16 Jan	4.84	4.80	4.71
Workers contributing to the IMSS ('000s)	December	12-16 Jan	-185.0	--	122.9

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retail and food sales (MoM % change, sa)	December	14 Jan	0.40	-0.10	0.70
Retail sales exc. cars and fuel (MoM % change, sa)	December	14 Jan	0.50	0.50	0.60
Manufacturing and trade inventories (MoM % change, sa)	November	14 Jan	0.30	0.20	0.20
Consumer confidence, University of Michigan ^P (index)	January	16 Jan	94.10	94.15	93.60

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

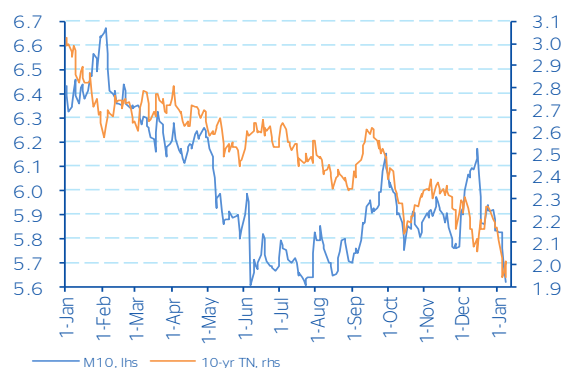
Markets

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



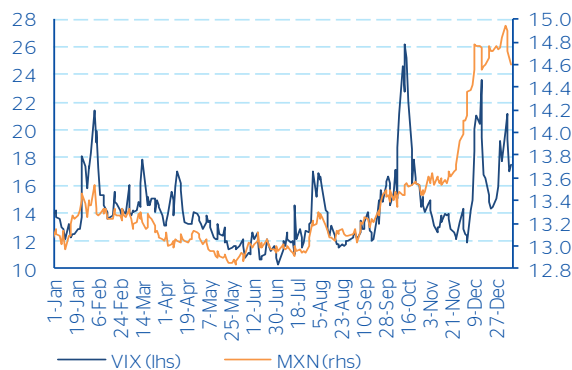
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



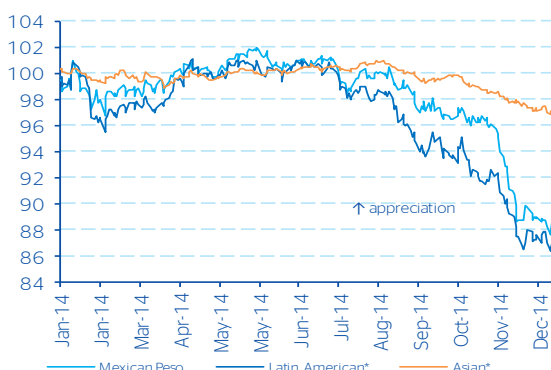
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(9 Jan 2014 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

	2013	2014	2015
Mexico GDP (YoY % change)	1.4	2.1	3.5
General inflation (% , average)	3.8	4.0	3.5
Core inflation (% , average)	2.7	3.2	2.8
Monetary Policy Rate (% , average)	3.8	3.2	3.2
M10 (% , average)	5.7	6.0	6.3
US GDP (YoY % change)	2.2	2.0	2.5

Source: BBVA Research.

Recent publications

Date	Description
8 Jan 2015	➔ Mexico Inflation Flash. Annual inflation fell for the second month in a row and will show a sharp slowdown in January

Disclaimer

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