Macroeconomic Analysis

Annual inflation will fall sharply in the first half of January

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What happened this week …

The unemployment rate fell to 3.76% in December from 4.53% in November, its lowest since June 2008. This was a much greater fall than the market expected (BBVAe: 4.27%; consensus: 4.24%). The figure can be explained by a very noticeable reduction in the population aged 15 and over which is economically active (participation rate), sliding from 61.08% in December 2013 to 59.86% in December 2014. In seasonally adjusted series, the unemployment rate fell to 4.38% in December 2014 from 4.56% the month before (figure adjusted downwards from 4.71%).

According to the IMSS, in December 2014 the total number of workers registered with this institute had grown at an annual rate of 4.3%. The number of workers registered with the IMSS fell by 235,000 people in December 2014 from the month before (BBVAe: 185,000). This reduction is due to the fact that in December many people cut their payroll numbers once they have covered their Christmas sale orders. Thus, in 2014 the increase in workers registered with the IMSS was nearly 715,000. Note that an estimated 49% (350,000) of the 715,000 new workers registered with the IMSS are accounted for from the programme encouraging workers into the formal economy, while the remaining 51% (365,000) were jobs created as a result of expansion in economic activity.

Figure 1
Unemployment rate and formal employment (YoY % change and workers registered through the IMSS)
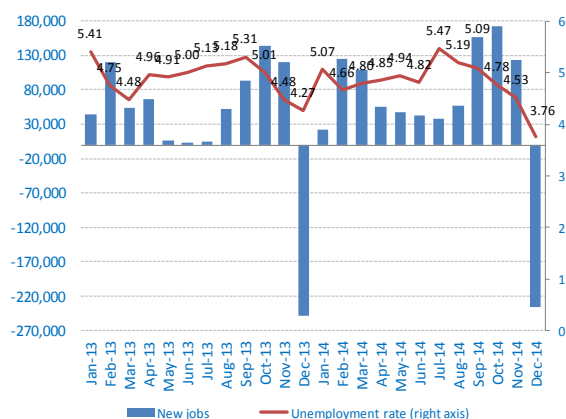
Source: BBVA Research with data from INEGI.

Figure 2
Outlook for annual inflation (%)
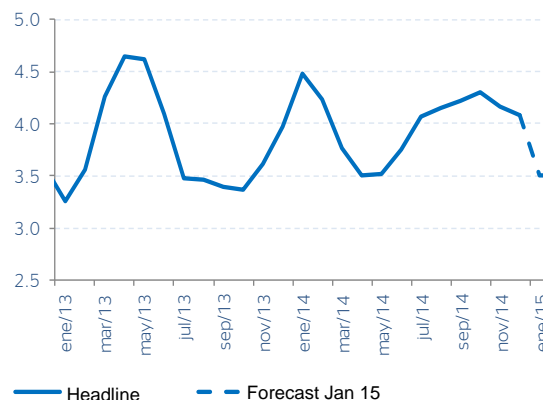
Source: BBVA Research with data from INEGI

Relatively favourable week for Mexico's financial variables in a context of increased global volatility. In the midst of a major increase in volatility over the week (the VIX index has risen from 19.4% to 21.0%), Mexico's financial variables performed well. Helped by the uptick in oil prices over the week, the Mexican peso appreciated slightly at the end of the week, having been affected, like most currencies, by the increased volatility after the Swiss central bank announced that it was withdrawing its cap on the Swiss franc against the euro and that it was cutting the deposit rate. This, added to increased expectations of an imminent announcement by the ECB of a sovereign bond purchase programme (QE), prompted a rally in the debt markets, particularly in the US (which continues to offer relatively high yields compared to other developed regions, even when the differential in expected growth is factored in), and as a result on Mexico's debt market too. After temporarily decoupling in mid-December, it returned to its high correlation with the US market. Thus, the yield on the 10-year M-Bono fell to 5.41% (-21bp), its lowest level since June 2013. Next week, market attention will centre on the ECB's monetary policy meeting. The ECB is expected to announce a sovereign bond purchasing programme. This would be a response to the low inflation perspectives and would be consistent with the ECB's recent statement.

…What is coming up next week

Annual (YoY) inflation will show a heavy fall in the first half of January. We forecast fortnightly increases of 0.17% and 0.13% for headline and core inflation respectively in the first half of January. If our forecasts are correct, in YoY terms, headline inflation will post at 3.45% (compared to 4.08% at the close of 2014), whereas core inflation will come in at 2.65% (as against 3.24% in December). There are several factors responsible for low inflation in the first fortnight of the year. On the one hand, the falls in telephony prices as a result of the abolition of long-distance charges will translate into very low core inflation, with the "other services" component offsetting to a large degree the significant increases in the merchandise component. The increase in petrol prices on 1 January (1.9%) was lower than expected and much of it may be offset by the reduction in electricity tariffs. Furthermore, we forecast a decrease in fruit and vegetable prices, which will offset the increase in farm product prices, accounted for by hikes in egg and chicken prices. The new elements contributing to lower inflation in January have led us to estimate that inflation by year-end will be 3.2%.

YoY nominal growth of total ANTAD store sales for December is estimated to be 4.2%. On 19 January the National Association of Self-Service and Department Stores (ANTAD) is expected to publish its total store sales index figure for December 2014. We estimate the YoY nominal growth rate of the ANTAD index to slide from 6.6% in November to 4.2% in December as a result of an increase in inflation and moderate employment creation in the formal economy, showing that private sector consumption is still weak.

Calendar of indicators

Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
ANTAD sales (YoY % change)	December	20 Jan	4.2%	--	6.6%
Headline inflation (FoF % change)	1H Jan	22 Jan	0.17%	0.19%	0.11%
Headline inflation (YoY % change)	1H Jan	22 Jan	3.45%	3.47%	3.97%
Core inflation (FoF % change)	1H Jan	22 Jan	0.13%	0.15%	0.05%
Core inflation (YoY % change)	1H Jan	22 Jan	2.65%	2.67%	3.23%

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Private Total Housing Authorized by Building Permits (MoM % change, sa)	December	21 Jan	-0.67	0.53	-3.70
Chicago Fed National Activity Index	December	23 Jan	0.55	0.60	0.73
Existing Homes Sales (MoM % change, sa)	December	23 Jan	1.22	3.04	-6.10
Conference Board Leading Index (MoM % change)	December	23 Jan	0.30	0.40	0.60

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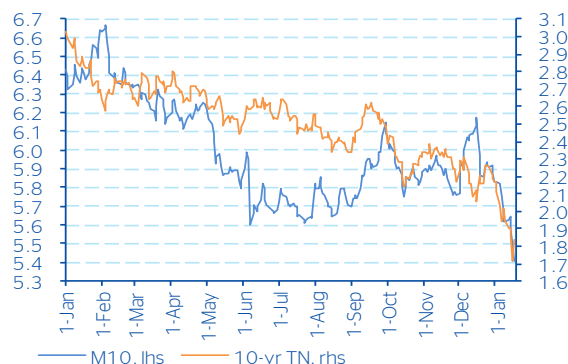
Markets

Figure 3
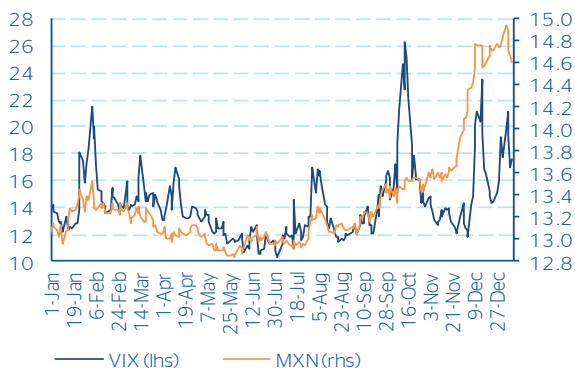**MSCI stock market indices
(Index 1 Jan 2015=100)**
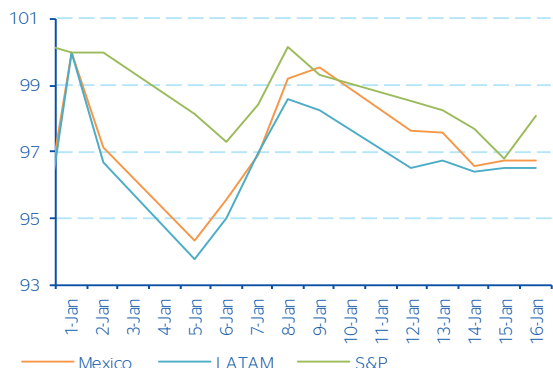
Source: BBVA Research, Bloomberg

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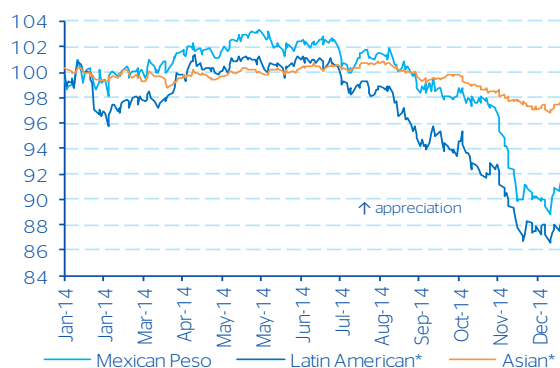**10-year government bond yields (%)**

Source: BBVA Research, Bloomberg

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

Source: BBVA Research, Bloomberg

Figure 6
**Currencies vs. USD
(16 Jan 2014 index=100)**

* JP Morgan indexes 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
Headline inflation (%, average)	3.8	4.0	3.4
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
14 Jan 2015	➡ Mexico Banking Outlook Jan 2015 (Spanish version)