

Economic Analysis

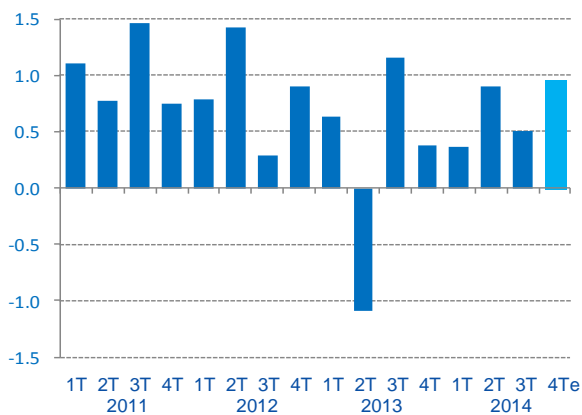
# We estimate quarterly GDP growth in 4Q14 of 0.8%, in line with annual growth of 2.1% in 2014

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## What happened this week...

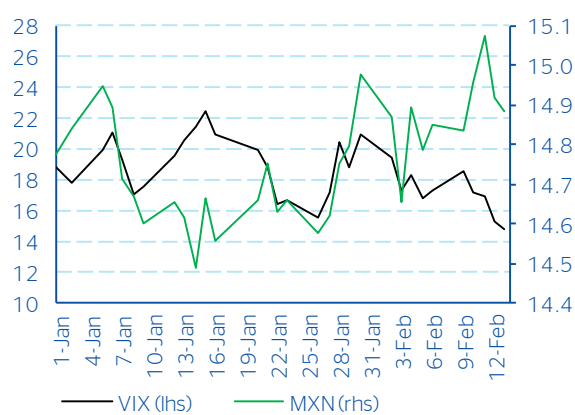
The INEGI reported that in December industrial production grew by an annual (YoY) 2.0%, seasonally adjusted (sa). This was below our forecast (BBVAe: 2.7% YoY, sa), although in original series industrial production grew by 3.0% YoY. This rate of annual growth was mainly a result of the increase in construction (5.9% YoY, sa), manufacturing (4.2% YoY, sa) and electricity, gas and water (1.9% YoY, sa), notwithstanding mining's accumulated nine consecutive months of falls, now standing at -6.2% YoY, sa. However, as measured in monthly terms (MoM), industrial production fell in December by -0.3%, sa. This performance can be accounted for by a severe reduction in production in manufacturing subsectors (-1.6% MoM, sa) and mining (-0.8% MoM, sa). Meanwhile, electricity, gas and water and construction rose by 1.7% and 1.1% MoM, sa, respectively. The monthly December fall in Mexico's industrial production came as a surprise, given its close link with US manufacturing, which grew by 0.3% MoM in December, sa. This demonstrates the need to strengthen the domestic market as an engine for growth in the country.

Figure 1  
Quarterly GDP and estimate for 4Q14  
(QoQ % change, sa)



Source: BBVA Research with data from INEGI. 4Q14e = BBVA Bancomer estimate. QoQ= quarterly variation rate. sa = seasonally adjusted

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



Source: BBVA Research with data from Bloomberg.

**This week the volatility in global financial markets was accounted for by global political events: emerging market currencies and local bond markets were squeezed by expectations of an imminent start to the Fed's upwards cycle.** On Wednesday the risk-off mood peaked after European Union finance ministers were unable to reach agreement on an approach to renewing Greece's bail-out programme, postponing the talks until next week. However, the negative effects on markets were offset on Thursday after the new ceasefire agreement in Ukraine, with market sentiment continuing to improve on Friday on the back of the positive GDP figure surprise in the eurozone for 4Q14 of +0.3% QoQ (BBVAe and consensus: 0.2%). In this context, although there has been high volatility because of the events mentioned above, the Mexican and LatAm stock markets closed the week unchanged, reversing the losses suffered up to Wednesday. However, other risk assets revealed the caution on markets about the widespread volatility. The solid January employment report in the US has helped to consolidate expectations of a rise in the Fed's monetary policy rate, driving up US long-term bond yields and strengthening the dollar. Against this backdrop, pressure on emerging market assets continues. Despite the rise in the oil price over the week (Brent: +5.9%), the Mexican peso did not harden. Most emerging currencies and local interest rates behaved as they had the week before, pressured by higher interest rates in the US and the stronger dollar. The peso closed the week at USDMXN 14.88 (+ USc3 from the previous Friday), while the 10-year M-bono yield ended at 5.66%, widening 6bp over the week, the same increase as the yield on the 10-year T-bond, which closed the week at 2.04%.

### ...What is coming up next week

**We expect the quarterly growth of GDP in 4Q14 to come in at 0.8%, with seasonally adjusted series (sa).** On 20 February the INEGI will publish the fourth quarter 2014 GDP figure. After growth of 0.5% in the third quarter, we estimate that the Mexican economy will have performed better, with GDP growth of nearly 0.8% QoQ in the fourth quarter (see Figure 1). The main components underpinning said growth are, on the one hand, the moderate increase in industrial production over October, November and December (0.4%, 0.3% and -0.3% MoM, sa, respectively), and positive performance by services in October and November (0.7% and 0.3% MoM, sa, respectively); on the other hand, the improvement in manufacturing exports over the same months (10.0%, -14.1% and 8.8% MoM respectively). If this increased economic activity is confirmed, we may see an annual growth rate for 2014 of nearly 2.1%, sa.

**We anticipate that December's Global Economic Activity Indicator (IGAE) will show YoY growth of 2.81%, seasonally adjusted (sa).** December's IGAE will be published by the INEGI on 20 February. We expect economic activity to have closed the year moderately well, thanks to the recovery in services, but taking on board industry's negative performance in December (-0.3 MoM, sa). We should remember that in November the IGAE posted annual growth of 2.76%, sa, expressed in monthly terms as 0.49%.

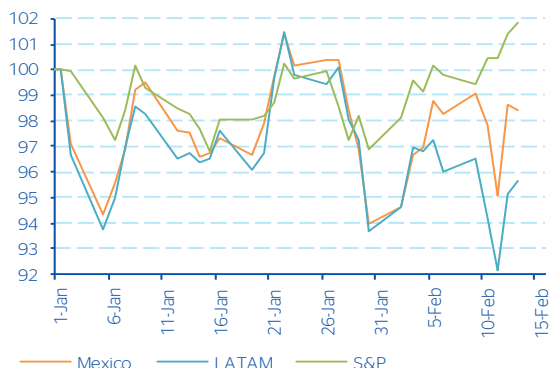
## Calendar of indicators

<b>Mexico</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Gross Domestic Product (QoQ % change, sa)	4Q14	20 Feb	0.80	0.90	0.50
IGAE (YoY % change, sa)	December	20 Feb	2.81	--	2.76
<b>USA</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Private Total Housing Authorized by Building Permits (MoM % change, sa)	January	18 Feb	-1.7	0.8	0.6
Industrial Production (MoM % change, sa)	January	18 Feb	0.2	0.3	-0.1
Manufacturing Production (MoM % change, sa)	January	18 Feb	0.1	0.4	0.3
Leading Index (MoM % change, sa)	January	19 Feb	0.4	0.3	0.5

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

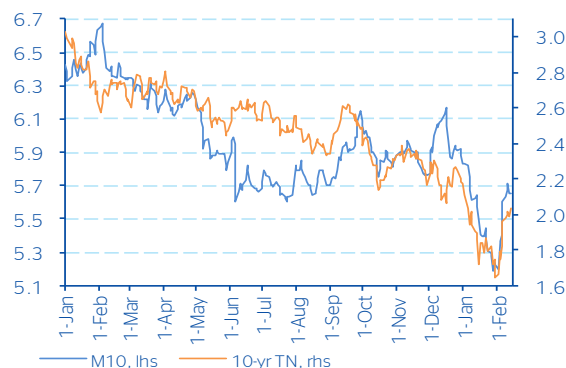
**Markets**

**Figure 3**  
**MSCI stock market indices**  
(Index 1 Jan 2015=100)



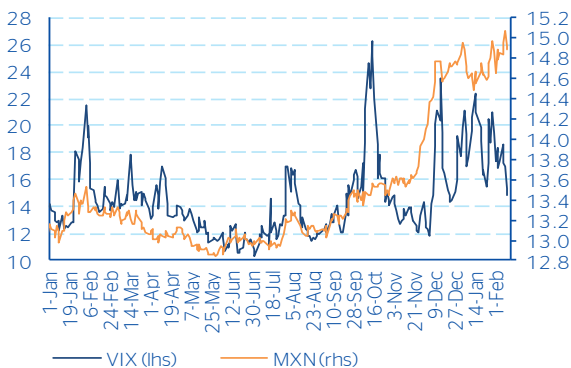
Source: BBVA Research, Bloomberg

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



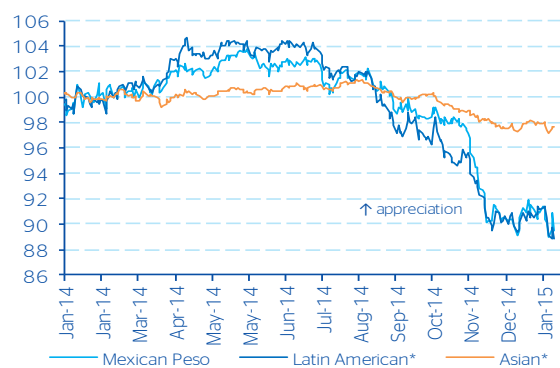
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(23 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**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
Mexico GDP (YoY % change)	1.4	2.1	3.5
General inflation (% , average)	3.8	4.0	3.1
Core inflation (% , average)	2.7	3.2	2.6
Monetary Policy Rate (% , average)	3.8	3.2	3.2
M10 (% , average)	5.7	6.0	5.7
US GDP (YoY % change)	1.9	2.4	2.5

Source: BBVA Research.

## Recent publications

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Date	Date
9 Feb 2015	➔ <a href="#">Mexico Inflation Flash. Annual headline inflation is likely to remain close to 3.0% for most of the year</a>
13 Feb 2015	➔ <a href="#">Mexico Banking Outlook January 2015</a>

### Disclaimer

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