Economic Analysis

Quarterly GDP growth in the fourth quarter of 2014 was 0.7%, bringing annual growth for 2014 to 2.1%

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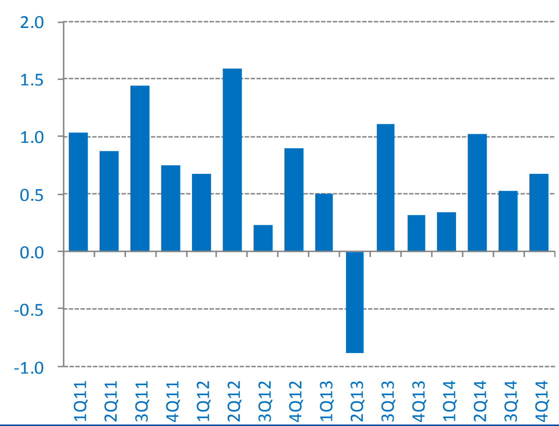
What happened this week …

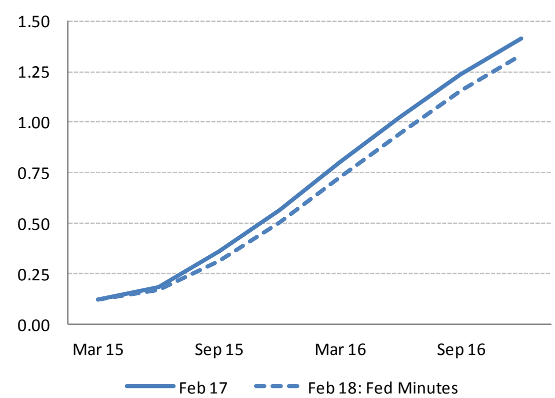
Quarterly growth (QoQ) in the fourth quarter of 2014 (4Q14), at 0.7% (see Figure 1), was a little below our forecast and that of the market (BBVAe: 0.8% QoQ; consensus: 0.9% QoQ, seasonally adjusted (sa)). Tertiary activities (services) performed best, with quarterly growth of 0.9%. Secondary activities (manufacturing) came next, with growth of 0.6%. Finally, primary activities (agriculture and livestock) showed a quarterly fall of 2.2%. In annual terms, total GDP grew by 2.6% in 4Q14, sustained by a 2.8% increase in services, 2.4% in manufacturing and 0.9% in agriculture and livestock, all with seasonally adjusted figures. Economic growth over 2014 as a whole was 2.1%, as forecast, confirming the moderate performance of economic activity last year. Moderate quarterly growth, reduced spending, the fall in both production and the oil price, together with weak internal demand, have put pressure to the downside on our economic growth forecast for 2015, currently set at 3.5%, requiring a greater effort on the part of the public and private sectors to drive investment and infrastructure programmes in order to boost growth in the first few months of 2015.

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



Source: BBVA Research with data from INEGI. QoQ = quarterly rate of variation. sa = seasonally adjusted

Figure 2
Futures curve, Fed funds rate, 1 month (% USD)



Source: BBVA Research with data from Bloomberg.

December's Global Economic Activity Indicator (IGAE) fell by 0.3% month-on-month (MoM), sa. Industry and services fell by 0.3% and 0.2% MoM, sa, while agriculture grew by 5.6% MoM, sa. The annual growth rates of this indicator in the months from October to December 2014 were 2.7%, 2.7%, and 2.3% respectively, in seasonally adjusted terms. This was further confirmation of the country's merely moderate economic growth in 2014.

The dollar closed the week above USDMXN15.00, due to uncertainty about the date of the first hike in the federal funds rate and the negotiations between Greece and the other countries of the eurozone. The peso depreciated by 0.92% over the week, the fifth largest depreciation among emerging currencies, after the accommodative stance of the Federal Reserve's latest statement failed to dispel concerns that the cycle of rises might start earlier than planned. The better-than-expected figures for employment and wage growth in January appear to be viewed by market players as a strong argument for an earlier hike, particularly in view of the Fed's statement, which emphasised that its decision will depend on economic data performance. On top of that, the absence of agreement on the prolongation of the aid package to Greece by the European authorities and the IMF has increased global risk aversion, with its habitual negative effect on emerging currencies. On the sovereign bond market, yields narrowed over the week, influenced by the more accommodating stance of the Fed's statement. In particular, yields on the 10-year M-bono fell by around 3bp, closing at 5.64%. On the stock markets, the IPC gained 0.79%, above the S&P 500's 0.10% increase and also stronger than the performance over the week of the MSCI emerging markets index, which closed with a marginal loss.

…What is coming up next week

We estimate that retail December sales will enjoy annual (YoY) growth of 3.4%, sa. This result, which will be published by the INEGI on 23 February, will be linked to the ANTAD's total stores sales performance, which rose in December by 2.1% YoY, sa. Nevertheless, in monthly terms, we could see limited growth, related to the destruction of formal employment that occurs every December (-235,490 jobs registered on the IMSS in December 2014). In November, retails sales grew at an annual rate of 1.94%, sa.

We believe that the unemployment rate will rise to 4.4% in January. On 27 February the INEGI will publish January's unemployment rate. Given that loss of 235,490 jobs in December, although it was partially offset by jobs created in the formal economy in January (59,784 jobs registered on the IMSS), we expect the unemployment rate to come in at 4.4% in January 2015, up from 3.76% in December 2014. In seasonally adjusted terms, we expect the unemployment rate to reach 4.63% in January, a little over the rate of 4.38% the previous month.

We expect inflation to stay at around 3.0% in the first half of February. We forecast fortnightly rises of 0.11% and 0.14% respectively for headline and core inflation in the first half of February. If these prove to be right, in annual terms headline inflation would slip to 3.04% (down from 3.07% in January) while core will stand at 2.27% (compared to 2.34% in January). On the side of core inflation, we expect weak internal demand to continue translating into moderate price increases in the first half of the year. On the side of non-core inflation, our fruit and vegetables price tracker suggests a fall in the same in the first half of the month. Turning to fish products, additional increases in meat prices may be offset by falls in the price of chicken. We forecast that headline inflation will stay at close to 3.0% throughout the year, and will close 2015 at 2.9%. Similarly, we expect core inflation to stay below 3.0% throughout 2015, and a gentle upward trend to start in the second half of the year, supported by an improvement in activity, closing 2015 at 2.8%.

All the attention of the markets will be focused on the congressional testimony given by the Chair of the Fed. With the current climate showing a combination of a slightly more relaxed stance in the Fed's latest statement plus favourable economic data, market attention will be fixed on the testimony to the US Congress to be given by Janet Yellen on Tuesday and Wednesday. Specifically, market players will be looking out for any change in communication which could give them further clues about the date when monetary policy rates will start to rise. In addition, the second reading of fourth quarter 2014 GDP growth will be announced at the end of the week.

Calendar of indicators

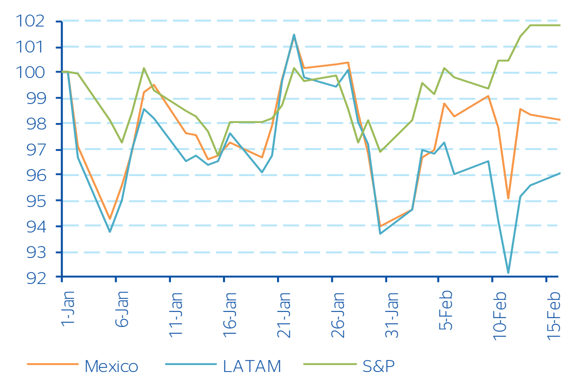
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Retail sales (YoY % change, sa)	December	23 Feb	3.42	--	1.94
Headline inflation (FoF % change)	1 Half Feb	24 Feb	0.11	0.13	0.09
Headline inflation (YoY % change)	1 Half Feb	24 Feb	3.04	3.07	3.05
Core inflation (FoF % change)	1 Half Feb	24 Feb	0.14	0.15	0.07
Core inflation (YoY % change)	1 Half Feb	24 Feb	2.27	2.28	2.25
Unemployment rate (YoY % change, sa)	January	27 Feb	4.63	4.30	4.38
Unemployment rate (YoY % change)	January	27 Feb	4.43	4.45	3.76

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Existing Homes Sales (MoM % change, sa)	January	23 Feb	-0.60	-0.79	2.44
Conference Board Consumer Confidence (index, sa)	February	24 Feb	97.50	99.75	102.90
Durable Goods New Orders (MoM % change, sa)	January	26 Feb	0.70	1.55	-3.30
Gross Domestic Product (QoQ % change, saar)	4Q14s	27 Feb	2.40	2.10	2.6

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

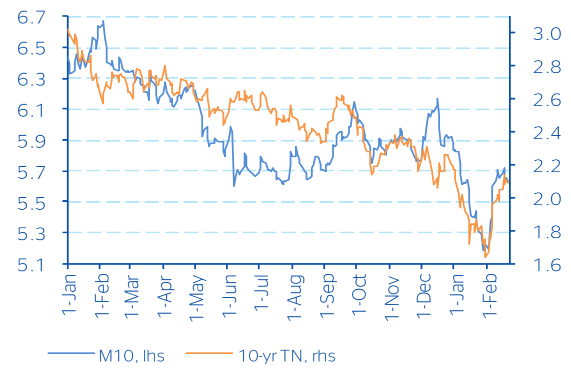
Markets

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



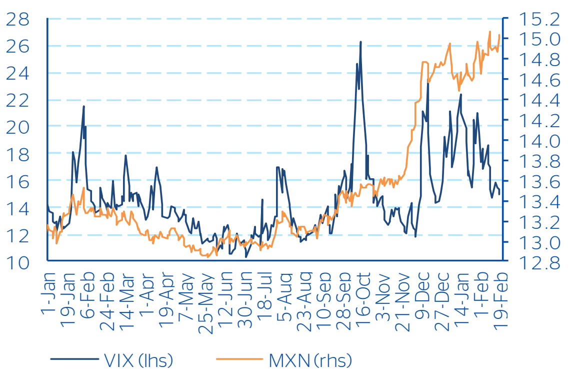
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



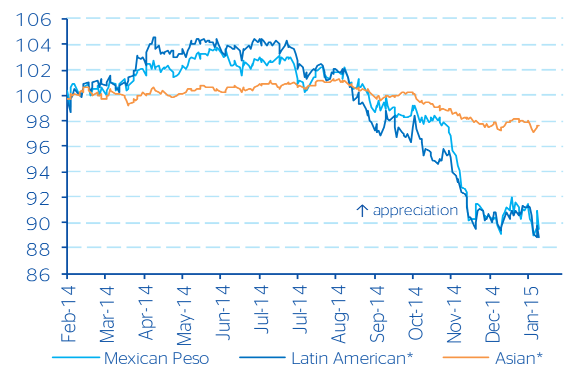
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (9 Feb 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	3.1
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	2.9

Source: BBVA Research.

Recent publications

Date		Description
20 Feb 2015	➡	Mexico GDP Flash. Slow economic activity was confirmed in 2014, GDP grew 2.1% annually