Macroeconomic Analysis

# All eyes on consumer and producer confidence as indicators of economic performance in the first quarter

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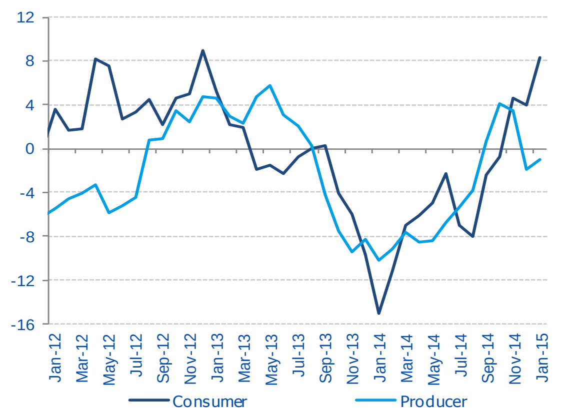
## What happened this week …

**Retail sales in December 2014 rose by 1.9% year-on-year (YoY), with seasonally adjusted figures (sa).** This increase, below our forecast (BBVAe: 3.4% YoY, sa), was equivalent to a monthly fall of -0.8%. In original series, retail sales expanded by 2.4%. This result indicates slow growth in consumption at the end of last year, in line with the moderate economic growth experienced in 2014 (2.1% YoY, sa).

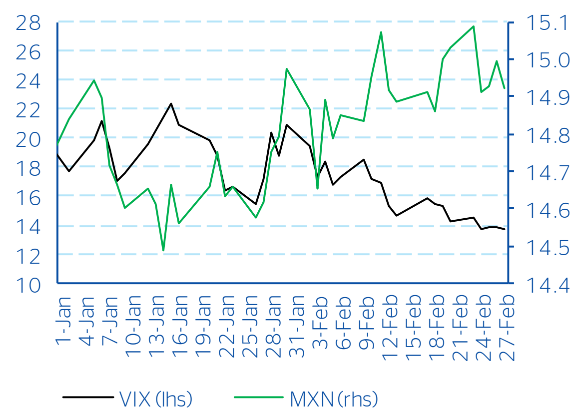
**The unemployment rate increased to 4.51% in January 2015, up from 3.76% in December 2014.** This increase, worse than the market expected (BBVAe: 4.43%; consensus: 4.46%), came at the same time as a marginal decrease in the economically active population aged 15 and over (the participation rate), from 59.84% in January 2014, to 58.88% in January 2015. In seasonally adjusted figures, the unemployment rate rose from 4.37% in December to 4.43% in January. Furthermore, the occupation rate in the informal economy (TOSI1), which takes into account all those working for non-farming economic units without financial accounts which operate on the basis of household resources, fell by 1.3 percentage points (pp) (from 27.9% in January 2014 to 26.6% in January 2015).

Figure 1
**Producer and consumer confidence indicators (% YoY var., sa)**




Source: BBVA Research with data from INEGI.

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




Source: BBVA Research with data from Bloomberg.

**Greater core inflation than expected was offset by a reduction in non-core inflation.** Headline inflation rose by 0.11% FoF (fortnight on fortnight) in the first half of February, in line with our prognosis (BBVAe: 0.11%, consensus: 0.14%). However, this increase was caused by higher core inflation than expected (observed: 0.28% FoF, BBVAe: 0.14%; consensus: 0.16%), which was offset by the deflation in the non-core component (observed: -0.42% FoF, BBVAe: 0.02%). Annual inflation remained stable at 3.04% (compared to 3.05% in the second half of January), but core inflation rose to 2.42%, from 2.25% the fortnight before. Might these be the first signs of a pass-through of the exchange rate depreciation into goods prices? Goods inflation rose by 0.36% FoF, driven by strong 0.59% growth in the sub-index for other merchandise (i.e. non-food goods). Although this figure might herald the first signs of a pass-through of the higher exchange rate into prices, the component for other goods fell in three out of the last five preceding fortnights, averaging a fortnightly increase of 0.02% over this period, meaning that the figure for the last fortnight might be offsetting the residual expansion in this component since November 2014. The inflation figure for the first half of February backs up our forecast that annual headline inflation will hover around 3.0% throughout the year, and will close 2015 at 2.9%.

**The European markets closed the week with a very positive stance, boosted by greater calm about Greece, and better macroeconomic data, which increased confidence.** Encouraged by the forthcoming start of the ECB's quantitative easing (QE) programme, and the abated concerns about Greece, European stocks were snapped up faster by investors, causing bond yields to narrow and stocks to appreciate. European sovereign debt posted major gains this week, with decreasing yields in all countries and particularly those on the periphery. 10-yr bond yields fell by -46bp (basis points) in Greece, -40bp in Portugal, -25bp in Italy and -24bp in Spain. The latter two have been at record lows for several months. Yields on German sovereign debt up to seven years are negative, suggesting that QE has started to work even before the bond purchasing gets off the ground. On currency markets, the euro depreciated against the US dollar (-1.6% over the week) and the exchange rate closed at EURUSD1.12. In this context, the highest risk assets in emerging markets (EM) are benefiting from the tailwind, even bearing in mind the approaching start of monetary normalisation in the US, and despite an adverse trend in their ratings reviews in some countries. EM currencies performed unevenly, with some depreciating against the dollar, such as the Colombian peso (-1.6%) and the Chilean peso (-0.3%), while others appreciated, such as the Mexican peso (+ 0.7%), the Brazilian real (+ 0.2%) and the Russian rouble (+ 0.2%). Meanwhile, yields on US T-bonds widened at the end of the week on the publication of positive figures, after having fallen at the start. The stronger growth than expected in capital goods orders (+ 0.6% MoM) suggests that production may increase. In Mexico, yields on the M-bono closed the week at 5.63%, 1bp higher than last Friday, but 9bp higher than Tuesday of this week. Next week the markets will be focused on activity data, including global PMI indicators at the beginning of the week, and payrolls at the end, particularly in the US.

## …What to expect next week

**We estimate that the IMEF manufacturing and non-manufacturing activity expectations for February will show moderate performance.** These indicators will provide guidance as to expectations for the country's economic activity for 1Q15. We forecast that the February IMEF manufacturing index will post a slightly higher figure than the month before, because of expectations of a recovery in manufacturing production in the US economy during January. Meanwhile, we anticipate that the IMEF non-manufacturing index will edge up a little from the month before, thanks to improvement in the services subsector linked to ANTAD sales.

**Income from remittances in January is estimated at USD1.742bn, 6.1% more than the same period the year before.** Growth in the US will boost not only the Mexican economy, but also remittances to our country. The uptick in employment throughout the US at the beginning of the year has been confirmed with a 5.7%

seasonally adjusted unemployment rate in January 2015, nearly an entire percentage point below the same month in 2014; the increase in new housing starts driving the construction sector (in which a large part of Mexican migrants work) ; the slow but steady growth in the number of migrant workers of Mexican origin over the last two years; all these variables account for the recent increase in remittances to Mexico.

**We expect the producer confidence indicator to reverse its negative trend in February, and for consumer confidence to show a marginal improvement.** On 5 and 6 March the INEGI will publish the Producers' (PCI) and Consumers' (CCI) confidence indexes for February. We estimate that the PCI will post at 50.9pp, seasonally adjusted (sa), up from 50.4pp the month before, due to the expansion in auto production the previous month (0.2% MoM, sa) and the expectation of further improvements in this sector. In addition, in view of the moderate formal job creation during January (59,784 jobs registered through the IMSS), we expect the CCI to reach 92.0pp sa, compared to 91.8pp the month before (see Figure 1). This would be equivalent to 91.3pp with original series.

**We expect the annual growth of the total gross fixed investment index in December 2014 to be 5.3%.** On 3 March the INEGI will publish December's gross fixed investment figure. We anticipate that this indicator will have grown by an annual rate of 5.3% in that month, because of the 4.6% growth rate of its construction investment component, and the 6.7% growth in machinery and equipment. If the growth rate mentioned materialises, the average growth of the gross fixed investment index over 2014 will be 2.3% higher than this indicator's average level in 2013.

## Calendar of indicators

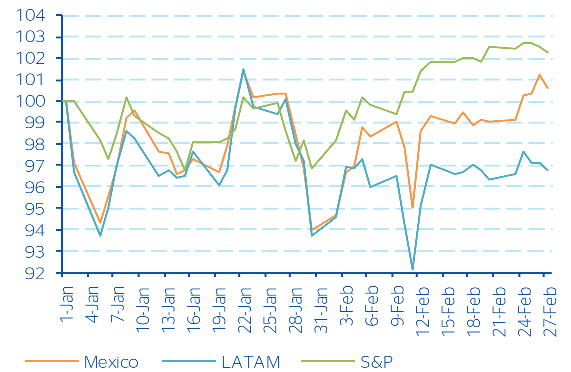
| Mexico | Indicator period | Publication date | BBVA estimate | Consensus | Previous figure |
|---|---|---|---|---|---|
| IMEF manufacturing indicator (index, sa) | February | 2 Mar | 51.8 | 51.4 | 50.9 |
| IMEF non-manufacturing indicator, (index, sa) | February | 2 Mar | 50.2 | | 49.2 |
| Remittances (US millions) | January | 2 Mar | 1,742.0 | 1,770.0 | 2,196.4 |
| Gross fixed investment (YoY % change) | December | 3 Mar | 5.3 | 5.7 | 4.7 |
| Producer confidence (index, sa) | February | 5 Mar | 50.9 | -- | 50.4 |
| Consumer confidence (index) | February | 6 Mar | 91.3 | 91.1 | 91.1 |

| USA | Indicator period | Publication date | BBVA estimate | Consensus | Previous figure |
|---|---|---|---|---|---|
| Personal Income (MoM % change, sa) | January | 2 Mar | 0.20 | 0.40 | 0.30 |
| ISM Manufacturing PMI (index, sa) | February | 2 Mar | 54.00 | 53.00 | 53.50 |
| Auto Sales Total Annualized (millions) | February | 3 Mar | 16.70 | 16.70 | 16.56 |
| ISM Non-Manufacturing NMI (index) | February | 4 Mar | 57.00 | 56.50 | 56.70 |
| Manufacturers New Orders Total (MoM % change, sa) | January | 5 Mar | 1.50 | 0.15 | -3.40 |

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

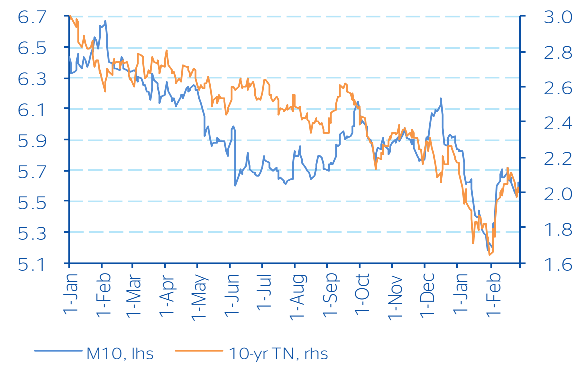
## Markets

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



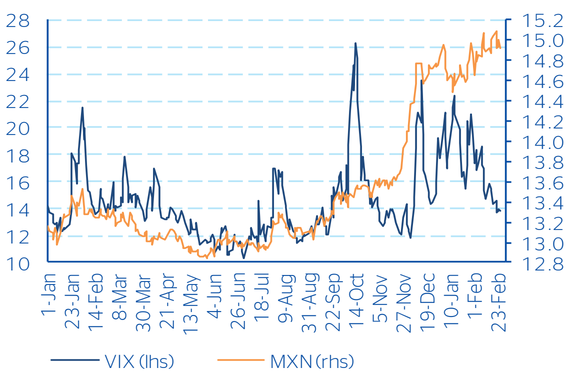

Source: BBVA Research, Bloomberg

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



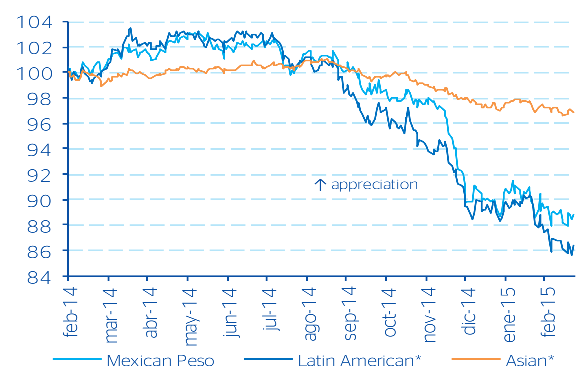

Source: BBVA Research, Bloomberg

Figure 5
**Global risk and exchange rate: VIX index and USDMXN**




Source: BBVA Research, Bloomberg

Figure 6
**Currencies vs. USD (24 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 |
|---|---|---|
| 24 Feb 2015 | ➡ | Mexico Inflation Flash. A strong core print was offset by non-core deflation |
| 25 Feb 2015 | ➡ | Mexico Economic Outlook First Quarter 2015 (Spanish version) |
| 25 Feb 2015 | ➡ | Mexico Banking Flash. Banking deposits: double-digit growth continues, led by term deposits |