

Economic Analysis

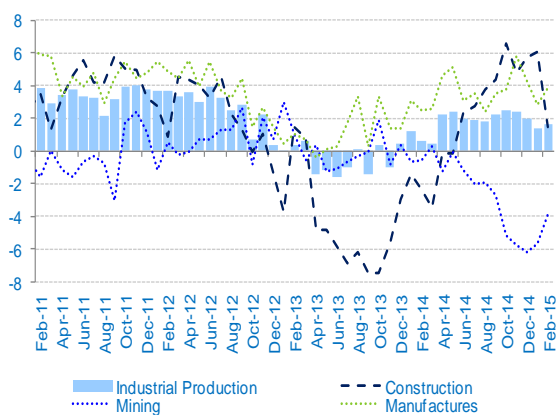
# The slow increase in industrial production in February (0.2% MoM, sa) exerts downside pressure on growth for 2015

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## What happened this week ...

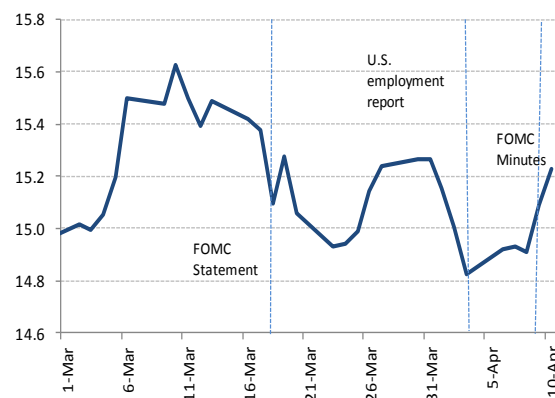
According to the INEGI, Mexico's industrial production increased by 0.2% in February from the previous month (MoM), with seasonally adjusted (sa) figures. In annual (YoY) terms, growth came in at 1.6%, sa (see Figure 1). This weak monthly performance from industrial production in February was mainly due to the fall in construction (-2.2% MoM, sa). Meanwhile, mining expanded (1.5% MoM, sa), as did manufacturing (1.0% MoM, sa) and electricity, gas and water, although the latter group only marginally (0.1% MoM, sa). This result was below market expectations (BBVAe: 0.36 MoM, sa; consensus: 0.40 MoM, sa) and confirms a very moderate start to the year, putting downward pressure on our expectations for economic growth in 2015.

Figure 1  
Industrial production by components, 2011-15  
(% var., YoY, sa)



Source: BBVA Research with data from INEGI.

Figure 2  
Exchange rate (USDMXN)



Source: BBVA Research with data from Bloomberg.

In line with our forecasts, confidence fell among manufacturing businesspeople, but that of consumers expanded. For only the second time in a row in 61 months, business confidence posted below 50 points (the optimism threshold). The index slid from 49.4pt (points) in February to 48.2pt in March 2015, with seasonally adjusted figures (sa). This represented a fall of 6.6% YoY and a monthly one of 2.3%. By contrast, the consumer confidence indicator (CCI) rose from 92.9pt in February to 93.0pt in March; this gives the index an annual growth rate of 4.5%, but a monthly one of scarcely 0.1%, sa. In its original series, the CCI reached 93.1pt, above market expectations (BBVAe: 92.0pt.; consensus: 92.2pt).

**Manufacturing and non-manufacturing activity expectations in March reported a moderate recovery, which would suggest a slow 1Q15.** The IMEF manufacturing indicator rose by 1.2pt from the preceding month, posting at 51.4pt in March (once again above the 50-point threshold, so indicating an optimistic outlook) with seasonally adjusted (sa) figures. Meanwhile, the non-manufacturing indicator fell by 0.8pt, from 50.1pt sa in February to 49.3pt in March, which brings to four the successive months in which it has been below, or very close to, the 50-point threshold.

**March inflation surprised to the upside, driven by tomato prices.** Headline inflation surprised to the upside in March, growing by 0.41% MoM (BBVAe: 0.34%, consensus: 0.32%). In annual terms, headline inflation rose to 3.14%, from 3.00% in February. The surprise to the upside was due mainly to a 53.3% MoM jump in the price of tomatoes, which accounted for over a third of monthly inflation (0.14pp). Core inflation was 0.26% MoM, coinciding almost exactly with our forecast (BBVAe: 0.25%, consensus: 0.24%). In annual terms, core inflation rose slightly to 2.45%, from 2.40% in February. As we anticipated, core inflation can be mainly accounted for by the increase in the price of tourism services. The exchange rate pass-through to inflation remains very low, consistent with our expectations, which have factored in the expansive economy. The March figure supports our forecast that annual inflation will remain close to the central bank's target (3.0%) for the whole year, before dropping to 2.9% at the close of 2015.

**The US dollar is once again trading at over USDMXN15.00, influenced by the minutes from the Fed's monetary policy meeting.** The dollar strengthened again over most emerging market currencies, influenced by the stance of some members of the FOMC (Federal Open Market Committee), who recommended raising the federal fund rate in June, based on the Fed's monetary policy meeting on 18 March. Specifically, the peso fell 2.62% against the dollar over the week, the fifth sharpest depreciation among emerging currencies. The local currency returned to its trend of depreciation over the week after the announcement of the March US employment figure, which was well below expectations, had led to a strengthening of the peso to USDMXN14.82 at the end of last week. In the governmental debt market, yields on the 10-year M-bono fell by 9bp, closing at around 5.75%. There were gains over the week on the stock markets: the IPC rose by 1.53%, in line with the 1.69% expansion by the S&P 500, but below the 4.0% hike in emerging markets (MSCI EM index).

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

**We expect the total number of workers making contributions to the IMSS to increase by nearly 106,000 in March.** Over the week from Monday 13 to Friday 17 April, the Mexican Social Security Institute (IMSS in the Spanish acronym) will publish the March 2015 figure for the number of workers recorded in this institute. We expect this to rise by 106,000 people. Note that in the same month last year, this indicator of formal employment in the private sector was close to 109,000. Likewise, the expected rise in the number of workers registered on the IMSS will result in the annual growth rate posting at 4.5% in March, which would be the same as the annual rate recorded by this indicator the previous month.

## 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>
Formal employment, IMSS (Thousands)	March	13 Apr	105.9	125.0	133.7

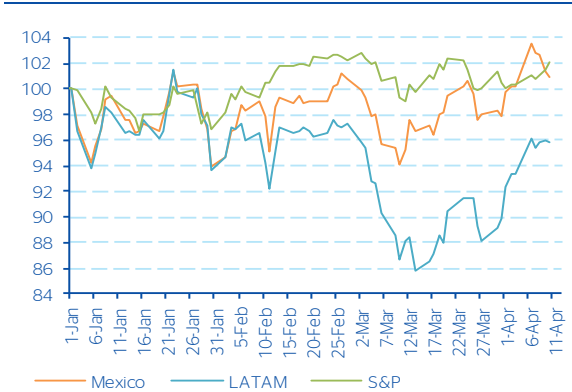
  

<b>USA</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Adjusted Retail & Food Services Sales (MoM % change, sa)	March	14 Apr	0.40	1.00	-0.60
Industrial Production (MoM % change, sa)	March	14 Apr	0.30	-0.30	0.07
Private Total Housing Authorized by Building Permits (MoM % change, sa)	March	16 Apr	1.63	-1.54	4.00
University of Michigan Consumer Sentiment (Index) <sup>P</sup>	April	17 Apr	94.00	94.00	93.00
Conference Board Leading Index (MoM % change, sa)	March	17 Apr	0.30	0.30	0.20

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

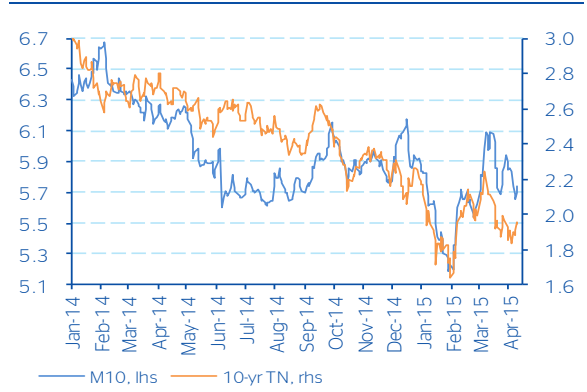
**Markets**

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



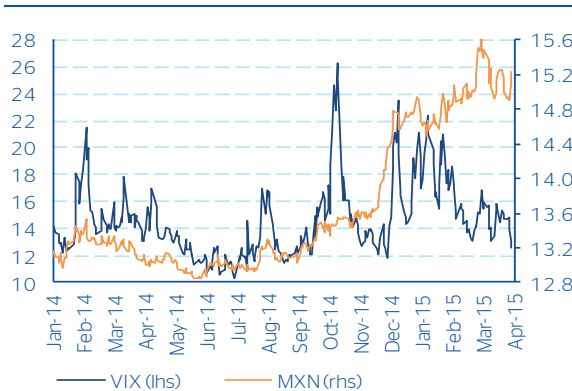
Source: BBVA Research, Bloomberg

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



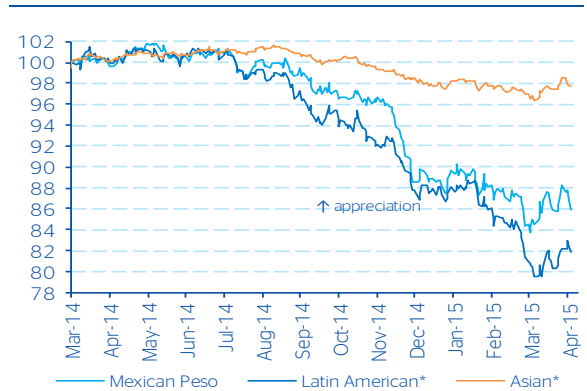
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(10 Apr 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	2.9

Source: BBVA Research.

## Recent publications

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Date	Description
1 Apr 2015	➡ Mexico Migration Flash. Remittances rise in February (7.0% YoY) after their fall at the beginning of 2015
7 Apr 2015	➡ Mexico Banking Flash. Credit to the private sector: growth moderates in February 2015 to 8.9%
9 Apr 2015	➡ Mexico Inflation Flash. Inflation was higher than expected: blame the tomato
10 Apr 2015	➡ Mexico Flash. Industrial production pushes down our growth expectations

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