Economic Analysis

Industrial performance and retail sales suggest that February's IGAE will post YoY growth of around 2.3%, seasonally adjusted

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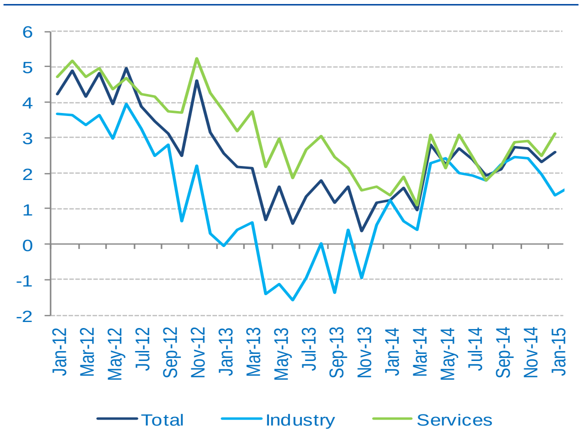
What happened this week …

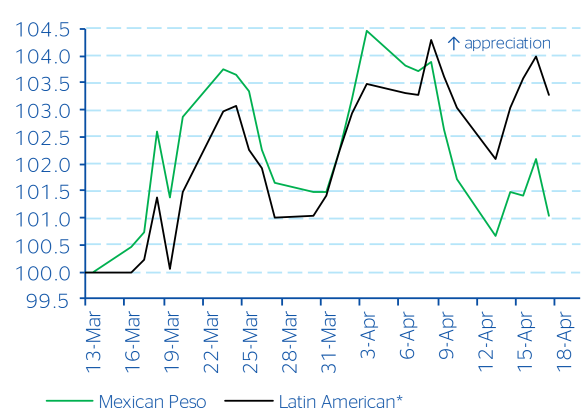
The Mexican Social Security Institute (IMSS in the Spanish acronym) reported the annual growth rate of the total number of workers contributing to this institute to March 2015 as 4.5%. This growth rate can be explained by the monthly increase in the number of workers contributing to the IMSS in March: 105,136 people. This expansion was in line with our estimate (BBVAe: 105,938 workers). If we analyse the jobs registered, the number of workers with a permanent contract rose by 4.1% (making up 85.3% of the total number registered on the IMSS), while the number of fixed-term or temporary work contracts grew by 7.1% (at 14.7% of the total). Although these IMSS figures for growth in the formal job economy are positive, we should not forget that a good number of the new formal jobs which have been created since the second half of 2013 are a result of the governmental programme to move jobs into the formal economy. Although in the medium term this formalisation of employment will be very beneficial to the economy, in the short term it contributes to a situation in which the upward boost to the formal employment records contrasts with the performance of economic activity generally, which is showing less momentum, as the performance of the industrial sector, among other indicators, suggests.

Figure 1
IGAE by components, 2012-14 (YoY % change, sa)



Source: BBVA Research with data from INEGI.

Figure 2
LatAm currencies against the USD (17 Apr 2014 index=100)



* JP Morgan Latin American and Asian indexes against the USD, weighted by trade and liquidity.
Source: Bloomberg, BBVA Research

Over the week, fears about Greece sparked an uptick in risk aversion by Friday, but before that, the expectation that the Fed would delay the beginning of its rate hikes, together with the rises in oil prices, had helped to bolster confidence in higher-risk assets. Economic data activity in the US, which on balance were weaker than expected, continue to pile on the evidence of weak economic growth in the US in the first quarter. As well as the economic activity figures surprising to the downside, the communication by certain members of the Fed also focused the attention of markets, in particular those active in sovereign debt. Long-term T-bond yields narrowed after the President of the Atlanta Federal Reserve, Dennis Lockhart, took a more relaxed stance during a speech. As a whole, in view of the surprises to the downside in the relevant data, and the communication by members of the Fed, expectations gained ground of a delay in the start to the cycle of hikes by the Fed.

This assumption provoked a sharp fall in the dollar over the week against its major peers (DXY -1.7%) and meant that long-term yields fell over the period (the 10-year T-bond dropped 10bp during the week, closing at 1.85%). These lower interest rates in the US were also impacted by the increase in global risk aversion because of the problems with Greece. On the commodity markets, oil prices shot up this week (Brent rose by +10.7% to USD64.10/bbl). Although most emerging market currencies depreciated at the end of the week, their performance was uneven throughout the period. In the main, those which appreciated were those which benefit from higher oil prices i.e. the Russian rouble (+ 2.2%) and the Chilean peso (+ 1%). The exception to this was the Mexican peso (-0.7%), probably because Mexico is perceived as being the most affected by the recent deceleration in the US economy. Note the negative differentiation of the Mexican peso compared with other LatAm currencies in the last few days (see Figure 2). Since reaching their lowest point in the last 12 months just over a month ago (see Figure 6), on average LatAm currencies have strengthened by 3.3%, whereas the Mexican peso has gained only 1.0% over the same period.

A global trend of weaker growth suggests that this week's optimistic tone may not last for long. If this climate is confirmed, emerging market assets will continue to face a hostile environment; even if the Fed's rate hikes are delayed, our view is that they will rise by the end of the year, meaning that the strong dollar may return sooner rather than later. Moreover, weaker growth, particularly in China, reveals the downside risks on commodity prices. In this context, there do not appear to be factors which might trigger a significant and persistent appreciation of the Mexican peso in the near future.

…What to expect next week

We forecast that February's Global Economic Activity Indicator (IGAE) will post YoY growth of 2.3%, seasonally adjusted (sa). This will reveal the economy's lethargy resulting from the weak increase in industry over the same month (0.2% MoM, sa), although we are expecting better performance in services. Note that, in January, the IGAE reported YoY expansion of 2.6%, sa, which in monthly terms translated into growth of just 0.2%. On 23 April, the INEGI will post the IGAE figure for February. The performance of the IGAE would confirm our expectations of a moderate GDP growth rate for the first quarter of 2015.

We estimate that February retail sales will report YoY growth of 4.5%, seasonally adjusted (sa). This indicator will be published on 24 April by the INEGI. The result will be linked to the performance of ANTAD sales, which in February increased over all stores by an annualised 5.7%, sa, and with the increase in formal employment seen in February (133,691 jobs recorded in the Mexican Social Security Institute). Note that in January retail sales enjoyed an annual expansion of 4.9%, sa.

We believe that YoY inflation will remain relatively stable in the first half of April compared to the second half of March (an estimated 3.26%, against 3.30% the previous fortnight). For the first half of April, we forecast a fall of 0.22% in headline inflation and an increase in core inflation over the previous fortnight of 0.10%. If our forecasts are correct, in annual terms core inflation will post at 3.26% (compared to 3.30% in the second half of March), while core will shrink to 2.30% (compared to 2.47% in the previous fortnight). With regard to core inflation, although the prices of tourism services may suffer further rises linked to the Easter holidays, we believe that most of this season's increase was already visible in the second half of March. In addition, we continue to expect that the exchange rate pass-through onto inflation will be limited, to a large extent because of weak internal demand. As for non-core inflation, the hot season's electricity subsidies are about to start, which will be reflected in the sub-index of energy prices, and will account for the negative figure in the first half of the month. Finally, we continue to expect that YoY core inflation will remain at under 3.0% throughout 2015, although it will grow gradually, a trend which will be clearer in the second half of the year, underpinned by an improvement in activity, closing 2015 at 2.8%. Meanwhile, YoY headline inflation will stay close to the central bank's target of 3.0% throughout the year, before slipping to 2.9% by the end of 2015.

Calendar of indicators

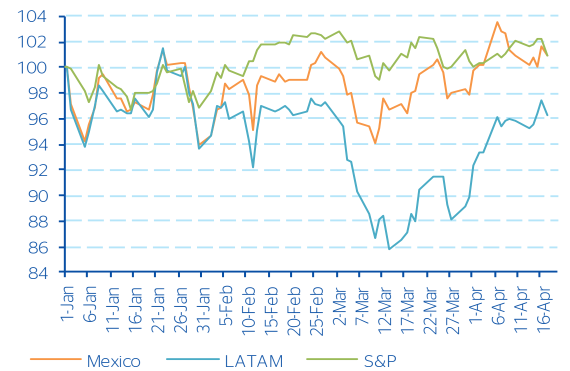
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Headline inflation (FoF % change)	1H Apr	24 Apr	-0.22%	-0.20%	0.37%
Headline inflation (YoY % change)	1H Apr	24 Apr	3.26%	3.29%	3.30%
Core inflation (FoF % change)	1H Apr	24 Apr	0.10%	0.13%	0.18%
Core inflation (YoY % change)	1H Apr	24 Apr	2.30%	2.33%	2.40%
IGAE (YoY % change, sa)	February	23 Apr	2.35	--	2.58
Retail sales (YoY % change, sa)	February	24 Apr	4.46	--	4.87

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Chicago Fed National Activity Index (MoM % change, sa)	March	20 Apr	0.15	--	-0.11
Existing Home Sales (MoM % change, sa)	March	22 Apr	0.72	3.30	1.24
New Home Sales (MoM % change, sa)	March	23 Apr	-2.60	-5.40	7.80
Durable Goods Orders Ex Transportation (MoM % change, sa)	March	24 Apr	0.40	0.70	-0.60

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

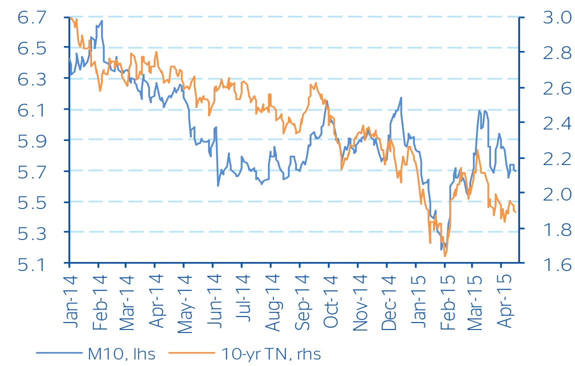
Markets

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



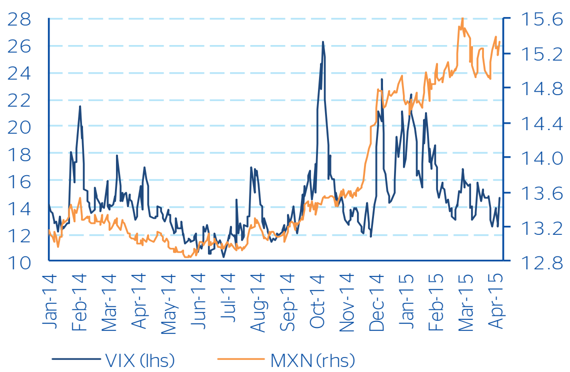
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



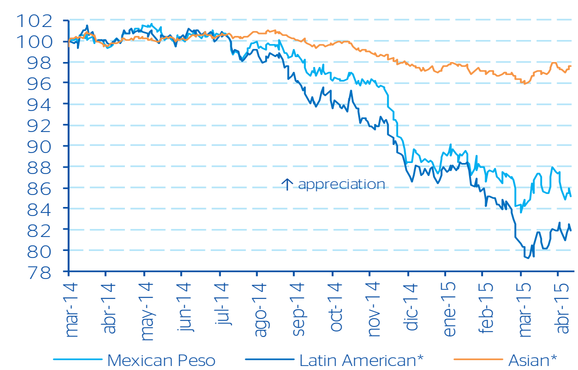
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (17 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

	2013	2014	2015
Mexico GDP (YoY % change)	1.4	2.1	3.5
General inflation (%, average)	3.8	4.0	3.2
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
10 Apr 2015	➡	Mexico Flash. Industrial production pushes down our growth expectations