Economic Analysis

The February IGAE performed weakly, retreating 0.03% in the month

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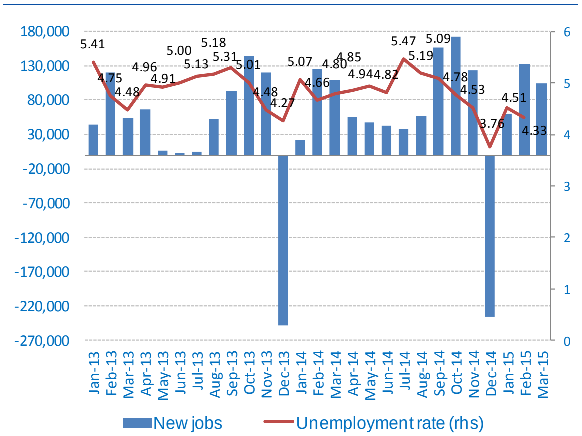
What happened this week …

The IGAE (the Global Economic Activity Indicator) fell back 0.03% MoM in February in seasonally adjusted figures (sa), which translates into growth of 2.2% YoY. The reading was prompted by moderate progress for industry (0.21% MoM sa), almost no growth at all in services (0.04% MoM, sa), and a very conspicuous fall for agriculture (of 5.06% MoM sa). In its initial data series the IGAE marked a rise of 2.3% YoY, in line with our forecast and a fraction below the consensus (BBVAe: 2.3%, consensus: 2.4%). This lends weight to the picture of cautious economic growth for Q1 this year.

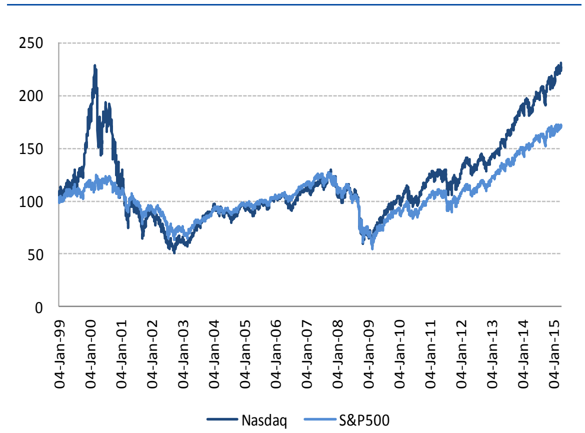
Retail sales in February were up 5.5% YoY sa, which equates to a monthly variation of 0.5% sa. In the initial series, retail sales were up by 5.6% YoY, ahead of the market forecast (BBVAe and consensus: 4.5%), although in monthly terms they fell by 9.8%, which is similar to the figure seen in February 2014 (-10.5%). These results suggest a mild improvement in goods consumption, although steps in this direction will have to be kept up if domestic demand weakness is to be overcome.

Figure 1
Unemployment rate and formal employment (YoY % change and IMSS-registered workers)



Source: BBVA Research with IMSS data

Figure 2
US share indexes (Jan 2009=100)



Source: Bloomberg, BBVA Research

Inflation surprised on the low side, for which reason we are revising our end-of-year forecasts for this to 2.8% for the headline figure and 2.6% for the core version, down from 2.9% and 2.8% respectively. Headline inflation was far lower than expected in the first half of April, dropping 0.45% QoQ (BBVA: -0.22%, consensus: -0.21%). In annualised terms, headline inflation came down to 3.03% from 3.30% in the previous half-monthly period. As predicted, the figure mainly owed itself to seasonal adjustment of electricity rates due to the start of subsidies in the warm season and a reduction in tourist services. The surprise as regards our forecast came from a greater fall in tourist services (it was thought that the drop would be spread more evenly over the two halves of the month) and the decrease in prices in the agriculture and livestock product component, which were driven down by a fall in the cost of vegetables (which contrasts with the slight rise which we had expected). Core inflation was 0.03% QoQ, which was below our estimate and the market forecast (BBVA: 0.10%, consensus: 0.11%). In annual terms core inflation was 2.23%, down from 2.47% in the previous half month. Today's figure has pushed down our forecasts for monthly inflation to -0.19% MoM for headline inflation and 0.13% MoM for core, which also leads us to revise our end-of-year figures down to 2.80% for headline inflation and 2.6% for core, from the previously expected figures of 2.9% and 2.8% respectively. Here we should add that if our forecasts for monthly inflation for April and May prove accurate (-0.19% and -0.33% MoM respectively), cumulative inflation to May will be around 0.0% (BBVAe: -0.01%), which is by far a historical low. Even after revising down our end-of-year forecasts, the new estimates leave some room to absorb any supply shocks and pressures from the feed-through of a higher exchange rate into inflation in the remainder of the year. All in all, the figure for the first half of April supports our forecast that annual inflation will hold at around the central bank target of 3.0% throughout the whole year, and it seems to confirm that core inflation will stay low despite the weaker peso in a context of frail domestic demand.

Stock market rises have been influenced by stimulus measures in China and better-than-expected corporate reports. The 100bp cut in the reserve requirement for domestic banks in China was read by the markets as a clear-cut signal that the authorities are committed to achieving 7.0% annual growth for 2015. This fact, together with better-than-expected corporate news in the United States, especially in the technology sector, spurred on stock market rises. The S&P 500 was up by around 1.82% over the week and it is again at a historical high. The NASDAQ also hit a historical high after surging 3.3% over the week. Mexico's stock market index rose by 1.28%, although it is still a long way short of the historical high which it touched last August. In the FX market the peso depreciated by roughly 0.6% over the week, which is the fifth largest depreciation among emerging currencies and the biggest among the oil exporters, which generally saw their currencies firm up following a 2.4% uptick in the price per barrel of WTI crude. In the government bond market the return on maturity of the 10-year Mbono moved up 6bp, in line with the 6bp rise in the redemption yield for the 10-year T-bond.

…What to expect next week

The MPR unchanged at 3.0%. The weakness of the cycle is the focus of attention. Next Thursday sees the announcement of a decision on monetary policy. Although no changes in the rate are expected, it will be absolutely vital to assess the tone of the statement after the recent disappointing economic activity data. In the last few months the central bank has stressed that the biggest risk attaching to achieving and consolidating target inflation is the beginning of the monetary normalisation process in the United States and any impact this might have on inflation via exchange rate depreciation and interest rate movements, which is why various members of the government's policy committee have spoken in favour of raising the reference rate even before the Federal Reserve itself does so. Aside from any signals in the statement, the data on the IGAE rise and industrial production for February, of -0.03% MoM and 0.2% MoM respectively, confirm the weakness of economic activity in Q1. It can also be asserted that this more moderate growth has had a choking effect on the feed-through of exchange rate movements into inflation, which has arrived at 3.03% YoY in the first half of April. Thus, in this scenario of uncertainty over the consequences of monetary policy normalisation in the United States, we will have to watch out for any change in the tone of the central bank's statement which might introduce the possibility of a delay to the start of the rate hike cycle, or a slower pace of this process, given the timidity of economic growth and the absence of pressure on prices.

We expect an unemployment rate of 4.17% in March. Given the formal job creation in March (105,136 registrations with the IMSS) and the fact that this was offset by the weakness of industrial production in February (0.2% MoM sa), we expect the unemployment rate to reach 4.17% in March after 4.33% for the previous month. In seasonally adjusted terms we forecast that the unemployment rate will arrive at 4.41% in March, a level just below that of 4.51% the previous month. The March figure from INEGI is due out on 27 April.

We expect the March balance of trade to be positive at USD810mn. On 27 April INEGI will release Mexico's BOT figure for March 2015. We predict that this will show a surplus of USD810mn as a result of a 1.7% contraction YoY in goods exports, which will in turn be accompanied by imports down by 1.3% YoY on the higher exchange rate and greater sluggishness in the economy. The fall in exports will essentially be explained by a drop of 44% YoY in oil exports, while non-oil exports will grow by in the region of 4.6%. To place this into context, since 2010 the balance of trade figure has shown a surplus in March and over this period this has averaged at almost USD1.2bn.

Calendar of indicators

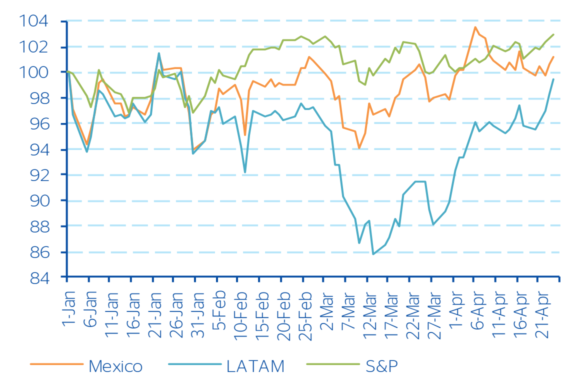
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Unemployment rate (YoY % change)	March	27 Apr	4.17	4.16	4.33
Unemployment rate (YoY % change, sa)	March	27 Apr	4.41	4.42	4.51
Goods trade balance (USD million)	March	27 Apr	810.0	607.0	558.3
Monetary policy rate (Fondeo rate)	April 30	30 Apr	3.0	3.0	3.0

USA	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Conference Board Consumer Confidence (Index, sa)	April	28 Apr	102.00	102.50	101.30
GDP Chained 2009 Dollars (QoQ % change, saar)	1Q15	29 Apr	0.70	1.00	2.20
Auto Sales Total Annualized (millions, sa)	April	1 May	17.00	16.90	17.05
University of Michigan Consumer Sentiment Index	April	1 May	95.30	96.00	95.90
ISM Manufacturing PMI (index, sa)	April	1 May	52.10	52.00	51.50

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

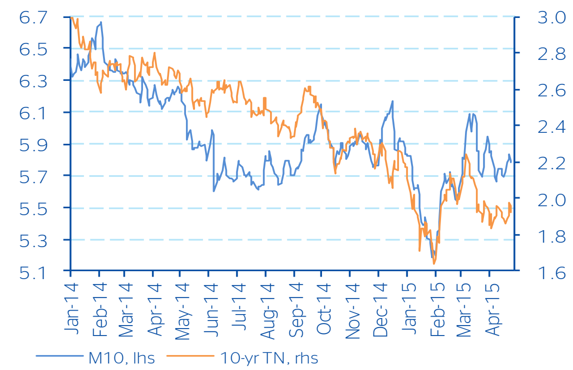
Markets

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



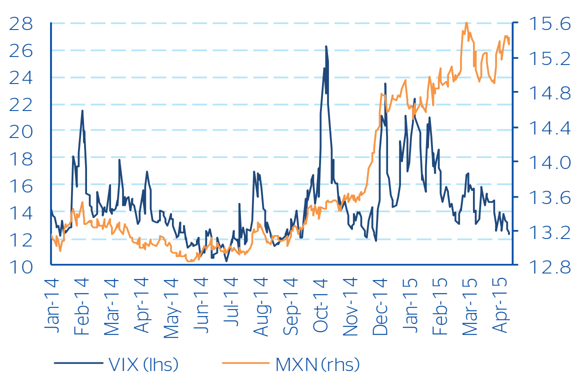
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



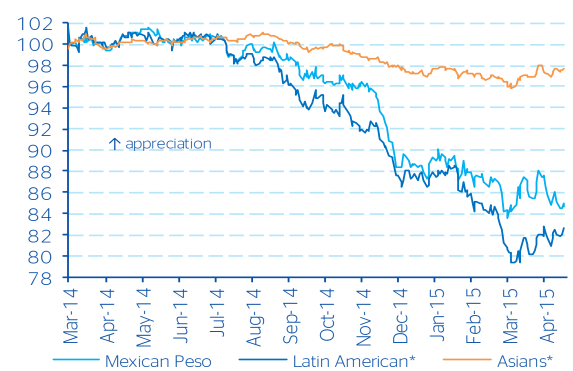
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD (24 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
21 Apr 2015	➡	Mexico Banking Flash. Banking deposits: still tracing an upward path
23 Apr 2015	➡	Mexico Inflation Flash. Inflation remains subdued
23 Apr 2015	➡	Mexico Flash. In February the IGAE shows a negative monthly performance (-0.03% MoM, sa)