

Economic Analysis

# We are expecting a slow but sure performance from industrial production in March

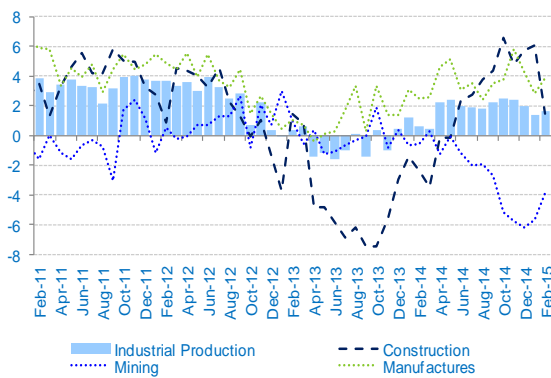
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## What happened this week ...

**Producer confidence remained weak in April, and consumer confidence also fell.** Business confidence was below the 50pt threshold (to optimistic territory) for the third month in succession, with the index moving from 48.8pt in March to 48.4pt in April 2015 (BBVAe: 48.5%, sa) in seasonally adjusted terms (sa). This represented a fall of 5.6% YoY and a monthly setback of 0.7%. Meanwhile, the consumer confidence index (ICC) had its biggest drop in nine months, reaching 90.8pt sa in April from a level of 92.8pt sa in March. This means that this indicator has had annual growth of only 1.0%, though for the month it fell 2.1% sa. The five sub-indexes making up the ICC all fell back MoM. In its initial series, the ICC reached 91.3pt, which was under the market estimate (BBVAe: 93.7pt; consensus: 93.6pt).

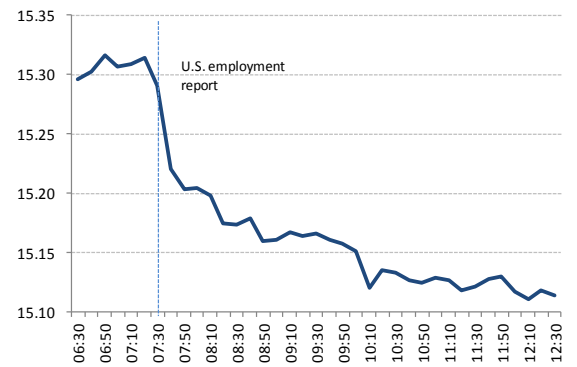
**Gross investment had an AGR in February of 1.3%** (BBVAe: 1.2%). The AGR for the construction investment component was 0.9%, while its machinery and equipment investment counterpart rose 1.9%. This low growth for both investment items in February suggests a low level of economic activity in the first quarter of the year.

Figure 1  
**Industrial production and its components (YoY % change, sa)**



Source: BBVA Research with INEGI data. sa = seasonally-adjusted

Figure 2  
**Intra-day exchange rate on 8 May 2015 (USD/MXN)**



Source: Bloomberg, BBVA Research

**Expectations for manufacturing and non-manufacturing activity in April performed better,** with the IMEF manufacturing indicator up by 1.1pt on the previous month and reaching 51.4pt in April (above the 50pt threshold which marks optimistic territory for expectations) in seasonally-adjusted terms (sa), while the non-manufacturing indicator ticked up 0.6pt, from 49.7pt sa in March to 51.3pt in April.

**The monthly rise in the number of IMSS-registered workers was a little over 65,000 in April 2015.** It is worth noting that this figure came in a month that was partly taken up by the Easter holy week holiday. When Easter falls in a month, whether it be March or April, this usually leads to a lower increase in IMSS worker registrations for that month. This effect is illustrated, for example, by comparing the figures for April 2011 (19,000 new registrations) and 2012 (a little over 10,000). It should also be borne in mind that since July 2013 the figures for IMSS-registered workers have been influenced to a major extent by the job formalisation programme. In April 2010, in a year when first quarter GDP growth was 3.7% YoY, the rise in the number of IMSS-registered workers was just short of 68,000. Considering that growth is expected to be lower in 1Q15, at about 2.3% YoY, a large percentage of the new workers registered with the IMSS in April 2015 are highly likely to have come from the job formalisation programme.

**The central bank announced that the sum of USD2,257.9mn entered Mexico by way of remittances in March 2015, which implies growth of 7.6% YoY.** This indicates a recovery for the growth of family remittances to Mexico and could mean the start of a new pattern of rises after two months in succession of increases above the level of 7% YoY. The March figure is as a result of increases in both the number of transactions and the average remittance sum, with the number of remittances wired reaching 7.25mn (4.4% YoY), while the average sum for these was USD311.30 (3.0%). During the first quarter of 2015, remittances were up in most of Mexico's states, with the largest rises in Hidalgo (34.5% YoY), Colima (26.4% YoY) and Querétaro (20.5% YoY).

**Moderate inflation outlook.** Headline inflation fell 0.26% MoM in April, close to consensus expectations (BBVAe: -0.22%, -0.24%). In YoY terms, inflation fell to 3.06% from 3.14% in March. The mild surprise in relation to our forecast came mainly from a slightly smaller-than-expected rise in agriculture and livestock prices. Core inflation was 0.16% MoM, practically in line with forecasts (BBVAe: 0.14%, consensus: 0.14%). In annual terms, core inflation came down to 2.31% from 2.45% the previous month. These figures support our outlook of subdued inflation and our end-of-year forecasts of 2.8% for headline inflation and 2.7% for core inflation. We consider that our forecasts leave some scope to soak up any pressures arising from the transmission of the higher exchange rate through to inflation and supply shocks over the rest of the year. We underline the point that if our inflation forecasts for May and June finally materialise (-0.33% and 0.18% MoM respectively), cumulative inflation to June will be around the 0.0% level, which is by far the historical low.

**Exchange rate appreciation on the lower-than-expected wage growth figures the United States.** The exchange rate climbed by about 1.2% last Friday (8 May) to around MXN15.13 to the USD after it was revealed that average US hourly wages had grown by only 0.1% in April, which was below the analyst forecast of 0.2%. With regard to employment, non-farm payrolls were up by 223,000 jobs, which was a shade below the analyst consensus, although the figure for March was lowered to only 85,000 jobs, the lowest level since June 2012. All of this data lends weight to the notion among market participants that the first move by the Federal Reserve could be made towards the third quarter of the year. It should be pointed out that the MXN was the emerging market currency which appreciated the most. In fixed income, markets saw rate rises globally after the Federal Reserve chair warned that rates are "too low" and could be subject to a sudden rise after the monetary policy normalisation process begins. Following this statement, the 10-year T-bond yield jumped to 2.24%, which is its highest level since last December, but then dropped back to 2.12% at the end of the week on the aforementioned employment report. In Mexico the 10-year Mbono rate followed suit, rising to 6.13% only to close on the week at around 5.97%. Stock markets were also affected by the Fed chair's statement, after she said that shares were "overvalued", which prompted falls that were partly regained at the end of the week.

## ...What to expect next week

We estimate that March industrial production will reach an AGR of 1.86% sa. Given the sluggish performance of US industrial production, with an annual variation of 3.56% and 2.05% sa in February and March 2015 respectively, we expect industrial production in Mexico for March to reach annual growth of 1.86% sa (0.35% MoM sa), which is slightly above the level observed the previous month (1.62% sa). This performance by industrial production should support our prediction of a modest growth rate for GDP for 1Q15.

## 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>
Industrial production (YoY % change, sa)	March	12 May	1.86	--	1.62
Industrial production (MoM % change, sa)	March	12 May	0.35	0.40	0.21

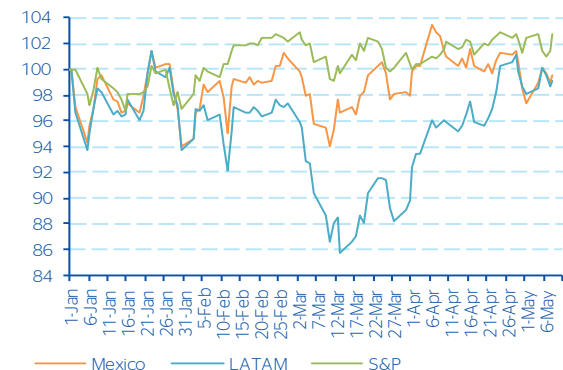
  

<b>United States</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Adjusted Retail & Food Services Sales (MoM % change, sa)	April	13 May	0.40	0.20	0.90
Adjusted Retail Sales Less Autos and Gas Stations (Mom % change, sa)	April	13 May	0.50	0.60	0.50
Industrial Production (MoM % change, sa, 2007=100)	April	15 May	0.20	0.00	-0.64
Industrial Production Industry Groups Manufacturing (MoM % change, sa)	April	15 May	0.10	0.20	0.10
University of Michigan Consumer Sentiment Index	May <sup>p</sup>	15 May	96.10	96.00	95.90

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

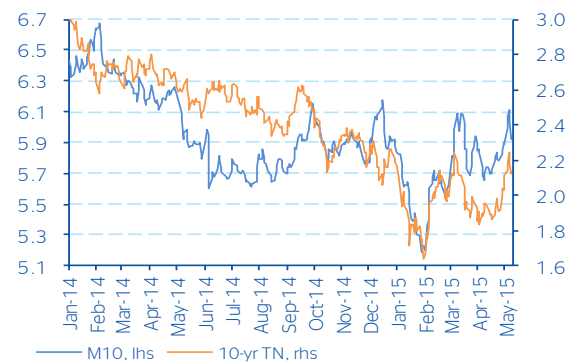
**Markets**

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



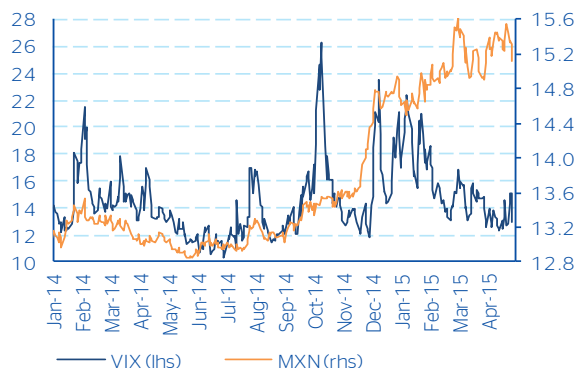
Source: BBVA Research, Bloomberg

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



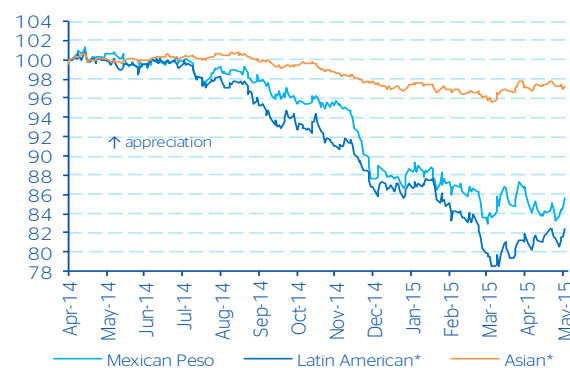
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(8 May 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	3.0
Core inflation (% , average)	2.7	3.2	2.5
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
6 May 2015	➔ <a href="#">Mexico Real Estate Flash. Mortgage lending was up 15.5% in January</a>
7 May 2015	➔ <a href="#">Mexico Inflation Flash. Subdued inflation outlook</a>

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