

Economic Analysis

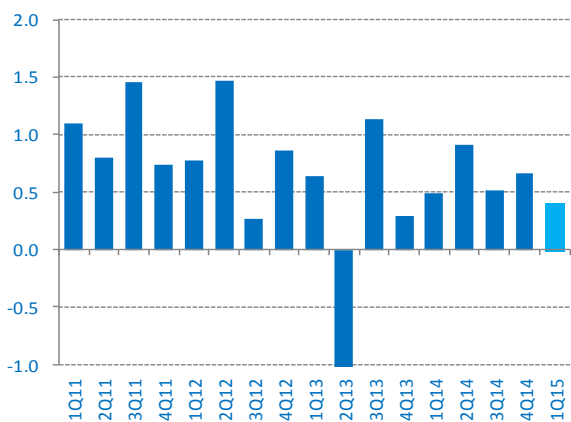
The slow GDP growth in Q1 brought down our forecast for annual growth in 2015 to 2.5%

Arnoldo López / Juan Carlos Rivas Valdivia / Javier Amador / Iván Martínez / Javier Morales

What happened this week...

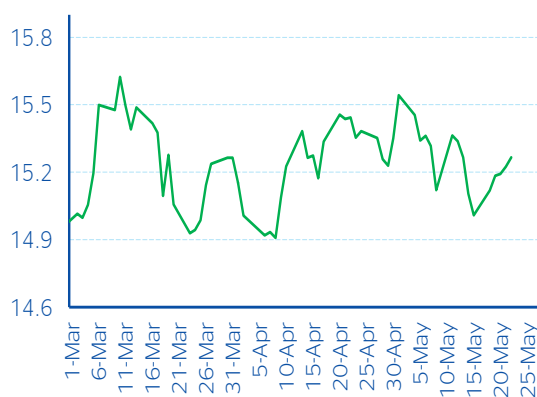
QoQ GDP growth for 1Q15 was 0.4% in seasonally-adjusted terms (sa), leaving growth for 2015 at 2.5% YoY. Growth of this order was in line with our forecast and that of the market (BBVAe: 2.5% YoY; consensus: 2.4% YoY).¹ Owing to the modest growth in the first quarter, we are revising our growth forecast for the economy this year down to 2.5% from the YoY figure of 3.5% which we had been predicting since mid-2014. This is even taking into account that the economy is set to grow moderately in Q2 due to a higher level of government spending with the elections in mind (tempered by the drop in public expenditure announced for the latter part of the year), and despite a pick-up in the US economy.

Figure 1
Observed quarterly GDP (QoQ % change, sa)



Source: BBVA Research with INEGI data. QoQ = quarterly % change. sa = seasonally-adjusted

Figure 2
USD/MXN



Source: Bloomberg, BBVA Research

The Global Economic Activity Indicator (the IGAE) for March was down 0.64% MoM, sa. The rise in economic activity was lower than had been expected coming into the year, which the IGAE duly acknowledged in its reading for the month. The monthly growth rates for this indicator in January and February were 0.32% and 0.30% respectively (both sa), which suggested only meek GDP growth for the first quarter of the year, which was backed up by the negative monthly performance by the IGAE in March (-0.64% MoM, sa), due to the setbacks in agriculture (-4.41%), the services sector (-0.17%), and industrial production (-0.02%), all three figures MoM, sa.

¹ See our Weekly Flash 15 May 2015. https://www.bbva.com/wp-content/uploads/2015/05/150515_SemanaMexico_eng.pdf

Annual inflation over the first fortnight in May was 2.93%, compared to 3.10% in the previous half-month, which thus came as a surprise on the low side (BBVAe: 3.06%; consensus: 3.03%) and thus reached a low for over nine years. The surprise primarily came from core inflation, which held practically unchanged thanks to the fact that both goods and services prices saw no significant changes. This indicates that the scenario of minimal feed-through of the exchange rate effect into prices and frail domestic demand still pertains. Annual core inflation was thus 2.36% (BBVAe: 2.44%; consensus: 2.43%). As expected, the reduction in electricity rates and lower farming and livestock prices further contributed to bringing inflation for the fortnight down by 0.53%.

The higher-than-expected inflation figure in the United States of 0.3% MoM (1.8% YoY), compared to the 0.2% expected by the analyst consensus, was felt in markets as the week drew to a close. This came as expectations were fuelled that US inflation is showing the upturn which the Federal Reserve has been counting on, which lends weight to the belief that the opening MPR hikes in the United States could come this year. The 10-year T-bond therefore rose 7bp (basis points) over the week, arriving at 2.21%. Mexico's 10-year M-bond followed suit, adding 5bp and paying 5.93%, while the exchange rate weakened 26 centavos over the week to USD/MXN15.27. Still on the subject of the FX market, the central bank announced that it is extending its daily auctions of USD52mn to September.

...What to expect next week

We expect the trade balance figure for April 2015 to be negative, to the tune of USD140mn, and INEGI is set to release this national figure for Mexico on 25 May. This estimated deficit would stem from a negative AGR of 1.2% for total exports in April, in tandem with forecast growth for annual goods imports of 0.7%. On the other hand, this expected AGR of exports for April of -1.2% will have been produced by a YoY contraction of 44% in oil exports and 4.1% growth in non-oil exports. We should add that expected growth of non-manufacturing exports for April is scant, which is partly due to the fact that the ISM manufacturing order index in the United States did not rise with respect to the previous month's figure. This means that only moderate growth for non-auto manufacturing exports for the country is likely in April.

We forecast that retail sales for March will rise by 5.6% YoY, sa. This will be published on 26 May by INEGI and is linked to the performance of ANTAD sales, which in terms of total outlets rose that same month by 5.5% YoY, sa, as well as formal job creation for March (105,136 jobs registered with the IMSS). It is worth recalling that in February retail sales grew by 5.5% YoY, sa.

We forecast that the unemployment rate will hit 4.23% in April, while this figure is due to be published by INEGI on May 28. Given the job creation registered in April (65,117 jobs registered with the IMSS), we expect the unemployment rate to be 4.23% for that month, after 3.86% was recorded for March 2015. In seasonally-adjusted terms we predict that the unemployment rate will reach 4.28% in April, which is a little over the previous month's level of 4.24%.

Calendar of indicators

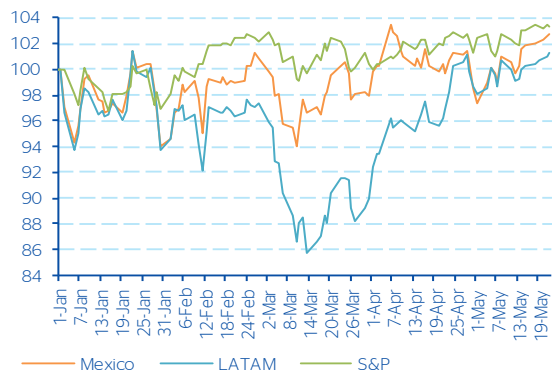
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Trade balance (USD millions)	April	25 May	-140	-102	480
Retail sales (YoY % change, sa)	March	26 May	5.6	-	5.5
Unemployment rate (YoY % change, sa)	April	28 May	4.28	4.17	4.24
Unemployment rate (YoY % change)	April	28 May	4.23	4.10	3.86

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
Durable Goods New Orders Industries (MoM % change, sa)	April	26 May	-0.23	-0.50	4.70
Conference Board Consumer Confidence (1985=100 index, sa)	May	26 May	95.04	95.20	95.20
GDP Chained 2009 Dollars (QoQ % change, saar)	1Q15s	29 May	-0.82	-0.90	0.20
University of Michigan Consumer Sentiment Index	May	29 May	94.30	90.05	88.60

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

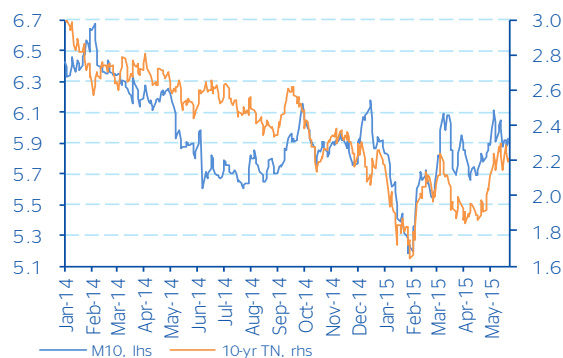
Markets

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



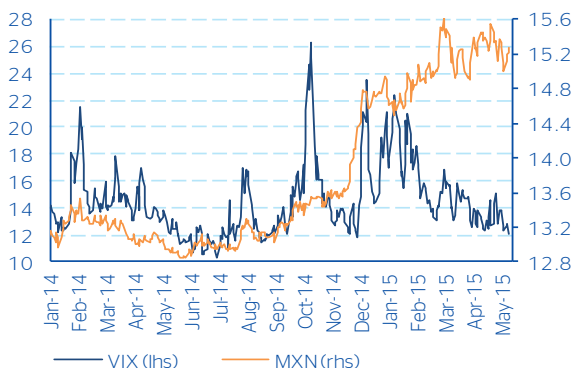
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



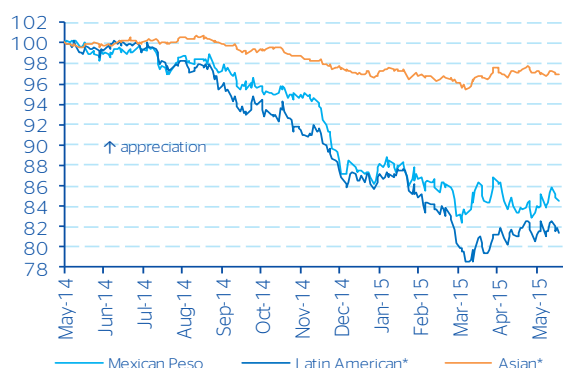
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

Figure 6
Currencies vs. USD
(15 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

	2013	2014	2015
Mexico GDP (YoY % change)	1.4	2.1	2.5
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

Date	Description
21 May 2015	➔ Mexico GDP Flash. The annual GDP growth for 2015 was revised downwards from 3.5% to 2.5%
22 May 2015	➔ Mexico Banking Flash. Banking deposits: losing momentum at the close of the first quarter

Disclaimer

This document has been prepared by BBVA Research at the Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and by BBVA Bancomer. S. A., Institución de Banca Múltiple and the BBVA Bancomer Financial Group, on their own behalf and is for information purposes only. The opinions, estimates, forecasts and recommendations contained in this document refer to the date appearing in the document, and, therefore, they may undergo changes due to market fluctuations. The opinions, estimates, forecasts and recommendations contained in this document are based on information obtained from sources deemed to be reliable, but BBVA does not provide any guarantee, either explicit or implicit, of its exactitude, integrity or correctness. This document does not constitute an offer, invitation or incitement to subscribe to or purchase securities.