

Economic Analysis

# The economic activity indicator (IGAE) will have improved in April thanks to the services sector

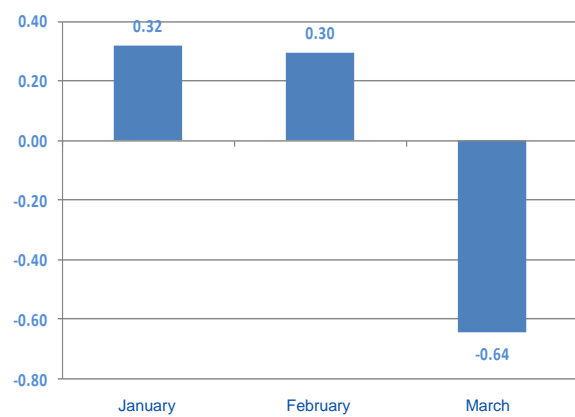
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## What happened this week...

The INEGI (National Institute of Statistics and Geography) has released the figures for GDP components in the first quarter of the year on the demand and supply sides, with exports of goods and services showing the most dynamic performance in 1Q15. The QoQ GDP growth rate, sa, was 0.4%, with the breakdown of growth rates for its components thus: exports of goods and services, 1.8%; private consumption, 1.2%; government consumption, 1.1%; total gross fixed investment, 1.0%; goods and services imports, 0.4% (all QoQ).

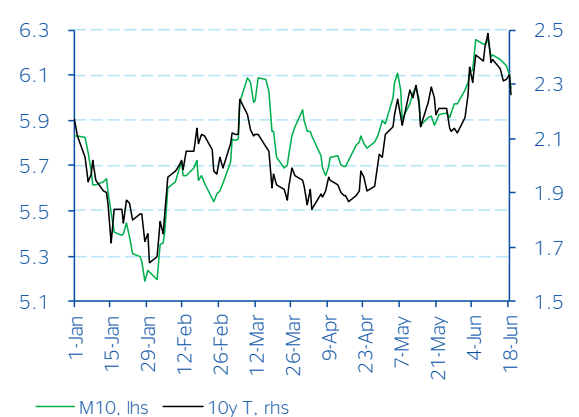
We estimate that there is now less of a chance of seeing a rise in the monetary policy rate (MPR) before the US Federal Reserve (Fed) embarks on its cycle of monetary normalisation. According to the minutes from the last monetary policy meeting, most members of the policy committee consider that raising the benchmark rate before the Fed does so, without any un-anchoring of inflation expectations, would entail more costs than benefits. This is because the costs in terms of activity could exacerbate the lethargy which the economy appears to be suffering.

Chart 1  
The Global Economic Activity Indicator in 2015 (MoM % change, seasonally adjusted)



Source: BBVA Research with INEGI data.

Chart 2  
Redemption yield on 10-year government bonds (%)



Source: BBVA Research with Bloomberg data

The market read the decision by the Federal Open Market Committee (FOMC) of the Federal Reserve as a signal that loose monetary policy is here to stay for a little longer, which gives assets in the Emerging Markets (EM) a bit of breathing space in spite of the risk of a Greek default. The Fed fuelled a rally in EM assets, above all in currencies and markets for bonds denominated in the local currency. The FOMC continues

to delay the first rate hike but it indicates that the cycle is likely to get off the ground in 2015. The revised forecasts suggest less encouraging growth in 2015, accompanied by a slower upward movement in rates. In this situation, the USD has weakened against most of the EM currencies, although over the week it was the Latam currencies which performed the worst, with the CLP (Chile), the COP (Colombia) and the PEN (Peru) all depreciating, while the MXN appreciated only marginally, with the dollar rate reaching 15.37 (which represents a strengthening of 0.22% compared to the previous Friday). There were widespread gains in bond markets and, in the midst of concern over Greece, investors switched into safe-haven assets (mainly US and German bonds). The gains marked by these assets became even more pronounced following the Fed's meeting at which the FOMC reinforced the idea of a gradualist approach to the course of any future monetary tightening. Over the week, yields on 10-year government bonds in the United States and Mexico were whittled down by around 13 basis points, and thus the rate on the 10-year Mbono is still moving in step with the T-Note with a comparable maturity.

### ...What to expect next week

**We estimate that the Global Economic Activity Indicator (IGAE) for April will reveal monthly growth in its seasonally adjusted (sa) series of 0.3%**, and INEGI is due to release the April IGAE figure on 24 June. Taking into account the MoM growth rate of 0.3%, the AGR for April's seasonally adjusted series should be 1.7%. Within this indicator, we expect primary activities to show MoM growth of 0.2%, with secondary activities falling back by 0.1%, while tertiary activities should have grown 0.3% MoM. We make the point here that, in the previous month, IGAE monthly growth was a negative 0.64%, due to poor performances by all of its components.

**We think that the net balance of trade for May will be a negative USD190mn**, and INEGI is set to publish this figure on Friday (26 June). The absolute deficit of USD190mn which we are anticipating will be a little more than the deficit of USD85mn that this account registered for the previous month. Within this, it should be noted that we forecast that the AGR for total goods exports will be a negative 4.7% as a result of the substantial contraction of oil exports and the restrained performance of non-oil exports, while in the previous month goods exports had posted an AGR of -3.2%. With regard to goods imports, we estimate that these will reveal growth of a negative 4.1%, which is below the rate for the previous month of -1.6%.

**We forecast that annual inflation will hold relatively stable in the first fortnight of June compared to the previous two weeks (an estimated 2.84%, against 2.82% in the second fortnight of May).** For the first two weeks of May we predict a fortnightly increase of 0.10% for headline inflation, and one of 0.09% for core. If our forecasts prove correct, in annual terms headline inflation should be 2.84% (compared to 2.82% in the previous fortnight), while core inflation should be 2.27% (compared to 2.30% previously). We still anticipate that the impact of the exchange rate on inflation will remain limited, largely because of the weakness of domestic demand and since the rise in goods inflation will continue to be offset by a good showing from the services component. We forecast that annual headline inflation will stay below 3.0% for the rest of the year, before easing back to 2.65% at the close of 2015, mainly because of the favourable effects resulting from the basis for comparison.

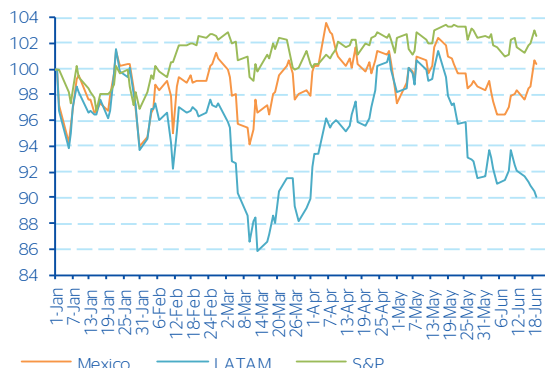
## Calendar of indicators

<b>Mexico</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
IGAE (MoM % change, sa)	April	24 June	0.3%	-	-0.64
IGAE (YoY % change, sa)	April	24 June	1.7%	-	2.2%
Trade Balance (USD millions)	May	26 June	-190	-158	-85
Headline Inflation (FoF % change)	1F June	24 June	0.10%	0.10%	0.04%
Headline Inflation (YoY % change)	1F June	24 June	2.84%	2.84%	2.82 %
Core Inflation (FoF % change )	1F June	24 June	0.09%	0.10%	0.08%
Core Inflation (YoY % change)	1F June	24 June	2.27%	2.28%	2.30%
<b>United States</b>	<b>Indicator period</b>	<b>Publication date</b>	<b>BBVA estimate</b>	<b>Consensus</b>	<b>Previous figure</b>
Existing Homes Sales (millions, saar)	May	22 June	5.15	5.28	5.04
Durable Goods New Orders Total ex Transportation (MoM % change, sa)	May	23 June	1.1	0.5%	-0.2%
GDP Chained 2009 Dollars (QoQ % change, saar)	1Q15	24 June	-0.2	-0.2%	-0.7%

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

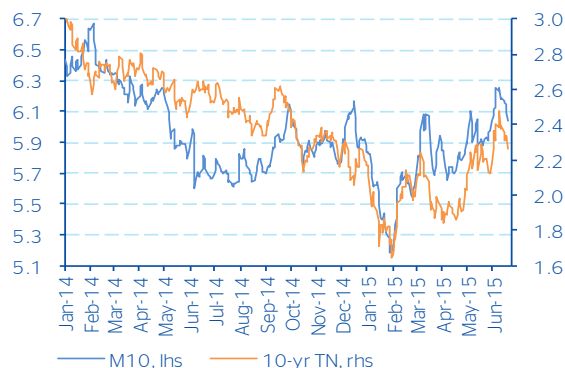
**Markets**

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



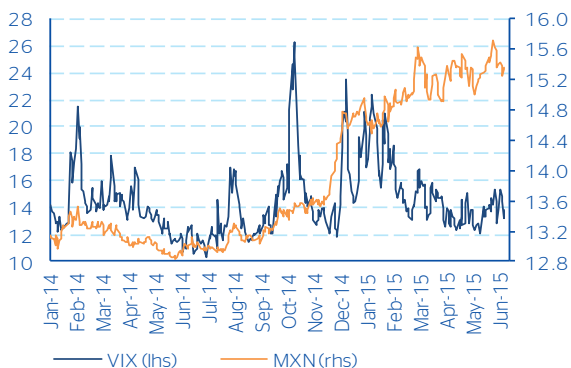
Source: BBVA Research, Bloomberg

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



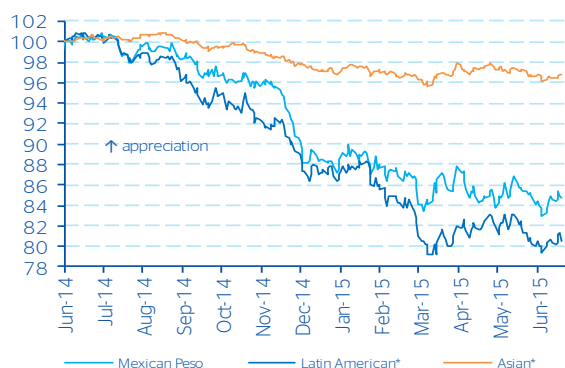
Source: BBVA Research, Bloomberg

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



Source: BBVA Research, Bloomberg

**Figure 6**  
**Currencies vs. USD**  
(19 Jun 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	2.5
General inflation (% , average)	3.8	4.0	2.9
Core inflation (% , average)	2.7	3.2	2.4
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
9 Jun 2015	➔ Banxico Flash. The central bank is holding the monetary policy rate unchanged at 3.0% and the risk assessment remains unaltered

### Disclaimer

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