Economic Analysis

Economic activity according to the IGAE indicator rose by 2.4% YoY in April, which was more than had been expected

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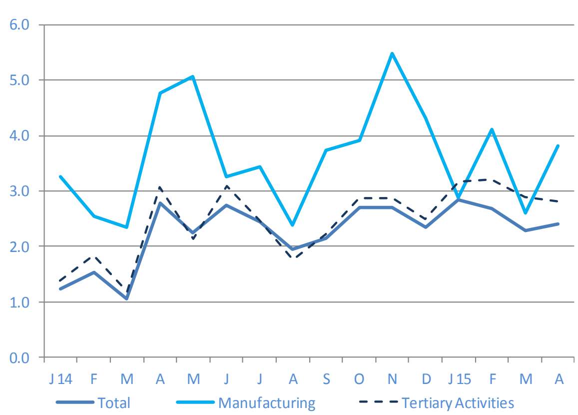
What happened this week…

The IGAE for April showed growth rates of 0.7% MoM and 2.4% YoY, both in their seasonally adjusted (sa) series, which were higher levels than expected (BBVAe: 0.3% MoM). This was driven by a very strong performance by the agriculture and livestock sector (3.6% Mom, sa) and by positive growth in the tertiary sector (0.4% MoM, sa), as the industrial sector fell back (-0.1% MoM, sa). It is worth noting that there were poor performances from both the export sector and the number of new registrations by workers with the IMSS, which could have the effect of providing a less dynamic IGAE reading for May.

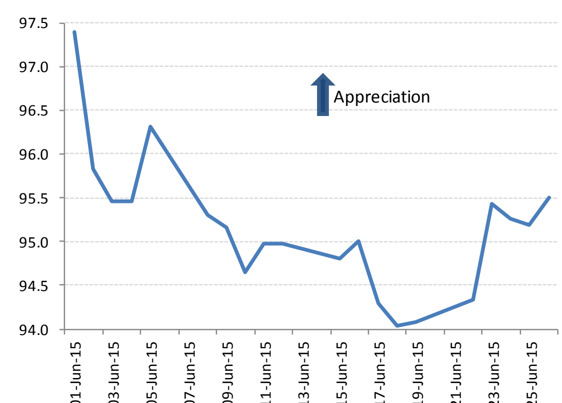
The INEGI published news that the balance of trade figure for May revealed a deficit of USD1.017bn, which was larger than predicted (BBVAe: -USD190mn, consensus: -USD158mn), fundamentally due to a sharp contraction in non-auto manufacturing exports, which represent around 57% of exports overall. Specifically, a drop of -8.8% YoY was noted for total exports and a decline of -5.5% YoY in imports. Among the export components, there were slides of -37.2% YoY in oil exports and -5.3% for non-oil items. Within the non-oil components, the exports which rose were in the agriculture and livestock segment (4.9%) and autos (1.8%), while extractive industries shrank back (-38.1%), as did non-auto manufacturing exports (-8.6%).

Figure 1
The Global Economic Activity Indicator in 2015 (% var. YoY, seasonally adjusted)



Source: BBVA Research with INEGI data.

Figure 2
USD value against the major currencies worldwide (DXY index)



Source: BBVA Research with Bloomberg data

The annual inflation rate held relatively stable in the first fortnight in June, at 2.87%, which compares with an annual 2.82% rate marked for the previous fortnight. Headline inflation rose 0.13% over the two weeks, which was slightly ahead of forecasts (BBVAe: 0.10%, consensus: 0.10%). This small upside surprise was mainly due to core inflation, which rose a little more than anticipated (0.13% over the fortnight vs. BBVAe: 0.09%, consensus: 0.10%). In annual terms, core inflation held steady at 2.31%. Inflation for the services component was low (0.08% for the half month), which still suggests an absence of demand pressure, while the goods component was a bit higher (0.18% over the half-month), although the primary force behind the rise was the processed foods sub-index (0.26% for the fortnight). All in all, the signs indicate that the feed-through of the exchange rate effect to inflation is still limited. The figures from the first half of June lend support to our view that annual inflation will hold at under 3.0% for the rest of the year.

Confidence regarding a possible agreement between Greece and its creditors has reduced the flight to quality and once more focuses the markets on monetary normalisation by the Federal Reserve. The Greek government's creditors yesterday proposed a five-month extension to the current bail-out programme which is due to expire on 30 June. Even though this proposal still has to be approved by the Greek authorities, market participants appeared confident that an agreement can be reached next Saturday, despite discrepancies over matters such as pensions and sales tax. Against this backdrop, the demand for equity assets picked up, while T-bond rates showed a substantial rise, and in the United States the DJIA (Dow Jones Industrial Average) actually ticked up 0.2 percent, while the IPyC (Mexico's stock market index) also gained around 0.3% in the final day's trading of the week. Meanwhile, the redemption yield on the 10-year Treasury bond rose by around 10 basis points (bp) last Friday, closing at 2.41%, its highest level in over one month. Moreover, the higher-than-expected consumer confidence indicator in the United States again drew attention to the imminent federal funds rate rise and was influential in creating increased dollar demand. Specifically, the MXN weakened by about 0.5% on Friday, which was the sixth-largest depreciation among the emerging currencies, closing the week at a dollar exchange rate of above MXN15.55.

…What to expect next week

Remittances to Mexico could have grown by 8.5% YoY in May, with inflows of USD2.33bn. In spite of the encouraging trend shown by indicators regarding economic activity and trends in employment in the United States in the opening months of 2015, the latest estimate made last Wednesday by the U.S. Bureau of Economic Analysis (BEA) indicates that in Q1 the US economy actually contracted by 0.2%. This partly explains the slowdown in remittances to Mexico that has been noted over 2015, given that virtually all of these (97%) come from Mexico's northern neighbour. Nonetheless, remittances are expected to continue to grow in 2015 and could reach a cumulative flow of some USD25bn by the close of the year.

We expect gross fixed investment in April to show an AGR in its initial series of 4.1% when the INEGI publishes the official data for that particular month on 3 July. The March AGR in the initial series for this indicator was 6.6%, thanks to annual growth of 4.1% for its construction investment component and 10.5% for its machinery and equipment investment item, while for April we forecast that the gross fixed investment index will reveal an AGR of 4.1% after growth of 3.6% in construction and a rise of 4.6% in machinery and equipment.

We estimate that the business climate indicator for Mexico's manufacturing sector, which is published by the IMEF (Mexican Institute of Financial Executives), will be 52.9 points sa for June. The IMEF is due to release the June figures for this indicator in both the manufacturing and non-manufacturing categories in the first few days of July. On the manufacturing side, our forecast for June is 52.9 points, which is slightly above the figure for the previous month (52.4 points), while for the non-manufacturing index we expect the figure to hold steady at 51 points.

Calendar of indicators

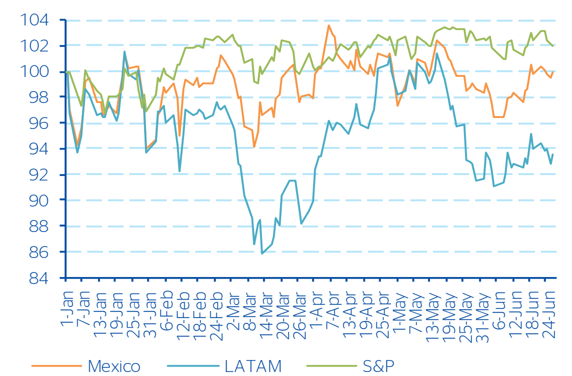
Mexico	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
IMEF Manufacturing Index (points, sa)	June	1 July	52.9	-	52.4
IMEF Non-Manufacturing Index (points, sa)	June	1 July	51.0	-	51.1
International Remittances (USD millions)	May	1 July	2,330	2,338	2,012
Gross Fixed Investment Indicator (YoY % change)	April	3 July	4.1%	4.4%	6.6%

United States	Indicator period	Publication date	BBVA estimate	Consensus	Previous figure
ISM Manufacturing PMI (sa)	June	1 July	53.9	53.1	52.8
Employees on Nonfarm Payrolls Total (MoM Net Change, sa)	June	2 July	233.0	230.0	280.0
Unemployment Rate	June	2 July	5.4	5.4	5.5

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

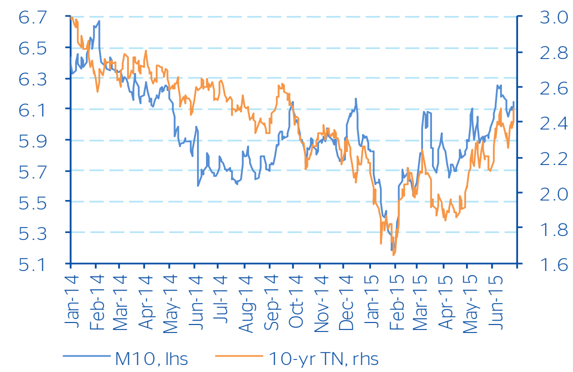
Markets

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



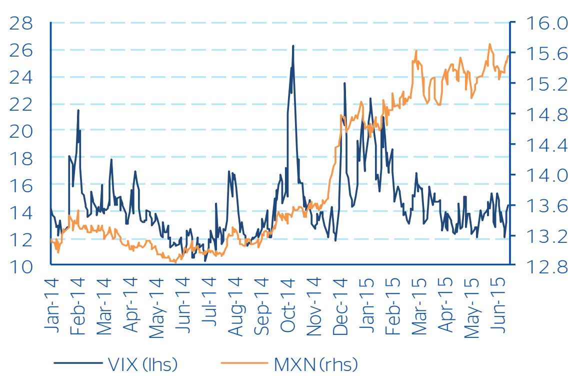
Source: BBVA Research, Bloomberg

Figure 4
10-year government bond yields (%)



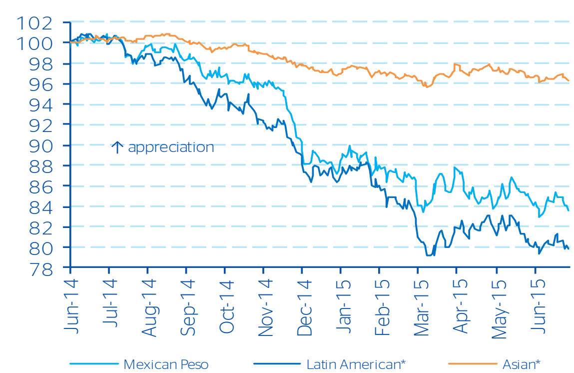
Source: BBVA Research, Bloomberg

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

	2013	2014	2015
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

Date	Description
25 Jun 2015	Mexico Banking Flash. Banking deposits: lower growth in April