BBVA Research

Mexico

Economic Outlook

Second Quarter of 2010

Economic Analysis

- With the boost from the U.S. and the expected recovery of domestic demand, Mexico will grow 5%.
- The changes in the regulation of competition will help free bottlenecks to growth and improve the inflation dynamics.
- In an environment of more controlled aversion to risk, the differentiation of the financial markets toward Mexico will be positive.

BBVA Bancomer

Index

Closing date: 12 May 2010

Summary

The best growth perspectives in Mexico are based on the cyclical boost from the external environment

In the last quarter, the outlook for the Mexican economy has improved, so that, now, growth of close to 5% is projected for 2010, slightly more than one percentage point above that estimated just three months ago.

In line with expectations, global recovery has consolidated in the emerging economies and among the developed economies, in the U.S., Europe, in turn, has confirmed a cyclical lag that could intensify as a consequence of the negative impact on the confidence of market participants, a rise in the risk premiums, and an increase in the sovereign risk of some European countries. The recovery of the United States began with the boost from exports to the emerging markets and the positive effect of the fiscal support programs on income and spending. In addition to these effects, an improvement in disposable income is beginning to be seen due to less deterioration in employment and higher domestic spending in view of a lower rate in reducing the leverage to families compared to what was expected.

The improvement in external demand of Mexico's main economic partner directly affects the country's exporting activity, which opens the door to additional positive effects when the recovery of the labor market consolidates, when remittances from Mexican emigrants increase, and when the international environment has an impact on the rise in demand for tourist services. Mexico will grow close to 5% in 2010. The risks, however, are downward. On the one hand, there is the impact that the generalization of contagion could have on other markets and assets due to a public debt crisis in Europe. On the other hand, at the domestic level, the spending capacity of households to accompany the expected lag in external demand activity is also a factor of uncertainty.

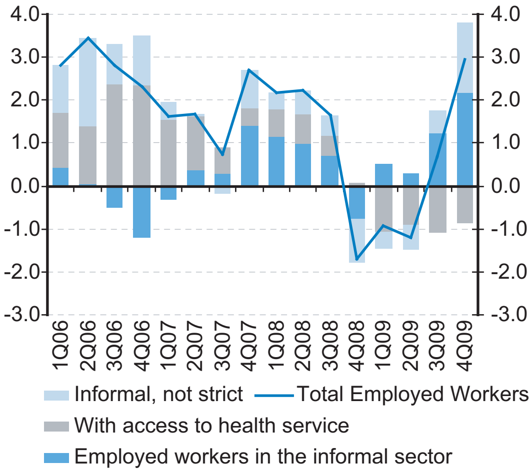
Domestic spending is limited by relatively low and volatile wages, resulting from the weight of the informal sector in the economy

The current situation reflects a significant gap between the confidence of the Mexican manufacturing industry and that of the consumer, a consequence of the effective improvement of external demand facing the former and of the quite contained growth rate of disposable income of the latter. This is the main determining factor for families' consumption, a variable that presumably reflects approximately 70% of Mexican GDP and that still shows a somewhat contained evolution in this cyclical recovery.

Employment, one of the determining factors of the disposable income of households, grew since the second quarter of 2009, which reflects, contrary to the conclusions of some partial analysts, the flexibility of the Mexican labor market as a whole toward changes in the environment and the economic perspectives. This is similar to what occurs in the more developed economies, where changes in labor legislation and the increasing importance of temporary employment have led to more flexible labor markets. However, in Mexico, the compensating flexibility of a rigid labor legislation, which has not changed in the last 19 years is achieved with a segmented market in which the informal component, without any degree of protection due to lack of a legal framework, offsets the rigidities and barriers of the formal sector. In the latter, in turn, a reduced though growing weight of temporary employment is seen, which is not usually accompanied by greater productivity. As a consequence of all this, income for work in the informal sector of the economy is relatively volatile—subject to the adjustment of supply and demand, without any rigidity downward due to the lack of legislation—and low, in line with the lower productivity of the activities carried out in the informal environment. If to this is added the rebound of inflation in 2010, the spending capacity of households which remains relatively constrained, at least in the short term despite the rally in employment. In this manner, informality presumes a brake to obtaining more or less stable disposable income, formed based on real present income.

Chart 1

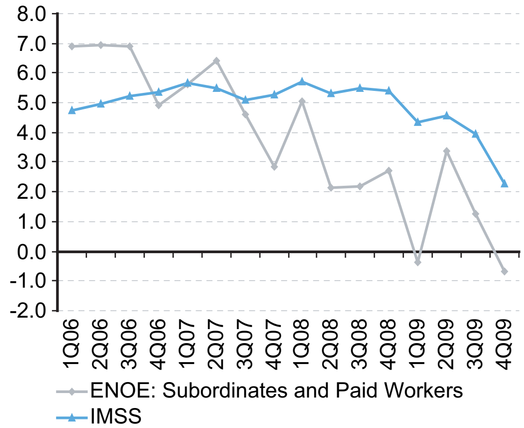
Total Employed by Employment Status (contribution and % change y/y)



Source: BBVA Research with INEGI data

Chart 2

Wages (% change, y/y, nominal)



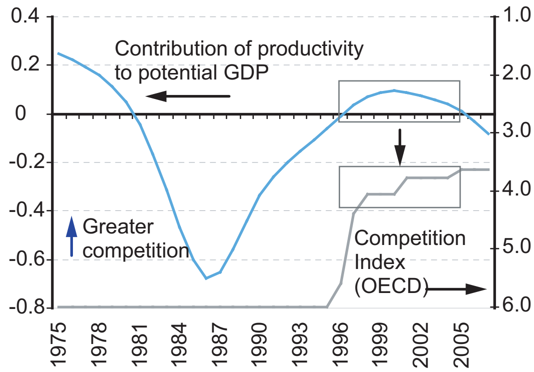
Source: BBVA Research with INEGI data

Reform of the regulation on competition is necessary for improving the efficiency of the Mexican economy and the process of price formation

Household disposable income, in real terms, is affected by the performance of inflation, which, from a medium-term standpoint, seems to show a relatively rigid behavior toward a downtrend and with rapid upward adjustments in view of cost shocks that eventually have more lasting effects. This dynamics leads us to understand the existence of the rigidities of the market, which are relatively greater than in other economies. Progress in economic competition in the markets would generate benefits associated with greater productivity and product prices that will tend to be lower, which implies an increase in consumers' income in the economy (in addition to obviously raising the potential growth of the economy). Ones way of approaching the existing margin of improvement could be by analyzing the relative dynamic of the prices of comparable subindexes of Mexico's consumption basket with those of other countries. The comparison, even considering the diversity of factors that have a bearing on the process of price formation such as the exchange rate, allow concluding that in those markets in which the degree of competition in the market is greater, the divergences in the relative evolution of prices are lower. Also, greater competition tends to generate greater economic growth. The regulatory reform of this matter, currently in the process of approval by the legislative power, seeks to correct these problems.

Chart 3

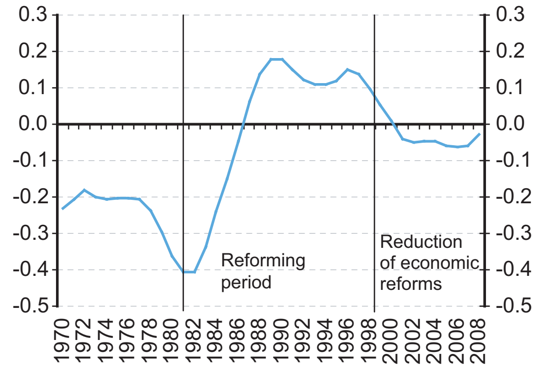
Competition in Mexico and contribution of productivity to potential GDP



* (6= no competition)
Source: BBVA Research and OECD

Chart 4

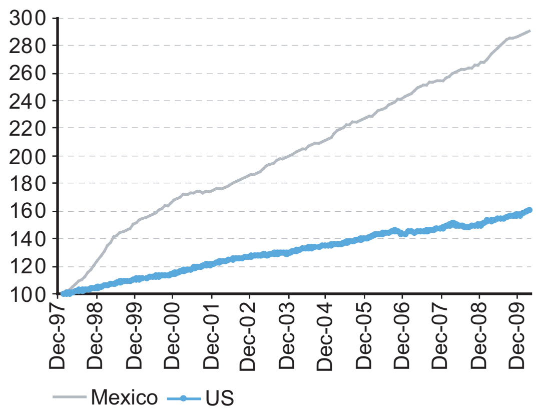
Economic Efficiency and Reforms (Change in the contribution of efficiency to growth, pp)



Efficiency: Total Factor Productivity, growth unexplained due to amount of capital and employment available.
Source: BBVA Research, Banxico and BLS

Chart 5

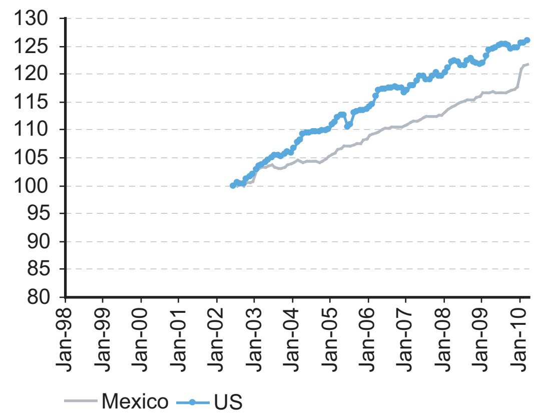
Relative evolution of prices since the competition standstill (Index 1998=100). Medicines



Source: BBVA Research with Banxico and BLS data

Chart 6

Relative evolution of prices since the competition standstill (Index June 2002 = 100), Cable TV



Source: BBVA Research with Banxico and BLS data

The financial variables, in line with the global factors

The same global factors that will contribute to determine the direction of the scenario for growth will affect the financial variables. One example of this is the peso exchange rate, affected by a negative differentiation with the currencies of other emerging markets during the greater part of 2009. From the last quarter of last year and until very recently, the cyclical boost from the U.S., particularly favorable for Mexico, and the resolution of some domestic uncertainties—the 2010 budget, the rating of the public debt—favored a positive differentiation that has been maintained up to the first weeks of April when, as a result of the Greek debt, an episode of risk aversion began that reached its maximum the first week of May. In any case, since there are no apparent specific factors of a negative differentiation for the Mexican economy, the exchange rate and interest rates will resume the economic fundamentals of growth and inflation as the global aversion to risk is dissipated.

Challenges in view for a sustained recovery

The global economy is dominated by two opposing forces: on the one hand, the positive cyclical boost from the emerging economies and the U.S., and, on the other, the high risk premiums observed in Europe. Even though the European Monetary Union (EMU) rescue plan lessens the uncertainty in the short term, the risks in the medium term continue on a downward trend

In recent quarters, the cyclical situation has improved significantly due to the recovery in the emerging economies and the U.S. World trade is growing at 7% and our forecasts are pointing toward growth in the world economy of 4.2% in 2010. Now, at the same time, there are doubts regarding the capacity of the EMU to be able to face the problem of high levels of public indebtedness of some countries of the area. These doubts have made possible an increase in the sovereign spreads and to a new phase of financial instability. This situation could affect the European economy, although it could also have an impact on the rest of the world. The moment and the scope of these adverse impacts will crucially depend on the effectiveness of the announcements made by the European Council last May 9th regarding the rescue packages agreed upon and the exceptional steps adopted by the European Central Bank (ECB). Even when these packages manage to stabilize market conditions in the short term, uncertainties will still be persisting on three fronts: i) the implementation process of the rescue package in the coming months, subject to the conditionality of the fiscal consolidation process; ii) the credibility of a more intense fiscal consolidation than what has been considered up to now in some countries of the EMU; and iii) progress in the institutional mechanisms within the euro area to ensure the sustainability of the public accounts of the different countries.

Following the short-term boost of the expansive fiscal and monetary policies in the whole world, the sustainability of the recovery is not guaranteed beyond 2010, in particular in the developed economies

While the economic recovery generalizes in early 2010, its intensity varies significantly among the countries. This is the result of the different degrees of utilization of the fiscal and monetary policies. These policies have been particularly effective at the moment the economic cycle was boosted in China and the U.S.. At the same time, the emerging economies are benefiting from the greater strength of their domestic demand and, in this region, the recovery was much more consolidated. In contrast, in the developed economies, as the expansive policies are diluted, there appear doubts regarding the sustainability of the recovery beyond 2010.

Growing divergences in the exit strategies of the monetary policies: gradualism in the U.S.; doubts regarding the exit time in the EMU, lack of a single strategy in the emerging economies

A gradual course of interest rate rises is foreseen by the Federal Reserve Board (FED). The first increases in the rates are expected at around the beginning of 2011 until they reach levels slightly above 1% at the end of that year. The existing differences in the economic fundamentals of the U.S. and of the EMU will lead to different monetary exit strategies in both areas. Although economic growth could be slow from 2010 going forward, the risk of a reversion of the current dynamics is quite limited in the U.S. and the threat of inflationary pressures is very incipient. On the contrary, in the EMU, in addition to a much more fragile financial situation, the cyclical improvement seems more uncertain and there is no glimpse of any inflationary pressure. As to the monetary policies of the emerging economies, there is no doubt of the need to toughen monetary policy. Given the cyclical divergences in that region, the exit strategies will vary among the countries. If in some economies, the hardening of monetary policy and other measures are not implemented on time, growing imbalances could be generated.

Markets have made the limits of the counter-cyclical fiscal policies evident. The economies with high public debt levels and limited private unleveraging are highly vulnerable to upward movements in interest rates and higher risk premiums

In periods of greater aversion to risk, the financial markets tend to place a price on the existing inconsistencies in the macroeconomic policies, which are normally not perceived in times of bonanza. Despite the important rescue package agreed to in Europe[1] on Sunday May 9th, the availability of information and the challenges to be resolved as to the fiscal government in the EMU lead us to think that the significant risk premiums are persisting on the market in the midst of uncertainties regarding the paths of fiscal consolidation. The contagion to markets and assets, increasingly more distanced from the market of the Greek debt, has been clear evidence of the fragility of the current scenario. Economic history is plagued with examples of ”unfounded contagion” from some countries to others at moments of crisis. In these cases, the geographic proximity or the cyclical similitude matter more than the differences in economic fundamentals. In fact, the current episode of generalized contagion is not justified either by the spurred financial channel due to the outburst of the Greek crisis or by the similitude in the fundamentals. Even if this were true to a greater or lesser extent, there is an imperious need of some countries to increase the credibility of their policies to be able to face the pressure from international investors.

Long-term fiscal consolidation is the greatest challenge for the developed countries

There is growing concern regarding the long-term consequences of the rises in the public debt. This will inevitably lead to upward pressure on real interest rates and high-risk premiums during a prolonged period. Even when the recent contagion is gradually disappearing, growing discrimination will persist among countries depending on the credibility of their fiscal situation.

The absence of an in-depth restructuring of the financial sector and the coming regulatory reform could threaten the recovery rate

The uncertainty coming from the financial sector is fundamentally of two types: on the one hand, the slow restructuring of the financial industry, particularly in Europe, could put a brake on economic recovery due to the lack of sufficient credit (creditless recovery). This is a growing concern, since both the historic experience and empirical evidence are showing the importance of the credit channel, especially in the first stages of the recovery. On the other hand, there is also uncertainty regarding the regulatory reform that will finally take place and that is already in progress. The most probable result is a significant rise in capital and liquidity requirements, which could limit the capacity of the banking sector to grant credit in the coming years.

1: The steps approved on Sunday, May 9th were: i) 500 billion euros in support of countries with difficulties; ii) 250 billion from the IMF; iii) the capacity of the ECB to purchase public debt of the euro area, and iv) financing lines in dollars with the FED.

The improved outlook for growth in Mexico is based on the cyclical boost from the external environment

The fastest and most intense improvement of the cycle in the U.S. leads to an upward review of the growth outlook for the Mexican economy

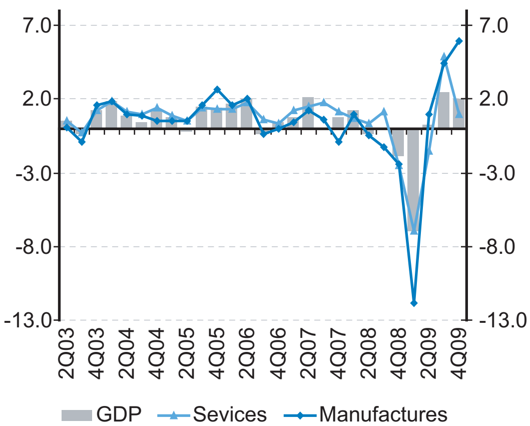
Since mid-2009 and more intensely toward the end of that year, the Mexican economy has been gradually intensifying a recovery process, following the sharpest drop since the Mexican Revolution (in 1932: -14.8%). The structure of the Mexican economy, highly integrated with the United States, last year implied a record drop in exports, tourist arrivals and emigrants' remittances. Similarly, these same links are acting already or will do so in the short term in a contrary sense, which implies a relatively quicker exit of the recession than other economies less exposed to the dynamism growth of the U.S.

The recovery of the Mexican economy was better than expected in the last months of 2009 and the beginning of 2010. This better performance has led to an upward review of the outlook for economic growth for 2010, and going forward from the estimated 3.8% at the beginning of the year to a now projected rate close to 5.0%, although with a risk balance slightly biased downward, both globally and domestically. Globally, as indicated in the previous section, due to the impact that existing uncertainties finally have on the risk premiums, on the necessary fiscal consolidation process. Domestically, due to the capacity of internal demand to accompany the effect that external demand has had on activity.

In this recovery, the two components of demand, external and domestic, have been dynamic although different. On the one hand, external demand has been characterized by a strong recovery which has boosted exports and with this, manufacturing production in an accelerated manner in the last months of 2009. It should be recalled that close to 80% of Mexican exports have the United States as their destination and the consumption of durable goods of that country is in this sense particularly importantt: TV sets, electric and electronic appliances and, especially, motor vehicles. This process of improvement in external demand was present throughout the second half of 2009 and, as of the last quarter of 2009, at a more intense rate than initially expected.

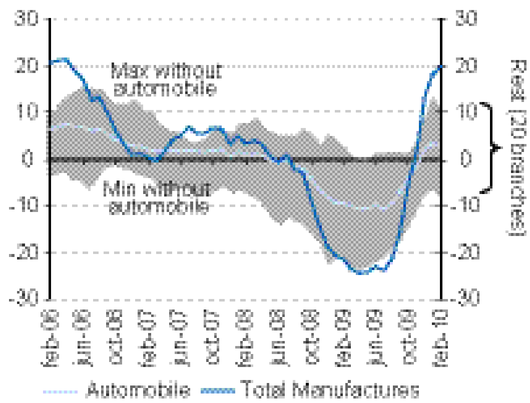
In the review of the macroeconomic scenario, presented herein, it has been considered that the fiscal stimuli to the U.S. economy will be successful and will continue to contribute to its recovery. By this, the contribution of net Mexican exports (exports minus imports) will be more positive than expected initially and will, in fact, contribute more than 3 of the 5 points of the estimated growth for this year.

Chart 7
GDP (% Change q/q)



Source: BBVA Research

Chart 8
Manufacturing production: automobile branches and the rest (% Change y/y)



1: Based on variations of the softened indexes (PAM (7))
Source: BBVA Research

As regards domestic demand, the available data at this moment have a different history, and it is that although the recovery of the domestic market is on course, it is at a lower rate than what might be expected. Private consumption, for example, grew 0.5% in the last quarter of the year, after having grown 2.1% in the previous quarter. More timely indicators of consumption of the Mexicans point in the same direction: retail sales, for example, barely grew at the monthly rate in the first two months of this year (0.4%), below the monthly expansion of the last quarter of 2009 (1.3%).

Special mention should be given to the dynamics of investment. This component is the one that is most lagging of domestic demand with continued drops in the quarterly rate in the last six quarters (3Q08 to 4Q09). This component is quite relevant to assure growth capacity in the coming years. Even so, we consider that to the extent in which financial conditions are maintained more favorable than in 2008 and 2009, idle installed production capacity will be depleted and U.S. recovery will continue, with gross fixed investment resuming growth in an accelerated manner.

A dual labor market and low and volatile income, key factors in the performance of domestic demand

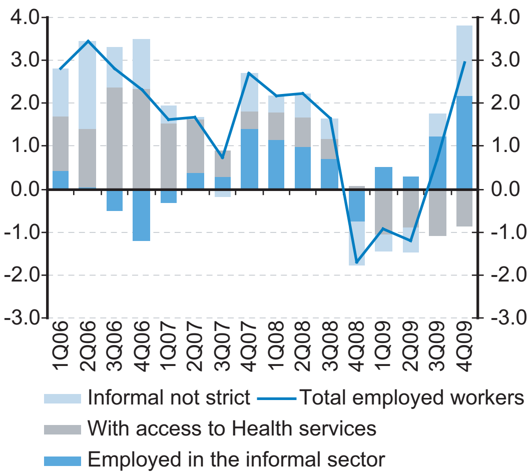
As per the foreseen economic scenario, a contribution of domestic demand is expected for 2010 of 1.8 points: 1.1 from consumption and barely 0.7 from investment. The contribution of consumption is historically low and has the role that employment and wages (determining factors of disposable income and consequently of spending capacity) have played in the recent recession and in the coming quarters.

Private formal employment posted an important drop during the crisis of 2009, although it was limited in intensity and duration when compared with the variation in employment in prior recessive episodes. The lack of congruence between the relatively good performance of employment and the limited expansion of domestic demand registered up to now leads to planning the characteristics of employment in Mexico. The Mexican Social Security Institute (the IMSS for its Spanish initials) includes close to 14 million employees, while the employed population is 44 million persons, according to the ENOE. Thus, one of the characteristics of the new jobs created are the low wage levels that they offer and the scarce labor benefits that come with them, part of them in the informal economy. The dynamics of employment and unemployment, taking as a base alternative measures for these, point to characteristics of “flexibility” in the formal segment of the market and of “rigidity” in the informal. This generates incentives for informality and contributes to explain the low levels of productivity and the limited growth of domestic spending.

In this same sense, an additional limiting factor to the capacity of domestic spending are not-too-competitive market structures, which contribute to draining households' disposable income with prices with downward rigidity and, therefore, being able to imply relatively high thresholds to disinflationary processes. Thus, compared with other economies, Mexico has been characterized by fast inflationary rises in face of cost shocks and slower adjustments downward, something on which a lower degree of intense competition has a bearing. The role of the rigidities of the market in inflation adjustment is a current issue, given the proposal for reform of the policy on competition that is currently in the legislative process.

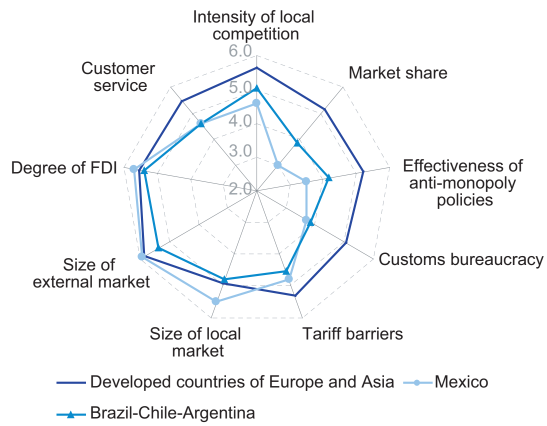
In 2009, factors such as the policy of public prices, favorable prices for agricultural products and the output gap, given the economic recession of that year, had an influence in that inflation started a process of a continuous drop. For 2010, the same factors that influenced the downward adjustment in inflation will act in a contrary manner, generating upward pressure, more on supply (rise in costs) than on demand.

Chart 9
Total employed workers by job status (contribution and % change y/y)



Source: BBVA Research with INEGI data

Chart 10
Mexico Ranking in economic competition



(6 = better situation)
Source: BBVA Research with WEF data

On the one hand, it is possible that tax costs will continue (VAT, IEPS and on Income) as well as the adjustment of government-regulated prices (fuels and gasolines) in order to align them with their international reference prices. It should be underscored that these effects have been mitigated up to now by the strength in foreign exchange. Agricultural and livestock prices will continue to show high volatility as has been the case in the early months of this year, in such a way that if we had the contribution of an average "anomaly", the boost to inflation would be 0.4pp. Finally, we estimate that the dynamics of economic activity during a good part of 2010 will be lower than the potential, the speed with which the output gap is closed could generate pressure on inflation toward the end of the year. Even so, we estimate inflationary dynamics that imply closing the year at around 5.6% for headline inflation and 5.1% for core inflation.

Mexican financial variables leave behind the negative differentiation of 2009; global factors will guide their performance

Between October 2009 and April 2010, the Mexican peso has remained as one of the currencies of emerging economies with a more intense appreciation with relation to the dollar, standing at the monthly average of April, within the range of what can be considered an equilibrium[2] exchange rate according to estimates by BBVA Research. The generalized contagion of the Greek debt crisis to the global financial markets, which took place in the first week of May, is a risk factor for the global economic and financial outlook. Should the doubts persists regarding fiscal consolidation in the developed countries, the risk premiums and the cost of financing would rise and the confidence of economic agents would deteriorate. Even so, it seems reasonable to think that the contagion and the volatility should be limited finally to those markets most affected, were it due to their weak fiscal situation or to their greater relationship with the core of the crisis. That is, to the countries of emerging Europe.

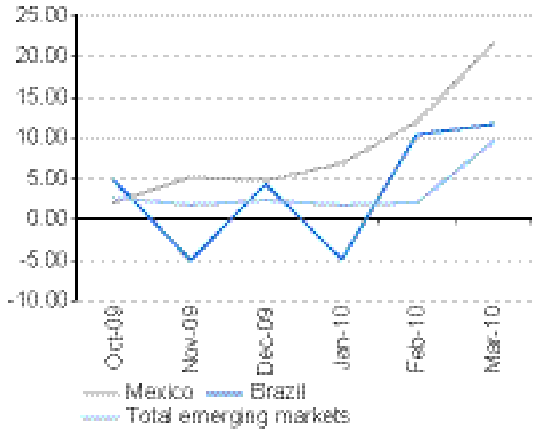
It is estimated that the exchange rate will average 12 pesos per dollar (ppd) in the last quarter of 2010. Three key elements support our expectation for a strengthened exchange rate. The first of these factors is the spread between the exchange rates, the developed economies have maintained their reference rates at zero or very low, by which the spreads of perceived risk-adjusted rates on the markets are considerably high. A second factor on which we base our exchange rate estimate is the high international liquidity which implies the search for yields by investors and which, in turn, allows for carry-trade strategies. Finally, it should be considered that the positive differentiation of the Mexican market takes place within a context of cyclical recovery where, as has been mentioned, Mexico will be among those countries with the fastest rebound after the last recession.

It should be considered that the exchange rate scenario set forth herein is not exempt from risks and, in particular, it is associated to those related to a probable intensification of the contagion of the Greek crisis. Within this possible context, we could expect to see a positive differentiation towards Mexico, a neutral positioning regarding the appetite for domestic assets over those of other emerging economies.

Beyond the international pressure with regard to capital flows, we could consider at the closing of the output gap, as the fundamental variable that will influence inflationary pressure and the position that the central bank might adopt in terms of monetary policy. In this sense, we consider that even though it is probable that inflationary expectations will remain anchored (supported by a strengthened peso); the detonator of the change in the monetary course will be the speed with which the output gap is closed by fortuitous inflationary pressure. We believe that the Banco de México will maintain the monetary pause by adjusting communication gradually until one that supports the rise in the funding rate at the end of 2010.

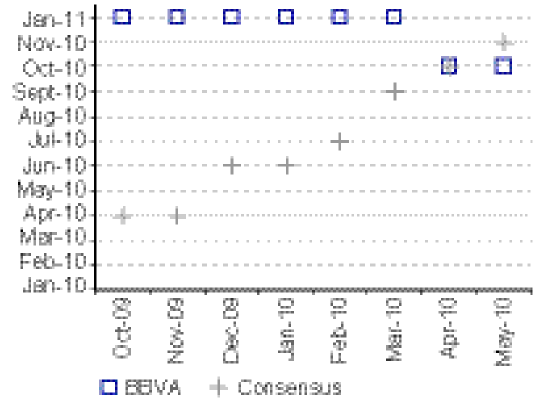
2: Consistent with the performance relative to productivity, inflation and rates of Mexico and the U.S. and which stands at between 11.5 and 12.5 ppd approximately.

Chart 11
Capital flows in bonds (market share of each country, %)



Source: BBVA Research

Chart 12
First expected increase in the funding rate: BBVA and the consensus



Source: Banamex survey

A risk that cannot be ruled out within this context is the possible reversion of the capital flows to emerging economies, which would constitute a possible risk toward higher inflation and could lead to the adjustment of the monetary policy considered herein.

Finally, within the context of high liquidity that characterized recent months, the curve has benefited from the significant entry of capital flows, which has boosted the level of long-term rates in Mexico downward. As has been set forth in the case of short-term rates, the recovery of the economic cycle, as well as the expectation of monetary policy and the evolution of risks, will take our estimates of M10 to around 7.5% at the end of the year. This, not considering that the current rally could be limited, should the uncertainty regarding the financial contagion of Greece materialize.

Labor Market, flexibility, wages, and domestic spending

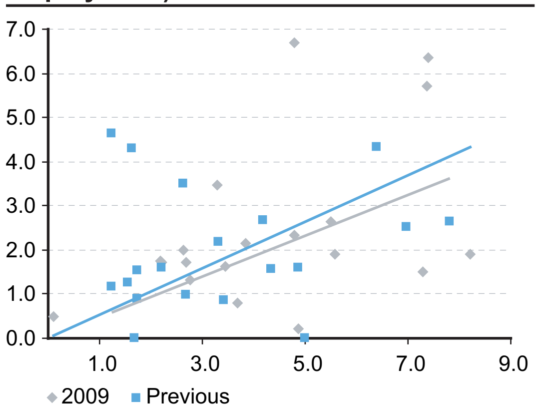
In this section we will analyze the dynamics of the Mexican labor market, given that the intense recession in 2009 has not implied a comparable adjustment in terms of a drop in employment or a rise in the unemployment rate, which is, in fact, what has occurred in many countries. It is usually pointed out that this less pronounced response by the labor market to variations in activity can be indicative of its relative rigidity, which for Mexico is highlighted by well-known indicators that are of systematic use in the OECD countries. However, in the case of the Mexican economy, the classification of its labor market as rigid contrasts with signs of considerable flexibility. Thus, the presence of an important informal sector, by definition completely flexible in relation to the existence of legislation that is protective of employment acts as a cushion for unemployment. This is accompanied by the cost of resource allocation directed toward activities with low marginal productivity and lower and more volatile income levels. This contributes, in turn, to explaining the delay in the recovery of domestic spending in the current cyclical stage. .

A labor market increasingly sensitive to growth, except in Mexico?

If the impact that the fall in per capita income has on the rise in unemployment in this recession is compared with previous recessions, evidence can be found indicating that the response in the level of unemployment is, in general, more intense this time around than was previously the case[3]. On average, in the sample of countries under consideration, unemployment has tended to react more to the recession in this cycle than in previous cycles. One way of illustrating this point is in the corresponding graph, in which it can be seen that the response in terms of an increase in unemployment to the decline in activity is somewhat greater now than in the previous recession. The more inclined slope in the dispersion graph compared to the countries under consideration reflects this[4].

Chart 13

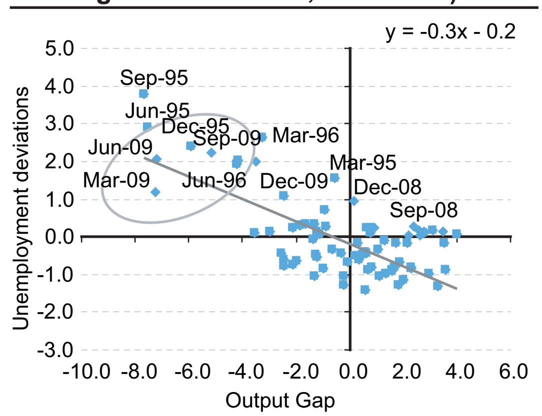
Drop in GDP and employment (% change, y/y, recession and variation in employment)



Source: BBVA Research with IMF data (WEO, April 2010)

Chart 14

Mexico: Growth and unemployment (deviations with regard to the trend, 1990-2009)



Source: BBVA Research with INEGI data

3: This point is developed in chapter 3 of the IMF's WEO dated April 2010.
4: The countries and periods considered are: 2009 for the "current period" and the respective years for the "previous period." Canada (1991), Cyprus (1993), Finland (1993), Germany (1993), Greece (1993), Hong Kong (1998), Iceland (1992), Ireland (2008), South Korea (1998), Luxemburg (2008), Malta (2001), Mexico (1995), New Zealand (1991), Singapore (2001), Spain (1993), Sweden (1993), Taiwan (2001), England (1991), and the United States (1991).

In the case of the Mexican economy, a decline in activity comparable to that of 1995, even somewhat more intense, has been accompanied by a relatively lower rebound in unemployment, of only one percentage point during 2009 compared to 2.5 points in 1995[5].

The relationship between unemployment and activity can be formulated through the Okun Law[6], considerably studied in the literature on the subject and that appears to show in the case of Mexico how the recession has implied a relatively favorable behavior of unemployment. The relationship is considered in terms of deviations regarding the level of long-term GDP growth and of the non- inflationary rate of unemployment (NAIRU[7]). Based on this analysis, the conclusion is that even though the output gap in relation to potential GDP is comparable in the 2009 recession with that of the 1995 recession, the growth in the unemployment rate is less pronounced in the case of the recent recession than in 1995. For a comparable drop in GDP, unemployment deviated less from its long-term trend in this recession than in the 1995 crisis. This relatively benign behavior can also be seen in other measurement indicators in relation to the labor market such as private formal employment. The spread between the variation in GDP and employment was -0.4 points in 1995 and -3.5 points in 2009.

Alternative indicators for measuring unemployment and sensitivity to changes in activity

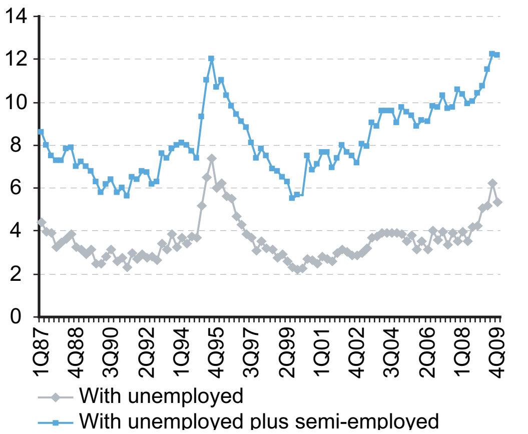
Although the unemployment rate is adjusted to international standards and is a good measurement of the segment of the population that has not worked even one hour a week despite seeking employment, the reality of the Mexican labor market is not reflected only through this measurement indicator. Indicators for measuring unemployment alternatives to the traditional methodology offer complementary signals concerning unemployment in Mexico.

The National Statistics Institute (INEGI) publishes alternative unemployment indicators, among which the “Partial Unemployment Rate” is considered important. This definition includes, in addition to the unemployed population that is seeking employment, the employed population that works less than 15 hours a week. It is believed that, given the dynamics and characteristics of total employment, this unemployment indicator is a useful tool, since it tends to be an approximation of a measurement of well-being, in contrast with the traditional measurement that is, above all, an indicator of imbalances in the labor market.

5: Average annual unemployment rose from 4.0% of the economically active population in 2008 to 5.5% in 2009. In 1994 and 1995 the respective figures were 3.6% and 6.3%.
6: A recent reference is “Okun’s Law and the Unemployment Surprise of 2009”, FRBSF Economic Letter March 2010. Based on U.S. data, it is estimated that a 2% decline in real GDP in relation to its trend correlates with an increase in the unemployment rate of around one percentage point. It is necessary to keep in mind that Okun’s Law admits different formulations and is used both in terms of variation rates as well as in terms of the deviation of the variables with regard to their trend. The general specification is formulated in terms of ut-un=-ß(dgt-dg) in which the parameter ß measures the sensitivity of the unemployment rate to variations in production; dgt is the growth in the year t, dg is the trend growth and un is the unemployment trend. This general formula also admits lags in the variables.
7: GDP and the long-term unemployment rate is approximated by means of the Hodrick-Prescott filter considering projections characteristic of both variables according to the BBVA Research economic scenario.

Chart 15

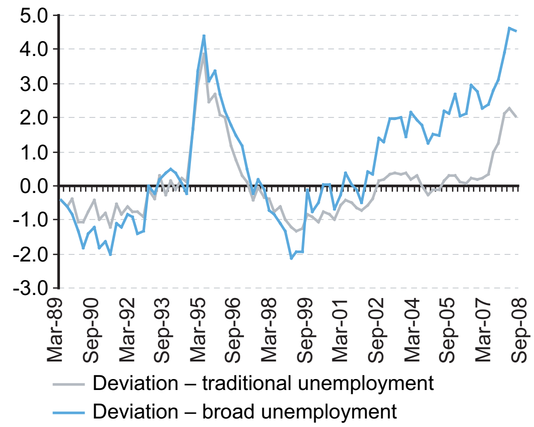
Unemployment rate Alternative measurements (%)



* Semi-employed: unemployed and those working less than 15 hours) / EAP
Source: BBVA Research with INEGI data

Chart 16

Unemployment, deviation compared to the average*



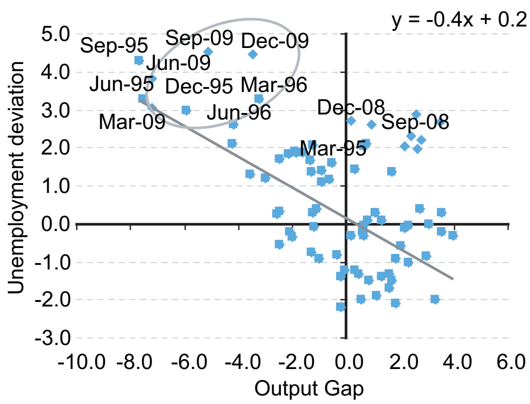
* The deviation is considered of the corresponding measurement of unemployment compared with its average up to 2001. It is as of 2001 that the alternative measurement increasingly began to be used as opposed to the traditional indicator measuring unemployment.
Source: BBVA Research with INEGI data

The contrast with the Okun Law in considering this alternative indicator measuring unemployment is clear, since the sensitivity of unemployment (alternative) in the last recessive period does not differ from the sensitivity in the previous recessive period (1995), the slope of the best adjustment line is more inclined and all the quarters of 2009 are to the right of it. It should be noted that workers who put in less than 15 hours in a week have grown as a percentage of the economically active population consistently since 2001[8].

The analysis of the time factor in the relationship between unemployment and activity is consistent with this. Dividing the sample in two sections, at the beginning of the 1990s and at the end of the first decade of this century, a coefficient is obtained of ß1 (in (u-un)t=a0+ß1(gap)t+ß2(u-un)t-1+ß) of -0.2 and -0.1 in the two samples respectively for the traditional measurement of unemployment, and -0.1 and -0.1 for the alternative measurement in the two periods under consideration. That is, the sensitivity of the deviation of unemployment in relation to its trend level is less now than in the past with the traditional measurement of unemployment, but the same as in the past with the alternative measurement.

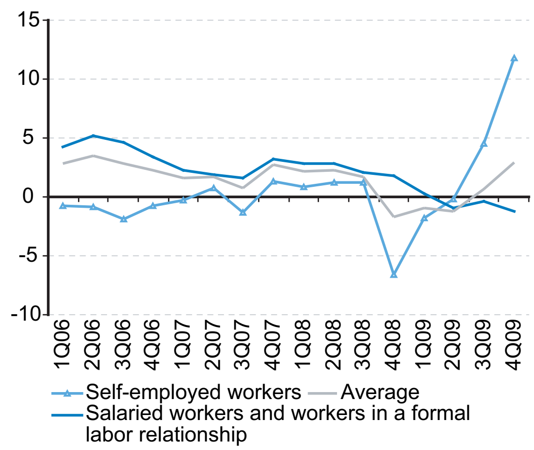
8: It should be pointed out that the data do not allow distinguishing if those surveyed worked less than 15 hours a week due to lack of demand or as a result of individual decision, but in any event, throughout the period being analyzed regulations on part-time work have not changed, as is also the case with other labor legislation.

Chart 17
Growth and broad unemployment (deviations compared with the 1990-2009 trend)



Source: BBVA Research

Chart 18
Workers by job category (% change, y/y)



Source: BBVA Research with INEGI data

The informal sector of the labor market, cushion for the adjustments in activity

The contrast between the measurement of traditional unemployment and an alternative indicator as was presented here in terms of their relationship with activity, leads to a more detailed analysis of the structure of employment[9]. The employed population earning wages and in a formal labor relationship, which represents the bulk of those employed (around 65%), fell in absolute terms since the last quarter of 2008[10], as was also the case in previous recessive periods. Within this category are workers with health-care benefits and workplace conditions effectively subject to protective labor legislation, in addition to paying taxes. In contrast, the annual variation in the number of independently employed workers (encompassing employers, self-employed workers, and un-salaried workers) shows a countercyclical behavior, increasing with the decline in activity and tending to diminish with its growth. To a large extent, this series of jobs includes employment in the informal sector, where workers do not have such fringe benefits like health care and their labor conditions in general are precarious, in many cases simply nonexistent due to written agreements[11]. This exemplifies the flexibility in the adjustment in the amount of jobs provided by the labor market, which contrasts with international comparisons of protective labor legislation, in which Mexico is among the countries with the highest degree of formal regulation of employment[12]. Both indicators are coherent if we consider the limited protective scope of legislation protecting formal employment. In addition, wage level indicators (or income per hour), which are lower and more volatile among self-employed workers, demonstrate the degree of flexibility existing in the Mexican labor market.

9: Although data series over a long period of time are not available in order to offer comparisons in relation to the 1995 recession with regard to employment considering factors such as the number of hours worked, number of employees by income level or employees' job position, detailed information is available as of 2005.
10: In annual comparison, the number of workers in a formal labor relationship and who receive a salary was 1.3% less in the last quarter of 2009 when compared with the same period of 2008.
11: The classification of formal or informal is not necessarily with regard to job position of those employed. The first criterion is based on characteristics of the economic unit—accounting practices—while the worker's job position is not based on the type of establishment. This said, it appears reasonable to presume that the bulk of workers in the informal sector are independently employed in their capacity as employers, self-employed workers, or even unpaid workers.
12: According to OECD statistics, the Mexican labor market is at level 3.13 in terms of its rigidity with regard to the degree of job protection. This level is relatively high, above the OECD countries' average of 1.93.

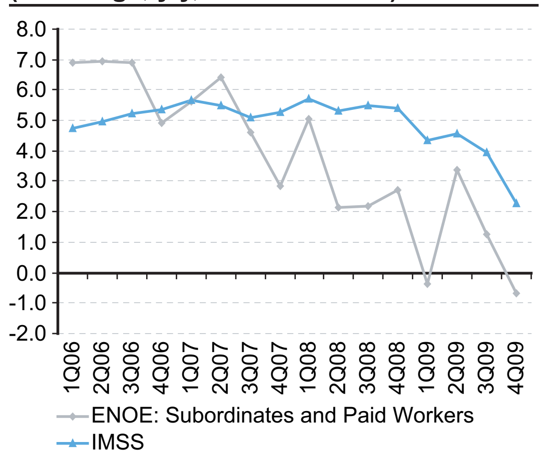
Wage flexibility, income, and private consumer spending

The main determining factor behind household consumption is families' outlook for permanent income, the result of their real current income and the corresponding future expectations. This tends to approximate the first component, real registered income, since the projections are assumed to be, to a greater or lesser extent, based on this[13].

The National Survey on Jobs and Employment (ENOE) provides data on the number of those employed in the economy classified according to their income level. Of particular importance is the higher number of workers whose income levels decreased as of 2009, particularly those who earn up to two times the minimum wage, whose numbers total close to 15 million workers. The number of this type of workers rose 11% in 2009, which contrasts with average annual declines of - 2.8% between 2006 and 2008. Along with this trend is the increase in the number of underemployed workers, concentrated in activities such as the retail sector and diverse services. It should be recalled that included in calculating their income are all types of perceptions, among them salaries, commissions and tips, and overtime pay, which means that the employment conditions of a large part of the workforce, especially those with lower income levels, are subject to high volatility and therefore uncertainty[14]. Thus, in comparing the variation in the total income of paid and salaried workers of the ENOE with the income levels of workers affiliated to the Mexican Social Security Institute (IMSS), the most similar groups in both statistics, it should be noted that in both categories the average income/salary in real terms has been on the downtrend, but more intense and volatile in the case of the ENOE.

Chart 19

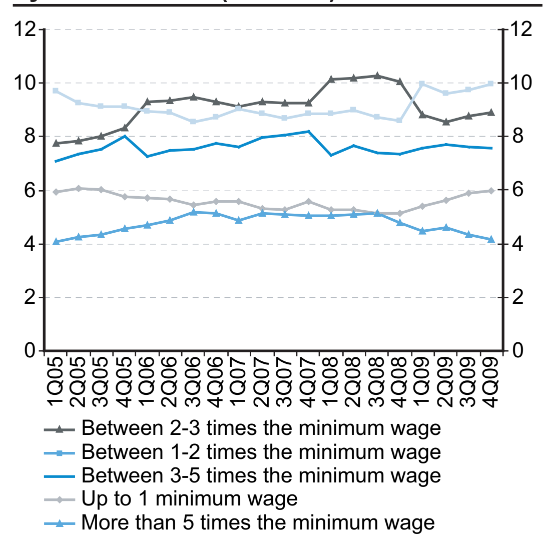
Workers' wages. Salaried workers and workers in a formal labor relationship (% change, y/y, nominal terms)



Source: BBVA Research with INEGI and IMSS data

Chart 20

Employed workers by income level (millions)



Source: BBVA Research with IMSS data

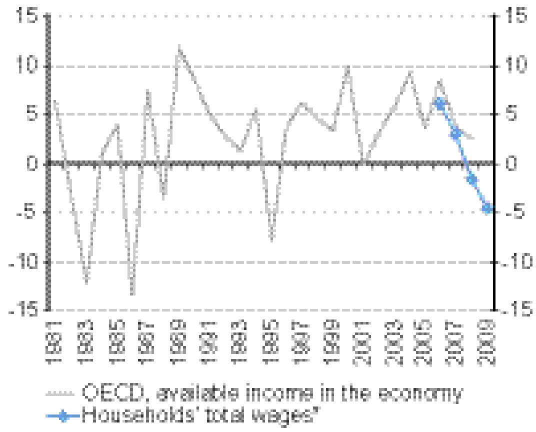
13: One also must consider the difficulty of not having current and frequent information in accordance with the criteria of the National Accounts on the balance of monetary and non-monetary transfers that households receive from the public sector, from the payment for the productive factors at their hands—dividends, interest on their deposits or financial assets, or the financial burden they face due to debt.
14: Along with it, it should be considered that the component of expectations on permanent income contributes to limiting it or in any event not increasing it.

Given the information on total workers, it is possible to combine data on income with the number of employed workers in order to determine total wages by job segment, including those in a formal labor relationship, employers, and self-employed workers. In this distinction it should be noted that the only category in which total wages has experienced a real positive variation is among self-employed workers, and this has only been the case in the last two quarters of 2009 and has been due to an increase in the number of workers, since as with the rest of the categories, the variation in income in real terms has been negative.

The use of total wages of the economy as a proxy of disposable income is closely related with private consumer spending, the main component of internal demand. The downtrend in total wages tabulated based on information of the total employed population (ENOE) helps to explain the strong decine in private consumer spending in the latest recession, even though since the second quarter of 2009 there has been an increase in employment.

Chart 21

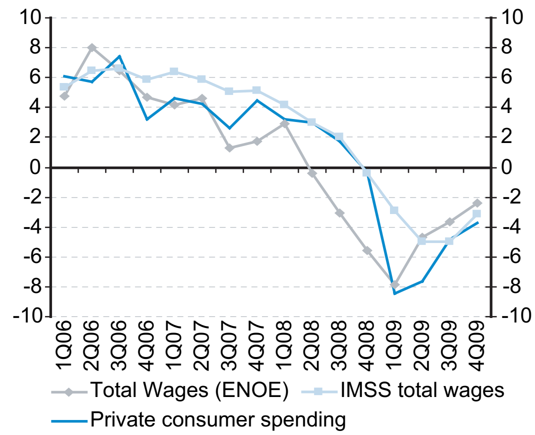
Available disposal income, alternative measures (% change, y/y)



* Total wages = income per hour worked X number of hours worked in a week X employed workers, based on ENOE data
Source: BBVA Research with OECD and INEGI data

Chart 22

Total wages and private consumer spending (% change, y/y)



Source: BBVA Research with INEGI and IMSS data

Exchange Rate Outlook: perspective of the peso's strengthening

The performance of Mexico's domestic financial variables no longer reflects the negative differentiation compared with other emerging economies observed during 2009. This has been supported by the economic recovery and a favorable fiscal situation

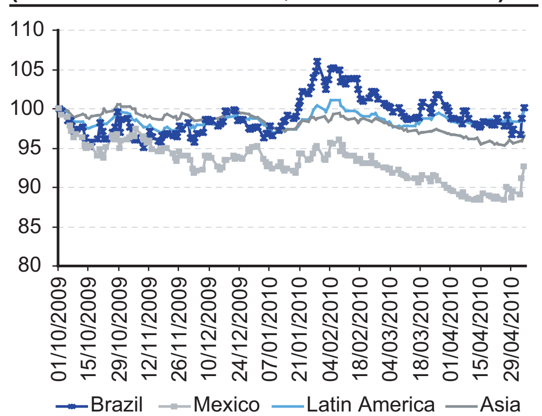
The performance of the financial markets in Mexico has surpassed the average for the emerging economies between October 2009 and April 2010. The recent contagion stemming from the intensification of fears regarding the debt crisis in Greece in a first phase was limited to the debt market of other European countries facing fiscal challenges. This situation did not lead to a reduction of the appetite for risk outside Europe, given that the outlook of a cyclical recovery in the U.S. and the search for profitability in view of the continuation of conditions of high liquidity in the markets continued to support the financial assets of the emerging economies[15].

The continuity of the appetite for risk and the search for profitability at the same time that the Greek debt crisis was developing in this first phase (up to the last days of April), is shown clearly in the different indicators: i) the average spread of the EMBI+ of the emerging countries during April (239 bp) was at its lowest level since December 2007 (233 b); ii) the VIX volatility index maintained its declining trend—which was even accentuated in the last two months in contrast with the greater fears perceived in the European periphery—and in April was at its lowest level (15.6) since June 2007 (15.0); and iii) the currencies of the emerging economies continued strengthening against the dollar, although a differentiation is seen among the currencies in terms of growth (i.e. those that appreciate more are those of the economies that seem to have better economic perspectives.).

Chart 22
Risk Aversión Index Mexico

* Main components between Embi+, the curve slope, swap spread, implicit volatility of the peso, VIX, peso volatility observed.
Source: BBVA Research

Chart 23
Exchange Rate (Currencies vs. Dollar, October 09=100)



Non-weighted average for the regions
Source. BBVA Research

15: The perspective of the continuity of these conditions of abundance of liquidity is supported by the extension over time, at least throughout the rest of 2010, of the accomodating monetary policies in the more developed countries, as mentioned in the section on the global environment in this issue.

From a domestic perspective, the risk aversion indicador has diminished considerably since the beginning of 2009, and this trend was accentuated in the early months of 2010. The global factors noted above explain part of this behavior, but the differential impact of the recovery cycle of the U.S. compared with Europe and the certainty regarding the fiscal situation in Mexico also support this trend. Thus, in general, since October 2009 a better performance was posted of the domestic financial variables against those of other emerging economies.

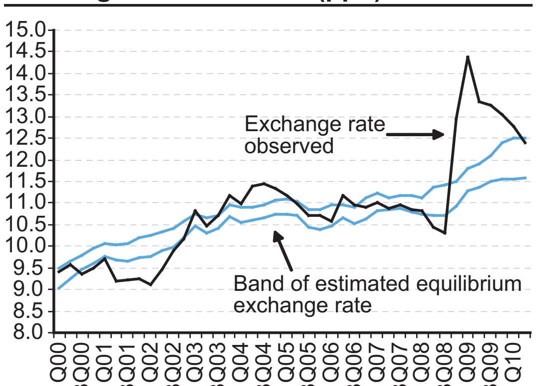
In a second phase of the fiscal and confidence crisis in Greece (the first days of May) in which, after other European markets began to be strongly affected in view of the lack of agreements regarding the financial rescue scheme, a generalizad financial contagion was quickly unleashed, which reflected the rapid increase of global risk aversion, and the sale of higher-risk assets. During this period the domestic financial variables showed a very unfavorable performance and, in contrast to the previous weeks, both the exchange rate as well as debt assets were no longer positively differentiated and fluctuated in line with the global aversion to risk.

This generalized contagion during the first weeks of May, if it should persist, could constitute a risk factor for global and consequently domestic economic and financial perspectivas. However, it seems reasonable to think that the contagion and volatility could be reduced, or in any case be limited in the end to those markets most affected either due to their weak fiscal situation or their greater relation with the core of the crisis. Therefore, we believe that the first two weeks of May have set the guideline for the possible performance of the exchange rate and interest rates in Mexico. In a context of financial contagion, the domestic variables will respond to the level of global aversion in line with the trend in the emerging economies, but no longer being discriminated. In a context of normalization of the markets (our central scenario), there is still space for a positive differentiation of the Mexican markets.

The peso continues to be one of the currencies with a better relative performance in recent months

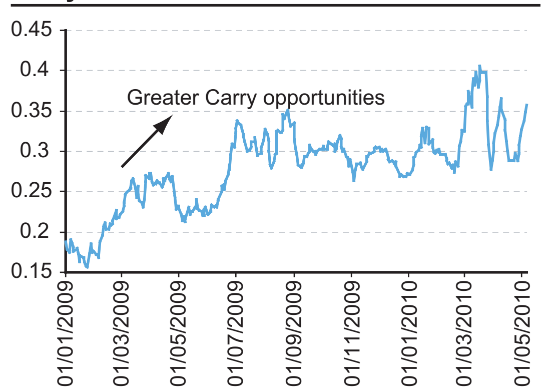
During the 4Q09 the value of the peso versus the dollar has been one of the most strengthened among the world's currencies, not only in the Latin American region but also among the most liquid currencies in the world. In the first four months of 2010, the rate of exchange of the peso against the dollar appreciated 6.0% and since October 2009 to the end of the first week of May, 9.4% (around 11.5% if we consider the minimum level prior to the Greek financial contagion). The peso/dollar exchange rate at the beginning of May is already within the range of long-term equilibrium estimated by BBVA Research, approaching its upper limit, and in any case, if we consider the lower limit, undervalued between 7% and 8%.

Chart 23
Estimated equilibrium exchange rate and exchange rate observed (ppd)



Source: BBVA Research

Chart 24
Carry-Trade Indicator



Spread among weighted interest rates by market risks
Source: BBVA Research

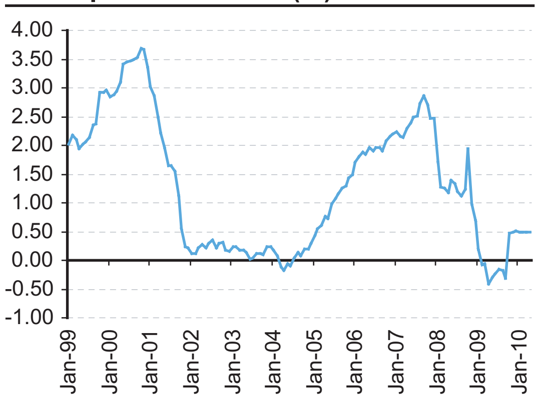
This band is the result of choosing the average of the highest and lowest estimates of a group of models of the equilibrium exchange rate. The models considered include variables that are considered determining elements of a long-term exchange rate, like PPP (a price differential), adjusted by differences in productivity levels, potential growth spread among the economies, real equilibrium interest rate differentials, as well as models that structurally link the relation of trade flows and capitals with potential economic growth. As seen in the attached graph, the exchange rate, consistent with the economic fundamentals of the Mexican economy, maintains a long-term depreciatory direction that is basically the result of a positive spread in inflation and long-term negative growth compared with the United States. Based on these long-term factors, the expectations of interest rate spreads or of expected financial flows act as medium-term regulating factors that moderate or intensify the secular trend mentioned.

With data up to May 12, the markets have begun to normalize and, with this, the volatility of currencies. Nevertheless, uncertainty prevails regarding the scope and effectiveness of the announcements made by the European Council on May 9, regarding the rescue packages agreed upon and the exceptional measures adopted by the European Central Bank to face the confidence and credibility crisis in Greece and some other European countries[16].

Although the plan of guarantees agreed upon in Europe reduces short-term uncertainty, the medium-term risks remain. In this context of high uncertainty, our scenario considers a process with volatility, but of gradual normalization of the financial risk premiums. In this context, we believe that the factors that have propitiated the relatively favorable performance of domestic financial variables will gradually begin to prevail again. This should normalize the performance of the capital flows, which up to April were entering the emerging markets with considerable strength, mainly through the debt markets. An average exchange rate of 12.0 ppd is projected in the last quarter of 2010, a level consistent with the conjugation of different factors that will again complement and support the situational strength of the peso. The first of these is the spread between interest rates. Despite the fact that Banco de México (the central bank) has also implemented a lax monetary policy, consistent with the balance of risk over inflation and growth, the more developed economies maintain their reference interest rates at zero or very close to zero. Thus, interest rate spreads are considerably high even when they are adjusted in terms of the perceived risk in the markets.

Chart 24

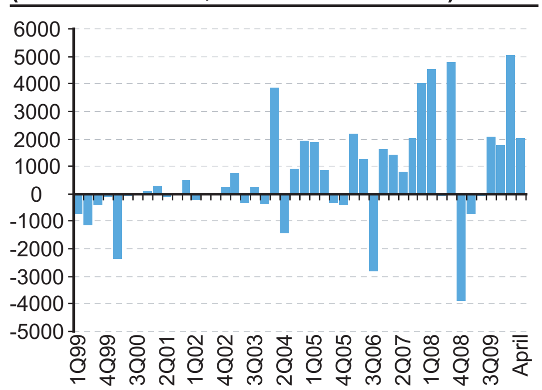
Real interest rate, developed economies (%)



Weighted average between real rates in the U.S., the Euro zone and Japan
Source: BBVA Research

Chart 25

Foreign capital flows to the public debt market in Mexico (Bonds + Cetes, millions of dollars)



Source: BBVA Research and Banco de México

16: : See Global section of this document.

A second element of support for the value of the peso versus the dollar is the search for yields by investors as a result of high international liquidity, which together with the spread in interest rates mentioned previously allows for carry-trade strategies (interest rate arbitrage). This liquidity could be maintained in view of the perspectives of an extension of the lax monetary policies in the more developed countries, at least throughout the rest of the year. This greater liquidity, together with the Greek debt crisis (prior to the decline in the appetite for higher-risk assets), has increased the capital flows to other emerging markets, which has tended to benefit the Mexican market. Put in another manner, in an environment of financial stabilization in Europe, but with the inherent risks of the process of fiscal consolidation in those countries, other emerging countries could continue to benefit from flows in search of better risk/yield ratios.

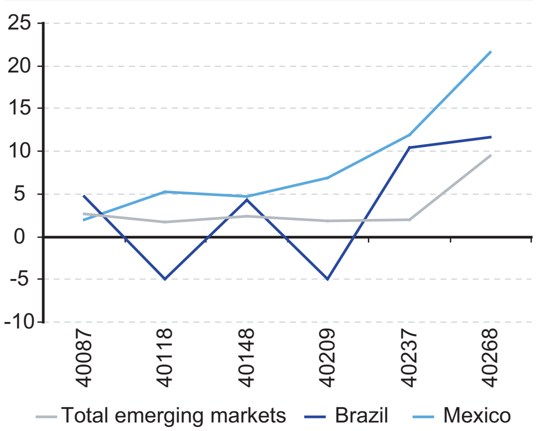
In particular, the foreign capital flows to the Mexican bond market have shown a gradual recovery since the 3Q09, which has accelerated since the beginning of this year. The share of foreign capital in the government bond market has surpassed 20.8% (the average prior to the financial crisis in 2008) rising to 25.5% of the total value of domestic bonds in circulation. This greater flow to the debt market has led to a slight improvement in the liquidity of the secondary market, which continues below its average and has been one of the main factors in leveling the curve in recent months.

Moreover, foreign flows to the domestic debt market derived from carry-trade strategies are also growing significantly in the short part of the curve. In particular, Cetes holdings by foreigners has shot up from 11.5 billion pesos at the beginning of the year, to 61.9 billion pesos in April 2010. This trend now represents 11.5% (against 2.2% at the beginning of the year) and around 15% of total foreign investment in public debt instruments in pesos. It is foreseeable that this performance will be maintained in a scenario without increases in global risk aversion.

The stimulus observed recently of foreign capital flows to the bond market is also the result of non-repeatable structural changes. One of these is the inclusion of Mexican "M" bonds in the World Government Bond Index (WGBI) of Citigroup[17], which could imply the entry of foreign capital flows in the domestic debt market by the international funds that follow and respond to this index. Mexico is the first country in Latin America to be included in this index.

Chart 26

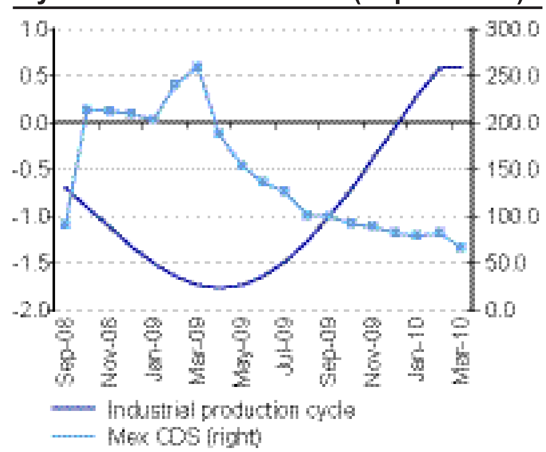
Capital flows to the bond market (as percentage of the foreign investment balance in each market or region)



Source: BBVA Research and EPFR

Chart 27

Industrial production cycle* Mexico and 5-year Mexican CDS Index (Sept 09=100)



* Industrial Production HP Mexico
** Relationship between the end of the recession and improved performance of risk indicators
Source: BBVA Research

17: This index measures the compound yield of the major bond markets and is calculated by weighing the total yield of public bonds of the major markets in the world according to the capitalization of each market respectively. At this time, Mexico is a candidate to be included next October.

A third factor, complementary to the interest rate spread and the global search for yields, that supports the positive outlook for the exchange rate is the positive differentiation of the domestic market against other emerging markets in a context of cyclical recovery[18]. The different measurements of financial risk aversion, both global as well as domestic, have improved significantly as a result of the beginning of the consolidation of economic recovery in the U.S. and consequently the improvement of Mexico's fiscal and growth perspectives[18b].

The financial and fiscal stability generated by the current environment of economic recovery leads us to think that as long as this continues, with everything else constant, a relatively more positive perception of the Mexican economy and the domestic market against the other emerging economies will prevail. The Mexican markets were among the most affected during the recession in the U.S., since the Mexican economy was the most closely linked to the downturn and, consequently, the situation of its public finances deteriorated. Now, during the recovery and in view of practically no risk regarding its debt payment capacity, the Mexican markets face a context that contrasts with that of last year. This has allowed both the exchange rate as well as other financial variables to perform better, in relative terms, than most of the emerging markets.

This positive differentiation among the domestic markets was accentuated during the first phase of the debt crisis in Greece (absence of global contagion), but which had also been evident since October 2009. In recent months, in episodes of tension, the peso has interrupted its appreciation trend, while in moments in which the feeling in the markets has improved, it has been among the currencies that has strengthened the most. This contrasts with what occurred during 1Q09-3Q09 when the opposite occurred: in moments in which the risk perception increased, the peso weakened, while in episodes of a greater appetite for risk, the peso did not tend to revalue as did the average of currencies in the emerging markets.

To summarize, we believe that there are conditions, both domestic and global, that support an exchange rate of 12.0 ppd toward the close of 2010 (with a trend toward levels below 12.0 if the inherent uncertainty of the financial situation in Europe is strongly reduced). Toward the end of 2011, we expect an exchange rate of 12.4 ppd in a context of the gradual withdrawal of the lax monetary conditions, but an environment of global economic recovery and in Mexico.

18:This strengthens the main sources of dollar liquidity in Mexico. In this way, the accumulation of international reserves is being supported by high oil prices and the consequent sale of dollars by Pemex to the central bank. Moreover, as the job market in the U.S. recovers, an increase in remittances, which have stopped falling, is foreseeable. This favorable environment has allowed the Foreign Exchange Commission to suspend the daily auction of dollars at their minimum price. Although with a cautious approach, the Flexible Credit Line of 48 billion dollars with the IMF has been renewed for one more year.
18b: The Banco de México has been implementing since February, a monthly auction sale of dollar options that gives the holders of these options the right during the following month to sell dollars to the central bank at the interbank reference exchange rate (Fix) of the immediately prior business day if the price is not depreciated more than the average of the twenty business days immediately prior. The plan does not seek to set a target exchange rate, it does not affect the free float of the currency since there are clearly defined ex ante rules to nullify possible discretionalities. The objective is to accelerate the rate of accumulation of international reserves to improve the credit profile. The monthly amount of options to be auctioned is 600 million dollars, so the auction will not predetermine the exchange rate. In this sense, the Foreign Exchange Commission estimates that the accumulation of international reserves will be close to 20 billion dollars for the 2010-2011 period, which, however, it is "advisable" to complement with the mechanism described. This mechanism is not new; it was implemented between August 1996 and June 2001, allowing for an accumulation of 12.2 billion dollars in international reserves. This amount is equivalent to 75% of total options auctioned and contributed nearly 30% of the total increase in reserves during that period. So far, 1.8 billion dollars have been auctioned and 1.2 billion have been exercised (66.6%). If a percentage of options were exercised similar to those executed during the period from 1996 to 2001, of the 13.8 billion dollars that the central bank could potentially purchase during 2010-2011, international reserves could be accumulated of nearly 10.5 billion dollars. The renewal of this method of accumulation of international reserves will not impact the expected course of the exchange rate. Nevertheless, an intervention with these characteristics could limit the initial boost that the appreciation of the peso could cause, although if the trend were not influenced, it would only lead to a less volatile performance in the peso's process of appreciation.

Inflation, supply pressures limited by demand

Inflation increased due to supply pressures (fuel and taxes) with its impact mitigated by the low demand cycle and the appreciation of the peso

Despite the intense depreciation of the peso at the end of 2008 that at one point reached 47%, inflation was on the downtrend throughout 2009. This trend was supported by the freezing of public prices (fuel products), favorable prices for agricultural products, and an expansion of the output gap following the severe economic contraction. Thus, headline inflation was reduced from 6.5% at the end of 2008 to 3.6% in December 2009.

For 2010 these same factors will continue to be important in determining the inflationary dynamics although in the opposite sense and we estimate that their scope and intensity will be different. During the first quarter of the year, inflationary pressures were registered following the approval of the fiscal reform —which implies rises in fuel prices—which occurred amid an environment of high volatility in prices of agricultural products, the strength of the peso, and economic activity marked by a gradual recovery, but still below its potential. In this context, the evolution of inflation has been close to what was projected —by both the Banco de México as well as BBVA Research —reaching an annual 5% in March, with an average of 4.8% in the first quarter of the year.

At the beginning of the second quarter, inflation is performing favorably, sustained both by volatile supply factors as well as the containment of internal demand in the economy. Although this recent evolution encouraged a greater optimism among analysts on its future trajectory, inflationary pressures continue to be felt and require a detailed analysis regarding the risk balance that could prevail in the next few quarters, since this will frame the direction of the country's monetary policy.

Upward inflationary pressures continue although they are more classified as a result of the April data

Inflationary pressures in relation to 2009 are concentrated, on the supply side, in: (i) greater taxes on consumption (VAT) and production [Special Tax on Production and Services (IEPS) and income tax (ISR)]; (ii) greater rhythm of increases in government-regulated prices (fuel products) to align them to their international benchmark rates; and (iii) a greater contribution to inflation from agricultural products.

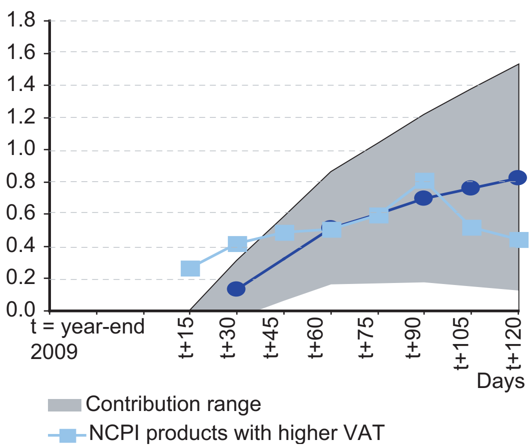
In relation to the higher tax costs (VAT, IEPS and ISR), their evolution has been similar to what we expected at the beginning of the year[19]. It should be emphasized that to date the effects on inflation of higher taxes have been mitigated by a greater strength of the peso and still weak domestic demand. According to central bank indications, the probability of a greater contamination to final prices from tax costs has been decreasing over time. However, the possibility that the economic agents will seek to postpone the transfer of their tax costs to a time when there is greater demand for their products and services cannot be ruled out as a risk factor.

19: While the central bank projected that the tax reform would contribute 0.5 pp to annual inflation, our estimates at the beginning of the year placed the figure at between 0.4 and 0.7 pp.

Agricultural prices have been marked by high volatility and, as a result, in the first quarter, fruit and vegetable prices increased an annual 24% (compared to -1.1% in December 2009). Even though during April these prices experienced a favorable correction due to seasonal factors (a situation that could extend until July), the unusually low prices for agricultural products and the possibility of a bad year for their harvests due to climate factors (see graph) increase the risk of inflationary pressures for the close of the year. In the event of a variation in prices for these items close to the average of a "bad year", their contribution to inflation at the end of 2010 could reach 0.4 pp.

Chart 28

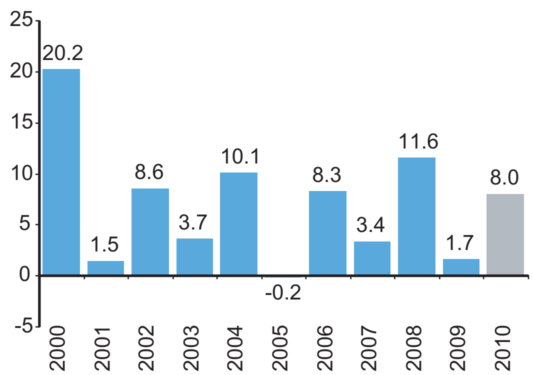
VAT contribution to inflation and short-term dynamics of the NCPI: observed vs. estimated in 2009



Source: BBVA Research y Banxico

Chart 29

Agricultural products: "Good year" and "Bad year" (annual inflation %, December of each year)



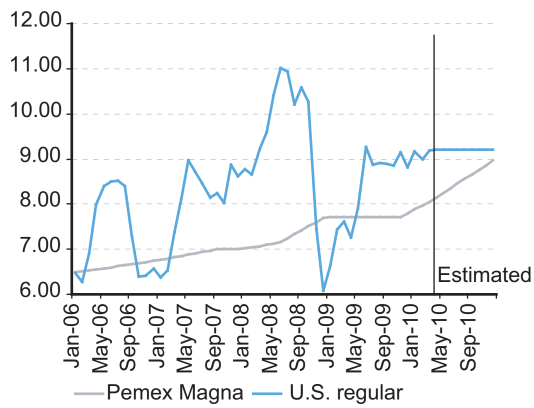
Source: BBVA Research and Banxico (the central bank)

The trend in prices of energy products (gasoline, natural gas, and electricity) will be in accordance with the scheduled increases and their international benchmarks (which depend on hydrocarbon prices and the exchange rate). For gasoline, it should be emphasized that despite the strength of the peso, government-regulated internal prices remain about 11% lower than their benchmarks in the United States. If we consider that oil prices are near current levels, the contribution of government-regulated energy prices to inflation at the end of the year could be close to 0.84 pp[20].

20: This figure is prudent if we consider that the central bank estimated —at the end of 2009— that the contribution from these prices could reach 1.2 pp of inflation.

Chart 30

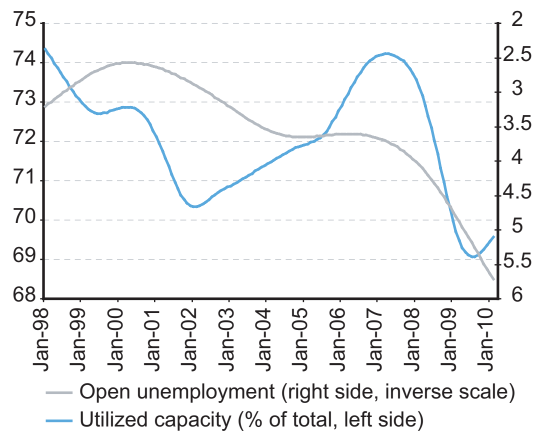
Implicit subsidy in regular gasoline (Pemex price vs U.S. price, pesos per liter)



Source: Banxico, IEA

Chart 31

Mexico: Use of production factors (used capacity index and TDA %)

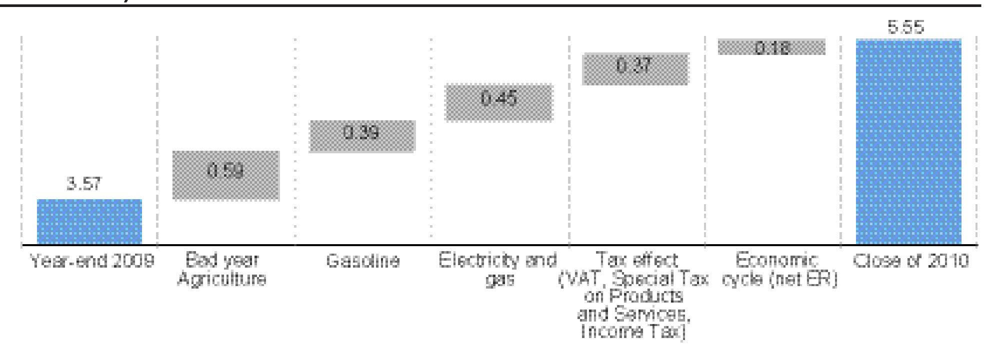


Note: Trend series (Hodrick-Prescott with lambda=500)
Source: BBVA Research

In terms of demand, economic activity will continue below its potential, which has been a positive factor throughout 2009 and the first quarter of 2010. However, the growth outlook for this year implies a gradual reduction in the output gap, which could generate pressures for inflation as the year advances. Such pressures will be more prevalent to the extent that there is a consolidation of the recovery of the labor market, of disposable income and along with it, of internal demand. All in all, it is likely that the inflationary momentum in the current cycle might not be as intense as in previous episodes due to the slow process of activation of domestic demand in an environment of a stabilized exchange rate.

Chart 33

Contributions to inflationary increases from 2009 to 2010 (pp and annual %, production factors)



Source: BBVA Research with Banxico data

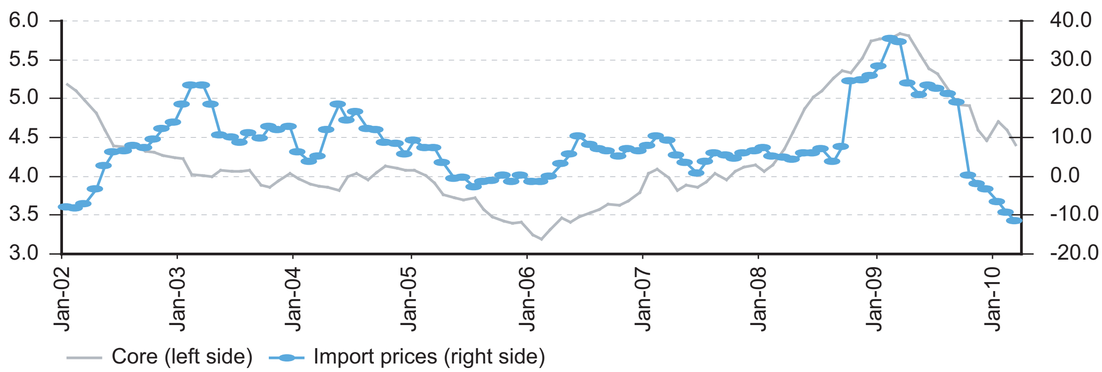
Strength of the peso, moderate wage increases, and contention of expectations mitigate the inflationary pressures and offer balanced risks around the central estimate

In the year to date, the prices of imported goods in Mexico (denominated in pesos) have decreased considerably, with prices declining an annual -11.4% in March, which contrasts respectively with a -3.4% decrease and 25.8% growth at the end of 2009 and 2010, respectively. This evolution can primarily be attributed to the appreciation of the peso in the first quarter of the year (-11% annual average).

The strength of the foreign exchange market has enabled core inflation to stabilize at around 4.4% in annual terms, with a decline posted in April. The prices that have most benefited from this dynamics correspond to "other goods" (for example, personal articles, appliances, clothing, etc) whose evolution is tied more to the prices of tradable goods (inflation for which fell from 5.4% in December 2009 to 4.8% in March 2010). It should be emphasized that the influence of the cost of foreign exchange has been slightly lower in processed foods (inflation for which declined from 5.7% to 5.5%) while price determination on such items is also influenced by highly volatile agricultural produce prices.

Chart 33

Core inflation and of tradable goods (annual %)



Note: trade indexes are in pesos
Source: Banxico

Although foreign-exchange market risks could resurface if the uncertain global financial panorama of the last few weeks continues, our scenario does not contemplate such an eventuality. According to our forecasts, it is more likely that for the end of 2010 an appreciation of close to 8% in annual terms will be observed, which will help mitigate the inflationary pressures mentioned.

In this context, we feel that the risk balance for rises and declines in inflation for the year are close to the central estimate of 5.55% in annual terms for headline inflation and 5.1% for core inflation. In any event, for the next few months it will be necessary to monitor the degree of changes in volatile agricultural prices, the speed with which the output gap closes in the country, and the extension of the peso's appreciation. At that time this will allow the possible changes in the risk scenario to be properly gauged.

Rigidities in the domestic market tend to put a brake on the decline in inflation

In relation to other economies, the evolution of consumer prices in Mexico has been characterized by a rapid upward adjustment in response to cost shocks (for example, rise in the prices of food inputs), with more lasting effects and a slower decline in inflation. This dynamics implies the existence of market rigidities that affect price determination in the economy.

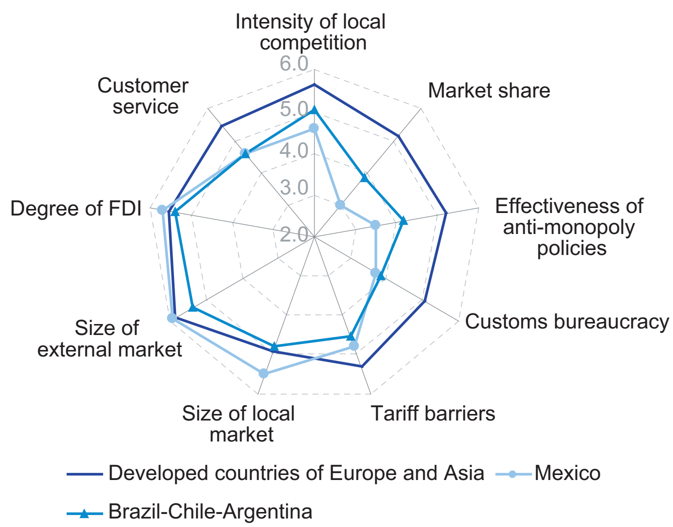
Among the rigidities that can most explain this dynamics are: (1) the presence of a high degree of uncertainty in the determination of vendor costs (for example, credit risk premiums, public security costs, the cost of providing public inputs such as electricity, water, infrastructure, etc); and (2) the prevalence of not very competitive market structures where the supplier maintains a high price-fixing power that allows obtaining higher profit margins.

Although it is reasonable to think that all the previous elements are present in the Mexican economy, possibly the factor that most influences price dynamics and consequently consumer well-being is the existence of not very competitive market structures. Thus, based on studies by international institutions such as the World Economic Forum (WEF) in relation to the country's competition structure, the Mexican economy is characterized as having a large size market, both internal and external. However, this market seems to be held "captive" by a few suppliers of goods and services, which compete poorly with each other and in which the external competition faces obstacles due to transactional bureaucracies (for example, customs).

In particular it should be emphasized that Mexico is one of the economies with a greater concentration of supply in the world (116th place among 134 nations according to WEF) and in which the implementation of anti-monopolistic polices is not very effective. From this flows the importance of the recent reform proposals to the Federal Law on Economic Competition.

Chart 34

Mexico's Ranking in terms of economic competition

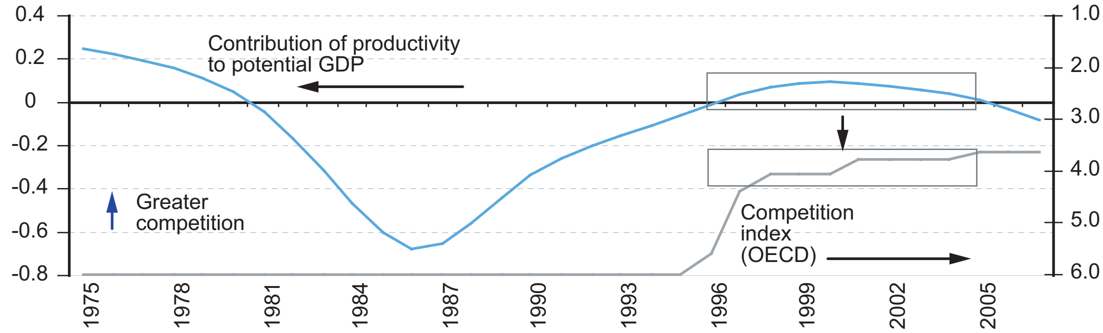


(6=best situation)
Source: WEF

The lack of competitive markets affects the population's well-being in different ways: first, the existence of monopolistic profits discourages incentives for suppliers to increase their productivity since their profit margins are tied to the imposition of overpricing. The lack of productivity limits the potential growth of the economy and makes it difficult to increase wages. The relationship between economic competition and greater productivity was latent in the decade of the 1990s following the privatization processes and the deregulation of the markets (for example, elimination of legal barriers to investment). However, the expansion of productivity in Mexico stagnated to the extent that progress in economic competition did not continue (see graph).

Chart 35

Competition in Mexico and contribution of productivity to potential GDP



(6=no competition)
Source: BBVA Research and OECD

An advance in economic competition in the markets would generate benefits associated with greater productivity and product prices that will tend to decline, which implies a net enrichment of buyers in the economy.

Interest rates, prolonged monetary pause

The monetary pause will continue to have a risk balance with no important changes; nevertheless, the current monetary stimulus will not be justified going forward, with an increasingly less negative output gap.

Throughout its most recent communication, Banco de Mexico (Banxico for its Spanish initials) has increased the relative weight of the economic cycle in its inflation risk balance and, therefore, on the level of the funding interest rate, an instrumental variable of monetary policy. Thus, even though for the central bank inflationary pressure has been consistent with what was foreseen, and has therefore kept the projected course unchanged, progressively it has mentioned the importance that the speed with which the conditions of economic well-being in the coming quarters will have due to the withdrawal of the monetary stimulus, indicating that these conditions could vanish much quicker than was previously foreseen ("it could become positive in the first half of 2011"[21]), they are implicitly leaning the risk balance a little bit more toward that of higher inflation. Even so, the central bank continues to expect that the rise in inflation will be transitory, and, in a more positive recent evaluation, it underscores that the risk of secondary effects has decreased. In this sense, the lower affluence would be the detonator for the gradual withdrawal of the monetary stimulus policy.

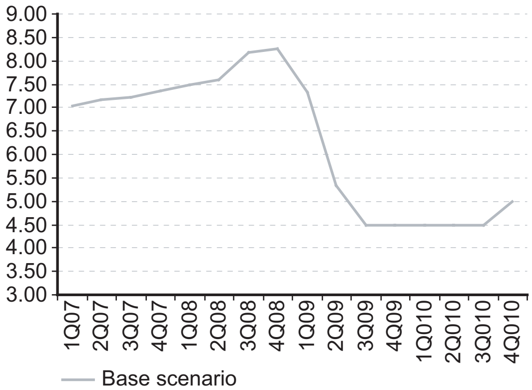
Within this context, the central bank's communication strategy has been showing that even though it is in no hurry to raise the reference rate, the current monetary stimulus could not be justified going forward with a less negative output gap. Since February, the role of "the narrowing of the output gap" had been emphasized in the communication to mitigate the effect on prices of the change in taxes and public prices. In its most recent communication in April, an increasingly more important weight had been given to the "speed with which the output gap would close" to even include this reference in the paragraph on monetary policy. In the latest report on inflation, given that it is very probable that inflationary expectations will remain anchored due to the absence of demand pressure on monetary policy and the continuation of real negative wages, the central bank had made it clear that the speed will be the detonator of the start of a rising cycle so that the reference rate will gradually converge with its neutral level.

Due to this, it is foreseeable: i) that Banxico will maintain the monetary pause in the coming months, given the consistent evolution of inflation with the projected course, and ii) that the central bank will continue to gradually adjust the communication—as it has done since the last three monetary policy meetings and in the last Quarterly Report on inflation—to a scenario that will back a rise in the funding rate toward the end of 2010, as per our projections. The central bank will continue to clearly indicate that "the speed with which the output gap will close" will dictate the start of the withdrawal of the accommodating monetary policy. Positive evaluations on inflation—although attentive to pressure from fruit and vegetable prices—assume that the pause will be maintained throughout the 2Q and 3Q of 2010. However, the beginning of a cycle of increases in 4Q 2010 is probable, given that the risk balance justifying the monetary easing will continue to gradually lean toward that of higher inflation. In said quarter, as per the scenario forecasts of BBVA Research, it is foreseeable that inflation will stand above the higher limit of the range estimated by the central bank. Also, the output gap will be close to zero.

21: Report on Inflation January - March 2010.

Chart 36

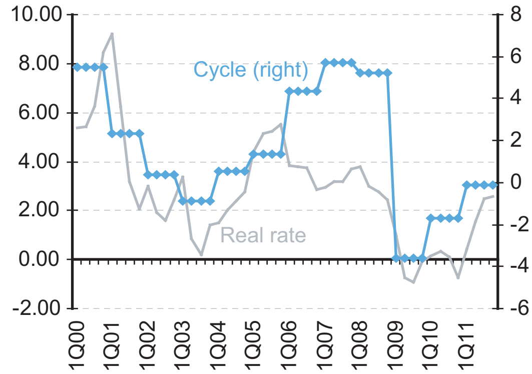
Estimated funding rate (% quarterly average)



Note: For the component of inflation gap, we consider the maximum limit of the central bank's inflation target as the inflation target for 2010-2011.
Source: BBVA Research with its own estimates of GDP, potential GDP and inflation

Chart 37

Ex-post real interest rate vs. economic cycle



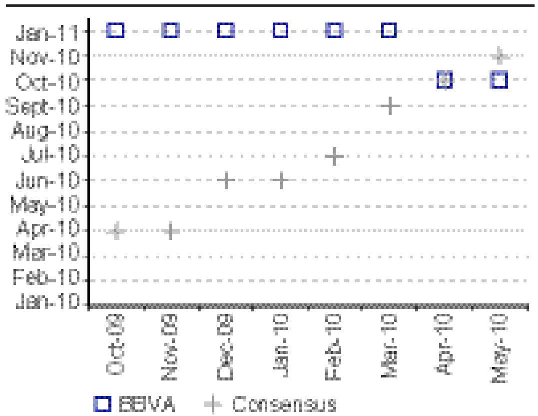
Source. BBVA Research

Also, the more recent events (i.e. the recent contagion of all the financial assets to the risk of the debt crisis in some European countries) suggest that going forward, there is risk of a reversion of the capital flows that have come to the emerging markets—which Banxico has indicated as one of the main risks of an inflation rally: "a sudden reversion of the capital flows could lead to an abrupt and sudden adjustment in the foreign exchange rate at the moment of the gradual withdrawal of the accommodating monetary policy (through October 2010 to January 2011 previously anticipated). Even so, the possibility remains that the first increase will not occur finally until the beginning of 2011, if the strength of the peso intensifies and, with it, the rallying pressure on core inflation is mitigated.

It should be pointed out that both the expectations of analysts and those discounted by the market have been gradually approaching the scenario that BBVA Research has maintained since the previous year and which anticipated a much more prolonged pause.

Chart 38

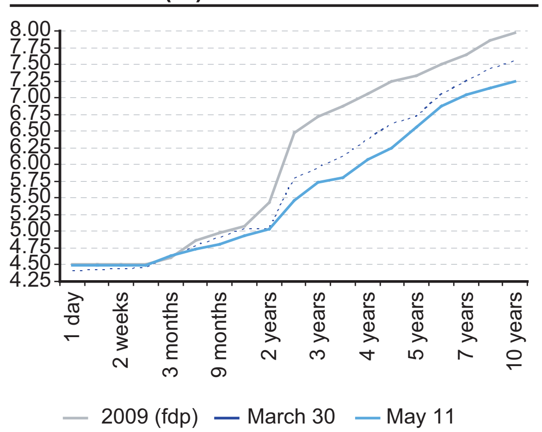
First expected increase in the funding rate: BBVA versus consensus



Source: BBVA Research

Chart 39

Yield Curve (%)



Source: Valmer

The expectations of the monetary policy discounted by the market for the close of 2010 in the Income Tax curve have been adjusting downward. The implicit bank funding for December of this year adjusted for risk premiums[22] fluctuates at around.4.76%, against 5.0% at the start of April and 5.25% at the start of 2010. That is, throughout the year, both the market and analysts have been adjusting until they have come close to our expectation of a monetary policy of continuation of the pause up to the end of 2010 or the beginning of 2011.

The yield curve has prolonged the rally, but the downward margin in the medium and long sections is reduced, given the anticipated increases in the shorter sections and, more recently, the impact of risk aversion due to the crisis of the Greek debt

On average, the curve has dropped around 30 bp since the beginning of March. One of the factors behind this rally is the announcement by Mexico's Finance Ministry (the SHCP for its Spanish initials) that the process has begun of incorporation of Mexican government bonds in the World Government Bond Index (WGBI) of Citigroup. Mexico would be the first Latin American country to be incorporated in the WGBI. It is estimated that the approximate weight of Mexico on the index would be 0.6%, which is consistent with significant entry flows to the local market.

In general, the curve has benefited from the strong entry of capital flows in recent months, in an investment strategy favoring the elasticity of the exchange rate, and complemented with bets favoring the peso on the futures markets. The above in an environment of a search for profitability that favors carry-trade strategies. This greater appetite for domestic bonds has slightly increased the liquidity levels in the secondary market, mainly in the last month, although they are still below their historic average. These flows, in an environment of abundant liquidity that accelerated the appetite for greater-risk assets, drove long-term rates downward in Mexico. Nevertheless, some factors, such as the recent financial contagion, will limit the rally (and could even revert it partially) in the next quarter, depending on the resolution that the public debt crisis finally has in the area of the euro. Other factors that will be gaining weight in the second half of this year play to a high in the curve: recovery of the economic cycle, expectation of the domestic and international monetary position and, in general, the evolution of inflationary risks. Thus, it is estimated that the M10 could close 2010 at around 7.5%, above the current levels, although the trend, of resuming calmness and the appetite for risk on the markets, the same as with the exchange rate, is toward somewhat lower levels.

22: For further details on the calculation of expectations of rates discounted by the financial market once the corresponding risk premiums have been discounted, see the Economic Observatory "Expectations of the monetary policy of the financial markets", available on the Web page of BBVA Research.

Appendix

Table 1

Mexico Indicators and Forecasts

	2008	2009	2010	2011	1T09	2T09	3T09	4T09	1T10	2T10	3T10	4T10
Economic Activity												
GDP (seasonally-adjusted series)												
Real annual % change	1.5	-6.6	**5.0**	**3.8**	-9.1	-8.5	-6.1	-2.4	5.8	6.6	4.7	2.9
Per inhabitant (US dollars)	10,306	8,144	**9,576**	**10,259**	7,502	7,991	8,318	8,763	9,243	9,738	9,570	9,754
US$ billions	1,099	876	**1,038**	**1,121**	807	859	895	942	1,002	1,056	1,037	1,057
Inflation (average, %)												
Headline	5.1	5.3	**5.1**	**4.4**	6.2	6.0	5.1	4.0	4.8	4.9	5.1	5.6
Core[1]	4.9	5.3	**4.7**	**4.5**	5.8	5.6	5.1	4.6	4.6	4.4	4.7	5.2
Financial Markets (eop, %)												
Interest rates												
Bank funding	8.3	4.5	**5.0**	**6.5**	6.8	4.8	4.5	4.5	4.5	4.5	4.5	5.0
28-day Cetes	8.0	4.5	**5.1**	**6.5**	7.0	5.0	4.5	4.5	4.5	4.5	4.6	5.1
28-day TIIE	8.7	4.9	**5.4**	**6.8**	7.7	5.3	4.9	4.9	4.9	4.9	4.9	5.4
10-year Bond (%, average)	8.4	8.0	**7.6**	**7.8**	8.0	7.9	8.1	8.0	7.8	7.5	7.5	7.6
Exchange rate (average)												
Pesos per dollar	11.1	13.5	**12.3**	**12.4**	14.4	13.3	13.3	13.1	12.8	12.2	12.2	12.0
Public Finances*												
FRPS (% of GDP)	-2.1	-3.2	**-3.6**	**-3.3**	--	--	--	-3.2	--	--	--	-3.6
External Sector[2]												
Trade balance (US$ billions)	-17.3	-4.7	**-6.0**	**-11.9**	-2.0	0.8	-3.1	-0.3	0.6	0.1	-4.2	-2.5
Current account (US$ billions)	-15.9	-5.2	**-7.4**	**-19.9**	-1.2	0.4	-3.7	-0.7	1.4	-0.4	-3.0	-5.4
Current account (% of GDP)	-1.6	-0.6	**-0.7**	**-1.7**	-0.6	0.2	-1.7	-0.3	0.5	-0.2	-1.1	-2.0
Oil (Mexican mix, dpb, eop)	84.4	57.6	**66.1**	**71.8**	39.4	56.2	64.3	70.3	67.0	64.9	64.5	67.9
Employment												
Formal Private (annual % change)	2.0	-3.1	**2.8**	**3.9**	-2.3	-3.8	-3.9	-2.2	1.3	2.9	3.5	3.4
Open Unemployment Rate (% active pop.)	4.0	5.5	**5.0**	**4.2**	4.8	5.7	5.8	5.6	5.4	5.1	4.9	4.7
Aggregate Demand[3] (ann. % chge., seasonally-adjusted)												
Total	1.9	-9.6	**5.5**	**5.0**	-13.2	-13.5	-9.4	-1.8	7.3	8.4	3.9	2.7
Domestic demand	2.2	-6.1	**1.2**	**3.3**	-6.9	-7.5	-5.6	-4.4	1.9	3.0	-0.5	0.5
Consumption	1.8	-5.1	**1.3**	**2.2**	-6.8	-6.5	-3.9	-3.0	3.9	3.3	-1.0	-0.8
Private	1.9	-6.2	**1.5**	**2.3**	-8.4	-7.6	-4.8	-3.7	4.7	3.3	-1.1	-0.8
Public	0.9	2.3	**0.2**	**1.8**	4.2	1.4	2.2	1.4	-1.1	2.8	-0.4	-0.3
Investment	3.9	-9.9	**0.9**	**7.1**	-7.2	-11.2	-11.5	-9.6	-5.2	1.9	1.7	5.5
Private	2.9	-15.4	**0.5**	**10.2**	-12.5	-17.8	-17.1	-13.8	-9.2	0.7	2.7	8.5
Public	7.9	10.8	**2.2**	**-1.5**	14.6	16.2	9.1	4.2	7.3	5.5	-1.2	-2.5
External demand	0.8	-15.2	**19.4**	**10.0**	-23.3	-24.4	-15.7	6.6	19.4	26.5	18.9	13.5
Imports	3.1	-18.5	**7.3**	**8.9**	-25.0	-27.5	-18.6	-0.1	12.5	14.5	1.4	2.2

Continue on next page

Table 1 (cont.)

Mexico Indicators and Forecasts

	2008	2009	2010	2011	1T09	2T09	3T09	4T09	1T10	2T10	3T10	4T10
GDP by sectors (ann. % chge., seasonally-adjusted)												
Primary	1.1	1.8	**2.6**	**2.9**	1.2	2.5	1.5	2.0	5.4	1.7	2.0	1.5
Secondary	-0.6	-7.3	**6.7**	**3.0**	-11.6	-9.0	-6.3	-2.1	5.8	8.4	7.6	5.2
Mining	-1.4	1.0	**1.0**	**-0.1**	-1.1	1.2	2.4	1.3	3.9	0.1	0.2	0.1
Electricity	-2.2	1.1	**2.8**	**3.2**	-2.5	-0.1	4.0	3.3	1.4	3.3	3.4	3.2
Construction	0.6	-7.5	**4.9**	**5.4**	-9.8	-6.1	-7.1	-6.9	-3.8	3.6	9.6	10.3
Manufactures	-0.6	-10.2	**9.6**	**2.9**	-15.4	-14.2	-9.3	-1.6	10.7	13.5	9.5	5.1
Tertiary	3.1	-6.7	**4.6**	**3.4**	-7.9	-9.6	-6.2	-2.9	5.5	6.6	3.8	2.7
Retail	2.3	-14.7	**8.7**	**4.4**	-19.1	-18.8	-16.1	-3.8	15.6	12.0	5.3	2.5
Transportation, mail and warehouse	0.2	-8.2	**7.5**	**3.3**	-11.5	-11.9	-7.5	-1.3	12.6	9.1	5.5	3.2
Masive media information	8.0	1.6	**9.7**	**5.6**	-0.6	1.6	1.9	3.4	9.0	9.2	10.6	10.1
Financial and insurance	18.7	-3.8	**1.8**	**7.7**	-0.8	-5.5	-2.3	-6.4	-1.2	2.7	2.7	2.8
Real-estate and rent	3.2	-5.3	**2.8**	**3.1**	-8.5	-6.4	-3.4	-2.7	3.8	2.3	2.6	2.4
Prof., cientific and technical servs.	3.1	-5.3	**-1.2**	**2.4**	-2.7	-3.4	-5.7	-9.2	-3.7	-1.8	-1.5	2.3
Company and corporate management	-2.9	-3.5	**-2.1**	**0.8**	0.1	-1.2	-3.9	-8.9	-4.5	-2.5	-2.3	1.2
Business support services	1.8	-5.2	**2.3**	**2.1**	-2.7	-5.7	-5.8	-6.8	-1.5	3.7	4.2	3.0
Education	1.6	-4.5	**6.6**	**2.0**	0.1	-16.6	-0.7	-0.8	1.4	21.9	3.1	2.7
Health and social security	-1.2	-0.1	**0.0**	**0.7**	-2.2	3.8	-1.0	-1.2	1.7	-3.3	1.3	0.5
Cultural and sport	1.3	-2.4	**2.0**	**2.1**	-3.0	-3.4	-2.5	-0.5	0.3	2.6	3.1	2.0
Temporary stay	0.8	-9.6	**5.6**	**2.7**	-7.9	-17.0	-8.4	-5.0	-0.2	14.2	5.1	4.3
Other services exc. government	0.6	-2.6	**3.3**	**2.0**	-2.0	-4.5	-1.7	-2.3	1.8	3.4	3.5	4.5
Government activities	1.2	3.7	**-2.4**	**0.8**	5.7	5.8	2.2	1.1	-3.7	-2.0	-0.2	-3.8

eop: end of period
dpb: dollars per barrel
1: Core index that does not include education
2: Accumulated, last 12 months
3: Base 1993=100; GDP by sectors base 2003=100. The observed data of the primary, secondary and tertiary sectors are seasonally-adjusted by INEGI, the rest are own seasonally-adjusted
*: As of 2009 the Fiscal Balance definition changes, therefore data is not comparable
FRPS: Financial Requirements of the Public Sector
Note: Bold figures are forecast
Source: BBVA Research with Banco de México, INEGI and SHCP data

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called “BBVA”) to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document is based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates’ proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

“BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance”.

This report has been produced by

Editor
Julián Cubero
juan.cubero@bbva.bancomer.com

Javier Amador
javier.amador@bbva.bancomer.com

Liliana Castilleja
liliana.castilleja@bbva.bancomer.com

Jorge Rodríguez Vález
jorge.rv@grupobbva.com

Octavio Gutiérrez
o.gutierrez3@bbva.bancomer.com

Ociel Hernández
o.hernandez@bbva.bancomer.com

Cecilia Posadas
c.posadas@bbva.bancomer.com

Pedro Uriz
pedro.uriz2@bbva.bancomer.com

Design
Fernando Tamayo
fernando.tamayo@bbva.bancomer.com

BBVA Research

Contact details

BBVA Research Mexico
Avda. Universidad 1200
Colonia Xoco
C.P. 03339 México D.F.
Teléfono: + 52 55 56216620
E-mail: researchmexico@bbva.bancomer.com