RESEARCH

Economic Outlook

Mexico

Fourth Quarter 2011

Economic Analysis

- Global slowdown, with strong downward risks due to the financial crisis derived from solvency problems in European sovereign debt
- Mexico, downward review for growth. Although far from Europe, there are downward risks due to global financial volatility and possible lower demand from the U.S.
- Domestic anchors in light of global volatility. Without inflationary pressures, commitment to a reliable macroeconomic policy has helped anchor interest rates and the exchange rate

BBVA Bancomer

Content

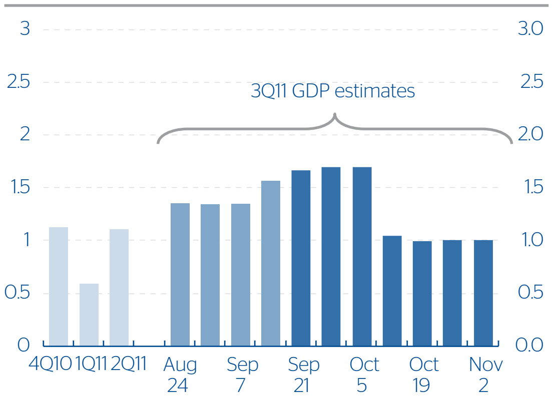
Closing date: November 1, 2011

1. Summary

Lower growth and downward risks due to an uncertain global environment

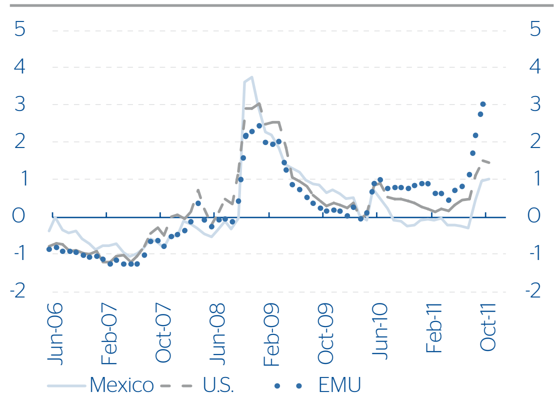
According to our estimates, the Mexican economy continued growing during 3Q11 at quarterly rates of almost 1%, very close to the rates posted the previous quarter. In turn, inflation has remained practically stable at an average 3.4% in the quarter and the central bank has sent more accommodating messages regarding monetary policy, which leads us to expect a reduction in the funding rate on December 2, provided that volatility and the exchange rate allow for this. It is not a bad mark considering the unsettling 3Q11 in the global economic environment, especially in the United States and Europe. Thus, in the U.S., despite the economic improvement in the period, the tortuous and transitory outcome of the debate regarding fiscal consolidation, doubts about the real estate sector, and a labor market with an unemployment rate that won't improve, the growth perspectives for 2012 are clearly downward. In Europe, the Euro zone is again seeking another definitive and permanent solution so that the insolvency of the Greek debt does not turn the liquidity problems of other sovereign debts into insolvency and the banks' funding difficulties into a credit recession that will lead Europe into a recession in 2012.

Graph 1
BBVA Research-MICA, prevision in real time for Mexican GDP for 3Q11
Weekly evolution of the prevision for the Mexican GDP quarterly rate in 3Q11



Source: BBVA Research

Graph 2
Financial Tension Indexes
Synthetic indicator of volatility measurements and financial spreads. Standardized measure.



Source: BBVA Research

Mexico is far from the source of European uncertainty[1], but the negative impact on our economy cannot be ruled out if sustained increases in the global risk premium continue and the scenario of the impact of European risk on the U.S. reduces demand from that country to lower levels in 2012 than those in 2011. In any case, our most probable growth scenario in 2011-12 is of an average 3.5%, with 3.8% in 2011 and 3.3% in 2012, figures slightly lower than our projections three months ago, due to a weaker and more uncertain global environment. In this sense, the current information shows a more intense slowdown in those indicators more closely related with foreign demand than in those linked to the domestic market. Moreover, the rebound in public consumer demand and investment linked to the end of the six-year presidential term will put a transitory brake on the slowdown throughout the first half of 2012

[1] See Mexico Outlook 3Q11, pages 17 and 18.

All in all, the high degree of the opening of the Mexican economy will lead activity to continue its same behavior if the external brake continues, with the support of improvements in competitiveness in some manufacturing sectors and in financing conditions that are not particularly restrictive given the strength of the Mexican financial system and the nominal stability of the economy. The above if financing is not difficult due to prices or even in amounts due to global risk events. This is because, as shown in the publication, the same as in all other aspects, sustained rebounds in measures of credit risk in Mexico, such as those derived from credit non-compliance (CDS or Credit Default Swaps) in the vicinity of 100 basis points are consistent with GDP growth between 0.8 and 1 point lower.

Without inflationary pressures, the commitment to a reliable macroeconomic policy should contribute toward anchoring Mexico's financial variables in a volatile global environment

In an environment such as that described, it would seem remote, in view of the possibility of sufficient demand pressures, to fear an increase in the inflationary outlook, something that the central bank has been corroborating with successive changes in its communications, with an increasingly more accommodating tone, indicating a possible reduction in its funding rate at its December 2 meeting. If the balance of risk on activity has deteriorated, that of inflation, in our opinion, allows facing the reduction in the funding rate given the availability of resources in the factor markets to attend potential increases in demand. Thus, we expect inflation at the end of 2011 to be around 3.3%-3.4%, with core inflation in December at 3.2%. For 2012, the slowdown in activity will be consistent with core inflation somewhat lower than in 2011 (3.0% and 3.2%, respectively) and headline inflation in the vicinity of 3.5% for the second consecutive year

With regard to this globally favorable panorama, there are upward and downward risks, slightly more biased downward as a consequence of the risks mentioned for activity. Regarding the upward inflationary risks, in addition to changes in relative prices (which could temporarily raise the inflation rate without this presuming generalized pressures on prices), there is the possible transfer of more depreciated peso exchange rate levels and more volatile consumer prices. We believe that this risk is quite limited given historic experience regarding the transfer of oscillations in the exchange rate to consumer prices, and more so in an environment without demand pressures.[2]

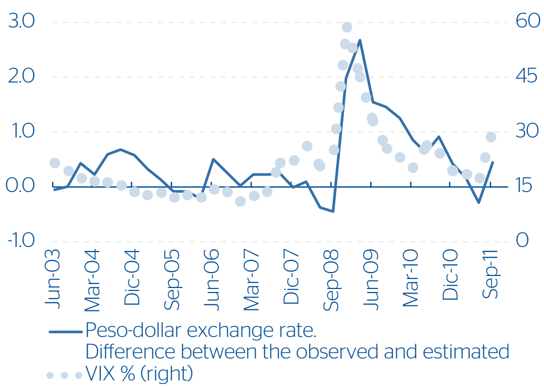
Episodes of global volatility that depreciate the peso cannot be ruled out; quite the contrary. But to the extent that these events do not derail positive growth perspectives in Mexico, nor place at risk the commitment to goals with regard to the deficit and the public debt, it would seem reasonable to expect the exchange rate to remain at levels close to an average of 12.0 to 12.5 pesos per dollar throughout the following quarters. Something comparable occurs with the cost of financing the public debt, which sets the floor for the cost of the rest of economic agents, as shown in Economic Watch "Global risk perception alters the formation of Mexican yields"[3]. Thus, the high correlation between changes in Mexican public debt yields and that of U.S. Treasury bonds disappears when the perception of Mexican sovereign risk increases, independently of whether this perception is of domestic or foreign origin. In this case, in what can be defined as a risk regime, the formation of the rates of return on assets denominated in pesos is much more consistent with the performance of the spread of Mexican CDS and the peso/dollar exchange rate. Moreover, the impact of the increase in the perception of financial risk on yields is more than proportional. High increases in the spread of Mexican CDS (Credit Default Swaps), higher than 100 bps, have become rare, but have also coincided with rebounds in higher long rates, much more so than those consistent with lower and more probable oscillations of the CDS spread.

[2] For greater detail on the core factors in the behavior of inflation, see Economic Watch: "Inflation, influenced by slack in production factors". Available at www.bbvaresearch.com
[3] Available at www.bbvaresearch.com

To summarize, in a global environment with downward risks in activity and a very uncertain and complex financing scenario, everything that strengthens the commitment to the "fundamentals" of credit risk in the Mexican economy will contribute toward reducing the impact of global volatility on financing conditions and consequently on activity and local employment,. The level of reserves and foreign debt, and by approximation, of the budget deficit and total public sector debt is the result of the combination of discretional policies by the authorities and of the impact of the cycle. In prevision of the fact that the cycle might not be favorable, commitment to those discretional policies must be reaffirmed and strengthened to the extent possible, representing a very important factor of certainty.

Graph 3

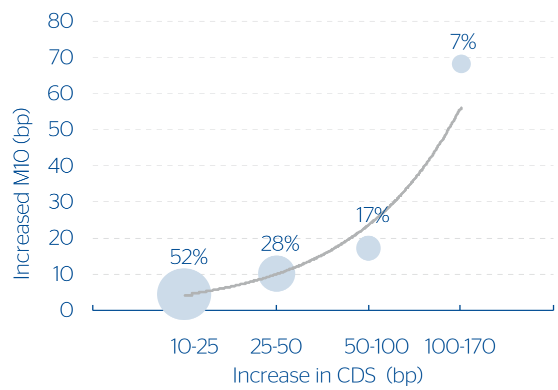
Unexpected movements in the exchange rate and global risk



Source: BBVA Research and Bloomberg

Graph 4

Average monthly increase in the ten-year Bond rate (bp) according to different CDS values in Mexico



Note: The percentage of times this has occurred is indicated next to the circles
Source: BBVA Research

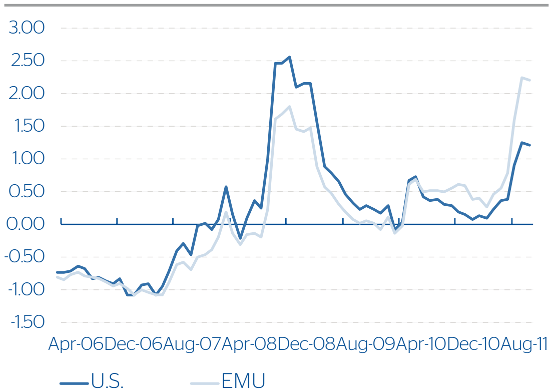
2. Global slowdown and very biased risks downward

The world economy is slowing down and the outlook depends to a large extent on that the crisis of the European debt be resolved. The risks are strongly biased downward

The outlook for the world economy has worsened in recent months, mainly due to four factors that are still having an influence. In the first place, economic growth has been lower than expected, mainly although not only in the developed economies (U.S. data for the first half of the year had already been disappointing, which led some analysts to anticipate a new recession). Even though growth in the U.S, increased in the third quarter, and economic activity in Europe had held out very well in the first three months of the year, today it is now following a clear slowdown. In the second place, the crisis of the sovereign debt in Europe has intensified and has become more systemic. Although the decisions adopted at the October summit are going in the right direction, there are still key elements that are unresolved, in particular, that concerning the real power of the mechanisms that guarantee sovereign liquidity (a European Fund for Financial Stability or EFFS, leveraged), the restructuring of the Greek debt in the hands of private investors and a clear <consignment note> to improve European governance and move toward fiscal union. In the third place, feedback has intensified among the sovereign fears and the health of the European financial system, and in Europe tensions are reaching levels higher than those after the fall of Lehman Brothers in October 2008 (Graph 5), which increases the risk of a negative impact on economic activity and feeds even more the real-financial vicious circle. Lastly, the global rise of aversion to risk has unleashed volatility on the financial markets, contaminating most risk assets and even the emerging economies for the first time since 2009.

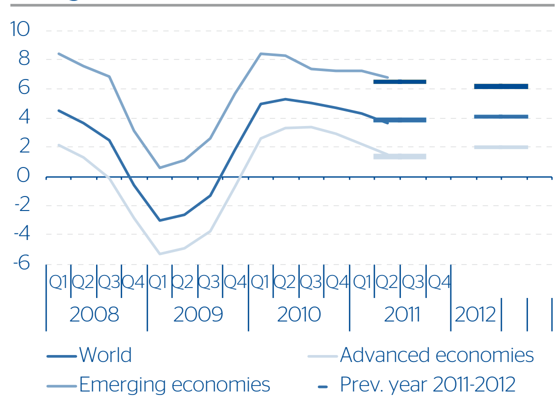
In this context, we lowered our world growth estimates for 2011 and 2012 by 0.3 pp compared to our last issue of Global Economic Outlook, mainly due to the cutback in the growth expectations of the advanced economies (the United States and Europe, compensated in part by Japan), although growth in the emerging markets will also be lower than had been expected. Therefore, the world economy would grow 3.9% in 2011 and 4.1% in 2012, supported by solid growth in the emerging countries in face of discreet growth in the more advanced economies (Graph 6).

Graph 5
BBVA Index of financial tensions



Source: BBVA Research

Graph 6
GDP growth (inter-annual %)



Source: BBVA Research and IMF

These growth rates continue to be robust, but the risks are strongly biased downward and, in the short term, they will depend on the evolution of the financial and sovereign crisis in Europe. In particular, a quick reduction of financial stress in Europe is necessary to mitigate the negative impact on European growth and contamination to other regions.

The European summits of October have advanced in the right direction, but there are still unresolved key elements, which does not contribute to reducing the financial stress in Europe

In our opinion, the European summits should resolve five key points: (i) to definitely obstruct the sustainability of the Greek debt; (ii) to create firebreaks for the sovereign debt in the EMU; (iii) to create pressure for more reforms in the peripheral countries; (iv) to strengthen the banking sector; and (v) to improve the governing of the euro zone. Although some of the more technical details continue to be unresolved, in the more recent summits, important measures have been taken in the right direction, although they have not definitely resolved most of the key aspects. In the first place, private holders of Greek bonds have been asked to accept a voluntary reduction of 50% (much more than agreed to in July) although there are still some doubts about the participation in this operation, and even whether the participation was total, regarding Greek solvency, very much conditioned to the reforms that the country must adopt. In the second place, the EFFS will be leveraged as a securing mechanism and will be complemented by foreign investment (which will possibly include the IMF), although it is not probable that the operating details of the EFFS will be finalized prior to December. Therefore, many weeks will have to pass for us to be able to determine its effectiveness, in face of private investors, which is why the European Central Bank will have to continue acting as a <buyer of last resort> of sovereign debt, despite the reticence of the countries of Central Europe. In the third place, there is gratefulness for the greater presence of economic reforms in the agenda of some countries (especially, Italy), as well as of the fact that the help of the EFFS will respond to the request of the countries and it will be conditional, which will increase the probabilities of the implementation of economic reforms. At the same time, the recapitalization of the banking sector is being carried out in an inefficient manner, compensating the moderate resistance tests of banking balances, which apply market prices for the sovereign debt portfolios, but not for those denominated <toxic assets> with a substantial rise in the capital requirements (9% of core capital Tier1). This could lead to an abrupt un-leveraging of the European banks, which would negatively affect credit without stabilizing the bank balances of the euro zone. Also, no mechanism has yet been established for the provision of long-term liquidity, although this is extremely important for the banks' financing capacity. Finally, some progress has been made in European governance, but there is no clear consignment note toward fiscal union or the issue of Eurobonds which, in our opinion, constitutes a key element for the credibility of the EMU in the long term.

As we have mentioned on other occasions, partial solutions will simply help to avoid an escalade in the financial tensions, but these will continue to be high, which increases the risks downward for economic activity in the euro zone. Agreements continue to not clarify whether the necessary structure exists to prevent contamination and a possible systemic event derived from the structuring of the Greek debt: a sufficient EFFS that has the ECB as a buyer of last resort and banks stabilized and recapitalized with access to financing. Without these measures, the markets will continue to show greater fatigue in view of the reforms in Greece and in light of the rescues in the central countries of Europe, which increases the probability of a risk scenario with credit contraction and recession in Europe that would have consequences throughout the world.[1]

[1] See Chart 1, «The channels of world contamination in case of a disordered non-payment in Europe, from Global Outlook for 3Q 2011 for a summary of the channels of contagion and the world impact of disordered non-payment in Europe

Despite greater growth in the third quarter, the structural weakness of the U.S. and the political blockade continue

The positive aspect is that it seems that that growth in the U.S. has accelerated in the third quarter, at least according to preliminary estimates. Although this datum should not take us to euphoria (growth in the first two quarters was very low and the production gap continues to be quite large), it seems to have placated market nervousness regarding the possibility of a new recession. Nevertheless, structural weakness continues in the U.S. economy, since the level of consumer and company confidence continues to be low and the real estate market could undergo further adjustments, which translates into greater resistance in face of a possible shock coming from Europe. Also, the political blockade, could impede reaching a <great agreement> for (i) avoiding an undesired fiscal contraction in the short term and (ii) promote reforms for a credible fiscal consolidation in the long term.

The emerging economies continue toward a soft landing although they are facing greater external difficulties

The emerging economies continue to grow strongly, supported by the strength of domestic demand. The prices of raw materials in Latin America and the growth in Asian exports continue to be high, despite marked corrections, which also support the solid outlook for growth, leading to a soft landing that would be well-received in some countries. For both regions, the turbulence in Europe and the U.S. translates into serious difficulties on the financial markets, reflected in the rising volatility of the market, the depreciation of exchange rates and a reduction of the entries of capital flows. However, many countries still have a considerable cushion (more solid public finances and better macroeconomic management. than in the past) and they are in a good situation for introducing a stimulus that will counteract weakened external demand. In general, a more negative exterior environment has changed the focus in the emerging countries regarding the overheating of downward risks and, increasingly more, to the possible need of support policies.

3. Mexico, downward revision of growth in 2011 and 2012

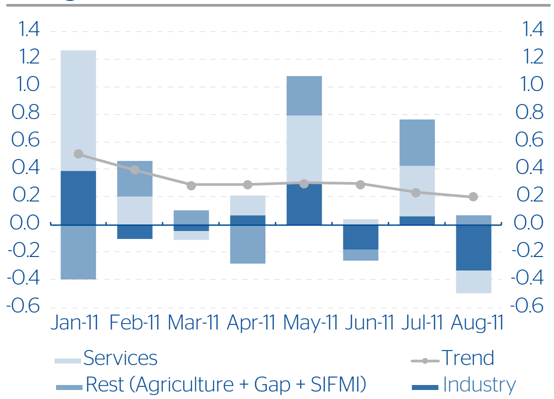
A slowdown that is coming from outside the country ...

After a difficult summer with doubts as to the recovery of the U.S. and the outlook relative to Europe worsening, economic activity in Mexico maintains positive variations although with a trend toward moderation. Thus, the Global Indicator of Economic Activity (GIEA) has averaged discreet progress of 0.17% in the first two months of the third quarter of the year, while the monthly growth average in the previous quarter was 0.27%. Even though the slowdown is moderate, its composition is hiding different performances. The industry goes from average monthly growth of 0.2% in the year to dropping 1.1% in August, the lowest rate since May 2009, with manufacturing production at an even more pronounced drop of (-)1.5% compared to the previous quarter. By this, the outlook for a second half of the year with growth higher than in the first will hardly materialize, although it should be stated that this is not due to domestic factors but, rather related to the external cycle. Up to now, manufacturing exports have felt the effects of the moderation in demand (monthly average for the 3Q: -0.6%, 1% previous). Our "real time" indicator that measures the pulse of economic activity points to the fact that GDP growth in the 3Q11 will be around 1%, by which the growth rate of the previous quarter would be maintained. This moderate growth of activity, despite the performance of the industry through August, is consistent with an outlook for improvement in September, as some partial indicators are signaling (automobile production) and a positive tone in services activities.

As refers to the fourth quarter, there are still no data on production, expenses or employment, but only that there are confidence data for the month of October that are beginning to reflect some concern on the part of consumers and of the manufacturing sector regarding the state of the economy in the coming months. Due to this, the last quarter could be the lowest in terms of expansion of economic activity in 2011. Should the lower impulse of non-oil exports materialize, we estimate that growth will be close to a quarterly 0.5%, with 2011 averaging expansion along the order of 3.8%.

Graph 7

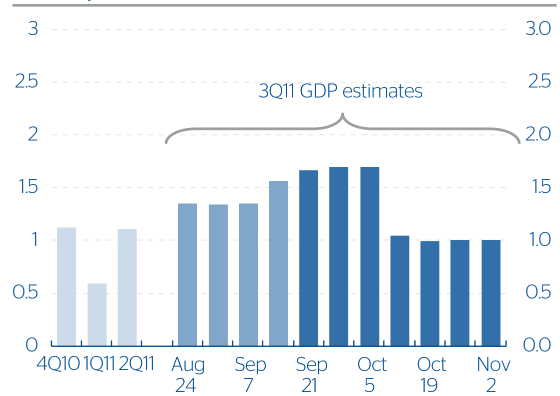
GIEA (Global Indicator of Economic Activity) (% change m/m and contributions)



Source: BBVA Research with INEGI data.

Graph 8

BBVA-Research MICA Indicator in real time on activity in 3Q11



Source: BBVA Research

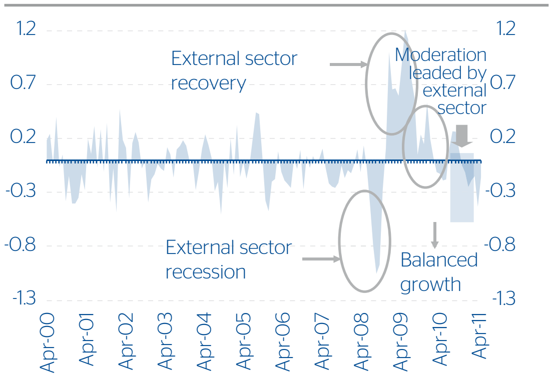
And this is because the external environment has worsened since the publication of our prior estimates; the U.S. had foreseen an expansion for this year of 2.1% which was revised to the current 1.6%. The un-leveraging currently underway in households in that country and the weak labor market are constraining recovery. The cyclical weakness is reflected in the lower expansion figures of industrial production, in particular in the month of August (although without reaching the drops of last April caused by the adverse effects in the productive chain due to the "tsunami" in Japan). For the month of September, however, part of the moderation in production of August seems to have reverted, and indicators like the industry itself or retail sales, particularly boosted from vehicle sales, have tended to rally (0.19% and 3.7% m/m, respectively). Even so, preliminary U.S. GDP figures point to the fact that this would have grown around an 0.6% q/q, even higher than the first two quarters of the year. However, uncertainties continue latent, linked to downward risks in the real estate market or due to the lack of an agreement in the necessary process of fiscal consolidation.

The most timely indicators of the cyclical situation for the final part of the year, such as producer confidence or the Fed beige book point to a slowdown that will come in the manufacturing sector. For their part, financial tensions relative to the European crisis are already nearing the levels of the Lehman Brothers episode at the end of 2008. Even though it is difficult to quantify the cost in terms of economic activity that could provoke the shock on the financial markets forthcoming from Europe, some exercises[1] point to the fact that this shock would have an impact of between 0.1 and 1.3 pts of lower growth in 2012 in the U.S., depending on whether the shock is temporary in nature or tends to be more permanent. With these elements, and while no definitive solution is found to the sovereign debt crisis in Europe, which would reduce the global risk premium, it is foreseeable that the U.S. economy will grow only slightly above 2%.

Global financial tensions can also presume a negative impact on activity and spending in Mexico. The high global risk aversion, originating in economies along the periphery of the euro area, is transferred immediately to risk assets such as those of the emerging economies, like the Mexican; or reflected in solvency indicators like CDS (Credit Default Swaps), leading to a deterioration of financing conditions. Such was the case in the crisis episode unleashed by the bankruptcy of Lehman Brothers, where Mexican CDS went from 144 points on average in September of 2008, up to an average of 414.9 points in the second half of October. The impact of the deterioration of the global financial environment can be estimated in the local activity through the BBVA Research MICA model, which provides GDP growth estimates based on a combination of different indicators of activity, expenditures, expectations and financial, specifically the CDS spread Thus, it is estimated that, similarly to all the rest, the outlook for GDP growth is reduced by between 0.8 and 1.0 pp for each 100 basis points of sustained growth of the Mexican CDS spread.

Graph 9

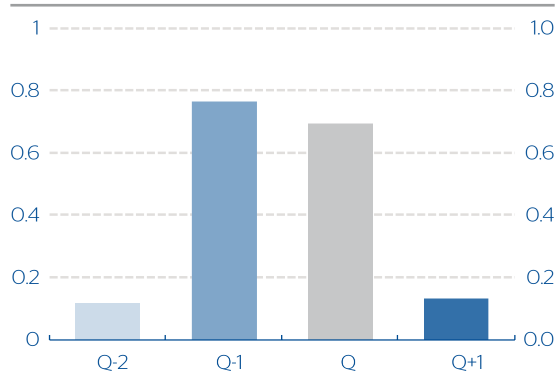
Balance of cyclical impulses on the Mexican economy on the Mexican economy. Internal vs. External* (Diff in change m/m s. external-internal)



Source: BBVA Research

Graph 10

Contribution of Public Demand to growth, 1st electoral year (2000, 2006)



Source: BBVA Research

...and is restrained due to the temporary boost from consumption and public investment

The most domestic components of demand will continue to support growth, while foreign demand will be most relatively affected compared to what was previously estimated. Also, demand from the public sector will contribute temporarily to shore up growth in 2012, thanks to the typical boost of the end of the presidential administration.

As refers to private demand, it should be recalled that up to now, stability in the rate of job creation in the formal sector (0.3% on average in the 2Q and 3Q of the year) as well as the incipient improvement

[1] Economic Watch: Financial Tensiones and Economic Activity in the U.S. and the Euro Zone, Rodrigo Falbo (2011), available on the Web. Related to the Financial Tension Index (FTI) with growth in the U.S. and Europe. Followed in the FTI is the methodology of main components to combine financial variables such as sovereign risk, stock markets, credit risk, interest rate volatility, exchange rate volatility, etc.

in the growth of real wages (0.7% on average in the known data for the 3Q, 1% in the 2Q), have contributed decisively toward maintaining the private consumption rate. However, the improvement in disposable income continues to be a challenge that is pending, also linked to the improvement of the distribution of income, since these are key factors in the sustainability of long-term growth in consumption. In the environment of the labor market some indicators that continue to be of concern are: (i) the proportion of workers in the informal labor force at around 29% (proportion in 2011, even higher than in 2009); ii) the unemployment rate that is around 5.3% of the EAP, well over the level prior to the crisis; iii) even more relevant, the percentage of under-employment (employees willing to work more hours but cannot due to the lack of job demand) is in the order of 8% of the EAP. All these factors have contributed to explaining why the total wages (proxy for disposable income) for the work force as a whole today is still below the levels prior to the crisis of 2008-2009.

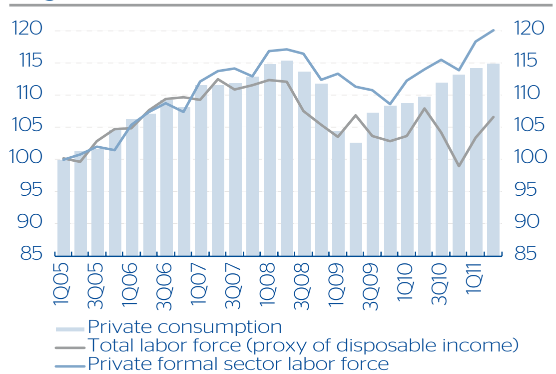
Relative to the above, the credit currently in force of the commercial banks for households is growing at rates of 15 % y/y in the 3Q, which undoubtedly supposes a positive element that will continue to contribute so the spending decisions of families will be less affected by oscillations in the cycle. This is a novelty in the performance of the Mexican economy: the anchorage of the inflation outlook, some fiscal accounts that have been mended and first-class regulations of the financial system have allowed banks to maintain their capacity for credit concession to solvent demand despite the recession. However, the penetration of bank credit to households, 3.4 % of GDP, is still low; an important part of households continue to be without access to the banking channel.

The other component of private demand, investment has shown stable although slow growth up to now, both in its machinery and equipment component and (especially) in the construction industry. The import indicator of capital goods points to the fact that moderation in that component intensified in the 3Q11 (imports of capital goods dropped on average -2.1% in the 3Q11, compared to 2.1% growth in the previous quarter). It should be recalled that, despite the above-mentioned investment data, based on the Situational Evaluation Survey of the Credit Market realized by the central bank, the percentage of companies that consider that access conditions and the cost of the bank credit market are not a limiting factor for the operation of their firm, is at historically high levels: at the beginning of 2009, only 32% of participants considered that it was not a limiting factor, whereas now, that percentage is 51% of those surveyed, a signal in the sense that the availability of the financing supply continues.

Among the factors that will continue to mitigate the moderation in activity is, in the first place, the contribution of public demand. We believe that in the following quarters and, in particular, in the second half of 2011, the contribution of the public components of demand will be positive and will shore up the previous electoral periods. The contribution of the public components of consumption and government expenditure will be relevant.

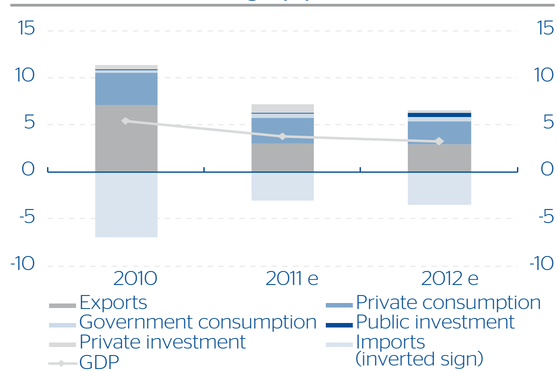
A second factor that will mitigate moderation will be the improvement in the competitiveness of the national industry. Through the second quarter of the year and in comparison to the participation of the market in the year of the crisis of 2009, Mexico is, among the principal exporters of manufactured goods to the U.S., the one that has had a more intense improvement: 0.7pts from 11.4% of the manufacturing imports of that country up to 12.1% in the 2Q11.

Graph 11
Private consumption and total wages(1T05=100)



Source: BBVA Research

Graph 12
Mexico GDP: % change y/y and contributions



Source; BBVA Research e INEGI

4. Domestic anchors and volatility

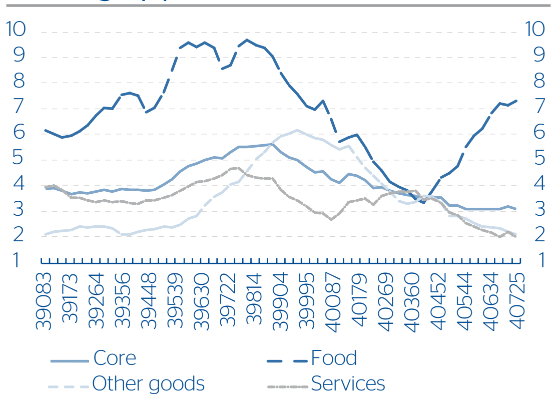
Inflation: without upward pressures and with balanced risks

During the 3Q11 inflation grew at an average annual rate of 3.4%, a slight increase when compared to 2Q11, when the corresponding figure was 3.3%. In any case, inflation is limited and close to the central bank's target for price stability. This good performance was mainly due to core inflation remaining stable compared with 2Q11 (3.18% y/y vs. 3.16% y/y) thanks to the absence of demand pressures, the slower rise in processed food prices, and the exchange rate, which for much of the period was under 12.00 pesos per dollar. Meanwhile, non-core inflation pressures promptly affected prices of meat and meat products, which, like processed foods, were impacted by higher grain costs. The volatility of the global environment since August led to a depreciation of the peso and a fall in the prices of various commodities such as wheat, corn, and oil, factors that, in the end, had a limited impact on inflation given the prevailing demand environment and the structure of the domestic commodities markets.

The main determining factors behind inflation are[1] the costs faced by producers (which we approximate with wages and transportation costs) and to a lesser extent, the exchange rate, the economic agents' inflation expectations, and commodity prices. This is illustrated by the performance of the components of core inflation this year, since food prices, largely determined by the prices of grains such as corn and wheat, have increased steadily, while the other components (other goods and services as a whole) have shown a clear downtrend, as a result of the slack in the economy, which is shown by the historically high unemployment rate and a very moderate growth in wages.

Graph 13

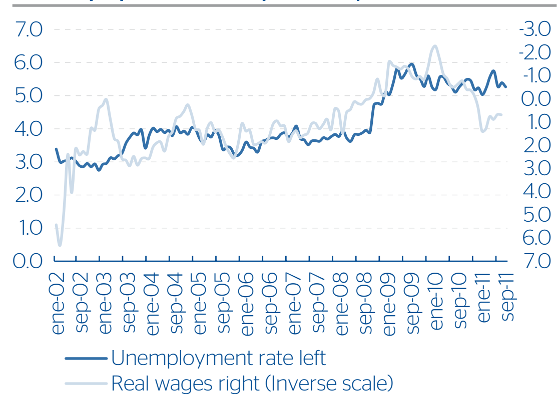
Core inflation and its components (% change, y/y)



Source: BBVA Research with INEGI data

Graph 14

Change in real wages and the unemployment rate (% change, y/y and % of the economically active population, respectively)



Source: BBVA Research with STPS and INEGI data

We believe that core inflation will fluctuate in a range between 3.0% and 3.2% for the remainder of 2011 and in 2012 in an environment marked by no demand pressures and with processed food prices factoring in lower increases in grain prices. This scenario applies, at least in part, to the rest of the commodities, although their greater exposure to changes in the exchange rate should be noted. In any case, in a context in which consumption is growing moderately, producers' capacity to transfer costs is limited, since if they raise their prices too much, they may lose market share. The exposure of the services sector to commodity prices and the exchange rate is considerably lesser in scope, except in specific cases such as air transportation. However, having the use of labor power as its main cost, and in a context of the abundance of this resource, there are fewer pressures on the sector's cost structure, which coupled with the existence of competition, weakens the incentive to increase prices.

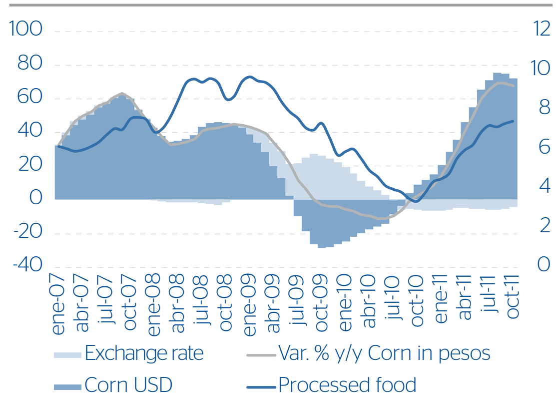
[1] See Economic Watch article entitled "Inflation, influenced by slack in production factors". Available at: http://www.bbvaresearch.com/KETD/fbin/mult/110801_InflacionMexico_71_tcm346-265004.pdf?ts=382011 and Mexico Watch, Third Quarter 2011. Available at: http://www.bbvaresearch.com/KETD/fbin/mult/1108_SituacionMexico_3Q11_tcm346-265671.pdf?ts=1112011

The characteristic greater volatility of non-core inflation is due to its multifactorial dynamic and strongly responds to transitory factors (planting and harvest seasons, regulated prices of fuels and public utility rates). Prices of fruits and vegetables increased only 2.3% y/y in 3Q11, thanks to abundant production, while meat and fish prices have been affected by the higher cost of grains, with the result that prices of the non-core food component increased by 4% in 3Q11, and are expected to remain stable throughout the year. The energy component has behaved as expected, mainly determined by scheduled increases in gasoline prices--which will continue in 2012-- although the rest of its components have experienced some limited pressure due to high international energy prices. Finally, utility rates set by state governments have performed very favorably, with lower growth due to the strong upward adjustment in early 2010 and greater budgetary revenue allocations received from the federal government. Thus, we expect that at least for much of 2012, regulated prices will remain relatively unchanged so as not to imply further upward pressure on the NCPI and that in January 2012 there will even be a downward adjustment attributable to the elimination of the motor vehicle ownership tax, which when finally applied in all of Mexico's states, will result in a -0.2% reduction in average annual inflation in 2012.

In conclusion, we believe that inflation will continue within the variability interval of the central bank target, under 4%. This estimate has upside risks such as a persistent depreciation of the peso, which could affect inflation expectations of households and businesses. Moreover, among the volatile factors, there is the price of corn if world production experiences new declines[2] and the possibility that in a scenario in which both oil prices and production are lower than were projected in the budget, state governments could be forced to raise rates, cut costs, contract debt, or a combination of these solutions. It should be recalled that every 10% annual increase in all rates and prices set by local governments affect headline inflation at about 0.5% y/y. This scenario, unlikely in 2012, would be more likely to occur in the longer term. These upside risks are offset by demand pressures even lower than expected in a scenario of positive but modest growth, which, as such, slows down the possibility of a transfer of costs due to the depreciation of the peso.

Graph 15

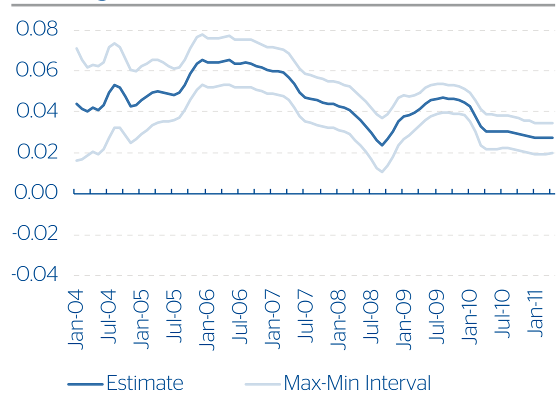
Inflation in processed foods and corn in international markets in pesos (% change, y/y and % share)



Source: BBVA Research with INEGI and Bloomberg data

Graph 16

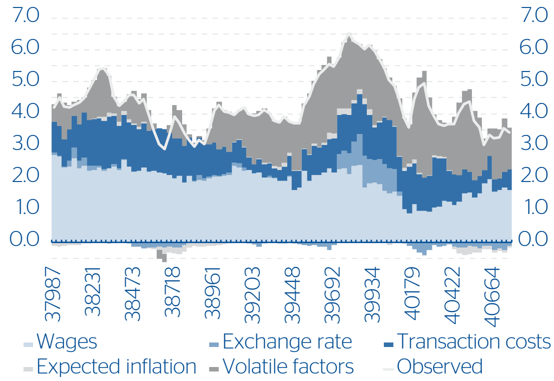
Sensitivity of inflation to changes in the exchange rate (%)



Source: BBVA Research

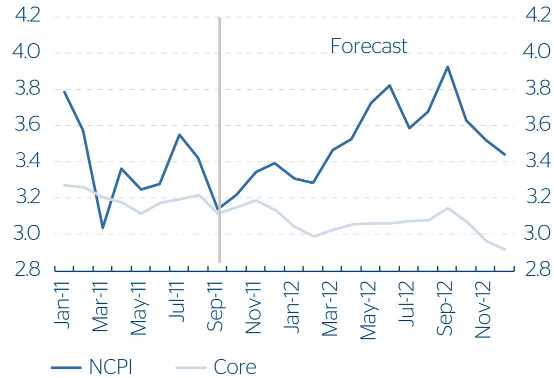
2 Its impact would be relatively more long-lasting in Mexico than in other areas not only due to the importance of the product in the NCPI basket, but also the effects on national production of freezing temperatures in Sinaloa in early 2011 and the drought now underway in several states.

Graph 17
Factorial breakdown of inflation
(% change y/y and share)



Fuente: BBVA Research

Graph 18
2011-2012 Inflation scenario
(% change y/y)



Fuente: BBVA Research

Reducing the monetary policy rate if allowed for by the exchange rate

The monetary policy rate has remained at 4.5% since July 2009. However, the Banco de México has opened the door to a reduction of the funding rate. The factors influencing the possible change in the monetary policy approach are: i) inflation is close to its 3% target level. In the first half of October, annual inflation stood at 3.24%, and core inflation, more stable and linked to the cyclical behavior of the economy, was at 3.22%. ii) the reduced growth of economic activity coupled with the slack that prevails in certain markets of the economy allows for anticipating the absence of demand pressures on prices. iii) as a result of low inflation, the real monetary policy rate has risen, reaching a level of 1.3%, above the average observed in 2010, as well as the rate between January and September 2011, of 0.3% and 1.1 %, respectively. This indicates that this variable is contributing to making the monetary conditions of the economy more restrictive. iv) finally, the environment in which the Mexican economy operates is marked by very moderate growth in the United States and significant downside risks arising from uncertainties on resolving the European debt solvency crisis.

In response to this panorama, the central bank's communications have become more accommodating in tone. The August communication hinted at the possibility of a reduction in the funding rate based on the argument of an unnecessary tightening of monetary conditions. However, the minutes reveal that within the Board of Governors a discussion took place on the costs and benefits of sending a signal of a possible rate cut even when inflation and its expectations have not been maintained at 3% for an extended period. While this communication represented an important change in tone on the part of the central bank, only one out of five analysts considered the possibility of a cut in the funding rate for October.

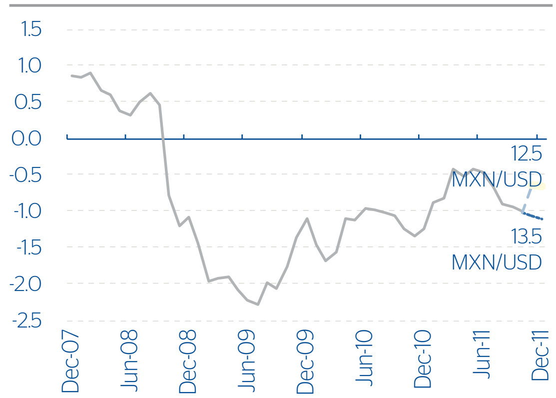
The depreciation of the peso and the increase in exchange rate volatility since mid-September reduced market expectations of a cut in the funding rate. However, in Banxico's October communication, the central bank clearly states that the outlook for global growth and its effects on the Mexican economy could make monetary policy easing viable. This led to more than half of the analysts projecting a reduction in the funding rate in the coming months. Even though the latest communication, dated October 14, has an even more accommodating tone than the August statement, the minutes of the meeting reveal that board members agreed that if the weakness of the global and domestic economies intensifies, such an easing could be advisable. However, they also indicated that in a currency depreciation scenario, a more restrictive stance might be appropriate given the possibility of an upward impact on inflation and its perspectives.

Exchange rate and growth: key variables for the monetary approach in the current environment of uncertainty

In light of recent developments, the BBVA Research outlook considers a 25 basis-point rate cut at the December meeting, with a further reduction to reach 4% in the early part of 2012. However, we maintain our view that the rate will continue at 4.5% if the peso/dollar exchange rate has a level and volatility similar to or higher than those observed in the last weeks of September or the growth environment surprises on the upside or even reverses its signs of a weakening of the peso. The depreciation of the peso that began in August has eased monetary conditions in the economy. Even if the peso remains at levels close to 13.5 per dollar, monetary conditions could be further eased in December 2011, reaching levels registered at the beginning of the year, thereby offsetting the effect of declining inflation. In any case, given the expectations and risks to the growth environment in developed countries, with a direct impact on the domestic economy, and based on a preventive approach when the time comes to implement monetary policy, the most likely variant is an impending drop in the funding rate.

Graph 19

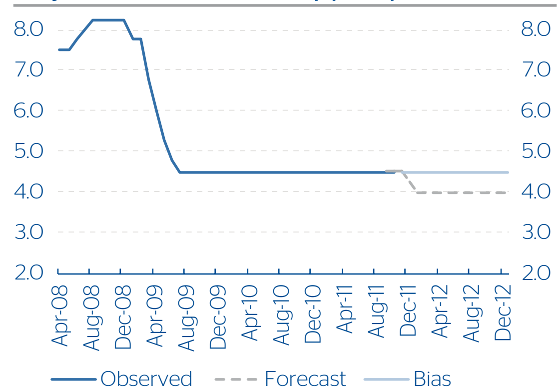
Monetary conditions index, alternative levels in accordance with different exchange rate levels



Source: BBVA Research. Index calculated based on the real 28- day Cetes interest rate and the real exchange rate, each variable with a 50% weight.

Graph 20

Projection of the monetary policy rate

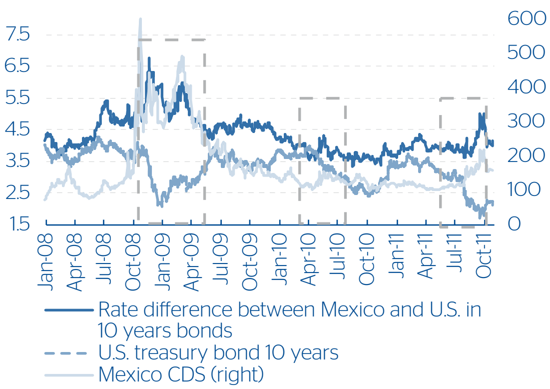


Source: BBVA Research

Global risk perception is transferred to the local fixed-income markets and the exchange rate, detaching them from their domestic fundamentals

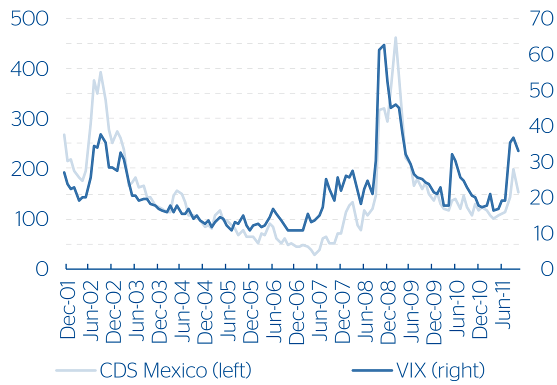
Recently, episodes of risk aversion resulting from external developments have led to volatility in the financial markets, both in Mexico and other emerging economies. In particular, since 2008 we can identify three periods of risk aversion. The first occurred in September 2008 with the bankruptcy of the Lehman Brothers investment bank, which wound up setting off a contraction in the global economy. The second episode arose in April 2010 following a request from Greece to activate the European Union and an IMF financial support mechanism as a result of an increase in that country's financing costs due to doubts concerning its solvency. Finally, the more pessimistic tone in relation to U.S. economic activity of the most recent statements by the Fed sparked risk aversion and asset outflows from emerging economies that until then had been positively differentiated from, for example, assets of the European euro zone, given the growing perception of contagion from the Greek financial insolvency. The spread of global tensions to Mexico's sovereign risk perception can be seen in the close correlation between credit default swaps (CDS) and the VIX Volatility Index with options on the S&P 500 index during episodes of global stress. It can also be observed that in periods of global stress, the growth in Mexican CDS has been directly related to a depreciation of the peso and an increase in the rate spread between Mexican government debt and U.S. Treasury bonds.

Graph 21
M10 interest rates and U.S. Treasury Bonds and CDS (Credit Default Swaps)



Source: BBVA Research y Bloomberg.

Graph 22
VIX (%) and Mexican CDS (bp)



Source: BBVA Research y Bloomberg.

The exchange rate and CDS: anchored by fundamentals and exposed to the impact of global uncertainty

Mexican CDS are affected by developments that might seem far removed from the country's economy, but domestic fundamentals such as growing international reserves and/or low debt levels, resulting from the combination of autonomous decisions and a favorable economic cycle, are very important factors to explain their level and evolution[3]. In this sense, the CDS are able to more or less adequately reflect the differential exposure to global risks. As shown in the accompanying graph, the relative risk perception of Mexico and Brazil is consistent with the relative evolution of the cyclical risks facing both economies and that of the United States in relation to Mexico and the Asian economies with regard to Brazil.

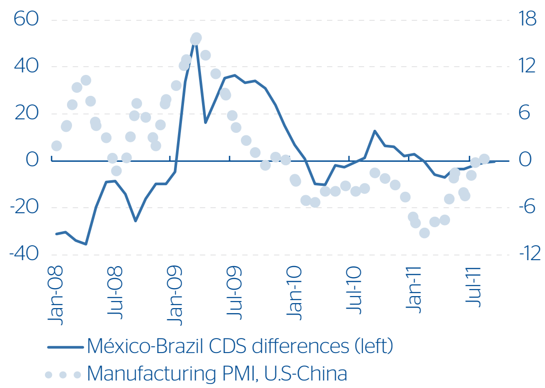
Something comparable occurs with the exchange rate, which in the medium term should be consistent with the commitment over time to fiscal and monetary stability policies, but also reflects the impact of the economic cycle and global uncertainty. In the long term, stable debt levels and reserves, as well as positive growth and moderate inflation should anchor the evolution of CDS and the local exchange rates.

In the case of the peso/dollar exchange rate, among its key variables are productivity and prices of the Mexican economy compared with those of the United States, as well as government debt in foreign currency as a percentage of GDP. Similar to CDS, global risk has significant effects on the exchange rate in the short term, which leads to the forecasts of this variable to underestimate the levels currently observed. Specifically, it can be noted that the difference between the observed level of the exchange rate and its projected level have a similar behavior to a variable that reflects global risk, such as the S&P 500's VIX index, a variable that the performance of the Mexican economy should not affect. Thus, in the current environment characterized by uncertainty in relation to the agreements to resolve the sovereign debt crisis in Europe and by low growth expectations in the U.S. economy, a volatile exchange rate can be expected, which will fluctuate in accordance with daily developments and economic data. Nevertheless, to the extent that global uncertainty is reduced, the peso's fundamentals will anchor its level in a range between 12.0 and 12.5 pesos per dollar in an environment of positive economic growth, inflation in line with the price stability target, and government external debt that is stable as a percentage of GDP[4].

[3] For more details see Economic Watch: "The economic fundamentals anchor Mexico CDS spread in an uncertain global environment". Available at: http://www.bbvaresearch.com/KETD/fbin/mult/110627_ObsEcoMexico_21_eng_tcm348-261237 . pdf? ts = 13102011
[4] A more comprehensive and detailed analysis of the determining factors behind the exchange rate, its fundamentals, and its long-term level can be consulted at Económic Watch "Determining factors and fundamental level of the exchange rate" to be published soon and available at: http://www.bbvaresearch.com

Graph 23

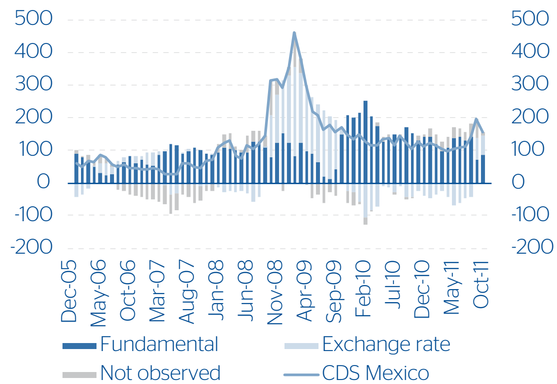
Difference between Mexico and Brazil in CDS and manufacturing activity



Source: BBVA Research and Bloomberg

Graph 24

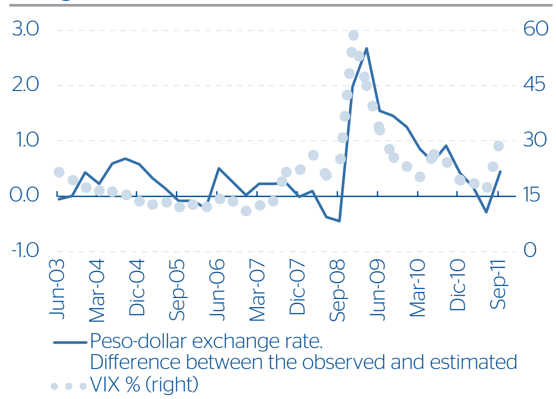
Breakdown of Mexican CDS spread



Source: BBVA Research and Bloomberg.

Graph 25

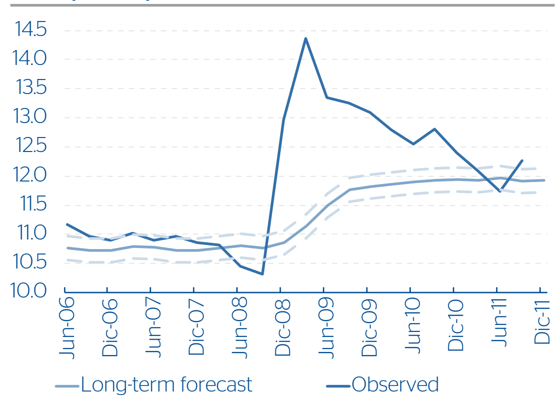
Unexpected movements in the exchange rate and global risk



Fuente: BBVA Research y Bloomberg

Graph 26

Long term equilibrium level of the exchange rate (pesos per dollar)



Fuentes: BBVA Research

The perception of global risk alters the formation of the government debt rates

With the increase in global risk premiums in September, Mexican government bond yields rose and the curve slope increased while U.S. bond yields fell.

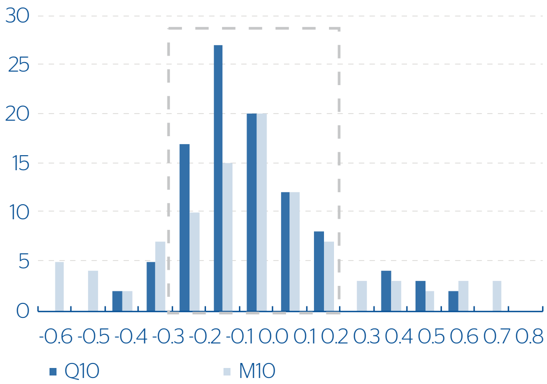
In general, yields on Mexican public debt in pesos and U.S. dollars have a similar behavior, which is consistent with the close economic relationship between the two countries. Their common economic cycle means that, historically, changes in interest rates on Mexican public debt have maintained a strong positive correlation with U.S. debt. However, when global risk perception increases, this relationship weakens or even becomes negative[5]. This occurs not only due to the increase in Mexico's sovereign risk, but also because U.S. bonds act as a safe haven. Under this type of behavior, which can be referred to as risk, the yield on U.S. bonds becomes less relevant in explaining the evolution of Mexican public debt yields, while the exchange rate and the CDS gain in importance. Therefore, it can be considered that there are different classifications of behavior of Mexican and U.S. bond yields based on changes in risk perception.

[5] Mexico's increased risk perception could be the result of both idiosyncratic decisions and global uncertainty.

In periods of low risk perception, or what can be considered a normal type of behavior, in emerging market assets, the monthly change in yields of U.S. Treasury bonds and their Mexican counterparts have a normal fluctuation range that is very similar in both cases. When risk perception, or what can be called the risk regime, becomes relevant, increasing the level of Mexican CDS, variations in the

Graph 27

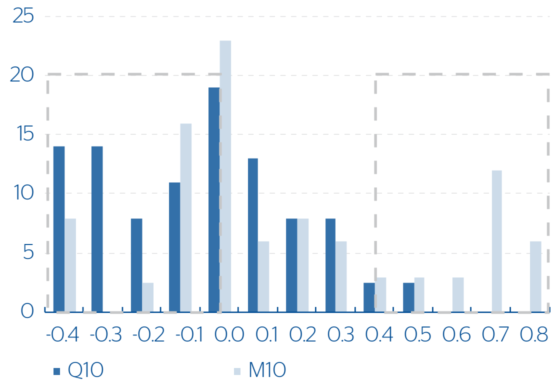
Fluctuation range of the monthly variation in the M10 rate and 10- year U.S. Treasury bond yields in the absence of an increase in sovereign risk (%)



Source: BBVA Research and Bloomberg. Period: December 2001 to October 2011. Monthly data.

Graph 28

Fluctuation range of the monthly variation in the M10 rate and 10- year U.S. Treasury bond yields with an increase in Mexican CDS (%)



Source: BBVA Research and Bloomberg. Period: December 2001 to October 2011. Monthly data.

yields of U.S. and Mexican public debt alter their fluctuation range. Specifically, the variation in the rate of return on U.S. bonds is more concentrated in negative values, while fluctuations in the Mexican debt yield focus more on positive and extreme values.[6]

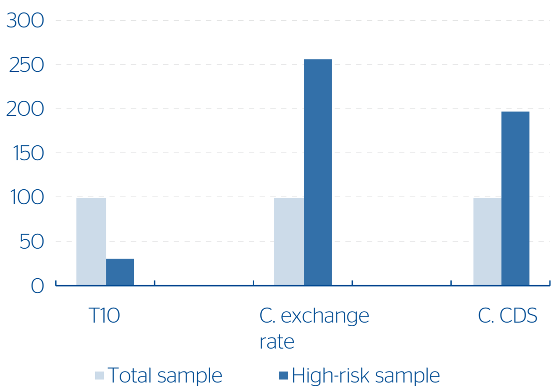
For example, an increase in risk perception that places CDS at levels close to 300 bp[7] and brings the peso/dollar exchange rate to levels approaching 14 MXP/USD could mean a rise in 10-year government bond yields (M10) of up to 130 bp in relation to the previous scenario. However, once the markets perceive the commitment to debt and public deficit levels anchored to their targets and the safeguard provided by international reserve levels, then the increase in long-term rates should be slowed until they return to levels consistent with a perception of solvency that the global risk environment is unable to reduce.

[6] The conclusions of the last two paragraphs are based on Economic Watch "Global risk perception alters the formation of Mexican yields"; Available at: http://www.bbvaresearch.com/KETD/fbin/mult/111024_ObsEcoMexico_25_tcm346-273147.pdf?ts=31102011
[7] That is, an increase of approximately half of the movement registered during the Lehman Brothers crisis

It is necessary to take into account that, given historical data, a monthly increase in Mexican CDS of more than 100 bp has occurred only in 7% of the months in which growth has been posted in this variable. And that, on average, this increase is accompanied by a 70 bp rise in the M10 yield given that the effect on yields increases exponentially based on the level of risk[8].

Graph 29

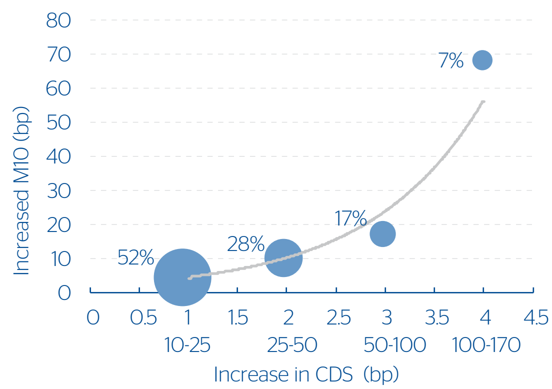
Relative importance of the determining factors behind M10 yields (ratios estimated using the sample total = 100)



Source: BBVA Research. C. indicates annual growth. T10 indicates the 10-year U.S. Treasury Bond yield.

Graph 30

Average monthly increase in the M10 yield (bp) in accordance with the different values of Mexican CDS



Source: BBVA Research and Bloomberg. Period: December 2001 to October 2011. The percentage of times that this has occurred is indicated next to the circles.

[8] The estimate of 130 basis points is greater than the average increase of 70 basis points because it takes into account the potential effects of a currency depreciation. In addition, the estimate is made using a sample in which there is an increase in risk perception, where the CDS and the exchange rate have a higher weight. A period of increased risk perception is characterized by a reduction in U.S. treasury bond yields and a growth in yields on Mexican public debt and CDS.

5. Indicators and Forecasts

Chart 1
Macroeconomic Forecasts: Gross Domestic Product

(YoY growth rate)	2008	2009	2010	2011	2012
United States	-0.3	-3.5	3.0	1.6	2.3
EMU	0.3	-4.2	1.7	1.7	1.0
Germany	0.8	-5.1	3.6	2.9	1.2
France	-0.2	-2.6	1.4	1.6	1.0
Italy	-1.3	-5.2	1.2	0.7	0.3
Spain	0.9	-3.7	-0.1	0.8	1.0
UK	-0.1	-4.9	3.4	0.9	1.3
Latin America *	5.2	-0.6	6.6	4.5	3.8
Mexico	1.5	-6.1	5.4	3.8	3.3
EAGLES **	6.6	4.0	8.3	6.7	6.5
Turkey	0.7	-4.9	9.2	7.5	4.5
Asia Pacific	5.2	4.1	8.0	5.9	6.4
China	9.6	9.2	10.4	9.1	8.6
Asia (exc. China)	2.3	0.8	6.5	3.7	4.9
World	2.8	-0.6	5.1	3.9	4.1

* Argentina, Brazil, Chile, Colombia, Peru, Venezuela
** Brazil, China, Egypt, India, Indonesia, Korea, Mexico, Russia, Taiwan, Turkey
Forecast closing date: October 31, 2011
Source: BBVA Research

Chart 2
Macroeconomic Forecasts: Inflation (Avg.)

(YoY growth rate)	2008	2009	2010	2011	2012
United States	3.8	-0.3	1.6	2.9	2.2
EMU	3.3	0.3	1.6	2.6	1.6
Germany	2.8	0.2	1.2	2.4	1.6
France	3.2	0.1	1.7	2.2	1.5
Italy	3.5	0.8	1.6	2.6	1.8
Spain	4.1	-0.3	1.8	3.1	1.2
UK	3.6	2.2	3.3	4.5	2.8
Latin America *	8.8	6.9	7.4	10.1	9.5
Mexico	5.1	5.3	4.2	3.5	3.5
EAGLES **	7.4	2.8	4.5	6.2	5.1
Turkey	10.4	6.3	8.6	6.5	6.0
Asia Pacific	5.7	0.3	2.7	4.8	3.7
China	6.0	-0.8	1.2	5.3	3.9
Asia (exc. China)	5.5	1.1	3.7	4.4	3.5
World	6.1	2.2	3.5	5.0	4.0

* Argentina, Brazil, Chile, Colombia, Peru, Venezuela
** Brazil, China, Egypt, India, Indonesia, Korea, Mexico, Russia, Taiwan, Turkey
Forecast closing date: October 31, 2011
Source: BBVA Research

Chart 3

United States Indicators and Forecasts

	2009	2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Macroeconomic Indicators												
GDP (real % change)	-3.5	3.0	1.6	2.3	2.2	3.3	3.5	3.1	2.2	1.6	1.6	1.1
Personal consumption (real % change)	-1.9	2.0	2.2	2.0	0.9	2.1	2.2	3.0	2.8	2.2	2.2	1.6
Government consumption (real % change)	1.7	0.7	-1.8	0.3	1.2	0.7	0.6	0.1	-1.1	-2.2	-2.4	-1.7
Gross fixed investment (real % change)	-18.8	2.6	7.0	8.5	-5.0	4.0	4.5	7.4	7.4	5.0	7.8	7.7
Construction[1]	-22.2	-4.3	-1.8	3.1	-6.8	4.2	-7.8	-6.3	-2.9	-6.8	1.6	1.5
Industrial production (real annual % change)	-11.0	5.3	4.0	3.5	1.6	6.5	6.9	6.2	5.4	3.7	3.3	3.4
Current account balance (% of GDP)	-2.7	-3.3	-3.2	-3.0	-3.3	-3.3	-3.3	-3.0	-3.2	-3.2	-3.4	-2.8
Final annual inflation	2.7	1.5	2.2	3.1	2.3	1.1	1.1	1.5	2.7	3.6	3.9	2.2
Average annual inflation	-0.4	1.6	2.9	2.2	2.4	1.8	1.2	1.3	2.1	3.4	3.8	2.4
Primary fiscal balance[2] (% of GDP)	-10.1	-8.9	-9.5	-6.9	-	-	-	-8.9				-9.5

Chart 4

Mexico Indicators and Forecasts

	2009	2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Economic Activity												
GDP (seasonally-adjusted series)												
Real annual % change	-6.2	5.4	3.8	3.3	5.1	7.2	5.1	4.2	4.4	3.6	3.9	3.2
Per inhabitant (US dollars)	7,572	8,680	10,158	10,502	8,344	8,634	8,605	9,137	9,580	10,194	10,450	10,408
US$ billions	881	1,036	1,187	1,249	996	1,029	1,027	1,092	1,158	1,209	1,195	1,188
Inflation (average, %)												
Headline	5.3	4.2	3.4	3.5	4.8	4.0	3.7	4.2	3.5	3.3	3.5	3.4
Core	5.0	3.9	3.2	3.0	4.4	3.9	3.7	3.6	3.2	3.2	3.2	3.2
Financial Markets (eop, %)												
Interest rates												
Bank funding	4.50	4.50	4.25	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.25
28-day Cetes	4.5	4.3	4.2	4.5	4.5	4.6	4.4	4.3	4.2	4.3	4.2	4.2
28-day TIIE	4.9	4.9	4.6	4.4	4.9	4.9	4.9	4.9	4.8	4.9	4.7	4.6
10-year Bond (%, average)	8.0	7.2	6.5	6.4	7.7	6.9	6.0	5.8	6.4	7.2	6.4	6.1
Exchange rate (average)												
Pesos per dollar	13.5	12.6	12.3	12.4	12.8	12.6	12.8	12.4	12.0	11.7	12.3	13.0
Public Finances												
*FRPS (% of GDP)	-2.7	-3.2	-2.9	-2.8	--	--	--	-3.2	--	--	--	-2.9
External Sector[3]												
Trade balance (US$ billions)	-4.9	-3.0	-4.3	-6.4	0.3	-0.1	-2.2	-1.0	1.5	1.4	-3.8	-3.4
Current account (US$ billions)	-6.4	-5.7	-11.4	-14.2	0.4	-0.7	-1.8	-3.5	-2.6	-0.2	-3.8	-4.8
Current account (% of GDP)	-0.7	-0.5	-1.0	-1.1	0.1	-0.3	-0.7	-1.3	-0.9	-0.1	-1.3	-1.6
Oil (Mexican mix, dpb, eop)	70.3	77.6	90.3	85.7	71.5	69.9	69.5	77.6	93.4	102.8	93.2	90.3
Employment												
Formal Private (annual % change)	-3.1	3.7	4.0	2.9	1.0	3.7	4.9	5.4	4.9	4.2	3.9	3.1
Open Unemployment Rate (% active pop.)	5.4	5.4	5.4	4.9	5.3	5.6	5.2	5.5	5.2	5.5	5.4	5.3

Chart 5

Mexico Indicators and Forecasts

	2009	2010	2011	2012	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
Aggregate Demand [4] (ann. % chge., seasonally-adjusted)												
Total	-9.4	9.5	**5.1**	**5.0**	8.9	12.8	9.3	7.3	6.0	**5.2**	**4.4**	**4.7**
Domestic Demand	-7.1	4.2	**4.1**	**3.6**	2.4	5.7	4.0	4.7	4.6	**4.2**	**3.5**	**4.0**
Consumption	-5.8	4.7	**3.9**	**3.5**	3.7	6.8	4.1	4.1	4.5	**4.2**	**3.4**	**3.6**
Private	-7.2	5.0	**4.0**	**3.5**	4.2	7.0	4.3	4.5	5.0	**4.7**	**3.2**	**3.2**
Public	3.8	2.8	**3.4**	**3.6**	1.2	5.3	2.5	2.0	1.3	**1.4**	**4.5**	**6.2**
Investment	-11.5	2.4	**4.8**	**3.6**	-2.5	2.0	3.5	6.9	5.1	**4.4**	**4.1**	**5.4**
Private	-16.8	2.9	**5.6**	**2.0**	-4.1	2.0	6.3	7.9	15.1	**6.8**	**-0.1**	**1.0**
Public	7.1	1.2	**2.6**	**8.0**	2.0	2.3	-3.6	4.2	-21.1	**-1.9**	**16.1**	**17.2**
External Demand	-13.5	26.0	**9.2**	**8.6**	24.7	34.6	27.9	16.9	14.0	**8.7**	**6.8**	**7.8**
Imports	-18.4	23.8	**8.8**	**9.6**	21.8	33.1	23.5	17.0	10.8	**9.6**	**5.9**	**9.0**
GDP by sectors (ann. % chge., seasonally-adjusted)												
Primary	-2.1	3.3	**1.1**	**3.9**	-0.2	2.1	5.3	6.0	2.4	**-3.7**	**2.7**	**2.9**
Secondary	-7.6	6.0	**3.9**	**3.6**	6.2	7.2	6.3	4.6	4.5	**4.2**	**3.3**	**3.5**
Mining	-2.9	2.2	**-2.1**	**1.1**	1.5	3.0	2.8	1.5	-3.2	**-2.3**	**-2.3**	**-0.3**
Electricity	2.2	2.4	**7.2**	**3.4**	0.7	2.1	3.4	3.2	8.3	**7.7**	**6.5**	**6.3**
Construction	-7.3	0.0	**4.0**	**5.4**	-3.6	-1.6	0.9	4.5	4.9	**3.5**	**3.1**	**4.5**
Manufacturing	-9.7	10.1	**5.1**	**3.7**	12.0	13.3	9.2	6.1	6.1	**5.7**	**4.7**	**4.0**
Tertiary	-5.2	5.0	**3.8**	**3.4**	4.8	7.3	3.9	4.1	3.9	**4.0**	**4.1**	**3.3**
Retail	-14.2	13.4	**7.7**	**5.4**	14.9	17.7	11.9	9.4	8.3	**8.5**	**7.9**	**6.1**
Transportation, mail and warehouse	-6.5	6.5	**3.3**	**2.8**	7.3	10.9	5.1	2.9	3.3	**3.8**	**3.7**	**2.4**
Massive media information	0.8	5.6	**4.4**	**5.4**	5.3	4.4	6.1	6.6	7.0	**6.3**	**2.1**	**2.3**
Financial and insurance	-4.4	2.7	**3.3**	**3.8**	-0.2	5.6	-2.6	8.8	1.5	**2.3**	**5.8**	**3.6**
Real-estate and rent	-1.2	1.8	**2.9**	**3.2**	3.6	1.4	1.0	1.4	2.4	**2.2**	**3.6**	**3.1**
Prof., scientific and technical servs.	-4.7	-3.0	**3.9**	**2.5**	-4.0	-3.7	-2.6	-1.7	3.1	**7.3**	**2.5**	**2.6**
Company and corporate management	-7.6	1.4	**4.1**	**4.6**	-6.9	-2.0	9.2	6.3	2.5	**5.6**	**3.8**	**4.6**
Business support services	-4.7	1.3	**3.1**	**2.5**	-0.6	2.0	1.0	3.0	3.5	**4.5**	**2.0**	**2.5**
Education	0.5	3.0	**1.1**	**1.0**	2.2	13.5	-0.8	-1.1	0.7	**1.8**	**1.0**	**1.1**
Health and social security	0.7	-1.8	**1.1**	**1.4**	1.3	-9.9	0.7	1.3	0.0	**2.4**	**1.0**	**0.9**
Cultural and sport	-4.6	1.7	**4.1**	**2.2**	-1.8	2.0	2.2	4.5	5.4	**6.9**	**1.9**	**2.1**
Temporary stay	-7.7	3.9	**1.6**	**2.1**	-0.8	11.9	2.7	2.6	0.8	**2.4**	**1.8**	**1.3**
Other services, except government activities	-1.1	0.6	**3.2**	**2.8**	-0.9	-0.9	1.4	2.7	3.2	**4.7**	**2.6**	**2.6**
Government activities	4.8	4.4	**0.1**	**1.7**	0.9	8.5	5.0	3.2	0.7	**-4.8**	**2.0**	**2.8**

1: Residential investment
2: Fiscal balance (% GDP)
3: Accumulated, last 12 months
4: Base 1993=100; GDP by sector base 2003=100. The observed data of the primary sector, secondary an tertiary seasonally by INEGI, the rest own seasonal adjusment.
dpb: dollars per barrel
*RFSP: Financial Requirements of the Public Sector
Note: **Bold** figures are forecast
Source: BBVA Research with Federal Reserve, Bureau of Labor Statistics, Banco de Mexico, INEGI and SHCP data

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