

3Q20 GDP – Stronger rebound than expected as the economy reopens

- **Gross Domestic Product (3Q20 P, nsa): -8.6% y/y; Banorte: -9.1%; consensus: -8.9% (range of estimates: -10.7% to -8.0%); previous: -18.7%**
- **Gross Domestic Product (3Q20 P, sa): +12.0% q/q; Banorte: 11.4%; consensus: 11.9% (range of estimates: 9.0% to 13.2%); previous: -17.1%**
- **Although the expansion in the quarterly comparison is the highest since records are available (1980), we should remember that it came after the sharpest decline in history**
- **In a similar fashion, both industry and services posted their highest rebound at 22.0% and 8.6% q/q, in the same order. Meanwhile, primary activities remained favorable at 7.4%**
- **Considering that the monthly GDP-proxy (IGAE) fell 9.7% y/y on average in July-August, today's print would imply a contraction of around 5.5% y/y in September**
- **We maintain our full-year GDP forecast at -9.0% y/y, with a more modest sequential pickup in 4Q20. For 2021, we estimate growth at 4.1%**
- **The revised figure will be published on November 26th**

GDP falls 8.6% y/y in 3Q20. This figure was above consensus (-8.9%) and better than our -9.1% forecast, improving relative to the -18.7% from the previous quarter, which was the largest contraction since the series is available, back to 1980 (see [Chart 1](#)). This print reflects mainly a series of efforts to reopen economic activities after the strict lockdown due to the pandemic (mainly in April and May), despite still showing a sizable impact because of this. By sectors, both services and industry stood at -8.8% ([Chart 2](#)). Finally, primary activities reached 7.6%. Considering this, the economy accumulates a 9.6% decline year-to-date. Nevertheless, the latter is skewed slightly to the upside due to the leap-year effect, as it added one day in 1Q20. Adjusting for this using seasonally adjusted figures, the economy contracted 9.8% y/y ([Table 1](#)).

Sequential performance reflects reopening efforts. Using seasonally adjusted figures, GDP rebounded 12.0% relative to the previous quarter, a new historical high. Nevertheless, it happened only after the 17.1% decline of the previous period ([Chart 3](#)). With this, the economy broke five quarters in contraction, which will probably be confirmed with the final release to be published on November 26th. In our view, reopening efforts (which started in June and were extended to the following months), external demand strength and the reestablishment of supply chains were key factors behind the period's increase. Despite of the latter, absolute levels of economic activity stand 9.0% below those observed in 2018 and like those registered in 2H14.

October 30, 2020

[@analisis_fundam](http://www.banorte.com)

Gabriel Casillas
Chief Economist and Head of Research
gabriel.casillas@banorte.com

Alejandro Padilla
Executive Director of Economic Research
and Financial Market Strategy
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.magal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



Document for distribution among the general public

Industry was now the strongest at +22.0% q/q, after being the most impacted in 2Q20 ([Chart 4](#)). Using data from other indicators (as the breakdown is not included in this release), manufacturing was the main driver, strongly supported by external demand, mainly from the US. Mining also bounced back, benefited by the non-oil component and with stability within oil. On the other hand, services increased 8.6%, with several sectors resuming activities under social-distancing schemes, as well as more extended schemes such as home office and other virtual tools. Nevertheless, the more modest rebound probably is a result of the specific shock to sectors related to tourism and entertainment, which rely more on social interactions. On the contrary, more essential sectors such as healthcare, education, and financial services, among others, were more resilient. Finally, primary activities were resilient at 7.4% ([Table 2](#)), benefited by their structural importance in the economy.

The report implies an additional pickup in September. Considering that the monthly GDP-proxy (IGAE) averaged -9.7% y/y in July-August, today's estimate implies a result for September at around -5.5% y/y. Said month was benefited by a calendar effect, with one additional working day in the annual comparison. Adjusting for this we estimate sequential growth of around 1.4% m/m, above the 1.1% seen in August. [Trade balance figures](#) suggest a continuation in the manufacturing expansion, while non-oil imports also point to an extension higher and even a marginal acceleration in consumption. [IMEF's PMIs](#) rose, also a positive sign. On the contrary, mobility indicators stagnated relative to improvements in previous months, which would signal a moderation in the pace of the recovery. In another note, this print would imply a decline of around -6.9% y/y with seasonally adjusted figures, exactly equal to the midpoint of INEGI's *Timely Indicator of Economic Activity* (IOAE in Spanish), with a 95% confidence interval between -8.8% and -4.9%.

We maintain our full-year GDP forecast at -9.0%, with a more modest sequential increase in 4Q20. Despite today's upward surprise, we maintain our full-year GDP forecast at -9.0% y/y (see [Table 3](#) and [Table 4](#)). Nevertheless, there is still high uncertainty about the evolution of the pandemic, which weighs heavily on this estimate. So far, the economic recovery has been relatively better than market consensus, boosted by the strength of external demand, in turn supported by extraordinary stimulus measures in several countries. In addition, domestic conditions have been somewhat better than foreseen, in our view because of pandemic fatigue and more resiliency in some key sectors. In absence of another significant shock, this trend should prevail in 4Q20 resulting in an additional rebound in activity.

Nevertheless, risks towards 4Q20 seem to have increased. This would be due to several factors, including: (1) Lack of further fiscal stimulus in the US; (2) worsening epidemiological conditions both domestically and abroad; and (3) other domestic challenges. About the first, negotiations between Republicans and Democrats did not yield an additional stimulus package before the election. We believe the possibility of not being passed if Joe Biden is the winner –which is our base case– is relatively high, having to wait until early 2021 to be approved by the new administration.

This could impact the recovery in the US, with a negative spill-over to our country. On the second, latest data shows a deterioration in epidemiological conditions across the globe, including Europe, the US and Mexico. While some countries are again enacting nationwide lockdowns to fight the virus, we believe the response in our country would be much more targeted, just as we are seeing with some states reverting to 'red' and 'orange' in the 'traffic light' indicator. In this sense, the Minister of Finance, Arturo Herrera, said yesterday that Mexico would not return to strict lockdowns again, as they have a very strong impact on the informal sector. On the other hand, Mexico City Governor, Claudia Sheinbaum, warned that the city could return to lockdowns by mid-November if COVID-19 hospitalizations keep rising. We should remember that it currently stands at 'yellow'. Therefore, and as colder temperatures come closer, we could see some partial lockdowns again, impacting activity but to a much lesser extent than between April and May. Lastly, and as [previously mentioned](#), there are other challenges of a more idiosyncratic nature, including changes to regulations regarding imports and railway blockades –which could impact trade–, limited fiscal stimulus and low credit penetration, among others. Moreover, overall confidence levels remain weak, suggesting that the outlook is still negative or at best uncertain, thus impacting investment and hiring decisions and a drag for economic activity.

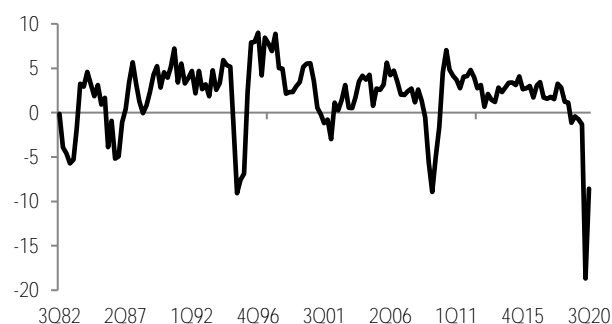
It is our take that the overall trend of the recovery will outweigh for these risks, albeit resulting in a more moderate expansion going forward. The deceleration in the pace would also be explained by more challenging base effects, especially in sequential terms. In this sense, we adjust 4Q20 GDP at +0.6% q/q (-7.2% y/y), with modest growth prevailing at least until the pandemic is over and/or a vaccine is widely available, assumption already embedded in our 2021 forecast. Our estimate of a 4.1% y/y expansion considers the availability of a vaccine in early 3Q21, with a more favorable effect from then onwards.

Table 1: GDP
% y/y nsa, % y/y sa

	nsa						sa					
	3Q20	2Q20	3Q19	2Q19	Jan-Sep'20	Jan-Sep'19	3Q20	2Q20	3Q19	2Q19	Jan-Sep'20	Jan-Sep'19
Total	-8.6	-18.7	-0.4	-1.1	-9.6	-0.2	-8.6	-18.7	-0.5	0.0	-9.8	-0.1
Agricultural	7.6	-0.5	1.9	-1.2	2.4	0.7	7.4	-0.2	2.0	-0.7	2.7	0.8
Industrial Production	-8.8	-25.7	-1.4	-3.0	-12.3	-1.5	-8.9	-25.7	-1.5	-1.7	-12.6	-1.6
Services	-8.8	-16.2	-0.1	-0.3	-8.6	0.4	-8.8	-16.2	-0.1	0.7	-8.8	0.4

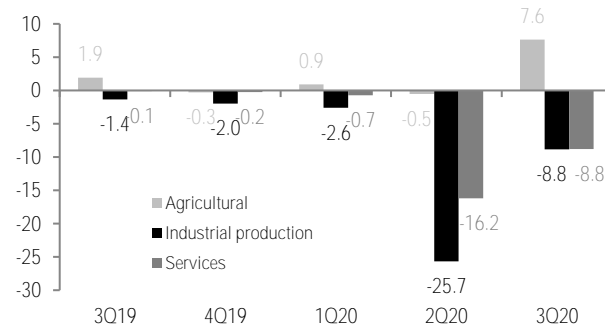
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



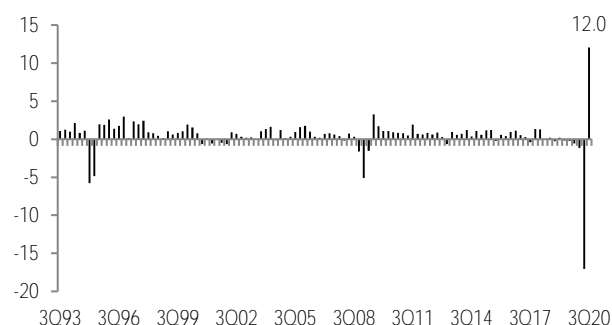
Source: INEGI

Table 2: GDP
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	3Q20	2Q20	1Q20	4Q19	3Q20	2Q20	1Q20	4Q19
Total	12.0	-17.1	-1.2	-0.6	57.6	-52.7	-4.6	-2.3
Agricultural	7.4	-2.0	0.8	0.1	32.9	-7.9	3.2	0.3
Industrial Production	22.0	-23.4	-1.1	-1.4	121.2	-65.6	-4.3	-5.6
Services	8.6	-15.1	-0.9	-0.3	39.0	-48.0	-3.5	-1.2

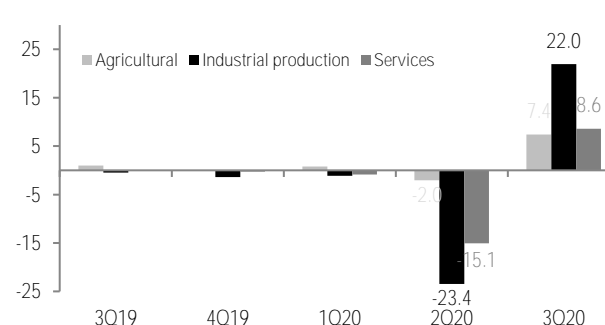
Source: INEGI

Chart 3: GDP
% q/q sa



Source: INEGI

Chart 4: GDP by sectors
% q/q sa



Source: INEGI

Table 3: GDP 2020: Supply
% y/y nsa: % q/q sa

% y/y	1Q20	2Q20	3Q20	4Q20	2020
GDP	-1.3	-18.7	-8.6	<u>-7.2</u>	<u>-9.0</u>
Agricultural	0.9	-0.5	7.6	<u>1.4</u>	<u>2.1</u>
Industrial Production	-2.6	-25.7	-8.8	<u>-7.0</u>	<u>-11.0</u>
Services	-0.7	-16.2	-8.8	<u>-7.6</u>	<u>-8.3</u>
% q/q					
GDP	-1.2	-17.1	12.0	<u>0.6</u>	--

*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

Table 4: GDP 2020: Demand
% y/y nsa: % q/q sa

% y/y	1Q20	2Q20	3Q20	4Q20	2020
GDP	-1.3	-18.7	-8.6	<u>-7.2</u>	<u>-9.0</u>
Private consumption	-0.5	-20.6	<u>-11.9</u>	<u>-7.8</u>	<u>-10.2</u>
Investment	-9.3	-34.0	<u>-17.6</u>	<u>-17.0</u>	<u>-19.4</u>
Government spending	3.4	2.4	<u>-3.0</u>	<u>-4.6</u>	<u>-0.4</u>
Exports	1.8	-30.9	<u>-7.9</u>	<u>0.5</u>	<u>-9.5</u>
Imports	-3.2	-29.7	<u>-18.8</u>	<u>-8.6</u>	<u>-15.2</u>
% q/q					
GDP	-1.2	-17.1	12.0	<u>0.6</u>	--

*Note: Underlined figures indicate forecast
Source: INEGI, Banorte

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalia Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

Guide for investment recommendations.

	Reference
BUY	When the share expected performance is greater than the MEXBOL estimated performance.
HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
SELL	When the share expected performance is lower than the MEXBOL estimated performance.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454