New fiscal stimulus package in the US will boost the Mexican economy

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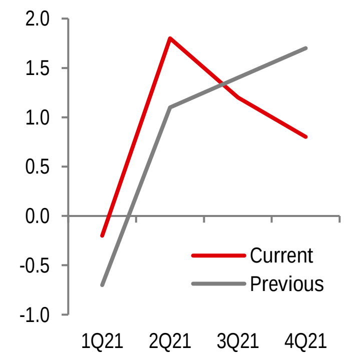
- **We revise our 2021 GDP forecast to 5.3%, from 4.1% previously, mainly due to the approval of a new fiscal stimulus package in the US, and a slightly quicker-than-expected reactivation of the Mexican economy**
- **It is worth noting that even if the Mexican economy observes 5.3% growth in 2021, using seasonally adjusted figures, economic activity at the end of the year would still be 1.0% below pre-COVID levels (4Q19) and 2.1% lower than its most recent peak (2Q19)**
- **Looking ahead, the Mexican economy will face two major challenges: (1) Accelerate the vaccination process; and (2) improve the country's investment climate**

Upward revision. We revise our 2021 GDP forecast for the Mexican economy to 5.3%, from 4.1% previously. The two underlying reasons why we revise it upwards are: (1) The approval of the new fiscal stimulus package in the US of US$1.9 trillion; and (2) a quicker-than-expected reactivation of the Mexican economy, despite the blackouts, gas supply disruptions, and that a substantial number of states had to impose restriction to mobility due to the COVID-19 outbreak caused during the December holiday season gatherings, that subtracted growth momentum in 1Q21. It is worth noting that both, our former GDP growth estimate (4.1%), as well as the current one (5.3%) has hovered around the optimistic side of consensus forecasts among market analysts, as shown even in the latest surveys (Banxico survey: 3.9%; *Citibanamex* survey: 4.0%).

Front-loaded growth in Q2 and Q3. We expect a quarterly decline of 0.2% in 1Q21, instead of -0.7% in our previous estimate, given that we have seen a faster restart in several economic sectors. Unlike our previous forecasts –where we expected higher growth rates in the third and fourth quarters of this year–, we now consider that growth will jump forward to the second and third quarters, mainly explained by the positive impact of the new stimulus package in the United States, as seen in the last two lines in the table below on the left.

GDP 2021 – Current vs. previous
% q/q



Source: Banorte

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GDP growth projections (Aggregate Supply)
%

	1Q21	2Q21	3Q21	4Q21	2021 Current	2021 Previous
GDP (% y/y)	-5.0	18.1	6.5	3.9	5.3	4.1
Agricultural	5.3	3.8	-2.5	-1.7	1.1	0.1
Industry	-4.8	27.6	7.2	4.3	7.4	5.1
Services	-5.5	15.1	6.5	4.0	4.6	3.8
Current (% q/q)[1]	-0.2	1.8	1.2	0.8	--	--
Previousr[1]	-0.7	1.1	1.4	1.7	--	--

1. Seasonally adjusted figures
Source: Banorte

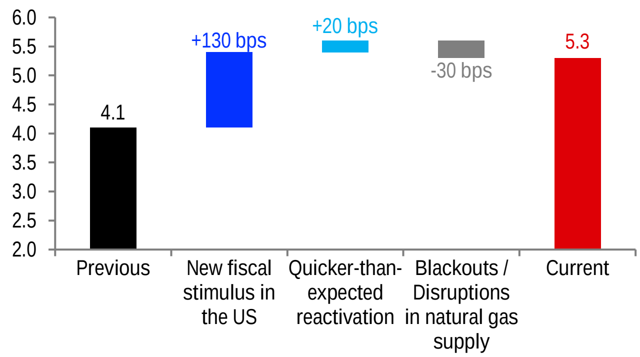
GDP growth projections (Aggregate Demand)
%

	1Q21	2Q21	3Q21	4Q21	2021 Current	2021 Previous
GDP (% y/y)	-5.0	18.1	6.5	3.9	5.3	4.1
Consumption	-6.4	19.9	10.8	7.3	7.2	6.2
Investment	-11.4	24.9	9.0	3.0	4.7	3.9
Govt. spending	-3.2	-1.8	-2.2	1.0	-1.5	-1.8
Exports	-1.5	36.3	6.9	4.7	9.8	7.6
Imports	-4.9	23.9	18.3	9.8	10.8	9.6

Source: Banorte

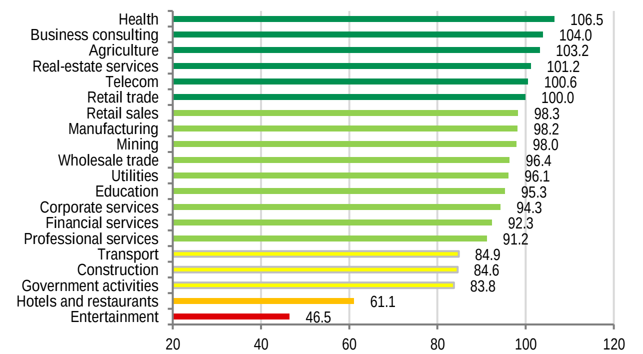
US fiscal stimulus. The recently approved fiscal stimulus package in the US of ~8.4%-pts of GDP (US$1.9 trillion), adds up to the five fiscal packages implemented in year 2020, in which the government flooded the economy with resources close to 18.1%-pts of GDP. In this context, it is our take that the new fiscal package will have a positive impact of 1.3%-pts on the Mexican economy this year (chart below on the left). An important factor that helped the Mexican economy to receive the US fiscal money was the ability to reconnect with the manufacturing global supply chain since last year, when the government decided to characterize manufacturing -particularly the automotive sector-, as an essential activity back in May 2020. This allowed manufacturing to carry on amid the volatile mobility restriction policies that have been heightened and loosened depending on the COVID-19 contagion waves. After the approval and given faster than expected advances in terms of the vaccination process, we revised our growth estimate for the US this year to 6.1% from 5.4%.

2021 GDP forecast revision
% y/y and bps



Source: Banorte

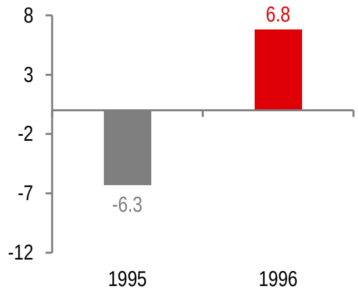
Economic activity level in 4Q20 vs. the most recent peak (4Q18)
%



1. Percentage of economic activity in Q4 2020 with respect to the level in Q4 2018 (using nsa series)
Source: Banorte with data from INEGI

Heterogeneous reactivation, but faster than anticipated. Meanwhile, we have seen a slightly faster reactivation of Mexico's economy –which we expect to have an additional +20bps impact–, despite blackouts, disruptions in natural gas supply, and the number of states that remained in red under the traffic light indicator resulting in lower dynamism in the first quarter of this year, in our opinion, around -30bps. In this manner, as seen in the chart above on the right, on one hand six activities –which represent 27% of GDP– are already above 100% of its recent peak based on original figures (4Q18); nine activities between 90% and 100% (50.6% of GDP); and three between 70% and 80% (15.1% of GDP). However, those that require higher interaction and where the recovery has been much more complex, as the case of hotels and restaurants, stand at 61.1% (2.2% of GDP). The most dramatic case are entertainment services, which are below 50% (0.4% of GDP).

GDP in Mexico: 1995-1996
% y/y

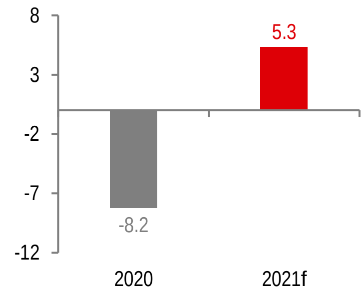


Source: Banorte with data from INEGI

GDP in Mexico: 2009-2010
% y/y

Source: Banorte with data from INEGI

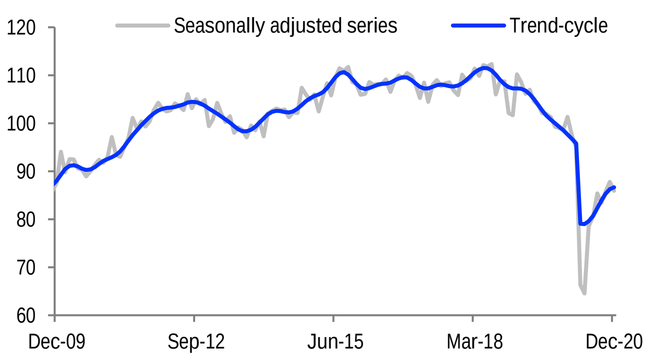
GDP in Mexico: 2020 and 2021 forecast
% y/y



Source: Banorte with data from INEGI

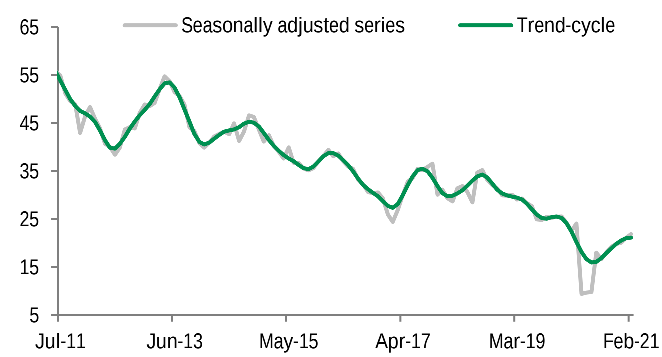
Quick reactivation, slow recovery. It should be noted that, with an expansion in GDP of 5.3% in 2021, economic activity at the end of the year –using seasonally adjusted figures– would stand 1.0% below pre-COVID levels (4Q19) and 2.1% lower than its most recent peak (2Q19). In this sense, the recovery would be much less vigorous than in the 1995 and 2009 recessions, as seen in the charts above. We consider that, in a similar manner to these two recessions, fiscal stimulus was strongly limited in our country (inexistent in 1994-1995). However, there are three relevant differences now: (1) In the 1995 and 2009 recessions, tax reforms were enacted, contrasting with no such thing currently; (2) the latest recession was caused by a pandemic which has not ended and where the vaccination process needs to accelerate to achieve higher growth rates; and (3) although practically none have been approved, the series of relentless legislative initiatives –much of them anti-market– have dampened the investment climate significantly. As a result, investment stands currently at levels last seen in 2009 (chart below on the left) and one of the main confidence indicators for investment remains very close to its minimum since INEGI publishes it (chart below on the right). Investment is fundamental for the reactivation to be sustainable.

Gross fixed investment
Index (2013 = 100)



Source: Banorte with data from INEGI

Investment confidence[1]
Index



1. "Adequate moment to invest in the construction industry" within the Monthly Survey of Businesspersons' Opinion
Source: Banorte with data from INEGI

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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, 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 Thalía 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.

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