

IGAE – The economy grew modestly in January on a challenging backdrop

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- **Global Economic Activity Indicator (January): -5.4% y/y; Banorte: -5.6%; consensus: -5.3% (range: -5.9% to -2.3%); previous: -2.7%**
- **Today's print was affected by a negative calendar effect and a difficult start of the year because of worsening epidemiological conditions. Correcting for this, performance was slightly lower than estimated by INEGI's latest *Timely Indicator of Economic Activity***
- **As already known, industry declined 4.9% y/y, with construction lifting performance but manufacturing weaker. Services stood at -6.1%, with transportation contracting 15.4% and retail by -7.4%**
- **In monthly terms, the economy increased only 0.1% after stalling in December. Industry grew 0.2% but services inched lower (-0.1%). Primary activities were stronger at 1.8%, albeit after a steep contraction in the previous month**
- **We maintain our 5.3% GDP forecast for 2021, reaffirming our call of a modest sequential contraction in the first quarter due to temporary shocks, but expecting an acceleration in 2Q21**

Economic activity fell 5.4% y/y in January. This was lower than consensus at -5.3%, but above our -5.6%. Details are presented in [Chart 1](#). Also, it was below December's figure, partially driven by a negative calendar effect (with two less working days in the annual comparison vs. +2 in the previous month). Correcting for this with seasonally adjusted figures, activity stood at -4.2% y/y, slightly lower than the mid-point (-4.0%) of [INEGI's Timely Indicator of Economic Activity](#), but well within the confidence interval (-5.5% to -2.6%). In our view, dynamism was dampened by a less favorable evolution of the virus globally and locally, resulting in renewed restrictions since mid-December which also affected mobility levels –despite the population's increased adaptation with the pandemic–. By sectors –and back to original data–, [industry fell 4.9% y/y](#), with construction surprising to the upside, but manufacturing weaker and back to negative. Services also backtracked, at -6.1% ([Chart 2](#)). We note that retail was quite negative, at -7.4%. This is consistent with the sector's aggregate sales report, also released today. In our view, it was hit again by the decision to keep shopping malls closed in Mexico City and the State of Mexico during the full month. On the other hand, sectors dependent on social interactions maintain double-digit pace contractions, such as lodging (-42.5%) and recreational (-18.6%), as shown in [Table 1](#). In line with recent trends, these were followed by transportation (-15.4%). Education and healthcare (0.4%), along government (0.0%), remain supported and more stable. We also highlight that financial services declined 1.7%, failing to return to positive since April. Lastly, primary activities stood at 2.3% despite bad weather that we thought may have affected production, as flagged by higher prices of agricultural goods within inflation figures.

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Monthly data confirms lower dynamism at the turn of the year. The economy grew 0.1% m/m, above the 0.0% in December ([Table 2](#)), which was revised downwards by around 10bps. Although the result was marginally positive, we note that the pace of growth has decelerated meaningfully since June. This has been influenced by an increasingly difficult base effect as time passes by, although we think it is an important signal of the cautiousness that is still present among economic agents. Moreover, it is also relevant considering that activity remains about 3.2% below levels seen in February last year ([Chart 4](#)).

Industrial production rose 0.2% ([Chart 3](#)), with mixed results inside. Construction led the advance (1.5%), albeit with a volatile performance lately, while mining went up 0.2%. Hence, the main drag was manufacturing (-0.5%), registering its first sequential decline since the reopening started.

Within services, four out of nine subsectors were negative, showing mixed results. Those sectors among the most hit by the pandemic observed the highest retracements, including transportation (-5.2%) and lodging (-3.9%). In the latter, we highlight that it was its first decline since June, in our view signaling that consumers were indeed more cautious because of virus dynamics. As already mentioned, this may also have been an important driver behind the second consecutive contraction in retail (-1.3%), remembering that higher restrictions were imposed since mid-December. Nevertheless, a positive surprise was seen in recreational (1.3%), second highest performer in the period after professional services (4.1%). Overall, the result was stronger than our expectations, boding relatively better for performance in the short-term considering the improvement in contagion curves in recent weeks.

Short-term cautiousness, but more optimistic for 2Q21. With today's results broadly in line with our estimate, we reiterate our call that economic activity will contract in the first quarter, at -5.0% y/y (-0.2% q/q). In our view, risks are broadly balanced to slightly skewed to the upside, with industry facing relevant challenges, but services more resilient than anticipated.

We stay cautious about dynamism in the short term, with the economy impacted by several temporary factors. Industry is poised to fall in February as production was affected by electricity shortages in northern and central Mexico in the middle of the month. We expect tomorrow's trade balance to confirm this, hitting especially on manufacturing, with auto production dipping 28.8% y/y –weakest since May 2020– according to AMIA. A direct impact is also likely to be seen in mining and utilities. In turn, INEGI's aggregate trend indicators in construction picked up, although we take these signals with caution given the sector's higher volatility as of late. The [IMEF manufacturing indicator](#) hinted at some effects because of the blackouts. On the other hand, there were [no job losses in the sector](#), in our view likely because of the temporary nature of the disruptions. For services, available data is mixed to positive. Among them, the rebound in ANTAD's total sales to -3.2% y/y in real terms –likely skewed downwards as 2020 was a leap year–, with departmental stores rebounding as malls were reopened. Nevertheless, other pockets of weakness remain. For example, Canada suspended air travel to Mexico until April due to COVID-19 dynamics; meanwhile, the US imposed more stringent restrictions for entry, which could deter some travelers.

One of Mexico's top airlines (Interjet) sought bankruptcy protection this week. Overall, this sector still faced headwinds in this period.

Looking ahead, developments seem to be more favorable. The most important was the approval of a new fiscal stimulus package of US\$1.9 trillion in the US on March 10th, with the disbursement of resources starting this month. This prompted us to [revise our 2021 GDP forecast for Mexico to 5.3% from 4.1%](#). As a result, we anticipate: (1) Dynamism from a vigorous advance of external demand to be front-loaded to the second quarter of the year; and (2) a possible acceleration in remittances inflows, which could help support consumption. Previously, we estimated that the pace of the recovery would accelerate until the second half of 2021. We also see as positive that the US agreed to send 2.7 million doses of their supply of AstraZeneca vaccines to our country. According to President López-Obrador, these will be received later this week or early the next one. Moreover, he said the vaccination campaign will be reinforced and accelerated in coming days, with the help of the Navy and Armed Forces. Although the pace of inoculations in Mexico is still low (with almost 200k daily doses applied on average in the last seven days through March 24th), it will likely gather momentum in coming months as more vaccines are available. This could help boost business and consumer confidence and the willingness to spend (on lower uncertainty). Another potentially positive driver of the accelerated pace of vaccinations in the US is that it could lift demand for touristic services into our country, a sector which remains in a very difficult situation.

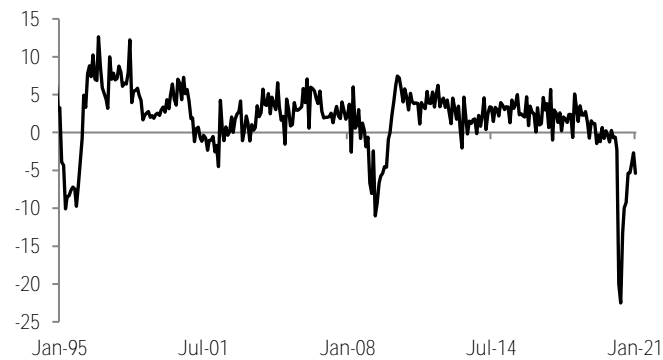
Despite of this, risks about the evolution of the virus remain, with the most relevant being warnings of a "third global wave of infections" as more contagious mutations of the virus have been identified. Moreover, supply chain issues have been reported in several industries on the lack of raw materials (the most relevant being semiconductors, which will take time to resolve) and the shortage of containers for the transportation of goods, among others.

Table 1: Global economic activity indicator
% y/y nsa, % y/y sa

	y/y nsa				y/y sa	
	Jan-21	Jan-20	2020	2019	Jan-21	Jan-20
Total	-5.4	-0.7	-8.0	-0.1	-4.2	-0.7
Agriculture	2.3	-1.2	2.6	0.4	3.1	-0.5
Industrial production	-4.9	-1.5	-10.0	-1.7	-3.7	-1.8
Mining	-3.3	6.8	-1.1	-4.4	-3.5	6.1
Utilities	-4.9	-0.1	-5.3	-0.6	-4.8	0.1
Construction	-10.0	-8.1	-17.2	-5.2	-10.5	-9.4
Manufacturing	-3.4	-1.3	-10.0	0.6	-1.0	-1.5
Services	-6.1	-0.3	-7.6	0.7	-4.6	-0.2
Wholesale	-1.2	-3.8	-8.8	-0.9	3.2	-3.8
Retail	-7.4	0.1	-9.7	-0.2	-3.9	0.7
Transport	-15.4	-0.3	-14.6	1.8	-14.1	-0.1
Financial services	-1.7	0.6	-1.0	1.1	-1.9	0.3
Professional services	2.6	2.7	-2.4	5.5	2.6	2.2
Education and healthcare services	0.4	-1.8	-1.5	0.1	0.8	-1.7
Recreational services	-18.6	-0.9	-18.4	1.0	-18.6	-1.0
Lodging services	-42.5	2.4	-43.6	1.4	-42.2	2.6
Government services	0.0	0.5	2.2	-2.2	-0.1	0.4

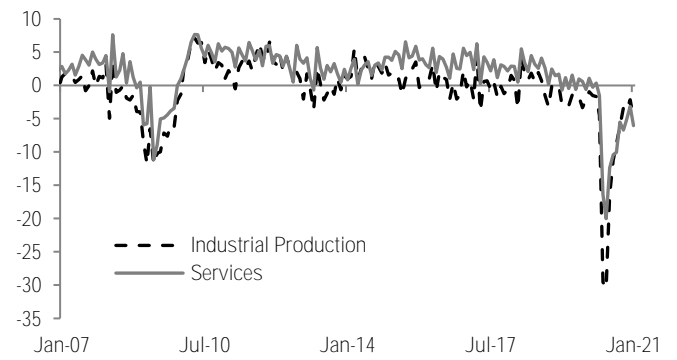
Source: INEGI

Chart 1: Global economic activity indicator
% y/y nsa



Source: INEGI

Chart 2: Global economic indicator by component
% y/y nsa



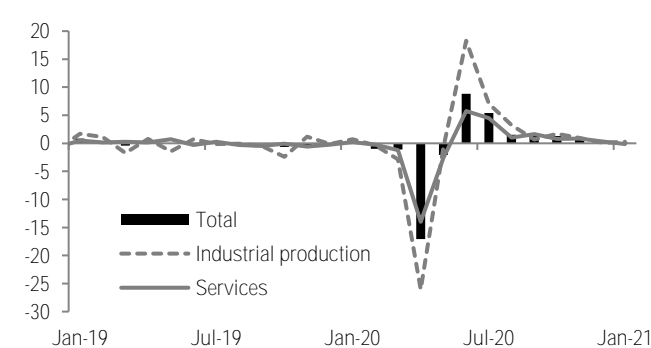
Source: INEGI

Table 2: Global economic activity indicator
% m/m sa, % 3m/3m sa

	% m/m, sa			% 3m/3m sa	
	Jan-21	Dec-20	Nov-20	Nov'20-Jan'21	Oct-Dec'20
Total	0.1	0.0	0.7	2.0	3.2
Agriculture	1.8	-4.3	0.1	-1.6	-2.0
Industrial production	0.2	0.1	0.9	2.5	3.9
Services	-0.1	0.3	0.8	2.1	2.9

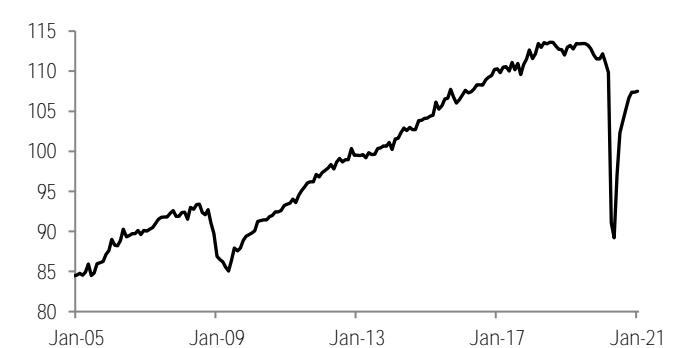
Source: INEGI

Chart 3: Global economic activity indicator
% m/m sa



Source: INEGI

Chart 4: Global economic activity indicator
Index sa



Source: INEGI

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