

Economic Research

Mexico

Ahead of the Curve

GDP in 1Q21 to grow 0.3% q/q, scoring three positive quarters in a row

- **Gross domestic product (1Q21 P).** We forecast GDP at -4.0% y/y, up from -4.3% in the previous quarter. This figure is skewed by several factors, including calendar effects and the first impacts from the COVID-19 pandemic in 2020. Correcting for the former (which insert a downward bias) with seasonally adjusted figures, we expect a 3.1% y/y decline. However, in sequential terms we forecast a 0.3% q/q expansion, which would add three positive quarters in a row. This is based on a better-than-expected performance so far, with a more modest impact from difficult epidemiological conditions in January and February, as well as from blackouts and the lack of natural gas in the latter period. We also factor-in some figures that show a more vigorous recovery of domestic demand, and signals of strength in March. If we are right, we see upside risks to our full-year forecast of 5.3%
- **Trade balance (March).** We estimate a US\$3,356.1 million surplus, up from +US\$2,681.1 million in February, consistent with the trend seen in the last couple of years. In general, we expect figures to show greater economic dynamism, as suggested by some timelier data. On the other hand, we should recall that annual rates in some categories will start to show strong distortions from base effects associated to the pandemic in 2020. At the margin, there is also a positive effect from an additional working day. In this context, total exports would increase 5.6% y/y (previous: -1.1%), with imports at +6.0% (previous: -0.6%)

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Document for distribution among the
general public

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 26-Apr	7:00am	Economic activity indicator	February	% y/y	-4.3	-4.1	-5.4
		sa		% m/m	0.0	--	0.1
		Primary activities		% y/y	4.5	--	2.3
		Industrial production		% y/y	-4.5	--	-5.0
		Services		% y/y	-4.8	--	-6.1
Tue 27-Apr	7:00am	Trade balance	March	US\$ mn	3,356.1	--	2,681.1
		Exports		% y/y	5.6	--	-1.1
		Imports		% y/y	6.0	--	-0.6
Tue 27-Apr	10:00am	International reserves	Apr-23	US\$ bn	--	--	195.2
Fri 30-Apr	7:00am	GDP	1Q21 (P)	% y/y	-4.0	-3.1	-4.3
		sa		% q/q	0.3	0.1	3.3
		Primary activities		% y/y	1.7	--	4.8
		Industrial production		% y/y	-3.3	--	-3.1
		Services		% y/y	-4.5	--	-5.0
Fri 30-Apr	10:00am	Commercial banking credit	March	% y/y in real terms	-9.9	--	-6.0
		Consumption		% y/y in real terms	-13.1	--	-13.6
		Mortgages		% y/y in real terms	4.3	--	4.5
		Corporates		% y/y in real terms	-14.2	--	-5.9
Fri 30-Apr		Budget balance (measured with PSBR)	March	MX\$ bn	--	--	-100.0

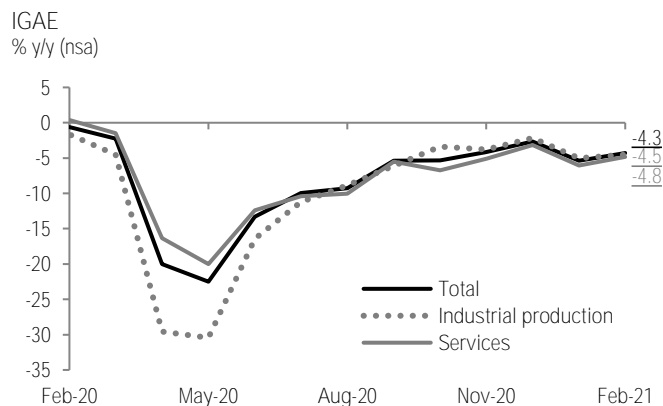
Source: Banorte; Bloomberg

Proceeding in chronological order...

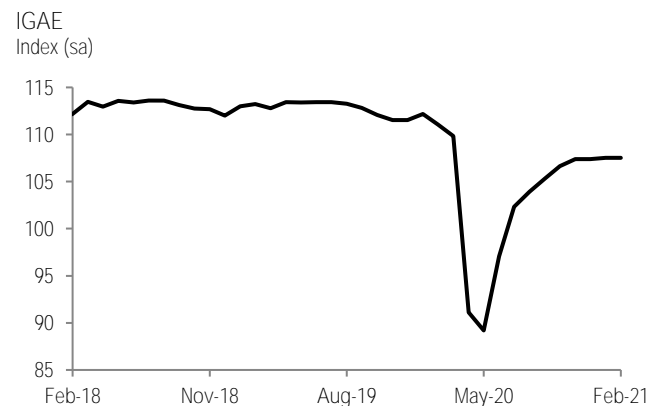
February's GDP-proxy to decelerate amid a complex backdrop. We expect the *Global Economic Activity Indicator* (IGAE) at -4.3% y/y, higher than January's -5.4%. Despite a negative impact from the leap year, working days were unchanged in the annual comparison, mitigating the effect. Adjusting for this, activity would fall 3.3% y/y, which would be better than the -3.9% forecasted by INEGI's [Timely Indicator of Economic Activity](#). In sequential terms, activity would be stable (0.0% m/m), in our view relatively positive considering relevant shocks and a complex environment because of the pandemic.

As already known, [industrial production fell 4.5% y/y](#) (nsa), better than expected. Its 0.4% m/m advance was surprising, with strength in construction (+2.5%) and mining (+2.3%). In contrast, utilities fell 3.8% and manufacturing -2.1% –with a relevant fall in autos (-9.2%)–, much more affected by the blackouts and the undersupply of natural gas.

For services we expect -4.8% y/y (nsa), translating to a 0.2% m/m expansion with seasonally adjusted figures. In our view, some support would come from improved epidemiological conditions in the second half of the month that resulted in reopening to boost commerce and entertainment (mainly restaurants). In broad terms, IMEFs non-manufacturing PMI climbed to 49.6pts from 48.4pts, with strength across the board, including 'new orders' and 'production'. Moreover, INEGI's employment report showed a net gain of 370.4 thousand jobs in the sector, highlighting +194.3 thousand in social services. This is consistent with our view of a modest impact from blackouts. On a more detailed basis, [retail sales expanded 1.6% m/m](#), with strength in non-essential sectors. On tourism we saw a slight deterioration, with total air passenger traffic declining to -53.6% y/y (previous: -46.6%) and occupancy rates at 25.0% from 25.4%, albeit with a better historical seasonality. In this respect, we do not rule out an impact from more stringent travel restrictions, especially from Canada but also from the US and other regions. Turning to essential sectors, healthcare and education might trend higher, despite a reduction in cases possibly impacting the former. Meanwhile, we do not rule out a sequential decline in professional services given strong results in the previous two months.



Source: INEGI, Banorte



Source: INEGI, Banorte

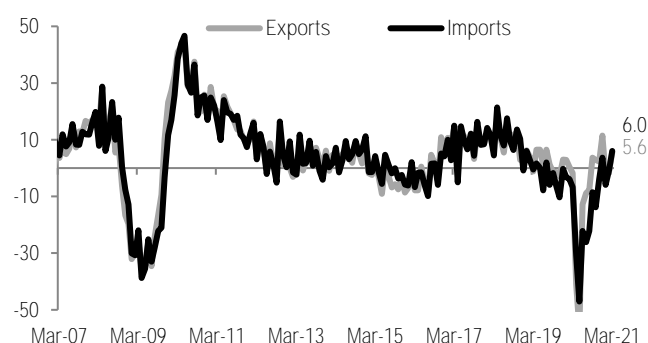
March's trade balance to remain in surplus, with higher overall dynamism.

We estimate a US\$3,356.1 million surplus, up from +US\$2,681.1 million in February, consistent with the trend seen in the last couple of years. In general, we expect figures to show greater economic dynamism, as suggested by some timelier data. On the other hand, we should recall that annual rates in some categories will start to show strong distortions from base effects associated to the pandemic in 2020. At the margin, there is also a positive effect from an additional working day. In this context, total exports would increase 5.6% y/y (previous: -1.1%), with imports at +6.0% (previous: -0.6%).

We expect a US\$1,279.7 million deficit in the oil balance, widening relative to February. Despite a relative normalization in energy markets in the US after weather disruptions, hydrocarbon prices remained higher, explaining most of the performance. Specifically, the Mexican oil mix averaged 60.80 US\$/bbl from 57.65 sequentially. In annual terms this implies a whopping 160.2% rise, remembering this was one of the first sectors affected by the pandemic last year. On the contrary, volume data suggests a slight month-on-month deceleration. Also, we did not have relevant reports of shocks to loading or productive capacity in the period. In this context, we expect an 85.1% y/y increase in shipments from the sector. Regarding imports, prices also increased, although with volumes expanding after limited refining operations in Texas and the ban on gas exports from the state for a couple of days. Therefore, we expect total inbound shipments in this category at +11.5% –with a less favorable base effect.

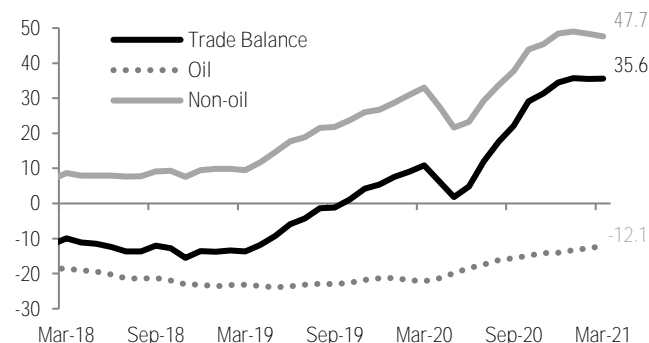
The non-oil balance is estimated to post a US\$4,635.7 million surplus. Exports would climb 2.9% y/y and imports 5.5%. Both would start to also show distortions from COVID-19, albeit at this early stage with inventories having played a key role to avoid a higher impact. In the former, agricultural goods would fall 4.7%, expecting some payback after last month's sequential expansion. Non-oil mining would still be supported by the recovery in commodities prices, at 25.1%. Manufacturing would expand 2.9%, with autos negative at -2.1% given some previous (*e.g.* blackouts) and current (*e.g.* semiconductors) distortions, despite strength in the US at +31.8%. An inventory drawdown in 2020 limits the effect on an annual basis. Other manufacturing exports would stand at 5.8%, aided by strength from abroad, especially in sequential terms. In this backdrop, US industrial production ex autos was flat (0.0%), while ISM indices were much stronger, suggesting an uptick. In imports, we expect more dynamism in intermediate goods (4.7%), given some normalization after the shocks in activity, albeit somewhat limited by supply-chain constraints. Consumption (7.6%) and capital goods (10.8%) would be more distorted by base effects, with the former rebounding and the latter moderating at the margin.

Exports and Imports
% y/y nsa



Source: INEGI, Banorte

Trade balance
US\$ billion, 12-month rolling sum



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased by US\$245 million, closing at US\$195.2 billion (please refer to the following table). According to Banxico's report, this was mainly explained by a positive valuation effect in institutional assets. So far this year, the central bank's international reserves have fallen by US\$420 million.

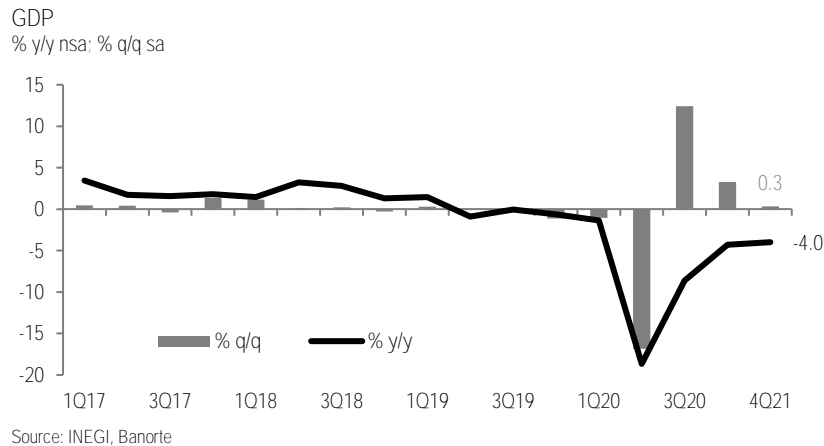
Banxico's foreign reserve accumulation details
US\$, million

	2020	Apr 16, 2021	Apr 16, 2021	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	195,667	195,247	245	-420
(B) Gross international reserve	199,056	201,645	2,354	2,589
Pemex	--	--	0	449
Federal government	--	--	2,157	3,469
Market operations	--	--	0	0
Other	--	--	197	-1,330
(C) Short-term government's liabilities	3,389	6,398	2,109	3,009

Source: Banco de México

We expect a mild increase in 1Q21's GDP despite a complex backdrop. We forecast GDP at -4.0%, up from the -4.3% of the previous quarter. These figures are skewed by several factors, including: (1) The leap year, subtracting a day; (2) the beginning of the *Easter* holiday in the final days of March—given that in 2020 the totality of it occurred in April; and (3) the first impacts of the COVID-19 pandemic in 2020, affecting some sectors since mid-March. Correcting for the first two (which insert a downward bias) with seasonally adjusted figures, we expect a 3.1% y/y decline. However, sequentially we forecast an expansion of 0.3% q/q, considerably better than our previous forecast of -0.2% and thus adding three quarters to the upside.

Our estimate is based on a better-than-expected performance so far, with a more modest impact from the deterioration in epidemiological conditions in January and February, as well as from the shock from blackouts and lack of natural gas in this latter period. We also take into account some figures that show a more vigorous recovery in domestic demand, such as [consumption and investment](#). This has already been seen in indicators such as [January's GDP-proxy](#) (IGAE, at +0.1% m/m). It also incorporates our estimate for said indicator in February at 0.0% (see [section above](#) for details) and +0.1% in March. We should mention that in these last two cases, our forecasts are more optimistic than those from [INEGI's Timely Indicator of Economic Activity](#).



For industry, we expect a 0.2% q/q contraction in the quarter (-3.3% y/y nsa). Considering what we know so far about the first two months of the period, characterized by ample negative factors for the sector, the magnitude of this contraction would not be that concerning. Focusing on March –given that they are still unknown–, we expect some stability in sequential terms (0.0% m/m). Inside, we expect a recovery in utilities and a rebound in manufacturing after the effects from the cold weather. On the latter, [IMEF's manufacturing PMI](#) advanced 1.0pts, back into expansion territory at 50.7pts. In the detail, 4 out of the 5 components improved, highlighting the strength in 'production' (54.1pts). Meanwhile, auto production recovered strongly at 303.5 thousand units (12.5% y/y), with the annual comparison starting to get contaminated by the base effect. We should remember that, in 2020, several facilities started to halt operations since the middle of the month given the lack of raw materials and concerns due to the pandemic. However, this year some manufacturers –such as Toyota and Honda– announced stoppages due to missing supplies, mainly semiconductors, which would limit dynamism. In the external front signals are also favorable, with a month-on-month rebound in industry in the US and remembering that payments from the last stimulus package (of US\$1.9 trillion) started to be disbursed in the month. In mining, we believe we could see a slight moderation. The non-oil sector would remain strong, supported by high commodities prices. In oil, we still do not have output data from Pemex and/or private companies. However, we believe that given shipment issues last month we could see some adjustments in production. Moreover, we still think that capacity to increase it is still limited by the financial position of the state-owned company. Finally, construction-related indicators remain positive, especially aggregate trend, adding 10 straight months of improvements. Considering this, we expect greater stability after strong increases in the last few months, albeit with the possibility of some marginal support from government spending.

In services, we expect a 0.5% q/q expansion (-4.5% y/y). After some weakness in January, we consider that the gradual and constant improvement in epidemiological conditions since mid-February boosted dynamism. Specifically, for March signals are even more favorable. IMEF's non-manufacturing PMI rocketed to 52.8pts (+3.2pts), with gains centered in 'new orders' and 'production'.

Moreover, [INEGI's employment report](#) showed a net creation of 526.0 jobs in the sector, with many focused on the restaurant and hotels category (consistent with improving COVID-19 conditions). These indicators may have benefited by the *Easter* holiday period. Consistent with this, air passenger traffic in privately operated airports fell only 0.1% y/y –albeit also distorted by COVID-19–. This comes on top of press reports of improving hotel occupancy rates in several destinations, although remembering that some states maintained restrictions on the total number of guests they could have. Also, positive, total sales from ANTAD advanced 3.9% y/y in real terms. Here, we believe that a possible boost in remittances –after the approval of the stimulus package in the US–. The latter, along robust job growth and lower uncertainty, leads us to expect support for consumption. In other sectors, we believe essential ones (*e.g.* education, healthcare, government) will remain stable, while other slightly more exposed –such as professional and financial– could be benefited by the overall acceleration in activity.

Banking credit to push lower in March on an adverse base effect. We expect a 9.9% y/y contraction in real terms, below the -6.0% seen in February. This additional contraction would be driven by a more challenging base effect. Recalling performance in 2020, corporates drew their credit lines considerably in March, pushing loans higher. However, as time went on –and lockdowns extended– their strength waned. Meanwhile, consumer loans started to fall, while mortgages were more stable. Back to 2021, there is a negative effect from inflation during the month, standing at 4.67% y/y, 91bps above February's print. In this context and by sectors, we expect consumer (-13.1%) and mortgages (4.3%), to be broadly unchanged. In contrast, we could see a strong deceleration in corporate loans to -14.2%.

MoF's public finance report (Jan-Mar). Attention will center on the Public Balance and Public Sector Borrowing Requirements (PSBR) in the first quarter of the year. Specifically, we will be looking to its performance relative to the latest estimates outlined in the [Preliminary Budget Criteria](#). We note that until February, the PSBR deficit amounted to \$100 billion. We will also pay attention to revenue and spending dynamics in the annual comparison, looking for clues about activity levels. Lastly, we will analyze public debt, at MXN\$12.3tn (as measured by the Historical Balance of the PSBR) as of February.

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, 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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SELL	When the share expected performance is lower than the MEXBOL estimated performance.

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