1Q21 GDP – We revise higher our full-year forecast to 5.9% from 5.3%

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- **Gross Domestic Product (1Q21 P, nsa): -3.8% y/y; Banorte: -4.0%; consensus: -4.0% (range of estimates: -5.0% to -2.4%); previous: -4.3%**
- **Gross Domestic Product (1Q21 P, sa): 0.4% q/q; Banorte: 0.3%; consensus: 0.0% (range of estimates: -0.9% to 1.1%); previous: 3.3%**
- **Annual figures were distorted by several factors, including negative calendar effects (*e.g.* leap year in 2020 and the timing of the *Easter* holiday), but also due to the pandemic, given its first effects in March last year**
- **Industry was flat (0.0% q/q) despite headwinds from some temporary shocks, mostly in February. Services expanded 0.7%, higher than our expectations, signaling a strong rebound by the end of the quarter. Primary activities contracted 1.3%**
- **Considering that the monthly GDP-proxy (IGAE) fell 5.3% y/y on average in January-February, today's print implies a relatively strong rebound to around -0.3% y/y in March (1.6% m/m), probably helped by better COVID-19 dynamics and additional fiscal stimulus in the US**
- **Given these results and available signals of a stronger dynamism of domestic demand, we revise higher our full-year GDP forecast, to 5.9% from 5.3%. In addition, we expect GDP in 2022 at 2.5%**
- **Revised figures will be published on May 26th**

GDP falls 3.8% y/y in 1Q21. This was slightly above consensus at -4.0%, which turned out to be in line with our forecast. We recall that this figure is skewed to the downside due to calendar effects (Chart 1), including: (1) The leap year in 2020, subtracting one day in the annual comparison; and (2) the start of the Holy Week holiday at the end of March, considering that, last year, it was in April. Moreover, distortions begin to show up because of the start of the pandemic in the Western Hemisphere during the same period last year. Correcting for the former two with seasonally adjusted figures, the economy contracted 2.9% y/y, better relative to the -4.5% seen in 4Q20 (Table 1). We believe overall results are favorable considering virus' dynamics and some temporary shocks, mostly at the beginning of the period. Returning to original data, industry contracted 3.0%, which we judge as positive given a series of problems in this sector, particularly for manufacturing. Services fell 4.2%, gathering steam by the end of the quarter together with the improvement in mobility levels. Lastly, primary activities grew 2.8%, the only sector that has stayed in positive territory since 3Q20, helped by its essential status. For details, please refer to Chart 2.

The recovery extends further in 1Q21, up 0.4% q/q. With seasonally adjusted figures GDP grew 0.4% q/q (Banorte: 0.3%, consensus: 0.0%). Given that the historical series is not revised in preliminary data, this print means would mean three consecutive quarters in expansion (Chart 3). Although this rate is much lower than the 3.3% of 4Q20, we believe the result is quite positive considering more difficult global and local conditions.

The most important issue was the deterioration in COVID-19 contagion curves in several countries, in part on virus' mutations, but also given the winter in countries north of the Equator (where most of the population lives). Given this situation, activity levels are around 5.2% lower than the last peak in 2Q19, which in turn is the historical high.

The industrial sector was flat at 0.0% q/q (Chart 4) despite shocks induced by bad weather in the south of the US and northern Mexico in mid-February. Available data shows a renewed dynamism in construction and good results in mining, helping to compensate for a contraction in manufacturing and utilities. On the other hand, services advanced 0.7%. This was above our expectations, helped by renewed strength by the end of the period. In our view, some sectors that have lagged since the start of the pandemic –especially those needing close social interactions, such as lodging and entertainment– have probably started to pick up more clearly. In turn, this was aided by the gradual improvement in epidemiological conditions, the vaccination process and the start of the Holy Week holiday. Moreover, it would be consistent with other data, such as the IMEF non-manufacturing and important job gains in those sectors. Lastly, primary activities backtracked 1.3% (Table 2), extending the 2.4% decline shown in the previous quarter.

Economic acceleration in March. Considering that the monthly GDP-proxy (IGAE) averaged -5.3% y/y in January-February, today's estimate implies that March was close to -0.3% y/y (with original figures). According to our calculations, with seasonally adjusted data this would translate to an acceleration in the pace of growth to 1.6% m/m. Moreover, it would be consistent with a 0.6% y/y contraction, much better than the -2.1% estimated by INEGI's *Timely Indicator of Economic Activity*. Indicators already published for this period also point to an additional improvement, highlighting among them tentative signals of a strong reactivation of domestic demand within the trade balance. We believe that at least two factors helped in that front: (1) Even better COVID-19 dynamics, coupled with a higher pace of vaccinations which probably supported an important strengthening in consumer confidence; and (2) positive direct and indirect effects from the approval of the new stimulus package in the US.

We revise higher our full-year 2021 GDP forecast, to 5.9% from 5.3% y/y previously. Performance during the first quarter was better relative to our original forecasts at the turn of the year, with the economy still growing sequentially despite a challenging backdrop in several fronts, including virus' dynamics and temporary disruptions. Regarding the former, we have been arguing that strength seems closely related to the evolution of the 'traffic light' indicator, particularly when it leads to mobility restrictions. In this respect, we highlight that it improved further in April, albeit with a slight deterioration in some states in the last week. This has been coupled with a faster vaccine rollout, with the 7-day moving average reaching a new high of 430.8 thousand doses on April 18th. In our view, these are helping reduce uncertainty, boosting dynamism especially in those sectors most hit by the pandemic. Moreover, it is our take that the population has been increasingly able to adjust its behavior to keep businesses operating while respecting sanitary guidelines. Our base case is that the pandemic will remain under control despite lingering risks, supporting additional moves to reopen.

Along with this, we are more positive about the outlook for domestic demand than what we thought a few months ago. As already mentioned, March's trade balance figures had very encouraging signs in this respect despite still being too early to call it decisively. Specifically, we think consumption may be consolidating more strongly than anticipated, aided by very strong remittances and the resumption of job gains in relatively more depressed sectors (with people's pandemic fatigue inducing more travelling and demand for entertainment services), among other drivers. Moreover, we do not rule out an additional short-term boost from the early disbursement of social program payments by the federal government due to the electoral season. In this sense, we will look closely into next week's first data for April, including IMEF indicators and auto sector data. Overall, we expect good results to continue.

In addition, we believe that the accelerated pace of vaccinations and higher savings in the US –with the latter in part boosted by a strong fiscal response– could have even more positive spillover effects. In this sense, we incorporate to our forecasts the possibility of renewed dynamism in tourism services. According to some polls, many US citizens are planning to spend excess resources (from direct transfers) on vacations, signaling strong pent-up demand given the restrictions imposed by COVID-19. In our view, our country is poised to benefit from this, especially as CDC guidelines have been relaxing in the face of new evidence of the effective protection from inoculations.

Despite of the latter, important risks remain. First, supply constraints globally are still present, likely limiting manufacturing activity (*e.g.* automakers announcing temporary closures) which are expected to be resolved close to the end of the year, at best. Second, local uncertainty could increase again depending on electoral results and the possibility of a fiscal reform for next year, which may hit business confidence and investment. Third, virus' mutations are increasing challenges in several parts of the world despite vaccination campaigns, so we cannot rule out entirely another wave of contagion that results in new restrictions. Fourth, price pressures (mostly on high global growth expectations pushing commodity prices higher) continuing, affecting real incomes and even leading to a more rapid reversal of stimulus measures, such as central bank rate hikes.

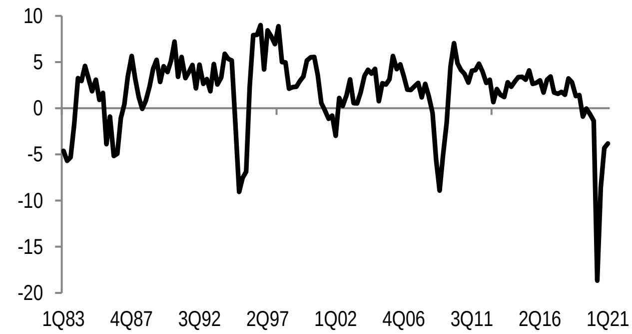
Considering these factors, we revise higher our full-year GDP forecast, to 5.9% from 5.3% (see Table 3 and Table 4). Specifically, we still expect a relevant acceleration in 2Q21, albeit more modest sequentially relative to our previous forecasts due to a more complicated base effect. Meanwhile, we anticipate a strong result towards the fourth quarter, driven by a larger increase in sectors that have lagged considering that the vaccination process keeps moving along and mobility is trending back to similar levels –or in some cases higher– than those observed before the pandemic. In terms of aggregate demand, main upward adjustments are concentrated in exports and consumption, although also with a slight improvement in investment. On supply, we expect better dynamics mainly on services, on top of higher risks for industry given supply limits, as we described previously. After this, we expect a moderation in the pace of growth, with the positive base effect fading away, resulting in a 2.5% expansion in 2022.

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

	nsa						sa					
	1Q21	4Q20	1Q20	4Q19	2020	2019	1Q21	4Q20	1Q20	4Q19	2020	2019
Total	-3.8	-4.3	-1.4	-0.6	-8.2	-0.1	-2.9	-4.5	-2.2	-0.8	-8.5	0.0
Agricultural	2.8	4.8	-2.5	-1.5	1.9	0.3	2.8	4.9	-2.8	-1.5	2.0	0.5
Industrial Production	-3.0	-3.1	-2.6	-2.2	-10.0	-1.7	-2.3	-3.2	-3.3	-2.1	-10.2	-1.7
Services	-4.2	-5.0	-0.6	0.1	-7.7	0.7	-3.6	-5.2	-1.2	-0.1	-7.9	0.7

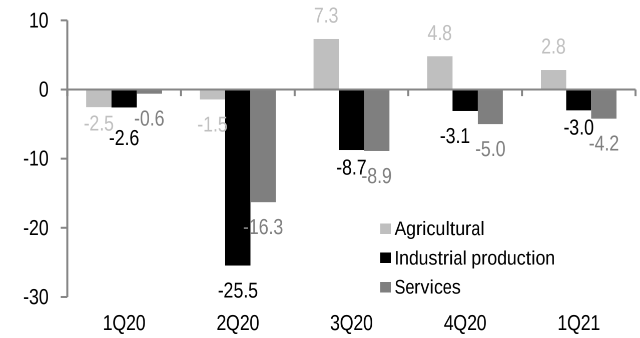
Source: INEGI

Chart 1: GDP
% y/y nsa



Source: INEGI

Chart 2: GDP by sectors
% y/y nsa



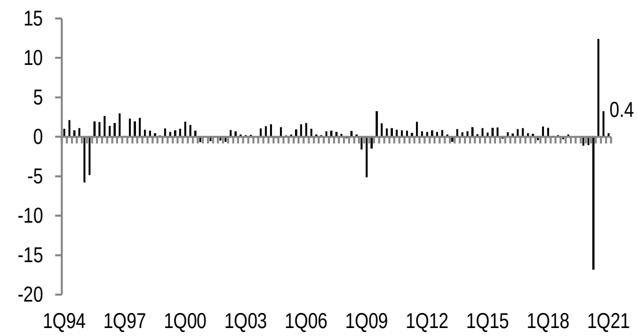
Source: INEGI

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

	% q/q				% q/q saar			
	1Q21	4Q20	3Q20	2Q20	1Q21	4Q20	3Q20	2Q20
Total	0.4	3.3	12.4	-16.8	1.8	13.7	59.6	-52.1
Agricultural	-1.3	-2.4	7.6	-0.1	-5.0	-9.2	33.9	-0.3
Industrial Production	0.0	3.9	22.3	-23.1	0.0	16.4	124.0	-65.1
Services	0.7	3.2	9.0	-15.0	2.9	13.4	41.1	-47.8

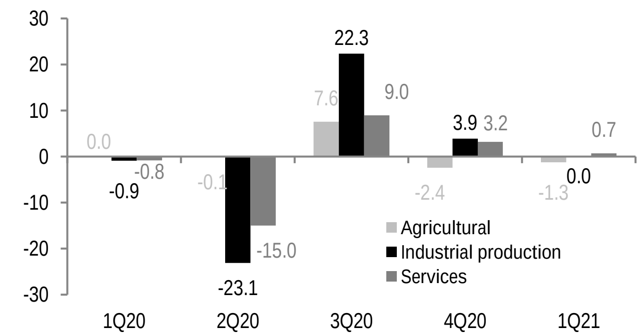
Source: INEGI

Chart 3: GDP
% q/q sa



Source: INEGI

Chart 4: GDP by sectors
% q/q sa



Source: INEGI

Table 3: GDP 2021: Supply
% y/y nsa; % q/q sa

% y/y	1Q21	2Q21	3Q21	4Q21	2021
GDP	-3.8	18.9	6.4	4.3	5.9
Agricultural	2.8	3.0	-2.5	-2.1	0.2
Industrial production	-3.0	23.9	7.1	3.4	6.9
Services	-4.2	17.9	6.7	5.2	5.9
% q/q					
GDP	0.4	1.4	0.9	1.1	--

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

Table 4: GDP 2021: Demand
% y/y nsa; % q/q sa

% y/y	1Q21	2Q21	3Q21	4Q21	2021
GDP	-3.8	18.9	6.4	4.3	5.9
Private consumption	-4.8	20.9	11.0	8.3	8.2
Investment	-9.2	25.0	8.9	3.3	5.4
Government spending	-1.2	-1.6	-2.2	1.4	-0.9
Exports	2.4	35.8	6.9	4.8	10.8
Imports	1.0	23.4	18.6	9.7	12.3
% q/q					
GDP	0.4	1.4	0.9	1.1	--

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

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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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