

## Economic Research

Mexico

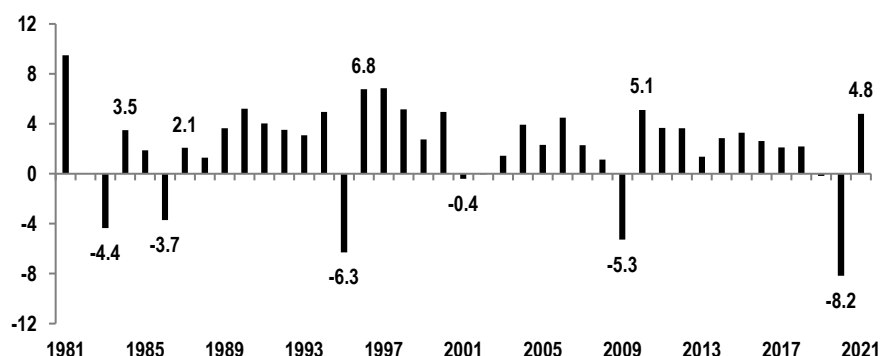
## 4Q21 GDP – A modest contraction as services failed to gather steam

- Gross Domestic Product (4Q21 P, nsa): 1.0% y/y; Banorte: 0.9%; consensus: 1.5% (range: 0.3% to 1.8%); previous: 4.5%
- Gross Domestic Product (4Q21 P, sa): -0.1% q/q; Banorte: -0.1%; consensus: -0.3% (range: -0.4% to -0.1%); previous: -0.4%
- With this, the economy grew 4.8% in full-year 2021, which we see as modest given the 8.2% contraction of the previous year, due to the pandemic
- The annual rate keeps moderating as the base effect becomes even more challenging, albeit with some support from higher working days. With seasonally adjusted figures, activity in the quarter grew 1.0% y/y
- Sector performance was mixed, with the deepest fall in services (-0.7% q/q) despite the strong decline of the previous quarter. On the contrary, industry rose 0.4%, while primary activities stood at 0.3%
- According to our calculations, today's print implies activity close to 0.9% m/m in December (1.0% y/y), a modest uptick given that the economy still operates below pre-pandemic levels
- After the recent performance, we place our 2022 GDP estimate under revision with risks to the downside, currently at 3.0%
- Revised figures will be published on February 25<sup>th</sup>

**GDP in 2021 grew 4.8% y/y, lower than expected.** Specifically, for the fourth quarter it stood at 1.0% y/y, below consensus at 1.5% but closer to our 0.9% forecast ([Chart 1](#)). With seasonally adjusted data, the economy picked up only 1.0% y/y ([Table 1](#)) in the same period, despite an additional working day in the annual comparison and the strength typically seen during the holiday season, among other factors. As a result, GDP grew 4.8% in full-year 2021, which is modest considering the historical contraction of 8.2% in the previous year because of the pandemic. Seasonally-adjusted –as 2020 was a leap year–, growth stood at 5.0%.

### GDP

% y/y, nsa



Source: INEGI

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Winners of the award for best economic forecasters for Mexico in 2021, granted by Refinitiv



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**Weakness persisted in 4Q21, with services again in contraction.** Back to the latest quarter, the economy fell 0.1% q/q with seasonally adjusted figures ([Chart 3](#)), resulting in two consecutive quarters in contraction (assuming no strong revisions in the final print). This is weak considering that epidemiological conditions were better in the period. According to official information, maximum daily cases during ‘delta’ were registered at the end of August, while the spread of ‘omicron’ was seen clearly until the beginning of January. This was also reflected in the ‘traffic light’ indicator, reaching its best levels since the pandemic started. Hence, it seems that domestic demand decelerated further, mostly impacting consumption. We think this is a warning sign, especially since the period also exhibited higher mobility. In turn, it is our take that accumulated price increases in goods –and most recently, services– have had a sizable impact in economic dynamics. In this respect, services dropped 0.7% q/q despite the 0.9% contraction seen in the previous quarter ([Table 2](#)).

Supply chain problems continued, dampening performance in industry (0.4% q/q). Although detailed data by sector is not available yet, it is likely that some support came from mining –more stable at the margin–, along resiliency in manufacturing, with modest signs of an acceleration in key sectors despite supply issues, a further lengthening in delivery times, and high costs of raw materials and transportation, among others. On the contrary, we think construction weighed down the most, partly impacted by price pressures, as well as some weakness in utilities.

Lastly, primary activities reached 0.3%. We think this is positive considering a challenging base effect, as the sector grew with some strength in the two previous quarters ([Chart 4](#)). Figures seem to suggest that dynamism was propped up by activity in November, with evidence of some adverse effect from climate-related problems –mostly in December– that affected agriculture, as subsequently shown by inflation figures.

**GDP implies a recovery in December.** Considering that the monthly GDP-proxy (IGAE) averaged 0.5% y/y in October-November, today’s estimate implies that December was close to 1.0% y/y (nsa). According to our calculations, this would translate to a 0.9% m/m expansion. Overall, signals for the month were quite good, with stable epidemiological conditions. This has been already portrayed by IMEF’s PMIs (both manufacturing and non-manufacturing) and [overall job gains](#). In addition, the [non-oil trade balance](#) suggests a slight recovery in domestic demand, while manufacturing dynamism could have prevailed, despite more mixed signals for the auto sector. However, we believe some economic agents started to show some concerns on the discovery of the ‘Omicron’ variant, which along prevailing price pressures, might have limited dynamism in the period.

**We put our 2022 GDP forecast under revision.** We believe the outlook for the recovery has become more challenging due to several reasons, including: (1) More modest inertial boost after the economy decelerated in late 2021; (2) the impact on economic activity from the new virus variant, as we apparently continue in the latest wave; (3) a higher fiscal drag from the US, given problems to approve Biden’s *Build Back Better* agenda; and (4) faster tightening of monetary conditions across the world and locally, among other factors.

However, there are also other factors that could help activity, including a higher likelihood of less disruptions from the pandemic throughout the remainder of the year –aided by the introduction of new treatments against COVID-19, as well as the progress made already with vaccines and their reformulation–, high wage gains and the possibility that supply chain disruptions are solved earlier than expected. Locally, more government resources to social programs and spending on infrastructure may be modestly helpful. All in all, and given a more uncertain backdrop, we put our current forecast for 2022 GDP at 3.0% under revision, with risks skewed to the downside. We will publish our revised estimates in our quarterly document, which will be released in coming days.

**Table 1: GDP**

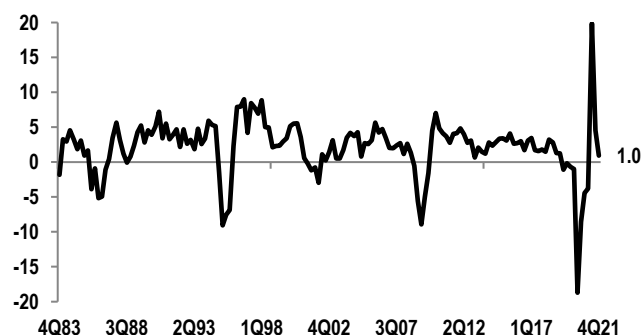
% y/y nsa, % y/y sa

	nsa						sa					
	4Q21	3Q21	4Q20	3Q20	2021	2020	4Q21	3Q21	4Q20	3Q20	2021	2020
<b>Total</b>	1.0	4.5	-4.4	-8.5	4.8	-8.2	1.0	4.7	-4.5	-8.4	5.0	-8.4
Agricultural	4.8	0.6	1.3	4.7	2.9	0.3	4.8	0.3	1.4	4.4	2.7	0.4
Industrial production	1.6	5.0	-3.4	-8.7	6.5	-9.8	1.6	5.1	-3.5	-8.6	6.8	-10.0
Services	0.0	4.2	-4.7	-8.6	4.0	-7.5	0.1	4.4	-4.9	-8.3	4.2	-7.6

Source: INEGI

**Chart 1: GDP**

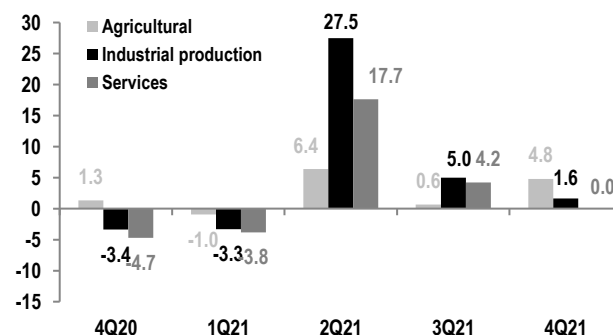
% y/y nsa



Source: INEGI

**Chart 2: GDP by sectors**

% y/y nsa



Source: INEGI

**Table 2: GDP**

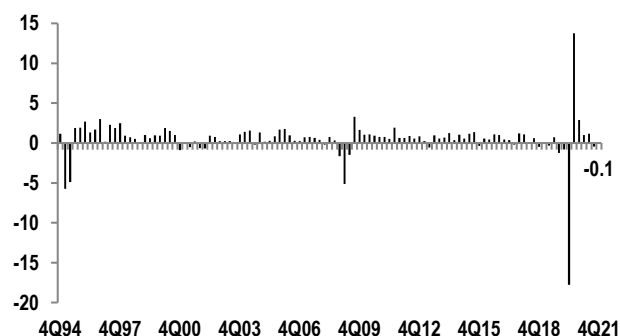
% q/q sa, % q/q saar

	% q/q				% q/q saar			
	4Q21	3Q21	2Q21	1Q21	4Q21	3Q21	2Q21	1Q21
<b>Total</b>	-0.1	-0.4	1.2	1.0	-0.3	-1.7	4.7	4.1
Agricultural	0.3	1.3	2.9	-0.5	1.1	5.1	12.1	-2.0
Industrial Production	0.4	0.3	0.8	0.4	1.4	1.3	3.1	1.6
Services	-0.7	-0.9	1.2	1.4	-2.7	-3.7	5.0	5.9

Source: INEGI

**Chart 3: GDP**

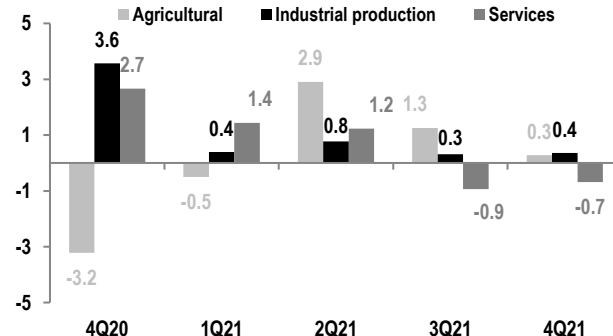
% q/q sa



Source: INEGI

**Chart 4: GDP by sectors**

% q/q sa



Source: INEGI

## Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmin Selene Pérez Enríquez, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, 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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