Ahead of the Curve

Expecting activity to rebound in November and inflation pressures at the turn of the year

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- ***Global Economic Activity Indicator* (November).** We estimate economic activity at -0.2% y/y. Seasonally-adjusted figures performance would be stronger, at +0.8% m/m, highest so far in the year. As already known, industry rebounded. In services we estimate 0.7% m/m, supported by relatively strong retail sales, remembering that *El Buen Fin* (Mexico's Black Friday) took place. Timely indicators such as ANTAD and Walmart sales suggest a positive performance. We also see better dynamics in government activities. This would result in 4Q19 GDP tracking around -0.5% y/y, in line with our current estimate. For 2020 we believe growth will improve, estimating full-year GDP at 0.8% y/y.
- **Bi-weekly inflation report (1H-January).** We estimate headline and core inflation at 0.25% and 0.27% 2w/2w, respectively. Most of the contribution would come from the latter, estimated at 20bps. In particular, we expect goods to be most pressured, particularly in processed foods. This would result from updated excise taxes in some products, along new taxes in some states. Moreover, news suggests important effects from change-of-year price increases. The non-core component would add only 5bps. In this category, we highlight the possibility of increases in some government-regulated prices. With these figures, annual inflation would increase to 3.16% from 2.83% in year-end 2019. Moreover, core inflation would break its recent downward trend, climbing to 3.79% from 3.59%, highest since July

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 21-Jan	**7:00am**	**Unemployment rate**	December	%	3.41	3.42	3.44
		sa		%	3.56	3.60	3.53
Tue 21-Jan	**10:00am**	**International reserves**	Jan-19	US$ mn	--	--	181.1
Tue 21-Jan	**12:30pm**	**Government weekly auction: 1-, 3-, 6-month CETES; 5y Mbono (Sep'24); 10y Udibonos (Nov'28)**					
Tue 21-Jan	**3:30pm**	**Citibanamex survey of economic expectations**					
Thu 23-Jan	**7:00am**	**CPI inflation**	1H Jan	% 2w/2w	0.25	0.24	0.32
				% y/y	3.16	3.16	3.02
		Core		% 2w/2w	0.27	0.18	0.08
				% y/y	3.76	--	3.60
Fri 24-Jan	**7:00am**	**Economic activity indicator**	November	% y/y	-0.2	-0.8	-0.8
		(sa)		% m/m	0.8	0.7	-0.5
		Primary activities		% y/y	2.0	--	8.4
		Industrial production		% y/y	-2.1	--	-3.0
		Services		% y/y	0.6	--	-0.1

Source: Banorte; Bloomberg

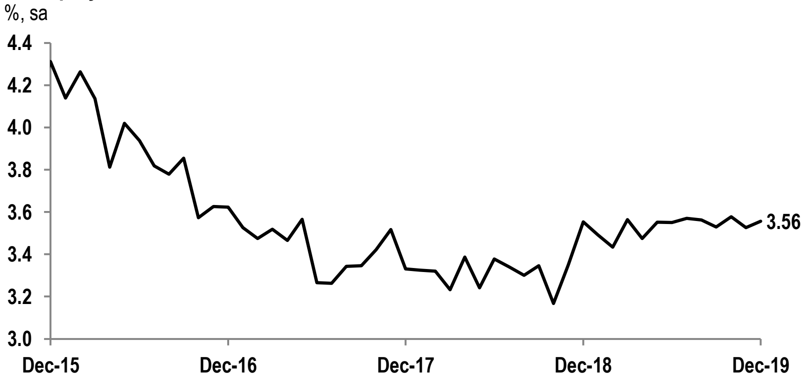
Proceeding in chronological order...

The unemployment rate likely closed 2019 near our full-year estimate. We estimate a 3bps increase in December's unemployment rate, to 3.56% (seasonally-adjusted), almost matching our estimate of 3.6% and likely reversing most of the improvement in November. In our view, available data suggests last month's decline to 3.53% may have been temporary. This, coupled with persistent weakness in activity, particularly in industry –affected recently by temporary shocks in the auto sector, although with other figures suggesting a more broad-based moderation– also as a persistent headwind for additional reductions.

In particular, formal jobs in December plunged by 382,210, which even after taking into account that this particular period is highly seasonal (and with net losses in terms of creation), is the weakest historical print for any given month. As a result, jobs created in 2019 stood at 342,077, about half of those observed in the previous year. Additional indicators, such as IMEF's employment components, also declined. In manufacturing, the seasonally-adjusted index fell to 41.0pts –lowest since April 2017– after briefly rebounding to 44.4pts in November. Meanwhile, in non-manufacturing we also saw a retracement to 47.7pts from 48.4 in the previous month.

Going forward, we believe that relatively modest economic growth, along the 20% increase in the minimum wage slated for 2020, could have an additional impact in terms of formal job creation. In this respect, we believe the unemployment rate, averaging about 3.5% during 2019, could increase towards 3.7% this year. In turn, this situation could dampen somewhat consumption growth, although it should be mentioned that the effect could be somewhat compensated by a higher share of workers categorized as informal, with data showing that among the population in this sector, the share considered as purely informal has been increasing since at least mid-2017.

Unemployment rate
%, sa



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves decreased US$44 million, closing at US$181.1 billion. According to Banxico's report, this comes from a negative valuation effect in central bank assets. In this context, the central bank's international reserves have increased US$256 million during 2020 (please refer to the following table).

Banxico's foreign reserve accumulation detail
US$, million

	2019	Jan 10, 2020	Jan 10, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	181,133	-44	256
(B) Gross international reserve	183,028	184,061	910	1,033
Pemex	--	--	308	308
Federal government	--	--	599	591
Market operations	--	--	0	0
Other	--	--	4	134
(C) Short-term government's liabilities	2,151	2,928	955	778

Source: Banco de México

Weekly government bond auction. The Ministry of Finance (MoF) –via Banco de Mexico as its financial agent, will offer 5-year fixed-rate Mbonos (Sep'24), 10-year Udibonos (Nov'28), in addition to 1-, 3-, and 6-month zero-coupon Cetes (see following table). As usual, results will be released at 12:30pm (ET).

Auction specifics (Tuesday, January 21st, 2020)

	Maturity	Coupon rate, %	To be auctioned[1]	Previous yield[2]
Cetes				
1m	20-Feb-20	- -	5,000	7.26
3m	23-Apr-20	- -	6,000	7.22
6m	16-Jul-20	- -	10,500	7.24
M Bono				
5y	05-Sep-24	8.00	9,800	6.80
Udibono				
10y	30-Nov-28	4.00	UDIS 875	3.40

Source: Banorte with data from Banco de México 1. Except for Udibonos, which are expressed in UDI million, everything else is expressed in MXN million. 2. Yield-to-maturity reported for Cetes, Mbonos and Udibonos

***Citibanamex* survey.** Markets will center on analysts' inflation forecasts for the first half of January (to be published on Thursday, January 23rd) along with the 2020 year-end estimate. It will be important to see monetary policy assessments, particularly ahead of the February 13th meeting, in which we expect a 25bps rate cut. We will also pay attention to GDP growth estimates and the exchange rate at YE20.

Inflation to climb in the first half of January on the back of tax increases and start of the year adjustments. We estimate headline inflation at +0.25% 2w/2w in the first half of January. Core inflation is expected at 0.27% (previous: 0.08%), translating to a 20bps contribution. In the latter category, goods would add 19bps, which is sizable and would be driven to a great extent by processed foods. In this respect, we highlight that excise-taxes were updated in relevant products such as cigarettes and sugary drinks. Meanwhile, several states, including Mexico City, introduced new state taxes in alcoholic beverages. Moreover, news reports suggest that other important goods in this category such as milk, pastries, and fried chips arguably also exhibited change-of-year price increases. In services we estimate a more modest advance, with the seasonal fall in airfares and tourism services broadly compensating for pressures in both education and other services, with the latter affected to some extent by the recent 20% minimum wage hike.

The non-core component would increase 0.18% 2w/2w, adding only 5bps to the headline. First and foremost, agricultural goods would stabilize (-1bps) after the strong 2.5% observed in the previous fortnight. Within fresh fruits and vegetables, we expect tomatoes to stabilize after recent increases, although we do not rule other pressures in specific goods such as bananas. Moreover, meat and egg would decline 3bps, helped by poultry. Regarding energy, gasoline would pick-up modestly despite higher international prices and volatility, aided by an increase in subsidies to excise taxes and a relatively strong exchange rate. Another very relevant category are government-regulated prices (+4bps), relatively pressured on updated tariffs such as water rights, property, and vehicle taxes.

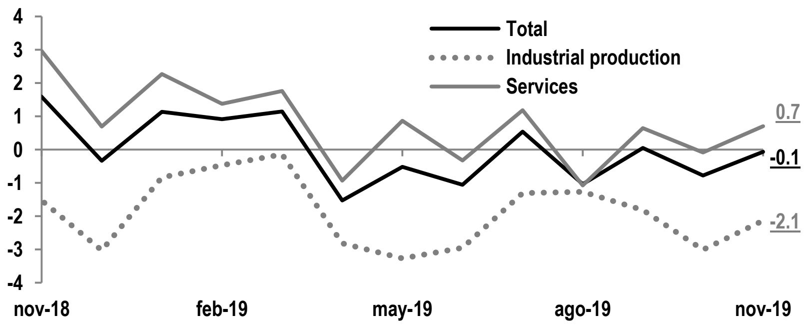
With these, annual inflation would increase to 3.16% from 2.83% in year-end 2019. Moreover, core inflation would break its recent downward trend, climbing to 3.79% from 3.59%, highest since July. It is relevant to mention that Banxico's Governor, Alejandro Díaz de León, stated recently that the central bank is already expecting a "little bump" in inflation. In his view, this would be mostly because of changes to excise taxes, which we also incorporate in our forecast. Nonetheless, it is our take the short-term path going forward will be higher relative than Banxico's forecasts, driven by pressures related to the minimum wage hike, other price adjustments at the beginning of the year, and challenging base effects as the most relevant factors.

We expect the economy to rebound in November. We estimate the *Global Economic Activity Indicator* (IGAE) at -0.2% y/y, higher than the -0.8% of the previous month. With seasonally-adjusted figures performance would be stronger, at +0.8% m/m, which would be the highest so far in the year. In this respect and as already known, industrial activity rebounded 0.8% m/m in the period, which although positive, we saw as modest considering the accumulated decline in the previous two months –mainly on the temporary shock to autos within manufacturing–.

In services, we estimate a 0.6% y/y increase (0.7% m/m). In our view, the sector could have been supported by relatively strong retail sales, remembering that *El Buen Fin* (Mexico's Black Friday) took place in the month. Although hard data was not yet available at the time of writing, timelier indicators suggest a favorable performance. Among them, we observed strong growth in ANTAD and Walmex sales (with the latter participating with its own, tailor-made program). Considering recent dynamics, we think consumers may have shifted some of their consumption patterns to take advantage of these events, a situation not yet fully-accounted for by the seasonal adjustment methodology. We also note that non-oil consumption imports dipped 1.3% y/y (-2.3% m/m) after two strong prints, suggesting the fall could have been due to an inventory drawdown by companies after increasing them ahead of this period. On the other hand, the IMEF non-manufacturing index inched higher –including the production component– while net job creation was relatively strong. Moreover, government current spending grew 4.5%, which could also have a more positive effect in government activities, a sector that has been declining since November 2018.

This would result in 4Q19 GDP tracking around -0.5% y/y, in line with our current forecast. Moreover, data released so far for December have been mixed to negative. On the other hand, we believe growth will improve this year, estimating full-year GDP at 0.8% y/y, with consumption anticipated to accelerate and investment to improve, albeit remaining in a difficult global environment where we believe geopolitical factors could still weigh on activity.

IGAE
% yoy (nsa)



Source: INEGI, Banorte

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