

## Ahead of the Curve

### Weak aggregate demand in 4Q19 on investment and external shocks

- Aggregate supply and demand (4Q19).** We expect a 1.1% y/y contraction in aggregate demand in 4Q19, below the -0.3% of the previous quarter. Investment remains a strong negative as it declined 5.2% y/y, rounding up a very weak year. This would be exacerbated by trade, impacted by the temporary shock to autos due to GM's strike in the US, mostly felt in October in our country. Specifically, we estimate exports to have moderated to an almost two-year low of 1.3% y/y, with imports plunging 2.7%. Consumption likely stayed positive but relatively muted, advancing 1.0% y/y. Finally, we see a modest improvement in government spending, at -1.2% y/y. With these results, aggregate demand would have contracted 0.3% y/y in 2019. The most negative contribution would be investment (-73bps), followed by government spending (-15bps); on the contrary, exports would be the top performer, adding 63bps

March 13, 2020

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Document for distribution among the general public

#### Mexico weekly calendar

DATE	HOOR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 16-Mar		Markets closed due to the celebration of the birth of Benito Juárez					
Wed 18-Mar	11:00am	International reserves	Mar-13	US\$ bn	--	--	185.6
Fri 20-Mar	8:00am	Aggregate supply and demand	4Q19	% y/y	<u>-1.1</u>	-1.0	-0.3
		Private consumption		% y/y	<u>1.0</u>	--	0.8
		Government spending		% y/y	<u>-1.2</u>	--	-2.0
		Investment		% y/y	<u>-5.2</u>	--	-6.5
		Exports		% y/y	<u>1.3</u>	--	3.4
		Imports		% y/y	<u>-2.7</u>	--	-0.3
Fri 20-Mar	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte; Bloomberg

## Proceeding in chronological order...

**Weekly international reserves report.** Last week, net international reserves increased US\$1.3 billion, closing at US\$185.8 billion. According to Banxico's report, this was mainly due to a positive valuation effect in institutional assets. In this context, the central bank's international reserves have increased by US\$4.7 billion during 2020 (please refer to the following table).

### Banxico's foreign reserve accumulation detail US\$, million

	2019	Mar 6, 2020	Mar 6, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	185,571	1,321	4,694
(B) Gross international reserve	183,028	189,742	1,337	6,714
Pemex	--	--	67	1,301
Federal government	--	--	-90	2,192
Market operations	--	--	0	0
Other	--	--	1,360	3,221
(C) Short-term government's liabilities	2,151	4,171	15	2,021

Source: Banco de México

**Weakness in 4Q19 aggregate demand on drags from investment and the external sector.** We expect a 1.1% y/y contraction, below the -0.3% of the previous quarter. Investment remains a strong negative as it declined 5.2% y/y, rounding up a very weak year. This would be exacerbated by trade, which was impacted by the temporary shock to autos due to GM's strike in the US, mostly felt in October in our country. Other manufacturing sectors were also relatively weak during the period. Specifically, we estimate exports to have moderated to an almost two-year low of 1.3% y/y, with imports plunging 2.7%. In this respect, it should be reminded that supply-side GDP fell -0.5%, below the -0.3% of the third quarter.

Consumption likely stayed positive but relatively muted, advancing 1.0% y/y, slightly above the 0.8% of 3Q19, helped at the margin by a more favorable base-effect and one more working day. This would be in line with dynamics observed in the monthly private consumption indicator, with the imported component more supportive with non-oil consumption goods imports accelerated at the margin and a stronger FX rate.

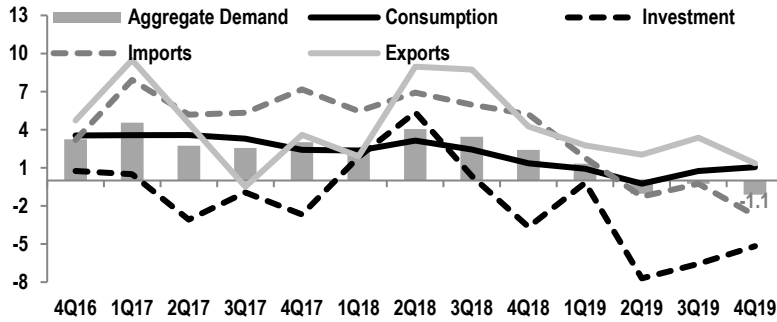
We see a modest improvement in government spending, at -1.2% y/y. This would be the fourth consecutive quarter in contraction. According to public finance reports, total spending by the federal government picked up 8.2% –in nominal terms–, highest since late 2018 and gradually improving along the year. In particular, non-capital spending surged 13.5%. Nevertheless, bank account balances in states and municipalities increased, which could damp the positive effect. We fade out some of the latter signal as the 19.4% y/y increase is influenced by the drawdown last year in 2H18, after the federal elections.

With these results, aggregate demand would have contracted 0.3% in 2019. In terms of contributions, investment subtracted 73bps and government spending 15bps. Both have been influenced, to varying degrees, to the typical slowdown in the first year of a new administration and fiscal austerity measures.

Moreover, consumption is estimated to have added only 30bps, significantly lower than in the previous year, in our view affected to a great extent by high uncertainty, both domestic and external. Exports would have been the strongest component, adding 63bps.

**Aggregate demand**

% yoy (nsa)



Source: INEGI, Banorte

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, 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, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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