Ahead of the Curve

We estimate 1Q20 GDP will contract 2.6% q/q

- **Gross domestic product (1Q20 P).** We expect GDP to fall -2.7% y/y, starting to feel the brunt of the Coronavirus in March, both via global and domestic channels. Moreover, it should be noted that activity started the year on a weak footing even before the pandemic. On a sequential basis, we expect GDP to decline 2.6% q/q. We anticipate industry to contract 5.2% y/y (-2.9% q/q), with the auto sector most impacted within manufacturing, and a very weak performance in construction (particularly edification). In services, we expect -1.8% y/y (-2.2% q/q). Tourism-related sectors would be more heavily affected, although available data on domestic conditions also provides a strong warning. Going forward, we maintain our estimate of a 16.2% GDP decline in 2Q20, as social distancing measures and closures in several industries became more widespread after the sanitary emergency announcement on March 30th. We also reiterate our full-year 2020 GDP forecast at -7.8%

- **Trade balance (March).** We estimate a US$3,050.1 million surplus, higher than the previous month. This should not be interpreted as positive, as we expect strong declines in both exports (-15.5% y/y) and imports (-20.3%) due to supply chain disruptions and halted operations in several industries, among other factors. The oil balance would show a US$1,251 million deficit, with very relevant corrections on significantly lower prices. The non-oil balance would exhibit a US$4,301 million surplus. In the latter, we anticipate a 13.2% decline in exports, with non-oil mining and manufacturing most impacted, particularly the auto sector. In imports, we estimate a 17.7% downfall. Specifically, we expect a 27.3% decline in capital goods, which had already maintained a very weak trend and will likely be further impacted by the strong depreciation of the Mexican peso and additional falls in business confidence.

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Winners of the award for best economic forecasters for Mexico in 2019, given by *Refinitiv*

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 27-Apr	7:00am	**Unemployment rate**	March	%	3.74	3.74	3.57
		sa		%	4.03	3.97	3.69
Tue 28-Apr	7:00am	**Trade balance**	March	US$ mn	3,050.1	2,575.1	2,910.6
		Total exports		% y/y	-15.5	--	0.6
		Oil exports		% y/y	-52.5	--	-32.0
		Non-oil exports		% y/y	-13.2	--	3.1
		Total imports		% y/y	-20.3	--	-3.8
Tue 28-Apr	10:00am	**International reserves**	Apr-24	US$ bn	--	--	185.9
Thu 30-Apr	7:00am	**GDP**	1Q20 (P)	% y/y	-2.7	-2.5	-0.5
		sa		% q/q	-2.6	-1.5	-0.1
		Primary activities		% y/y	-1.3	--	1.6
		Industrial production		% y/y	-5.2	--	-2.1
		Services		% y/y	-1.8	--	0.0
Thu 30-Apr	10:00am	**Comercial banking credit**	March	% y/y	1.9	--	1.6
		Consumption		% y/y	1.3	--	1.1
		Housing		% y/y	6.7	--	6.5
		Non-banking private firms		% y/y	0.4	--	0.8
Thu 30-Apr	3:30pm	**Budget balance (measured by the PSBR)**	March	MXN bn	--	--	-37.6
Fri 1-May		**Markets closed due to Labor Day**					

Source: Banorte; Bloomberg

Proceeding in chronological order…

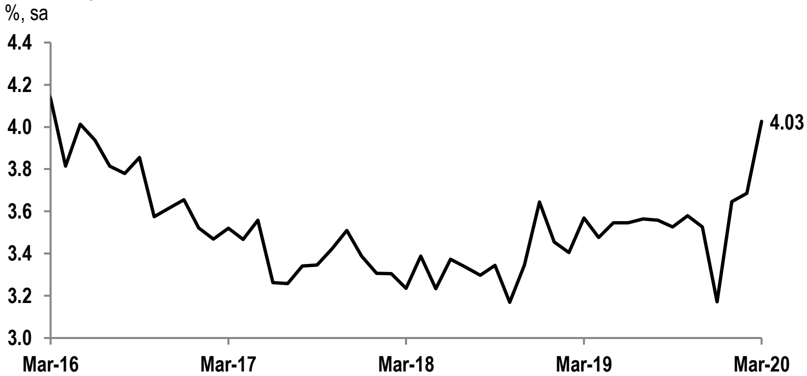
Unemployment rate to increase strongly in March. We estimate the unemployment rate at 4.03% (sa), 34bps above February's print and a new high since March 2016. The increase would be driven by layoffs at the late part of the month due to the COVID-19 pandemic, economic uncertainty and the impact surrounding it, in an economy that was already in a relatively weak spot.

In this sense, formal employment figures showed a net loss of 130,593 positions, which is the lowest on record for this specific month. The annual pace of growth plummeted to +0.7%, lowest since the aftermath of the global financial crisis. Moreover, the employment sub-index within IMEF's non-manufacturing PMI fell 4.9pts, to 44.4pts. However, the behavior in the manufacturing index was slightly stronger, actually climbing 0.2pts to 46.5pts, although still in contraction.

In our view, the impact might be more modest than it might seem at first glance when considering the survey's methodology. Specifically, the survey is carried out continuously, opening the possibility of favorable answers at the start of the period that otherwise would have been negative if conducted at later dates. In addition, one of the factors that could help compensate for layoffs at the end of the month would be the temporary hiring of Census workers, remembering that it was carried out throughout the full month.

Going forward, April's figures should show a more significant impact in employment conditions. On top of that, it is highly likely that data for the upcoming month will at least be skewed, given that INEGI suspended household surveys on March 31st (available only in Spanish), following the announcement of the declaration of the sanitary emergency. Nevertheless, there was a special announcement for this specific survey, mentioning that they will try to conduct it electronically. Either way, we believe employment will extend its weakness strongly, both formal and informal, due to the sudden stop of several activities on social distancing measures and overall uncertainty about the economic outlook that will prevail in coming months.

Unemployment rate
%, sa



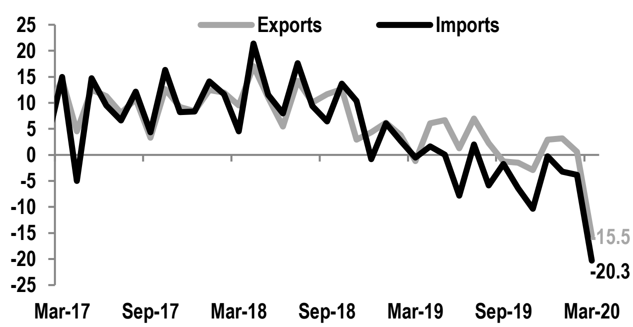
Source: INEGI, Banorte

Trade balance surplus to widen, with overall volumes hit. We estimate a US$3,050.1 million surplus, higher than in February and a new record for the period. Nevertheless, this should not be interpreted as positive. We estimate that supply chain disruptions worldwide, halted operations in several industries, and other logistical issues will hit both exports (-15.5% y/y) and imports (-20.3%). As a result, the sum of these two components –used as a measure of a country's openness to trade– is estimated slightly below US$63 billion, representing a 17.9% y/y contraction. The impact of the COVID-19 pandemic would more than compensate for one additional working day in the annual comparison.

We anticipate a US$1,251 million deficit in the oil balance, with a hefty decline in both exports (-52.5% y/y) and imports (-41.6%) on significantly lower prices. Regarding the former, the Mexican oil mix plunged 61% y/y to 23.37 US$/bbl. In the latter, gasoline prices in the US fell 51.6%. On the other hand, our monitoring shows higher shipments from Mexico and broadly stable purchases. Going forward, the contraction is likely to be steeper as: (1) Prices have declined further; (2) Mexico will reduce output both because of strategic reasons as profitability becomes compromised and the OPEC+ deal in which our country committed to a 100kbpd reduction starting in May; and (3) gasoline demand plunges given social-distancing restrictions.

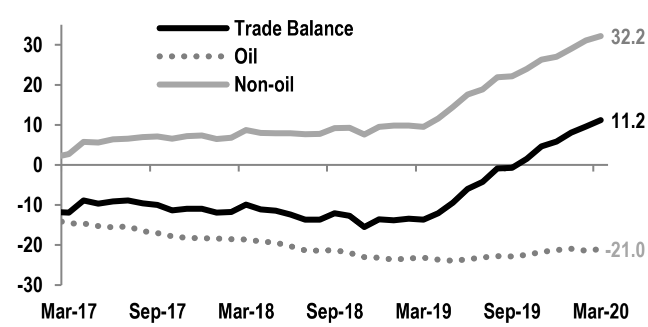
The non-oil balance would exhibit a US$4,301 million surplus, similar to the previous month. We anticipate a 13.2% decline in exports, with non-oil mining and manufacturing hurt the most. We estimate autos at -16.6%, with almost all auto plants in the US and Mexico closing operations from the middle and towards the end of the month. As a result, exports of finished vehicles fell 11.9%, while in the US the sector's decline was more severe, at -24.1%. Available data for other manufacturing also shows significant contractions, albeit more modest than autos. This was also suggested by the US ISM and PMI manufacturing falling not as strongly. Going to imports, we anticipate a 17.7% downfall. It is our take that supply chain disruptions likely affected imports more, as problems started to build-up in China since December and domestic producers may have used inventories to compensate for the lack of some raw materials. In this sense, we pencil-in a 18.9% fall in intermediate goods. Additionally, we anticipate a 27.3% decline in capital goods imports, which had already maintained a very weak trend and will likely be further impacted by the strong depreciation of the peso (with the exchange rate from 18.84 per dollar in February to 22.37 in March, on average, a 16.3% y/y increase) and additional falls in business confidence.

Exports and Imports
% yoy



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$325 million, closing at US$185.9 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$5.1 billion during 2020 (please refer to the following table).

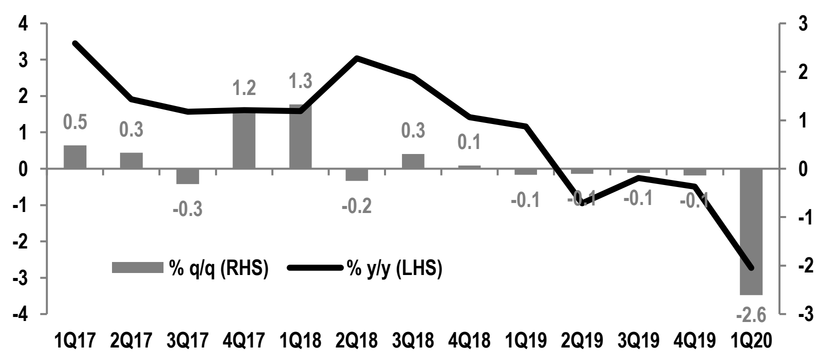
Banxico's foreign reserve accumulation details
US$, million

	2019	Apr 17, 2020	Apr 17, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	185,943	325	5,066
(B) Gross international reserve	183,028	190,049	162	7,022
Pemex	--	--	0	1,684
Federal government	--	--	-236	1,497
Market operations	--	--	0	0
Other	--	--	398	3,841
(C) Short-term government's liabilities	2,151	4,106	-163	1,956

Source: Banco de México

COVID-19 to harshly impact GDP in 1Q20. We expect GDP to fall -2.7% y/y in the first quarter of 2020, starting to feel the brunt of the Coronavirus in March, both via global and domestic channels. Moreover, it should be noted that activity started the year on a weak footing, with *IGAE* (GDP monthly proxy) year-to-date up to February contracting 0.7%. On a sequential basis, we expect GDP to decline 2.6% q/q, as shown in the chart below.

GDP
% y/y nsa; % q/q sa



Source: INEGI, Banorte

We believe activity will dip in March as many businesses started to adopt social-distancing measures since the middle of the month. In industry, reports suggest oil mining continued at a relatively normal pace, as evidenced by the latest CNH data, which showed oil production at 1,746.8kbpd (+3.6% y/y). Meanwhile, non-oil mining will probably show a steeper decline as it has not been considered as an essential business. Going to construction, the Federal Government has continued works on some of its flagship projects, such as the Dos Bocas refinery and the Santa Lucía Airport. In addition, some states such as Mexico City have stated that public works will continue. In this respect, we might see a more moderate fall in civil engineering relative to building projects, in which the stoppage has been more marked. Manufacturing will also be impacted, as portrayed by the 3.0pts decline in IMEF's PMI for the sector, standing at 45.0pts. As mentioned in previous reports, auto plants started to shut down in the middle of March, with Detroit's big three closing facilities in North America on the 18th.

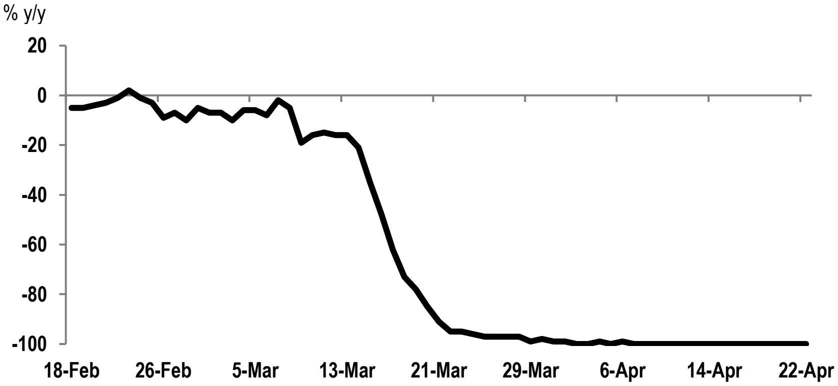
As a result, auto production in the month fell 24.6% y/y. In addition, supply woes that began in January and February likely became more prevalent (as outlined in the trade balance section above), impacting production levels as raw materials ran out. Considering this and its previous performance, we expect industry to contract 5.2% y/y in the quarter (-2.9% q/q).

In services, we expect a -1.8% y/y contraction (-2.2% q/q). Supporting this is the 9.2pts plunge in IMEF's non-manufacturing index to 39.4pts in March, lowest on record. In addition, formal employment in the sector registered a net reduction of 73,569 posts, with the annual rate of total employee expansion declining to 1.6% from 2.6% in February, lowest in little over ten years. The shock will probably be differentiated by type of activity, with tourism most impacted as disruptions started early in the month given mounting concerns in the US and Europe. In particular, passenger traffic fell 32.6% y/y in privately-owned airports. Meanwhile, hotel occupancy rate plummeted an average of 7.1%-pts in the first two weeks of the month relative to 2019. Cruise ship arrivals –except for humanitarian reasons– were halted on the 16th.

Available data on domestic conditions also provides a strong warning. For example, recreational services will also likely be quite low. The country's leading massive-events company (OCESA) canceled activities since March 16th, while INAH museums and archeological sites visits dropped close to 40% y/y. Moreover, restaurant reservations fell sharply, as suggested by data from online reservation site *Open Table* (see chart below). We also expect a relevant hit to education, with classes stopping nationwide on March 20th and even with some states opting for a sooner implementation. In contrast, retail sales could show a more mixed performance. Precautionary purchases of food, beverages and cleaning products, as well as some other essential items, would help support this subsector. In this regard, ANTAD's same-store sales fell only 2.1% y/y in real terms. On the contrary, healthcare will probably observe an uptick as hospitals and testing facilities ramped up preparations for the virus. In our view, other sectors that could show some relatively resiliency include financials and corporates as they have the possibility of implementing home-office schemes and with some of them considered as essential. Moreover, and as far as we know, enforcement in this regard has not been very strict, opening the possibility for activity to be slightly better.

Online reservations for restaurants in Mexico in 2020

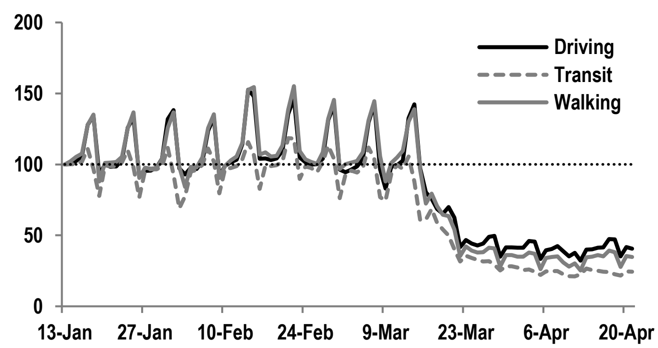
% y/y



Source: Open Table

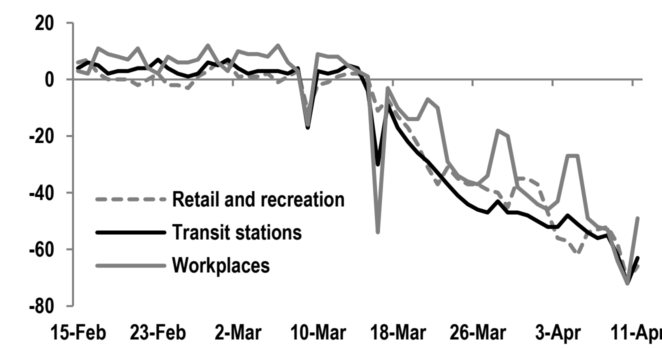
Going forward, we maintain our estimate of a 16.2% GDP decline in 2Q20, as social distancing measures and closures in several industries became more widespread after the sanitary emergency announcement on March 30th. We warn that uncertainty and volatility is likely to be extreme. Nonetheless, mobility reports provided by Apple and Google show very relevant declines so far in both map queries (chart below, left) and activity in public places (chart below, right). In particular, our expectation is for social distancing measures to be lifted gradually starting in late May, in line with current projections by the Ministry of Health. As a result, the second quarter would be impacted the most, followed by a modest recovery for the rest of the year, with [full-year 2020 GDP estimated at -7.8%.]

Change in routing requests in Apple Maps in Mexico
Deviation from level seen in January 13



Source: Apple

Movement trends in public places according to Google
Deviation from the trend as a percentage change



Source: Google

Banking credit to grow 1.9% y/y. It is our take that credit to the non-financial sector kept expanding in the third month of the year. We estimate a 1.9% y/y advance in real terms, slightly above the 1.6% observed in January. This would be driven by a 1.3% increase in consumer credit, coupled with a 6.7% and 0.8% expansion in mortgages and corporates, in the same order. The uptick in annual terms would be aided by lower inflation at 3.25%, 45bps below the previous month's print. Going forward, we believe it is highly likely that growth in corporates accelerates, as companies access available credit lines to face higher liquidity needs due to the effects of the pandemic.

MoF's public finance report (March). Attention will center on Public Balance and Public Sector Borrowing Requirements (PSBR) –with the latter standing at -$37.6 billion in Jan-Feb–, and comparing them to the forecasts outlined in the *2021 Preliminary Economic Policy Assumptions*. We will also be looking at the primary balance, as it will relay more data about the additional pace of spending considering the efforts to combat COVID-19, which gathered speed in the late part of the month. Regarding revenue and spending, we will also be watching performance in the annual comparison, particularly the former, as these could offer additional insights on economic activity. Finally, we will also analyze public debt, which as of February stood at MXN$11.0tn (as measured by the HBPSBRs).

Analyst Certification

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

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