1Q20 GDP – COVID-19 starts to become evident in activity levels

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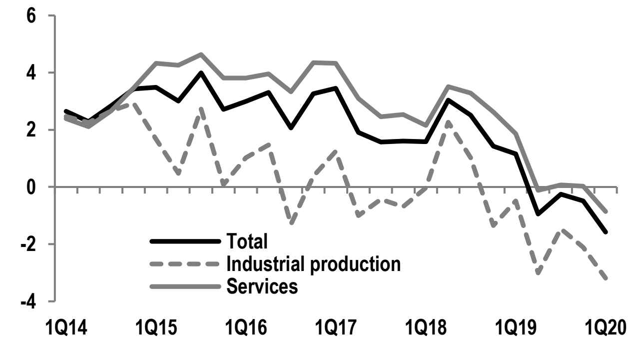
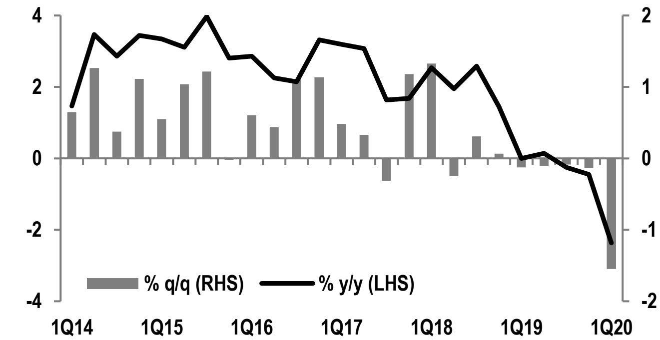
- **Gross Domestic Product (1Q20 P, nsa): -1.6% y/y; Banorte: -2.7%; consensus: -2.0% (range of estimates: -4.8% to -0.9%); previous: -0.5%**
- **Gross Domestic Product (1Q20 P, sa): -1.6% q/q; Banorte: -2.6%; consensus: -1.4% (range of estimates: -2.6% to -0.5%); previous: -0.1%**
- **It should be noted that the annual figure is distorted higher by the additional day from the leap year. Adjusting for this, activity fell 2.4% y/y**
- **Both industry and services were quite weak, falling 1.4% q/q each. In contrast, primary activities grew 0.5%**
- **Taking into account that the monthly GDP-proxy (IGAE) stood at -0.7% y/y on average in January-February, today's print would imply a contraction of around 3.0% in March**
- **We expect activity to decline further in 2Q20, fully resenting the impact from global and domestic disruptions emanating from efforts to combat the pandemic. In this sense, we maintain our estimate of a 7.8% y/y contraction of GDP in 2020**
- **The revised figure will be published on May 26th**

GDP falls 1.6% y/y in 1Q20. This figure was slightly above consensus (-2.0%) and further away than our -2.7% forecast. It should be noted that the print is skewed to the upside due to the additional day from the leap year. Correcting for the latter, using seasonally adjusted figures, activity fell 2.4% y/y. Performance had already been weak during the first months of 2020 but plunged by the end of the quarter, driven by efforts to contain the spread of COVID-19, such as social distancing measures. As explained before, the first sectors to react were mostly externally driven, particularly supply chain disruptions in January and February as the virus was impacting China. Nevertheless, it turned more local once cases were reported in our country, prompting measures that forced non-essential activities to stop. Considering this, the highest downturn was in industry, declining 3.8% y/y (sa), as it was the first to be hit. We believe most of the weakness centered in construction and manufacturing, with the latter resenting both lack of supplies and the stoppage of different plants. Meanwhile, reports such as that from CNH, suggest oil-related mining continued at a relatively strong pace. Going to services, the decline was more moderate at -1.4%. While there were signs of weakness since February, the brunt of the effect was in March, with entertainment and education services stopping since the middle of the month, while those more related to tourism started seeing a downturn since late February and early March. Retailers were more mixed, with surging supermarkets sales partially compensating for the decline in durables and non-essential goods. Finally, primary activities managed to stay positive at 1.2%, resilient despite adverse weather conditions.



Source: INEGI



Source: INEGI

Strong deceleration from the previous quarter. GDP fell by 1.6% relative to 4Q19 and reached its weakest since 1Q09, in the midst of the Global Financial Crisis. Industry was very affected, declining 1.4% q/q. In this sense, while subsector data is not known, manufacturing was already coming from an off quarter, impacted by the GM strike and other developments in the auto sector, while construction kept declining. Services was also strongly hit, plunging by the same magnitude (-1.4%), partly explained by a more challenging base effect in 4Q19, in which they rose 0.2%. As mentioned in the previous section, while muted dynamics had prevailed in January and February, the hit exacerbated in March, as the effect of social distancing measures impacted education, recreational and transportation services, among others. Lastly, primary activities inched higher by 0.5%, despite accounts of several weather-related issues which we believe resulted in higher prices of some goods, such as tomatoes in early February, based on inflation figures for the same period.

GDP
% y/y; % q/q

% y/y, nsa	1Q20	4Q19	1Q19	4Q18	2019
Total	**-1.6**	**-0.5**	**1.2**	**1.4**	**-0.1**
Agricultural	1.5	1.6	1.5	0.9	1.9
Industrial Production	-3.2	-2.1	-0.5	-1.4	-1.8
Services	-0.9	0.0	1.9	2.6	0.4
% y/y, sa					
Total	**-2.4**	**-0.4**	**0.0**	**1.5**	**-0.1**
Agricultural	1.2	1.7	1.1	0.9	2.0
Industrial Production	-3.8	-1.9	-2.0	-1.0	-1.8
Services	-1.4	0.0	0.9	2.5	0.5
% q/q, sa					
Total	**-1.6**	**-0.1**	**-0.1**	**0.1**	**--**
Agricultural	0.5	-1.1	1.0	2.5	--
Industrial Production	-1.4	-1.2	-0.1	-0.9	--
Services	-1.4	0.2	-0.2	0.3	--

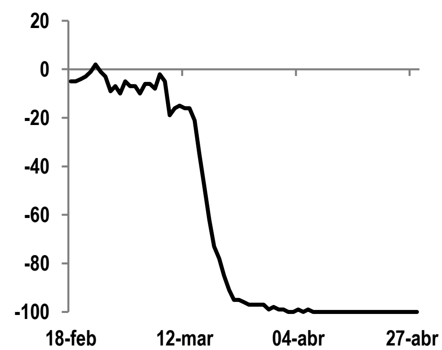
Source: INEGI

Today's report seems to confirm significantly lower activity in March. Specifically, we estimate the monthly GDP proxy (IGAE) in March at around -3.0% y/y (-1.7% m/m, which would be the worst since January 2009). This is broadly consistent with IMEF indicators and formal employment, as well as other data outlined in our preview, although contrasting with those from the unemployment rate published earlier this week.

In industry, implied figures suggest a contraction of close to -6.0%, higher than results from currently available data such as auto production, mining and other relevant sectors. Within services, the number would be near -2.5%. In our view, tourism-related sectors will be worst hit, especially as it had negative implications for the spring break period, among others.

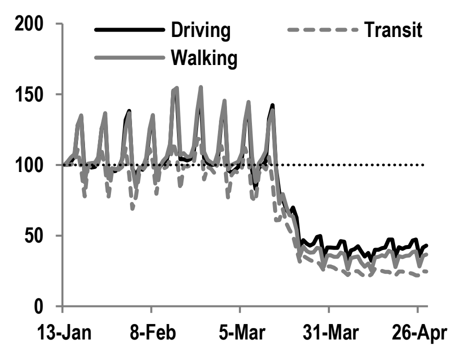
We expect activity to decline further in 2Q20. It is worth remembering that the health emergency was declared on March 30th after "Phase 2" of the pandemic was announced on March 24th. In hindsight, this left some room to maneuver in March, allowing for some economic activity to continue normally, as seen also in the latest trade balance report, which was also stronger than expected. Nevertheless, with this, along the implementation of "Phase 3" measures since April 21st, the outlook for the fourth month of the year is much more negative. Some of the most forward-looking data, such as that provided by web analytics from *Open Table*, *Apple*, and *Google* (as shown in the charts below), as well as anecdotal evidence from industry contacts suggest a deep contraction. In this sense, the latest estimates from the Ministry of Health, as well as some other government entities, point to the end of the quarantine from the middle of May –in zones where outbreaks have not been as bad– to the end of that month –for major zones of contagion–. With very weak activity anticipated in at least two out of the three months, we anticipate a 11.7% q/q decline in 2Q20 GDP (-17.1% y/y).

Online reservations for restaurants in Mexico in 2020
% y/y



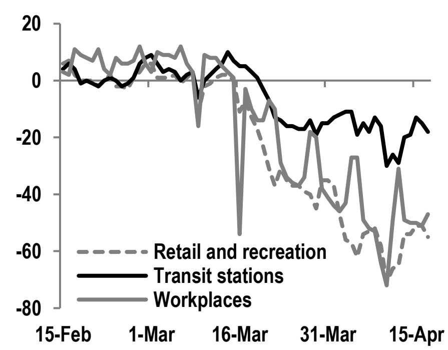
Source: Open Table

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

However, as the quarantine is lifted, we could start seeing a gradual recovery. Nevertheless, this will probably be under several social distancing measures, impacting production capacity. We believe this could happen as soon as 3Q20, anticipating a sequential recovery of 5.2% q/q (-9.9% y/y). In addition, another favorable factor is the significant amount of fiscal and monetary stimulus that the US is undertaking. We expect this to have a positive spillover effect in our country, as external demand starts to strengthen once again. On the contrary, we expect domestic demand to be slower to rebound, as it is our take that additional support from the government is needed to ensure a most robust recovery, while unemployment levels will increase sooner rather than later, making it harder to reverse the previous slowdown.

All in all, we maintain our estimate of a 7.8% decline in GDP in 2020 (see tables below). We recognize that the outlook is highly uncertain, as the possibility of an extension of social distancing measures, as well of a second peak in cases –leading to a new quarantine period– cannot be ruled out. However, these could be mitigated if an effective treatment for the Coronavirus is found in the short-term, given that the development of a vaccine is a lengthy process. Considering these factors and today's reports, we believe risks are broadly balanced.

GDP 2020: Aggregate supply
% y/y nsa; % q/q sa

% y/y	1Q20	2Q20	3Q20	4Q20	2020
GDP	**-1.6**	**-17.1**	**-9.9**	**-2.7**	**-7.8**
Agriculture	1.5	-2.5	-2.4	-0.6	-1.0
Industrial production	-3.2	-22.3	-9.1	-3.2	-9.5
Services	-0.9	-15.3	-10.4	-2.8	-7.3
% q/q					
GDP	**-1.6**	**-11.7**	**5.2**	**3.3**	**--**

Source: INEGI, Banorte

GDP 2020: Aggregate demand
% y/y nsa; % q/q sa

% y/y	1T20	2T20	3T20	4T20	2020
GDP	**-1.6**	**-17.1**	**-9.9**	**-2.7**	**-7.8**
Private consumption	-0.6	-16.5	-9.1	-2.5	-7.2
Investment	-11.3	-39.2	-18.2	-5.3	-18.5
Exports	-0.3	-30.1	-5.8	3.3	-8.6
Imports	-5.1	-35.1	-8.9	-2.2	-12.8
% q/q					
GDP	**-1.6**	**-11.7**	**5.2**	**3.3**	**--**

Source: INEGI, Banorte

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