

Ahead of the Curve

The recovery likely decelerated in August

- Industrial production (August).** We anticipate a -10.6% y/y contraction, above the -11.3% seen in the last month. We should mention that there is a negative calendar effect, with one less working day in the annual comparison. Adjusting for this, we expect a 1.2% m/m expansion in seasonally adjusted terms, below the +6.9% seen in July. Data suggests a decline in the pace of the recovery –despite additional efforts to reopen the economy– as construction lags (-23.9% y/y; +0.7% m/m) and the advance in manufacturing loses some steam (-7.9% y/y; +1.8% m/m), mainly in the auto sector. In contrast, mining likely improved marginally (-2.4% y/y; +2.1% m/m)
- IMSS employment report (September).** Focus will center on job creation, which according to President López-Obrador, could stand close to +120 thousand. Within the report, we will also look at average wages, likely down in absolute terms due to the entrance of more people to the labor market. We will also watch business affiliation dynamics, which have added three consecutive months on the upside

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



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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 12-Oct	7:00am	Industrial production	August	% y/y	<u>-10.6</u>	-9.6	-11.3
		sa		% m/m	<u>1.2</u>	2.7	6.9
		Mining		% y/y	<u>-2.4</u>	--	-3.1
		Utilities		% y/y	<u>-9.9</u>	--	-8.9
		Construction		% y/y	<u>-23.9</u>	--	-23.5
		Manufacturing		% y/y	<u>-7.9</u>	-5.9	-9.0
Mon 12-Oct		Job creation of workers affiliated to IMSS	September	thousands	--	--	92.4
Mon 12-Oct		ANTAD: Same-store sales	September	% y/y in real terms	--	--	-6.8
Tue 13-Oct	10:00am	International reserves	Oct-9	US\$ bn	--	--	194.0

Source: Banorte; Bloomberg

Proceeding in chronological order...

Industrial production to keep climbing in August, albeit at a more modest pace. We anticipate a -10.6% y/y contraction, above the -11.3% seen in the last month. We should mention that there is a negative calendar effect, with one less working day in the annual comparison. Adjusting for this, we expect a 1.2% m/m expansion in seasonally adjusted terms, below the +6.9% seen in July. In this respect, data suggests a decline in the pace of the recovery –despite additional efforts to reopen the economy– partially because of a more difficult but also as the recovery in construction lags while the advance in manufacturing loses some steam.

We estimate the latter sector at -7.9% y/y (previous: -9.0%). In sequential terms, we forecast a 1.8% m/m expansion after two very strong months following the reopening of the economy. Signals were mixed to positive. [Manufacturing exports](#) rose 4.0% m/m –despite the 8.3% y/y decline from -7.2% in the previous month. ‘Other manufacturing’ drove the increase (+5.5% m/m), while autos improved more modestly (+1.4%). Nevertheless, auto production stood at 293,463 units, just 1,483 below July’s figure, with a more challenging comparison in annual terms, at -13.2% from +0.7% in July. This is explained by the fact that many automakers retool their product lines in July, both because of regular upkeep and before the release of new models. This process was brought forward to the months of strict pandemic lockdowns, boosting the result artificially. Meanwhile, IMEF’s manufacturing PMI slowed by 2.5pts to 45.3pts, one of the most negative signals. Inside, there were significant retracements in both ‘new orders’ and ‘production’, which makes the decrease slightly more concerning. In contrast, manufacturing in the US was marginally stronger, at -6.7% y/y while IMSS employment rose by 41.5k net jobs, adding two consecutive months higher.

Dynamics in construction seem more worrisome, anticipating a 23.9% y/y contraction, an inch below the -23.5% of the previous month. While this would be influenced by a more adverse effect –considering a 3.1% decline in August 2019 vs. -8.8% in July of the same year–, broader signals suggest lingering weakness. Among them, business confidence declined in the month, including the ‘adequate moment to invest’ component. Moreover, physical investment spending by the Federal Government plunged 17.4% y/y in real terms, likely an additional headwind. On the contrary, the aggregate trend indicator was marginally better, with all five categories higher, highlighting ‘total contracts’ and ‘works executed as sub-contractors’. Employment gathered more momentum at +33.3 thousand jobs (related to IMSS). Considering these factors, we expect a sequential uptick of 0.7% m/m.

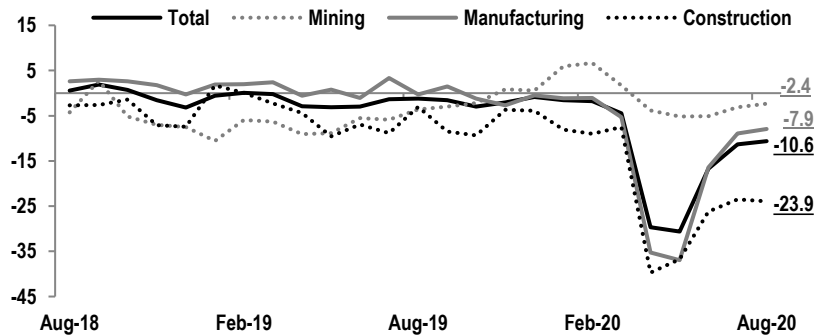
Lastly, mining would come in at -2.4% y/y (previous: -3.1%). In monthly terms, this would represent a 2.1% increase, with a broad recovery across sectors. According to data compiled to CNH, crude oil production stood at 1,633kbpd (-3.3% y/y), higher than the 1,604 seen in July. Reports suggest no significant impact from storms in the period, benefiting production. Despite of the latter, conditions for the sector remain challenging, with uncertainty about the recovery still weighing on prices and a pressured financial situation for Pemex.

Non-oil mining would also be stronger, as suggested by the 41.7% y/y increase in exports of this sector, even despite a stagnant labor market (+151 jobs in the month according to IMSS).

All in all, the report would be consistent with an extension of the recovery, albeit slowing down meaningfully relative to the pace in recent months. Differences by sector would persist, with domestic facing sectors lagging and externally driven categories outperforming. If our forecast materializes, IP would accumulate a 13.3% y/y year-to-date decline.

Industrial production

% y/y

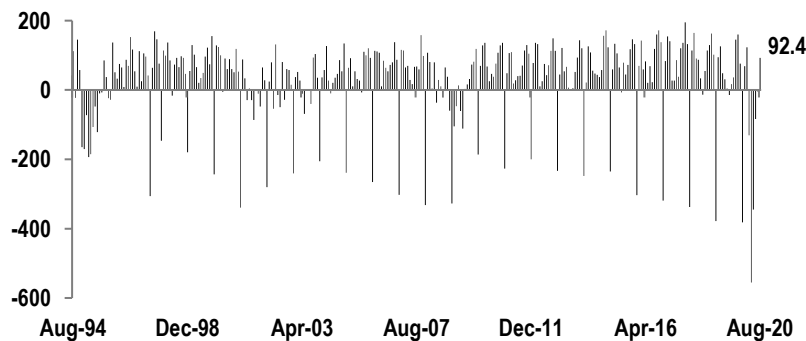


Source: INEGI, Banorte

Job gains to continue in employment affiliated to IMSS. On Monday, the Mexican Social Security Institute (IMSS, in Spanish) will release its report of affiliated employees for the ninth month of the year. Focus will center on job creation, remembering that 92.4 thousand positions were created last month but year-to-date losses stand at 833.1k. In this context, President López-Obrador once commented on this issue, stating that the final number for the month was close to +120 thousand. Given the recent record of data anticipated by the President, we expect the actual number to be quite close to this figure. Within the report, we will also look at average wages, likely down in absolute terms due to the entrance of more people to the labor market. We will also watch business affiliation dynamics, which have added three consecutive months on the upside.

Job creation affiliated to IMSS

Thousands



Source: IMSS, STPS

Weekly international reserves report. Last week, net international reserves increased by US\$108 million, closing at US\$194.0 billion. According to Banxico's report, this was mainly explained by a positive valuation effect in institutional assets. The central bank's international reserves have increased US\$13.1 billion so far in 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US\$, million

	2019	Oct 2, 2020	Oct 2, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	193,991	108	13,114
(B) Gross international reserve	183,028	199,528	-343	16,500
Pemex	--	--	-130	4,699
Federal government	--	--	-168	6,555
Market operations	--	--	0	0
Other	--	--	-45	5,246
(C) Short-term government's liabilities	2,151	5,537	-451	3,386

Source: Banco de México

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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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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