Ahead of the Curve

Inflation would remain at 4% in the 1H-October

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- **Inflation (1H-October).** We expect a 0.45% 2w/2w advance of the headline index and +0.15% at the core level. If our forecast materializes, annual inflation would fall barely 3bps compared to September, to 3.98%; meanwhile, the core would reach 4.00% (previous: 3.98%). It should be noted that summer discounts to electricity tariffs start reversing this period. We also expect modest pressures in gasoline and fruits and vegetables, mainly related to weather conditions. The core would be more homogeneous between goods (0.2% 2w/2w) and services (0.1%), highlighting positively in the former a more modest pickup in processed foods. Services would remain well behaved despite some expected increases, mainly because of seasonal effects

- **Retail sales (August).** We anticipate a 10.5% y/y contraction, with monthly dynamics explained mainly by two factors: (1) Additional efforts to reopen the economy, although having a more moderate effect; and (2) some fatigue of the pandemic, with people resuming more activities. Nevertheless, given the accumulated impact on aggregate supply and demand, as well as an increasingly challenging base effect, we expect the sequential performance to be more moderate, climbing 2.9% m/m (previous: 5.5%). Most figures for August were better, albeit with clearer signals of a deceleration. Among them, we highlight ANTAD's same-store sales, non-oil consumption goods imports, and vehicle and gasoline sales

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Mexico weekly calendar

DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 20-Oct	10:00am	International reserves	Oct-16	US$ bn	--	--	194.0
Tue 20-Oct	3:30pm	Citibanamex bi-weekly survey of economic expectations					
Wed 21-Oct	7:00am	Unemployment rate	September	%	5.33	5.31	5.24
Thu 22-Oct	7:00am	CPI inflation	1H Oct	% 2w/2w	0.45	0.45	-0.03
				% y/y	3.98	3.99	3.93
		Core		% 2w/2w	0.15	0.15	0.12
				% y/y	4.00	--	3.99
Fri 23-Oct	7:00am	Retail sales	August	% y/y	-10.5	--	-12.5
		sa		% m/m	2.9	--	5.5

Source: Banorte; Bloomberg

Proceeding in chronological order…

Weekly international reserves report. Last week, net international reserves increased by US$35 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 expanded by US$13.1 billion so far in 2020 (please refer to the following table).

Banxico's foreign reserve accumulation details
US$, million

	2019	Oct 9, 2020	Oct 9, 2020	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	180,877	194,026	35	13,149
(B) Gross international reserve	183,028	199,680	152	16,652
Pemex	--	--	0	4,699
Federal government	--	--	-96	6,459
Market operations	--	--	0	0
Other	--	--	249	5,495
(C) Short-term government's liabilities	2,151	5,654	117	3,504

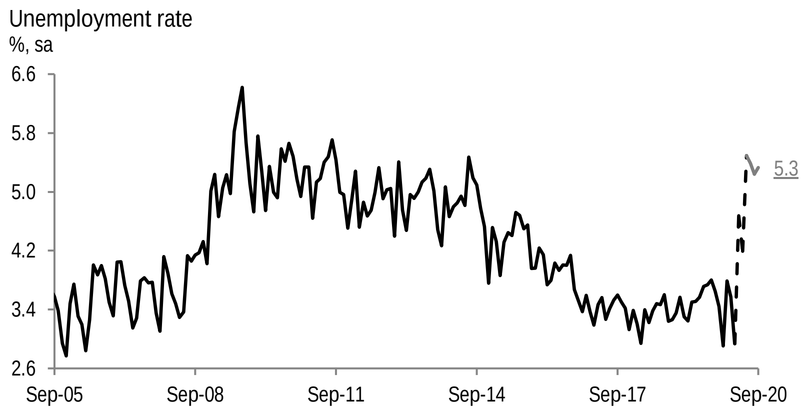
Source: Banco de México

We expect the unemployment rate to pick up modestly in September. We estimate the unemployment rate at 5.33% (original figures), 9bps higher than the previous month's print. We should mention that the rate typically has an unfavorable seasonality in the period –based on the historical series–, so we try to account for this. In this respect, we also think it is unlikely that seasonally-adjusted figures will be presented, with the time series "broken" as the telephone survey was applied in each of the three months ending in June, due to the pandemic. In contrast, if the latter series were presented, it is our take the rate could benefit from additional efforts to reopen activities and adapt to the 'new normality', albeit much more modest at the margin given that one-off effects from these drivers are likely to fade away more rapidly with the time that has passed since the period of more strict lockdowns (April and May).

Available data points to further job gains, although the estimate is even more uncertain than typically given: (1) The big share of the working-age population still discouraged, catalogued as not in the labor force but "available for work"; and (2) that job gains since the recovery began –in May– have been concentrated in the informal sector. On jobs, we highlight that people affiliated to IMSS showed 113,850 net positions gained, highest since the pandemic broke. Nevertheless, the annual pace in terms of total people employed inched lower, to -4.2% y/y from -4.1% previously. Moreover, the 'employment' components within IMEF indexes were higher in sequential terms both in manufacturing and non-manufacturing (with seasonally adjusted and original data) but remain below the 50pts threshold. Other figures, such as ANTAD's sales and households' conditions and purchasing power within consumer confidence, were also stronger relative to August. In our view, these suggest that the rebound in activity continued in the month, which could have helped employment at the margin.

On the working-age population, last month's report showed those "available for work" at 10.7 million, moderating its pace of decline. Uncertainty about this group's evolution remains high, although they likely fell further (which would bias the unemployment rate higher if most back in the labor force do so as unemployed, all else constant) with epidemiological conditions improving but mobility levels seemingly stagnating.

Going forward, we maintain our view that it will take time for the labor market to recover to the levels seen before COVID-19 despite the improvement in recent months. We see multiple challenges ahead, including: (1) Our expectation of a relatively weak recovery of domestic demand; (2) the protracted negative effect in some key industries, such as tourism and entertainment, which are more labor-intensive; and (3) limits to increasing capacity utilization in several services (and therefore, the need to hire more people) due to sanitary and distancing measures still in place. Despite of the latter, we will heed the report closely to do a more detailed analysis about labor market dynamics, recognizing that there still exists an unusually high degree of uncertainty given the distortions inserted in the data by the pandemic.



Source: INEGI, Banorte

Inflation higher in 1H-October on seasonality and agricultural goods. We expect headline inflation at 0.45% 2w/2w, above the -0.03% of the previous fortnight. In turn, we forecast the core at 0.15%, slightly up relative to last print of 0.12%. If our forecast materializes, annual inflation would fall barely 3bps compared to September to 3.98%; meanwhile, the core would reach 4.00% (previous: 3.98%). The non-core would fall to 3.91%, helped by a more benign base effect mainly in domestic gas.

Within the latter, it should be recalled that summer discounts to electricity tariffs start reversing this period, expected at 18.5% 2w/2w (contributing almost 27bps out of the 34bps of the non-core). We expect gasoline prices to exhibit modest pressures, possibly reflecting some temporary disruptions on shutdowns because of hurricanes (*e.g.* Delta in the Gulf of Mexico during the first days of the month), although partially compensated by Mexican peso strength. On the other hand, our monitoring showed some hikes in agricultural goods (+0.4%), mainly fresh fruits and vegetables (1.2%). Among them, it signaled significant adjustments in tomatoes –after declining in the last two fortnights, with reports of weather also impacting production– and others such as onions and potatoes. In contrast, we expect meat and egg to fall modestly, driven mainly by the latter.

The core would be more homogeneous between goods (0.2% 2w/2w) and services (0.1%), contributing +11bps to the headline. In the former and on a positive note, we expect processed foods to pick up moderately (0.1%), consistent with recent signs of a deceleration after hefty increases since the pandemic started, with other goods also up slightly (0.2%) despite some discounts (such as with Amazon's Prime Day on October 13th and 14th). In the latter, we pencil in slight upticks in airfares (2.2%) and other tourism-related services, partially reversing the seasonal decline due to lower demand after summer vacations ended. In a similar fashion but in the other direction, we estimate other services higher, mainly as professional services typically go up after falling in September. Nonetheless, the whole category would stay very well behaved as domestic demand and ample slack keep limiting further upside, estimating an annual increase of just 2.4%.

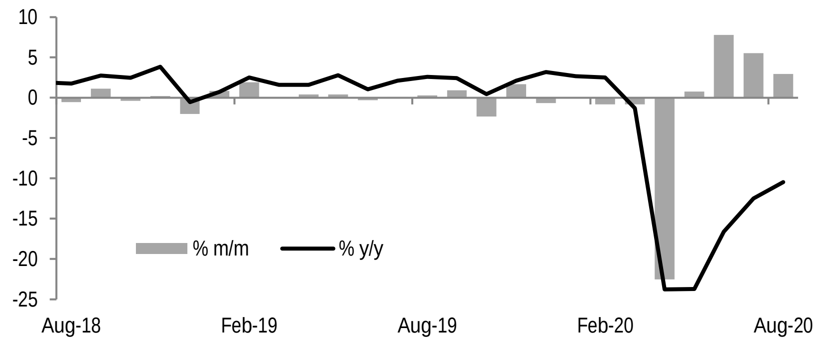
Retail sales continue to recover, albeit at a slower pace. We anticipate a 10.5% y/y contraction, better than the -12.5% of the previous month. We expect this dynamic to be explained by two factors: (1) Additional efforts to reopen the economy, although having a more moderate effect; and (2) some fatigue of the pandemic, with people resuming more activities. Nevertheless, given the accumulated impact on aggregate supply and demand, as well as an increasingly challenging base effect, we expect the sequential performance to be more moderate, climbing 2.9% m/m (previous: 5.5%).

Most figures for August were better, albeit with clearer signals of a deceleration. Starting from the brightest, ANTAD's same-store sales declined 6.8% y/y in real terms, far better than the -12.3% of the previous month. Gains were driven by departmental stores at -5.6% (previous: -25.3%), possibly responding to stores reopening in additional states as well as more people going out. Meanwhile, supermarkets were somewhat weaker relative to the previous month at -1.9% from -0.5%. In this context, another factor that may have aided this performance was an additional increase in mobility, albeit more slightly, on top of more types of businesses reopening, with some consumption patterns possibly showing signs of normalization. Meanwhile, non-oil consumption goods imports bounced back to -31.3% y/y from -35.0%. On a more muted note, vehicle sales came in at -28.7% y/y, only slightly better than the -31.3% from July. Finally, gasoline sales –measured by volume, not value– stood at -23.5% y/y, 1.2%-pts higher relative to the previous month.

Consumer fundamentals are improving, but remain weak. In the month, 653.5 thousand total jobs were created, although once again with most of them corresponding to the informal sector. Remittances remained strong, growing 5.3% y/y in USD terms (+18.8% in MXN). On the contrary, consumer credit furthered its decline, now at lows not seen since mid-2010, fact that may hinder the rebound to some extent.

Going forward, signals are still favorable, suggesting more gains. Specifically, ANTAD sales rose by 2.6%-pts to -4.1% y/y in real terms, with vehicles sales better at -22.8% y/y and IMEF's non-manufacturing index just below the expansion threshold at 49.3pts. Considering this, as well as some other data which points to a better-than-expected performance from domestic driven sectors, we will be looking into hard figures, such as the GDP-proxy to validate what the future trend might be.

Retail sales
% y/y nsa, % m/m sa



Source: INEGI, Banorte

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