Ahead of the Curve

Expecting mixed signals about economic activity at the start of 2021

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- **IMEF indicators (January).** We expect indicators to reflect differentiated dynamics between industry and services. In manufacturing we expect a reversal back to expansion territory, to 50.4pts from 48.7pts in December, signaling a strong start of the year. Our view is underpinned by strong sector dynamics in the US, spilling over into our country. In contrast, we estimate a slight decrease in the non-manufacturing gauge, to 47.6pts from 48.1 previously and which would be its third consecutive downtick. This rests on the worsening of COVID-19 dynamics locally. In this sense, we calculated that 54.3% of national GDP was in 'red' in the traffic light indicator and 38.1% in 'orange' as of the end of the month. Two additional factors that we consider important are the uptick in prices in the 1st half of January and the 15% minimum wage increase for 2021

- **Family remittances (December).** We expect remittances to increase 14.2% y/y to US$3,561.3 million, moderating slightly relative to the +15.6% in November. We expect flows to remain resilient despite a deterioration in employment conditions in the US, with several states implementing stricter lockdowns. In this sense, the unemployment rate among Hispanics and Latinos climbed to 9.3%. If our forecast materializes, remittances would stand at US$40.5 billion in whole-year 2020, up 11.2% relative to the previous year

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 1-Feb		Markets closed due to Constitution Day holiday					
Mon 1-Feb		Start of the new legislative period in Congress (end of the Winter Break)					
Tue 2-Feb	10:00am	Family remittances	December	US$ mn	3,561.3	3,561.3	3,381.2
Tue 2-Feb	10:00am	Banxico's survey of economic expectations	January				
Tue 2-Feb	1:00pm	PMI's survey (IMEF)	January				
		Manufacturing		index	50.4	--	48.7
		Non-manufacturing		index	47.6	--	48.1
Wed 3-Feb	10:00am	International reserves	Jan-29	US$ bn	--	--	196.0
Fri 5-Feb	7:00am	Gross fixed investment	November	% y/y	-12.4	-13.2	-14.7
		sa		%m/m	2.0	--	2.8
		Machinery and equipment		% y/y	-15.1	--	-17.0
		Construction		% y/y	-10.3	--	-12.7
Fri 5-Feb		Private consumption	November	% y/y	--	--	-10.3
		sa		%m/m	--	--	1.1
		Domestic (Goods and services)		% y/y	--	--	-8.3
		Imported (Goods)		% y/y	--	--	-24.2
Fri 5-Feb	4:30pm	Citibanamex bi-weekly survey of economic expectations					

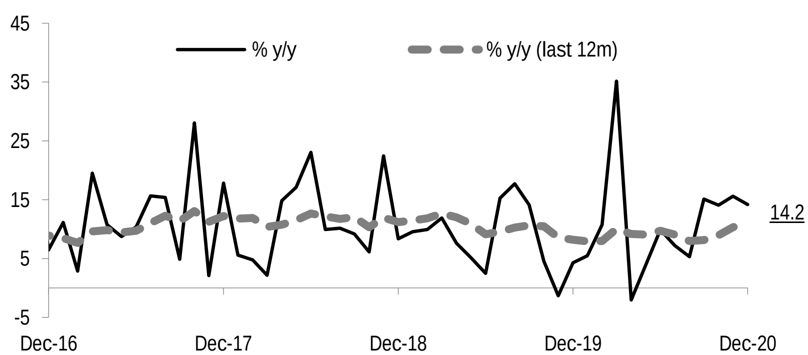
Source: Banorte; Bloomberg

Proceeding in chronological order…

Remittances to have maintained high growth in December. We expect remittances to increase 14.2% y/y to US$3,561.3 million, moderating slightly relative to the +15.6% in November. Flows would remain resilient despite a deterioration in employment in the US, with several states implementing stricter lockdowns. In this sense, the unemployment rate among Hispanics and Latinos climbed to 9.3%, 0.9%-pts higher than the previous month. The population of working-age Mexican migrants rose by 292.9 thousand, with a net job loss of 88.0 thousand –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–. Losses were centered in the first group (-162.0 thousand), with the second (+44.0 thousand) and third (+30.1 thousand) posting modest gains. However, during the month the US Congress approved an extension to several stimulus programs, including expanded unemployment benefits which had been suspended. In turn, this should provide some support, considering that 'natives' are much more likely to be able to have accessed this type of aid.

Some other factors that may have influenced a downward trend on flows include Joe Biden's win. Specifically, we believe that his welcoming stance towards illegal immigrants relative to Trump may reduce some fears about being deported. Thus, this could induce less incentives to send back larger amounts to home. Moreover, the exchange rate kept gathering strength, appreciating from USD/MXN 20.38 to 19.97, possibly also dampening flows given the loss of purchasing power in domestic currency. Nevertheless, given current conditions we continue downplaying this factor, still seeing an important support from migrants to their families. If our forecast materializes, remittances would stand at US$40.5 billion in whole-year 2020, up 11.2% relative to the previous year. This would be slightly above our previous estimate, which contemplated total inflows in the year US$40.4 billion.

Family remittances
% y/y



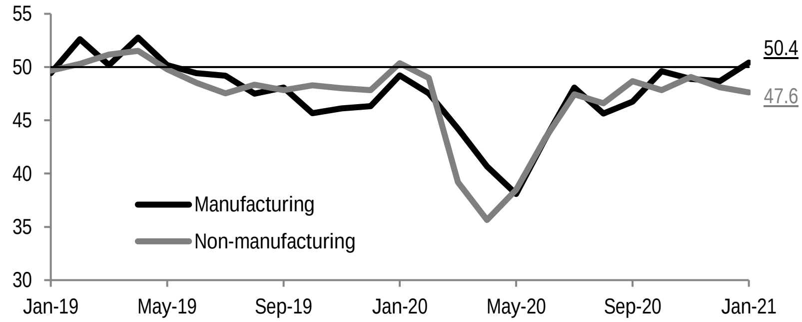
Source: Banxico

Banxico's survey of economic expectations. As usual, market participants will focus on inflation, growth, reference rate, and exchange rate forecasts. In the first, analysts expect 2021 year-end inflation at 3.60% y/y, below our 3.7%. However, considering that it is still early in the year, we do not see significant changes. Meanwhile, medium and long-term expectations will likely remain unchanged, still above target. On GDP, this year's estimate stands at 3.4%, more modest than our 4.1%. The current view on the reference rate by YE21 is 4.00%, which implies only one additional 25bps cut. We expect three of the same magnitude in the year. Finally, the year-end exchange rate estimate stands at USD/MXN 20.53 (Banorte: 19.80).

IMEF indicators to show the effects of renewed lockdowns in December. We expect the indicators to reflect differentiated dynamics between industry and services. In manufacturing we expect a reversal back to expansion territory, to 50.4pts from 48.7pts in December, signaling a strong start of the year. Our view is underpinned by strong sector dynamics in the US, spilling over into our country. In this respect, *Markit*'s PMI manufacturing provided a very strong signal as it reached 59.1pts from 57.1pts at the end of last year, a series record high and with the sharpest increase in operating conditions. The report stresses some increases in input prices, supply chain delays and raw material shortages –likely stemming from more difficult epidemiological conditions, as explained below–, Nevertheless, new export orders (which are a particularly relevant signal for our country) also rose at the quickest rate since September 2014. Therefore, it suggests robust growth even after the strong export performance according to our analysis of December's trade balance report. One negative development domestically was that railway blockades in Michoacán were established again after being lifted in December, which previously had affected the flow of goods for various industries.

In contrast, we estimate a slight decrease in the non-manufacturing gauge, to 47.6pts from 48.1 previously and which would be its third consecutive downtick. Our call on this sector rests on the worsening of COVID-19 dynamics locally. First, big metropolitan areas in Mexico City and the State of Mexico remained on 'red' in the traffic light indicator, maintaining stricter containment measures. Business groups have been more vocal recently about the economic effect of these restrictions, highlighting among them restaurant owners which were allowed to open exclusively for takeout and home delivery. Secondly, other important states in terms of their total population went from 'orange' to 'red', including Jalisco and Nuevo León. In this sense, we have calculated that 54.3% of national GDP were in 'red' and 38.1% in 'orange' as of the end of the month. One additional factor that we are considering as potentially important is the uptick in prices as flagged by inflation in the 1st half of January, concentrated in energy (LP gas and gasolines). Lastly, we recall the 15% increase in the minimum wage for 2021, highlighting especially that the decision was not shared by the private sector which supported a lower adjustment given weak domestic demand conditions.

IMEF indicators
Diffusion indicators, sa



Source: IMEF

Weekly international reserves report. Last week, net international reserves increased by US$519 million, closing at US$196.0 billion (please refer to the following table). According to Banxico's report, this was mainly explained by: (1) US$450 million in sales from Pemex to the central bank; and (2) a positive valuation effect in institutional assets of US$69 million. So far in the year, the central bank's international reserves have increased by US$290 million.

Banxico's foreign reserve accumulation details
US$, million

	2020	Jan 22, 2021	Jan 22, 2021	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	195,667	195,957	519	290
(B) Gross international reserve	199,056	201,995	3,123	2,939
Pemex	--	--	450	450
Federal government	--	--	2,687	3,059
Market operations	--	--	0	0
Other	--	--	-14	-570
(C) Short-term government's liabilities	3,389	6,038	2,604	2,649

Source: Banco de México

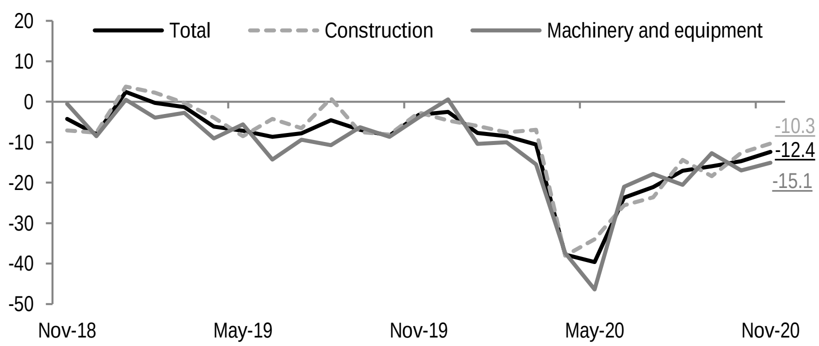
Investment to extend gains in November. We expect GFI at -12.4% y/y, better than the -14.7% of the previous month. We note that the period had one less working day in the annual comparison –similar to October– albeit with a more favorable base effect. With seasonally adjusted data we expect a 2.0% m/m expansion, building up on the +2.8% of October. While this would be favorable, it still suggests that the sector remains as the weakest within aggregate demand. In this sense, if our forecast materializes the absolute level of activity would stand 10.3% below February (before the pandemic) and 22.0% lower than its historical high in July 2018.

We forecast construction at -10.3% y/y, with additional strength relative to October. This would be consistent with its performance in the industrial production report, with a 7.8% y/y contraction (vs. -10.0% in the previous month). Inside, edification kept outperforming civil engineering, as has been since the recovery started in June. In this context, we expect a similar trend between the residential and non-residential sectors, with the former leading gains. Regarding public-private partnerships and according to the timetable, about 14 projects should have been underway. In addition, physical investment by the Federal Government came in at -4.5% y/y in real terms, better than the -20.1% in October, supporting our call about of an improvement.

On the other hand, we anticipate machinery and equipment (M&Eq.) slightly better at -15.1% y/y (previous: -17.0%). This improvement would be driven by the imported component, climbing to -12.5% from -16.1% previously. This rebound is based on the signal from the trade balance, with capital goods imports at -12.9% (previous: -18.3%). Local currency strength –which is how GFI is measured, as opposed to trade, which is in nominal USD– could dampen the print, at 20.38 per dollar on average against 21.27 in October. The domestic component will likely lag a little bit at -18.8%. Signals from industrial production in sectors such as M&Eq., basic metals, and electric equipment, were stronger. Nevertheless, auto sector performance was disappointing, leading us to believe that 'transportation' will be rather weak.

Going forward, we consider the sector keeps facing important hurdles, starting with the recent deterioration in epidemiological conditions. However, this seems that it has not translated fully into business confidence, pointing to the possibility that sentiment about the deployment of vaccines is still helping. In addition, there have been reports of an extension to the public-private infrastructure plan. Nevertheless, recent news that President López-Obrador has COVID-19 have likely pushed back these plans. Finally, the main causes of concern continue to be several idiosyncratic factors which may be weighing on the outlook. Among them, we include low productivity growth, apprehension about the rule of law and policy certainty, particularly in a very complex backdrop as we are still in the midst of the pandemic.

GFI
% y/y



Source: INEGI, Banorte

Private consumption to accelerate in November on *El Buen Fin* discounts. Performance in October was still relatively positive, at -10.3% y/y (with a negative impact from calendar effect) but rising 1.1% m/m, stringing five months to the upside. This is notable considering other data which pointed to a deceleration, as consumers waited for *El Buen Fin* discounts (Mexico's Black Friday) in November. Despite of this, we still expect a strong performance in the latter, with discounts driving the increase. In this sense, retail sales point to a large expansion, with non-oil consumption goods imports also backing this trend. Moreover, most categories within the monthly GDP-proxy (IGAE) were stronger, highlighting those related to discretionary spending, which support our view. Going forward we expect weakness to prevail, with non-essential businesses closing in several states as contagions accelerated and business conditions worsened. Lastly, we could see some payback after this month's performance.

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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, 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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