Ahead of the Curve

INEGI's monthly GDP estimate will likely show weakness in February

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- **Timely Indicator of Economic Activity (February).** The release will include revised figures for January and new estimates for activity in February. We expect the forecast for the first month of 2021, currently at -4.4% y/y sa, to be revised upwards. This is based on data published since –especially the latest industrial production report–. Meanwhile, February could show a sequential contraction due to deteriorated epidemiological conditions in the first fortnight –albeit improving strongly in the second half–, along the impact from blackouts and natural gas shortages in the US and northern Mexico

- **Aggregate supply and demand (4Q20).** We expect both aggregate supply and demand to show a 5.4% y/y contraction, better than the -11.4% of the third quarter. On supply, and as previously reported, GDP fell 4.3% y/y, with industry higher than services. Moreover, we estimate imports at -8.5%. Turning to demand, we expect results to continue showing a relevant spread between external facing sectors and those domestically oriented. In particular, exports would stand at +3.4%, with consumption and investment still negative at -7.2% and -12.7%, respectively. Finally, government spending would rise 1.3%. With these figures, aggregate supply and demand would have fallen 10.1% y/y in 2020

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 15-Mar		Markets closed on remembrance of the birth of Benito Juárez					
Wed 17-Mar	10:00am	International reserves	Mar-12	US$ mn	--	--	195.1
Thu 18-Mar	7:00am	Timely Indicator of Economic Activity (sa)	February	% y/y	--	--	-4.4
Fri 19-Mar	7:00am	Aggregate supply and demand	4Q20	% y/y	-5.4	--	-11.4
		Private consumption		% y/y	-7.2	--	-12.7
		Investment		% y/y	-12.7	--	-18.0
		Government spending		% y/y	1.3	--	2.5
		Exports		% y/y	3.4	--	-2.7
		Imports		% y/y	-8.5	--	-18.7

Source: Banorte; Bloomberg

Proceeding in chronological order…

Weekly international reserves report. Last week, net international reserves decreased by US$212 million, closing at US$195.1 billion (please refer to the following table). According to Banxico's report, this was mainly explained by a negative valuation effect in institutional assets. So far this year, the central bank's international reserves have fallen by US$610 million.

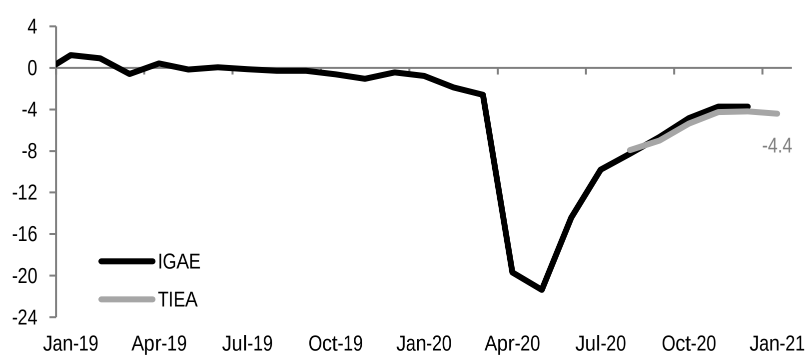
Banxico's foreign reserve accumulation details
US$, million

	2020	Mar 5, 2021	Mar 5, 2021	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	195,667	195,057	-212	-610
(B) Gross international reserve	199,056	200,089	-130	1,032
Pemex	--	--	0	450
Federal government	--	--	-84	2,049
Market operations	--	--	0	0
Other	--	--	-46	-1,466
(C) Short-term government's liabilities	3,389	5,032	82	1,643

Source: Banco de México

Activity in February likely affected by temporary shocks to industry. INEGI will release its *Timely Indicator of Economic Activity* for February, along revised figures for January. We recall that December's mid-point forecast stood at -4.2% y/y (using seasonally adjusted figures), which was ultimately below the final print of -3.7%. We expect January's forecast, currently at -4.4%, to be revised upwards. This is based on data published since –especially the latest industrial production report–. Meanwhile, February could show a sequential contraction due to deteriorated epidemiological conditions in the first fortnight –albeit improving strongly in the second half–, along the impact from blackouts and natural gas shortages in the US and northern Mexico. In our view, this has already been evidenced to some extent in auto sector production figures and IMEF's manufacturing index.

Monthly GDP-proxy (IGAE) and the Timely Indicator of Economic Activity (TIEA)
% y/y sa



Source: INEGI

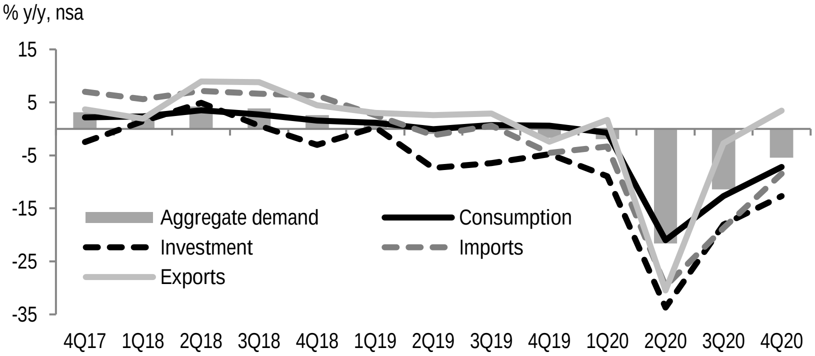
Aggregate demand in 4Q20 to reflect the recovery, with key differences between domestic and external components. We expect both aggregate supply and demand to show a 5.4% y/y contraction, better than the -11.4% of the third quarter. The main driver once again would be efforts to reopen the economy, striving to return to pre-pandemic levels of activity.

On supply, GDP fell 4.3% y/y as previously reported, with industry surpassing services in annual terms for a second consecutive time after being the most impacted in 2Q20. We estimate imports at -8.5%. Both the trade balance –which only considers goods– and current account –which also includes services– declined around 7-8% in nominal USD terms. However, given prevailing Mexican peso weakness (with a 6.7% depreciation in annual terms), figures in local currency were far better.

Turning to demand, we expect results to continue showing a relevant spread between external facing sectors and those domestically oriented. Hence, we see exports outperforming, with consumption and investment still lagging. In particular, exports would return to positive after only two quarters down, at +3.4%. Trade balance figures showed a 12.6% y/y expansion, highest since 3Q18, while broader trends within the current account point to a 9.4% increase. In our view, performance abroad was the main driver –especially in the US– even though the effect from MXN depreciation is relevant. We believe massive fiscal and monetary stimulus in the US has been a key driver, underpinning also expectations of further dynamism in 2021. In domestic sectors, consumption's monthly indicator accumulated a 7.6% y/y decline in the quarter. We noted a broadly favorable performance in November and December, in our opinion on holiday purchases and discounts from *El Buen Fin* (Mexico's Black Friday). However, given methodological differences between aggregate demand and the former –especially on imported services–, we anticipate a 7.2% contraction, better than the -12.7% of 3Q20. On investment, the monthly GFI equated to -12.7% y/y (link above), without strong revisions envisaged. Inside, we saw gains for construction early in the period –mainly edification–, with machinery and equipment higher by the end, especially imported ones. Finally, we see a 1.3% increase in government spending, with a more challenging base effect but the pandemic still ongoing, along a nominal increase of 7.1% in current spending, according to public finance reports.

With these results, aggregate supply and demand would have fallen 10.1% y/y in 2020. As noted throughout the year, the effects from the pandemic would be clearly reflected in the magnitude of the adjustment between different sectors. As already known, GDP declined 8.2%, with imports estimated at -15.2%. On demand, the weakest component should have been investment at -18.2%, followed by consumption (-10.4%). Meanwhile, exports would come in at -7.4%, while government spending would be the only positive one at 2.2%.

Aggregate demand
% y/y, nsa



Source: INEGI, Banorte

Analyst Certification

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