A stronger-than-expected start for domestic demand in 2021

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Juan Carlos Alderete, CFA
Director of Economic Research
juan.alderete.macal@banorte.com

Francisco Flores
Senior Economist, Mexico
francisco.flores.serrano@banorte.com

- **Gross fixed investment (January): -10.6% y/y (nsa); Banorte: -13.5%; consensus: -12.5% (range: -14.5% to -10.4%); previous: -11.5%**
- **Private consumption (January): -7.1% y/y (nsa); previous: -5.3%**
- **We should mention that annual rates are skewed down due to a negative calendar effect relative to December. Considering this, we believe results were relatively positive**
- **In sequential terms, investment rose 3.3% m/m, boosted by the expansion in machinery and equipment (4.2%), with good results in the domestic and imported components. Construction was also positive (2.9%), with strength in the non-residential sector**
- **Consumption advanced 1.0% m/m, with imported goods surging 7.6%. Domestic goods were more modest at 1.1%, with services still muted at -0.1% as epidemiological conditions hit dynamism**
- **While prospects for domestic demand are still relatively subdued when compared to the external component, we believe dynamism in the latter could spillover locally, boosting overall performance**

GFI rebounds at the start of the year. This came at -10.6% y/y (see Chart 1), above consensus (-12.5%) and to our -13.5%. The period had a negative calendar effect, with two less working days in the annual comparison (vs. two more in December). Correcting for this using seasonally adjusted data, activity fell 9.6%, significantly better than the -12.8% of the previous month. Back to original figures, construction stood at -11.3% (Chart 2). However, and in contrast with recent trends, the non-residential sector had the most relevant improvement at -13.5%, consistent with the performance in the industrial production report. Meanwhile, residential was at -8.9%, in our view still positive considering the calendar effect outlined previously. In this sense, we believe that while uncertainty is still weighing on the sector, the fact that it is still an essential activity might be a key support. Meanwhile, machinery and equipment (M&Eq.) came in at -9.5%. Inside, the imported component fell to -7.4%, albeit with additional weakness in the domestic front at -13.0%. Nonetheless, the latter was the main upward surprise relative to our call. By subsectors, transportation was the main laggard within both categories, as shown in Table 1.

In sequential terms and using seasonally adjusted data, investment climbed 3.3%, strongly reversing the 1.6% loss seen in December (Chart 3). As a result, activity stands 7.5% below February 2020's level, just before the impact from the COVID-19 pandemic was evident locally. Moreover, it is still 20.2% below an all-time high in July 2018 (Chart 4), consistent with weakness even before the outbreak started. All subsectors were positive. Machinery and equipment was the outperformer at +4.2%, with good results in transportation, particularly domestic (8.2%). Construction was up 2.9%, boosted by the 7.4% advance in the non-residential sector (Table 2), as flagged by public finance data on capex.

Private consumption resilient despite a difficult start of the year in terms of COVID-19 dynamics. The figure stood at -7.1% y/y, lower than the -5.3% seen in December (Chart 5). As in GFI, the calendar effect also distorted the result. With seasonally adjusted figures the contraction was 5.7% y/y above the -6.5% of the previous month. Back to original figures, imported goods helped overall dynamics, up 2.8%, albeit with the latter driven by the significant 19.2% advance in non-durables, as durables (-3.6%) and semi-durables (-18.3%) were much weaker (Table 3). Domestic goods stood at -8.2%, with similar trends than the imported component, while services were hit more strongly, underperforming at -14.3% (Chart 6).

With seasonally adjusted figures, consumption rebounded 1.0% m/m, more than reversing the -0.4% seen in December (Chart 7), which in our view was distorted by shifting consumption patterns. With this, the absolute level of consumption stands 5.7% below February 2020 (Chart 8), before the pandemic struck. In our view the print was quite positive, more so considering that restrictions due to COVID-19 were tighter as new cases surged (*e.g.* shopping malls closed in Mexico City and the State of Mexico). This was led by imported goods at 7.6%, with four consecutive months recovering. Domestic goods were also better (1.1%), while services lagged (-0.1%) after two months advancing.

Better outlook for activity ahead, albeit with domestic demand still lagging. Signals so far suggest that 1Q21 was bumpy, with a rapidly changing landscape in terms of virus dynamics and other factors. We expect some weakness to prevail in February, especially in investment as IP (particularly manufacturing) took a hit on blackouts and the lack of natural gas. However, considering the sharp improvement regarding COVID-19 cases and less stringent restrictions (along an acceleration in the vaccination process locally), consumption might rebound quite strongly, in line with data from ANTAD. As a result, we will probably see a relevant divergence in the coming month.

After this, it is our take that the outlook seems more favorable. A key factor is our view of a positive spillover effect from the recently approved stimulus plan in the US, resulting in increased output to meet external demand, while remittances could also extend higher on one-time checks and better employment conditions in that country. However, we must keep warning about other short- to medium-term risks, including: (1) The possibility of a new contagion wave after the *Easter* holiday; and (2) supply chain issues, mainly the lack of semiconductors for domestic production, but also increasing bottlenecks.

On a broader point of view, and consistent with the need to improve the investment climate, the Office of the United States Trade Representative (USTR) recently outlined several challenges for commerce and investment in our country. Among them, they highlighted increased barriers in the energy sector in 2020, with calls from the US government for fair treatment of foreign companies. They also quoted other relevant barriers are present in the telecommunications, pharmaceutical and agricultural sectors, to name a few. We believe this is relevant as it sends a sign of caution to foreigners, possibly dampening the recovery of overall investment, particularly FDI.

However, there are also some offsetting factors, including geographical advantages, prevailing tensions with China and expectations of a stronger recovery, which in turn could help turn the tide. Nonetheless, we remain concerned about investment prospects, particularly as they are a key factor for GDP growth in the medium- and long-term.

Turning to consumption, we consider the outlook is relatively better. In our view, its performance will be strongly tied to the evolution of employment and activity, in turn tied to the pandemic. Although challenges remain, news in this front have been more positive lately. Moreover, remittances will probably continue to be a key support, as mentioned previously. In this sense, our base case is that flows will remain high even if the effects from recently enacted stimulus start to fade away and result in a deceleration later in the year. Turning to more domestic factors, we will remain on the look over the possible impact of price pressures, which as of late remain focused on energy, albeit with some concerning signals that these may be extending to other categories. Lastly, we expect credit to remain dampened, still dragged by high caution and uncertainty, probably bouncing back once the outlook is much clearer.

Considering this, we still expect external demand to be the main growth driver in 2021, mainly reflected in exports outperforming. Nevertheless, other key domestic sectors (*e.g.* tourism, entertainment) may improve gradually as these and vaccinations gather strength, supporting our call of a 5.3% y/y expansion in GDP this year.

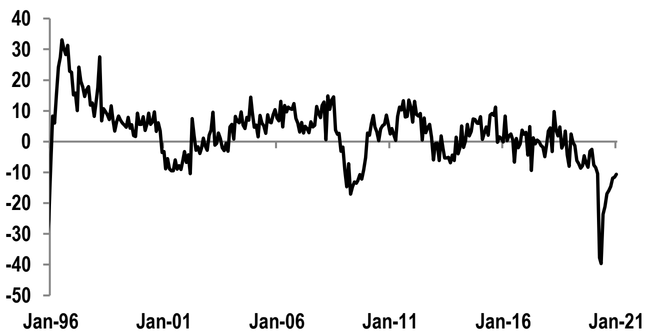
Gross Fixed Investment

Table 1: Gross fixed investment
% y/y nsa

	nsa				sa	
	Jan-21	Jan-20	2020	2019	Jan-21	Jan-20
Total	**-10.6**	**-7.6**	**-18.2**	**-4.6**	**-9.6**	**-8.6**
Construction	**-11.3**	**-6.0**	**-17.4**	**-3.3**	**-11.7**	**-7.4**
Residential	-8.9	-7.3	-15.0	-0.3	-8.8	-8.0
Non-residential	-13.5	-4.8	-19.7	-6.1	-14.8	-7.2
Machinery and equipment	**-9.5**	**-10.0**	**-19.3**	**-6.3**	**-5.0**	**-10.5**
Domestic	-13.0	-4.8	-23.5	-3.5	-9.6	-5.1
Transportation Equipment	-17.8	-7.6	-28.6	-4.4	-14.0	-7.4
Other machinery and equipment	-6.5	-0.8	-15.9	-2.2	-3.0	-1.1
Imported	-7.4	-12.9	-16.4	-8.1	-2.0	-13.6
Transportation Equipment	-22.0	-22.9	-35.3	-4.6	-20.7	-21.5
Other machinery and equipment	-5.4	-11.3	-13.1	-8.6	1.3	-12.2

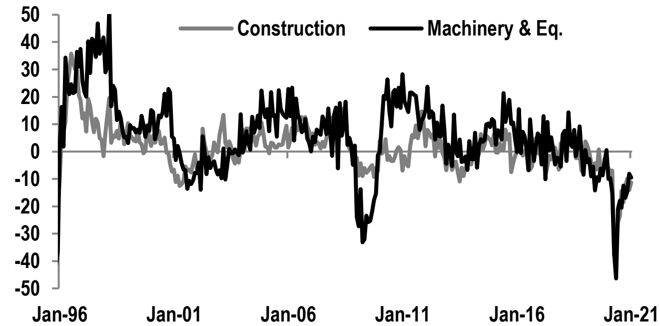
Source: INEGI

Chart 1: Gross fixed investment
% y/y



Source: INEGI

Chart 2: Gross fixed investment by sector
% y/y



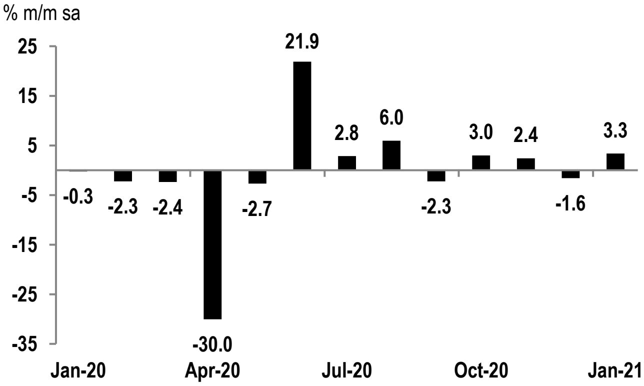
Source: INEGI

Table 2: Gross fixed investment
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jan-21	Dec-20	Nov-20	Nov'20-Jan'21	Oct-Dec '20
Total	**3.3**	**-1.6**	**2.4**	**15.4**	**19.1**
Construction	**2.9**	**-2.3**	**2.3**	**11.9**	**20.5**
Residential	0.8	-6.0	6.2	20.2	51.9
Non-residential	7.4	-2.6	1.0	7.5	5.2
Machinery and equipment	**4.2**	**-1.7**	**3.4**	**18.5**	**13.3**
Domestic	3.5	-1.4	2.2	15.2	13.3
Transportation Equipment	8.2	0.9	-0.5	8.2	-7.9
Other machinery and equipment	0.8	-0.7	2.4	13.2	25.6
Imported	4.0	0.0	2.1	19.8	14.9
Transportation Equipment	3.5	-4.5	2.7	26.8	29.2
Other machinery and equipment	4.8	0.8	1.7	21.8	17.8

Source: INEGI

Chart 3: Gross fixed investment
% m/m sa



Source: INEGI

Chart 4: Gross fixed investment
Index sa

Source: INEGI

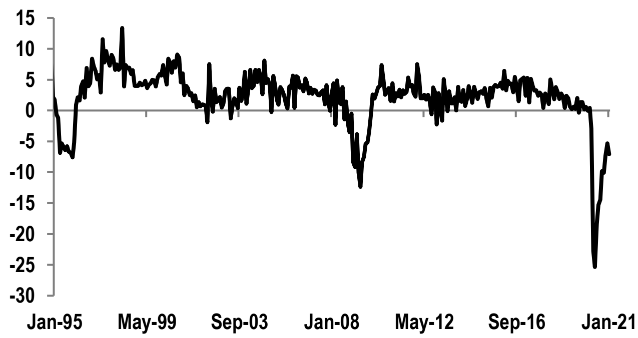
Private consumption

Table 3: Private consumption
% y/y nsa

	nsa				sa	
	Jan-21	Jan-20	2020	2019	Jan-21	Jan-20
Total	**-7.1**	**0.0**	**-11.0**	**0.9**	**-5.7**	**-0.3**
Domestic	**-8.2**	**-0.2**	**-10.5**	**0.7**	**-7.2**	**-0.3**
Goods	-2.1	-0.6	-6.6	-0.1	-0.2	-0.4
Durables	-8.0	3.9	-15.3	-3.0	--	--
Semi-durables	-9.7	1.0	-26.1	0.2	--	--
Non-durables	-0.2	-1.3	-1.6	0.3	--	--
Services	-14.3	0.2	-14.1	1.4	-14.1	0.1
Imported goods	**2.8**	**1.5**	**-15.1**	**3.1**	**8.7**	**0.1**
Durables	-3.6	-6.2	-27.0	1.6	--	--
Semi-durables	-18.3	-0.2	-16.0	4.4	--	--
Non-durables	19.2	9.7	-3.8	3.8	--	--

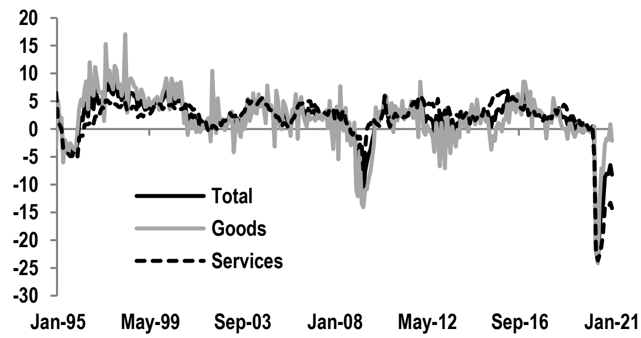
Source: INEGI

Chart 5: Private consumption
% y/y



Source: INEGI

Chart 6: Domestic consumption: Goods and services
% y/y



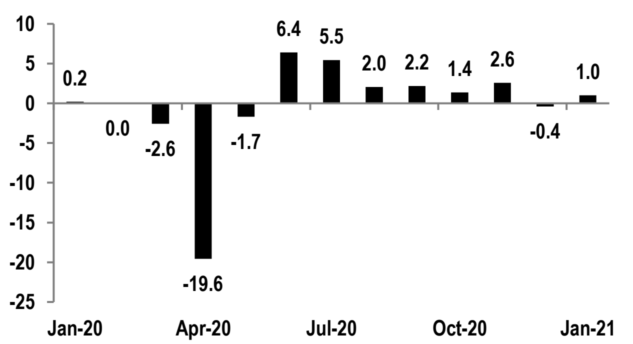
Source: INEGI

Table 4: Private consumption
% m/m sa; % 3m/3m sa

	% m/m			% 3m/3m	
	Jan-21	Dec-20	Nov-20	Nov'20-Jan'21	Oct-Dec '20
Total	**1.0**	**-0.4**	**2.6**	**4.3**	**5.2**
Domestic	**0.5**	**-0.3**	**0.3**	**2.2**	**4.0**
Goods	1.1	-0.4	1.0	2.8	3.5
Services	-0.1	0.6	0.4	2.0	3.9
Imported goods	**7.6**	**0.5**	**20.5**	**25.5**	**17.0**

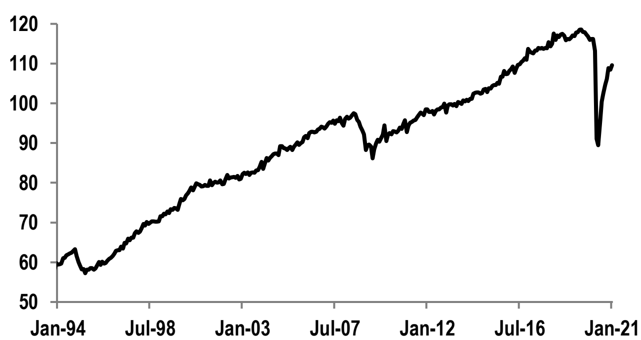
Source: INEGI

Chart 7: Private consumption
% m/m sa



Source: INEGI

Chart 8: Private consumption
Index sa



Source: INEGI

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.

Research and Strategy			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godinez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
Economic Research and Financial Market Strategy			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
Economic Research			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katia Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
Market Strategy			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
Fixed income and FX Strategy			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.orozco.velez@banorte.com	(55) 5268 - 1698
Equity Strategy			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
Corporate Debt			
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugoa.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
Economic Studies			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
Wholesale Banking			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Osvaldo Brondo Menchaca	Head of Specialized Banking Services	osvaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	alejandro.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.roldan.ferrer@banorte.com	(55) 5004 - 1454