Ahead of the Curve

We expect April's indicators of activity to stay strong

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- **Inflation (April).** We expect headline inflation at 0.27% m/m, below the 0.83% of the previous month. The period is characterized by marked seasonal pattern, influencing categories within both the core and non-core. In this sense, the former would stand at 0.36%, contributing 27bps. We expect pressures to remain centered on goods, highlighting an additional increase in tortilla prices. We estimate the latter at 0.00%, benefitted by summer discounts in electricity tariffs in the first fortnight, which subtracted almost 25bps. However, pressures in fresh fruits and vegetables would mostly compensate for this. If our forecast materializes, annual inflation would stand at 6.02% from 4.67% in March, its highest –in monthly frequency– since December 2017. However, this would be explained greatly by an adverse base effect due to the pandemic in 2020. The core would be unchanged at 4.12%, while the non-core would climb to 12.11% from 6.31%

- **IMEF indicators (April).** We expect both measures to keep gaining ground, remaining firmly in expansion territory (above the 50pts threshold). The manufacturing indicator would stand at 50.9pts from 50.7pts in March. In our view, this would be aided by further improvements on the virus. However, a strong limit for further progress will be persisting supply chains issues. The non-manufacturing could also improve, climbing to 53.0pts from an already high level of 52.8pts. We consider that drivers that may have a larger influence in this sector were mostly positive, with a boost from increased mobility, the *Easter* holiday, and further employment gains

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 3-May	10:00am	Family remittances	March	US$ mn	4,025.7	--	3,173.5
Mon 3-May	10:00am	Banxico's survey of economic expectations	April				
Mon 3-May	1:00pm	PMI's survey (IMEF)	April				
		Manufacturing		index	50.9	--	50.7
		Non-manufacturing		index	53.0	--	52.8
Tue 4-May	10:00am	International reserves	Apr-30	US$ bn	--	--	192.4
Wed 5-May	3:30pm	*Citibanamex* bi-weekly survey of economic expectations					
Fri 7-May	7:00am	CPI inflation	April	% m/m	0.27	0.27	0.83
				% y/y	6.02	6.02	4.67
		Core		% m/m	0.36	0.33	0.54
				% y/y	4.12	--	4.12
Fri 7-May	7:00am	Consumer confidence (sa)	April	index	40.9	--	40.4

Source: Banorte; Bloomberg

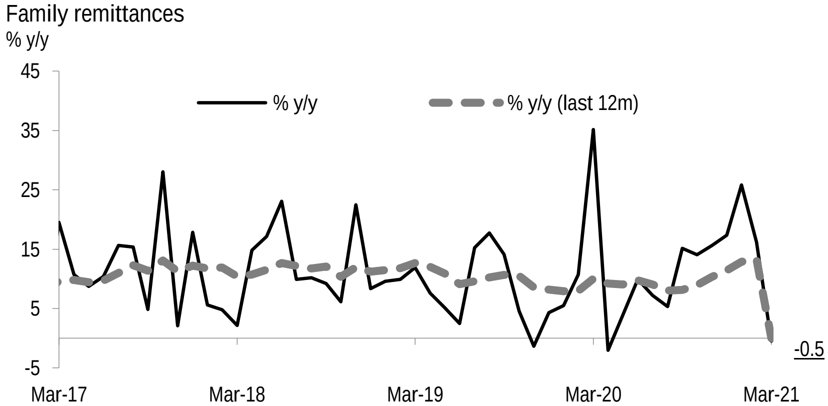
Proceeding in chronological order…

Strong remittances in March. We expect remittances at US$4,025.7 million, the highest amount in a year even with the annual rate moderating strongly, to -0.5% y/y. The latter would be explained by the massive inflow seen in the same period last year, an historical high (with the series available since 1995) driven by migrants' response to the start of the pandemic. Despite of this, the amount would still be elevated, supported by the latest stimulus package in the US. US$1,400 direct transfers were given to people earning less than US$75,000 a year, among other measures. In addition, restrictions were lifted on couples declaring jointly in which one of them is an illegal immigrant, with those households not receiving payments previously. Considering these factors, we believe their impact on remittances could be more favorable when compared to other stimulus packages.

On top of this, employment conditions in the US kept improving. The unemployment rate among Hispanics and Latinos declined to 7.9% from 8.5%, a more rapid decline than the general population. Working-age Mexican migrants declined by 61.1 thousand, suggesting some of them left the country. Nevertheless, we saw net job creation of 107.8 thousand –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–. Gains were centered in the second (+102.5 thousand) and third groups (+17.1 thousand), with the first one registering 11.8 thousand positions less. Moreover, 219.6 thousand people were classified as unemployed in the previous month left this category, which is also positive and consistent with an improvement in virus' dynamics, in turn supported by the acceleration in the pace of vaccinations, among other factors.

On other developments, pressures in the migratory front kept easing, with Biden's administration more tolerant on this front. Several reports showed that some of Trump's policies are still being implemented, while Mexico reached an agreement with the US to slow further migrant flows from Central America. The Mexican peso depreciated, averaging USD/MXN 20.76 from 20.31 in February, although we believe its (positive) effect is very weak. We reaffirm our view that remittances will keep growing strongly in 2021, up between 7% and 10% y/y. Nevertheless, risks are skewed to the upside as the US economy is reopening faster than expected. We will heed closely actual dynamics in coming months, particularly given the distortions from base effects, thinking that results will be key to assess their possible path for the remainder of the year.

Family remittances



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 4.14% y/y, lower than our 4.7%. In this sense, and based on our recent update and data, we do not rule out further upward adjustments. Medium and long-term expectations will likely remain unchanged, still above target. On GDP, this year's estimate stands at 4.5%, below our 5.3%. The current view on the reference rate by YE21 is that it will stand at 4.00%, implying no further adjustments. This contrasts with our forecast of a 25bps hike in December, to 4.25%. We could see some changes in forecasts as conviction is very low. Finally, the year-end exchange rate stands at USD/MXN 20.50 (Banorte: 20.20), which could remain slightly pressured, reflecting elevated volatility.

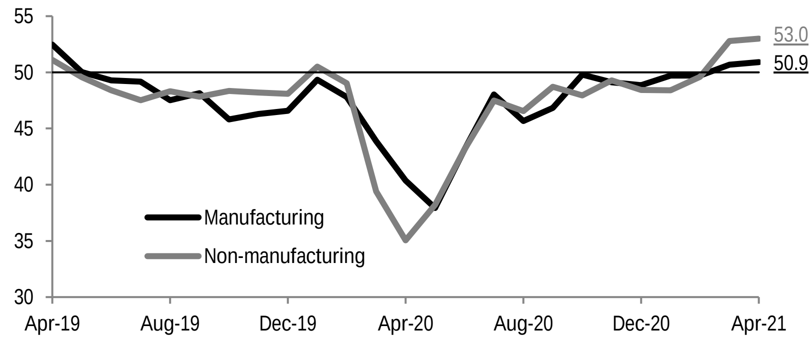
IMEF indicators to keep improving in April. We expect both measures to keep gaining ground, remaining firmly in expansion territory (above the 50pts threshold).

The manufacturing indicator would stand at 50.9pts from 50.7pts in March, stringing two months in expansion. In our view, this would be aided by further improvements on the virus –with less restrictions on activities under the traffic light indicator–. However, a strong limit for further progress will be persisting supply chains issues. In this sense, reports suggest additional shocks to key industries due to the lack of semiconductors, mainly in the auto sector. Externally, indicators in the US kept improving, with *Markit*'s manufacturing PMI for April climbing to 60.6pts, adding two months up. However, the report does signal some problems ahead. Among them, it mentions that production remains strong but is increasingly limited by the inability to secure raw materials. In addition, they stated that supply chain issues have exacerbated due to delays in unloading goods in ports. Nevertheless, on a medium-term basis, expectations remain positive, with hopes about the end of the pandemic influencing sentiment heavily. In this context, we expect modest gains in 'new orders', with 'production' more stable after strong gains in previous months. However, logistics issues could weigh on 'inventories' and 'deliveries'. Considering these factors, the outlook is still favorable, but some risks are materializing, a situation that could jeopardize an acceleration in the pace of the recovery.

Non-manufacturing could also improve, climbing to 53.0pts from an already high level of 52.8pts. If this is the case, it would be a new maximum since March 2018. We consider that drivers that may have a larger influence in this sector were mostly positive. As already mentioned, epidemiological conditions improved throughout most of the month, despite a very slight deterioration in some states in the last week. In addition, the *Easter* holiday may have been an additional tailwind, with press reports suggesting relevant upticks in hotel occupancy rates. We believe some of this optimism could have spilled over into other recreational services. Finally, and possibly most important, signals from the labor market remained strong, with more and more jobs recovered. This is key, as uncertainty for families decrease given increased income stability. As such, some of them could resume their usual consumption patterns, in turn, boosting activity.

Nevertheless, a key factor to the downside are price dynamics, which showed relevant pressures in essential goods such as tortillas and fruits and vegetables. All in all, we forecast slight increases in 'production' and 'employment'.

IMEF indicators
Diffusion indicators, sa



Source: IMEF, Banorte

Weekly international reserves report. Last week, net international reserves increased by US$126 million, closing at US$195.4 billion (please refer to the following table). According to Banxico's report, this was mainly explained by a positive valuation effect in institutional assets. So far this year, the central bank's international reserves have fallen by US$294 million.

Banxico's foreign reserve accumulation details
US$, million

	2020	Apr 23, 2021	Apr 23, 2021	Year-to-date
	Balance		lows	
International reserves (B)-(C)	195,667	195,373	126	-294
(B) Gross international reserve	199,056	201,911	266	2,854
Pemex	--	--	0	449
Federal government	--	--	-84	3,385
Market operations	--	--	0	0
Other	--	--	350	-980
(C) Short-term government's liabilities	3,389	6,538	139	3,148

Source: Banco de México

Annual inflation propped up by an adverse base effect. We expect headline inflation at 0.27% m/m, below the 0.83% of the previous month. In sequential terms, the period is characterized by marked seasonal pattern, influencing categories within both the core and non-core. In this sense, the former would stand at 0.36%, contributing 27bps. Meanwhile, we estimate the latter at 0.00%, benefitted by summer discounts in electricity tariffs in the first fortnight, which subtracted almost 25bps.

At the non-core and on a positive note, remaining categories in energy likely extended their favorable performance to the second fortnight, mainly helped by additional MXN strength. Specifically, we expect LP gas at -0.1%, with positive international price dynamics earlier in the month. Low-grade gasoline would climb modestly, just 0.5%, with international benchmarks volatile through the period, falling in 1H but up in the second half. Subsidies on excise taxes fell slightly, averaging around $1.56 per litter in the period. However, high-grade would remain more pressured at +1.6%, with no fiscal stimulus and still catching up relative to its usual spread with low-grade.

Turning to agricultural prices, reports have surfaced of relevant impacts from droughts in several states and other meteorological phenomena disrupting crops. In this context, we should recall that fresh fruits and vegetables showed a considerable correction higher in the first fortnight. Based on our monitoring, we expect a mild pullback in 2H. Specifically, it showed declines in tomatoes, onions and potatoes, partially compensated by higher avocado prices. Lastly, meat and egg would be somewhat pressured at 1.1%, with rising grain prices (mainly corn, which is also impacting tortillas, as detailed below) pressuring production costs, in turn, resulting in higher poultry prices.

In the core component, services would be relatively modest at +0.2%. Seasonality after the *Easter* holiday would still benefit tourism-related sectors, with additional declines in the second half. Housing would remain contained, with slack still weighing. On the contrary, we keep anticipating adjustments higher in other items, including restaurants and dining away from home, with pass-through from raw materials (*e.g.* energy and food) driving prices. Meanwhile, goods would stay pressured at 0.5%. Within processed foods (0.5%) we again expect upward adjustments in tortilla prices, rising in tandem with references for corn. In addition, other items could also be skewed up due to rising in other input costs. Lastly, other goods would climb 0.4%, also with evidence of some pass-through.

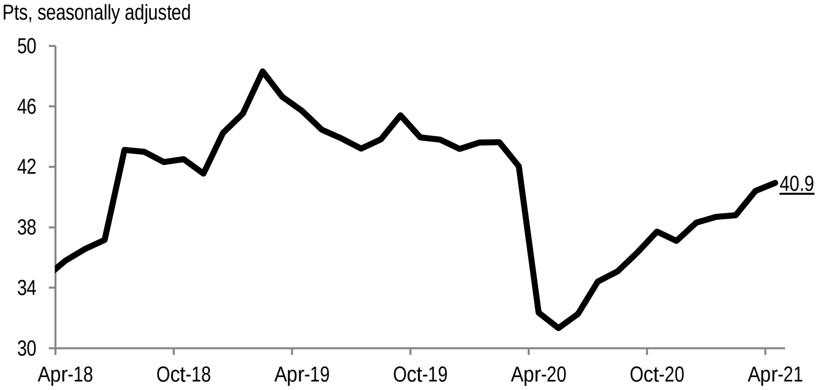
If our forecast materializes, annual inflation would stand at 6.02% from 4.67% in March, its highest –in monthly frequency– since December 2017, year in which energy prices were liberalized. However, this would be explained greatly by an adverse base effect due to the pandemic in 2020, with plummeting energy prices taking headline inflation to 2.15% in said year. Back to 2021, the core would be unchanged at 4.12%, while the non-core would climb significantly to 12.11% from 6.31%. After this, we expect CPI to trend down close to 4.0% in August as base effects fade away, albeit only to pick up again through 4Q21 to reach 4.7% by the end of this year.

Consumer confidence to keep pushing higher in April. We expect confidence at 40.9pts (seasonally adjusted), extending last month's improvement. In our view, developments remained mostly positive in the period, especially regarding the virus. During the survey period (which ends on the 20th of the month), epidemiological conditions kept improving, with the traffic light indicator reaching its best levels since implemented. Nevertheless, we warn that a slight deterioration was observed in the last week of the month, with mild upward trends in several states. However, the national trend continues declining. Moreover, the vaccination process gathered steam, with the 7-day moving average reaching a high of 430.8 thousand daily doses on April 18th, moderating slightly afterwards but close to 300 thousand per day. We hope this translates into increased activity, and as a result, boosts confidence. Another factor that may have supported sentiment is the MXN, with downward trend throughout the period with relatively modest volatility –especially in comparison to more relevant swings in March–, reaching as low as USD/MXN 19.82 on the 19th.

On a more negative note, we will lose some of the support from social program payments which were brought forward to March, a situation that might hit confidence at the margin. Moreover, price dynamics continued to be adverse, as portrayed by inflation in the first half of the period. While energy was more modest, even with a decline in LP gas prices, fresh fruits and vegetables shot up. While these factors are relevant, we believe positive developments will outweigh for them. In addition, some pressures persisted in processed foods, mainly tortillas, which is an especially sensitive staple for consumers. We also note that the electoral season starts to come into play, with most campaigns starting on April 5th. In this sense, we do not rule out a slight skew up as candidates pitch their campaign proposals. In this context, net presidential approval according to *Oraculus* rebounded slightly to 32% from 31% in the previous two months.

Looking ahead, we expect confidence to continue growing at a gradual pace, still tied to economic and labor market performance, which have shown positive results up to March. Moreover, considering strength in remittances and other favorable domestic developments, the acceleration could be faster than expected. On the contrary, some risks remain, including shocks to supply chains and the possibility of a new uptick in COVID-19 cases.

Consumer confidence
Pts, seasonally adjusted



Source: Banorte with data from INEGI

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