Ahead of the Curve

We expect favorable signals of activity going into 2Q21

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- **Retail sales (March).** We anticipate a 1.8% y/y expansion from -6.3% in the previous month. This would be its first positive print since February 2020, influenced by the start of the pandemic exactly one year before, which distorts annual figures heavily. Moreover, we see a stronger performance also in seasonally adjusted terms, anticipating 2.9% m/m from 1.6% in February. It is our take that the main support would be better COVID-19 dynamics, with the 'traffic light' indicator reaching its best levels so far –at least until then, albeit extending the improvement through April. This has already been reflected in timely indicators –including ANTAD sales and trade balance flows– and is also supported by improving fundamentals

- ***Timely Indicator of Economic Activity* (April).** This release includes initial estimates for April, along revised figures for March. We expect March's forecast, currently at -2.1%, to be revised upwards. This is driven by data published since –including the 1Q21 preliminary GDP and industrial production. Moreover, April could show an additional uptick, helped by the *Easter* holiday. However, some concerns remain in industry, especially manufacturing. This is mainly due to rising disruptions in shipments and lack of raw materials, which are affecting supply chains

Mexico weekly calendar

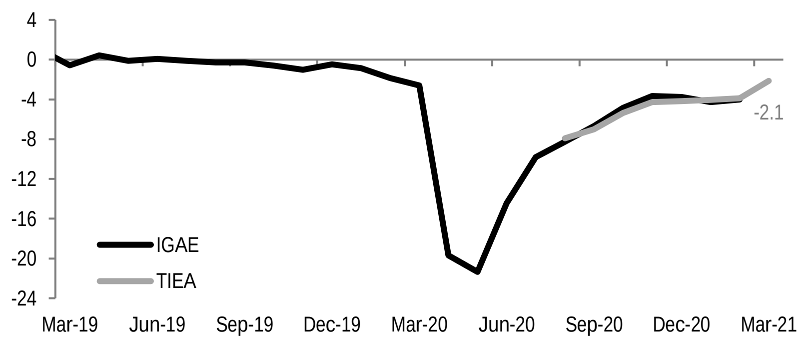
DATE	HOUR (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 18-May	7:00am	Timely Indicator of Economic Activity (sa)	April	% y/y	--	--	-2.1
Tue 18-May	10:00am	International reserves	May-14	US$ bn	--	--	195.1
Thu 20-May	4:30pm	Citibanamex bi-weekly survey of economic expectations					
Fri 21-May	7:00am	Retail sales	March	%	1.8	--	-6.3
		Sa		%	2.9	--	1.6

Source: Banorte; Bloomberg

Proceeding in chronological order...

Activity in April to keep rising, albeit still with lingering issues for industry. INEGI will release its *Timely Indicator of Economic Activity* for April, along revised figures for March. We recall that February's mid-point forecast stood at -3.9% y/y (using seasonally adjusted figures), practically in line with the actual print of -4.0% in the GDP-proxy (IGAE). We expect March's forecast, currently at -2.1%, to be revised upwards. This is driven by data published since –including the 1Q21 preliminary GDP and industrial production–. Moreover, April could show an additional uptick, helped by the *Easter* holiday. However, some concerns remain in industry, especially manufacturing. This is mainly due to rising disruptions in shipments and lack of raw materials which are affecting supply chains. This is consistent with IMEF's PMIs, showing disparities among sectors. On the other hand, latest ANTAD data supports a better performance in services.

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



Source: INEGI

Weekly international reserves report. Last week, net international reserves decreased by US$139 million, closing at US$195.1 billion (please refer to the following table). According to Banxico's report, this was explained by: (1) US$375 million sales to the Federal Government; and (2) by a positive valuation effect in institutional assets of US$236 million. So far this year, the central bank's international reserves have fallen by US$538 million.

Banxico's foreign reserve accumulation details
US$, million

	2020	May 7, 2021	May 7, 2021	Year-to-date
	Balance		lows	
International reserves (B)-(C)	195,667	195,129	-139	-538
(B) Gross international reserve	199,056	201,785	-114	2,728
Pemex	--	--	0	449
Federal government	--	--	-13	3,210
Market operations	--	--	0	0
Other	--	--	-101	-931
(C) Short-term government's liabilities	3,389	6,656	24	3,267

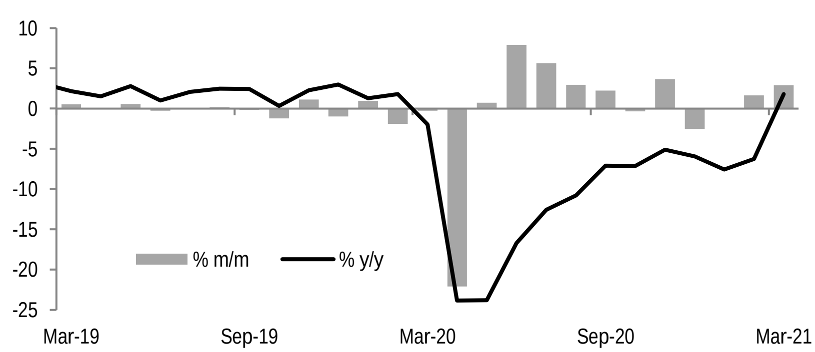
Source: Banco de México

Retail sales to keep a good pace in March, with annual rates distorted by the pandemic. We anticipate a 1.8% y/y expansion from -6.3% in the previous month. This would be its first positive print since February 2020, influenced by the start of the pandemic exactly one year before, which distorts annual figures heavily. Moreover, there are other effects that help, including: (1) One more working day in the annual comparison; (2) no negative effect from the leap year in 2020; and (3) the beginning of the *Easter* holiday at the end of the period. Despite all of these, we see a better performance also in seasonally adjusted terms, anticipating growth of 2.9% m/m from 1.6% in February. It is our take that the main support would be better COVID-19 dynamics, with the 'traffic light' indicator reaching its best levels so far –at least until then, albeit extending the improvement through April.

Other indicators clearly show this improvement. Among them, total sales by ANTAD members grew 3.9% y/y in real terms despite sensibly higher inflation in the period (also due to a base effect). It is worth recalling that in March of last year, purchases of essential goods surged at the expense of non-essentials. Hence, this time around, supermarket sales were quite weak (-15.5%) but departmental much higher (35.5%). This is important as the headline will likely be dampened by the bigger relative share of supermarkets (essential goods) in INEGI's data. Nonetheless, finished vehicle sales were up 9.1% (vs -21.1% in the previous month), while non-oil consumption goods imports skyrocketed to 27.3% (previous: +0.2%).

Broadly speaking, it is our take that the evolution of other fundamentals was net positive, signaling a good performance despite also been mired by distortions. Among them, remittances kept growing at a brisk pace, and employment recovered after declining slightly at the start of the year. Moreover, consumer confidence has shown resiliency. One potentially key support was also that the federal government brought forward the payments from key social programs to this month to comply with electoral season restrictions. On the contrary, two factors stand out as possibly limiting the rebound. First, inflation pressures, with some increasingly relevant adjustments on goods apart from the earlier rebound in energy prices –which also affect discretionary spending. Second, challenges for credit growth, likely as uncertainty about the future (especially COVID-19) is still elevated.

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



Source: INEGI, Banorte

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