Ahead of the Curve

INEGI's Timely Indicator will likely point to further economic strength in May

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- ***Timely Indicator of Economic Activity* (May).** This release will include the first estimate for May, along revised figures for April. We expect the latter to be revised slightly upwards, mainly as the latest IP report was better than expected. Moreover, May could keep showing dynamism, with sentiment data signaling positive trends, including INEGI's business confidence and aggregate trend indicators, among others
- **Aggregate supply and demand (1Q21).** We expect both aggregate supply and demand to show a 2.6% y/y contraction. Despite a complex backdrop at the start of the year –with a deterioration in the number of COVID-19 cases and the worsening of the 'traffic light' indicator, on top of the shock from blackouts and lack of natural gas in mid-February–, activity managed to maintain positive dynamism, accelerating relative to the last quarter. However, annual rates for most sectors should remain in negative territory, considering that the impact from the pandemic last year was seen with greater strength only towards the end of the quarter. We see imports at 0.2%, outpacing exports on the demand side at -1.1%. Moreover, we estimate both consumption and investment at -4.9%, while government spending is likely to have remained positive, at 1.1%

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Tue 15-Jun	10:00am	International reserves	Jun-11	US$ mn	--	--	193.8
Thu 17-Jun	7:00am	Timely Indicator of Economic Activity (sa)	May	% y/y	--	--	20.6
Fri 18-Jun	7:00am	Aggregate supply and demand	1Q21	% y/y	-2.6	--	-5.1
		Private consumption		% y/y	-4.9	--	-7.2
		Investment		% y/y	-4.9	--	-12.7
		Government spending		% y/y	1.1	--	1.6
		Exports		% y/y	-1.1	--	3.7
		Imports		% y/y	0.2	--	-7.1

Source: Banorte; Bloomberg

Proceeding in chronological order…

Weekly international reserves report. Last week, net international reserves decreased by US$399 million, closing at US$194.2 billion (please refer to the following table). According to Banxico's report, this was explained by: (1) US$375 million in sales to the Federal Government; and (2) a negative valuation effect in institutional assets of US$24 million. So far this year, the central bank's international reserves have fallen by US$1.9 billion.

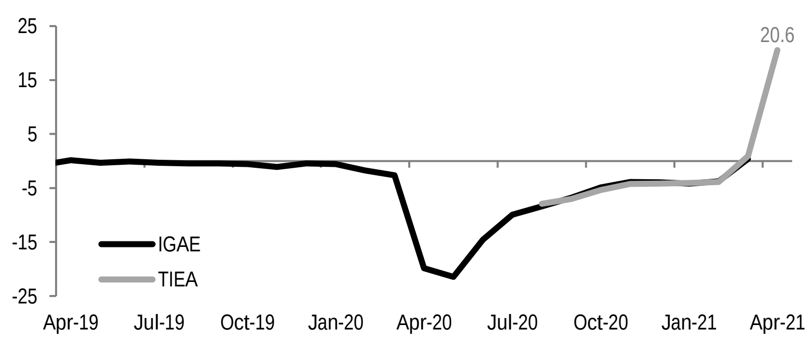
Banxico's foreign reserve accumulation details
US$, million

	2020	Jun 4, 2021	Jun 4, 2021	Year-to-date
	Balance		Lows	
International reserves (B)-(C)	195,667	193,770	-399	-1,897
(B) Gross international reserve	199,056	199,443	-670	387
Pemex	--	--	0	449
Federal government	--	--	-30	484
Market operations	--	--	0	0
Other	--	--	-640	-546
(C) Short-term government's liabilities	3,389	5,673	-271	2,284

Source: Banco de México

Activity in May to keep trending up, with the recovery keeping momentum. INEGI will release its *Timely Indicator of Economic Activity* for May, along revised figures for April. We recall that March's mid-point forecast stood at 0.9% y/y (using sa figures), above the actual print of 0.4% in the GDP-proxy (IGAE). We expect April's forecast, currently at 20.6%, to be revised slightly upwards. This is driven by data published since –especially the latest IP report–, which has been better than expected. Moreover, May could keep showing dynamism, with sentiment data signaling positive trends, including INEGI's business confidence and aggregate trend indicators, along IMEF's PMIs, with both categories stronger in the latter. This would be positive for industry, as in our opinion it remains as the sector with most challenges currently.

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



Source: INEGI

Aggregate demand in 1Q21 to show an additional improvement despite a complex backdrop. We expect both aggregate supply and demand to show a 2.6% y/y contraction, better than the -5.1% of the previous quarter. Despite a complex backdrop at the start of the year –with a deterioration in the number of COVID-19 cases and the worsening of the 'traffic light' indicator, on top of the shock from blackouts and lack of natural gas in mid-February–, activity managed to maintain positive dynamism, accelerating relative to the last quarter.

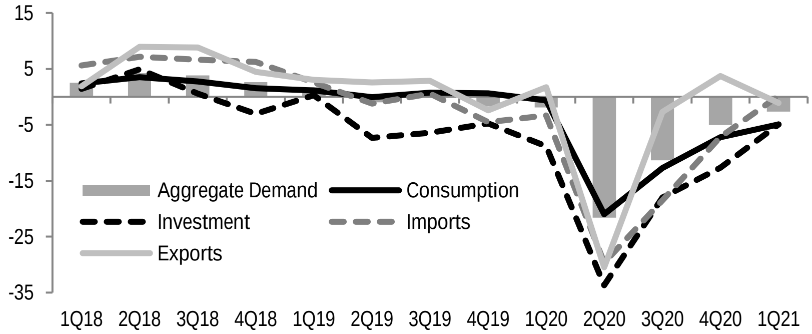
However, annual rates for most sectors should remain in negative territory, considering that the impact from the pandemic last year was seen with greater strength only towards the end of the quarter.

On the supply side, and as already published, GDP fell 3.6% y/y, with sequential growth in both industry and services. Meanwhile, we expect imports to have returned to positive territory, at +0.2%. These started 2021 still relatively weak; however, they surprised strongly to the upside in March –both in annual and sequential terms–, alluding to a recovery in domestic demand. As a result, and measured in USD at current prices, both the trade balance –which only considers goods– and current account –which also includes services– grew between 7-8% during the quarter. Considering peso weakness (depreciating 1.6% y/y), results in local currency would tend to be even higher. However, this is reduced when we acknowledge that the measurement in this indicator is only in real value added.

Turning to demand, available data so far suggest an improvement in domestic components relative to our previous expectations, notably in investment. However, a stronger rebound will prevail in those components linked more to the external sector. Specifically, we expect exports at -1.1% y/y. Although this is lower than the +3.7% of the previous quarter, it is mainly explained by a more challenging base effect. Making a similar analysis as for imports, the trade balance showed a 4.7% increase in MXN (previous: +12.5%), albeit the current account expanded only 1.7% (previous: 9.2%). The latter is explained mainly by revenue from services, highlighting tourism. Meanwhile, this is probably linked to difficulties still present due to COVID-19 during a large part of the period. Overall, we expect figures to continue showing good dynamism because of strength from abroad (especially in trade of international goods), with fiscal and monetary stimulus in the US key for this.

Meanwhile, the monthly indicator for consumption accumulated a 5.1% y/y contraction in the quarter. We saw a slowdown in January and February but a much better performance in March. Consistent with other sectors, imported goods were the strongest. Taking this into account, as well as some methodological differences between aggregate demand and the first indicator –especially in services, we expect a 4.9% contraction. In investment, the monthly indicator came in at -4.9% y/y (same link above), expecting the print within aggregate demand at the same level. We saw a good performance in non-residential construction and imported machinery and equipment. Finally, we expect +1.1% in government spending, with a more complex base effect, albeit with federal public finance indicators very positive, with current spending up 7.2% y/y in real terms.

Aggregate demand
% y/y, nsa



Source: INEGI, Banorte

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