

Aggregate supply and demand – Growth in 1Q21 amid a complex start of the year

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- **Aggregate supply and demand (1Q21): -2.9% y/y (nsa); Banorte: -2.6%; consensus: -2.5% (range: -3.1% to -1.0%); previous: -5.0%**
- **We should remember that the annual comparison has significant distortions, ranging from the effect of the leap year in 2020, the timing of the start of the *Easter* holiday, and the first shocks from the pandemic**
- **In sequential terms, aggregate supply and demand advanced 2.0% q/q. Inside, we saw relevant gains in imports (5.9%) and investment (5.3%). Consumption also advanced, but was more moderate (2.9%), with exports in contraction (-3.3%) given an adverse backdrop, including blackouts and the lack of natural gas in February**
- **We maintain our forecast of a 5.9% GDP expansion in 2021. We believe domestic demand could be showing greater dynamism, helping to offset for risks in industry**

Aggregate supply and demand still with an annual contraction in 1Q21.

These backtracked 2.9% y/y, slightly below our forecast (-2.6%) and consensus (-2.5%). Annual figures are distorted by several factors, including: (1) The leap year in 2020, subtracting a day in the annual comparison; (2) the timing of the start of the *Easter* holiday, which in this period skews figures for March; and (3) the first shocks from the pandemic in the previous year. Therefore, with seasonally adjusted figures the contraction stands at -2.0% y/y ([Chart 1](#)), consistent with the prevailing deceleration triggered by COVID-19. Nevertheless, by comparing it to the -5.1% from 4Q20, it also reflects additional reopening efforts despite a challenging start for the year. Back to nsa figures and focusing on supply, [GDP fell 3.6% y/y](#), as already known. Meanwhile, imports improved substantially to -1.0%, with a rise in goods (-1.3%) albeit with services lagging (-25.9%). Going to demand, exports fell back into contraction at -4.3% ([Chart 4](#)), with a more challenging base effect in goods (1.3%), but also dragged by services (-43.1%). We believe this partly reflects shocks from blackouts and the lack of gas in February, as well as the lack of key inputs. In the domestic front, investment gained rhythm by standing at -4.9% ([Chart 3](#)), highlighting the private component (-4.7%), with the public one more limited at the margin (-4.9%). Consumption stood at -4.2%, possibly lagging due to the renewed wave of lockdowns at the start of the year. Weakness persisted in services, both domestic (-11.9%) and imported (-36.1%), relative to goods ([Table 1](#)). Lastly, government spending stood at -0.7%, decelerating given a more complex base.

Sequential dynamics show that the recovery continued, albeit at a slower pace. Aggregate supply and demand grew 2.0% q/q, lower than the +5.1% of 4Q20 ([Table 2](#)). Although this is influenced by a more challenging base of comparison as the recovery matures, we believe it is also associated to a more complex backdrop, especially due to worsening epidemiological conditions. In this sense, within demand consumption barely grew 2.9%. We think that the larger effect of the deterioration of the virus centered here. The domestic component stood at 1.1%, with the imported one stronger at 11.5% ([Chart 5](#)).

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With this, the gap between both decreased at the margin, remembering that the second category was most impacted at the start of the pandemic. Investment surprised higher and showed a more significant acceleration at 5.3%. Looking at the breakdown, the private sector outperformed at 6.3% ([Chart 6](#)), possibly due to continuity in construction despite more restrictions, remembering that this remains as an essential activity. Nevertheless, considering monthly data, imported machinery and equipment also posted a good performance. Meanwhile, the public component declined 1.5%, contrasting with our view of an acceleration before the electoral season. Meanwhile, government spending came in at 0.5% ([Chart 7](#)), possibly reflecting more clearly the acceleration due to the latter and being relatively consistent with figure seen in the federal public finance report and due to regulatory restrictions before the election.

Going to supply, imports accelerated strongly, at 5.9% ([Chart 8](#)). The figure was boosted mainly by strength in March, in line with other signals globally. In a relevant fashion, inventories also increased (37.6%). Considering performance within consumption, this suggest that a large part of the first ones were destined to this category, offsetting for a decline in the previous quarter. However, reports over delays in customs and other logistics' issues remain, leading us to not rule out new decreases going forward. Lastly, and as it had already been reported, GDP rose 0.8%, with services leading the way.

We still anticipate GDP to grow 5.9% this year. In our opinion, the report shows a pretty resilient economy at the start of the year, weathering important shocks that dampened the pace of recovery. Although the external sector was a very important support, domestic components also showed a more vigorous recovery than anticipated, especially in investment.

The latter is relevant given that we believe that said sector continues to face more challenges, both temporary as well as more structural. In the short-term, uncertainty about the recovery seems to be fading away relatively quickly. The latter, along greater optimism about a rebound in the US could attract more capital to our country. Nevertheless, and more fundamental, risks prevail. Among the most pressing issues are uncertainty about the rule of law and other political topics, especially some anti-market proposals outlined by legislators. This is reflected in the [opinion of analysts surveyed by Banxico](#), considering that the main obstacles for growth come from governance issues.

For consumption, a further extension in fundamentals will be key to trigger a greater acceleration, especially in a backdrop in which virus' conditions have allowed for a greater reopening. Among them we highlight [remittances](#), with an extraordinary performance at least since the pandemic began and that has extended to 2021. In addition, [employment maintains a trend of recovery](#), registering 2.6 million new jobs so far this year. We expect his to extend to following months. In our opinion, the improvement in epidemiological conditions and progress on vaccinations will result in adjustments to recent consumption patterns, with a larger skew towards services over goods as we approach "normality".

Despite of this, the main driver behind the recovery will be the external sector, highly benefited by unprecedented stimulus in the US, boosting demand. Moreover, there is an expectation of additional measures, both on infrastructure and on social issues, which could result in an additional boost. On the contrary, some limits could exist to satisfy said demand given strong shocks to supply chains and logistics' issues. This could have a specific effect on manufacturing by at least limiting their capacity to grow or even dampening the recovery of levels utilized capacity. Despite of the latter, we remain optimistic, with some sectors showing already some progress to eliminate bottlenecks.

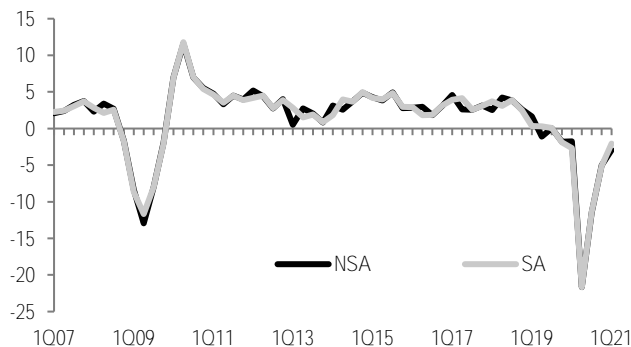
In this context, we maintain our GDP growth forecast at 5.9% in 2021, with an acceleration in the sequential recovery in the second quarter given more favorable conditions. After this, and considering more challenging base effects, the pace of expansion would moderate at the margin. Despite of the latter, we believe we could even see a more vigorous rebound in the year, with most recent figures skewing towards a more robust performance than anticipated.

Table 1: Aggregate demand
% y/y nsa, % y/y sa

	% y/y nsa						% y/y sa	
	1Q21	4Q20	1Q20	4Q19	2020	2019	1Q21	4Q20
Aggregate supply	-2.9	-5.0	-1.8	-1.8	-10.0	-0.3	-2.0	-5.1
GDP	-3.6	-4.5	-1.3	-0.7	-8.3	-0.2	-2.8	-4.6
Imports	-1.0	-6.6	-3.1	-4.6	-14.6	-0.7	0.7	-6.7
Goods	0.3	-5.0	-2.7	-4.2	-13.4	-0.7	--	--
Services	-25.9	-38.7	-10.8	-11.8	-36.4	-0.3	--	--
Aggregate demand	-2.9	-5.0	-1.8	-1.8	-10.0	-0.3	-2.0	-5.1
Private consumption	-4.2	-7.3	-0.7	0.4	-10.5	0.4	-3.4	-7.4
Domestic	-6.6	-7.7	-0.8	0.0	-10.6	0.4	-5.7	-7.7
Goods	-1.1	-1.2	-0.1	-0.5	-6.7	-0.6	0.3	-1.2
Services	-11.9	-13.9	-1.5	0.4	-14.2	1.4	-11.9	-14.1
Imported	7.6	-9.3	-1.9	4.6	-16.3	2.5	7.4	-9.3
Goods	8.9	-8.0	-1.5	5.0	-15.1	3.1	--	--
Services	-36.1	-51.0	-14.7	-5.9	-51.6	-13.4	--	--
Government spending	-0.7	1.6	3.2	-0.4	2.3	-1.3	-0.7	1.7
Investment	-4.9	-12.9	-8.8	-4.8	-18.3	-4.7	-4.9	-12.8
Private	-4.7	-14.3	-9.0	-3.4	-19.7	-3.2	-4.8	-14.2
Public	-6.1	-4.7	-7.2	-12.2	-8.6	-13.6	-6.1	-5.0
Exports	-4.3	3.7	1.7	-2.4	-7.3	1.5	-4.2	3.7
Goods	-1.3	6.7	2.6	-2.4	-4.7	1.2	--	--
Services	-43.1	-38.9	-9.0	-2.3	-42.1	5.2	--	--
Inventories	57.1	-3.4	-14.9	-28.6	-14.2	-22.6	145.6	-4.0
Statistical discrepancy	NA	-65.0	NA	-31.5	-81.6	2.8	--	--

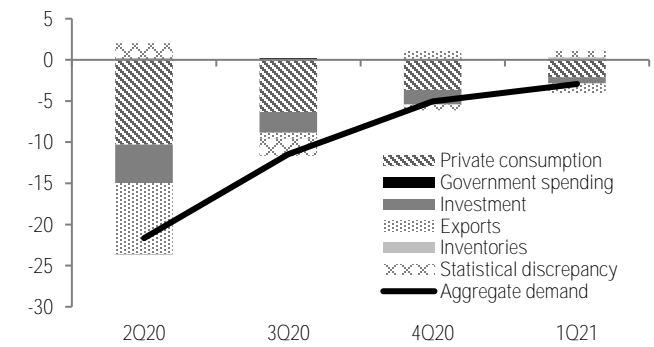
Source: INEGI

Chart 1: Aggregate demand
% y/y nsa, % y/y sa



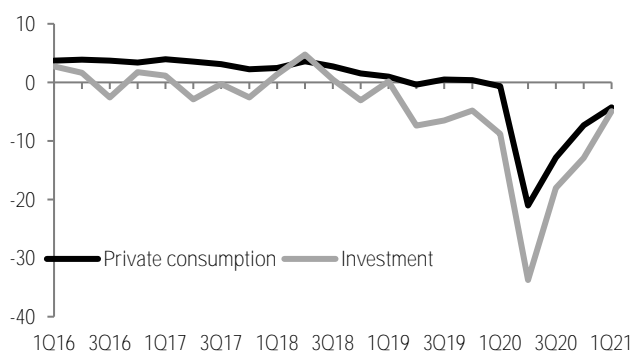
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Chart 2: Aggregate demand
% y/y, contribution to the annual change, nsa



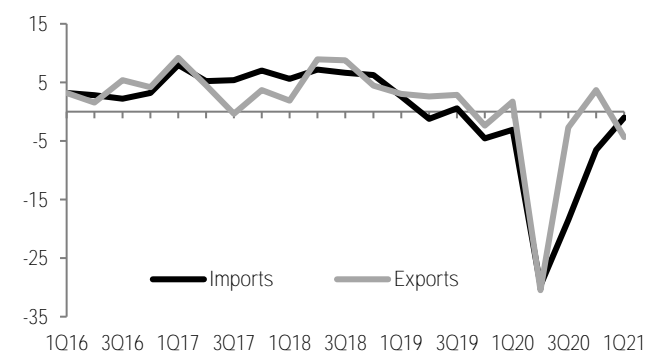
Source: INEGI

Chart 3: Private consumption and investment
% y/y nsa



Source: INEGI

Chart 4: Exports and imports
% y/y nsa



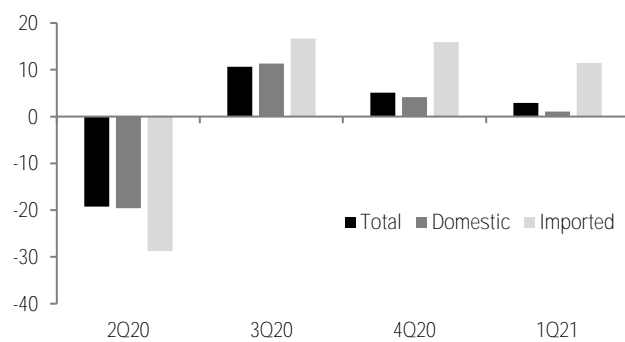
Source: INEGI

Table 2: Aggregate supply and demand
% q/q sa, % q/q saar

	% q/q sa				% q/q saar	
	1Q21	4Q20	3Q20	2Q20	1Q21	4Q20
Aggregate supply	2.0	5.1	13.5	-19.5	8.1	22.1
GDP	0.8	3.2	12.5	-16.9	3.1	13.5
Imports	5.9	9.6	17.3	-26.0	25.7	44.3
Aggregate demand	2.0	5.1	13.5	-19.5	8.1	22.1
Private consumption	2.9	5.1	10.7	-19.3	12.1	22.1
Domestic	1.1	4.2	11.3	-19.6	4.4	17.8
Goods	1.0	3.9	16.6	-18.0	4.1	16.5
Services	1.0	4.1	6.4	-21.3	4.1	17.6
Imported	11.5	15.9	16.7	-28.7	54.4	80.5
Government spending	0.5	-0.2	0.2	-1.1	1.9	-0.9
Investment	5.3	3.8	22.7	-29.1	22.7	16.1
Private	6.3	4.1	26.4	-32.0	27.8	17.6
Public	-1.5	2.0	0.0	-6.6	-5.8	8.0
Exports	-3.3	0.9	39.6	-29.7	-12.6	3.5
Inventories	37.6	-16.4	58.1	35.1	258.5	-51.2

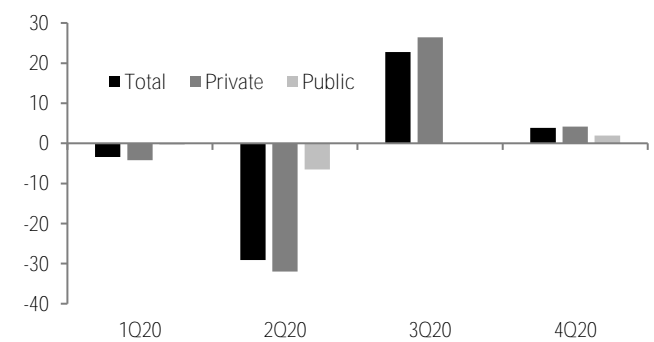
Source: INEGI

Chart 5: Private consumption
% q/q sa



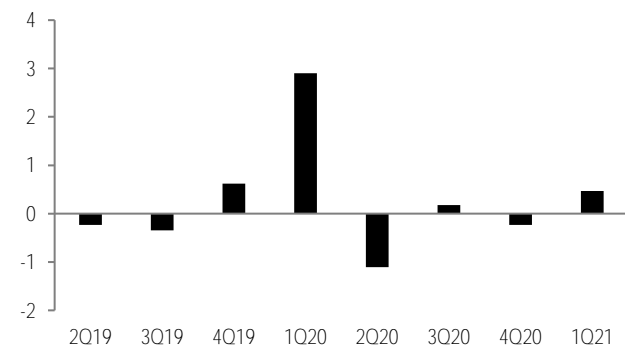
Source: INEGI

Chart 6: Investment
% q/q sa



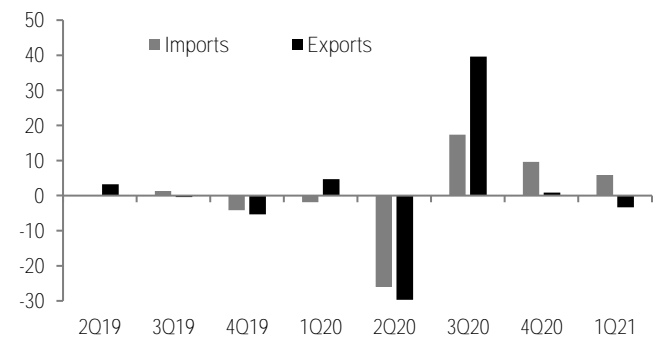
Source: INEGI

Chart 7: Government spending
% q/q sa



Source: INEGI

Chart 8: Exports and imports
% q/q sa



Source: INEGI

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