

## Ahead of the Curve

### We expect IP to rebound in May, led by manufacturing

- Industrial production (May).** Considering that distortions in annual terms prevail as the pandemic lockdowns drove activity to a near halt in April and May 2020, we expect a 37.4% y/y increase. In sequential terms activity would rise 0.5% m/m, more than compensating for the -0.2% of the previous month, with this metric more relevant to measure the state of the recovery, In addition, this would be better than the embedded forecast within [INEGI's Timely Indicator of Economic Activity](#). By sectors, manufacturing would lead the move higher at 1.5% m/m (previous: -0.5%), boosted by the external sector. Meanwhile, construction and mining would advance 0.4% each, with the former rebounding after a recent loss and the second one stringing two months to the upside

July 9, 2021

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 Document for distribution among the  
 general public

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 12-Jul	7:00am	Industrial production	May	% y/y	<u>37.4</u>	35.8	36.6
		sa		% m/m	<u>0.5</u>	--	-0.2
		Mining		% y/y	<u>6.8</u>	--	5.5
		Utilities		% y/y	<u>6.8</u>	--	-3.1
		Construction		% y/y	<u>39.7</u>	--	45.1
		Manufacturing		% y/y	<u>53.2</u>	48.7	52.0
Mon 12-Jul		Job creation affiliated to IMSS	June	thousands	--	--	39.0
Mon 12-Jul		ANTAD same-store sales	June	% y/y in real terms	--	--	26.5
Tue 13-Jul	10:00am	International reserves	Jul-9	US\$ bn	--	--	193.0

Source: Banorte; Bloomberg

Proceeding in chronological order...

**Industry to bounce back in May.** Considering that distortions in annual terms prevail as the pandemic lockdowns drove activity to a near halt in April and May 2020, we expect a 37.4% y/y increase. As in the previous month, the surge would be centered in construction and manufacturing, which were not ‘essential’ until June 2020. However, both utilities and mining will likely show higher growth rates. In sequential terms activity would rise 0.5% m/m, more than compensating for the -0.2% of the previous month, with this metric more relevant to measure the state of the recovery, In addition, this would be better than the embedded forecast within [INEGI’s Timely Indicator of Economic Activity](#).

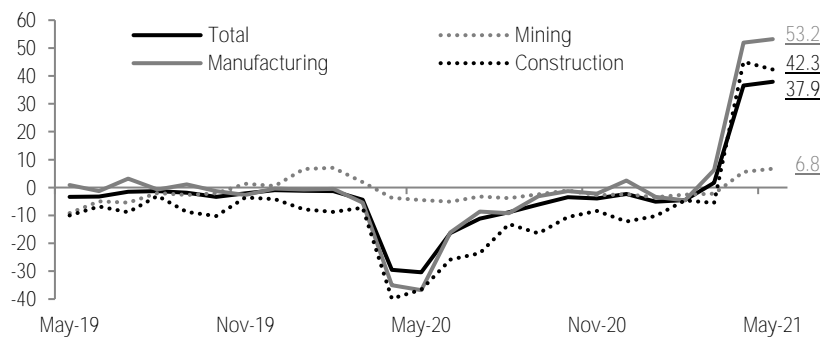
By sectors, manufacturing would lead higher at 1.5% m/m (+53.2% y/y), up from the -0.5% seen in April. Most available data suggest an acceleration despite prevailing supply chain issues which, in our view, keep dampening growth in some sectors. Among these, IMEF’s manufacturing PMI rose 1.5pts to 52.4pts, with relevant gains in ‘new orders’ and ‘production’, suggesting high dynamism. This is relatively similar to advanced data from the [trade balance](#), with exports in this category up 0.8% m/m on top of the +1.3% of the previous month. However, performance inside was mixed, with progress on autos but another decline in ‘other’. This is supported by US IP, also rising 0.8%, suggesting that strength from abroad continues to be a key driver. On a negative note, auto production declined to 241,442 from 269,180 in April, which considering additional working days suggests some waning dynamism, consistent with stoppages from several automakers in the period, including Nissan. Lastly, jobs were mixed, with figures from IMSS marginally up while [INEGI’s report](#) showed relevant losses.

In construction we forecast +0.4% m/m (39.7% y/y), rebounding after the -0.3% of the previous month. One key factor behind some of our optimism is the electoral period, possibly triggering additional spending in public works just ahead of the contest in early June. We should mention that public finance figures on physical investment –which fell 29.7% y/y in real terms in the period– could not reflect this as: (1) Most of the outlays are done at a municipal level; and (2) figures are heavily skewed as part of the pandemic aid was accounted for in this category in 2020. Also positive, INEGI’s aggregate trend index and business confidence kept rising, adding almost 11 consecutive months to the upside.

Lastly, we also estimate mining at +0.4% m/m (+6.8% y/y). According to the CNH, oil production stood at 1,683kbpd, slightly lower than the previous month, albeit with gas output gaining steam. We should remember that Mexico participated in the first round of oil cuts by OPEC+ last year, which results in some gains in annual terms. In the non-oil sector, we expect dynamism as high commodities prices continue supporting production.

Looking ahead, we maintain a positive view on industry despite lingering risks. These are mostly due to supply constraints and bottlenecks which keep impacting total output. However, demand looks strong, especially from the US as the effects from stimulus programs keeps permeating throughout the economy, even despite some additional threats as new COVID-19 variants spread across the globe.

Industrial production  
% y/y



Source: INEGI, Banorte

**Weekly international reserves report.** Last week, net international reserves increased by US\$134 million, closing at US\$193.0 billion (please refer to the following table). According to Banxico's report, this was explained by a positive valuation effect in institutional assets. So far this year, the central bank's international reserves have declined by US\$2.6 billion.

Banxico's foreign reserve accumulation details  
US\$, million

	2020		Jul 2, 2021		Year-to-date
	Balance		Lows		
International reserves (B)-(C)	195,667	193,020	134		-2,647
(B) Gross international reserve	199,056	199,094	173		38
Pemex	--	--	0		449
Federal government	--	--	-28		-465
Market operations	--	--	0		0
Other	--	--	201		54
(C) Short-term government's liabilities	3,389	6,073	39		2,684

Source: Banco de México

## Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldivar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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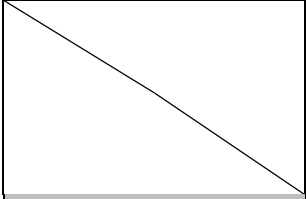
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<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

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