# Ahead of the Curve

## PMIs to signal a more difficult start of 3Q21 after GDP strength in the second quarter

July 30, 2021

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- **IMEF indicators (July).** We expect both to decline, even after a less vigorous performance in the previous month. We see several drivers behind this, including worsening epidemiological conditions and supply chain-issues. Despite of the retracement, both would stay in expansion (above 50pts). Specifically, we expect manufacturing at 51.9pts from 52.4pts in June, with signals from abroad mixed and reports of ongoing problems domestically. Non-manufacturing would decelerate to 53.0pts from 53.8pts, with the main driver being the additional deterioration on the virus

- **Family remittances (June).** We expect remittances at US$4,356.2 million (+23.2% y/y), moderating relative to May's historical high of US$4,514.6 million. The seasonal effect is less favorable, so this would still be a very good result. The main driver would be US economic strength, still with a substantial boost from fiscal stimulus. In our view, direct transfers and other unemployment programs have been key for higher dynamism, helping offset for a moderation in employment conditions. We reiterate our call that remittances will maintain brisk growth in 2021, expecting an accumulated flow this year between US$48.0 and US48.5 billion



Mexico weekly calendar

| DATE | TIME (ET) | EVENT | PERIOD | UNIT | BANORTE | CONSENSUS | PREVIOUS |
|---|---|---|---|---|---|---|---|
| Mon 2-Aug | 10:00am | Family remmittances | June | US$ mn | 4,356.2 | 4356.2 | 4,514.6 |
| Mon 2-Aug | 10:00am | Banxico's survey of economic expectations | July | | | | |
| Mon 2-Aug | 1:00pm | PMI's survey (IMEF) | July | | | | |
| | | Manufacturing | | index | 51.9 | -- | 52.4 |
| | | Non-manufacturing | | index | 53.0 | -- | 53.8 |
| Tue 3-Aug | 7:00am | Consumer confidence (sa) | July | index | 44.7 | -- | 44.5 |
| Tue 3-Aug | 10:00am | International reserves | Jul-30 | US$ bn | -- | -- | 193.2 |
| Thu 5-Aug | 3:30pm | Citibanamex bi-weekly survey of economic expectations | | | | | |
| Fri 6-Aug | 7:00am | Gross fixed investment | May | % y/y | 46.6 | 45.1 | 43.1 |
| | | sa | | %m/m | 0.7 | -- | -0.9 |
| | | Machinery and equipment | | % y/y | 57.8 | -- | 49.6 |
| | | Construction | | % y/y | 38.9 | -- | 38.4 |
| Fri 6-Aug | 7:00am | Private consumption | May | % y/y | -- | -- | 25.5 |
| | | sa | | %m/m | -- | -- | 1.2 |
| | | Domestic (Goods and services) | | % y/y | -- | -- | 23.5 |
| | | Imported (Goods) | | % y/y | -- | -- | 45.6 |

Source: Banorte; Bloomberg

Proceeding in chronological order…

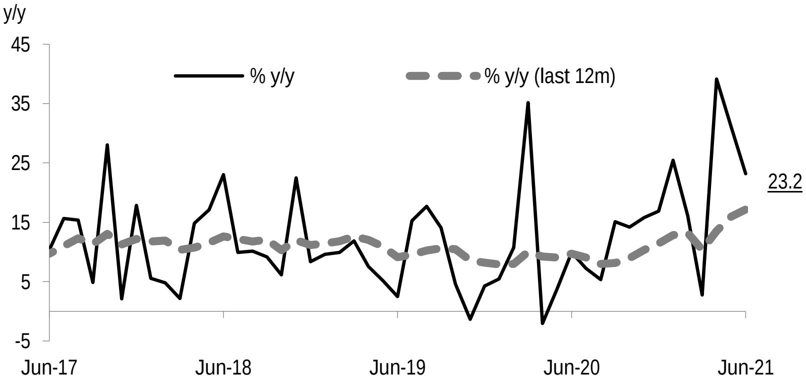
**Remittances to remain strong in June.** We expect remittances at US$4,356.2 million (+23.2% y/y), moderating relative to May's historical high of US$4,514.6 million. The seasonal effect is less favorable in the month, so this would still be a very good result. The main driver would be US economic strength, still with a substantial boost from fiscal stimulus. In our view, direct transfers and other unemployment programs have been key for higher dynamism.

Labor market results for the period were not that positive, with the unemployment rate among Hispanics and Latinos rising 10bps to 7.4%. In addition, working-age Mexican migrants fell a fourth month in a row, with 484.5 thousand fewer people. Among these, 157.4 thousand jobs were lost –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–, which is not entirely clear if it is related to a seasonal pattern. These were centered in the first (-150.9 thousand) and third groups (-56.2 thousand), with the second gaining modestly (+49.7 thousand). A relevant factor that we believed helped offset for this is that additional unemployment benefits in most states with Hispanic presence continued. Nevertheless, they ended towards the end of the month in key states such as Texas, Florida and Georgia, among others. Others will join to the list in coming months, which might be a headwind for flows going forward.

On migration, US Vice President, Kamala Harris, visited our country early in the month, showing a less conciliatory tone at the margin. She mentioned that her country will do everything possible to secure the border, also asking migrants to stop going to the US. Although this is not very positive, the impact from these comments will not be substantial. The Mexican peso was relatively stable, averaging USD/MXN 20.03 from 19.96 in May, not expecting it to be a relevant driver. We reiterate our call that remittances will maintain brisk growth in 2021, expecting an accumulated flow in the year between US$48.0 and US48.5 billion. Despite the recent wave of COVID-19 cases in the US, we believe the impact in economic activity –and therefore, on employment– should be more modest, maintaining dynamism for flows.

Family remittances

% y/y




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 5.6% y/y, below our 6.1%. Based on the latest data, we do not rule out further upward adjustments. We could also see slight moves in medium and long-term expectations, albeit still above target. On GDP, this year's estimate stands at 5.8%, lower than our 6.2%, and also with good chances of an upward revision after the latest activity prints, as well as the latest change from the IMF (now seeing 6.3%). The current view on the reference rate by YE21 is that it will reach 4.88%, suggesting between two and three more hikes this year. However, we could see an upward bias given recent inflation dynamics. Finally, the year-end exchange rate stands at USD/MXN 20.35 (Banorte: 20.20), possibly with marginal changes.

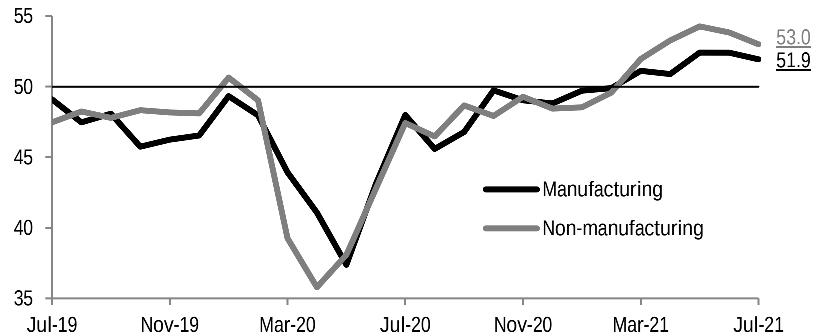
**IMEF indicators to inch lower in July, signaling more modest growth at the start of 3Q21.** We expect both to decline, even after a less vigorous performance in the previous month. We see several key drivers behind this, including worsening epidemiological conditions and supply chain-issues, among others. Despite of the retracement, both would stay in expansion (above 50pts), consistent with our view of an extension of the recovery in 2H21, albeit at a more moderate pace.

We expect manufacturing at 51.9pts from 52.4pts in June. Signals from abroad are mixed. IP for the previous month in the US showed a 0.1% m/m decline in manufacturing. For July, *Markit's* PMI rose 1.0pts to a cycle high of 63.1pts. The report shows an increase in 'new orders' and 'production' –consistent with strong demand–, but with higher backlogs and wait times, with supply disruptions as the main culprit. A similar situation continues affecting our country, with automakers announcing additional stoppages, including Audi, Nissan, and VW. While reports for other sectors are not widely available, it is likely that they have similar problems. In this context, we could see a slight deceleration in 'new orders' and 'production', with 'inventories' probably higher as the sales/inventories ratio continues to improve. In addition, we will be looking for the possible impact the renewed uptick in cases (as explained at greater length below) has on 'employment', albeit likely more stable than non-manufacturing due to the nature of the work.

We expect non-manufacturing to show a more significant deceleration, at 53.0pts from 53.8pts. The main driver would be the additional deterioration on the virus, with daily cases accelerating –surpassing highs seen during the 'first wave', but still not as high as the 'second' one– and the 'traffic light' indicator deteriorating substantially. The latter showed a relevant uptick in the number of 'red' and 'orange' states, despite modifications to the methodology. However, the impact may be softened as mobility has remained resilient, albeit still below pre-pandemic levels. On fundamentals, latest employment figures pointed to sector losses, which could continue considering the abovementioned factors. Another red flag comes from persistently higher prices, as seen in inflation for the first half of the month.

Specifically, we keep noting persistent upward adjustments in some services, including ‘restaurants’ and ‘dining away from home’. This could start to deter some customers from visiting them.

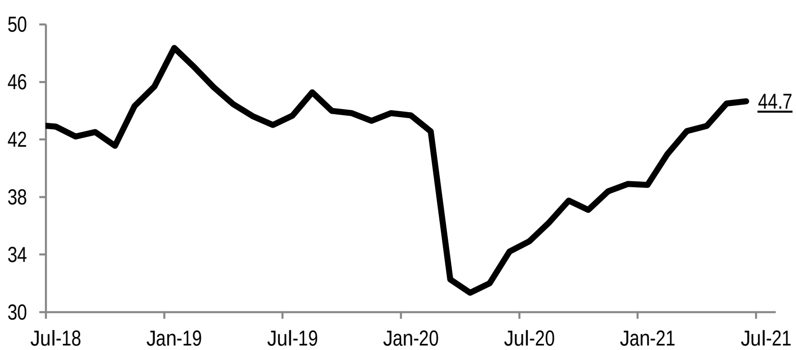
IMEF indicators
Diffusion indicators, sa




Source: IMEF, Banorte

**Consumer confidence relatively stable, as offsetting factors play out.** We expect confidence at 44.7pts (seasonally adjusted), slightly above June’s 44.5pts. In our view, there were both positive and negative factors in the period, driving stability in the print. Among the former, we highlight: (1) Continuing job gains in June, albeit concentrated in the agricultural sector; (2) more modest pressures in fresh fruits and vegetables prices after accumulating hefty gains in recently; and (3) high mobility, likely boosted by progress on vaccinations. We think this will offset the effect of higher contagion levels –which fortunately have not resulted in a spike in deaths– and other negative trends in inflation, such as in LP gas. Another favorable driver at the margin might have been positive the fallout after the electoral season, with no major issues, as well as the resumption of some social program payments.

Consumer confidence
Pts, seasonally adjusted




Source: INEGI

**Weekly international reserves report.** Last week, net international reserves fell by US$16 million, closing at US$193.2 billion (please refer to the following table). According to Banxico’s report, this was explained by a negative valuation effect in institutional assets. So far this year, the central bank’s international reserves have declined by US$2.4 billion.

Banxico's foreign reserve accumulation details
US$, million

| | 2020 | Jul 23, 2021 | Jul 23, 2021 | Year-to-date |
|---|---|---|---|---|
| | Balance | | Lows | |
| International reserves (B)-(C) | 195,667 | 193,215 | -16 | -2,452 |
| (B) Gross international reserve | 199,056 | 200,427 | -183 | 1,371 |
| Pemex | -- | -- | 0 | 499 |
| Federal government | -- | -- | -218 | 593 |
| Market operations | -- | -- | 0 | 0 |
| Other | -- | -- | 34 | 279 |
| (C) Short-term government's liabilities | 3,389 | 7,212 | -167 | 3,823 |

Source: Banco de México

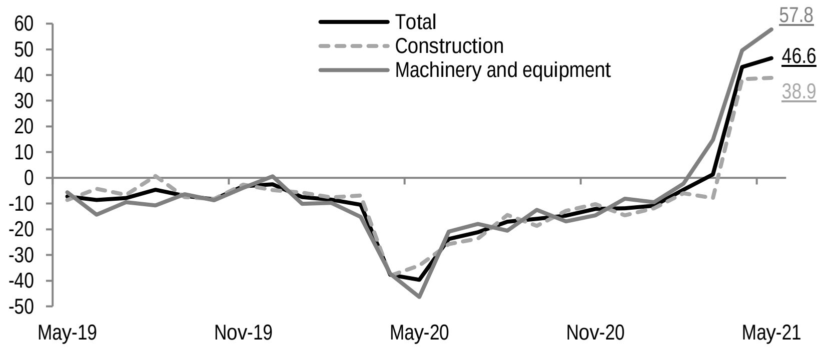
**Investment to recover modestly in May, dampened by industry woes.** We expect GFI at 46.6% y/y, above the 43.1% observed in April, Nonetheless, in May 2020 it plunged 39.7%, a historical low banning 1995, during the Tequila crisis. In sequential terms we expect 0.7% m/m growth, not enough to compensate for the -0.9% of the previous month. Within, we see mixed sector performance, with construction rebounding but machinery and equipment dragged mainly by the domestic component.

We estimate construction at 38.9% y/y, which would make it the outperformer in sequential terms, at 2.1%. The latter would be slightly above the industrial production report. We see performance underpinned mainly by the residential sector, with business confidence stronger on more economic dynamism, as shown by the monthly GDP-proxy IGAE. We do not rule out also a better performance in non-residential due to the electoral season, albeit likely remaining limited. In this respect, spending in physical investment by the Federal government dipped 29.7% y/y in the period. Nevertheless, we are cautious about reading too much into this as electoral and other accounting rules, as well as other distortions because of the pandemic, may be skewing these figures heavily.

In turn, we expect machinery and equipment at 57.8% y/y, higher than the 49.6% seen in April. Nevertheless, the base effect here is more favorable than in construction. The domestic component would be up 78.6% y/y, but down 2.9% m/m. In this respect, we recall that transportation equipment makes around 55% of this category's total. In the industry report, production jumped 322% y/y –as last year, factories were shut down almost entirely– but contracted 2.9% sequentially. This is relevant as autos –among others– are still in a very difficult environment, primarily (but not exclusively) because of the lack of semiconductors. As a result, a plethora of automakers kept announcing temporary stoppages. Signals from other sectors in manufacturing were more positive, albeit also modest. On the other hand, this would be somewhat compensated by the imported component, expected at 46.9% y/y (+1.2% m/m), extending the recovery that began since the start of the economic reopening in June 2020. In this respect, capital goods imports surged 43.0% y/y (+2.2% m/m) as external demand remained a key support. Despite of the latter, caution is also necessary because of global bottlenecks, the increase in COVID-19 cases and higher volatility in the series. In addition, the USD/MXN was 14.8% y/y lower while inflation pressures continued. As we have said previously, we think these two effects could limit the rebound as they account for lower real pesos per nominal dollar.

All in all, investment would be about 2% below the level in February 2020 (seasonally adjusted) despite some positive surprises recently. More importantly, it would be almost 16% lower than its historical high in mid-2018. Therefore, the room left for a full recovery is still very ample, clearly reflecting the key challenge that remains ahead.

GFI
% y/y




Source: INEGI, Banorte

**Private consumption to extend higher in May, boosted by improving virus conditions.** We expect a positive performance following the +1.2% m/m expansion (+25.5% y/y) seen in April. As has been for the last couple of months, the main driver would be the improvement in epidemiological conditions, with cases reaching a year-to-date low, the 'traffic light' indicator at its best levels, and an acceleration in the pace of vaccinations. Fundamentals were also stronger, noting additional job gains and record remittances' inflows. There are other signs of reviving demand, including tourism indicators such as hotel occupancy rates and air passenger data. In our opinion, this is already reflected in timelier figures, such as services within the GDP-proxy (IGAE), rising 0.8% m/m –with gains in eight out of nine subsectors. This is also supported by the whopping 13.0% m/m expansion in non-oil consumption goods imports, as well as the +0.6% in the stand-alone retail sales indicator. Considering some of these magnitudes, the result could surpass April's expansion, adding three consecutive months to the upside. Signals for June are more uncertain, with concerns about higher cases not fully reflected in some data (*e.g.* mobility, some categories within the trade balance), but impacting others (*e.g.* IMEF's PMIs, aggregate trend indicators).

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