Ahead of the Curve

Expecting better signals for activity in 4Q21 after a very difficult third quarter

October 29, 2021

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- **IMEF indicators (October).** After losses in both indicators in previous months, we expect a rebound in the two categories, with manufacturing back above the 50pts threshold and non-manufacturing consolidating in expansion territory. Therefore, data would point to the possibility of a resumption of the recovery in 4Q21 after a substantial moderation in recent months. Despite of the rebound, the improvement would not be even, with non-manufacturing surpassing manufacturing. The former would increase by 1.1pts to 51.2pts, benefited by better epidemiological conditions. Meanwhile, the latter would rise 0.7pts to 50.5pts, somewhat limited by supply constraints

- **Family remittances (September).** We expect remittances at US$4,509.1 million (26.3% y/y), still very strong, albeit lower than in the previous month. Dynamism would remain supported by the US economic recovery, despite signs of a deceleration in the last couple of months. Although this has translated into more modest labor market gains, we have not seen a significant deterioration in inflows. A potential headwind was the expiration of extended unemployment benefits at the national level at the beginning of the month. Nevertheless, we believe the impact from this could be quite modest. In this backdrop, risks to our full-year forecast between US$48.0-48.5 billion remain to the upside, which in turn is beneficial for domestic demand

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Sun 31-Oct		Daylight savings time ends in Mexico					
Mon 1-Nov	11:00am	Family remittances	September	US$ mn	4,509.1	4,475.0	4,743.6
Mon 1-Nov	11:00am	Banxico's survey of economic expectations	October				
Mon 1-Nov	2:00pm	PMI's survey (IMEF)	October				
		Manufacturing		index	50.5	--	49.8
		Non-manufacturing		index	51.2	--	50.1
Tue 2-Nov		Markets closed in remembrance of the Day of the Dead					
Wed 3-Nov	11:00am	International reserves	Oct-29	US$ bn	--	--	198.5
Fri 5-Nov	8:00am	Consumer confidence (sa)	October	index	43.9	--	43.4
Fri 5-Nov	4:30pm	Citibanamex bi-weekly survey of economic expectations					

Source: Banorte; Bloomberg

Proceeding in chronological order...

Remittances to remain strong in September. We expect remittances at US$4,509.1 million, which would still be very strong and at 26.3% y/y. In addition, it would add seventh months above the US$4,000 million threshold. Dynamism would remain supported by the US economic recovery, despite signs of a deceleration in the last couple of months. Although this has translated into more modest labor market gains, we have not seen a significant deterioration in inflows.

The unemployment rate among Hispanics and Latinos in the US fell from 6.4% in August to 6.3% in September. Working-age Mexican migrants declined 169.9 thousand, although there were 73.0 thousand new jobs –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)–. In addition, those classified as unemployed fell by 9.3 thousand. As a result, we calculate that the unemployment rate in this specific group fell 10bps from the previous month, reaching a new post-pandemic low of 5.8%.

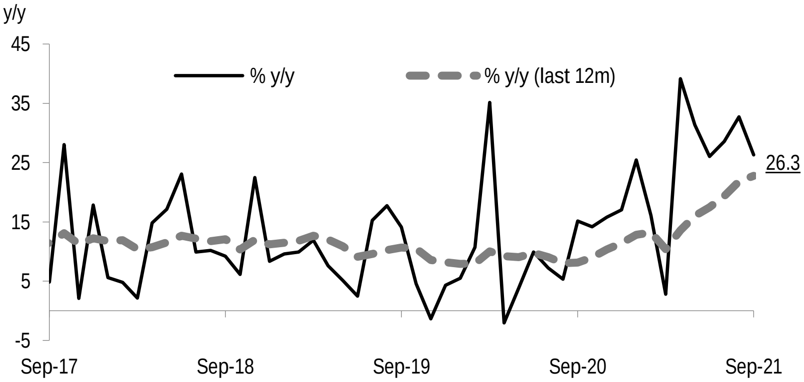
Although labor market dynamics kept improving, we identify as a potential headwind the expiration of extended unemployment benefits at the national level at the beginning of the month. Some states had already eliminated them, but about 25 more were added. We highlight California in the latter group, which is the state with the largest Mexican population. Nevertheless, others with large populations, such as Texas, had eliminated them before and inflows remained very strong. Hence, we believe the impact from this could be quite modest.

On migration, news were mostly unfavorable, with an important rise in migrant deportations (both Mexicans as well as from other countries) under the so-called "Title 42" provision from the Trump administration. In addition, tensions on the border remained with some migrant crossings, which may have pushed sentiment and support flows at the margin.

Remittances have surprised favorably throughout the last two years, supporting domestic consumption. In this backdrop, risks to our full-year forecast between US$48.0-48.5 billion remain to the upside, which in turn is beneficial for domestic demand.

Family remittances

% y/y



Source: Banxico

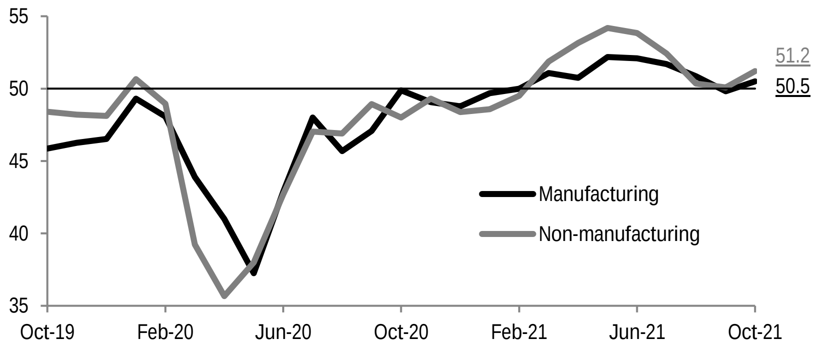
Banxico's survey of economic expectations. As usual, market participants will focus on inflation, growth, reference rate, and exchange rate forecasts. In the first, analysts expect 2021 year-end inflation at 6.3% y/y, lower than our 6.6%. Considering recent pressures, we expect further increases on short-term estimates, including for 2021 and 2022. Meanwhile, we do not expect significant moves in medium and long-term expectations, still above target. On GDP, this year stands at 6.2%, above our recently revised forecast of 5.7%, with 2022 at 3.0%. The current view about the reference rate by YE21 is that it will reach 5.00%, suggesting one more 25bps hike (vs. our call of two increases, to 5.25%). Considering current market pricing and other surveys, this will likely increase. Finally, the year-end exchange rate stands at USD/MXN 20.30 (Banorte: 20.50), possibly with marginal changes, with 2022 at 20.99.

IMEF indicators to rebound in October. After losses in both indicators in previous months, we expect a rebound in the two categories, with manufacturing back above the 50pts threshold and non-manufacturing consolidating in expansion territory. Therefore, data would point to the possibility of a resumption of the recovery in 4Q21 after a substantial moderation in recent months.

Despite of the rebound, the improvement would not be even, with non-manufacturing surpassing manufacturing. The latter would increase by 0.7pts to 50.5pts. Some of the most recent signals seem positive at the margin, with efforts to alleviate bottlenecks around the world. This includes actions on US ports (*e.g.* 24/7 operations in Los Angeles and Long Beach) and lower transportation costs –with the latter aided by a moderation in energy–. Meanwhile, *Markit*'s manufacturing PMI fell at the margin, to 59.2pts from 60.7pts. The report shows a generalized decline across components, albeit with most being quite marginal, suggesting that activity remained relatively good. Nevertheless, costs keep moving higher. Domestically, technical stoppages in the auto sector continued, with closures in plants from Ford, Kia, GM and VW, among others. However, other sectors might no be as affected, explaining most of the improvement. On other drivers, latest reports assure that railway blockades in Michoacán continued, being a much more prevailing factor than before.

Meanwhile, non-manufacturing would be stronger, rising 1.1pts to 51.2pts. The improvement would be supported by a consolidation in epidemiological conditions, with a decrease in cases allowing for a broader reopening. Mexico City and the State of Mexico went to 'green' in the traffic light indicator by the middle of the month. This is reflected in mobility climbing back to pre-pandemic levels, suggesting that services could be more strongly benefited. This comes on top of a very positive flow of remittances in the last couple of months, which will likely extend. Nevertheless, we are still concerned about the effects from price pressures, which could be impacting real incomes and therefore, spending. In addition, we will be looking into employment dynamics, especially after a deterioration in the labor market in August and September.

IMEF indicators
Diffusion indicators, sa



Source: IMEF, Banorte

Weekly international reserves report. Last week, net international reserves rose by US$23 million, closing at US$198.5 billion (please refer to the following table). According to Banxico's report, this was mainly explained by a negative valuation effect in institutional assets. So far this year, the central bank's international reserves have increased by US$2.9 billion.

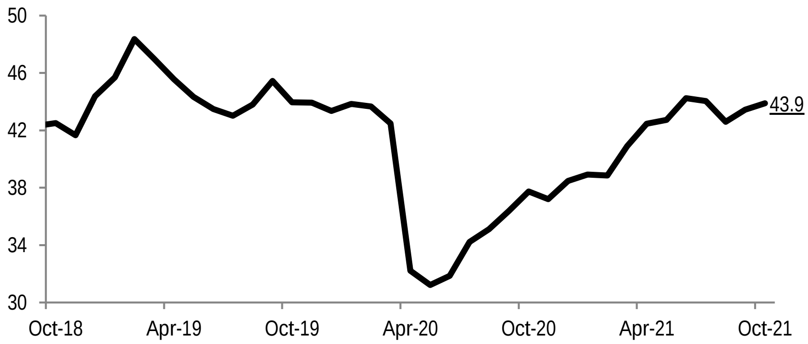
Banxico's foreign reserve accumulation details
US$, million

	2020	Oct 22, 2021	Oct 22, 2021	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	195,667	198,546	23	2,878
(B) Gross international reserve	199,056	210,867	-238	11,811
Pemex	--	--	0	949
Federal government	--	--	-277	-884
Market operations	--	--	0	0
Other	--	--	39	11,746
(C) Short-term government's liabilities	3,389	12,322	-261	8,933

Source: Banco de México

Consumer confidence to tick higher in October on better virus conditions. We expect confidence at 43.9pts (seasonally adjusted), better than the 43.4pts from September. The main driver would be progress in the pandemic front. Specifically, daily cases declined while the 'traffic light' indicator reached its best levels so far, including Mexico City transitioning to 'green'. This has been reflected in an additional uptick in mobility, practically matching pre-pandemic levels. Despite of this, the main drag will continue to be price pressures, as already seen in inflation for the first half of the month, where increases persist in foods and other important categories (*e.g.* LP gas). Meanwhile, the exchange rate stayed pressured most of the month, which may have dampened sentiment. Lastly, recent economic performance might also be limiting a more substantial increase.

Consumer confidence
Pts, seasonally adjusted



Source: INEGI

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