Ahead of the Curve

November's IP stronger on manufacturing and construction

- **Industrial production (November).** We expect a 2.4% y/y increase, higher than October's 0.7%. This is explained by a more favorable base effect along a positive calendar skew, as the month had one additional working day in the annual comparison (vs. -1 in the previous month). Correcting for the latter using seasonally adjusted figures this would come in at 1.4% y/y, in line with the latest estimation within INEGI's *Timely Indicator of Economic Activity*. This would imply +0.4% m/m, moderating after a 0.6% expansion in October. We expect manufacturing (+0.1% m/m) and construction (+0.6%) higher. On the contrary, both mining (-0.1%) and utilities (-0.4%) would decline

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 10-Jan	**7:00am**	**Gross fixed investment**	October	% y/y	4.8	--	9.9
		sa		%m/m	-1.0	--	-1.6
		Machinery and equipment		% y/y	6.5	--	10.6
		Construction		% y/y	3.4	--	9.4
Mon 10-Jan	**7:00am**	**Private consumption**	October	% y/y	--	--	8.1
		sa		%m/m	--	--	0.9
		Domestic (Goods and services)		% y/y	--	--	6.6
		Imported (Goods)		% y/y	--	--	20.4
Mon 10-Jan		**Wage negotiations**	December	%	--	--	5.1
Tue 11-Jan	**7:00am**	**Industrial production**	November	% y/y	2.4	--	0.7
		sa		% m/m	0.4	--	0.6
		Mining		% y/y	1.0	--	1.1
		Utilities		% y/y	-0.7	--	-2.2
		Construction		% y/y	3.1	--	2.9
		Manufacturing		% y/y	2.8	--	0.0
Tue 11-Jan	**10:00am**	**International reserves**	Jan-7	US$ bn	--	--	202.4

Source: Banorte; Bloomberg

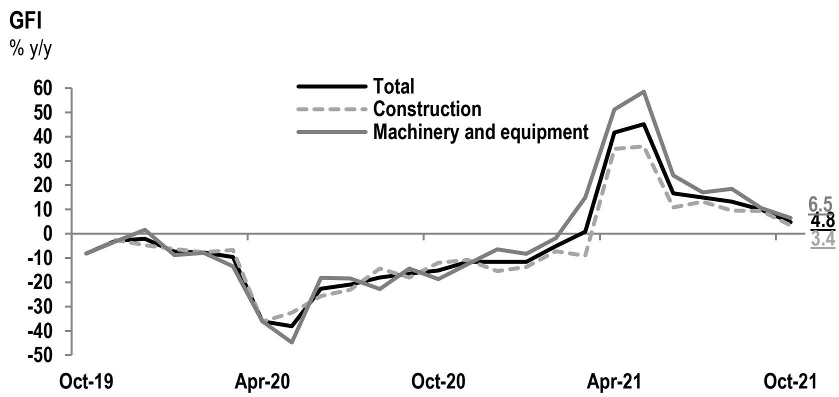
Proceeding in chronological order…

Investment likely stayed low in October. We expect GFI at 4.8% y/y (previous: 9.9%). Although this would be influenced by an adverse calendar effect (with one less working day in the annual comparison), it should also be dampened by lingering economic weakness. In this respect, we recall that the GDP-monthly proxy IGAE fell further in sequential terms (-0.2%), with industry as the only one stronger, albeit concentrated in manufacturing. Our estimate implies a 1.0% m/m decline, extending the -1.6% seen in September.

By sectors, construction would be lowest, at -0.6% m/m (3.4% y/y). In this sense, the IP report showed a 1.4% m/m decline in edification, on top of the -3.0% seen in the previous month. Civil engineering moderated to barely 0.1%, with specialized works –not accounted in GFI– accelerating to 1.6%. Employment data also showed a more modest job creation. This is likely to impact the residential sector the most. In our view, higher market volatility, the increase in raw material prices –including industrial commodities– and lower demand are likely all behind the slowdown.

In turn, we estimate a flat reading in machinery and equipment (6.5% y/y). Imports would drag the sector, at -0.4% m/m (+14.1% y/y). We recall that capital goods imports within the trade balance picked up 0.5% (with revised figures), but cautiousness is granted as higher inflation could be distorting figures to the upside. Moreover, the exchange rate depreciated to 20.46 per dollar on average from 20.04 in September, also exhibiting higher volatility. In our view, companies remain sensitive to news regarding the virus as they increase uncertainty about the outlook, even if cases and deaths do not suggest yet a sizable economic impact. Domestically, we expect a 0.1% m/m fall (-4.0% y/y), which would be its sixth consecutive decline. For the auto sector, which accounts for a big share of this category, both exports and production were relatively weak. Specifically, the latter rebounded 6.8% m/m, albeit only after the -8.9% of the previous month. On the other hand, machinery and equipment within IP was also lower, at -2.2%. It is our take that supply chain issues, roadblocks and virus conditions likely kept affecting performance.

The outlook for investment remains complicated. Renewed uncertainty because of the 'omicron' or other virus variants, headwinds for consumers' purchasing power on higher inflation, and the increase in interest rates, are among the most relevant challenges. We will look closely to the third package of public-private investment initiatives that will be unveiled this month, according to President López-Obrador. A bright spot has been seen in business confidence levels, which have been increasing quite steadily since the pandemic shock. Nonetheless, caution is still granted as its correlation with actual performance is loose. All in all, our base case is that investment is likely to keep lagging other components of aggregate demand this year, limiting GDP growth.



Source: INEGI, Banorte

Uncertainty about consumption dynamics in October. After improving in the previous month –up 0.9% m/m–, timelier data suggests a more complex backdrop in the tenth month of 2021. While a slight uptick is likely, we do not rule out an outright sequential decline. On the positive side, fundamentals kept strengthening. Remittances reached a new all-time high, employment recovered sharply –with 1.3 million jobs created–, and consumer loans gathered pace. However, signals for activity were more negative. Overall, the monthly GDP-proxy declined 0.2% m/m, with services backtracking 0.5%. Within the latter, weakness was centered in few sectors. Focusing on goods' consumption, retail sales advanced 0.3% m/m, with notable divergences across categories. Non-oil consumption goods imports rose 3.3% m/m, albeit wary as they are measured in nominal terms. Finally, prices kept rising in the month, further dampening purchasing power. Going forward, signals continue pointing to a rebound throughout 4Q21, albeit with the overall pace more uncertain given the latest figures.

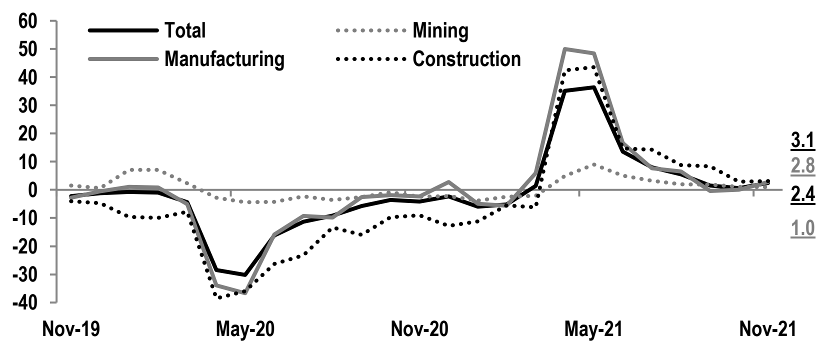
Industry to expand further in November, albeit at a more modest pace. We expect a 2.4% y/y increase, higher than October's 0.7%. This is explained by a more favorable base effect along a positive calendar skew, as the month had one additional working day in the annual comparison (vs. -1 in the previous month). Correcting for the latter using seasonally adjusted figures this would come in at 1.4% y/y, in line with the latest estimation within INEGI's *Timely Indicator of Economic Activity*. This would imply a +0.4% m/m, moderating after a 0.6% expansion in October.

We forecast manufacturing at +0.1% m/m (2.8% y/y). This would be somewhat consistent with IMEF's PMI for the sector, moderating by 0.2pts to 50.8pts, but remaining above the expansion threshold, boosted by rising 'production'. On a sector basis, auto production from AMIA stood at 249.0 thousand units, which implies a 1.6% m/m expansion (using our in-house model). This is consistent with less reports from stoppages in auto plants along a possible relief from the end of railway blockades in Michoacán early in the month. On the external front, the trade balance showed a 7.3% m/m rise, with auto shooting up to 18.8% and other more modest at 2.2%. However, we remain wary over possible distortions from higher prices. Helping adjust for this, US manufacturing output expanded 0.7% m/m from 1.4% in the previous month, still positive. Lastly, INEGI's employment report showed a massive 509.6 thousand job in the sector, that while partly seasonal, could suggest some additional dynamism.

Construction would rise 0.7% m/m (3.1% y/y), rebounding slightly after notable declines in the previous two months. Signals from both business confidence and the aggregate trend indicator are better, with improvements across all components. While these have failed to capture short-term volatility, the overall trend stands, supporting our view of an expansion. However, concerns over price pressures remain, as reflected by both PPI figures along anecdotal evidence from industry insiders. This comes on top of reports of some delays to shortages of certain materials. Turning to 'harder' data, physical investment by the Federal Government accelerated to 18.7 y/y in real terms. However, considering the nearing of the end of the year and differences in accounting methods, the figure might be slightly skewed to the upside. Lastly, on employment, INEGI reports that the sector lost 70.9 thousand positions, dampening optimism.

Mining would decline 0.1% m/m (1.0% y/y). The oil sector would be relatively stable, as suggested by output figures. According to the CNH, oil extraction came in at 1,652.6kbpd, practically in line with last month's figures. Gas was slightly better, supporting the trend. On non-oil, the signal seems to be slightly worse, with trade balance figures showing a 15.8% m/m decline, despite higher prices. Utilities would contract 0.4% m/m (-0.7% y/y). Related to the latter two sectors, INEGI's release shows that job losses for the two categories totaled -20.6 thousand.

Industrial production
% y/y



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased by US$126 million, closing at US$202.4 billion (please refer to the following table). According to Banxico's report, this was mainly explained by a positive valuation effect in institutional assets. In 2021, the central bank's international reserves increased by US$6.7 billion.

Banxico's foreign reserve accumulation details
US$, million

	2020	Dec 31, 2021	Dec 31, 2021	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	195,667	202,399	126	6,732
(B) Gross international reserve	199,056	207,745	-150	8,689
Pemex	--	--	0	1,158
Federal government	--	--	-194	-4,983
Market operations	--	--	0	0
Other	--	--	44	12,514
(C) Short-term government's liabilities	3,389	5,345	-276	1,957

Source: Banco de México

Analyst Certification

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Itzamna Espitia Hernández, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez and Gerardo Daniel Valle Trujillo, 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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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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