Ahead of the Curve

Inflationary pressures likely continued in 2H-Feb, including at the core

- **Inflation (February).** We expect a high print, with the headline up 0.82% m/m and the core at 0.76%. We expect some of the pressures seen in the first fortnight to have extended through the second half. Specifically, we consider that goods in the core will maintain some persistence to the upside, albeit with services also accelerating. In the non-core, energy and meat & egg would climb with some force, albeit with fruits & vegetables declining. With these results, annual inflation would climb to 7.27% from 7.07% in January despite a more benign base effect, with the core also up at 6.60% from 6.21%

- **Industrial production (January).** We expect IP at +2.0% y/y (previous: 3.0%), consistent with additional weakness in activity despite a more favorable base effect. More importantly, this implies -0.4% m/m, modest considering the +1.2% of the previous month. By sectors, weakness would be centered in manufacturing, down 1.6% m/m and sharply affected by 'Omicron'. On the contrary, both construction (+0.6%) and mining (+0.7%) might remain to the upside, slightly more isolated from the latest shock

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Winners of the award for best economic forecasters for Mexico in 2021, granted by *Refinitiv*

STARMINE AWARDS FOR REUTERS POLLS FROM REFINITIV

Mexico weekly calendar

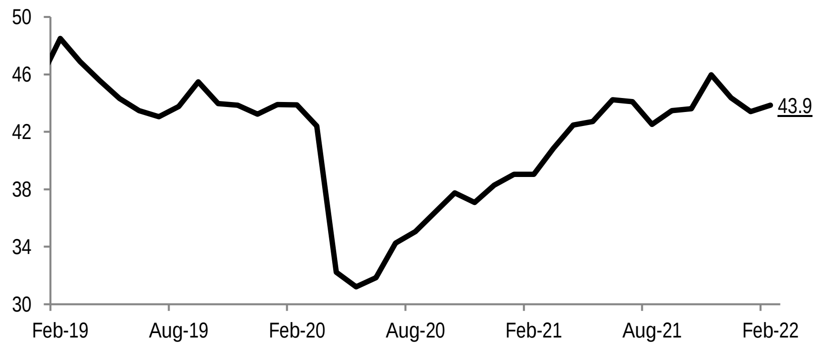
DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 7-Mar	7:00am	Consumer confidence (sa)	February	index	43.9	--	43.4
Mon 7-Mar	3:30pm	Citibanamex bi-weekly survey of economic expectations					
Tue 8-Mar	10:00am	International reserves	Mar-4	US$ bn	--	--	201.4
Wed 9-Mar	7:00am	CPI inflation	February	% m/m	0.82	0.80	0.59
				% y/y	7.27	7.23	7.07
		Core		% m/m	0.76	0.75	0.62
				% y/y	6.60	6.58	6.21
Thu 10-Mar		Wage negotiations	February	%	--	--	5.6
Thu 10-Mar		ANTAD: Same-store sales	February	% y/y in real terms	--	--	12.6
Fri 11-Mar	7:00am	Industrial production	January	% y/y	2.0	2.4	3.0
		Sa		% m/m	-0.4	-0.3	1.2
		Mining		% y/y	1.9	--	1.2
		Utilities		% y/y	2.2	--	0.9
		Construction		% y/y	2.2	--	2.8
		Manufacturing		% y/y	1.9	2.1	3.8

Source: Banorte; Bloomberg

Proceeding in chronological order…

Consumer confidence to rebound slightly in February. We expect confidence at 43.9pts (seasonally adjusted), higher than the 43.4pts seen in January. The increase would be driven by the improvement in epidemiological conditions –with a moderation in the number of contagions–, favoring an expansion in mobility and with signs of a recovery in activity. Nevertheless, the uptick would be modest given several challenges, including: (1) Strong job losses in January, with uncertainty over the speed of the rebound; and (2) an extension in price pressures, especially in the core component. In this sense, we do not rule out mixed moves within. Those about the country's conditions –both current and expectations– likely benefited more at the margin, especially after having fallen more significantly in the previous month.

Consumer confidence
Pts, seasonally adjusted



Source: INEGI

Weekly international reserves report. Last week, net international reserves decreased by US$102 million, closing at US$201.4 billion (please refer to the following table). According to Banxico's report, this was explained by: (1) A sale of US$100 million from Pemex to the central bank; and (2) a negative valuation effect in institutional assets of US$202 million. Year-to-date, the central bank's international reserves have fallen by US$1,000 million.

Banxico's foreign reserve accumulation details
US$, million

	2021	Feb 25, 2022	Feb 25, 2022	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	202,399	201,399	-102	-1,000
(B) Gross international reserve	207,745	209,484	-94	1,739
Pemex	--	--	200	200
Federal government	--	--	-67	3,881
Market operations	--	--	0	0
Other	--	--	-227	-2,342
(C) Short-term government's liabilities	5,346	8,085	8	2,739

Source: Banco de México

Elevated headline and core inflation in February. We anticipate headline inflation at 0.82% m/m (previous: 0.59%), with the core at 0.76% m/m, with some of the pressures in the first fortnight extending through the second half. Given these results, annual inflation would climb to 7.27% from 7.07% in January despite a more benign base effect, with the core also up at 6.60% from 6.21%.

Non-core prices likely remained to the upside, especially energy-related goods (+1.8% m/m). Specifically, we expect LP gas to climb 5.6% as international prices started to react late in the period to Russia's invasion of Ukraine. Despite of this, the pace would have decelerated at the margin. Apart from the timing of the event, our price monitoring showed that the price ceiling was binding during the period, limiting the adjustment. For low-grade gasoline, we estimate +1.2%, more affected by international developments as the subsidy of excise taxes was already high, so its impact was likely modest. In agricultural goods, we believe mixed changes during the first half were reinforced. Fruits and vegetables are estimated to have fallen 1.8%. On the contrary, meat and egg continued moving up, with a sizable adjustment in chicken and reports of higher prices in seafood.

At the core, the persistence of high inflation –especially in goods– remains concerning. We expect the latter to have increased 0.9%. Processed foods (1.0%) would have stayed in the spotlight, with signals of upward moves in items such as oil, flour and bread, as well as milk and tortillas in the first half. 'Others' would be more modest, albeit also affected by cost increases. In services, we see more adverse seasonality would affect tourism categories, while airfares (5.7%) may well be further adjusted because of higher jet fuel prices. Non-tourism is likely to maintain its upward bias, with stronger mobility and the increase in input costs allowing businesses (*e.g.* restaurants) to pass them on to consumers. Overall, goods likely kept advancing more forcefully than services, although the latter has also been showing some worrying trends.

Industry to decline in January amid a challenging backdrop. We expect IP at +2.0% y/y (previous: 3.0%), consistent with additional weakness in activity despite a more favorable base effect. At the margin, the figure was benefited by an additional day in the annual comparison, albeit with other calendar effects related to the beginning of the year that skew the print to the downside. As a result, we expect a 2.1%y/y increase, in line with INEGI's *Timely Indicator of Economic Activity*. More importantly, this implies -0.4% m/m, modest considering the +1.2% of the previous month.

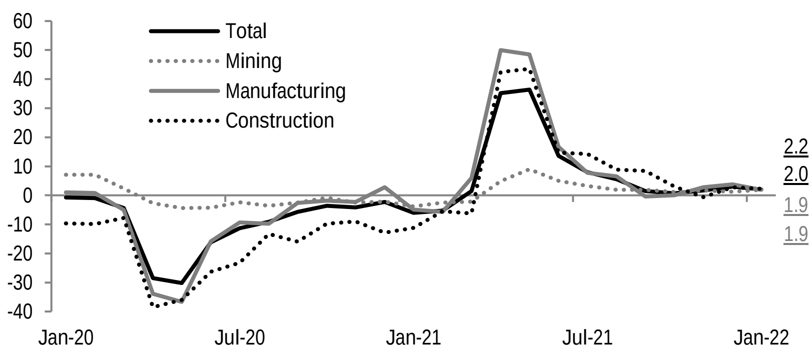
Weakness would center in manufacturing, down 1.6% m/m (+1.9% y/y). Overall signs are negative, with 'Omicron' having a relevant impact on the sector. IMEF's manufacturing PMI fell to 48.6pts, with declines in all categories. Within hard data, the trade balance showed a 5.7% m/m in the sector's exports, mainly dragged by autos. In this sense, production reported by AMIA reached 253.4 thousand units (-5.7% m/m). In the external front, signals from the US are also negative considering the impact from the virus, albeit lower that what we thought in a first instance. Finally, employment figures were mixed, with an uptick in IMSS affiliated jobs of 69.9 thousand, but with INEGI showing a 130.9 thousand decline.

Construction would remain to the upside, albeit more modest at +0.6% m/m (+2.2% y/y). Data is more mixed, with aggregate trend indicators improving across all categories, although with business confidence backtracking, similar to what we saw in previous contagion waves. At the margin, February's figures already show a marginal rebound in the latter, suggesting that the impact might be softer.

Positively, spending in physical investment by the Federal Government increased 3.0% y/y in real terms, with priority projects accelerating. The trend for employment is similar to manufacturing, with IMSS advancing (+34.8 thousand), but INEGI lower (-363.4 thousand).

Mining could improve by 0.7% m/m (+1.9% y/y), with mostly positive signs across sectors. According to Pemex, oil output stood at 1,783kbpd, accelerating at the margin (previous: 1,733kbpd) and the trend for natural gas also favorable. In non-oil, although shipments in the trade balance declined, we think high prices should continue supporting the sector.

Industrial production
% y/y nsa



Source: INEGI, Banorte

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 Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Isaías Rodríguez Sobrino, 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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