

Ahead of the Curve

Possible optimism at the start of 3Q22

- Timely Indicator of Economic Activity (July).** This release will include the first estimate for July, as well as revised figures for June. Regarding this latter month, the [2Q22 preliminary GDP](#) surprised higher, with positive implied figures for the period. This was backed to some extent by [industrial production](#). Considering what we know about services, despite the signal from GDP being positive, available data is somewhat mixed. Therefore, we believe the sequential print could stand close to 0.0%. For July, signals are relatively stronger, with the resumption of social programs payments and a moderation in COVID-19 contagions towards the end of the month. Nevertheless, [inflationary pressures remained](#), once again centered in food
- Retail Sales (June).** We estimate +4.2% y/y, lower than the 5.2% of the previous month. Sequentially sales would break with ten consecutive months of increases, declining 0.2% m/m. Nevertheless, we believe this setback would be quite modest. Specifically, we think several adverse factors help explain the fall, including: (1) Distortions after the end of discount campaigns (mainly *Hot Sale*); (2) the acceleration in COVID-19 contagions towards the end of the month; and (3) the lack of social programs' payments for a third consecutive month, resuming until July due to the electoral ban

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



Document for distribution among the general public

Mexico weekly calendar

| DATE | TIME (ET) | EVENT | PERIOD | UNIT | BANORTE | CONSENSUS | PREVIOUS |
|------------|-----------|--|--------|---------|-------------|-----------|----------|
| Tue 16-Aug | 10:00am | International reserves | Aug-12 | US\$ bn | -- | -- | 199.3 |
| Thu 18-Aug | 7:00am | Timely Indicator of Economic Activity (sa) | July | % y/y | -- | -- | 2.1 |
| Fri 19-Aug | 7:00am | Retail Sales | June | % y/y | <u>4.2</u> | 4.6 | 5.2 |
| | | sa | | % m/m | <u>-0.2</u> | -- | 0.5 |

Source: Banorte; Bloomberg

Proceeding in chronological order...

Weekly international reserves report. Last week, net international reserves decreased by US\$166 million, closing at US\$199.3 billion (please refer to the following table). This was mainly explained by a negative valuation effect in institutional assets. Year-to-date, the central bank’s international reserves have fallen by US\$3.1 billion.

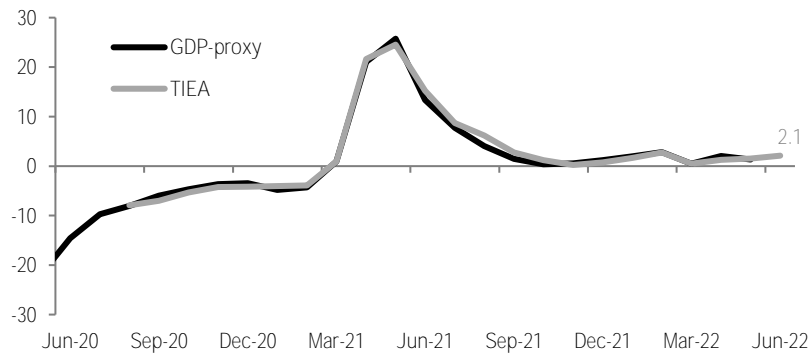
Banxico's foreign reserve accumulation details
US\$, million

| | 2021 | Aug 5, 2022 | Aug 5, 2022 | Year-to-date |
|---|---------|-------------|-------------|--------------|
| | Balance | | Flows | |
| International reserves (B)-(C) | 202,399 | 199,314 | -166 | -3,085 |
| (B) Gross international reserve | 207,745 | 203,246 | -308 | -4,499 |
| Pemex | -- | -- | 0 | 350 |
| Federal government | -- | -- | -81 | -9 |
| Market operations | -- | -- | 0 | 0 |
| Other | -- | -- | -227 | -4,839 |
| (C) Short-term government's liabilities | 5,346 | 3,932 | -143 | -1,414 |

Source: Banco de México

The Timely Indicator of Economic Activity will likely suggest a rebound in July. This release will include the first estimate for July, as well as revised figures for June. We recall that May’s mid-point forecast stood at 1.5% y/y (using sa figures), higher than the [1.3% in the GDP-proxy \(IGAE\)](#). Turning to June, the [2Q22 preliminary GDP](#) surprised higher, with positive implied figures for the period. This was backed to some extent by [industrial production](#), which was better than the previous estimate, but lower relative to the GDP report. Considering what we know about services, despite the signal from GDP being positive, available data is somewhat mixed. Therefore, we believe the sequential print could stand close to 0.0%. For July, signals are relatively stronger, with the resumption of social programs payments and a moderation in COVID-19 contagions towards the end of the month. Nevertheless, [inflationary pressures remained](#), once again centered in food. As such, both [IMEF indicators](#) showed higher dynamism, seemingly bolstered by improvements in other figures, such as ANTAD sales.

Monthly GDP-proxy and the Timely Indicator of Economic Activity (TIEA)
% y/y sa



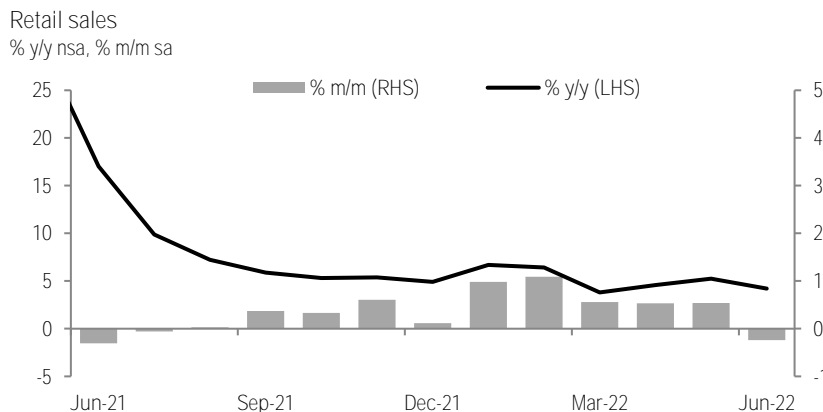
Source: INEGI

Retail sales to post a minor setback in June. We estimate +4.2% y/y, lower than the 5.2% of the previous month. Sequentially sales would break with ten consecutive months of increases, declining 0.2% m/m. Nevertheless, we believe this setback would be quite modest. Specifically, we think several adverse factors help explain the fall, including: (1) Distortions after the end of discount campaigns (mainly *Hot Sale*); (2) the acceleration in COVID-19 contagions towards the end of the month; and (3) the lack of social programs' payments for a third consecutive month, resuming until July due to the electoral ban

Available data so far is mixed, consistent with the deceleration. ANTAD sales moderated, standing at -0.1% y/y in real terms for same-stores (previous: 3.4%) and 2.1% for all-stores (previous: 5.5%). Similar to this, AMIA reported vehicle sales at 90.4 thousand units, which translated into a 2.6% m/m decline. On a positive note, gasoline sales accelerated sequentially to 721 kbpd from 709 in the previous month, which implies an annual expansion of 25.3%. Finally, [non-oil consumption goods imports](#) grew 1.8%, although moderating at the margin. Considering persistent price pressures, the signal is likely somewhat negative.

On fundamentals, news are more favorable. [Remittances](#) remained strong, given that, when measured in MXN, stood above \$100 billion a month for a second consecutive period. [Employment](#) managed to rebound after losses in the previous month, with a total of 281.0 thousand new positions. Nevertheless, wages decelerated, which is even more negative considering persistent inflationary pressures. Finally, [consumer loans](#) kept improving, which might provide some stability to the figures.

Although the result would be negative, it will probably mark only a pause in the recovery, with more favorable signs for July. As such, we believe dynamism in consumption will continue through the second half of the year, driven by an additional progress in fundamentals and economic activity. However, risks are higher, so we will be looking into its evolution in coming months.



Source: INEGI, Banorte

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Oscar Rodolfo Olivos Ortiz, Daniel Sebastián Sosa Aguilar and Salvador Austria Valencia 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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| HOLD | When the share expected performance is similar to the MEXBOL estimated performance. |
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