

Ahead of the Curve

Inflation to remain pressured on turn-of-the-year increases

- Inflation (1H-January).** We forecast headline inflation at 0.39% 2w/2w, above its five-year average (0.30%), with pressures still affecting several sectors. The period tends to have an adverse seasonality due to: (1) The increase in excise taxes –impacting gasolines and some processed foods (*e.g.* sugary drinks, alcoholic beverages, and cigarettes); and (2) usual beginning-of-the-year adjustments across goods and services. As such, we anticipate the core at 0.34% (contribution: +25bps), with the non-core up 0.53% (+13bps). If our forecast materializes, annual headline inflation would be unchanged relative to the second half of December at 7.86%, 90bps lower than its cycle-high of 8.76% in 1H-September. Similarly, both the core and non-core would remain at their previous levels of 8.34% and 6.46%, respectively
- Economic Activity Indicator (November).** We expect the monthly GDP-proxy IGAE at 3.5% y/y, lower than the 5.1% from October mostly on a more challenging base. Seasonally adjusted, this implies 3.7% y/y, with the difference explained by the holidays in the month (Day of the Dead and the Mexican Revolution). More importantly, it implies -0.3% m/m. Although the result is somewhat negative –especially after the 0.0% of the previous month–, it is consistent with our view of an economic expansion in the quarter

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general public

Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS	
Tue 24-Jan	7:00am	CPI inflation	1H January	% 2w/2w	<u>0.39</u>	0.39	0.10	
				%y/y	<u>7.86</u>	7.83	7.86	
		Core		%2w/2w	<u>0.34</u>	0.32	0.19	
				%y/y	<u>8.34</u>	8.32	8.34	
Tue 24-Jan	10:00am	International reserves	Jan-20	US\$ bn	--	--	200.6	
Wed 25-Jan	7:00am	Economic activity indicator sa	November	% a/a	<u>3.5</u>	4.0	4.4	
				% m/m	<u>-0.3</u>	-0.1	0.0	
				Primary activities	% a/a	<u>2.1</u>	--	4.7
				Industrial production	% a/a	<u>3.2</u>	--	3.1
		Services	% a/a	<u>3.8</u>	--	5.0		
Thu 26-Jan	7:00am	Unemployment rate sa	December	%	<u>2.89</u>	2.86	2.85	
				%	<u>3.10</u>	--	3.00	
Fri 27-Jan	7:00am	Trade balance	December	US\$ mn	<u>1,452.0</u>	885.0	-96.1	
				Exports	% y/y	<u>6.5</u>	--	8.0
				Imports	% y/y	<u>4.7</u>	--	8.1

Source: Banorte; Bloomberg

Proceeding in chronological order...

Annual inflation to hold steady in January, with an adverse seasonality at the turn of the year. We forecast headline inflation at 0.39% 2w/2w, above its five-year average (0.30%), with pressures still affecting several sectors. The period tends to have an adverse seasonality due to: (1) The increase in excise taxes –impacting gasolines and some processed foods (e.g. sugary drinks, alcoholic beverages, and cigarettes); and (2) usual beginning-of-the-year adjustments across goods and services. As such, we anticipate the core at 0.34% (contribution: +25bps), with the non-core up 0.53% (+13bps). If our forecast materializes, annual headline inflation would be unchanged relative to the second half of December at 7.86%, 90bps lower than its cycle-high of 8.76% in 1H-September. Similarly, both the core and non-core would remain at their previous levels of 8.34% and 6.46%, respectively.

In bi-weekly terms, core goods would climb 0.5% (+22bps). Processed foods should concentrate the expansion (0.7%; +15bps) on higher excise taxes and with cost pressures passed through, with some large-scale announcements of price adjustments in the previous month still being reflected. Moreover, ‘other goods’ would climb 0.4% (+7bps), with the effect of some discounts on clothing offsetting other upward adjustments. Services would be more mixed at 0.1% (+3bps), with housing maintaining a stable trend to the upside (0.2%; +2bps) and education up 0.4% (+1bp) on higher college tuitions. ‘Other services’ would be unchanged (0.0%; 0bps), with further declines in tourism-related categories –given the off-season– compensating for ‘dining away from home’ and other categories that tend to have more significant changes at the beginning of the year.

On the non-core, pressures would center on government tariffs (+1.5%; +6bps) and energy (0.5%; +5bps). Within the former, we recall that some government services are indexed to inflation in the previous year, which will push prices up. This type of adjustments affects both federal (e.g. passports, professional certificates), state (e.g. driver’s licenses, car licenses) and municipal services (e.g. property taxes, water supply). On energy, LP gas would be stable (0.0%; 0bps), but electricity tariffs not (0.6%; +1bp) as CFE announced progressive increases through 2023. Gasolines would be impacted by higher excise taxes –even with a higher subsidy– and an increase in international references, more than making up for a stronger MXN. As such, low-grade fuel is estimated to climb 0.6% (+3bps). In agricultural items (0.2%; +3bps), we see an expansion of both fruits and vegetables (0.2%; +1bp) and meat and egg (0.2%; +2bps). In the former, our monitoring showed mixed signals for tomatoes and husk tomatoes but declines in onions and lemons. For the latter, pressures in chicken seem larger, albeit partially offset by beef.

Weekly international reserves report. Last week, net international reserves increased by US\$900 million, closing at US\$200.6 billion (see table below). This was mainly due to a positive valuation effect in institutional assets. Year-to-date, the central bank’s reserves have increased by US\$1.5 billion

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

	2022	Jan 13, 2022	Jan 13, 2022	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	199,094	200,620	900	1,526
(B) Gross international reserve	201,143	206,307	5,075	5,163
Pemex	--	--	0	0
Federal government	--	--	3,864	3,853
Market operations	--	--	0	0
Other	--	--	1,211	1,310
(C) Short-term government's liabilities	2,049	5,686	4,175	3,637

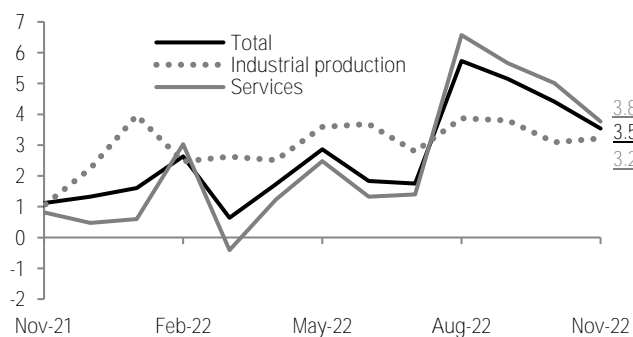
Source: Banco de México

Mild slowdown in activity in November. We expect the monthly GDP-proxy IGAE at 3.5% y/y, lower than the 5.1% from October mostly on a more challenging base. Seasonally adjusted, this implies 3.7% y/y, with the difference explained by the holidays in the month (Day of the Dead and the Mexican Revolution). This is lower than INEGI's [Timely Indicator of Economic Activity](#) at 4.1%. More importantly, it implies -0.3% m/m. Although the result is somewhat negative –especially after the 0.0% of the previous month–, it is consistent with our view of an economic expansion in the quarter.

As already published, [industrial production posted null growth](#) (0.0% m/m; 3.2% y/y). Construction (0.7% m/m) was up, particularly civil engineering. On the contrary, both mining (-0.5%) –impacted by related services– and manufacturing (-0.5%) contracted. In the latter, 12 of its 21 sub-sectors declined. On a positive note, we expect +1.4% m/m in primary activities (2.1% y/y), with the possible expansion already reflected both in [lower prices](#) and exports from the sector.

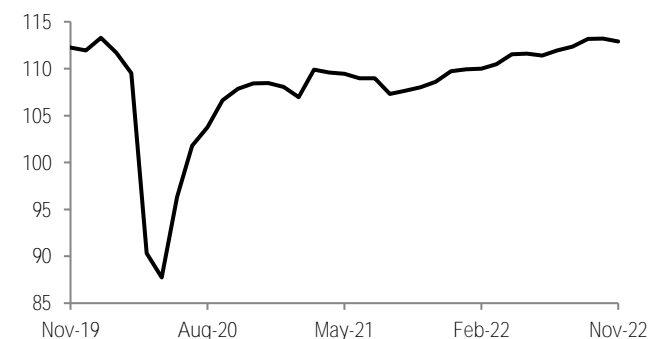
Figures for services are more negative at the margin, expecting a 0.5% drop (3.8% y/y). Some weakness persisted, even with tailwinds such as lower price pressures and the possible spillover from *El Buen Fin* (Mexico's Black Friday) and the 2022 FIFA World Cup. Nevertheless, fundamentals were mixed, with employment higher but remittances losing some dynamism. IMEF's non-manufacturing PMI increased by 1.8pts to 53.6pts. Nevertheless, only two of the four categories were better. Meanwhile, [retail sales fell 0.2% m/m](#), with mixed results. In tourism, air passenger traffic improved sequentially –both with nsa and sa figures–, albeit with hotel occupancy rates lower with seasonally adjusted data. Meanwhile, government activities could fall, while we will remain on the look to professional and support services, which have added four months of strong declines.

GDP-proxy IGAE
% y/y (nsa)



Source: INEGI, Banorte

GDP-proxy IGAE
Index (sa)

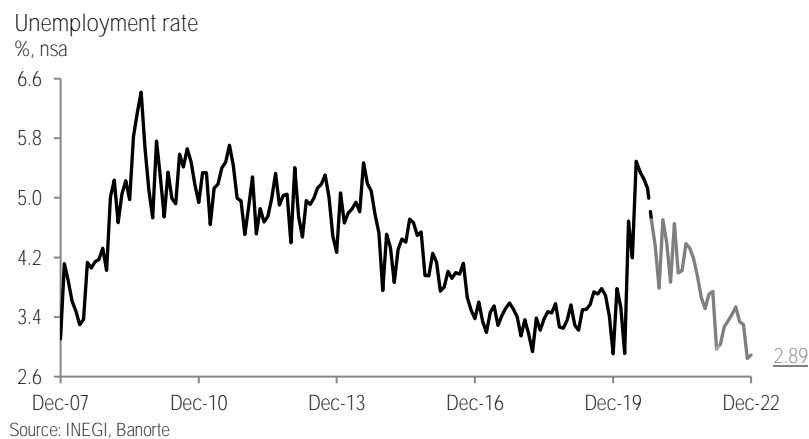


Source: INEGI, Banorte

Strong labor market in December despite an uptick in the unemployment rate. We expect the unemployment rate at 2.89% (original figures), up from 2.85% in November. This would happen despite more favorable seasonality –with a lower labor force due to the holiday period–, considering the strong downward adjustment of the previous month. As such, with seasonally adjusted figures, we anticipate a sharper adjustment, to 3.10% from 3.00%. Despite of this, we believe the labor market remains strong based on other indicators such as the expanded unemployment rate –which includes people classified as ‘available’ outside of the labor force– and the part-time rate. In this context, signs for activity are mixed, at least based on IMEF’s PMIs and the [Timely Indicator of Economic Activity](#). Regarding other figures, we expect a decline in the participation rate, in line with the period’s seasonality, while the part-time rate could also adjust lower. We expect more stability in terms of informality, still hovering below its long-term average. Finally, we will be looking into wages as [the announcement of the 20% increase to the minimum wage](#) happened early in the month, possibly having an impact already.

Timely data is mixed. IMSS reported 345.7 thousand less employees –usual for the period as some temporary contracts are not renovated. Nevertheless, with adjusted figures it implies a gain of 45.7 thousand, reversing the loss of 5.0 thousand seen in November. In aggregate trend indicators, employment components for manufacturing and non-financial services barely improved. Nevertheless, these had important setbacks in construction and commerce. Meanwhile, conditions in IMEF indicators also diverged, with manufacturing employment down (-1.1pts) but non-manufacturing higher (+1.0pts). Finally, *S&P Global’s* manufacturing PMI signaled an uptick as “...*job creation continued in December, marking a four-month sequence of growth...*”.

Despite of a higher unemployment rate, the report would show that the labor market remains in a position of strength. We believe this could be a driver for a better economic performance in 2023, even when adding several other headwinds for the Mexican economy.



Trade surplus in December, first time since March. We estimate a US\$1,452.0 million surplus (previous: -US\$96.1 million). This would be explained by a moderation in import growth (+4.7% y/y), with exports maintaining greater dynamism (+6.5%). Distortions from price changes would continue, particularly for energy, albeit with transportation costs rebounding at the margin. In a relevant manner, the situation in China could be positive for foreign trade given the elimination of the zero-COVID policy, possibly giving a breath of fresh air to supply chains.

We forecast a US\$2,281.9 million deficit in the oil balance, stable vs. November. Exports (-2.6% y/y) would reflect the decline to 65.96 US\$/bbl (-0.6% y/y) from 77.81 US\$/bbl (3.6%) in the Mexican oil mix, albeit with volumes –at least to the US– more favorable. In imports (-5.2%), prices were mixed –with gasoline futures rebounding, but gas extending lower–, while flows were more stable.

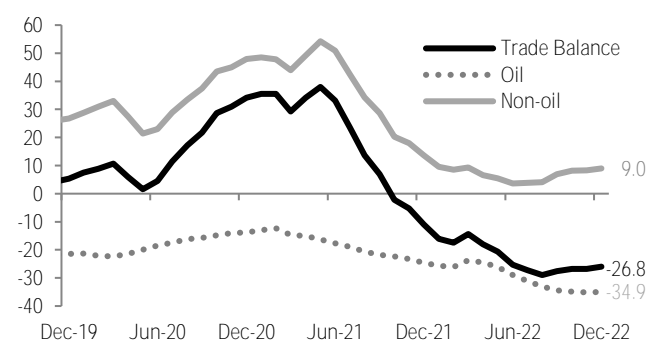
The non-oil balance would post a US\$3,734.0 million surplus, accelerating relative to the +US\$2,007.6 million of the previous month. Within exports (7.0% y/y), manufacturing would stay positive, boosted both by autos (10.5%) and ‘others’ (6.0%), with the former supported by light vehicles, as exemplified by AMIA exports (7.0%). This is positive considering a deceleration in US industrial production, which has stringed several months lower. Agricultural outflows would recover some dynamism (2.1%), helped by an increase in prices. Non-oil mining was likely favored by the same phenomenon (2.0%). In imports (6.0%), we expect a moderation in consumption flows (8.2%), as signaled by some timely indicators. Intermediate inflows would be more modest (5.2%), albeit expecting a larger effect from the price effects on these. Finally, in capital goods (10.2%), the appreciation of the MXN could have driven flows, particularly in a context of increased investment locally related to nearshoring.

Exports and imports
% y/y



Source: INEGI, Banorte

Trade Balance
US\$ billion, 12-month rolling sum



Source: INEGI, Banorte

Analyst Certification

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