BANORTE
Economic Research
Mexico

Ahead of the Curve

GDP would have grown 3.0% in 2022

- **Gross Domestic Product (4Q22 P).** We expect activity in the last quarter of 2022 at 3.3% y/y. This implies +0.3% q/q, moderating relative to the pace in the previous four quarters. This is a tad lower than our previous estimate of +0.5%. Some of the boost would come from a substantial acceleration in the latter part of 3Q22, providing stronger inertia to the period. Among other drivers, we note: (1) Additional pressures in core inflation; (2) further monetary tightening; (3) a deceleration in the US; and (4) heightened global recession fears. However, resilience in key sectors likely helped to avoid a more significant deceleration, with support from consumption fundamentals (*e.g.* employment and remittances), along a renewed boost in investment. In this context, primary activities would have led at 1.0% q/q (4.9% y/y), with services also positive at 0.2% (3.5% y/y). Industry would be more modest at 0.1% (2.5% y/y). With this, full-year GDP in 2022 would have grown 3.0%

- **IMEF's PMIs (January).** We expect a small decline in both indicators as risks have risen in the short-term. For manufacturing –which we expect with a 1.5pts decline to 50.3pts–, most of the impact would come from lower external demand, with timely data in the US depressed. Locally, budget constraints for families would impact services, driving non-manufacturing lower by 0.9pts to 52.6pts. However, both would remain in positive territory, suggesting that the economy maintained an upward trend in 1Q23

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 30-Jan		Budget balance (measured with PSBR)	December	MX$ bn	--	--	-766.9
Tue 31-Jan	7:00am	GDP	4Q22 (P)	% y/y	3.3	3.4	4.3
		sa		% q/q	0.3	0.3	0.9
		Primary activities		% y/y	4.9	--	3.6
		Industrial production		% y/y	2.5	--	3.5
		Services		% y/y	3.5	--	4.5
Tue 31-Jan	10:00am	International reserves	Jan-27	US$ bn	--	--	200.9
Tue 31-Jan	10:00am	Commercial banking credit	December	% y/y in real terms	4.9	--	4.8
		Consumption		% y/y in real terms	9.2	--	9.0
		Mortgages		% y/y in real terms	3.6	--	3.9
		Corporates		% y/y in real terms	3.5	--	3.3
Wed 1-Feb	10:00am	Family remittances	December	US$ mn	5,314.1	4,950.0	4,801.1
Wed 1-Feb	10:00am	Banxico's survey of economic expectations	January				
Wed 1-Feb	1:00pm	IMEF's PMI survey	January				
		Manufacturing		index	50.3	--	51.8
		Non-manufacturing		index	52.6	--	53.5
Fri 3-Feb	7:00am	Consumer confidence (sa)	January	index	42.8	--	42.5

Source: Banorte; Bloomberg

Proceeding in chronological order…

MoF's public finance report (December). Attention will center on the Public Balance and Public Sector Borrowing Requirements (PSBR), which accumulated a year-to-date deficit of $766.9 billion (until November). Focus will be on progress relative to the estimates outlined in the General Economic Policy Criteria. In revenues, oil-related will probably remain high due to prices, awaiting data on income taxes and VAT collection. We will pay attention to excise taxes, considering that international prices rose in the period. On spending, we will follow financial costs and programmable spending –especially in autonomous and administrative branches–, along with outlays by Pemex and CFE. We will also analyze public debt, which amounted to $13.6 trillion in November (as measured by the Historical Balance of the PSBR). Finally, given that this is a Quarterly Report, we will attend the analysts' call, taking place on Tuesday, January 31st.

GDP likely finished 4Q22 on a positive note, with full-year growth at 3.0%. We expect activity in the last quarter of 2022 at 3.3% y/y (previous: 4.3%). This implies +0.3% q/q, moderating relative to the pace in the previous four quarters. This is a tad lower than our previous estimate of +0.5%. Some of the boost would come from a substantial acceleration in the latter part of 3Q22, providing stronger inertia to the period. Among other drivers, we note: (1) Additional pressures in core inflation; (2) further monetary tightening; (3) a deceleration in the US; and (4) heightened global recession fears. However, resilience in key sectors likely helped to avoid a more significant deceleration, with support from consumption fundamentals (*e.g.* employment and remittances), along a renewed boost in investment. In this context, primary activities would have led at 1.0% q/q (4.9% y/y), with services also positive at 0.2% (3.5% y/y). Industry would be more modest at 0.1% (2.5% y/y). With this, full-year GDP in 2022 would have grown 3.0%.

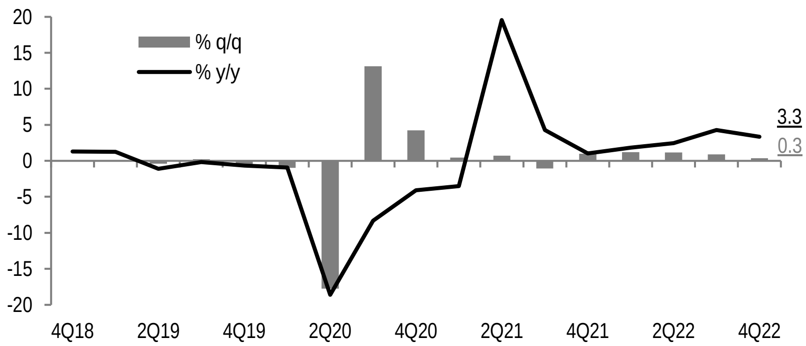
Considering that we already have data for the first two months of the quarter –with an average expansion of 3.9% y/y–, we turn our attention to December. Our GDP estimate implies +0.1% m/m in the period's GDP-proxy IGAE (+2.0% y/y). Part of the uptick would be due to a more favorable base, as overall signals remained somewhat mixed. As a reference, our estimate would be lower than INEGI's latest estimate within the *Timely Indicator of Economic Activity*.

By sectors, we forecast a sequential decline in industry. Within mining, oil sector data from *CNH* was mixed, with a slight increase in oil (1,617 kbpd from 1,607 kbpd), but with gas lower at the margin. However, we expect the full sector to climb, boosted by 'related services' after declining in November. For construction, dynamism could have continued, in part because of a further moderation in prices (with the sector's PPI lower for a fourth consecutive month), and with employment improving both in IMSS and INEGI (with sa figures). We believe some of the boost is linked to ongoing projects related to nearshoring. Signals for manufacturing were also mixed, with IMEF's PMI accelerating to 51.8pts. Meanwhile, the trade balance showed manufacturing exports at -2.7% m/m, dragged by 'others' (-2.9%), in line with a moderation in US activity.

However, auto production rebounded strongly, up 4.4% even after +2.4% in November.

On services, we forecast a sequential uptick, especially after the sharp decline of the previous month. Overall, IMEF's non-manufacturing indicator was steady at 53.5pts. By sectors, retail sales would be stronger, with ANTAD sales back in positive territory, noting same-store sales at 1.1% y/y in real terms (previous: -1.6%). Auto sales expanded 9.6% m/m, surprising higher. Moreover, consumption goods imports expanded by 0.6%, its first increase since June. However, tourism seems to have slowed its pace of growth –at least based on air passenger traffic from privately operated airports–, subtracting from the overall boost. In addition, professional and support services will likely remain to the downside, even after moving lower for the past seven months.

GDP
% y/y nsa, % q/q sa



Source: INEGI, Banorte

Weekly international reserves report. Last week, net international reserves increased by US$269 million, closing at US$200.9 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$1.8 billion

Banxico's foreign reserve accumulation details
US$, million

	2022	Jan 20, 2022	Jan 20, 2022	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	199,094	200,889	269	1,795
(B) Gross international reserve	201,143	206,002	-305	4,858
Pemex	--	--	0	0
Federal government	--	--	-388	3,465
Market operations	--	--	0	0
Other	--	--	83	1,393
(C) Short-term government's liabilities	2,049	5,113	-574	3,064

Source: Banco de México

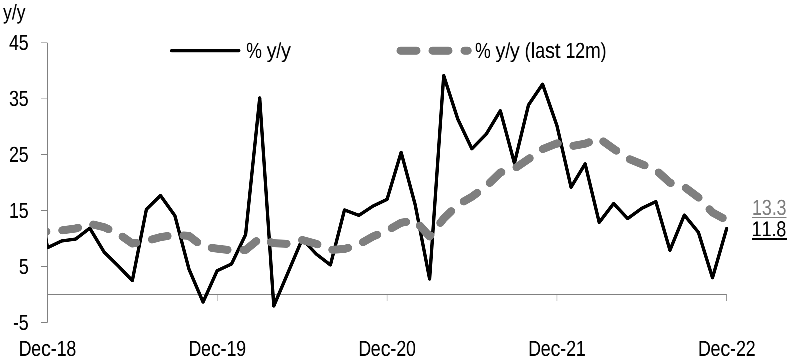
Banking credit kept growing in December. We anticipate a 4.9% y/y expansion, stringing nine months in positive territory. We think the recovery continued given improved fundamentals. Meanwhile, the arithmetic effect from inflation is practically negligible, as annual inflation rose only by 2bps to 7.82%. Given prevailing price pressures, and considering the holiday period, we believe families kept using loans to smooth their consumption patterns. On the other hand, corporate credit could have been benefited by nearshoring efforts, albeit in a limited fashion on higher financing costs. Looking at the details, consumer loans would stand at 9.2% (previous: 9.0%), corporates at 3.5% (previous: 3.3%), and mortgages at 3.6% (previous: 3.9%).

Remittances expected to have gathered some momentum in December despite more challenging conditions. We expect remittances at US$5,314.1 million, accelerating relative to November. Part of this would be driven by a more favorable seasonality, in our view related to the holidays. This would imply 11.8% y/y vs +3.0% in the previous month, which in our view was surprisingly low.

In this context, US employment conditions were somewhat dampened, limiting a more substantial acceleration. Non-farm payrolls showed a net creation of 223k positions, moderating vs the +263k in November, with the unemployment rate down to 3.5% (previous: 3.7%). However, the latter metric for Hispanics and Latinos increased to 4.1% from 4.0%. For Mexicans, we estimate it rose by 46bps, to 4.1%. The working age population –including 'natives', 'non-native citizens', and 'non-citizens' (legal or illegal)– increased by 67k. However, there were 26k fewer employees. Some caution is granted as these figures are subject to high seasonality. Nevertheless, the trend of employment has been to the downside in four out of the five latest months, raising some flags for dynamism ahead. On activity in the US, PMIs from *S&P Global* suggests an additional moderation, with the composite index falling to 45.0pts, its lowest reading since August. This is consistent with data from construction –which employs an important number of migrants–, with housing starts (-1.4% m/m) and building permits (-1.6%) contracting. However, price pressures declined further, partly aided by lower gasoline prices. Finally, the MXN depreciated in the period, particularly in the first half, before the holidays, which could have boosted flows even further.

With this, remittances would have accumulated a total of US$58,452.7 million in the year, a new historical high, up 13.3% vs 2021. While it is an inch below our latest estimate (at US$59-60 billion), it would still have been great, with Mexican migrants a key support for their families back home, as well as the country.

Family remittances
% y/y



Source: Banxico, Banorte

Banxico's survey of expectations. Focus will be on inflation, growth, the reference rate, and exchange rate. On prices, the year-end 2023 median stands at 5.1%, above our 4.8%. Considering most recent surveys and data, this figure might hold. We do not see large moves in medium and long-term expectations, remaining above target. On GDP, 2023 is estimated at 0.9% (Banorte: 1.5%), likely stable with no new information yet. The year-end value for the reference rate stands at 10.25%, higher than our 10.00%.

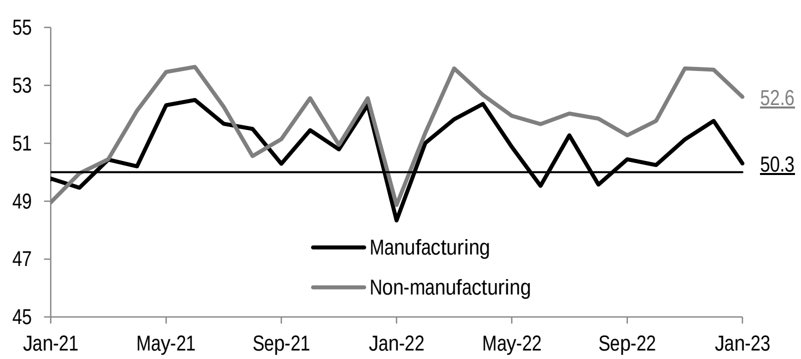
On the path, +50bps are expected in 1Q23 –matching our view–, with cuts materializing in 3Q23. Lastly, the exchange rate is anticipated at USD/MXN 20.80 by December (Banorte: 20.20).

Some setbacks in IMEF's PMIs at the turn of the year. We expect a small decline in both indicators as risks have risen in the short-term. For manufacturing, most of the impact would come from lower external demand, with timely data in the US depressed. Locally, budget constraints for families would impact services, driving non-manufacturing lower. However, both would remain in positive territory, suggesting that the economy maintained an upward trend in 1Q23.

In this sense, we expect manufacturing at 50.3pts (from 51.8pts). As mentioned, most of the drag from abroad. US industrial production has declined since October and likely extended through January. At least according to *S&P Global*, input prices accelerated in January. In addition, the *Empire Manufacturing* showed its lowest level since May 2020. Moreover, fears of a recession intensified after industry data for December in that country, –with manufacturing still the most affected sector. On energy, signals are mixed. Oil prices rose, but natural gas maintained its downward trend. On a more positive note, transportation costs (*Baltic Dry index*) intensified their move down in January, at levels not seen since June 2020. Locally, we do not rule out higher input prices, both due to start-of-the-year adjustments and the trajectory of energy sources. Finally, we continue to monitor supply chains conditions –favored in the short-term by China's reopening. Given this, we expect the indicator to keep hovering around the 50pts threshold. Thus, we anticipate moderate declines in 'production' and 'new orders', as well as lower volatility in 'inventories'.

Non-manufacturing would have decline modestly, from 53.5pts to 52.6pts, given somewhat mixed signals. The main drag would be a harsher household budget constraint. To the above we must add an acceleration in inflationary pressures during the first half of January –with significant adjustments in services and processed foods, as well as a trend change in energy. Additionally, we do not rule out that households keep postponing non-priority consumption decisions. Due to all the above, we expect a contraction in 'production' and 'employment'.

IMEF indicators
Diffusion indicators, sa

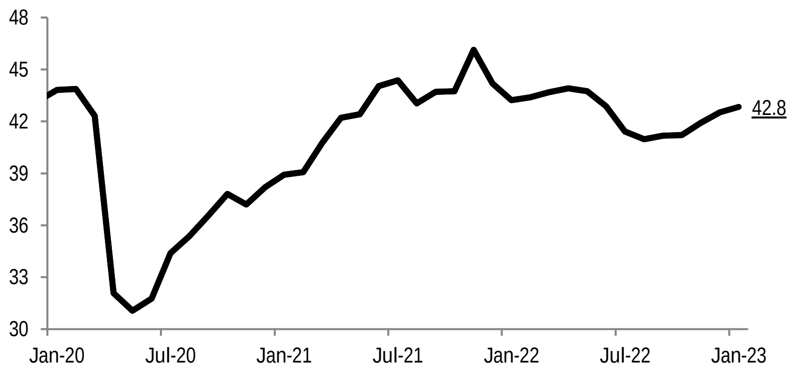


Source: IMEF, Banorte

Consumer confidence to inch higher at the turn of the year. We anticipate a slight increase of 0.3pts to 42.8pts. This would be justified by the 20% minimum wage increase. In addition, we believe that lower inflationary pressures –particularly in energy and meat & egg at the end of 2022– would have a positive effect on households' perceptions.

However, a substantial increase would be limited by: (1) A decrease in households' disposable income after spending incurred in December; (2) usual beginning-of-the-year price increases, especially in government services and products with excise taxes (*e.g.* gasoline, sugary drinks), but also in electricity rates this time around.

Consumer confidence
Points, seasonally adjusted



Source: INEGI

Analyst Certification

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HOLD	When the share expected performance is similar to the MEXBOL estimated performance.
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