Ahead of the Curve

Inflation to moderate slightly as some turn-of-the-year pressures start to fade

- **Inflation (February).** We anticipate headline inflation at 0.61% m/m, moderating at the margin. Regarding the period's dynamics, some pressures seen in the first fortnight would have extended. However, we saw more stability in energy in the latter part of the month, which would partially help to moderate the expansion. As such, we expect the core at +0.66% (contribution: +49bps), with the non-core up 0.45% (+11bps). If our forecast materializes, annual headline inflation would decline to 7.67% from 7.91%. Similarly, both components would be lower, with the core at 8.35% (previous: 8.45%) and the non-core at 5.70% (previous: 6.32%)

- **Gross fixed investment (December).** We expect GFI at 8.3% y/y (previous: 6.6%), which in sequential terms translates into a 2.5% m/m expansion. Overall signs were more positive, on top of total economic activity being more favorable in the period, which may have provided additional support. Inside, we expect strength to center in construction (+3.6% m/m), but with machinery and equipment also positive (+1.0% m/m)

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Mexico weekly calendar

DATE	TIME (ET)	EVENT	PERIOD	UNIT	BANORTE	CONSENSUS	PREVIOUS
Mon 6-Mar	7:00am	Gross fixed investment	December	% y/y	8.3	--	6.6
		sa		%m/m	2.5	--	0.0
		Machinery and equipment		% y/y	9.9	--	12.6
		Construction		% y/y	6.9	--	1.7
Mon 6-Mar	7:00am	Private consumption	December	% y/y	2.8	--	4.1
		sa		%m/m	0.6	--	-0.6
		Domestic (Goods and services)		% y/y	2.8	--	3.7
		Imported (Goods)		% y/y	2.6	--	6.6
Tue 7-Mar	7:00am	Consumer confidence (sa)	February	index	43.8	--	44.2
Tue 7-Mar	10:00am	International reserves	Mar-3	US$ bn	--	--	200.1
Tue 7-Mar	10:00am	Citibanamex survey of economic expectations					
Thu 9-Mar	7:00am	CPI inflation	February	% m/m	0.61	--	0.68
				% y/y	7.67	--	7.91
		Core		% m/m	0.66	--	0.71
				% y/y	8.35	--	8.45
Fri 10-Mar		Wage negotiations	February	%	--	--	10.9

Source: Banorte; Bloomberg

Proceeding in chronological order…

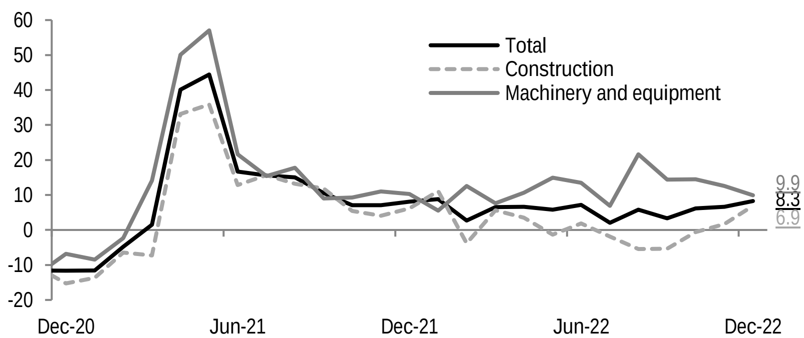
Investment to rebound in December, with broad strength. We expect GFI at 8.3% y/y (previous: 6.6%), which in sequential terms translates into a 2.5% m/m expansion. Overall signs were more positive, on top of total economic activity being more favorable in the period, which may have provided additional support.

Machinery and equipment would advance 1.0% m/m (9.9% y/y), with both components higher. Strength would center in the imported component, expecting +3.3% (9.5% y/y). This would be consistent with a better performance of capital goods imports in the trade balance. In addition, the slight depreciation of the MXN vs the previous month could have had a positive accounting effect. Meanwhile, the domestic component would grow 0.9% (10.6% y/y). We believe signals are favorable, highlighting the 0.5% m/m uptick in manufacturing output. Inside, key sectors had a better performance, such as transportation (3.6%), machinery and equipment (4.5%), and electrical equipment (1.9%).

On a more positive note, we expect 3.6% m/m in construction (6.9% y/y), particularly favorable after climbing 1.4% in November. This would be mostly in line with the industrial production report, at +2.7%. Inside, all components were higher. In addition, 'services related to mining' increased 13.4%, which may add dynamism to the non-residential sector. Both INEGI's employment report and figures from IMSS remained strong. Lastly, spending in physical investment by the Federal Government accelerated to +53.3% y/y in real terms, albeit recalling that year-end figures tend to be inflated because of accounting practices.

Overall, the outlook for investment has improved. Some bright spots keep gathering strength, mainly related to nearshoring. Nevertheless, risks stemming from additional monetary tightening persist.

GFI
% y/y



Source: INEGI, Banorte

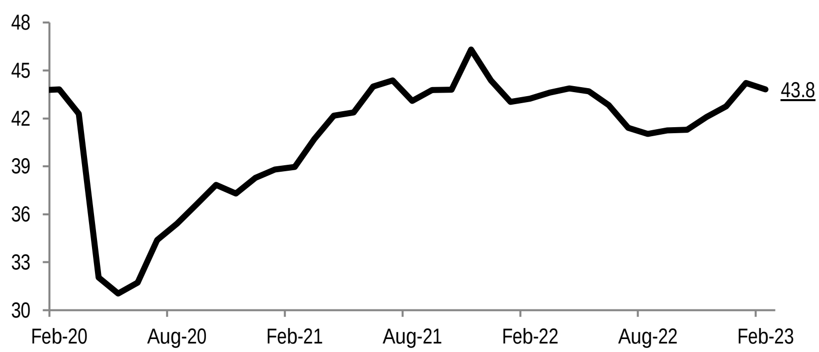
Consumption to rebound in December. We forecast private consumption at 2.8% y/y (previous: 4.1%), with an additional normalization in annual figures. This translates into a 0.6% sequential expansion, which would be consistent with a more favorable backdrop for activity. Nevertheless, we must mention that this would only happen after a contraction of the same magnitude in the previous month, suggesting that the situation remains somewhat challenging. In this context, fundamentals remained solid, while timely data improved marginally.

Regarding the former, the unemployment rate stayed quite low –despite a negative seasonality on jobs, while wages improved. Meanwhile, remittances accelerated substantially, reaching US$5,358.8 million. Going to data, services inside the monthly GDP-proxy rose 0.3% m/m, with six out of nine categories higher –noting the +1.6% in lodging and restaurants. Both retail sales and other timely figures were favorable. At the margin, annual inflation rebounded, albeit with a divergence between the core and non-core, which may have a differentiated impact on the result. Inside, we expect both sectors to grow, albeit with imported goods leading at 1.1% m/m (2.6% y/y). This would be consistent with the 0.7% increase in non-oil consumption goods imports. Meanwhile, the domestic component would show a more modest increase at 0.8% (2.8% y/y), anticipating improvements both in goods and services.

In the short-term, we believe dynamism continued in January, at least when considering ANTAD and AMIA figures. Going forward, we expect fundamentals to remain resilient, supporting consumption throughout the year despite relevant risks for activity.

Consumer confidence to inch lower in February after a sharp uptick. We anticipate a 0.4pts decline in the indicator to 43.8pts, partly explained by a base effect, awaiting a normalization after the strong increase in the previous month. Specifically, we believe said expansion was driven by the coming into force of the 20% increase to the minimum wage. Nevertheless, for February, we believe the boost from this factor could have diminished. In addition, prevailing price pressures in the 1st half of the month –even despite a downward surprise– likely kept impacting households' perceptions. On a positive note, we do not rule out some support given an additional appreciation of the MXN.

Consumer confidence
Points, seasonally adjusted



Source: INEGI

Weekly international reserves report. Last week, net international reserves decreased by US$291 million, closing at US$200.1 billion (please refer to the following table). This was mainly because of a negative valuation effect in institutional assets. Year-to-date, the central bank's reserves have increased by US$989 million.

Banxico's foreign reserve accumulation details
US$, million

	2022	Feb 24, 2023	Feb 24, 2023	Year-to-date
	Balance		Flows	
International reserves (B)-(C)	199,094	200,083	-291	989
(B) Gross international reserve	201,143	204,343	-626	3,199
Pemex	--	--	0	0
Federal government	--	--	-65	2,826
Market operations	--	--	0	0
Other	--	--	-561	373
(C) Short-term government's liabilities	2,049	4,260	-335	2,210

Source: Banco de México

Slight moderation in inflation as some turn-of-the-year adjustments start to fade. We anticipate headline inflation at 0.61% m/m, moderating at the margin. Regarding the period's dynamics, some pressures seen in the first fortnight would have extended. However, we saw more stability in energy in the latter part of the month, which would partially help to moderate the expansion. As such, we expect the core at +0.66% (contribution: +49bps), with the non-core up 0.45% (+11bps). If our forecast materializes, annual headline inflation would decline to 7.67% from 7.91%. Similarly, both components would be lower, with the core at 8.35% (previous: 8.45%) and the non-core at 5.70% (previous: 6.32%)

Regarding monthly core dynamics, the upward adjustment in goods remains relevant (0.7%; +29bps). Once again, processed foods would be most affected at 0.7% (+16bps). Our monitoring shows higher prices in dairy and flour-related products. Other goods would moderate the pace of expansion during the second fortnight, up 0.7% in monthly terms, (+13bps), albeit still impacted by the end of winter discounts on clothing. In services (0.6%; +20bps), housing would be more stable at 0.3% (+5bps), moderating at the margin. In education (0.8%; +3bps), the increase centered in college tuitions. In 'other services' (0.8%; +13bps), we still see increases in 'dining away from home'. On the contrary, tourism categories would have had a marginal contribution to the upside.

Within the non-core, energy prices would advance 0.7% (+7bps). LP gas would have increased 4.0% (+7bps), with the moderation in the 2nd half not enough to compensate for the previous increase. Meanwhile, gasolines would be more stable, with the benefits from lower international prices and a stronger exchange rate offset by reductions in the excise tax subsidies. As such, we expect low-grade fuel at 0.2% (+1bp). Finally, and somewhat surprising, electricity dropped 0.5% (-1bp). In agricultural items (0.1%; +1bp), fruits and vegetables would fall 2.9% (-15bps), with favorable dynamics in the first half not extending to the second, as well as little clarity about the usual increases due to the Lenten period. In meat and egg (2.6%; +16bps), pressures on eggs and chicken were notorious throughout the month. Finally, on government tariffs, we note increases in some federal toll roads in the first half, leading us to expect a 0.8% increase (+3bps).

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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, Cintia Gisela Nava Roa, 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, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, 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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