

Latam Daily: Mexico GDP, Data-Dependent Banxico, Weak January Labour Market

- **Mexico: Q4 GDP confirms a better than expected recovery; Banxico minutes signal data-dependent approach; disappointing January labour market**

MEXICO: Q4 GDP CONFIRMS A BETTER THAN EXPECTED RECOVERY; BANXICO MINUTES SIGNAL DATA-DEPENDENT APPROACH; DISAPPOINTING JANUARY LABOUR MARKET

I. Q4 GDP confirms a better than expected recovery

According to INEGI, the final [estimate](#) for Q4-2020 GDP revealed Mexico's recovery was slightly better than the early estimate. Growth slowed from 12.4% q/q sa in Q3 to 3.3% sa in Q4 (chart 1), versus a the prior estimate of 3.1% q/q. Industrial growth slowed from 22.3% q/q in Q3 to 3.9% q/q in Q4; growth in services also ratcheted back from 9.0% q/q to 3.2% q/q and growth in the agricultural sector moderated from 12.4% q/q to 3.3% q/q.

The Q4 numbers imply that the average real GDP growth rate during 2020 was -8.3% y/y, the largest calendar-year drop in real GDP since the current series began in 1994, but below our earlier estimate of -9.1% y/y. GDP has now contracted for two consecutive years for the first time since the 2001–02 period owing to the structural weaknesses the Mexican economy faced before the COVID-19 crises began.

On the same day, INEGI also released, in a separate [report](#), the monthly GDP proxy for December which revealed that the recovery of the Mexican economy lost momentum after growing at the slowest pace observed since the “re-opening” of the economy last June. Economic activity grew 0.1% m/m in December from November and contracted -2.7% y/y. Recent data (retail sales, ANTAD same store sales and PMIs) suggest that we underestimated Q4-2020, but may be somewhat over-estimating the level of activity for Q1-2021. In next week's LATAM weekly we'll release our updated forecasts, which will reflect a weaker Q1-2021, but a stronger H2-2021 forecast based on what is likely stronger services activities due to vaccination campaign progress both domestically and abroad and robust US growth.

II. Banxico minutes signal data-dependent approach

Mexico's central bank (Banxico) published the [minutes](#) of its last monetary policy meeting on Thursday, where the Board cut the reference rate -25 bps to 4.00%. The February 11 decision took many investors by surprise, as the majority were anticipating a split vote, which came out as unanimous. Our view from the minutes is that the message was more balanced than the dovish interpretation that was given to the unanimity of the vote. Although the Board does leave the door open to more easing, it leads us to believe it will be on a strongly data-dependent basis as we had already anticipated. Once the expected pickup in inflation in the second quarter has passed, a window of opportunity for additional cuts should open again. Our current forecast anticipates -50 bps in cuts during Q3-2021.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

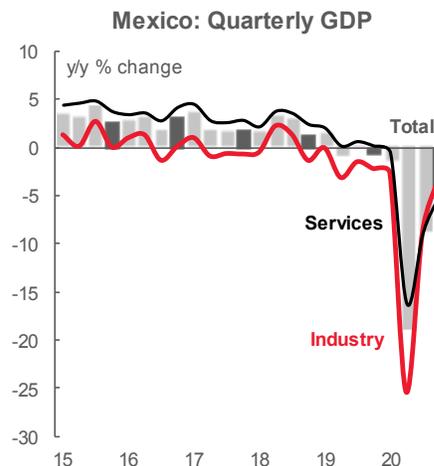
Jorge Selaive
56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Paulina Villanueva
52.55.5123.6450 (Mexico)
Scotiabank Mexico
pvillanuevac@scotiabank.com.mx

Chart 1



The most notable comments we saw in the minutes suggest that there are 2 more cautious members of the Board, which we believe are Governor Diaz de Leon, and Deputy Governor Espinoza, who see less room for further easing. However, there are still 3 Board members who appear to see room for further stimulus going forward—implying that our 2 expected additional cuts are likely to be delivered based on the information we currently have available. At least one member of the Board seemed somewhat more cautious given the adjusting external conditions, where higher rates could limit Banxico's room for additional stimulus. One Board member noted that easing had to be undertaken with caution due to the risk of capital flow reversal. In addition, another member, hinted that a window to ease further may have been missed in November–December, and that with the looming base-effect & energy price driven spike in inflation we're likely to see in the coming few months, it could become necessary for Banxico to take a more measured approach. Overall, we still see room for further cuts, but the minutes suggest a more prudent stance by the Board than what we, and we believe markets, perceived in the post-decision statement.

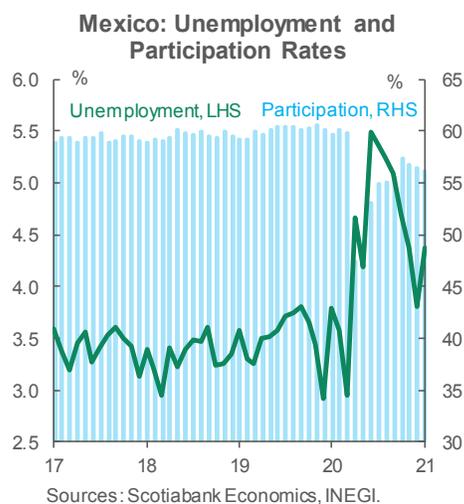
III. Labour market deteriorates in January

January's unemployment rate, released on Thursday, was 3.73%, above the consensus expectation of 4.37% and the previous 3.80% (chart 2) suggesting that employment remains vulnerable and that labour market conditions have deteriorated for a large part of the population. Moreover, one quarter of the people who became unemployed at the beginning of the pandemic are still out of work, which puts about three million Mexican workers in a very difficult situation. Uncertainty and still shaky investment are likely weighing on employment at the start of 2021. In absolute terms, participation in the labour market shrunk in January:

- Total labour force contracted from 54.9 to 54.5 mn persons;
- The formally employed population decreased from 52.8 mn to 52.0 mn persons;
- The number of informally employed also decreased from 29.5 mn to 28.9 mn; and
- 15% of the employed population would like to work more hours to obtain a higher income.

The non-economically active population increased on a monthly basis from 9.4 mn to 9.5 mn persons, indicating a small increase in discouraged workers.

Chart 2



—Eduardo Suárez & Paulina Villanueva

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V, Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.