Latam Daily: Mexico's Survey Outlook and Remittances Rise; Peru Inflation Forecast Up

- **Mexico: Outlook improves in Banxico survey; remittances hit new record**
- **Peru: Raising our inflation forecast for 2021; early positive signs on December 2020 growth**

MEXICO: OUTLOOK IMPROVES IN BANXICO SURVEY; REMITTANCES HIT NEW RECORD

I. Banxico Survey expects slightly better recovery for 2021

In Banxico's Survey of Economists for the first month of 2021, released on Tuesday, February 2, the outlook for GDP growth became slightly more positive. Respondents anticipated further GDP expansion to average a 3.74% y/y rebound in 2021, up from an average of 3.54% y/y in the December survey. The improvement in the forecast appears to reflect stronger recovery in external demand, particularly from the US, rather than a recovery in the domestic market where the growth impulse remains weak.

In other major features of the survey, we noted that:

- **The expected economic recovery in 2022** improved slightly from 2.59% y/y to 2.61% y/y;
- **Headline inflation expectations** increased marginally for the end of 2021 and 2022 to 3.65% y/y and 3.55% y/y, respectively, but remain within the monetary-policy target range of 2–4% y/y;
- Forecasts for the **exchange rate** at the end of both 2021 and 2022 appreciated with respect to the December survey and the Mexican currency is now expected to close 2021 at USDMXN 20.18 and 2022 at USDMXN 20.59;
- As for **monetary policy**, the results showed that from Q1-2021 and throughout the forecast horizon, most specialists anticipate an interbank funding rate lower than the current target rate of 4.25%: the median and mode for end-2021 are both 3.75%. Analysts expect the benchmark policy rate to rise thereafter to 4.25% by end-2022. The next monetary-policy meeting is scheduled for February 11;
- The outlook for the **labour market** also improved; analysts now anticipate a recovery of 382k formal jobs by the end of 2021 and the creation of 390k jobs during 2022. Although an increase in formal jobs is positive for the economy, the number of new jobs expected for this year would not be enough to compensate for the -647k positions lost during 2020. In addition, the extension of public-health-related restrictions to more states could negatively affect the recovery of the economy's dynamism and employment growth;

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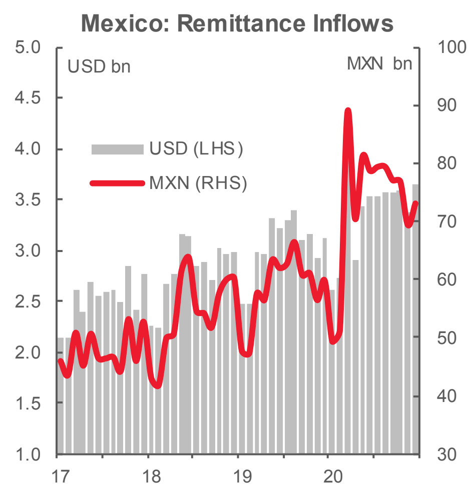
Chart 1



Sources: Scotiabank Economics, INEGI.

- Regarding the forecasts for the **public deficit** as a percentage of GDP, the average deficit projected for end-2021 narrowed from 3.85% in December to 3.41% in January; for 2022, it is projected to reach 3.25%; and

- The main factors expected to hinder Mexican economic growth in 2021 were domestic economic conditions (44%), governance (31%); and public finances (12%).

II. Another record for remittances in December

According to data released by INEGI on February 2, remittances totaled USD 3.7 bn in December and USD 40.6 bn for the whole of 2020 (chart 1)—record flows for both periods. Compared with the year before, December's remittance inflows were up 17.4% y/y, which put 2020's number up 11.4% y/y compared with 2019. The number of transfers in December, at 10.8 mn, was also a record, which pushed growth in the number of transactions up from 9.2% y/y in November to 13.2% y/y in December. The average value of each transfer, at USD 339, represented a moderation in annual growth from 5.8% y/y in November to 3.7% y/y in December. Remittances were not hit by recent hiccups in the US labour market.

Looking ahead, further economic recovery in the US, supported by a new fiscal stimulus package, should continue to drive strong remittance flows into Mexico during 2021.

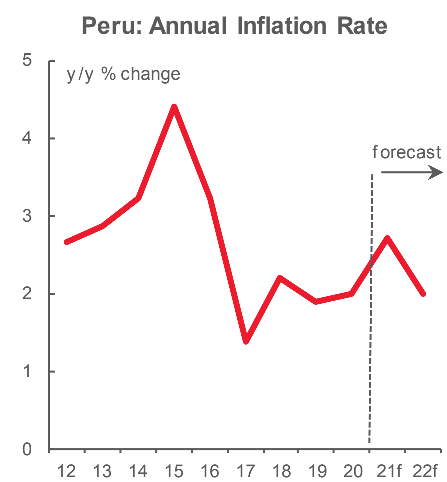
—Miguel Saldaña

PERU: RAISING OUR INFLATION FORECAST FOR 2021; EARLY POSITIVE SIGNS ON DECEMBER 2020 GROWTH

I. We're raising our inflation forecast for 2021 to 2.6% y/y from 2.0% y/y

In the *Latam Daily* for Tuesday, February 2, we reported that 12-month inflation to January reached 2.7% y/y for Lima, which is usually taken as the benchmark official figure. After further review of the underlying data, we are now raising our forecast (see the January 25 *Latam Weekly*) for 2021 inflation from 2.0% y/y to 2.6% y/y (chart 2).

Chart 2



Sources: Scotiabank Economics, BCRP.

Inflation has consistently surprised to the upside over the past few months. For a long time during 2020, we, market consensus, and the BCRP had been forecasting low inflation based on the argument that COVID-19 and the consequent lockdown would hurt demand. The BCRP had even forecast at one point that 2020 inflation would be nil. In the end, it came in at 2.0% y/y.

The main driver for inflation seems to be import prices owing to pass-through effects from the weak PEN. Fuel and soft commodity prices (particularly maize and soybean-based animal feed) have risen in USD terms and the weakness of the PEN has exacerbated these price pressures in local-currency terms. The full extent of the eventual impact of these price increases has probably not yet been felt, particularly since commodity prices have continued to rise in 2021 and are set to increase further. Moreover, there is likely to be a lag in the full price pressures they induce across the economy as they filter up the value chain. Health-product prices have also contributed to inflation and this is also likely to continue going forward given the ongoing second wave of COVID-19.

The BCRP is also adapting its outlook on inflation. In its December *Inflation Report*, the BCRP raised its forecast for 2021 from 1.0% y/y to 1.5% y/y. This was before the January print, although the central bank's relatively modest inflation outlook may also reflect the fact that only the headline inflation rate is rising, while core inflation has remained at 1.8% y/y.

Our new inflation forecast of 2.6% y/y is still within the BCRP target range of 1% y/y to 3% y/y. For this reason, and more broadly because the main concern of the BCRP today continues to be the provision of stimulus to support the recovery of the economy, we do not see the BCRP raising its reference rate in 2021; we maintain our forecast that a rate hike will not be forthcoming before mid-2022 given that we still foresee inflation settling to around 2% y/y in 2022. However, we are not quite as confident in our view as we were previously as we see more uncertainty in the inflation trend than before.

II. Early growth indicators for December 2020 more positive than negative

The following early growth figures and indicators for December were released on February 2 by the National Statistics Institute and skewed more positive than negative.

- **Fishing** soared 108.5% y/y in December. The month was the height of the fishing season, although activity in January should also have been strong. This alone would add nearly one full percentage point to GDP growth in December.
- **Mining** fell -2.5% y/y. This was unsurprising.
- **Oil & gas** fell -10.9% y/y, although the sector does not carry a large weight in overall GDP. Oil production in particular has been declining for some time.
- **Domestic cement consumption** was up 21.5% y/y in the month. At the same time, public investment rose 26.7% y/y. The combination implies that construction GDP growth in December could have been close to 20% y/y.

All in all, these figures imply that December GDP growth likely fell somewhere between -0.5% y/y and -1.0% y/y, which would compare nicely with -2.8% y/y in November.

—Guillermo Arbe