March 3, 2021

Latam Daily: Banxico Survey Growth Outlook Strengthened; January Data Soft in Peru

- **Mexico: Banxico *Survey of Economists* for February pointed to higher growth in 2021**
- **Peru: Initial January data were on the soft side**

MEXICO: BANXICO *SURVEY OF ECONOMISTS* FOR FEBRUARY POINTED TO HIGHER GROWTH IN 2021

In Banxico's *Survey of Economists* for February 2021, released on Tuesday, March 2, the outlook for GDP growth improved for a fourth consecutive month. Analysts now expect real GDP growth of 3.89% y/y for 2021, up from an average of 3.74% y/y in the January survey; Scotiabank Economics forecasts 3.3% y/y in 2021. We maintain our view that the improvement in the GDP forecast has more to do with a stronger recovery on the external demand front than with a rebound in the domestic market. This is due to the fact that the domestic labour market continues to be soft. For the US, analysts surveyed by Banxico now anticipate a 5.02% y/y GDP expansion in 2021 versus the 4.42% y/y average forecast noted in January; Scotiabank Economics forecasts 5.8% y/y growth in the US for 2021.

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

- **Less formal job creation is now expected for this year and next.** Analysts now anticipate a recovery of 365k formal jobs by the end of 2021 (instead of the 382k previously projected) and the creation of 364k jobs during 2022;

- **Regarding inflation expectations, the headline inflation forecast for end-2021 rose from 3.65% y/y to 3.88% y/y,** remaining very close to the upper limit set by Banco de Mexico. On the other hand, core inflation forecasts for end-2021 stayed practically unchanged at 3.52% y/y versus 3.49% y/y in the January survey, indicating that increases are expected in the index's most volatile prices;

- **As for monetary policy, strong majorities of analysts continue to anticipate an interbank rate lower than the current target rate of 4.00% throughout the forecast horizon, although about a fifth of respondents expect it to be back at the 4.00% level by end-2022.** The next monetary policy meeting will be held on March 25, where we expect the Board to stay on hold ahead of cuts we project to come forward in Q3-2021;

- **The average public deficit forecast for end-2021 narrowed from 3.25% of GDP in January's survey to 3.18% in February;** for 2022, it is projected to come down to 2.95% of GDP; and

- **The main factors expected to hinder Mexican economic growth in 2021** were domestic economic conditions (47% of analysts), governance (33%); and public finances (10%).

—Paulina Villanueva

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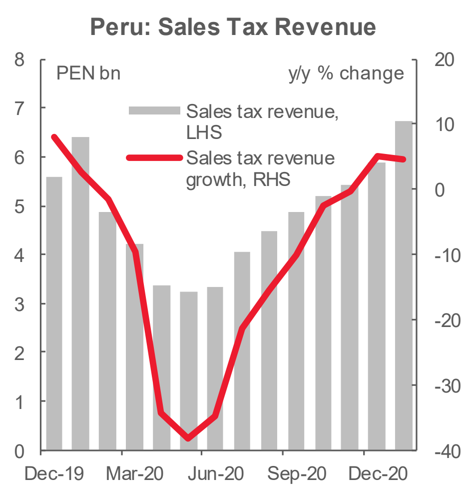
Chart 1



Sources: Scotiabank Economics, SUNAT.

PERU: INITIAL JANUARY DATA WERE ON THE SOFT SIDE

The National Statistics Institute, INEI, published on Monday, March 1, partial January growth figures for a number of sectors. The results were mixed, but overall less than encouraging: they pointed to a -1.5% y/y decline in aggregate real GDP in the month. Electricity demand, at -1.0% y/y, is a good indicator of the magnitude of the annual contraction in January. Electricity is also the only officially published figure for February, where it fell again by -1.8% y/y. This is not a bad figure, however, when one considers that February saw the height of the government restrictions to curb the second wave of COVID-19.

Looking at the details in the January data:

- **The main disappointment in the January numbers was in mining, where production was down -7.1% y/y.** Mining output has been coming in consistently below capacity since last year's lockdown. January's -27% y/y decline in gold output is easy to explain given ongoing mine depletion, but the -7.6% y/y fall in copper output and the -3.5% y/y drop in zinc output are much more perplexing. Both should have been rising above pre-COVID-19 levels by January;

- **Oil & gas GDP fell -15.6% y/y in January, but this is not new, as the sector has been beset by structural problems that have little to do with COVID-19;**

- **Fishing rose a hefty 74.9% y/y in the first month of the year.** January saw the last of this season's quite robust fishmeal harvesting campaign; and

- **One additional positive figure was the 4.5% y/y increase in domestic sales tax revenue during January (chart 1).** It would nice to be able to say that this reflected a similar increase in sales, but, as we've mentioned in the past, the improvement was also due to the greater need to sell through digital channels during the pandemic. This shift has allowed the tax agency to capture what would in the past have been informal sales.

It's also notable that Finance Minister Waldo Mendoza stated that public investment had risen 18.7% y/y in February. He added that total public investment during the January–February period was the greatest for this two-month span since 2010. Min. Mendoza added that the government was successfully providing local and regional governments with the technology and data support needed to accelerate investment and that this would continue. The upshot is that the public investment is belatedly, but finally, becoming the driver of growth that we had previously expected.

—Guillermo Arbe