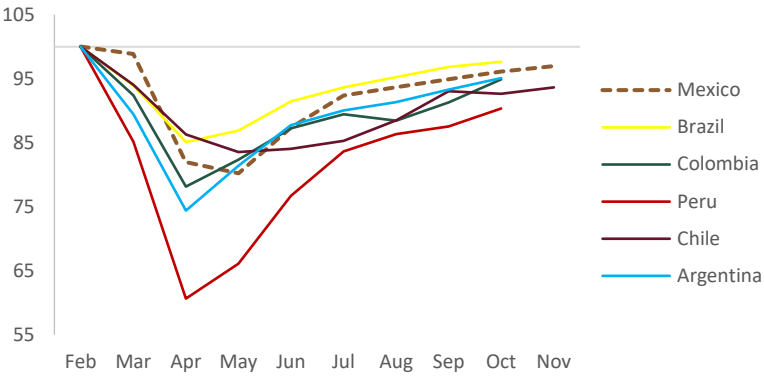## International comparison

Monthly economic activity index (Feb 2020=100)

Seasonally adjusted series. Source: Bloomberg.

❖ **Economic activity has shown resilience**. After showing significant contractions during the months of April and May, the monthly index of economic activity showed important progress in the months of June and July, and to a lesser extent since August.

❖ This has pushed the index towards a value that is in November around 3% of its value in February (seasonally adjusted basis) and **places the Mexican economic recovery on a path like that observed in other economies in the region.**

Formal employment index (Feb 2020=100)
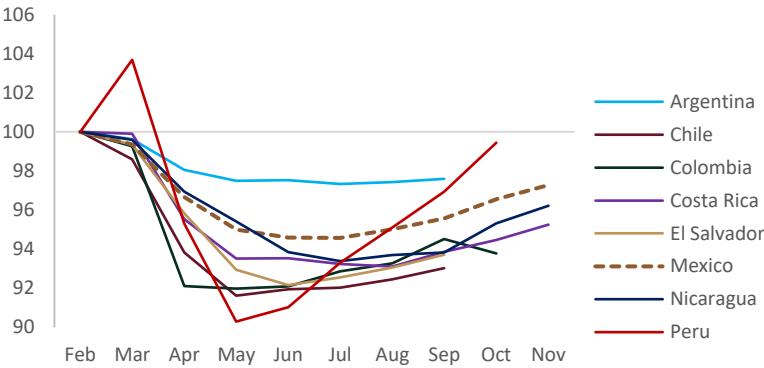
Seasonally adjusted series. Source: IDB.

❖ **Just like the economic activity, formal employment has been recovering.**

❖ After significant job losses during March and the second quarter of 2020, the **July-November figures showed a recovery of around 50% from the jobs lost.**

❖ **The strongest job recovery has come from the manufacturing, construction and commerce sectors.**

❖ Although the December data showed job losses in Mexico, this is due mainly to a seasonal effect.

Recovery by sector

Sector economic activity (Feb 2020=100)
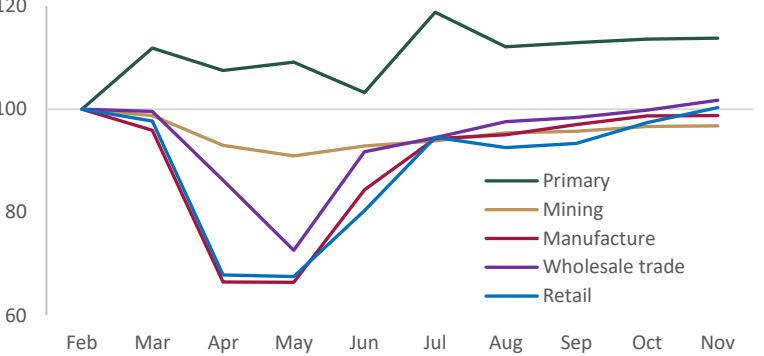
Seasonally adjusted series. Source: INEGI.

❖ **Since May, manufacturing activity has shown a sustained recovery** that places it in November at only 1.3% of its value in February (seasonally adjusted figures).

❖ **Both wholesale and retail trade show higher values in November than those prior to the pandemic** (seasonally adjusted figures)**.**

❖ **Given their role as essential activities, the primary sector has been the least affected by the pandemic**, showing a positive evolution throughout the year.

### Card spending (MXN billion)
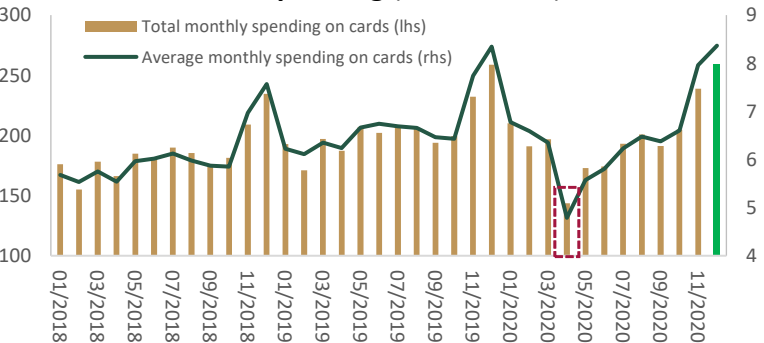
Source: Central Bank of Mexico.

❖ **Both the total and the average monthly card spending recovered quickly**, showing higher values than those prior to the pandemic since August.

❖ **In December, total card spending reached its all-time high,** and shows a 80% recovery (real terms) from the lowest level during the pandemic in April.

A better than expected recovery

Average probability that the annual growth rate of GDP is in the indicated range (%)
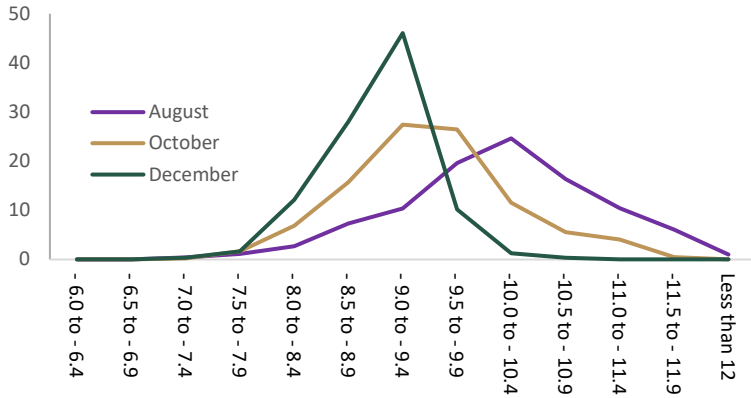
Source: Central Bank of Mexico.

- ❖ The evolution of expectations shows a **convergence towards the Ministry of Finance forecast from mid-last year (-8.0%).**
- ❖ The International Monetary Fund forecast for the Mexican economy in 2020 went **from -10.5 in the June 2020 World Economic Outlook (WEO) to one of 8.5% in its last revision** (Jan 2021 WEO).
- ❖ The probability assigned by analysts surveyed by the Central Bank of Mexico to a contraction of less than 9.0% went from **11.5 in August to 42.1% in December** (the median went from 9.9 to 9.0%).

Fiscal Stimulus

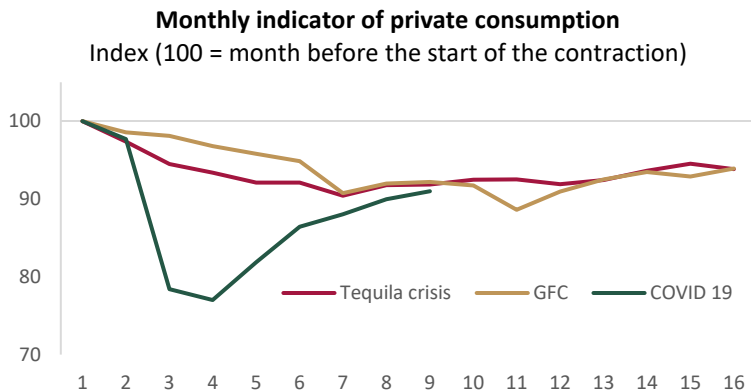| Country	Fiscal Stimulus	Average retail sales drop*
	Times the Mexican figures	
Emerging economies		
Chile	6.35	2.21
Colombia	4.90	1.02
Indonesia	1.80	1.07
Advanced Economies		
Spain	9.30	0.81
Italy	21.15	0.63
Canada	9.30	0.24

*Between March and December.
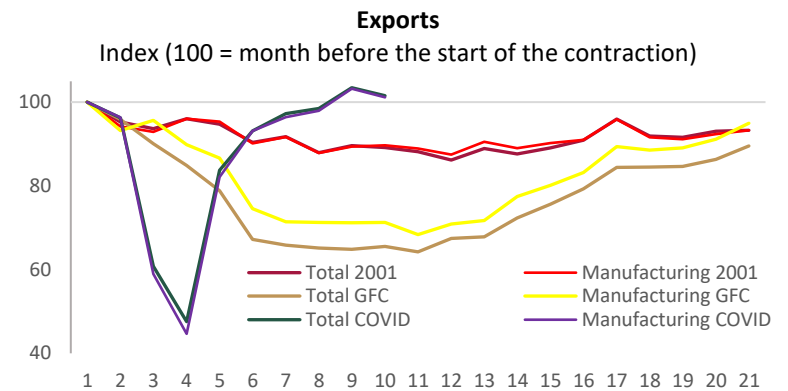*Source: Bloomberg and International Monetary Fund.*

- ❖ **There is no clear evidence that a greater fiscal stimulus is associated with a better economic performance.**
- ❖ Even though fiscal stimulus in Chile was six times higher than that of Mexico, the average drop in retail sales between March and December was twice as great.
- ❖ In Colombia, the fiscal stimulus was almost five times greater than that of Mexico and the drop in retail sales was 2% greater.

Is it different this time?

- ❖ **Several indicators point towards a more accelerated recovery than that presented in other episodes of economic stress.**
- ❖ **Consumption figures show a substantially faster recovery** than those from the 1994 economic crisis and the 2008 financial crisis, both in which consumption stagnated for several months (all on seasonally adjusted basis).
- ❖ **Both total and manufacturing exports are already above their values in February** (seasonally adjusted basis).

Monthly indicator of private consumption
Index (100 = month before the start of the contraction)

Seasonally adjusted series. Source: INEGI.

Exports
Index (100 = month before the start of the contraction)

Seasonally adjusted series. Source: Central Bank of Mexico.

Recovery in Mexican financial assets

### Exchange rate and country risk

Source: Bloomberg.
The shaded area goes from March to May 2020.

- During the last months of the year, **financial markets exhibited less volatility and a significant recovery in asset prices.**
- After reaching a historically high level on March 23, the exchange rate ended the year at a level of 19.91 pesos per dollar, which translates into an **appreciation of 27.34% compared to the historical maximum in March.**
- Country credit risk (measured by the price of the Credit Default Swap) ended the year at 81 basis points. **This is a reduction of 228 basis points compared to the values reached in April.**

Low inflation figures
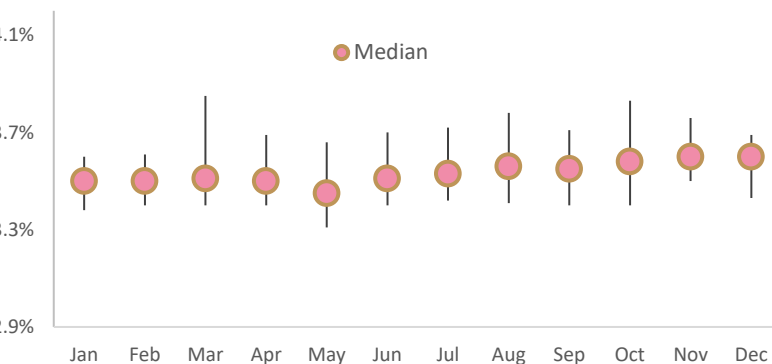
Inflation dynamics (Annual rates)
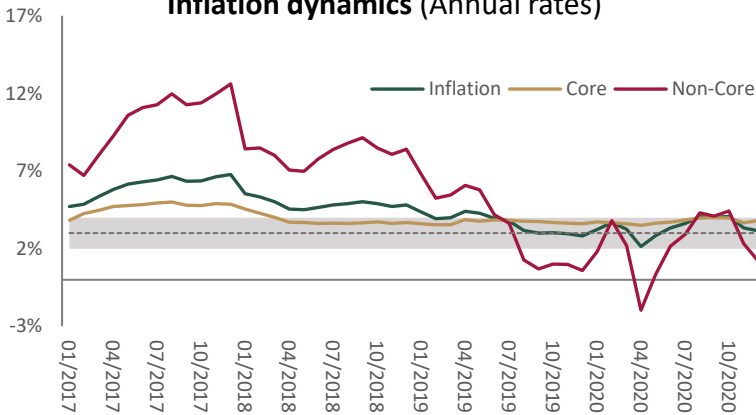
Source: Central Bank of Mexico.
The dotted line represents the Central Bank of Mexico inflation target and the shaded area its range of variation.

- **Throughout the year the inflation rate remained moderate (3.4% annual average) and ended the year with an annual rate of 3.15%.** This figure lies within the inflation target range from the Central Bank of Mexico.
- **Core inflation added 33 continuous months within target range** and ended the year with an annual rate of 3.8%.
- **Annual non-core inflation averaged 2.64% in 2020 and closed the year at 1.18%.** This contrasts with the volatile behavior that showed in 2017 and 2018.
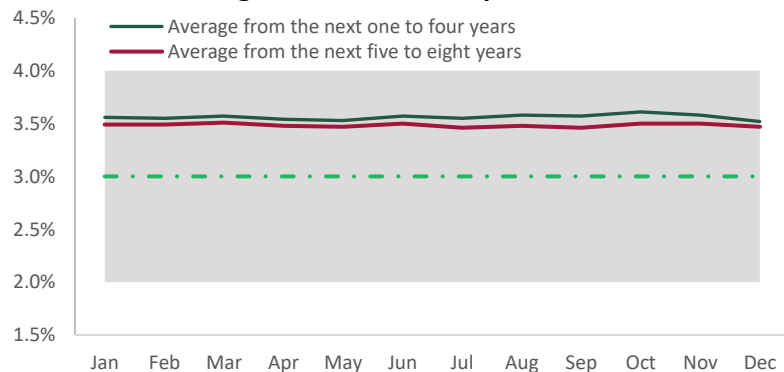
Anchored inflation expectations

- **Both short-term and long-term inflation expectations remain low and within the Central Bank of Mexico inflation target.**
- **The median of short-term inflation expectations (for 2021) was stable during 2020 and within the target range.** The third quartile was below 4% throughout the whole year.
- **Long-term inflation expectations also showed a stable behavior and within the target range throughout the year.**

Short-term inflation expectations (for 2021)

Source: Central Bank of Mexico.
The vertical lines represent the first and third quartiles from the inflation expectations distribution.

Long-term inflation expectations

Source: Central Bank of Mexico.
The dotted line represents the Central Bank of Mexico inflation target and the shaded area its range of variation.