

Banxico Survey – 2020 GDP forecast lower again to 0.9%

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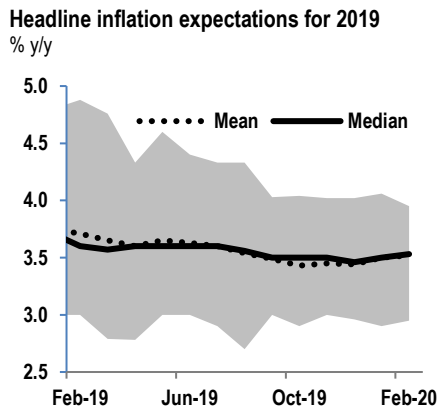
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- Banxico just published its survey of expectations for February
- Consensus expects inflation at 3.53% at the end of 2020, 3bps above the previous survey and inching closer to our 3.6%. Medium- and long-term expectations were unchanged at 3.5%, in line with our forecast
- Economists continue expecting Banxico's reference rate at 6.50% by year-end, also in line with our view, with the easing path still front-loading cuts in the first part of the year, broadly in line with our call
- GDP growth for 2020 was revised down once again, now standing at 0.9% y/y (previous: 1.0%), almost matching our 0.8% forecast
- The exchange rate for year-end was also changed lower to USD/MXN 19.50 (previous: 19.66; Banorte: 19.80)

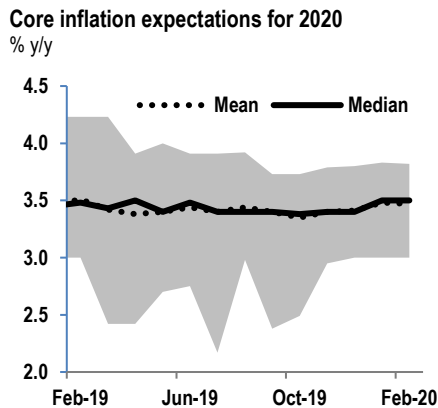
Banxico published its survey of expectations in February. Inflation forecasts for 2020 stood at 3.53% y/y, 3bps above the previous survey and closer, but still below, our 3.6% estimate. The forecast for core inflation came in at 3.5%, unchanged when compared to the previous estimate and still matching our forecast. Expectations for the next twelve months stand at 3.48%, still broadly in line to the year-end estimate due to the close proximity between data points. Finally, estimates for 2021 point to headline inflation at 3.5%, with the core component also climbing in the same magnitude (3.5%).

Medium- and long-term expectations unchanged from previous survey. Medium-term expectations (1- 4 years) and long-term expectations (5- 8 years) stand at 3.5%, now adding 9 months at this exact same level. In a similar fashion, estimates for core inflation for the medium-term were also unchanged at the same level. Nevertheless, expectations for this component in the long term were actually revised 6bps down to 3.44%.

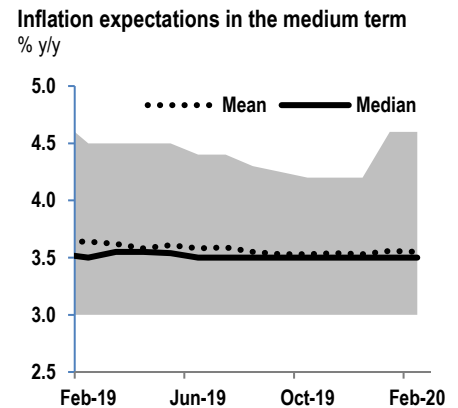
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Source: Banxico



Source: Banxico



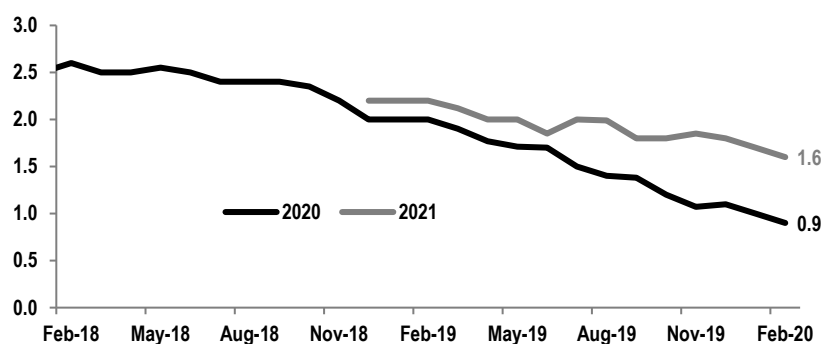
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Analysts continue expecting the reference rate at 6.50% by year-end. This implies an additional reduction of 50bps –remembering that Banxico already cut the rate by 25bps in the February 13th meeting–, in line with our call. Regarding the path, the survey shows most analysts are still front-loading cuts in the first part of the year, relatively in line with our forecast. In particular, we expect 25bps cuts in the next two monetary policy meetings taking place in March and May.

Growth expectations for 2020 once again revised down. In particular, analysts revised their estimates lower by 10bps to 0.9%, marking the second consecutive downward revision and getting closer to our 0.8% forecast. For 2021, expectations stand at 1.6%, also 10bps lower than in the previous survey. Finally, long-term growth (next 10-year average) is still expected at 2.0%.

GDP growth estimates

% y/y



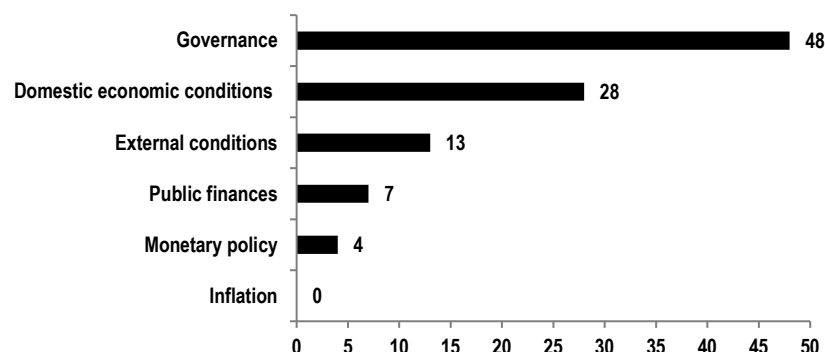
Source: Banxico

Analysts’ exchange-rate expectations for 2020 lower once again. The estimate for year-end 2020 came in at USD/MXN 19.50, down from 19.66 pesos per dollar (Banorte: 19.80). For 2021 consensus expects it to finish higher, at USD/MXN20.00, in line with the previous survey.

Insecurity stands as the main obstacle for economic growth. According to the analysts surveyed, the main factors –as grouped by main categories– that are likely to have an impact on economic growth are: (1) Governance with 48% of responses; (2) Domestic economic conditions at 28%; and (3) external conditions with 13%. Within the first one, insecurity (20%) and uncertainty about domestic politics (18%) are the most relevant.

Main factors that are likely to impact economic growth

% of total responses



Source: Banxico

Analyst Certification

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, 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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