

Banxico Survey – Lower GDP and higher inflation as conditions remain uncertain

July 1, 2020

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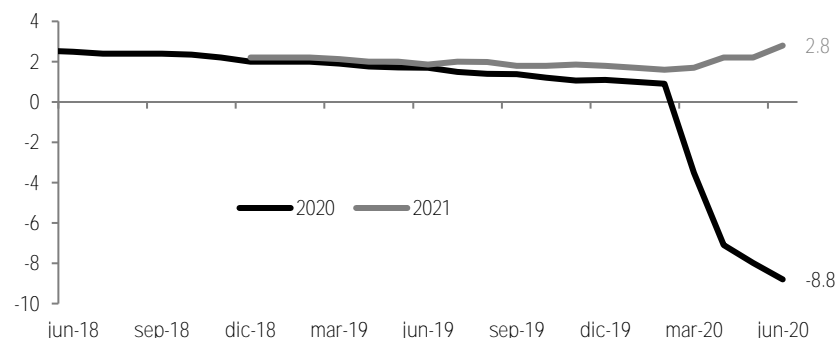
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- Banxico just published its survey of expectations for June
- Similar to the previous month, revisions to macroeconomic forecasts were moderate, with forecasters incorporating additional developments into their estimates
- In this sense, the GDP estimate for 2020 came in at -8.8% y/y, closer to our expectation of -9.8% and below the -8.0% seen in the previous survey. As a result, for 2021 it was revised upward to 2.8% (Banorte: 1.8%)
- Consensus expects inflation at 3.34% at the end of 2020, 27bps above the previous survey and even surpassing our 3.2%. Medium- and long-term expectations were unchanged at 3.5%, in line with our forecast
- Regarding the central bank’s reference rate, analysts still expect it at 4.50% by year-end, above our view of additional easing taking it to 4.00%
- The year-end forecast for the USD/MXN exchange rate was revised down, coming in at 22.66 pesos per dollar (previous: 23.02; Banorte: 22.00)

Banxico published its survey of expectations for June. In our opinion, the results are consistent with recent developments we have seen around the pandemic, the economy and financial markets. In addition, the adjustments were moderate, with forecasts showing additional signs of convergence as estimates ranges continue to narrow down.

The GDP forecast for 2020 is revised down for a fourth month in a row. Analysts adjusted their estimate to -8.8% to -8.0% y/y (as seen in the following chart), above our [updated expectation of a 9.8% contraction](#). While dispersion continues to narrow, it remains high, with the minimum still at -12.0% and the maximum slightly lower -6.5%. For 2021, expectations came in at 2.8%, above the 2.2% from previous survey (minimum: 0.4%; maximum: 5.7%). Finally, long-term growth (10-year average) is still expected at 2.0%.

GDP growth estimates
% y/y



Source: Banxico

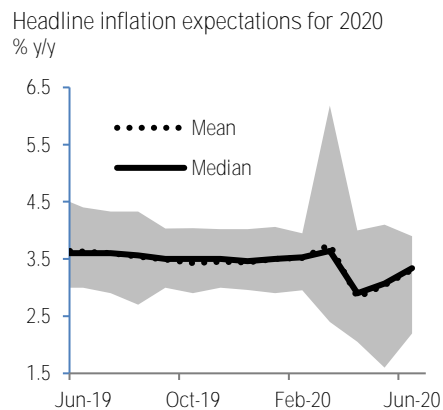
Winners of the award for best economic forecasters for Mexico in 2019, granted by Refinitiv



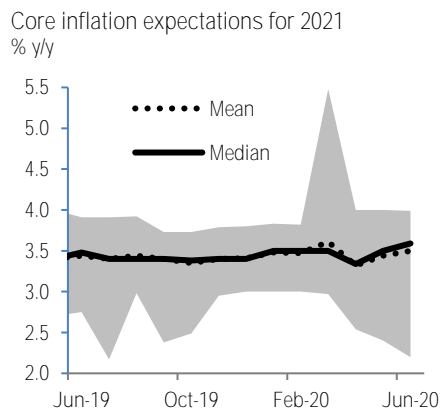
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Year-end inflation sees an upward revision once again. The figure forecasted for 2020 came in at 3.34%, 27bps above the previous survey and surpassing our 3.2%. Volatility within the estimate was lower relative to the last forecast, with a maximum of 3.9% and a minimum of 2.2%, as seen in the chart on the left. The forecast for core inflation came in at 3.59%, 9bps above the previous estimate. Expectations for the next twelve months stand at 3.62%, still suggesting a negative impact from the base effect given this year's dynamics. Finally, estimates for year-end 2021 point to headline inflation at 3.51%, with the core component also climbing by a similar magnitude (3.44%).

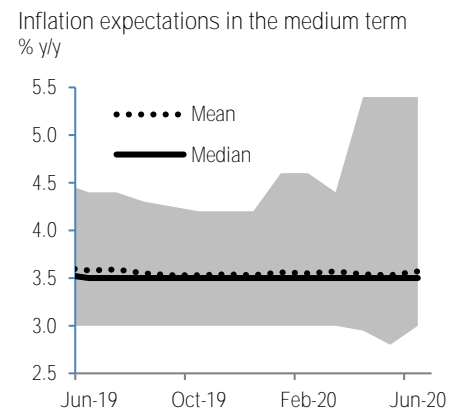
Medium- and long-term expectations unchanged from the previous survey. Medium-term expectations (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, now adding a year at this exact level. Estimates for core inflation for the medium-term were also unchanged. Nevertheless, expectations for this component in the long term were actually revised 1bp up, to 3.50%.



Source: Banxico



Source: Banxico



Source: Banxico

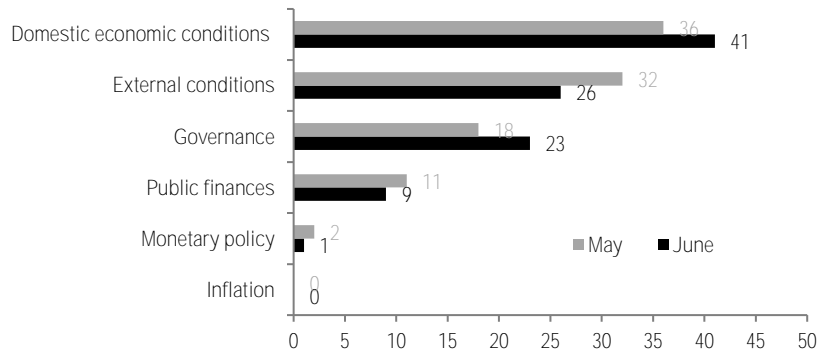
The reference rate is still expected at 4.50% by year-end. This implies an additional reduction of 50bps. On the contrary, our expectation points to accumulated cuts of 100bps, taking the rate to 4.00%. Regarding the path, the information suggests a 50bps cut in 3Q20 and unchanged in the last quarter of the year. In this sense, we anticipate the central bank to cut the rate by -50bps both in the August 13th and September 24th meetings. However, we should mention that when the survey was collected, Banxico had not carried out its latest policy decision, opening the possibility of some delay in updated forecasts.

Analysts' exchange-rate expectations for 2020 slightly down. The estimate for year-end came in at USD/MXN 22.66, down from 23.02 and closing in on our 22.00. On the relative dispersion, the minimum stands at 20.84, while the high contemplates a depreciation to 24.29. For 2021, consensus expects a finish at 22.50, below the 22.70 from the previous survey, with a range of estimates still wide (minimum: 20.18; maximum: 25.75).

Internal economic conditions are still the main obstacle for economic growth.

According to analysts surveyed, the main factors –as grouped by categories– that are likely to have an impact on economic growth are: (1) Domestic economic conditions with 41% of responses; (2) external conditions at 26%; (3) governance at 23%; and (4) public finances at 9%. Within the first one, we highlight uncertainty about the domestic economic situation (17%) and weakness in the domestic market (15%). Meanwhile, in the second one, weakness in external markets and the world economy (25%) is the most relevant.

Main factors that are likely to impact economic growth
Distribution of 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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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