

## Banxico Survey – GDP is once again revised lower with inflation on the rise

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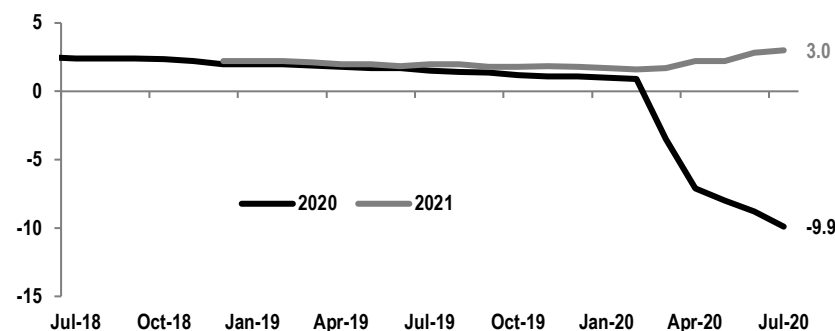
- Banxico just published its survey of expectations for July
- Similar to previous surveys, dispersion continued to decline, with some forecasts more stable given a less volatile behavior in financial markets
- The GDP estimate for 2020 came in at -9.9% y/y, practically matching our -9.8% and below the -8.8% seen in the previous survey. As a result, GDP for 2021 was revised upward to 3.0% (Banorte: 1.8%)
- Consensus expects inflation at 3.61% at the end of 2020, 27bps above the previous survey but still lower than our 3.7%. 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 that would take it to 4.00%
- The year-end forecast for the USD/MXN exchange rate was practically unchanged at 22.65 pesos per dollar (previous: 22.66; Banorte: 22.00)

**Banxico published its survey of expectations for July.** It should be noted that the survey was carried out before 2Q20 GDP was released, which we think could result in relevant revisions for next month. Nevertheless, we believe the rest of the forecasts show some stability (except for inflation), consistent with dynamics seen in financial markets in the last few weeks.

**The GDP forecast for 2020 is revised down for a fifth month in a row.** Analysts adjusted their estimate to -9.9% from -8.8% y/y (as seen in the following chart), practically in line with our -9.8% forecast. While dispersion continues to narrow, it remains high, with the minimum at -12.0% and the maximum inching lower, to -8.4%. For 2021, expectations came in at 3.0%, above the 2.8% from the previous survey (minimum: 1.3%; maximum: 4.7%). Finally, long-term growth (10-year average) now expected at 1.95% (previous: 2.00%).

**GDP growth estimates**

% y/y



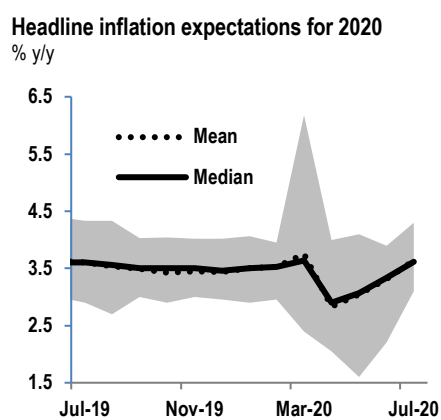
Source: Banxico

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

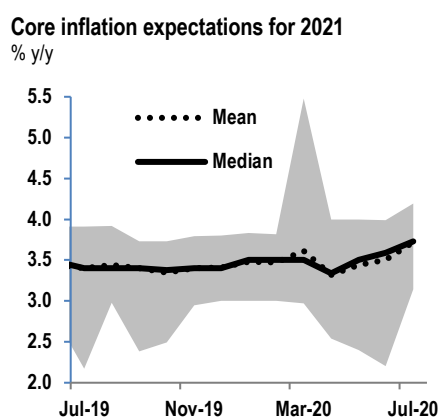

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**Year-end inflation sees an upward revision once again.** The figure forecasted for 2020 came in at 3.61%, 27bps above the previous survey but lower than our 3.7%. Volatility within the estimate was lower relative to the last forecast, with a maximum of 4.3% and a minimum of 3.1%, as seen in the chart on the left. The forecast for core inflation came in at 3.73%, 14bps above the previous estimate. Expectations for the next twelve months stand at 3.57%. Finally, estimates for year-end 2021 point to headline inflation at 3.53%, with the core component also climbing a similar magnitude (3.48%).

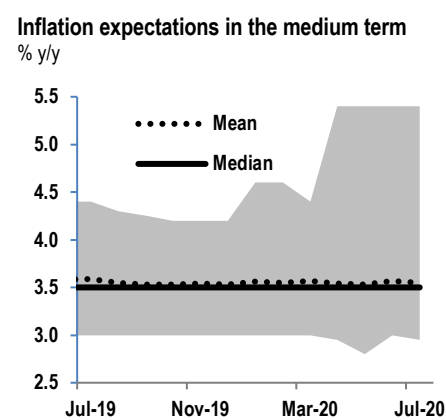
**Medium- and long-term expectations unchanged from the previous survey.** Medium-term expectations (1-4 years) and long-term expectations (5-8 years) stand at 3.5%, now adding a year at this exact level. Estimates for medium-term core inflation were unchanged. Nevertheless, expectations for this component in the long-term were revised 2bps down, to 3.48%.



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, 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 13<sup>th</sup> and September 24<sup>th</sup> meetings. Going forward, we will be looking into possible changes after the next decision, given that it could trigger relevant adjustments in expectations.

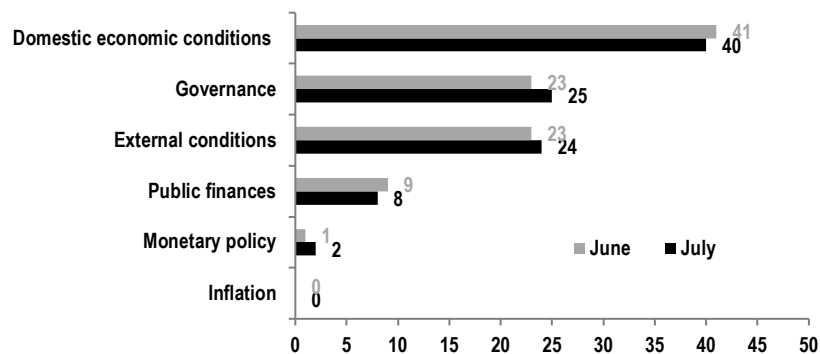
**Analysts' exchange-rate expectations for 2020 practically unchanged.** The estimate for year-end came in at USD/MXN 22.65, virtually unchanged from 22.66 and closer to our 22.00. On the relative dispersion, the minimum stands at 21.37, while the high contemplates a depreciation to 24.33. For 2021, consensus expects a finish at 22.50 per dollar, unchanged from the previous survey, with the range of estimates narrowing (minimum: 20.53; maximum: 25.21).

**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 40% of responses; (2) governance at 25%; (3) external conditions at 24%; and (4) public finances at 8%. Within the first one, we highlight weakness in the domestic market (18%) and uncertainty about the domestic economic situation (16%). Meanwhile, in the second one, uncertainty around domestic politics (13%) 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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