

Banxico Survey – Upward adjustments in GDP and inflation for a second month in a row

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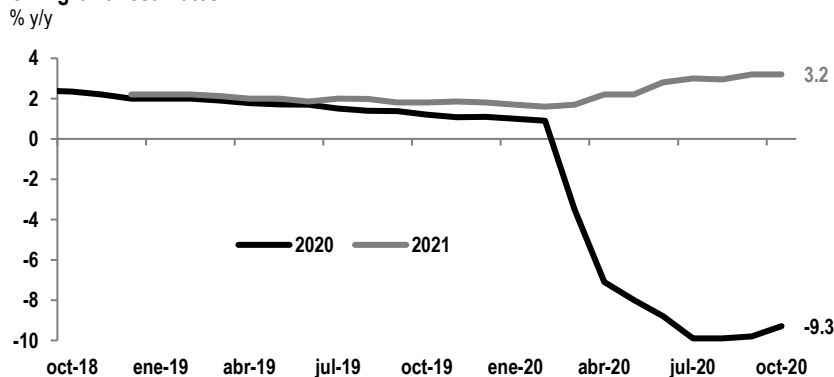
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- Banxico just published its survey of expectations for October
- Overall, uncertainty around macroeconomic estimates for 2020 decreased, consistent with a shorter time horizon to be forecasted, although market variables like the exchange rate were more volatile
- The GDP estimate for 2020 was revised up, to -9.3% y/y from -9.8%, still below our -9.0% forecast. For 2021, it was unchanged at 3.2% (Banorte: 4.1%)
- Consensus expects inflation at 3.95% at the end of 2020, 9bps above the previous survey and surpassing 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 expect it at 4.00% by year-end, which implies an additional 25bps cut. For 2021, consensus is for it to remain unchanged at the same level
- The year-end forecast for the USD/MXN exchange rate was revised down to 21.69 pesos per dollar from 22.00, below our estimate (22.00). For 2021, it is expected at 22.00 per dollar

Banxico published its survey of expectations for October. Overall, uncertainty around macroeconomic estimates for 2020 decreased, consistent with a shorter time horizon to be forecasted, although market variables like the exchange rate were more volatile.

GDP forecast for 2020 keeps improving. Analysts revised their activity estimate for this year to -9.3% y/y from -9.8% (as seen in the following chart), adding to months to the upside, but still below our -9.0%. Despite the upward adjustment, dispersion in the estimate narrowed, with the minimum climbing to -11.0% and the maximum at -8.4%. For 2021, expectations were unchanged at 3.2%, (minimum: 1.7%; maximum: 5.3%). Finally, long-term growth (10-year average) is expected at 1.95% (previous: 2.00%).

GDP growth estimates



Source: Banxico

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

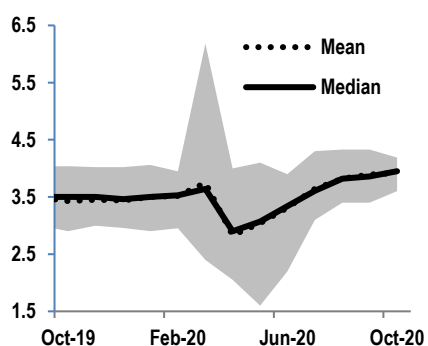


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Year-end inflation up once again. The figure forecasted for 2020 came in at 3.95%, 9bps above the previous survey, and still higher than our 3.7%. The range was tighter relative to the last estimate, with a maximum of 4.2% and a minimum of 3.6%, as seen in the chart below on the left. Core inflation came in at 3.92%, in line with the previous estimate and matching our call. Expectations for the next twelve months stand at 3.48%. Finally, estimates for year-end 2021 point to headline inflation at 3.58%, with the core component at 3.50%.

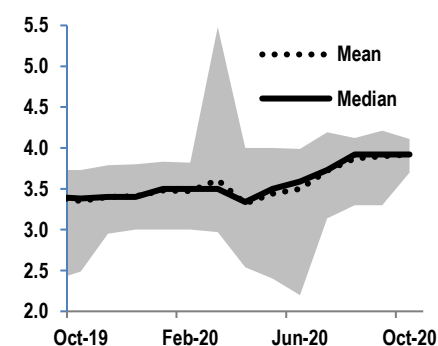
Medium- and long-term expectations anchored slightly above target. Medium-term (1-4 years) and long-term expectations (5-8 years) remain at 3.5%, adding thirteen months at this exact level. Moreover, estimates for medium- and long-term core inflation, were also unchanged at 3.5%.

Headline inflation expectations for 2020
% y/y



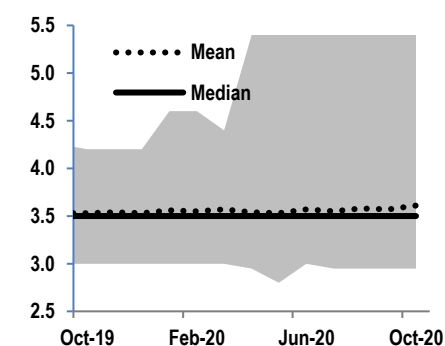
Source: Banxico

Core inflation expectations for 2021
% y/y



Source: Banxico

Inflation expectations in the medium term
% y/y



Source: Banxico

An additional 25bps cut this year. This implies that the reference rate will be lowered to 4.00%, contrasting with our forecast of it remaining unchanged at the current level of 4.25%. Going into 2021, consensus does not expect additional changes in the target rate, similar to our estimate albeit starting from a different base.

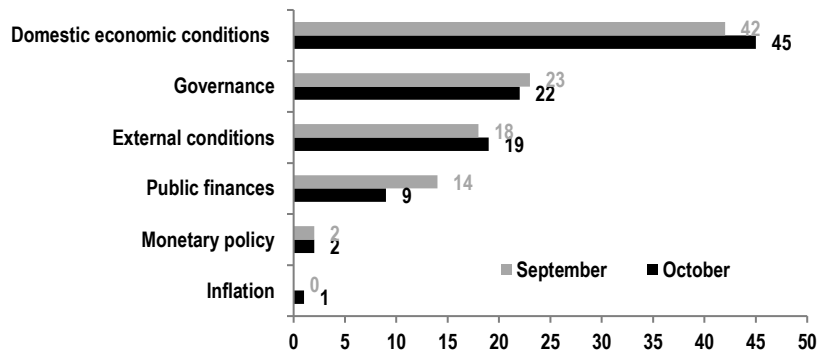
Exchange-rate expectations revised down. The estimate for year-end came in at USD/MXN 21.69, sharply below the 22.00 of the previous survey, which actually matched our estimate. On dispersion, the minimum plunged to 20.00, while the high contemplates a depreciation to 23.77, slightly lower than the previous 23.86. For 2021, consensus expects a finish at 22.00 per dollar, lower than the previous 22.25, with the range showing slightly tighter adjustments (minimum: 19.00; maximum: 24.51).

Domestic economic conditions still the main obstacle for economic growth.

The main factors –as grouped by categories– that are likely to impact economic growth are: (1) Domestic economic conditions, with 45% of responses; (2) governance at 22%; (3) external conditions at 19%; and (4) public finances at 9%. Within the first one, we highlight weakness in the domestic market (19%) and uncertainty about the domestic situation (19%). In the second one, uncertainty around external markets (19%) is the most important.

Main factors that are likely to impact economic growth

Distribution of responses



Source: Banxico

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