

Banxico Survey – Notable revisions to GDP, inflation and monetary policy

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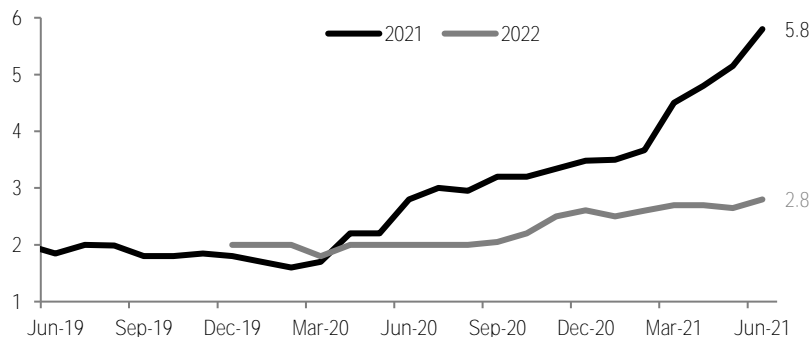
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- Banxico just published its survey of expectations from private sector analysts for June
- Forecasts for 2021 were adjusted once again, with those for GDP, inflation and monetary policy as the most notable considering recent developments
- The GDP estimate for 2021 was adjusted to 5.8% y/y from 5.2%, closer to our 5.9%. For 2022, it was also revised up, to 2.8% (previous: 2.7%)
- Consensus expects inflation at 5.60% at the end of the year, 60bps higher than the previous survey (Banorte: 5.5%). This is consistent with the view of increased pressures stemming from the reopening. For 2022 the adjustment was more modest, to 3.70% (previous: 3.60%). Medium-term expectations were higher by 5bps to 3.55%, while the long-term was unchanged at 3.50%, in line with our forecast
- On the central bank’s reference rate, analysts now expect additional hikes in the remainder of 2021, with the reference rate by year-end at 4.88%. This contrasts with our call of 25bps hikes in each of the four remaining scheduled meetings, taking the rate to 5.25%
- The year-end forecast for the USD/MXN exchange rate was revised to 20.35 pesos per dollar from 20.50, still slightly above our 20.20. For 2022, it was unchanged at 21.00 per dollar

Higher growth for 2021 for a fifth month in a row. Analysts revised their GDP expectations for this year to 5.8% y/y (as seen in the following chart) from 5.2% in the previous survey. We do not rule out some additional changes from analysts after aggregate supply and demand data was released, along other signals of more economic dynamism. With this, it is closer to our +5.9%. The minimum sees an expansion of 4.1% (previous: 3.9%), and the maximum of 6.8% (previous: 6.7%), This is a tighter range than in the previous survey. For 2022, expectations were up by 10bps to 2.8% (minimum: 2.0%; maximum: 4.0%). Finally, long-term growth (10-year average) was in line with the previous month at 2.1%.

GDP growth estimates
% y/y

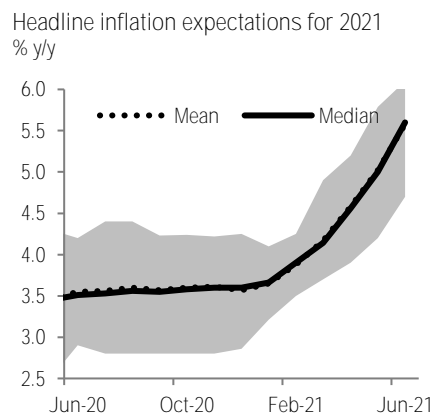


Source: Banxico

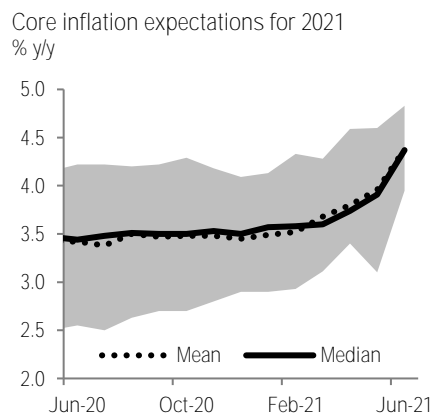
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Year-end inflation also higher once again. The figure for the end of 2021 came at 5.60%, 60bps above the previous survey and with a +170bps adjustment in the last four months. It has now surpassed our 5.5% forecast, as more analysts are now expecting pressures to persist through the end of the year. In our view, some of the effects are closely linked to the pandemic and the subsequent recovery, such as rising commodities and the shift in consumption patterns that has impacted relative prices. The range was narrower relative to the last survey, with a maximum of 6.1% (previous: 5.8%) and minimum of 4.7% (previous: 4.2%), as seen in the chart below on the left. Core inflation came in at 4.4%, close to our 4.2%. Expectations for the next twelve months rose to 3.37%. Finally, estimates for year-end 2022 point to the headline at 3.7% and the core at 3.6%.

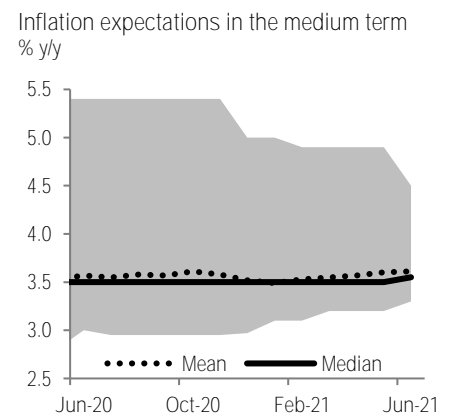
Medium-term expectations slightly higher, while the long-term remain unchanged. Medium-term expectations (1-4 years) rose 5bps to 3.55%, breaking with 24 months at 3.5%. Nevertheless, long-term expectations (5-8 years) remained at said level. Moreover, estimates for medium- and long-term core inflation were also unchanged, both at 3.5%.



Source: Banxico



Source: Banxico



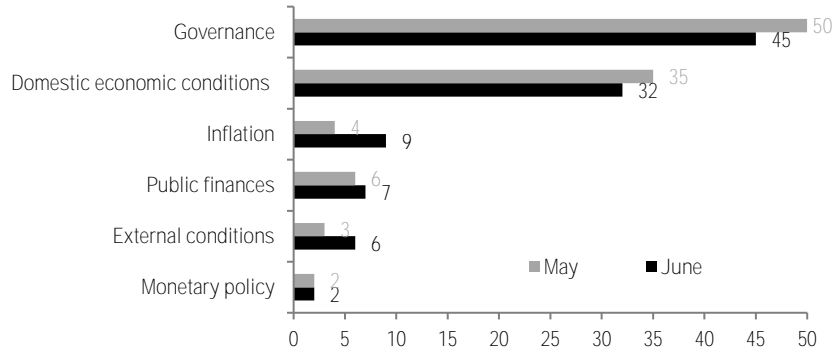
Source: Banxico

Analyst forecasts suggest that Banxico will continue hiking in 2021. After the [surprise rate hike on June 24th](#), consensus now expects the reference rate to close 2021 at 4.88%. This implies a somewhat divided view of either an additional two or three 25bps hikes on the horizon. This contrasts with our view that a hiking cycle has begun, with an accumulated 100bps increase this year carried out in 25bps clips in each of the four remaining meetings. With this, the reference rate would end the year at 5.25%.

Exchange-rate for 2021 lower, with 2022 unchanged. The year-end estimate came in at USD/MXN 20.35, down from the 20.50 of the previous month, but still slightly above our 20.20. Both the minimum and maximum were adjusted, now at 19.00 and 21.00, respectively (previous: 19.25 and 22.09). For 2022, consensus was unchanged at 21.00 per dollar, with the low higher at 19.25 (previous: 19.00) and the high at 22.00 (previous: 22.69).

Governance remains as the main obstacle for growth. The main factors –grouped by categories–likely to impact GDP growth are: (1) Governance, with 45% of responses; (2) domestic economic conditions (32%); (3) inflation (9%); and (4) public finances (7%), among the most relevant. Within the first, we note domestic political uncertainty (15%) and public security issues (14%). In the second, uncertainty about the economic situation (12%) and domestic market weakness (12%).

Main factors likely to impact economic growth
% of responses



*Note: Percentages might not add up to 100 given rounding effects
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, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, 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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