

Economic Research

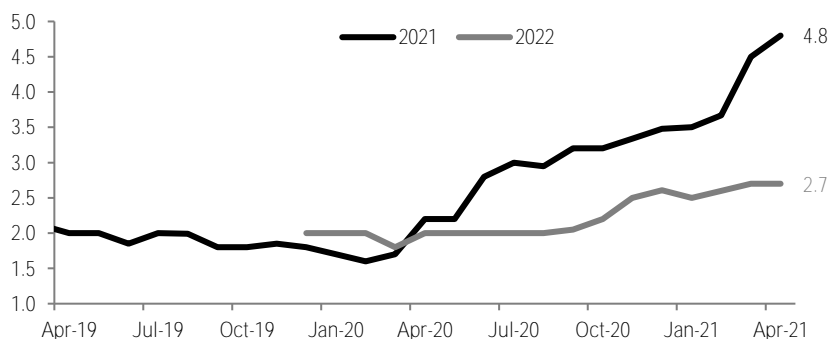
Mexico

Banxico Survey – Estimates for activity and prices keep trending up

- Banxico just published its survey of expectations from private sector analysts for April
- Forecasts for 2021 keep showing adjustments, specifically on activity and prices. We believe this is a result of additional information and marked changes in the environment
- The GDP estimate for 2021 was adjusted higher, to 4.8% y/y from 4.5%, below our 5.9%. For 2022, it was unchanged at 2.7%
- Consensus expects inflation at 4.56% at the end of the year, 42bps higher than the previous survey and closing in on our 4.7%. This is likely driven by recent pressures, along expectations of higher growth. For 2022, the estimate was unchanged at 3.6%. Medium- and long-term expectations were unchanged at 3.5%, in line with our forecast
- On the central bank's reference rate, analysts do not expect further adjustments for the remainder of the year, standing at 4.00%. This contrasts with our call of a 25bps hike in the December meeting
- The year-end forecast for the USD/MXN exchange rate was practically unchanged at 20.45 pesos per dollar from 20.50, slightly above our 20.20. For 2022, it is also seen weaker, at 20.90 per dollar (previous: 21.10)

GDP forecast for 2021 on the move again. Analysts revised their GDP expectations for this year to 4.8% y/y (as seen in the following chart) from 4.5% in the previous survey. We should mention that this does not include the print for 1Q21, which surprised to the upside, leading us to believe that additional upward adjustments might happen in the next survey. In this sense, it stands below our recently revised forecast of +5.9%. The minimum sees an expansion of 3.4%, and the maximum at 6.5%, This is a looser range than last month, with the upper bound higher by 50bps. For 2022, expectations were unchanged at 2.7% (minimum: 1.5%; maximum: 3.7%). Finally, long-term growth (10-year average) was also in line with the previous month at 2.1%.

GDP growth estimates
% y/y



Source: Banxico

May 3, 2021

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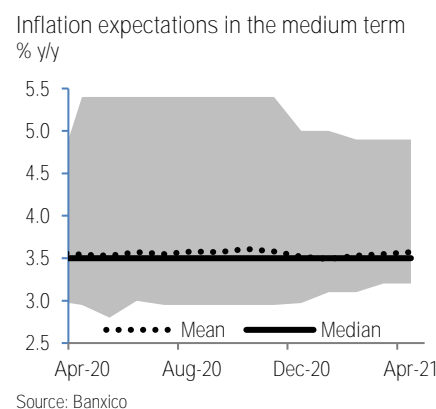
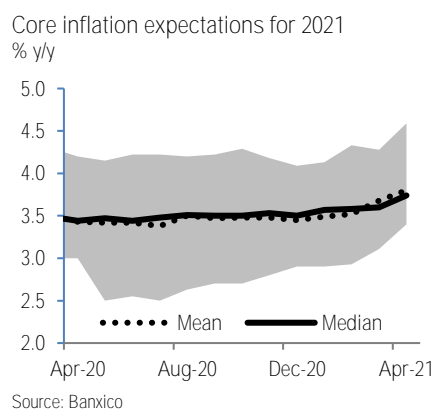
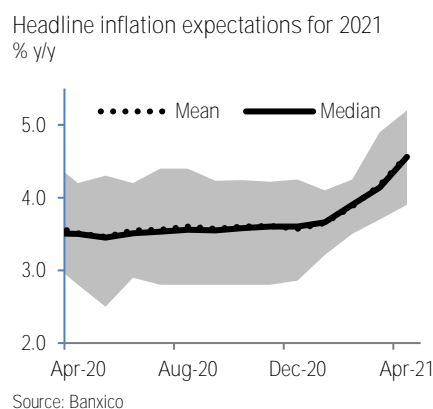
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Year-end inflation forecasts also extend higher. The figure for the end of 2021 came in at 4.56%, 42bps above the previous survey, remaining above the 4% upper bound of the central bank's target range. It is still closing in on our 4.7% estimate. In our opinion, this comes as a result of both recent dynamics and expectations of higher global growth. This, in turn, would result in worldwide inflationary pressures, especially on commodities' prices. The range was wider relative to the last survey, with a maximum of 5.2% and minimum of 3.9%, as seen in the chart below on the left. Core inflation came in at 3.7%, in line with our forecast. Expectations for the next twelve months were unchanged at 3.30%. Finally, estimates for year-end 2022 point to the headline at 3.6% and the core reaching 3.5%.

Medium- and long-term expectations anchored slightly above target. Medium- (1-4 years) and long-term expectations (5-8 years) remain at 3.5%, adding 23 months at this exact level. Moreover, estimates for medium- and long-term core inflation were also unchanged, with both at 3.5%.

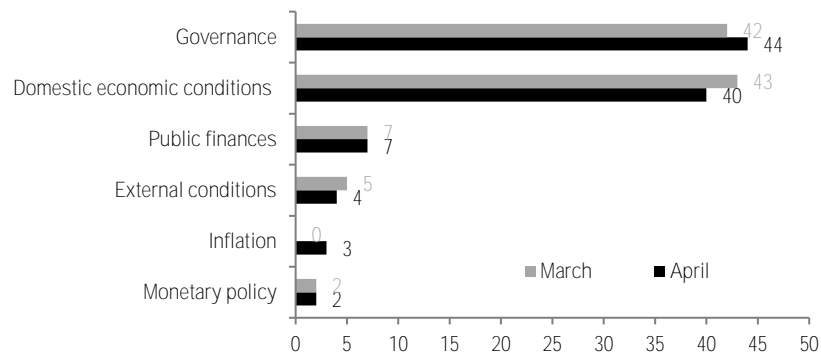


Analyst forecasts suggest that Banxico's easing cycle is over, with hikes on the horizon. Consensus expects the reference rate to remain unchanged at 4.00% for the remainder of 2021. However, they are penciling in a 25bps hike in 4Q22 taking the rate to 4.25%. This is rather late relative to our forecast, considering that we expect this exact same move to happen in 4Q21 –in the December 16th meeting – with further upward adjustments in early 2022.

Exchange-rate practically unchanged. The year-end estimate came in at USD/MXN 20.45, almost unchanged relative to the 20.50 of the previous month, and still slightly above our 20.20. Both the minimum and maximum were unchanged at 19.25 and 22.09, respectively. For 2022, consensus expects it to end at 20.90 per dollar, stronger than 21.10 before, with the low unchanged at 19.00 and the high at 23.29 (previous: 23.31).

Governance overtakes domestic economic conditions as the main obstacle for growth. The main factors –grouped by categories– that are likely to impact GDP growth are: (1) Governance, with 44% of responses; (2) domestic economic conditions (40%); (3) public finances (7%); and (4) external conditions (5%), among the most relevant. Within the first, we note domestic political uncertainty (18%) and public security problems (11%). In the second, we highlight domestic market weakness (16%) and uncertainty about the economic situation (15%).

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 Zaldivar, Marissa Garza Ostos, 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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