

Economic Research

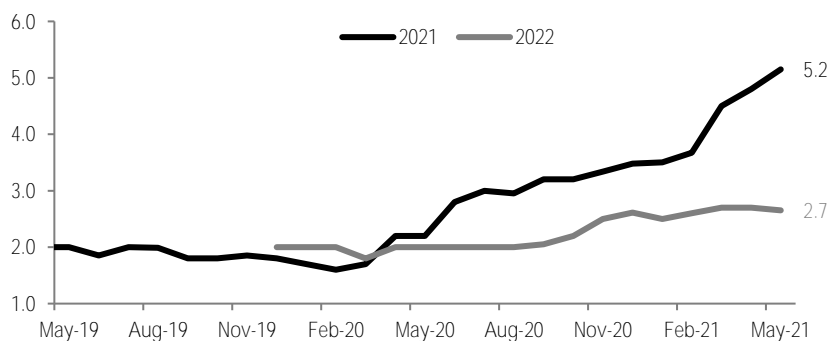
Mexico

Banxico Survey – Strong upward revisions to 2021 growth and inflation continue

- Banxico just published its survey of expectations from private sector analysts for May
- Forecasts for 2021 kept being modified, especially those for inflation and GDP, accumulating strong upward revisions in the last couple of surveys
- The GDP estimate for 2021 was adjusted to 5.2% y/y from 4.8%, below our 5.9%. For 2022, it was unchanged at 2.7%
- Consensus expects inflation at 5.0% at the end of the year, 44bps higher than the previous survey (Banorte: 5.5%). This seems to be responding to recent pressures and a more adverse outlook for prices. Nevertheless, for 2022 the estimate was unchanged at 3.6%. Medium- and long-term expectations were also unchanged at 3.5%, in line with our forecast
- On the central bank's reference rate, analysts still do not expect further adjustments for the rest of the year, remaining at 4.00%. This contrasts with our call of two 25bps hikes in the November and December meetings
- The year-end forecast for the USD/MXN exchange rate was practically unchanged at 20.50 pesos per dollar from 20.45, slightly above our 20.20. For 2022, it is also seen weaker, at 21.00 per dollar (previous: 20.90)

Higher growth for 2021 once again. Analysts revised their GDP expectations for this year to 5.2% y/y (as seen in the following chart) from 4.8% in the previous survey. We should mention that most estimates already take into account the [figure for 1Q21](#), which showed a good performance considering some adverse shocks. Nevertheless, it still stands below our +5.9%. The minimum sees an expansion of 3.9% (previous: 3.4%), and the maximum of 6.7% (previous: 6.5%). This is a tighter range than in the previous survey. For 2022, expectations were unchanged at 2.7% (minimum: 1.5%; maximum: 4.0%). 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

June 1, 2021

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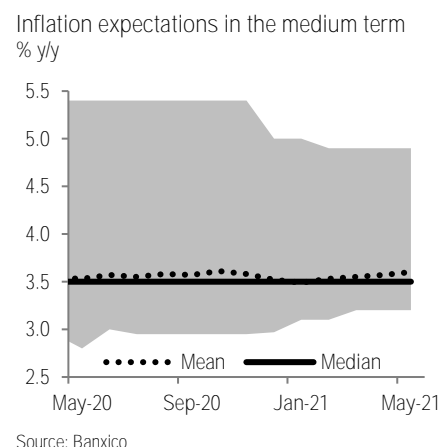
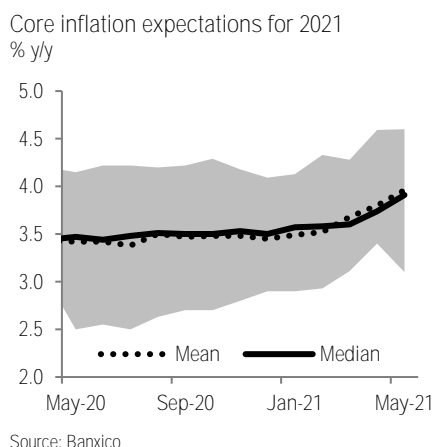
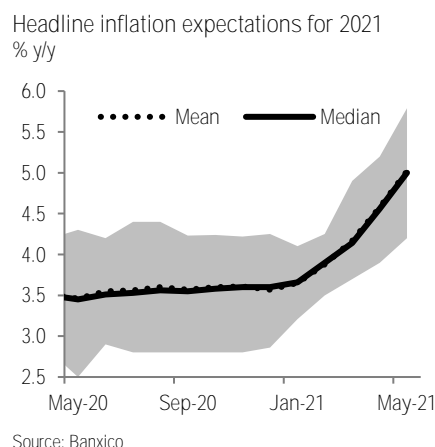
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Year-end inflation also higher. The figure for the end of 2021 came in at 5.0%, 44bps above the previous survey and accumulating a +110bps adjustment in the last three months. It should be noted that this is in the same direction as our last revision, [now estimating it at 5.5%](#). In our opinion, this comes on the back of an accumulation of upward surprises in the last prints and a more challenging outlook, especially due to increasing commodities prices and other cost pressures, including lack of raw materials and logistical issues. The range was wider relative to the last survey, with a maximum of 5.8% (previous: 5.2%) and minimum of 4.2% (previous: 3.9%), as seen in the chart below on the left. Core inflation came in at 3.9%, below our 4.2%. Expectations for the next twelve months improved to 3.2%. Finally, estimates for year-end 2022 point to the headline at 3.6% and the core at the same level.

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 24 months at this level. Moreover, estimates for medium- and long-term core inflation were also unchanged, with both at 3.5%.

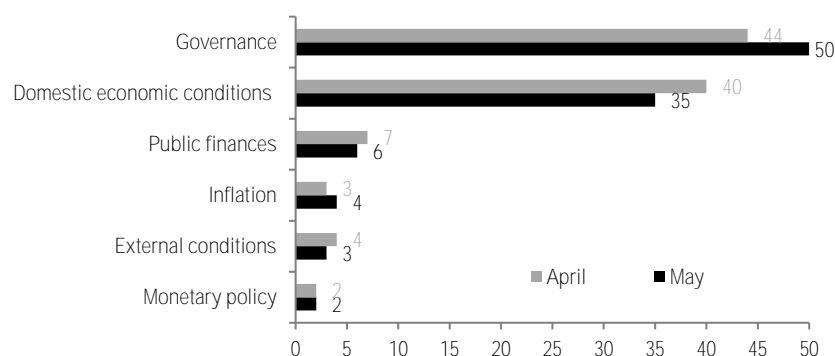


Analyst forecasts suggest that Banxico will take a pause in 2021, with hikes until 2022. Consensus expects the reference rate to stay at 4.00% for the remainder of 2021. However, they are penciling in a 50bps accumulated increase in 2022, taking it to 4.50%. Given a more complex backdrop for inflation, along other factors, we expect that hikes will have to start sooner, with +25bps in both the November and December meetings this year, closing 2021 at 4.50%. After this, we expect additional increases in early 2022.

Exchange-rate practically unchanged. The year-end estimate came in at USD/MXN 20.50, almost unchanged relative to the 20.45 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 21.00 per dollar, weaker than 20.90 before, with the low unchanged at 19.00 and the high at 22.29 (previous: 23.29).

Governance remains as the main obstacle for growth. The main factors –grouped by categories– that are likely to impact GDP growth are: (1) Governance, with 50% of responses; (2) domestic economic conditions (35%); (3) public finances (6%); and (4) inflation (4%), among the most relevant. Within the first, we note domestic political uncertainty (23%) and public security issues (11%). In the second, we highlight uncertainty about the economic situation (16%) and domestic market weakness (11%).

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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