

# Banxico's Survey – Analysts revised down economic growth forecasts yet again

November 1, 2019

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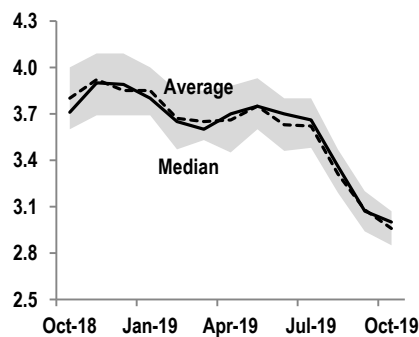
- Banxico just published its survey of expectations in October
- Consensus expects inflation at 3% at the end of 2019 marginally below previous 3.07% (Banorte: 3.3%)
- For 2020, consensus forecasts inflation at 3.5%, as well as medium term expectations (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 7.25% by year-end (Banorte: 7.25%)
- Growth expectations in 2019 were downgraded to 0.2% from 0.5% (Banorte: 0.3%)
- For next year, analysts expect growth in the area of 1.2% y/y below previous estimate 1.4% (Banorte: 1.4%)
- Exchange rate forecast for year-end was revised marginally down to 19.7 USD/MXN from 19.75 (Banorte: 20.3 USD/MXN)

**Banxico just published its survey of expectations in October.** Inflation forecasts for 2019 are at 3% y/y, marginally below the 3.07% from previous survey (Banorte: 3.3%). In the meantime, expectations for core inflation in 2019 are at 3.6%, unchanged vs. previous survey. In the next 12-months, inflation is expected at 3.6%, vs. previous 3.7% y/y. For year-end 2020 inflation is expected at 3.5% (previous: 3.5%).

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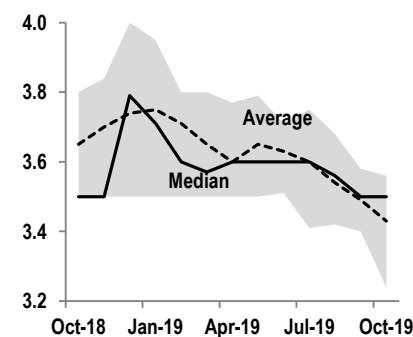
**Well-anchored medium- and long-term expectations.** Both measures remained at 3.5% unchanged from previous survey.

**Inflation expectations for 2019**  
% y/y



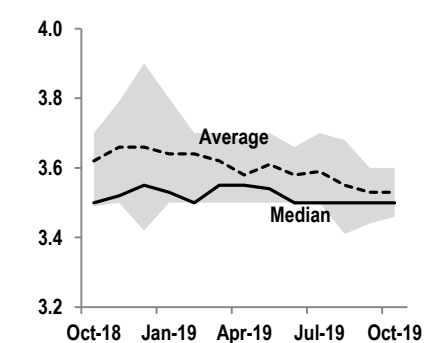
Source: Banxico

**Inflation expectations for 2020**  
% y/y



Source: Banxico

**Inflation expectations in the medium term**  
% y/y



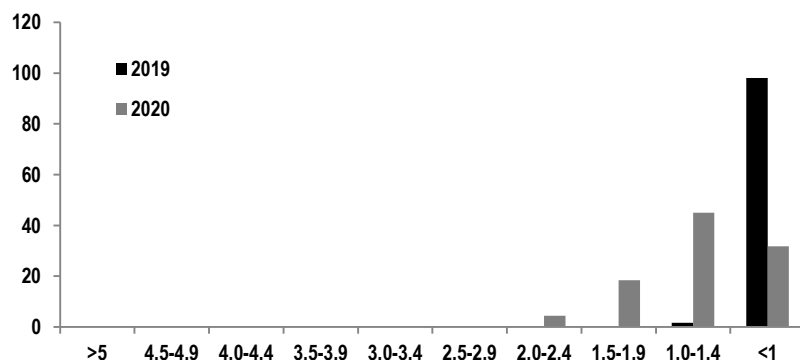
Source: Banxico

**Analysts expect the reference rate at 7.25% by year-end.** This level is in line with our expectation that Banxico will still cut the reference rate by 50bps in 2019 (25bps in each of the two meetings that will take place in November and December). However, consensus expects a 6.75% rate in 2020, which implies an additional reduction of 50 bps, below our estimate of additional cuts for around 100 bps to leave the funding rate at 6% at the end of the year. In our opinion, the central bank could front-load the easing cycle, particularly in the first half of next year, although we do not rule out that, given that economic activity has remained weak while inflation has converged to target, the monetary authority could decide to front-load, even in each of the two meetings that remain in 2019.

**Growth expectations for 2019 below previous survey.** According to Banxico's survey (October), analysts revised down its growth forecast to 0.2% from 0.5% (Banorte: 0.3%). Meanwhile, for 2020, analysts downgraded their estimates to 1.2% from 1.4% (Banorte: 1.4% y/y), with the probability of growing between 1% and 1.4% at 45% (probability of growing below 1% around 32%), as shown in the chart below. Finally, long-term growth (next 10-year average) is estimated at 2% (Banorte: 1.5% y/y).

**GDP Growth estimates**

% probability that growth falls in each range

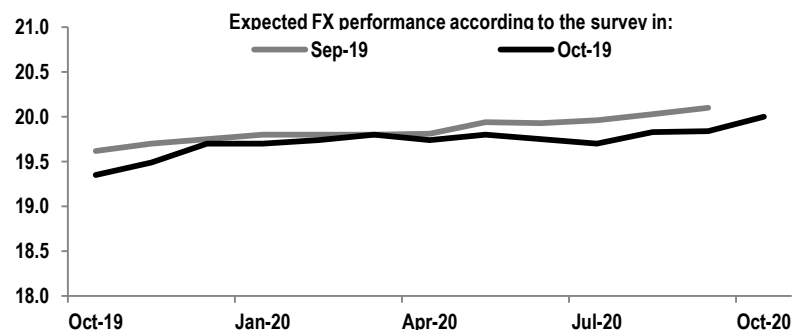


Source: Banxico

**Analysts expect an unchanged exchange rate for 2019.** Estimates are at USD/MXN19.7 from USD/MXN19.75 (Banorte: 20.3). For next year, they expect the currency to finish the year at USD/MXN20.1 from USD/MXN20.32 (Banorte: 21.3), with marginal changes to the expected trajectory.

**Expected FX performance**

MXN/USD



Source: Banxico

**Public insecurity is the main obstacle for economic growth.** Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Public insecurity (19% of responses); (2) uncertainty about domestic politics (16%); (3) uncertainty about domestic economic outlook (14%); (4) global economic weakness (9%); and (5) domestic market weakness and other problems related to rule of law with 6% of responses. with 0% of responses.

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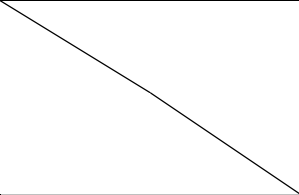
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