

Banxico's Survey – Analysts revised down inflation and growth forecasts for 2019

March 1, 2019

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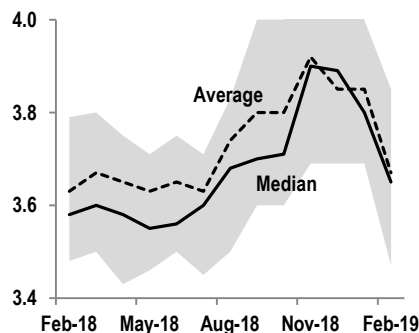
- Banxico just published its survey of expectations in February
- Consensus expects inflation at 3.65% at the end of 2019 below previous 3.8% (Banorte: 3.5%)
- For 2020, consensus forecasts inflation at 3.6%, while medium term expectations are at 3.5% (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 8.25% by year-end (Banorte: 7.75%)
- Growth expectations in 2019 were downgraded to 1.63% from 1.8% (Banorte: 1.5%)
- For next year, analysts expect growth in the area of 2% y/y in line with previous survey 2%
- Exchange rate forecast for year-end was revised down to 20.13 USD/MXN from 20.2 (Banorte: 21.3 USD/MXN)

Banxico just published its survey of expectations in February. Inflation forecasts for 2019 are at 3.65% yoy, below the 3.8% from previous survey (Banorte: 3.5%). In the meantime, expectations for core inflation in 2019 remain unchanged at 3.5%. In the next 12-months, inflation is expected at 4.1% vs. previous 3.98% y/y. For year-end 2020 inflation is expected at 3.6% (previous: 3.71%).

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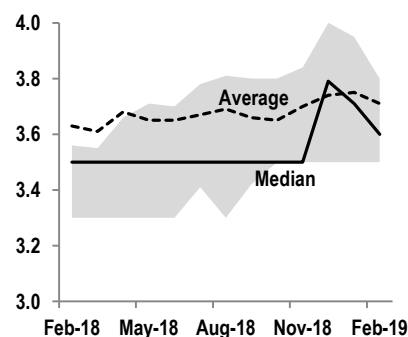
Medium term expectations are in line with previous survey. The median for medium term expectations (1- 4 years) remained at 3.5%. Meanwhile, long term expectations (5- 8 years) are at 3.4%, in line with January's survey.

Inflation expectations for 2019
% yoy



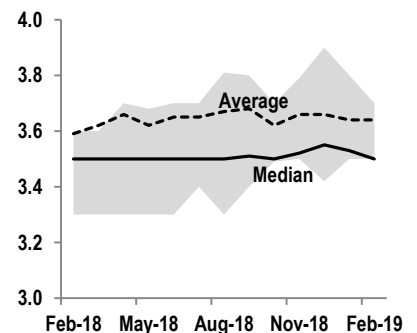
Source: Banxico

Inflation expectations for 2020
% yoy



Source: Banxico

Inflation expectations in the medium term
% yoy



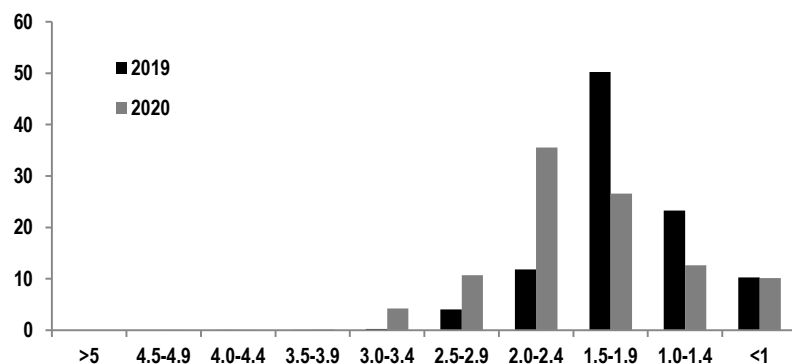
Source: Banxico

Analysts expect the reference rate at 8.25% for year end. This implies that they expect the monetary authority to remain on hold in 2019, in contrast with our own view that Banxico is likely to start an easing cycle as soon as in June 2019. For next monetary policy decision (March 28) we do not expect any changes in the reference rate.

Growth expectations for 2019 below previous survey. According to Banxico's survey (February), analysts revised down its growth forecast in 2019 to 1.63% from 1.8% (Banorte: 1.5%), as shown below. For 2020, the median remains at 2% (Banorte: 2.1% yoy). Finally, long-term growth (next 10-year average) is estimated at 2.3% (Banorte: 2.5% y/y).

GDP Growth estimates

% probability that growth falls in each range

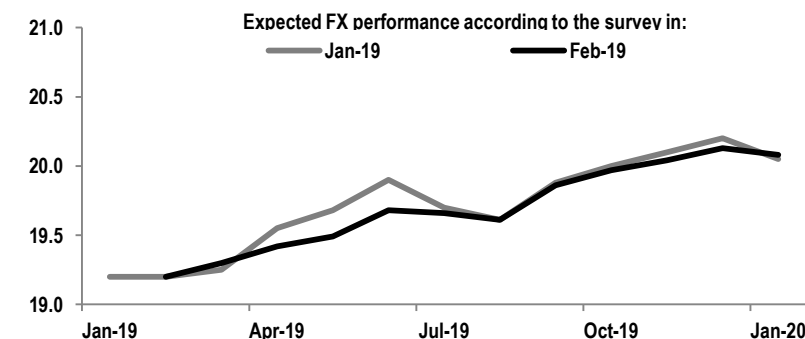


Source: Banxico

Analysts expect a lower exchange rate for 2019. Estimates are at USD/MXN20.13 from USD/MXN20.2 (Banorte: 21.3). For 2019, they expect the currency to finish the year at USD/MXN20.5 from USD/MXN20.61 (Banorte: 22.5).

Expected FX performance

MXN/USD



Source: Banxico

Uncertainty about domestic politics is the main obstacle for economic growth. Among the factors that could have an adverse impact on Mexico's economic growth are: (1) Uncertainty about domestic politics (18% of responses); (2) public insecurity and lack of rule of law (11%); (3) global economic weakness (10%); (4) oil production output with 9% of responses, and (5) higher levels of domestic financial costs with 4% of responses.

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