

# Banxico's Survey – Analysts expect inflation on target with no GDP growth in 2019

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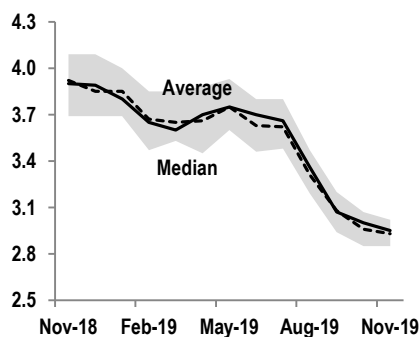
- Banxico just published its survey of expectations in November
- Consensus expects inflation at 2.95% at the end of 2019 marginally below previous 3% (Banorte: 3%)
- For 2020, consensus forecasts inflation at 3.5%, in line with medium term expectations (Banorte: 3.5%)
- Economists expect Banxico's reference rate at 7.25% by year-end (Banorte: 7.25%)
- Growth expectations in 2019 were downgraded to 0% from 0.2% (Banorte: -0.1%)
- For next year, analysts expect growth in the area of 1.07% y/y below previous estimate 1.2%
- Exchange rate forecast for year-end was revised down to 19.48 USD/MXN from 19.7 (Banorte: 20.3 USD/MXN)

**Banxico just published its survey of expectations in November.** Inflation forecasts for 2019 are at 2.95% y/y, marginally below the 3% from previous survey (Banorte: 3%). In the meantime, expectations for core inflation in 2019 are at 3.6%, unchanged vs. previous 3.6% y/y. In the next 12-months, inflation is expected at 3.5%, vs. previous 3.6% y/y. For year-end 2020 inflation is expected at 3.5% (previous: 3.5%).

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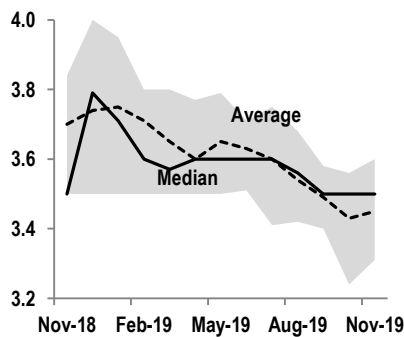
**Medium term expectations are in line with previous survey.** Both medium term expectations (1- 4 years) and long-term expectations (5- 8 years) are at 3.4%, in line with October's survey.

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



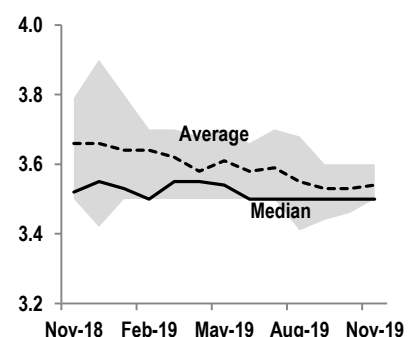
Source: Banxico

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



Source: Banxico

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



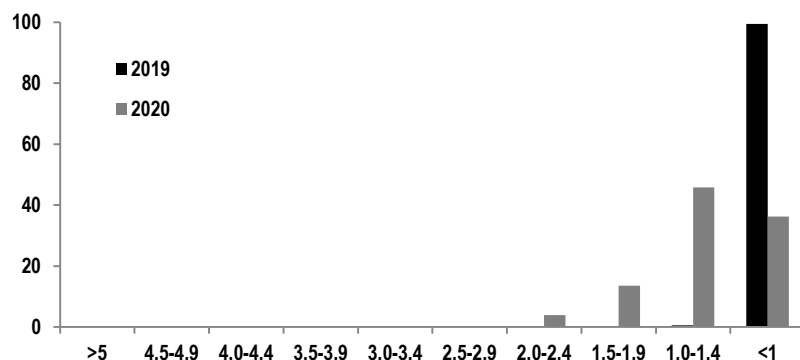
Source: Banxico

**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 25bps in its last meeting of 2019 (December 19<sup>th</sup>). However, consensus expects a 6.5% rate in 2020, which implies an additional reduction of 75 bps, below our estimate of additional cuts for around 125 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.

**Growth expectations for 2019 below previous survey.** According to Banxico's survey (November), analysts revised down its growth forecast to 0% from 0.2% (Banorte: -0.1%), as shown below. For 2020, analysts downgraded their estimates to 1.07% from 1.2% (Banorte: 1.4% y/y). 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

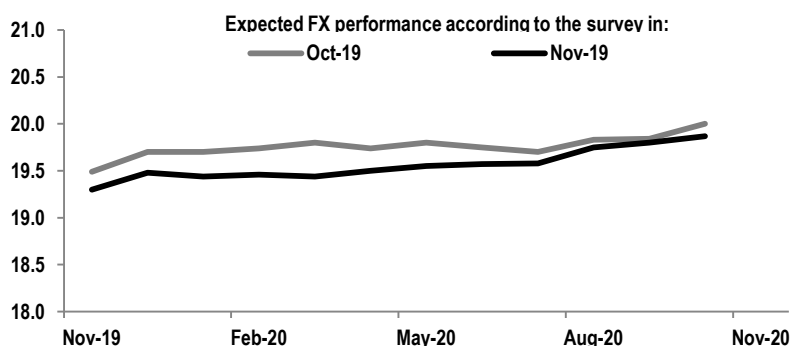


Source: Banxico

**Analysts expect a lower exchange rate for 2019.** Estimates are at USD/MXN19.48 from USD/MXN19.7 (Banorte: 20.3). For next year, they expect the currency to finish the year at USD/MXN20 from USD/MXN20.1 (Banorte: 21.3), with downward revisions to the expected trajectory.

**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 (21% of responses); (2) public insecurity (18%); (3) uncertainty about domestic economic outlook (15%); (4) domestic market weakness and public spending policies (6%); and (5) global economic weakness with 6% of responses.

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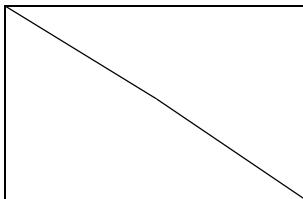
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