

New macro outlook for the Mexican economy: a grim picture

We just updated Finamex's macroeconomic outlook for the Mexican economy for this and next year (see Table 1). In light of a worse than expected performance of economic activity during 1H-2020, and increased uncertainty for 2H-2020, we now anticipate a contraction of 11.0% in economic growth for 2020, followed by a 3.5% recovery in 2021. We also expect higher inflation –albeit at still favorable levels– coming from upward revisions in both its core and non-core components. With respect to the USD/MXN, we stick to our estimate that it will fluctuate around 22.50 pesos per dollar by the end of this and the following year. Finally, given the deeper contraction in economic activity that we foresee, and the idiosyncratic risks that persist, we believe that Banxico has enough room to cut the reference rate to a level of 4.0% (i.e. 100 bps more from its current). Looking forward, uncertainty driven by the evolution of the pandemic will continue to blur the landscape. As long as there is no clear path towards its containment, frequent revisions to our main estimates will continue to be the norm.

Finamex's main macro estimates: 2020 and 2021

	2019 Observed	2020			2021		
		Finamex Previous	Finamex Current	Latest Consensus*	Finamex Previous	Finamex Current	Latest Consensus*
GDP growth	-0.3%	-7.5%	-11.0%	-9.2%	1.0%	3.5%	3.0%
Headline inflation	2.83%	3.10%	3.70%	3.34%	3.70%	3.80%	3.50%
Core inflation	3.59%	3.20%	3.40%	3.55%	3.40%	3.50%	3.48%
FX (USD/MXN) ⁺	18.93	22.50	22.50	22.80	22.50	22.50	22.50
Reference rate ⁺	7.25%	4.50%	4.00%	4.50%	4.50%	4.00%	4.50%

Source: Finamex Economic Research with data from INEGI and Citibanamex Survey.

Note: Survey's data correspond to medians. ⁺Year-end level. *Citibanamex Survey July 7th, 2020.

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