

Banxico QR – Dovish tone supported by downward revisions to GDP forecasts

- Banxico published today its 2Q24 *Quarterly Report (QR)*. We think that the document showed a relatively more dovish tone, similar to recent communications
- The Q&A session centered in the actions that could be taken in upcoming meetings. Overall, responses remarked on the need to take actions with available data but with a prospective approach. However, several remarks corroborated the divergence across Board members
- Regarding estimates, GDP for this year was revised to 1.5% from 2.4% (Banorte: 1.9%), also with an adjustment lower in employment forecasts. Meanwhile, those for inflation were unchanged relative to the [latest statement](#), as in recent updates
- Within the ‘grey boxes’ we note comments regarding methodological changes to CPI along a minor update to the institution’s r^* estimate
- The document included the calendar for policy meetings in 2025, once again aligned with the one from the Fed
- The tone and revisions within the document along Board members’ comments support our view of a 25bps cut in September, with the rate by year-end at 10.25%

The dovish tone extends to the *Quarterly Report (QR)*. As usual, attention centered in the Q&A, as well as on macroeconomic updates. On the former, we focused on comments about upcoming actions, the recent and future performance of inflation, and the impact of a decline in economic activity. Among the dovish members –Governor Victoria Rodríguez, Galia Borja, and Omar Mejía–, although data-dependency was stressed, they also elaborated on the need to maintain a prospective approach, situation which was also seen in the [latest minutes](#). In addition, another point remarked upon by them, along with Jonathan Heath, was that they expect recent shocks to the non-core to dissipate in the remainder of the year, supporting a decline in headline inflation. Regarding estimates, we highlight the revision lower to GDP across the forecast horizon, with the figure for 2024 lower by 90bps to 1.5%. According to the institution, part of the revision corresponds to [lower-than-expected growth in 2Q24](#). It is important to note that the output gap would currently be in negative territory, situation which would imply that there are no demand-side pressures on inflation. Within the ‘grey boxes’ we note the update to the r^* estimate, which increased by 10bps to 2.7%. Considering all the information accompanying the release –as well as a marginally more positive backdrop for inflation and with the Fed starting to ease soon– we maintain our view of a 25bps cut in September, taking the rate to 10.50%. Following this, we continue to expect a pause in November given higher external risks, although with the possibility of a reduction materializing if the market reaction is favorable after the US election. Finally, we forecast an additional -25bps in December, with the reference rate at 10.25% by the end of the year.

Future actions dependent on data, but with a prospective approach. Questions were made on several topics, albeit focused on inflation and economic activity, as well as their implications for policy ahead. About the former, most members said that they expect shocks to non-core inflation to dissipate relatively fast and with not much effects on the core, as discussed in previous communications. In particular, Heath –who we believe has a more hawkish bias– said that headline inflation could converge towards the institution’s 4.4% year-end estimate, also helped by the core. In addition, Governor Rodríguez emphasized the downward revision to the GDP estimate, situation which should have a greater impact on inflation further on the horizon, this was echoed by other dovish members, as detailed below. All in all, consensus in the latter group seems to be clear that easing will continue in coming meetings.

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Banxico’s decisions in 2024

Date	Decision
February 8 th	0bps
March 21 st	-25bps
May 9 th	0bps
June 27 th	0bps
August 8 th	-25bps
September 26 th	--
November 14 th	--
December 19 th	--

Source: Banxico



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A new downward revision in 2024 GDP, with 2025 also lower. For 2024 we saw a 90bps reduction in the central forecast to 1.5% (range: 1.1% to 1.9%), below our estimate at 1.9%. The revision was due to lower-than-expected growth in the second quarter of the year, along with the expectation of a moderation in domestic demand and a deceleration in US manufacturing in the second half of the year. For 2025, the estimate was adjusted by -30bps to 1.2% (range: 0.4% to 2.0%). In this context, Mejía considered that the decision to cut the reference rate in August was timely, given the current outlook of lower economic dynamism. Additionally, Borja referred to expectations regarding economic activity, noting that in the medium term, the deceleration would aid the disinflationary process, particularly through services. As already mentioned, the estimate of the output gap already puts it in negative territory in 2Q24, situation not seen since 1Q22. This would prevail through the remainder of the forecast horizon, reaching its lowest level in 4Q25.

Changes in other estimates. Banxico adjusted its view for job creation affiliated to IMSS to the downside for both 2024 and 2025, in line with lower growth. On external accounts, narrower deficits are anticipated in the trade balance and the current account in both years, consistent with [their performance so far](#). For further details, see the tables below.

Banxico's Forecasts
Current Report (2Q24)

	2024	2025
GDP (% y/y)		
Central scenario	1.5	1.2
Range	1.1 to 1.9	0.4 to 2.0
Employment (thousands)	410 to 550	430 to 630
Trade Balance (US\$ bn)	-19.0 to -11.0 (-1.0% to -0.6% of GDP)	-23.7 to -13.7 (-1.3% to -0.8% of GDP)
Current account (US\$ bn)	-22.0 to -9.5 (-1.2% to -0.5% of GDP)	-23.4 to -7.4 (-1.3% to -0.4% of GDP)

Source: Banxico

Banxico's Forecasts
Previous Report (1Q24)

	2024	2025
GDP (% y/y)		
Central scenario	2.4	1.5
Range	1.9 to 2.9	0.7 to 2.3
Employment (thousands)	510 to 670	510 to 710
Trade Balance (US\$ bn)	-27.5 to -19.5 (-1.4% to -1.0% of GDP)	-28.5 to -18.5 (-1.5% to -1.0% of GDP)
Current account (US\$ bn)	-24.6 to -12.1 (-1.3% to -0.6% of GDP)	-28.1 to -12.1 (-1.5% to -0.6% of GDP)

Source: Banxico

Inflation forecasts and its balance of risks remain unchanged. The inflation path and the risks that would impact it did not show any changes to what was already published in the last statement. This is relevant considering [the methodological adjustment to CPI done last week](#), which suggests that updates will only be done along with monetary policy decisions. As usual, additional details were included for each of the factors that make up the balance of risks –which remains skewed to the upside. We highlight the intervention of Governor Rodríguez, who reaffirmed that the disinflationary process continues, with the non-core concentrating volatility. Meanwhile, Heath commented that the core might be reaching the limits of its decline. Specifically, his hopes rest on services –which remains above 5%– beginning to show signs of a downward trend, as he sees limited room for further declines in goods. Finally, Mejía restated that the disinflationary process is evident –and given the typical behavior of supply shocks in the non-core–, the outlook for the headline is clearly trending downward.

CPI forecasts

% y/y, quarterly average

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Headline	4.8*	5.2	4.4	3.7	3.3	3.1	3.0	3.0	3.0
Core	4.2*	4.0	3.9	3.6	3.3	3.1	3.0	3.0	3.0

Source: Banco de México. *Observed data

Updates on CPI methodology and r^* estimates. The release included seven 'grey boxes', with studies on economic activity, prices, and other monetary subjects. We highlight some the one regarding the update to CPI weights, although we should note that it does not elaborate on the possible effects to the central bank's inflation trajectory. More notable, the central bank updated its estimates on the real neutral rate (also known as r^*).

As in previous occasions, the estimate is constructed as an average of several estimation methods (using five in this occasion vs. four in the previous update in 2019). As such, the estimate now puts r^* at 2.7%, which implies a 10bps increase. In addition, the upper bound for the range of neutrality was expanded by 20bps to 3.6%, with the lower bound unchanged at 1.8%. We believe that the adjustment is not meaningful enough to warrant a change in which policy is conducted but is consistent with a post-pandemic environment of higher inflation and higher rates, especially after the end of the ultra-loose monetary policies in AEs.

Calendar for 2025's monetary policy decisions. All of the meetings will take place with a delay of one week vs those of the Fed, as shown in the following table. As on previous occasions, the minutes will be published two weeks after the decision except for December's, due to the holiday period.

Fed and Banxico's monetary policy decisions in 2025

	Federal Reserve	Banxico
January	29	--
February	--	6
March	19	27
April	--	--
May	7	15
June	18	26
July	30	--
August	--	7
September	17	25
October	29	--
November	--	6
December	10	18

Source: Federal Reserve and Banxico

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