

ECONOMIC FORECASTS

GROWTH SCENARIOS

Economic growth projections for 2022 and 2023 have been revised downward. The following risks to growth are identified: 1) declining consumer confidence, 2) inflationary pressures, 3) lower real disposable income for households due to high inflation and rising interest rates, 4) increased costs for businesses (wages, CIF, interest payments and inventory accumulation, particularly in the USA), 5) caution due to fears about future economic conditions, and 6) lower credit availability due to increased economic risk and rising interest rates. **Mexican economic forecasts face downward risks stemming from internal policies, and the ongoing consultation process on USMCA, which could lead to tariffs imposed on Mexican exports.**

México GDP growth scenarios

Scenarios	Pesimistic		Central		Optimistic	
	QoQ	YoY	QoQ	YoY	QoQ	YoY
1Q 2022	1.01%	1.83%	1.01%	1.83%	1.01%	1.83%
2Q 2022	0.98%	1.94%	0.98%	1.94%	0.98%	1.94%
3Q 2022	-1.90%	0.30%	-0.50%	1.73%	0.70%	2.96%
4Q 2022	-1.85%	-1.79%	-0.50%	0.98%	0.70%	3.43%
2022	0.60%		1.60%		2.50%	
1Q 2023	-0.20%	-2.97%	-0.20%	-0.23%	0.20%	2.60%
2Q 2023	0.60%	-3.33%	0.60%	-0.60%	0.60%	2.22%
3Q 2023	1.20%	-0.28%	1.20%	1.10%	0.90%	2.42%
4Q 2023	1.00%	2.62%	1.00%	2.62%	1.00%	2.73%
2023	-1.00%		0.70%		2.50%	

USA GDP growth scenarios

Scenarios	Pesimistic		Central		Optimistic	
	QoQ	YoY	QoQ	YoY	QoQ	YoY
1Q 2022	-0.40%	3.53%	-0.40%	3.53%	-0.40%	3.53%
2Q 2022	-0.23%	1.62%	-0.23%	1.62%	-0.23%	1.62%
3Q 2022	-0.50%	0.54%	-0.10%	0.94%	0.20%	1.25%
4Q 2022	-0.20%	-1.32%	-0.20%	-0.92%	0.30%	-0.13%
2022	1.07%		1.27%		1.55%	
1Q 2023	-0.10%	-1.03%	0.10%	-0.43%	0.30%	0.57%
2Q 2023	0.30%	-0.50%	0.30%	0.10%	0.70%	1.51%
3Q 2023	0.70%	0.70%	0.70%	0.90%	0.80%	2.12%
4Q 2023	0.80%	1.71%	0.80%	1.91%	0.80%	2.62%
2023	0.22%		0.62%		1.70%	

Letters in italics refer to estimates.

Source: GF BASE with data from INEGI and the U.S. Bureau of Economic Analysis.

INFLATION AND INTEREST RATE FORECASTS

Quarter	Key rate		Quarter	Inflation	
	Mexico	United States		Mexico	United States
3Q 2022	9.00%	3.25%	3Q 2022	8.5%	8.8%
4Q 2022	10.00%	4.00%	4Q 2022	8.5%	8.6%
1Q 2023	11.00%	4.50%	1Q 2023	8.0%	7.2%
2Q 2023	11.50%	4.50%	2Q 2023	6.7%	5.6%
3Q 2023	11.50%	4.50%	3Q 2023	5.6%	4.0%
4Q 2023	11.50%	4.50%	4Q 2023	4.6%	3.5%

Quarterly forecasts show averages for each period.

Interest rate forecasts are built upon central scenarios, as there is a large number of combinations between growth and inflation if expectations in optimistic or pessimistic scenarios are included.

In case inflation and growth turns lower than the central scenario in 2022 and early 2023, we expect both central banks (the Fed and Banxico) to continue increasing its interest rates, until the first quarter of 2023, as the current hiking cycle has as main goal to keep inflation expectations anchored. If the USA turns to a severe recession the Fed may consider lowering interest rates toward the end of 2023, provided this recession causes a steep fall of aggregate demand and is devoid of external inflation pressures.

EXCHANGE RATE FORECASTS

Month	Exchange rate		
	USDMXN	EURUSD	EURMXN
Aug-22	20.10	1.03	20.7
Sep-22	20.00	1.05	21.0
Oct-22	20.20	1.05	21.2
Nov-22	20.30	1.02	20.7
Dec-22	20.50	1.00	20.5
1Q 2023	20.60	1.04	21.4
2Q 2023	20.90	1.10	23.0
3Q 2023	21.00	1.15	24.2
4Q 2023	21.00	1.15	24.2

Exchange rate forecasts are built around the expected path of rate hikes by the major central banks, particularly the Federal Reserve. For the exchange rate of the Mexican peso against the US dollar, a continued strong inflow of foreign currency is assumed, via exports, with expected growth for the full year of over 15%. A strong inflow of dollars through remittances is also assumed over the forecast period. Towards 2023, greater uncertainty is assumed in relation to domestic risks and uncertainty regarding ongoing geopolitical conflicts, so the forecast assumes a higher exchange rate towards the second half of 2023, in order to account for additional exchange rate pressures from a risk management standpoint.

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