

# Quarterly Report

April - June 2023

August 30, 2023



BANCO DE MÉXICO®

## During the second quarter of 2023 and so far in the third quarter of 2023:

### Externally

- **The world economy is expanding.**
- Prospects of a **world economic slowdown.**
- **Inflation** still **at high levels**, but **decreasing.**
- **Tight monetary conditions** worldwide.

### Domestically

- **Resilience** of domestic **economic activity.**
- **Strong labor market.**
- **Disinflationary process** continues underway.

### Monetary policy

- The Governing Board kept **the reference rate unchanged.**
- It considered that in order to attain an orderly and sustained convergence of inflation, **the reference rate** will need to be maintained **at its current level for an extended period.**

# Outline

## **1 External conditions**

## **2 Current situation of the Mexican economy**

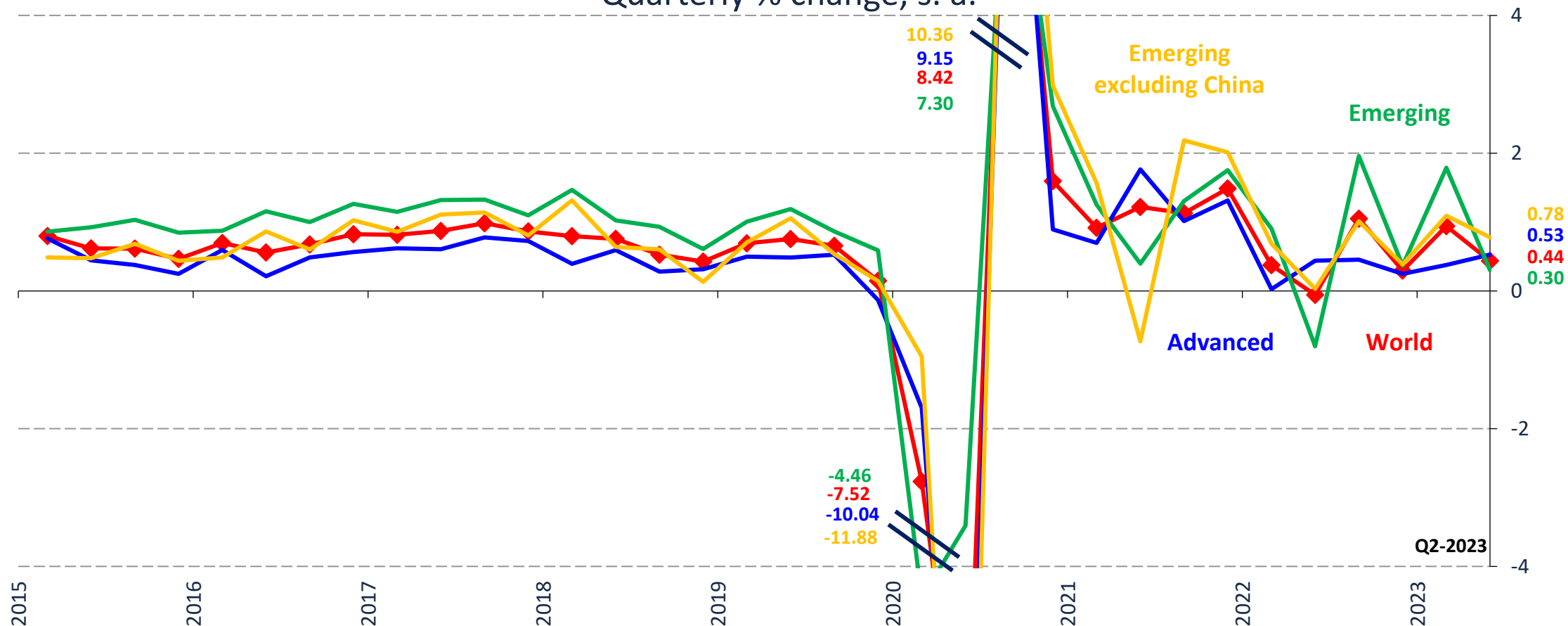
## **3 Inflation**

## **4 Monetary policy**

## **5 Forecasts and final remarks**

**During Q2-2023, world economic activity expanded at a slower pace than in the previous quarter.**

### Real GDP growth Quarterly % change, s. a.



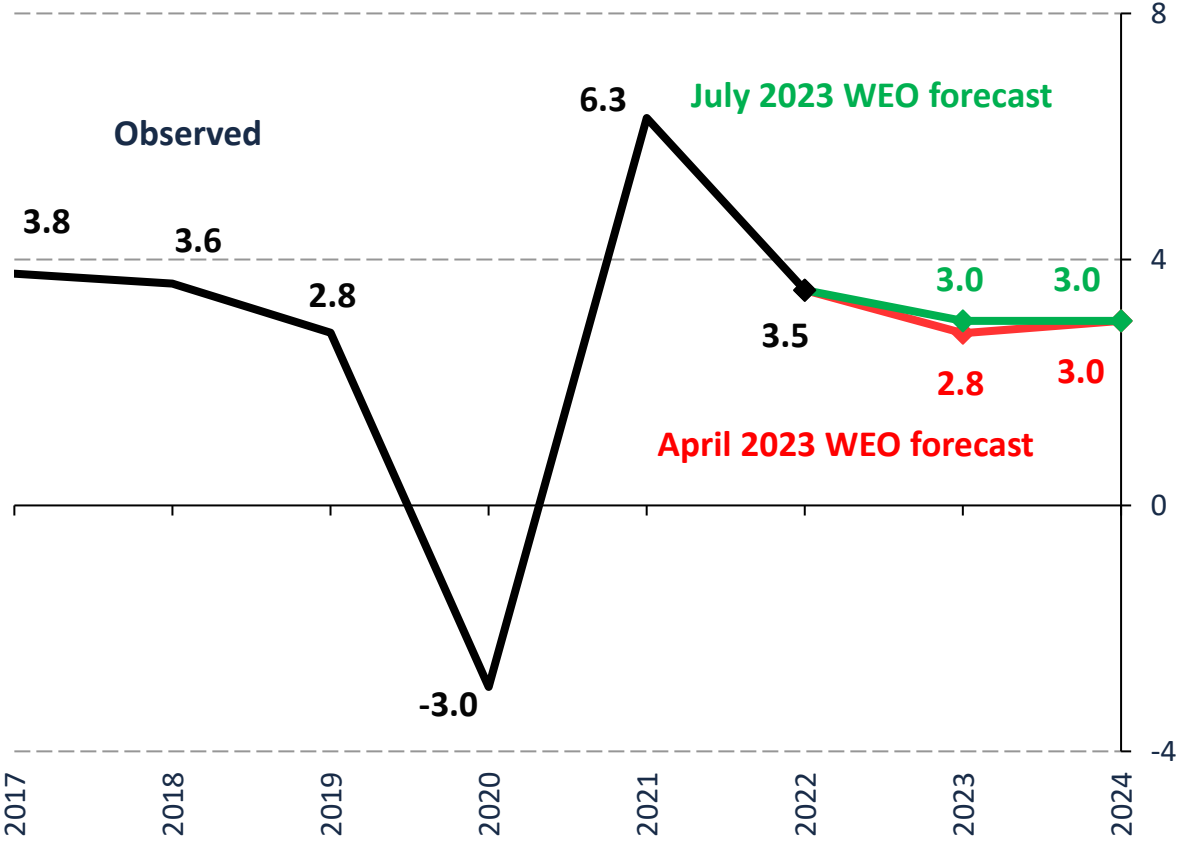
s. a. / Seasonally adjusted figures.

Note: The sample of countries used for the calculation represents 85.4% of world GDP adjusted for purchasing power parity. Forecasts are used for some countries in the sample for Q2-2023. The range of the chart was reduced to facilitate its reading. The figures shown correspond to the minimum and maximum levels of the indicators that are not displayed in the chart.

Source: Prepared by Banco de México with information from Haver Analytics and J.P. Morgan.

Growth forecasts for 2023 have been revised slightly upwards, although they continue pointing to a lower dynamism of global economic activity compared to 2022. The pace of expansion in 2024 is expected to be similar to that of 2023. The balance of risks to global economic growth is biased to the downside.

**World GDP growth forecast**  
Annual % change



Note: Data for 2022 correspond to estimates from the International Monetary Fund published in the World Economic Outlook July 2023.  
Source: International Monetary Fund (IMF), World Economic Outlook April and July 2023.

**GDP growth forecast**

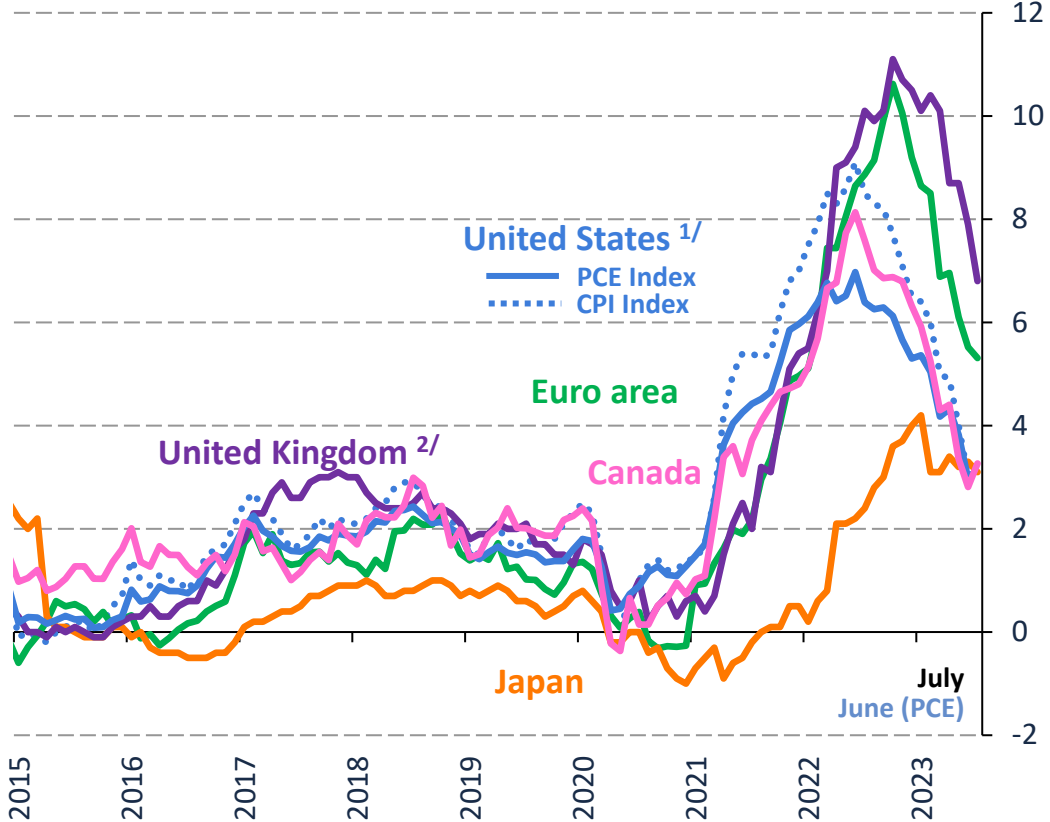
	WEO July 2023 Annual % change			Change from WEO April 2023 Percentage Points	
	2022	2023	2024	2023	2024
<b>World</b>	<b>3.5</b>	<b>3.0</b>	<b>3.0</b>	<b>0.2</b>	<b>0.0</b>
<b>Advanced</b>	<b>2.7</b>	<b>1.5</b>	<b>1.4</b>	<b>0.2</b>	<b>0.0</b>
United States	2.1	1.8	1.0	0.2	-0.1
Euro area	3.5	0.9	1.5	0.1	0.1
Japan	1.1	1.4	1.0	0.1	0.0
United Kingdom	4.1	0.4	1.0	0.7	0.0
<b>Emerging</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>	<b>0.1</b>	<b>-0.1</b>
Excl. China	4.5	3.4	3.9	0.1	-0.1
Mexico	3.0	2.6	1.5	0.8	-0.1
China	3.0	5.2	4.5	0.0	0.0
India	7.2	6.1	6.3	0.2	0.0
Brazil	2.9	2.1	1.2	1.2	-0.3

Note: Data for 2022 correspond to estimates from the International Monetary Fund published in the World Economic Outlook July 2023.  
Source: Prepared by Banco de México with data from International Monetary Fund (IMF), World Economic Outlook April and July 2023.

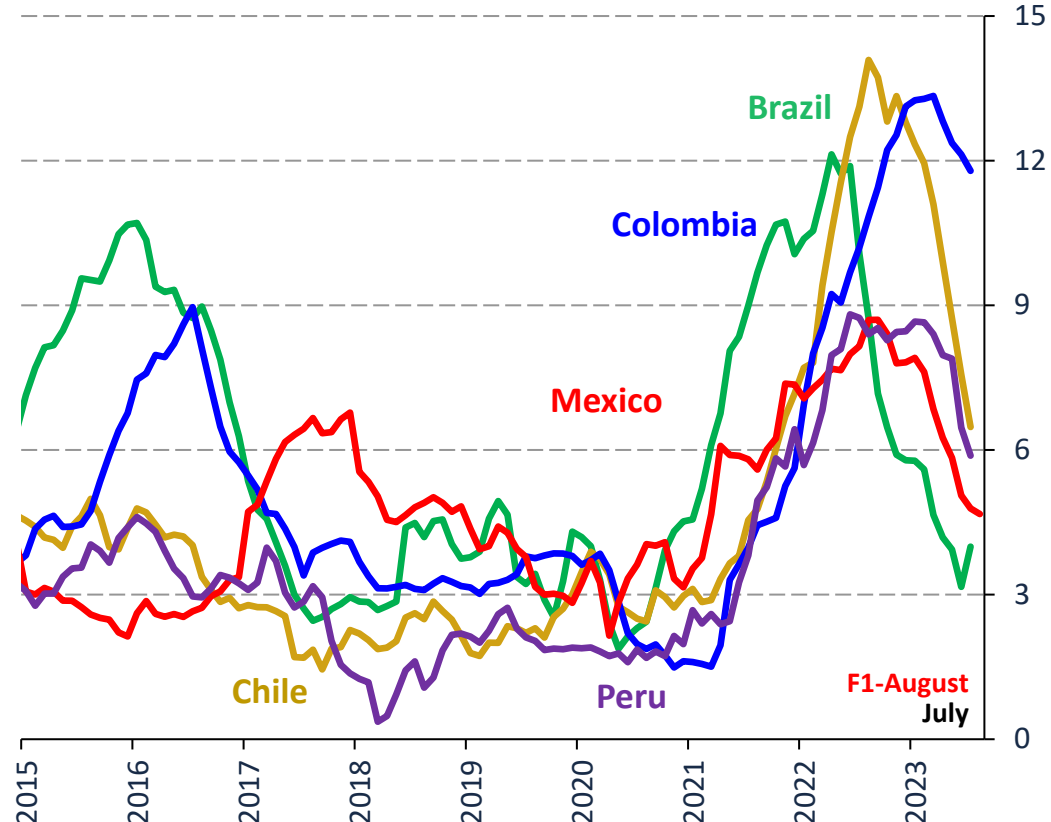
Headline inflation decreased in most of the major economies. However, it is still at elevated levels and above the targets of their corresponding central banks.

### Headline price index Annual % change

#### Advanced economies



#### Emerging economies in Latin America



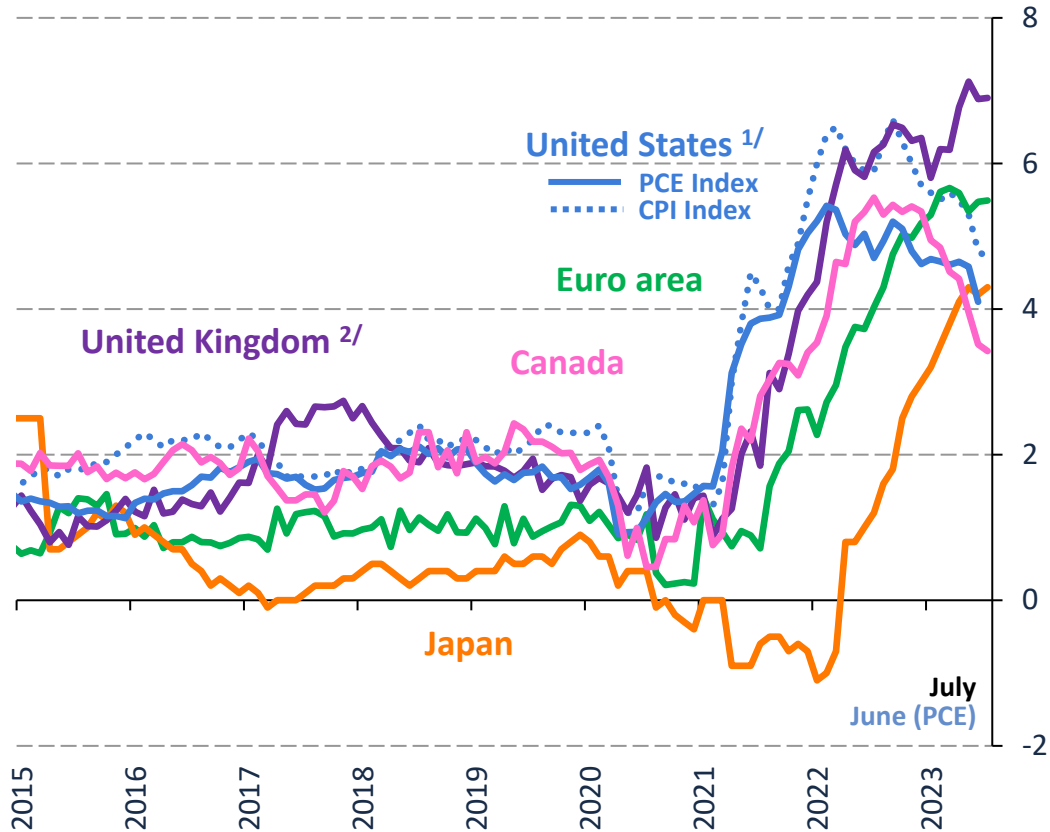
1/ The solid line refers to the Personal Consumption Expenditure Price Index (PCE) and the dotted line shows the Consumer Price Index (CPI). 2/ The harmonized index is used.  
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, Office for National Statistics of the UK and Statistics Canada.

Source: INEGI and corresponding national statistics offices.

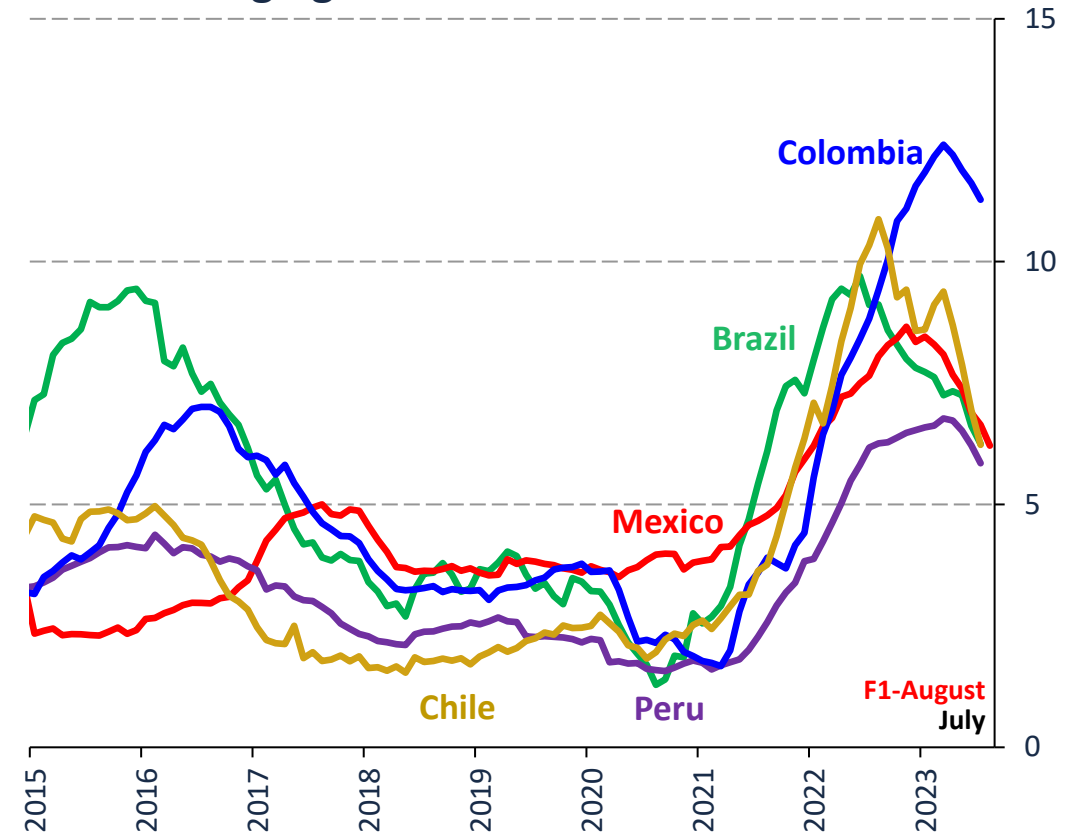
# The decline in core inflation has been slower than the one in headline inflation.

## Core price index Annual % change

### Advanced economies



### Emerging economies in Latin America

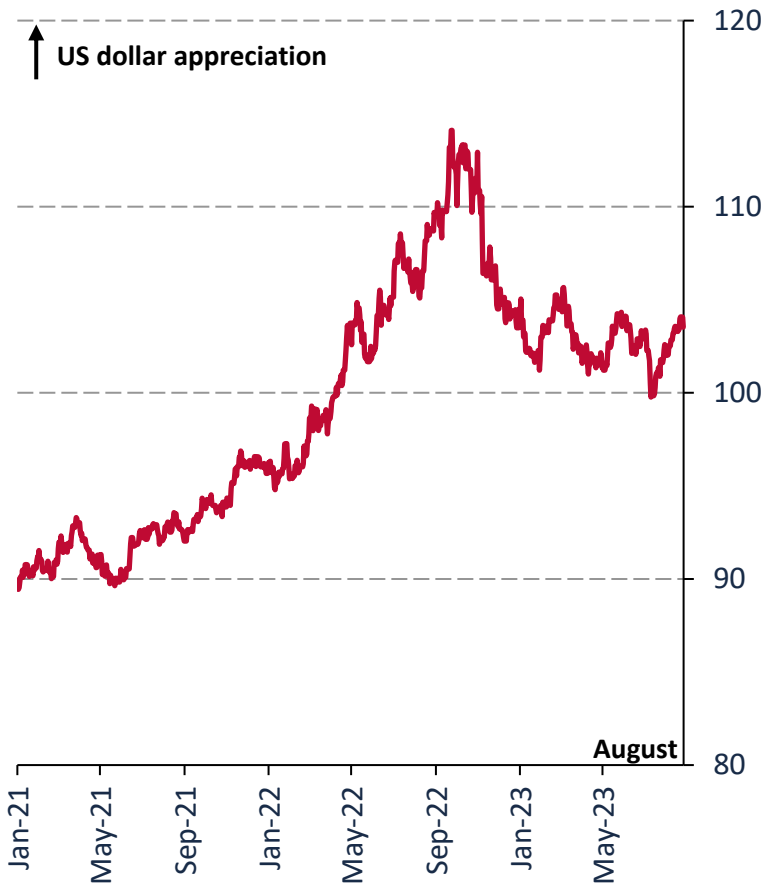


1/ The solid line refers to the Personal Consumption Expenditure Price Index (PCE) and the dotted line shows the Consumer Price Index (CPI). 2/ The harmonized index is used.  
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, Office for National Statistics of the UK and Statistics Canada.

Source: INEGI and corresponding national statistics offices.

Volatility in international financial markets decreased during most of the period covered by this Report. However, in August, it increased, while global financial conditions tightened due to, among other factors, the possibility of a further monetary tightening as well as concerns about the fiscal position in some advanced countries.

US dollar index DXY <sup>1/</sup>  
Index



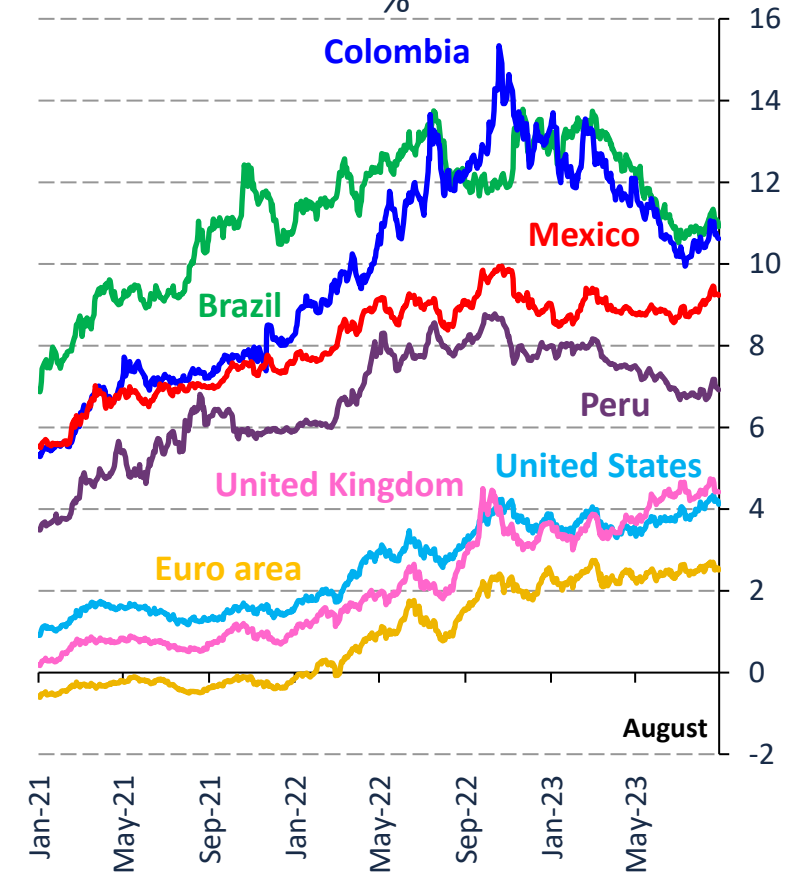
1/ DXY: Refers to the US dollar index calculated by the Intercontinental Exchange (ICE) as a weighted average of the nominal exchange rate of six currencies: euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc.  
Source: Bloomberg.

Global financial conditions index  
Index



Source: Goldman Sachs.

10-year government bond nominal  
interest rates  
%

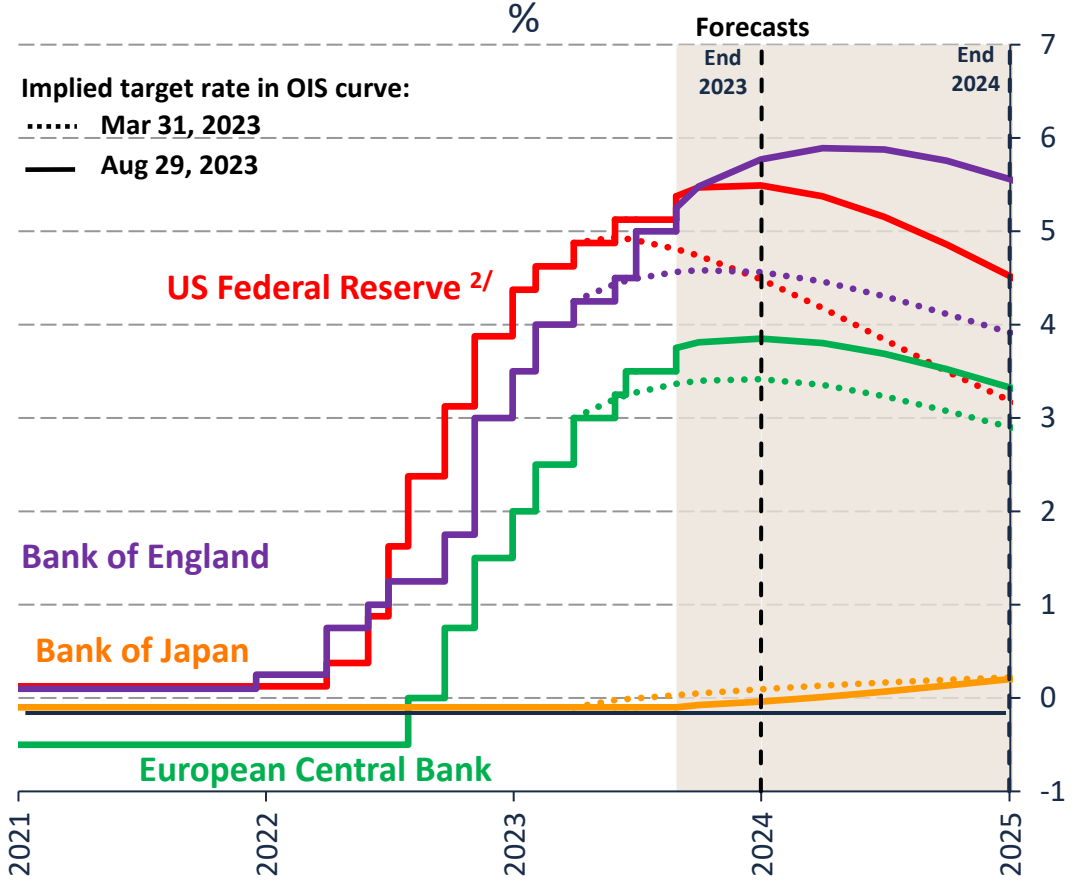


Source: Prepared by Banco de México with data from Bloomberg and Proveedor Integral de Precios (PiP).



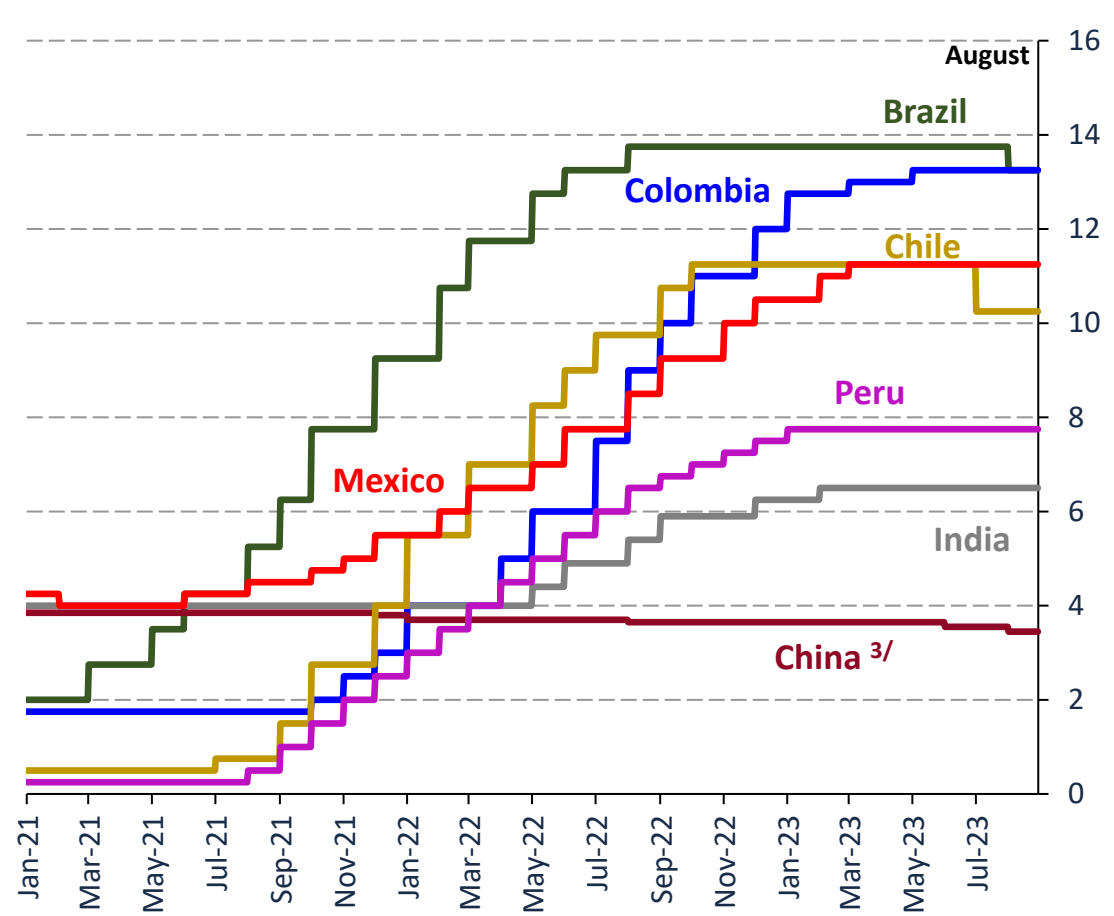
During the period covered by this Report, central banks adjusted their reference rates heterogeneously. Among the main advanced economies, most continued tightening their monetary policy stances. In emerging economies, most left their reference rates unchanged and some announced rate cuts.

Reference rates and implied trajectories in OIS curves in advanced economies <sup>1/</sup>



<sup>1/</sup> OIS: Fixed-for-floating swap where the fixed interest rate is the overnight effective reference rate. <sup>2/</sup> Data for the observed federal funds rate corresponds to the average between the lower and upper bounds of the target range. Source: Prepared by Banco de México with data from Bloomberg.

Reference rates in emerging economies %



<sup>3/</sup> For China, the 1-year Loan Prime Rate (LPR) is shown. Source: Haver Analytics.

# Outline

**1 External conditions**

**2 Current situation of the Mexican economy**

**3 Inflation**

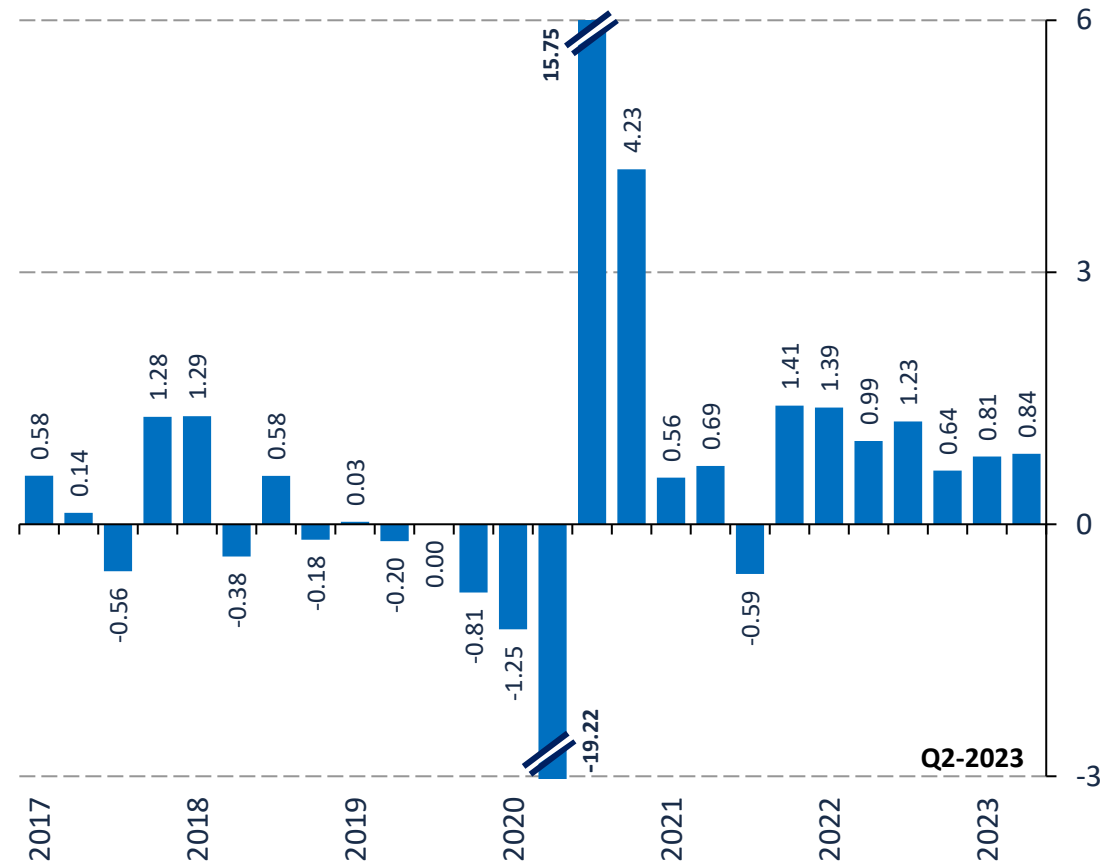
**4 Monetary policy**

**5 Forecasts and final remarks**

In Q2-2023, Mexico's economic activity exhibited resilience and expanded at a similar pace to that of the previous quarter.

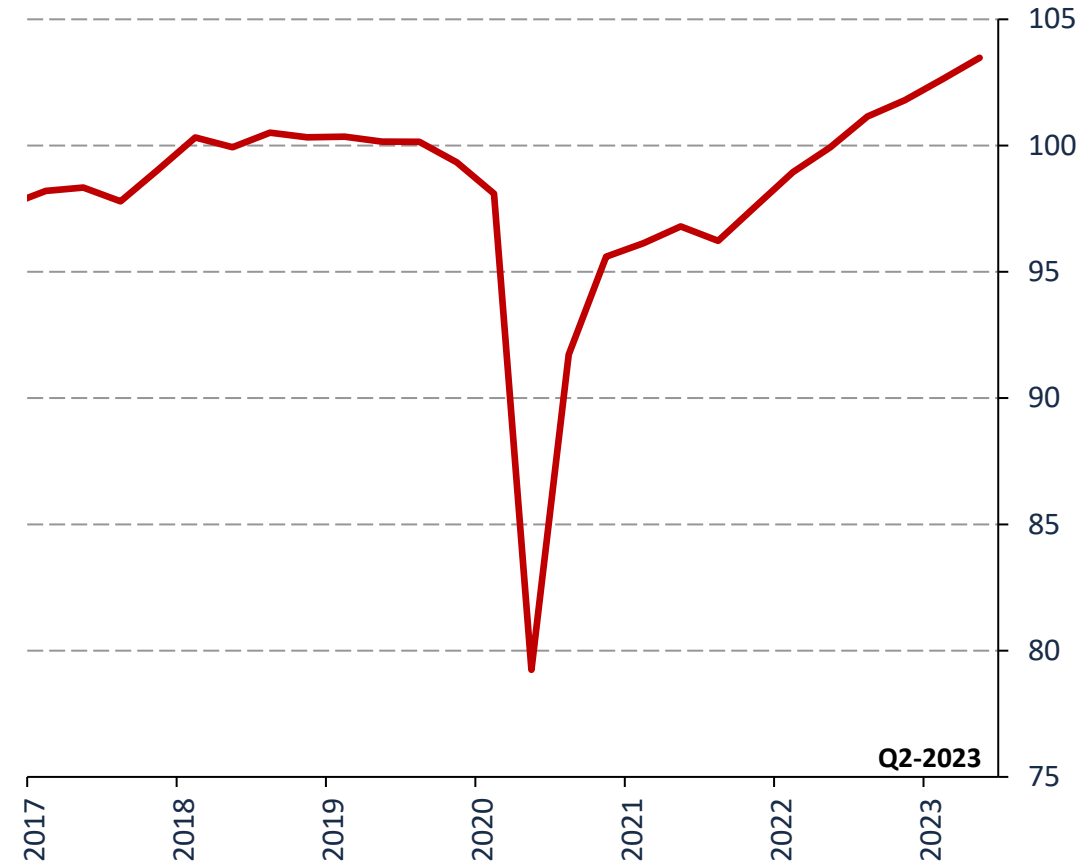
### Gross Domestic Product

Quarterly % change, s. a. 1/



s. a. / Seasonally adjusted figures.  
 1/ The range of the chart has been reduced to facilitate its reading.  
 Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

Index Q4-2019=100, s. a.

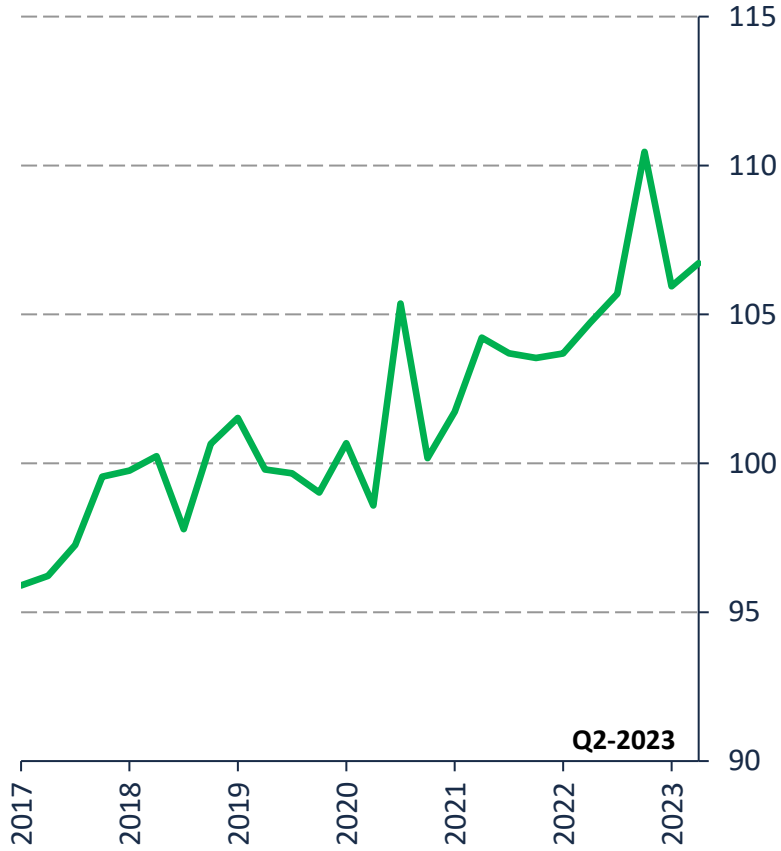


s. a. / Seasonally adjusted figures.  
 Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

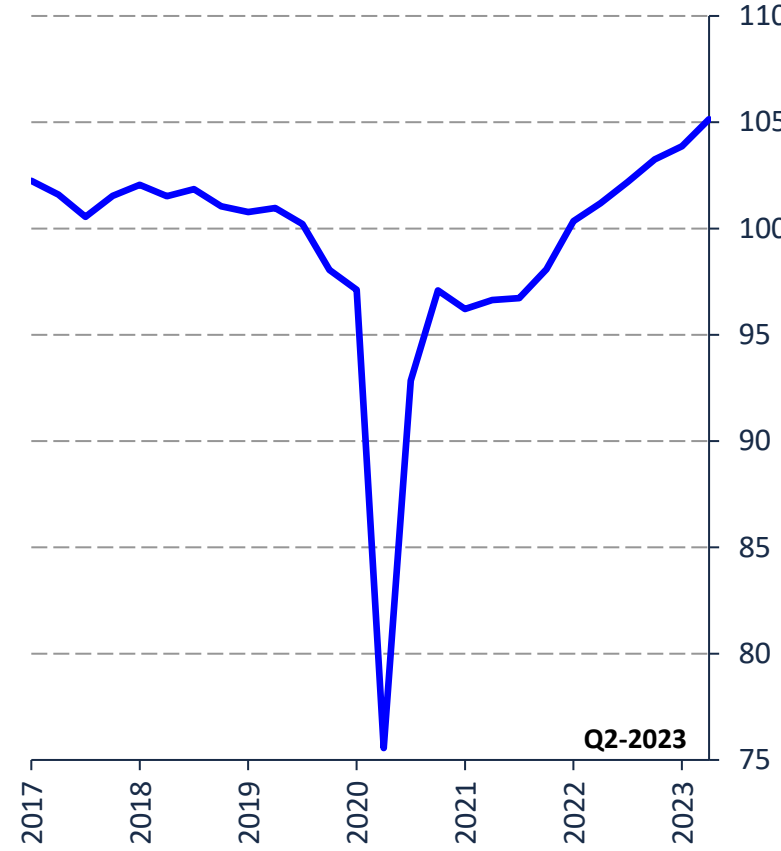
Economic growth was supported by the positive performance of the three main sectors of activity.

Gross Domestic Product by economic activity

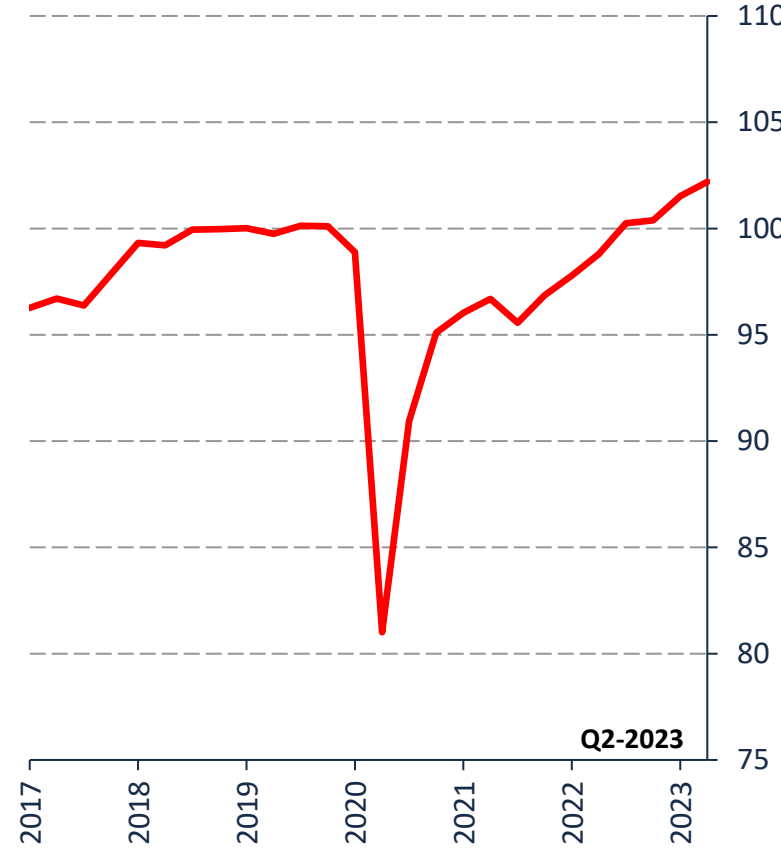
GDP of primary activities  
Index Q4-2019=100, s. a.



GDP of secondary activities  
Index Q4-2019=100, s. a.



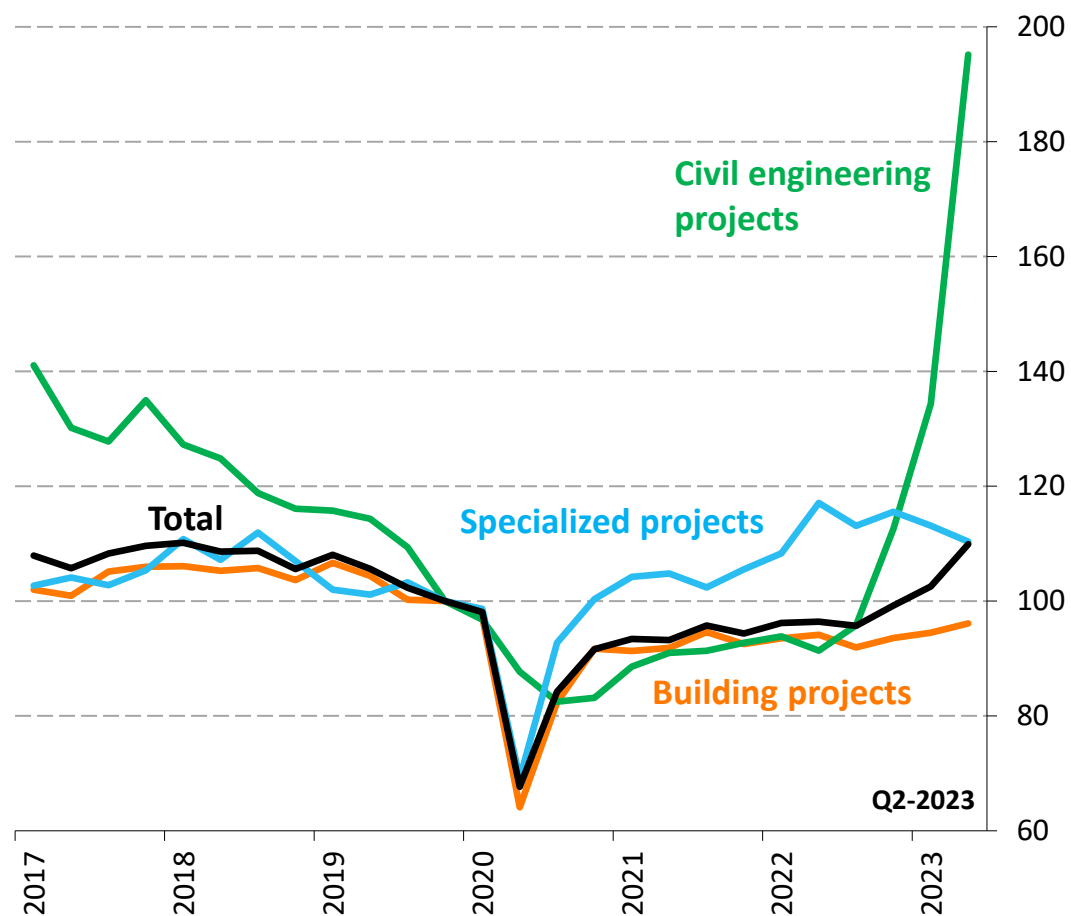
GDP of tertiary activities  
Index Q4-2019=100, s. a.



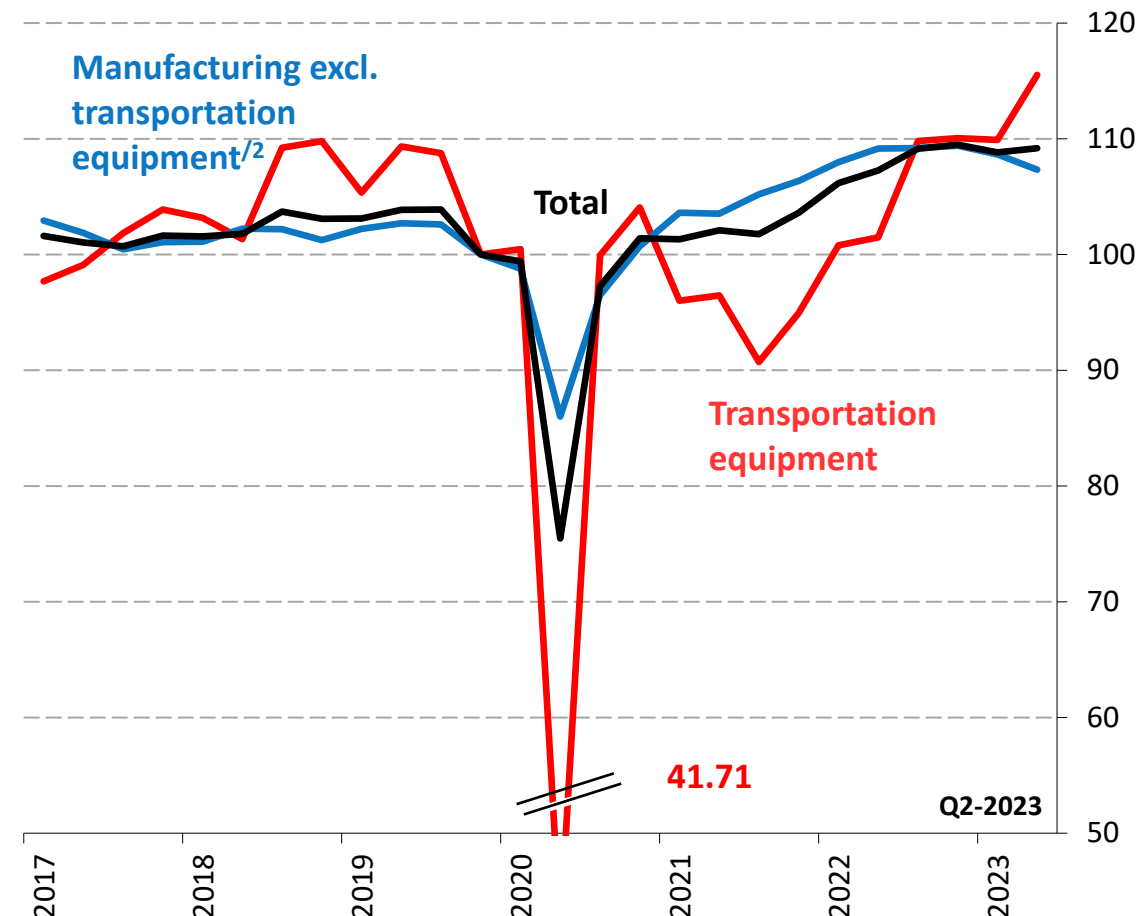
s. a. / Seasonally adjusted figures.  
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

Industrial production growth was driven by the rebound in the construction sector. In contrast, manufacturing exhibited weakness.

**Construction production**  
Index Q4-2019=100, s. a.



**Manufacturing production <sup>1/</sup>**  
Index Q4-2019=100, s. a.



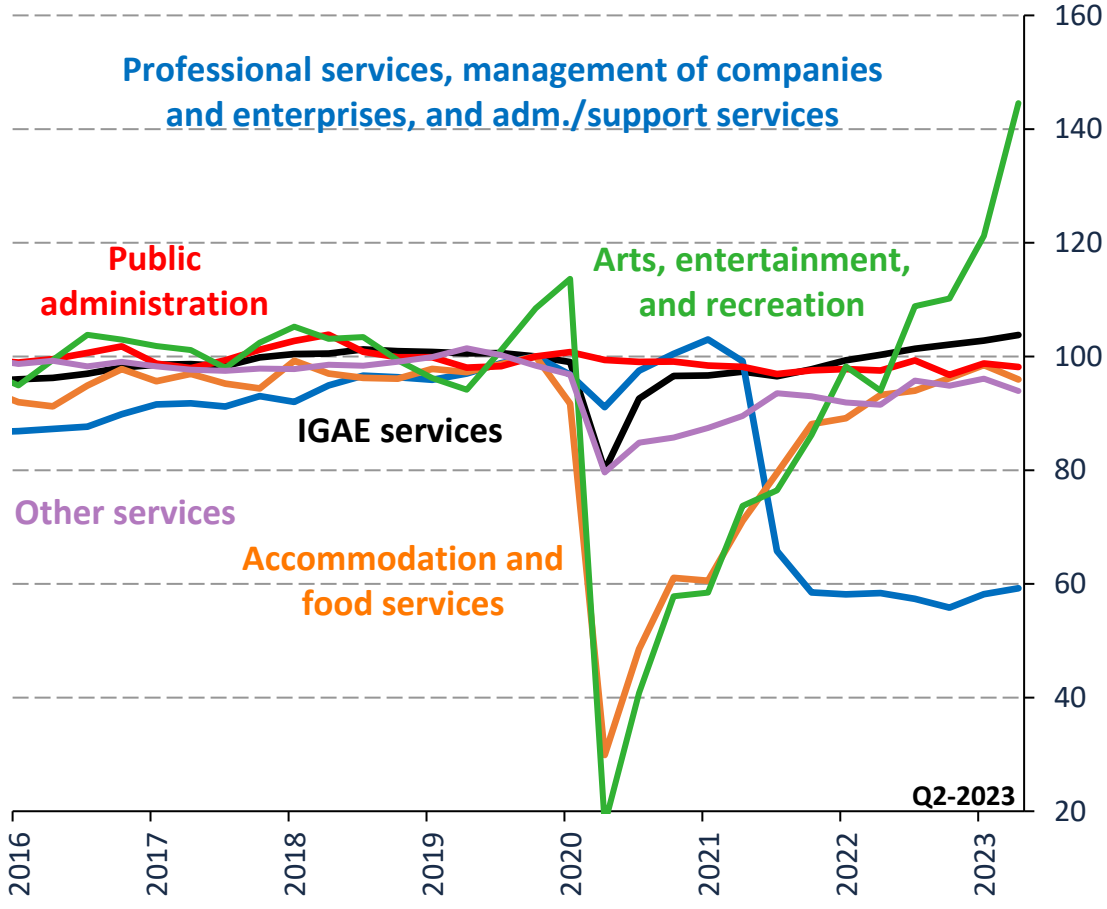
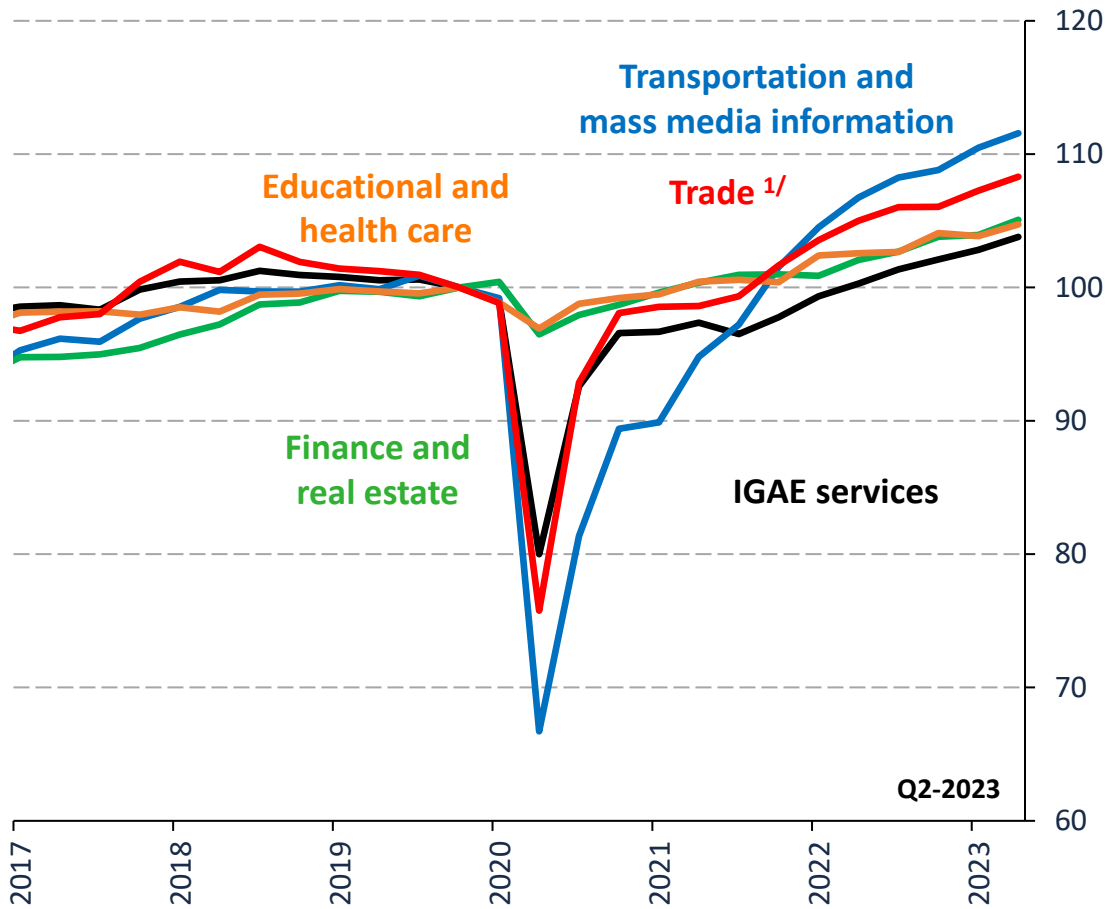
s. a. / Seasonally adjusted figures.

1/ The range of the chart has been reduced to facilitate its reading. 2/ Prepared and seasonally adjusted by Banco de México with INEGI data.

Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

# Most services performed favorably in Q2-2023.

## IGAE services Index Q4-2019=100, s. a.



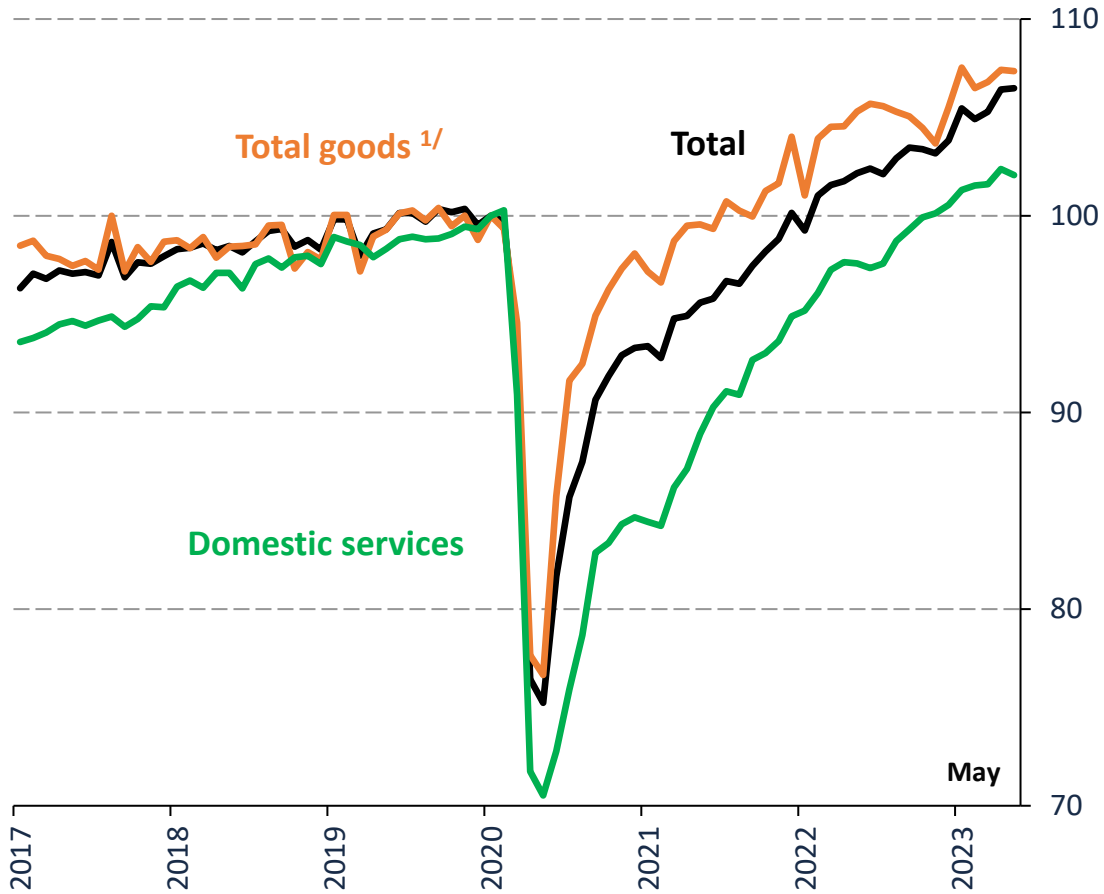
s. a. / Seasonally adjusted figures.

1/ Includes both wholesale and retail trade.

Note: Figures for Q2-2023 correspond to the average of April and May. Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

During the April-May period, private consumption maintained a positive trajectory. The dynamism of investment continued.

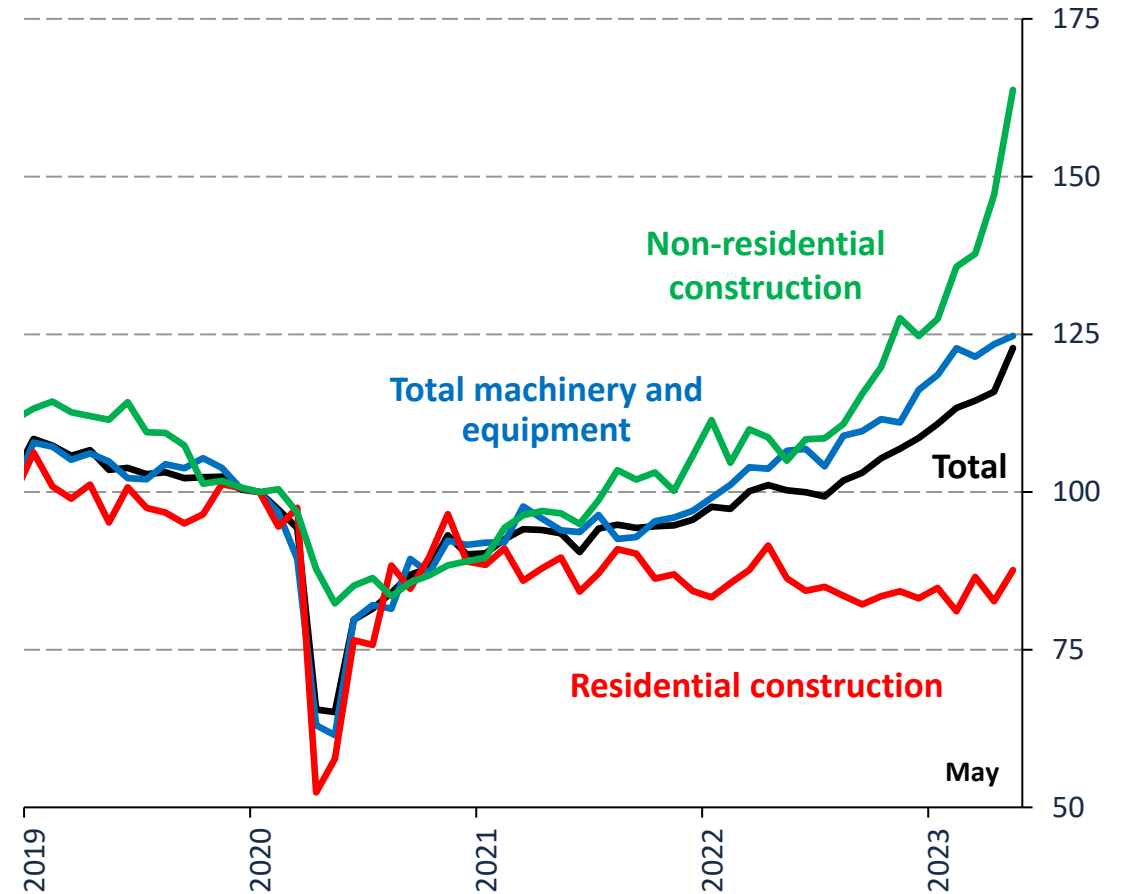
**Total private consumption**  
Index Jan 2020=100, s. a.



s. a. / Seasonally adjusted figures.

1/ Includes both national and imported goods. Prepared and seasonally adjusted by Banco de México. Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

**Investment**  
Index Jan-2020=100, s. a.



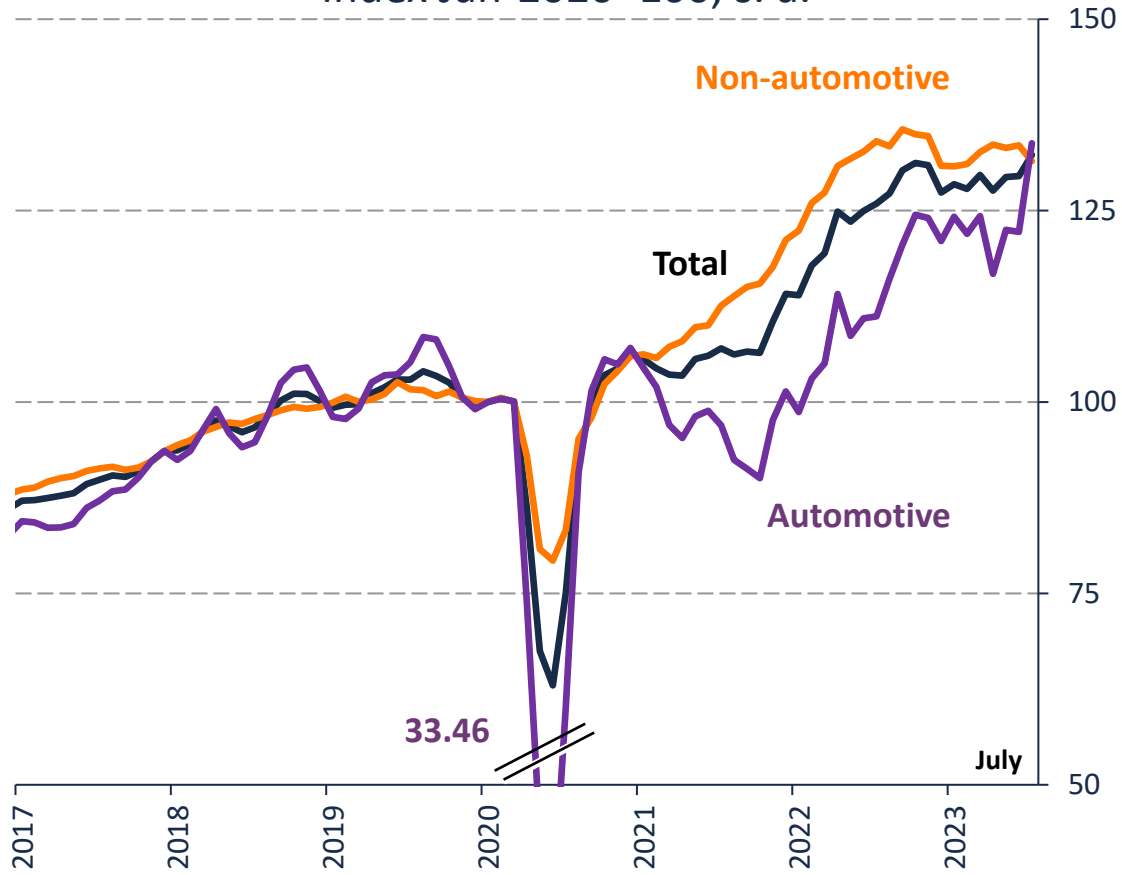
s. a. / Seasonally adjusted figures.

Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

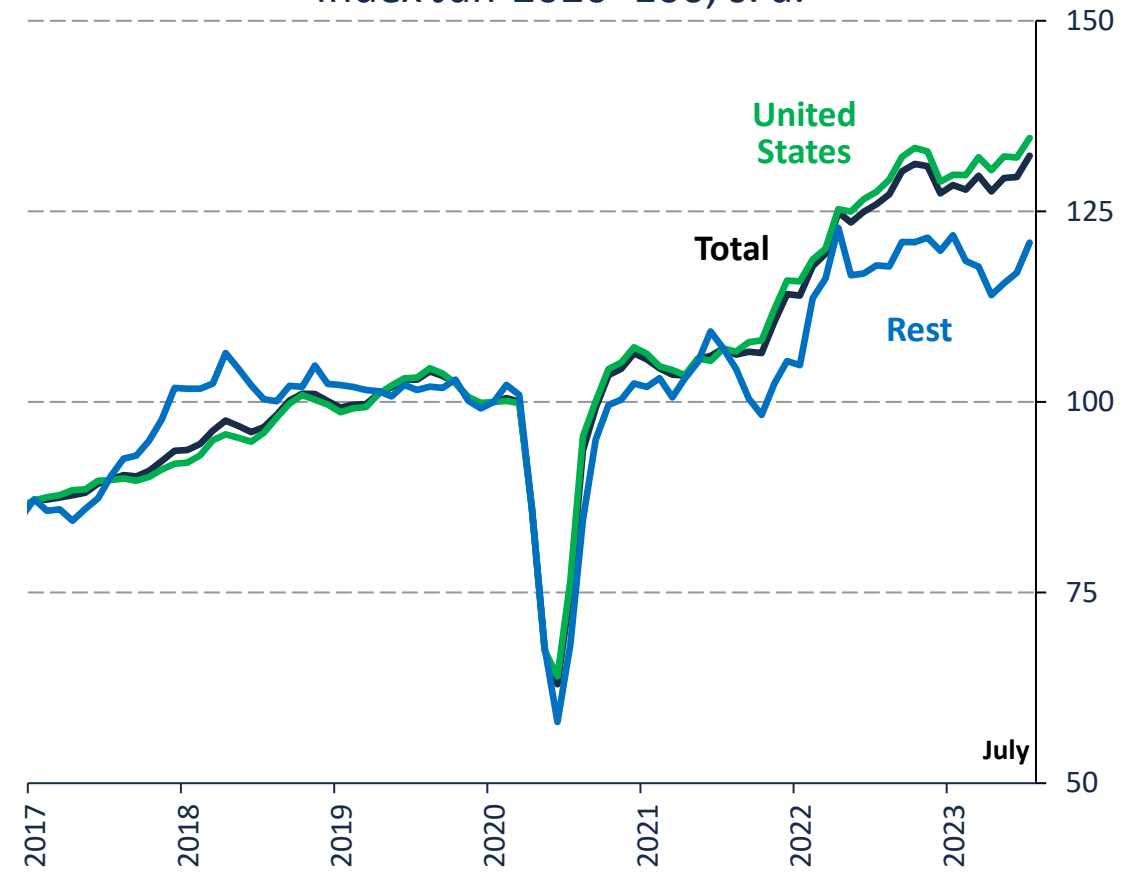
During the April-July 2023 period, the total value in US dollars of manufacturing exports performed well and continued trending slightly upwards.

### Manufacturing exports <sup>1/</sup> Three-month moving average

#### Automotive and non-automotive manufacturing exports <sup>2/</sup> Index Jan-2020=100, s. a.



#### By destination Index Jan-2020=100, s. a.



s. a. / Seasonally adjusted figures.

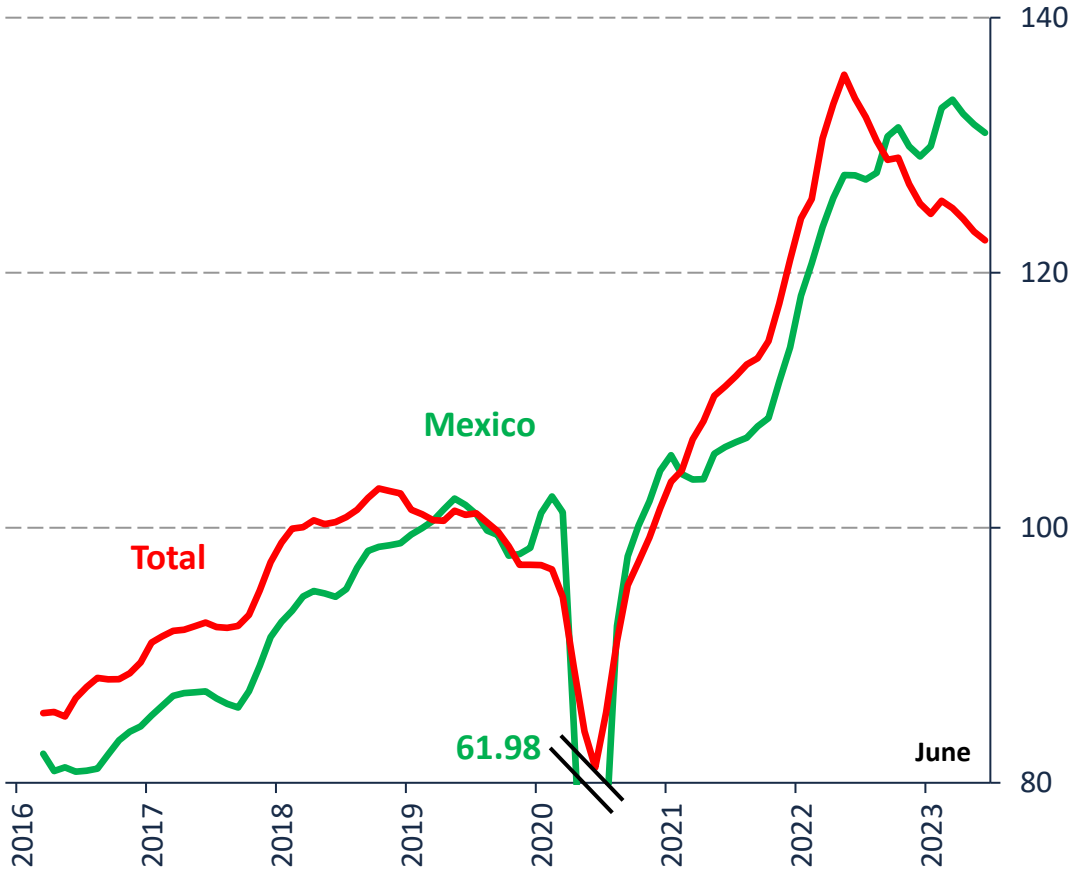
1/ Based on current US dollars. 2/ The range of the chart has been reduced to facilitate its reading. Source: Prepared by Banco de México with data from PMI Comercio Internacional, S.A. de C.V., SAT, SE, Banco de México and INEGI. Mexico's Merchandise Trade Balance. SNIEG. Information of National Interest.



# US total imports have decreased. Nevertheless, those from Mexico have exhibited resilience.

## US imports <sup>1/</sup>

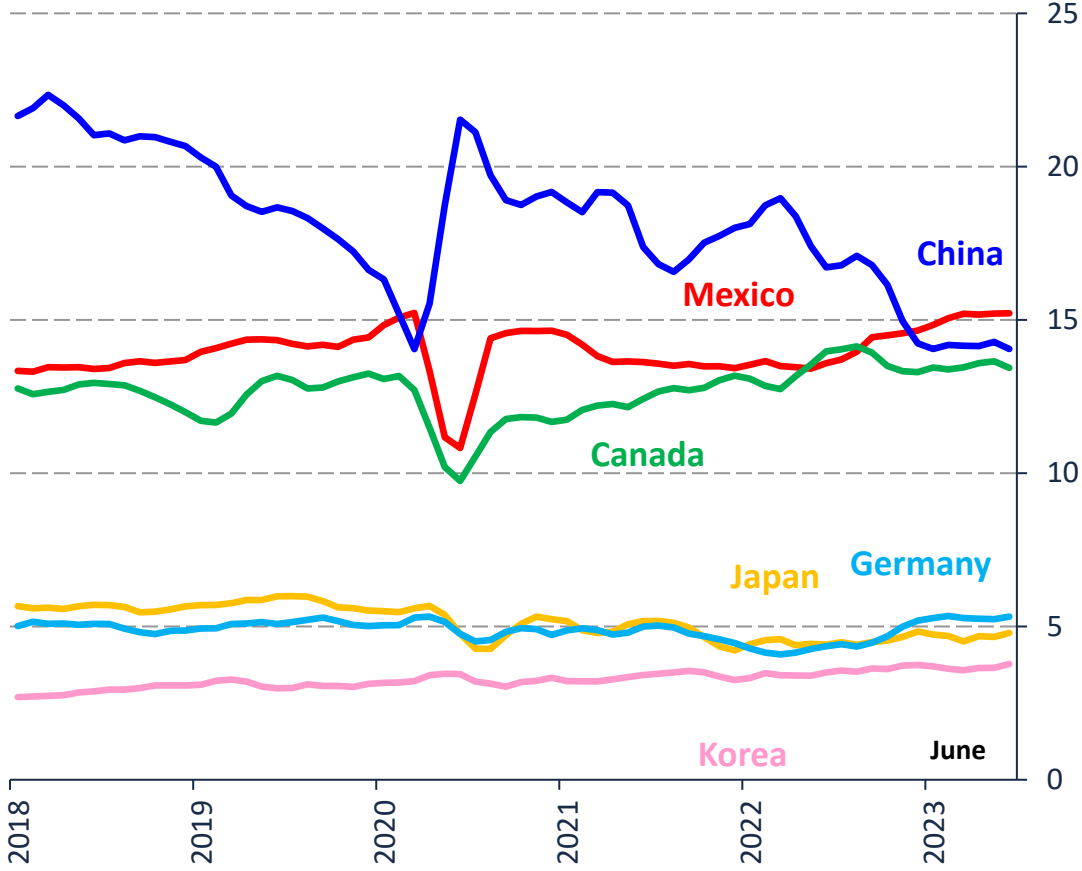
Indices 2019=100; 3-month moving average; s. a.



s. a. / Seasonally adjusted figures. 1/ The range of the chart has been reduced to facilitate its reading. Source: Prepared by Banco de México with data from the US Department of Commerce and US Bureau of Labor Statistics.

## Share in US imports: selected countries

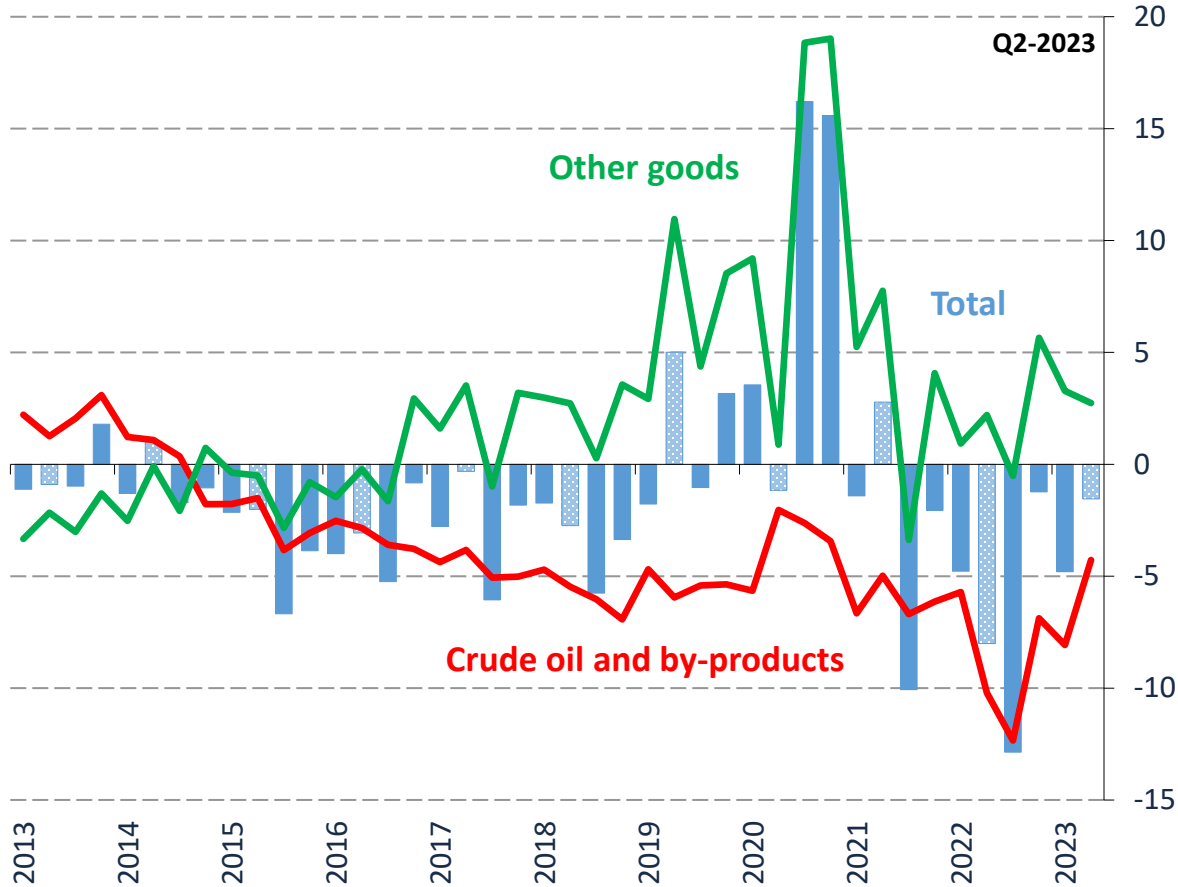
Three-month moving average, %; s. a.



s. a. / Seasonally adjusted figures. Source: Prepared by Banco de México with data from the US Department of Commerce.

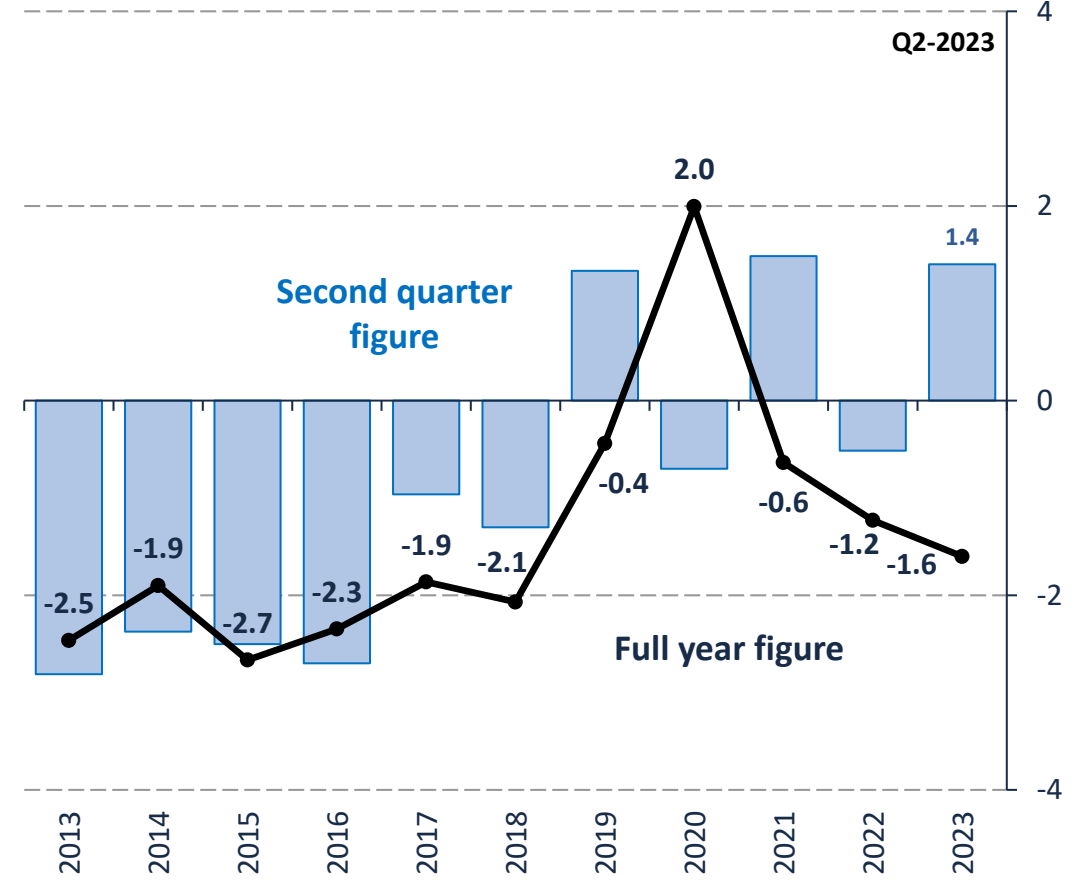
In Q2-2023, the current account registered a surplus. In the year to date, the current account deficit remains at moderate levels.

**Trade balance**  
Billion USD, s. a.



s.a. / Seasonally adjusted figures. Source: SAT, SE, Banco de México, INEGI. Mexico's Merchandise Trade Balance. SNIEG. Information of national interest.

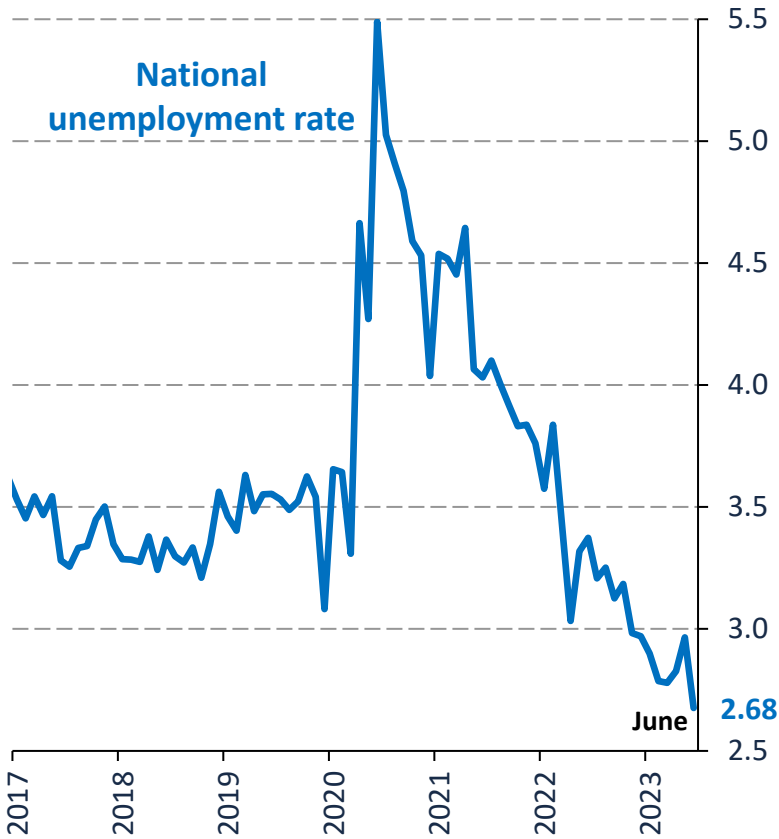
**Current account**  
% of GDP



Source: Banco de México and INEGI.

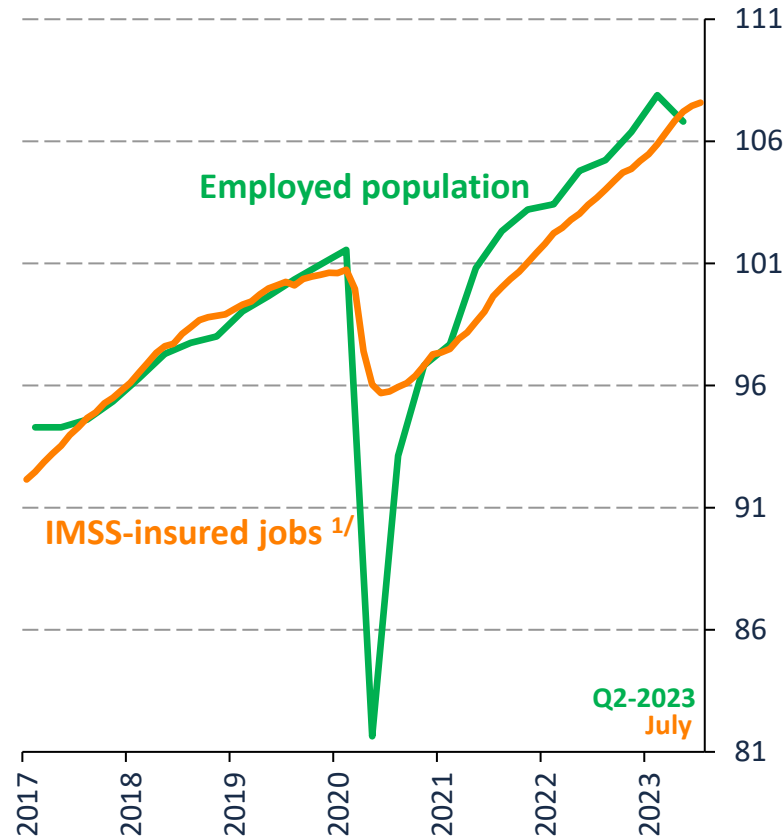
# The labor market continued exhibiting strength during Q2-2023.

**National unemployment rate**  
%, s. a.



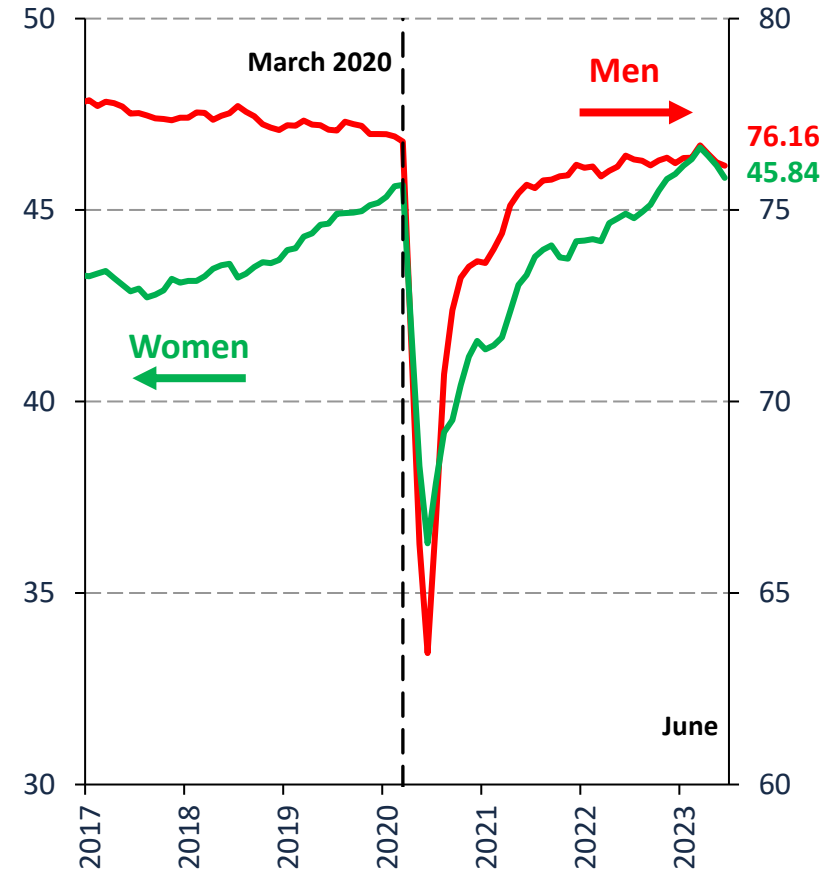
s. a. / Seasonally adjusted figures.  
Source: Prepared by Banco de México with data from INEGI (ENOE, ETOE and ENOE<sup>N</sup>).

**IMSS-insured jobs and employed population**  
Index 2019=100, s. a.



s. a. / Seasonally adjusted figures. 1/ Refers to permanent and temporary urban workers. Seasonal adjustment by Banco de México.  
Source: Prepared by Banco de México with data from IMSS and INEGI (ENOE, ETOE and ENOE<sup>N</sup>).

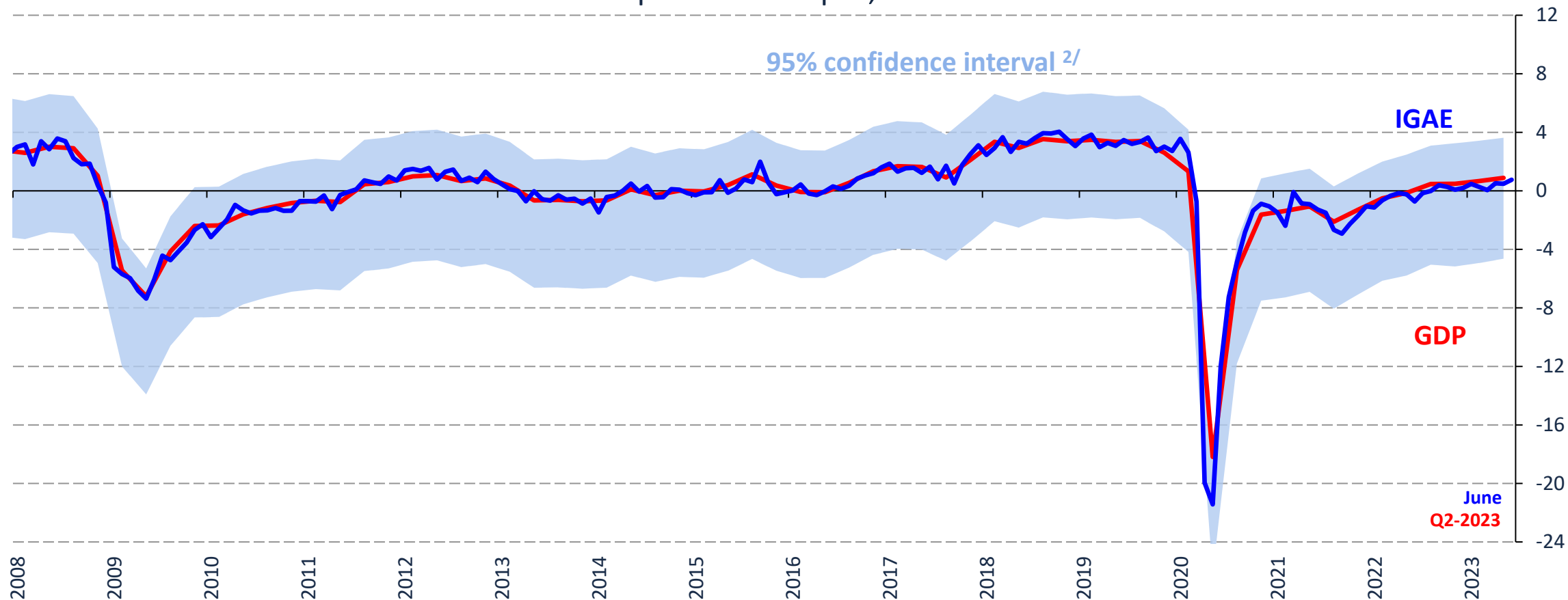
**National labor participation rates <sup>2/</sup>**  
Three-month moving average, %, s. a.



s. a. / Seasonally adjusted figures.  
2/ Percentage of the economically active population (EAP) with respect to the population 15 years and older.  
Source: Prepared by Banco de México with data from INEGI (ENOE, ETOE and ENOE<sup>N</sup>).

The output gap point estimate was at a level close to zero in Q2-2023.

### Output gap point estimate <sup>1/</sup> % of potential output, s. a.



s. a. / Prepared with seasonally adjusted data.

1/Output gap estimated with a tail-corrected Hodrick-Prescott filter; see "Inflation Report April – June 2009", Banco de México, p.74.

2/Output gap confidence interval calculated with a method of unobserved components.

Source: Prepared by Banco de México with data from INEGI and Banco de México.

# Outline

**1 External conditions**

**2 Current situation of the Mexican economy**

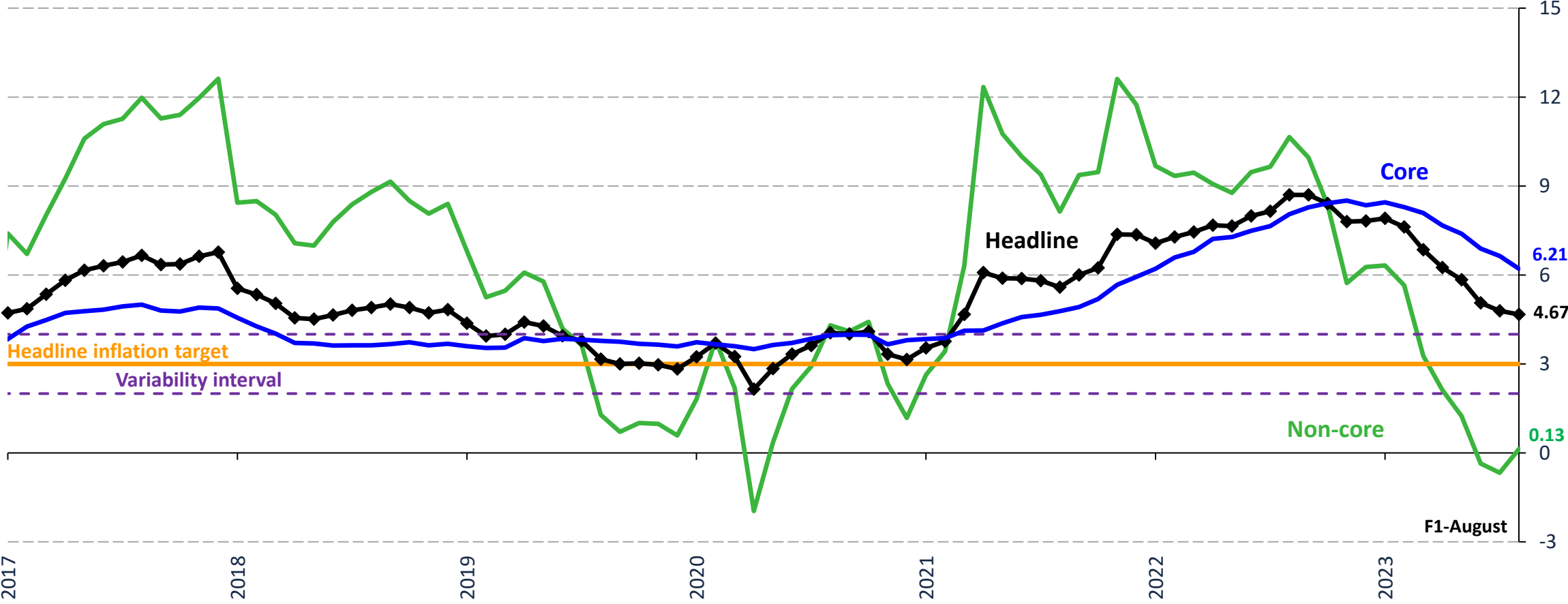
**3 Inflation**

**4 Monetary policy**

**5 Forecasts and final remarks**

During the period covered by this Report, Mexico's annual headline inflation continued declining as a result of the decrease in both core and non-core inflation.

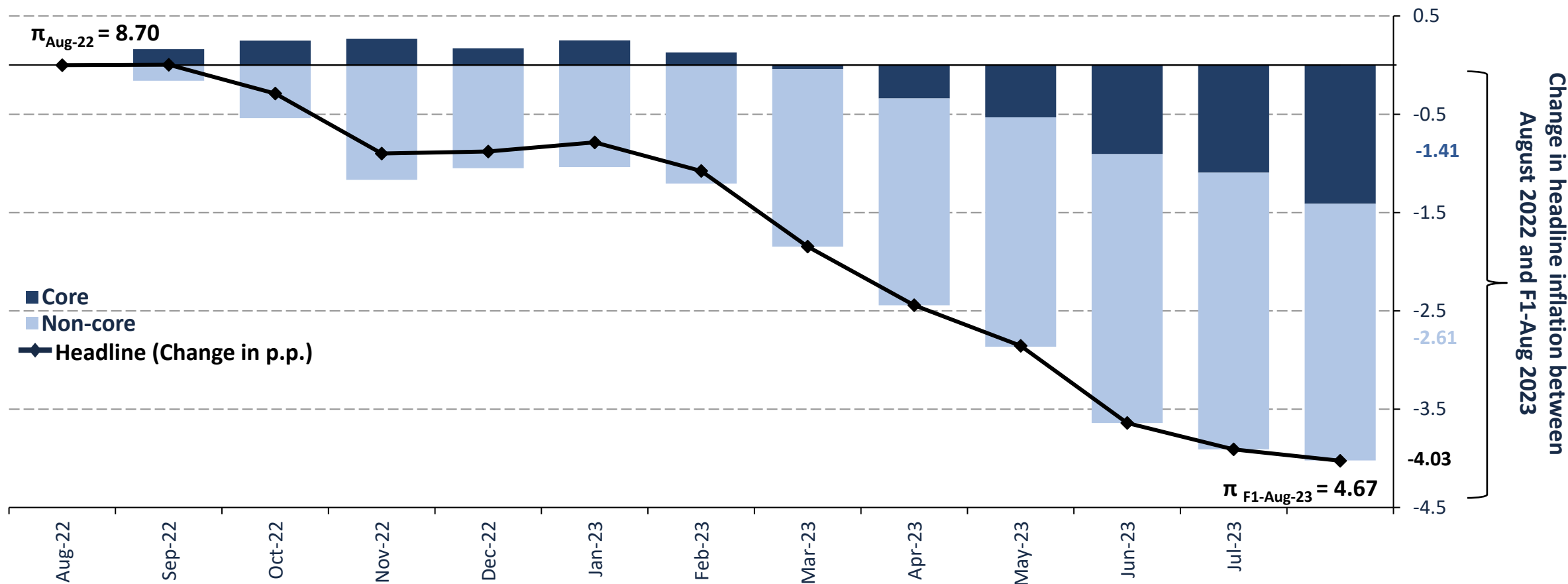
### National Consumer Price Index Annual % change



Source: Banco de México and INEGI.

Although non-core inflation's contribution to the decline in headline inflation between quarters continued to be larger, core inflation's downward incidence has been increasing.

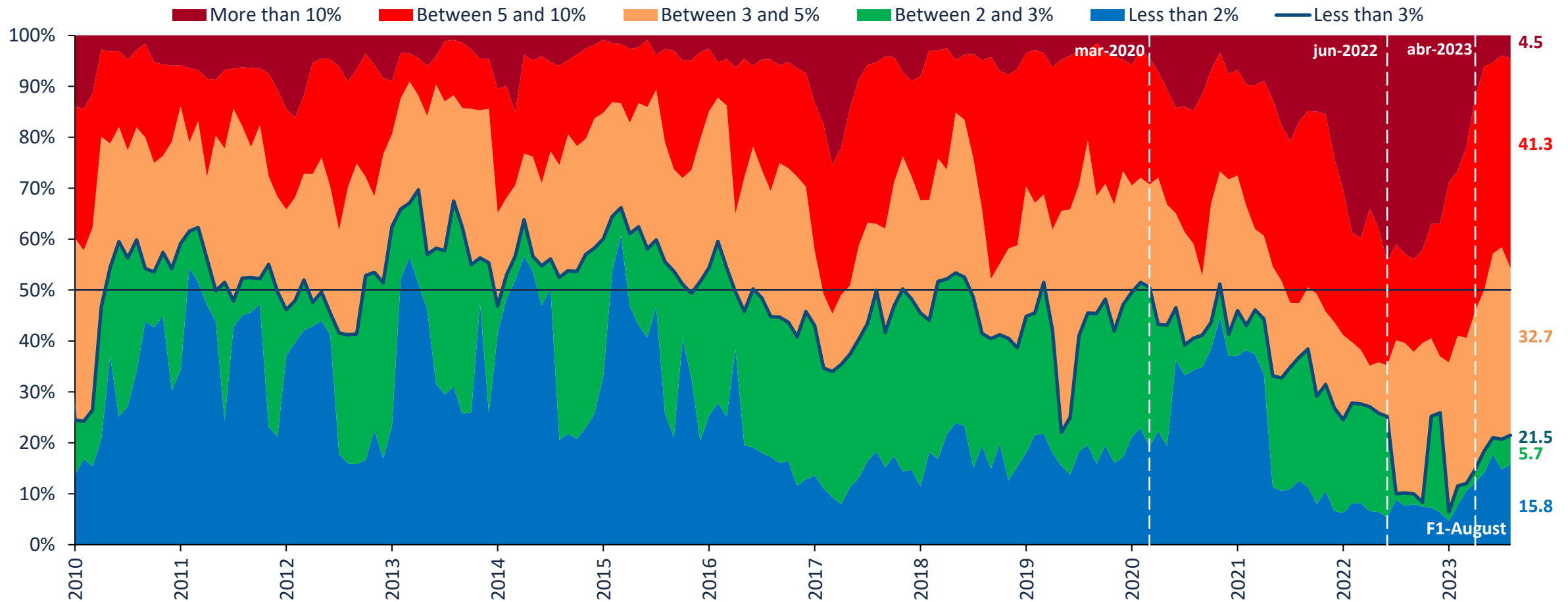
Monthly change in incidence on headline inflation with respect to August 2022  
Percentage points



Note: August 2022 is used as a reference because it is the highest inflation level since January 2001.  
Source: INEGI.

# Although pressures on core inflation have eased, they have not faded completely.

Percent of core consumption basket based on ranges of annualized monthly increases <sup>1/</sup>  
%, s. a.



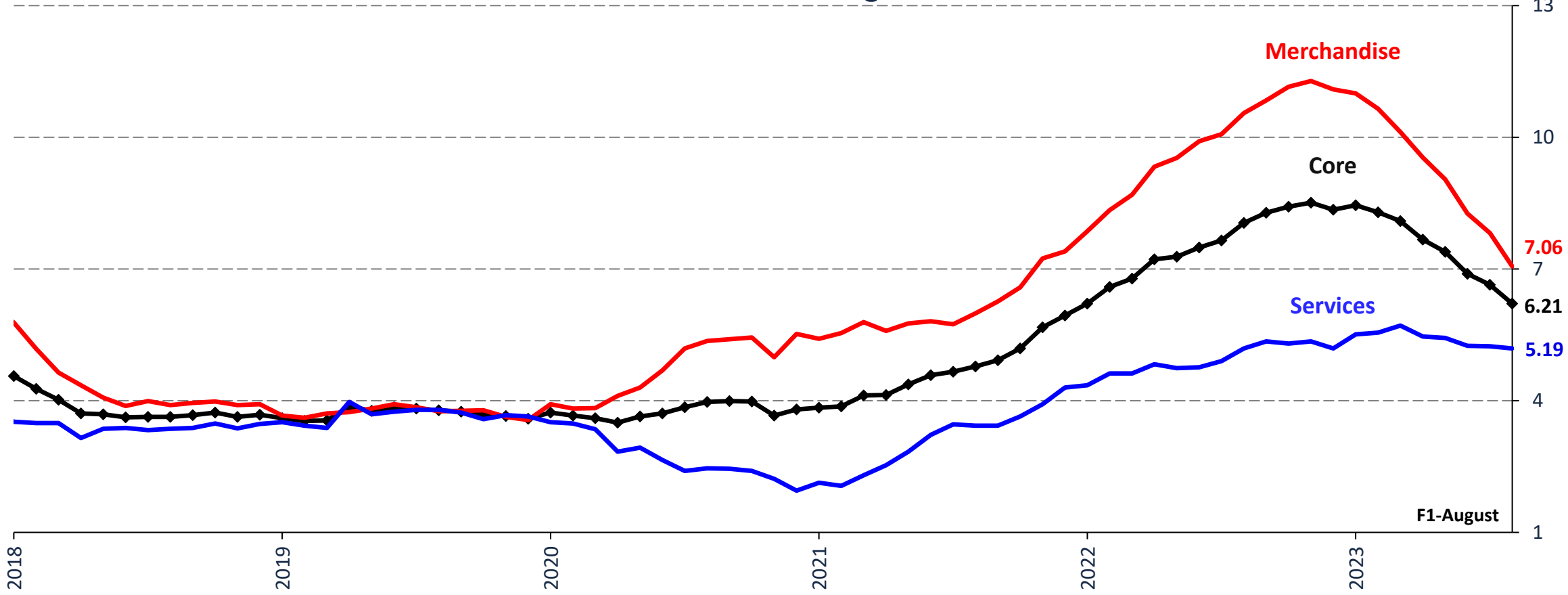
s. a. / Seasonally adjusted figures. 1/ Three-month moving average.

Source: Banco de México and INEGI.



Within core inflation, annual inflation of both merchandise and services was below those of the previous quarter. However, they remain at high levels.

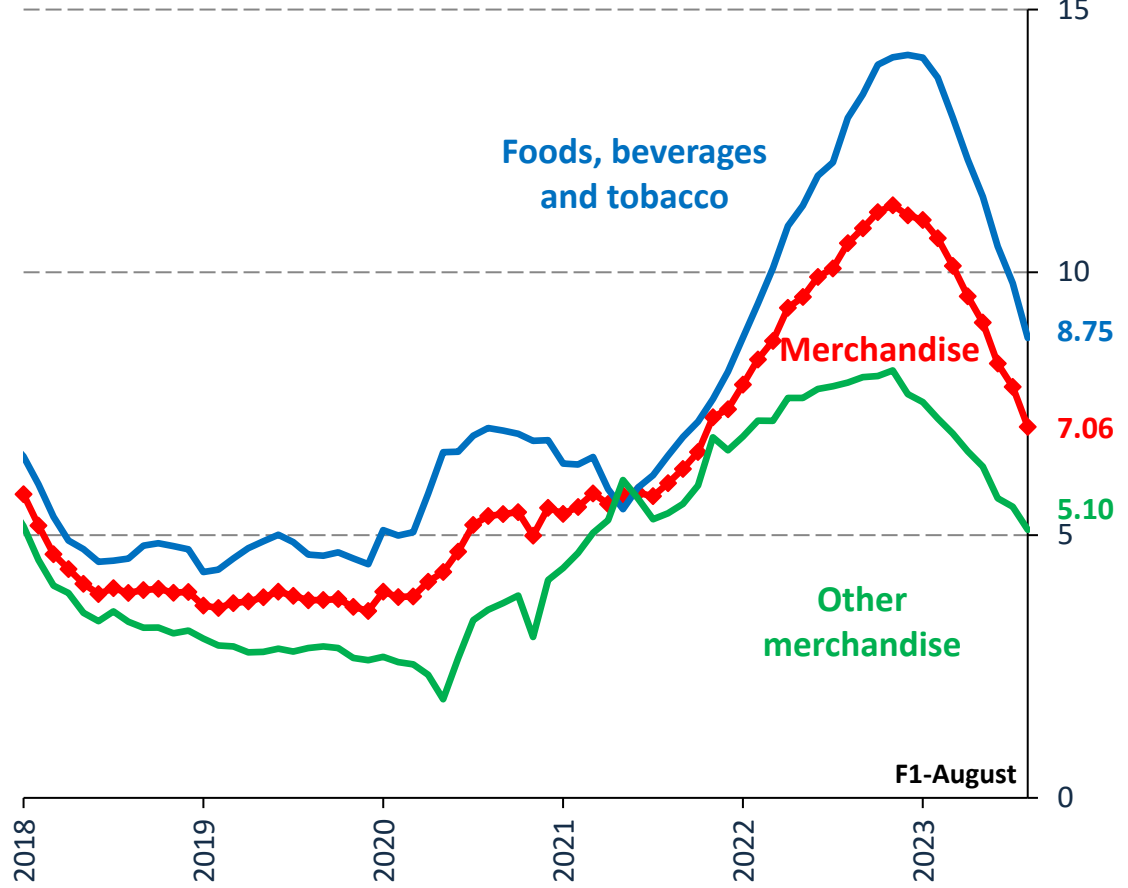
### Core price sub-index Annual % change



Source: INEGI.

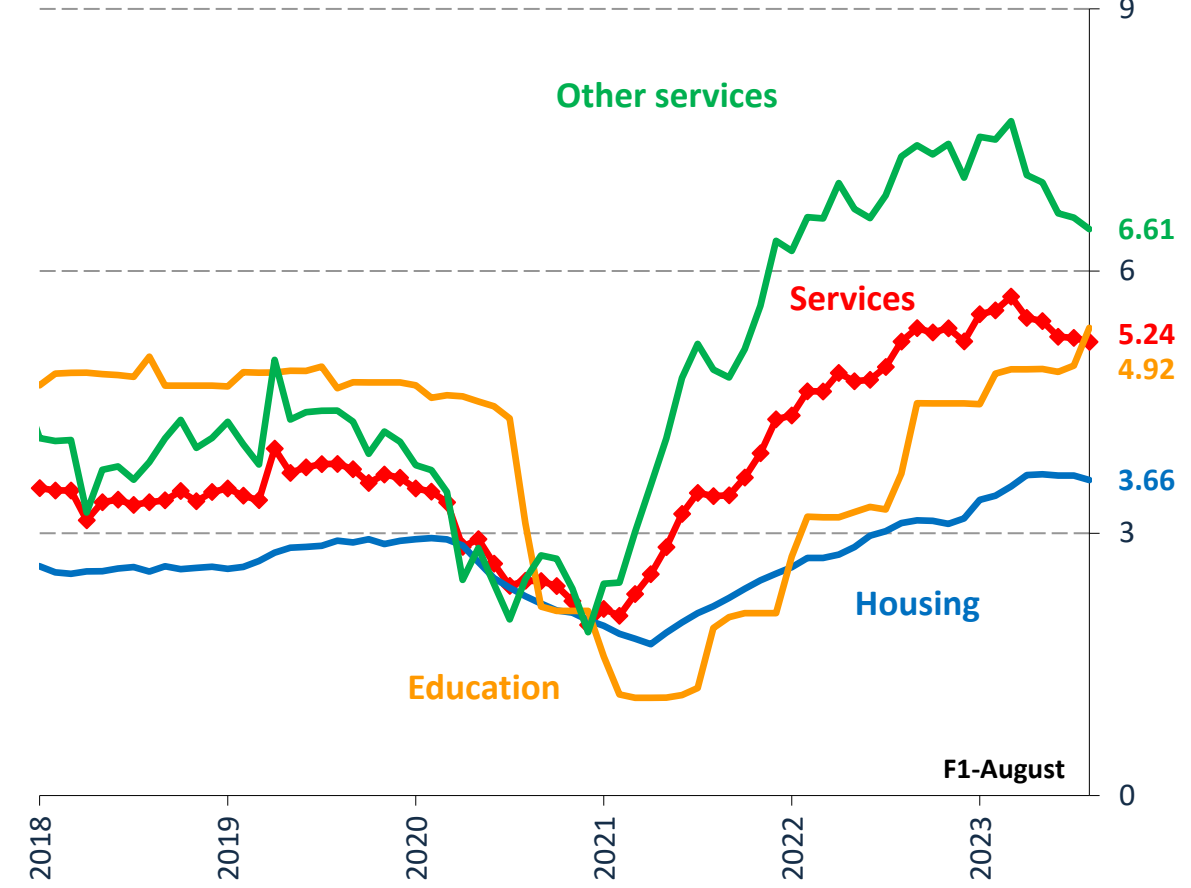
The easing of various pressures allowed merchandise inflation to continue decreasing in Q2-2023. Meanwhile, services prices continued being subject to pressures associated with higher business operation costs, derived from the shocks of the pandemic and the war in Ukraine, and with a greater demand for services.

**Merchandise price sub-index**  
Annual % change



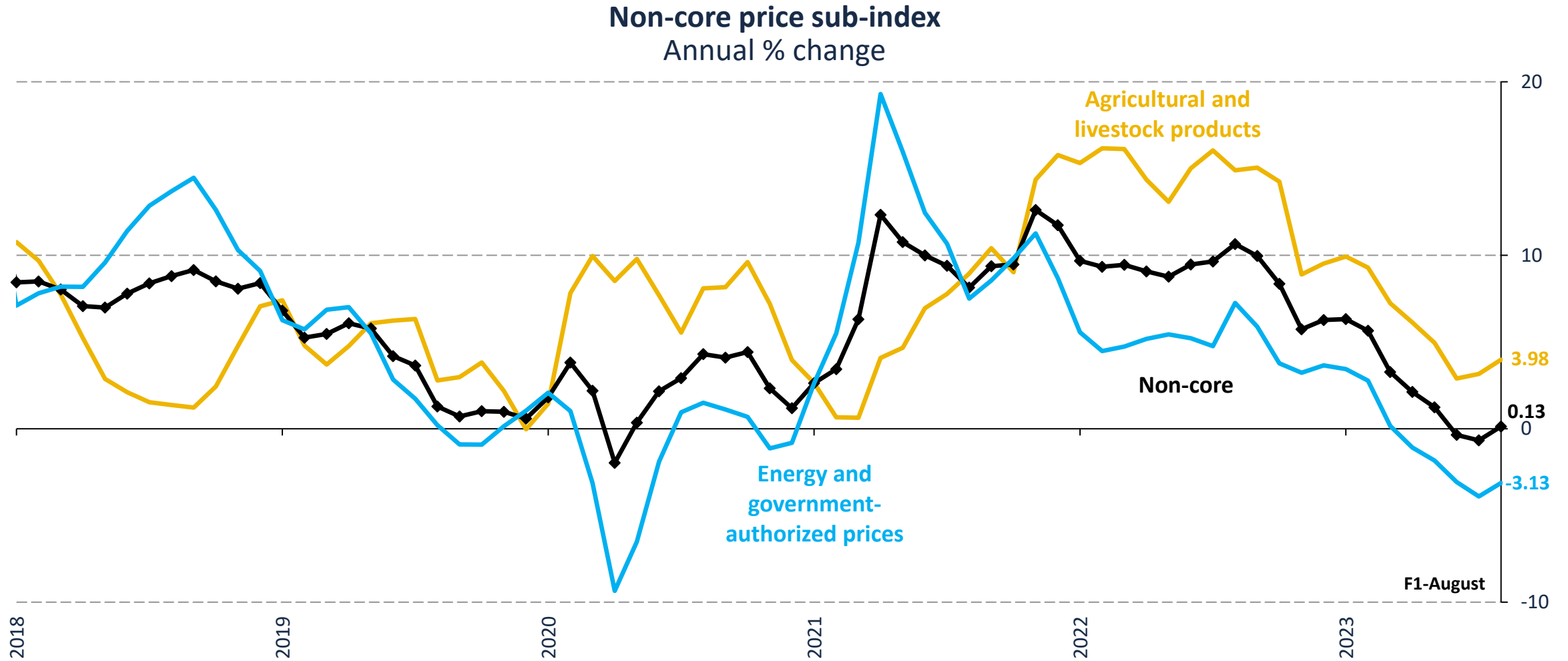
Source: INEGI.

**Services price sub-index**  
Annual % change



Source: INEGI.

# Annual non-core inflation declined sharply to historically low levels in Q2-2023.



Source: INEGI.

# Outline

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**2 Current situation of the Mexican economy**

**3 Inflation**

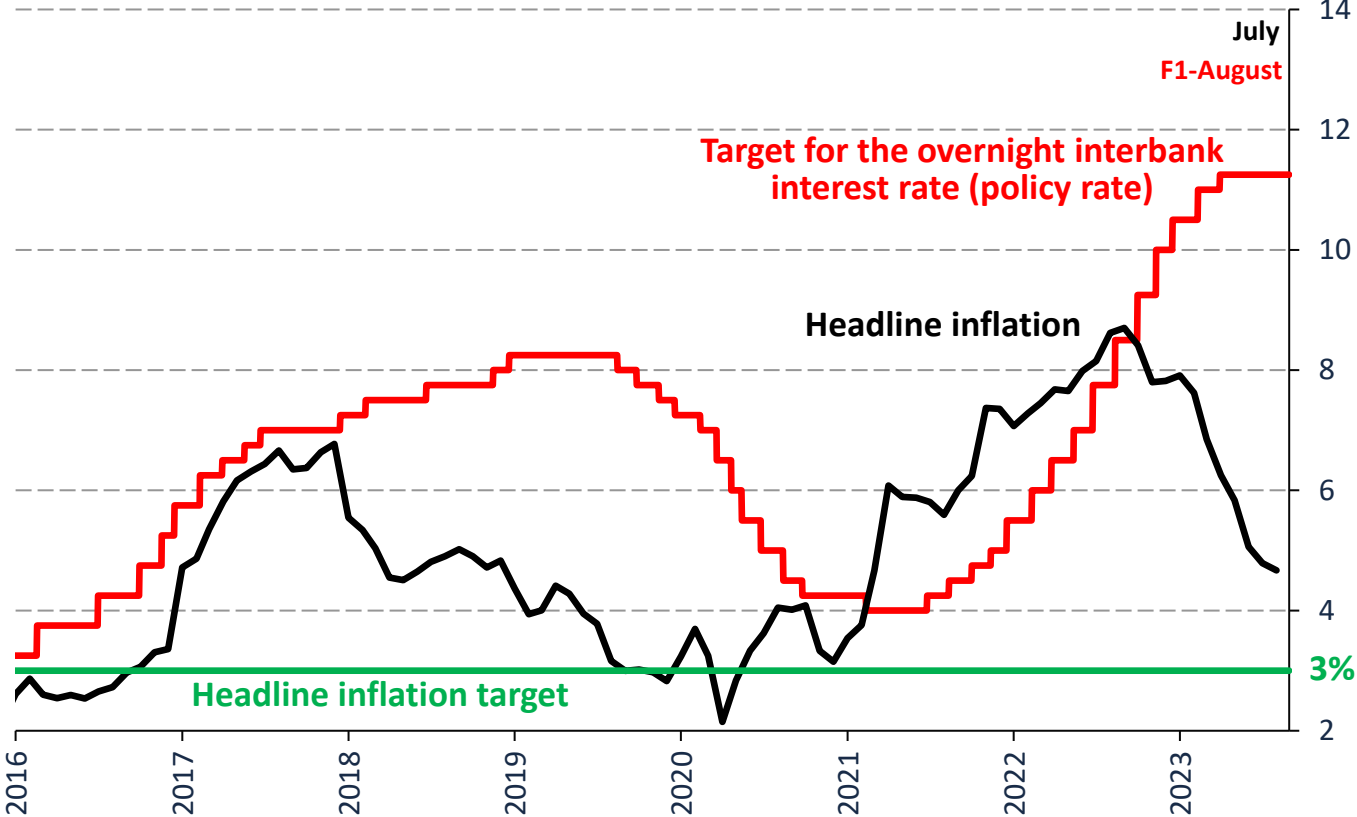
**4 Monetary policy**

**5 Forecasts and final remarks**

In the monetary policy meetings of the period covered by this Report, the Governing Board decided unanimously to leave the reference rate unchanged at 11.25%.

### Target for the overnight interbank interest rate and headline inflation

Annual %



Source: Banco de México with INEGI data.

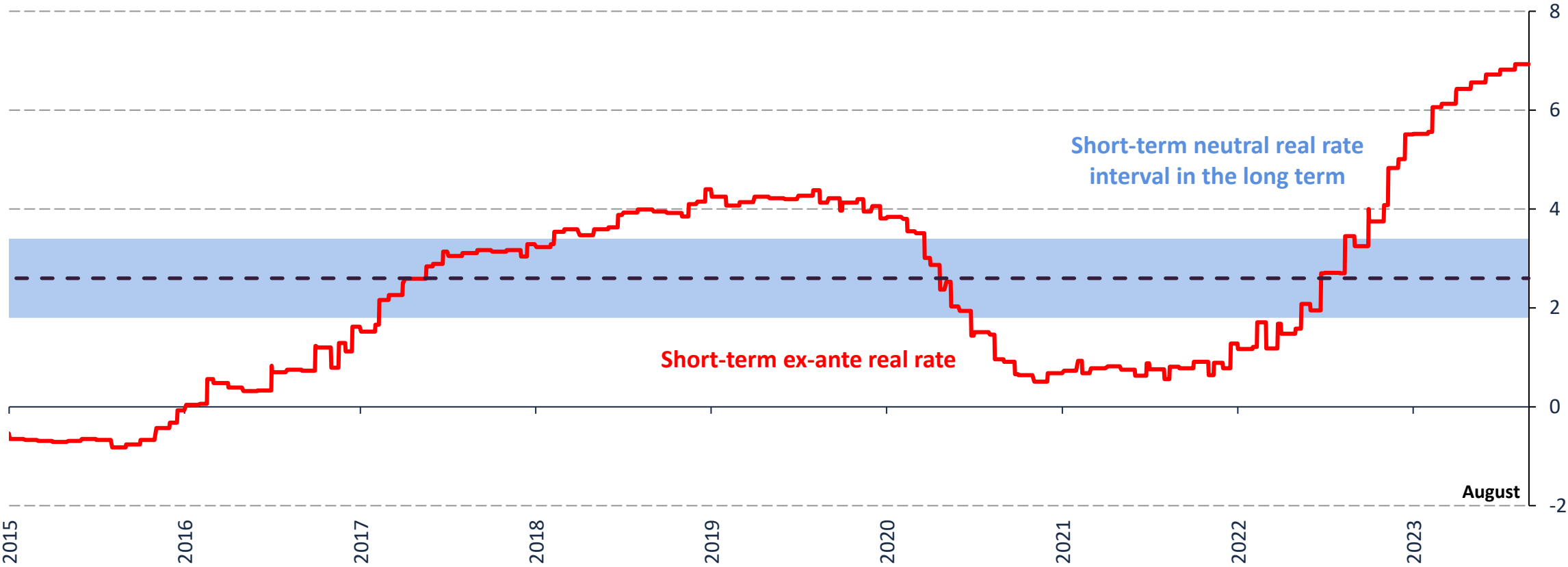
### Recent evolution of Banco de México's monetary policy decisions

	Changes in the policy rate (bp)	Interest rate (%)
Mar-21	0	4.00
May-21	0	4.00
Jun-21	+25	4.25
Aug-21	+25	4.50
Sep-21	+25	4.75
Nov-21	+25	5.00
Dec-21	+50	5.50
Feb-22	+50	6.00
Mar-22	+50	6.50
May-22	+50	7.00
Jun-22	+75	7.75
Aug-22	+75	8.50
Sep-22	+75	9.25
Nov-22	+75	10.00
Dec-22	+50	10.50
Feb-23	+50	11.00
Mar-23	+25	11.25
May-23	0	11.25
Jun-23	0	11.25
Aug-23	0	11.25

Source: Banco de México.

Considering that the reference rate was left unchanged and that inflationary expectations adjusted downwards, the ex-ante real short-term interest rate increased, laying above the upper bound of the estimated range for the neutral real rate.

Short-term ex-ante real rate and estimated interval for the short-term neutral real rate in the long term <sup>1/</sup>  
Annual %

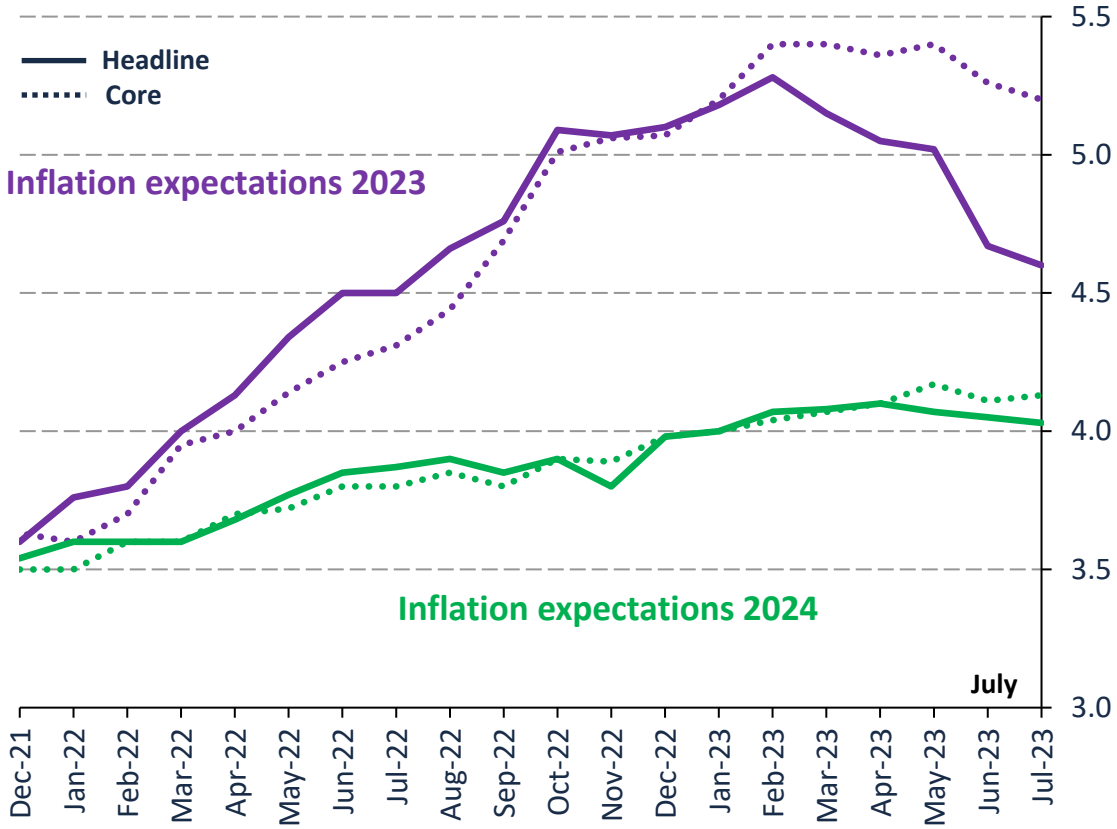


1/ The short-term ex ante real rate is constructed using the target for the overnight Interbank interest rate and the mean of 12-month inflation expectations drawn from Banco de México's Survey of Private Sector Forecasters. The dotted line corresponds to the midpoint of the interval for the short-term neutral real rate in the long term, which is now between 1.8 and 3.4%. The shaded area corresponds to the estimated interval for the short-term neutral rate in the long term. Source: Banco de México.

# Inflation expectations for the end of 2023 decreased. Medium-term inflation expectations remained relatively stable.

Median of headline and core inflation expectations at the end of 2023 and 2024

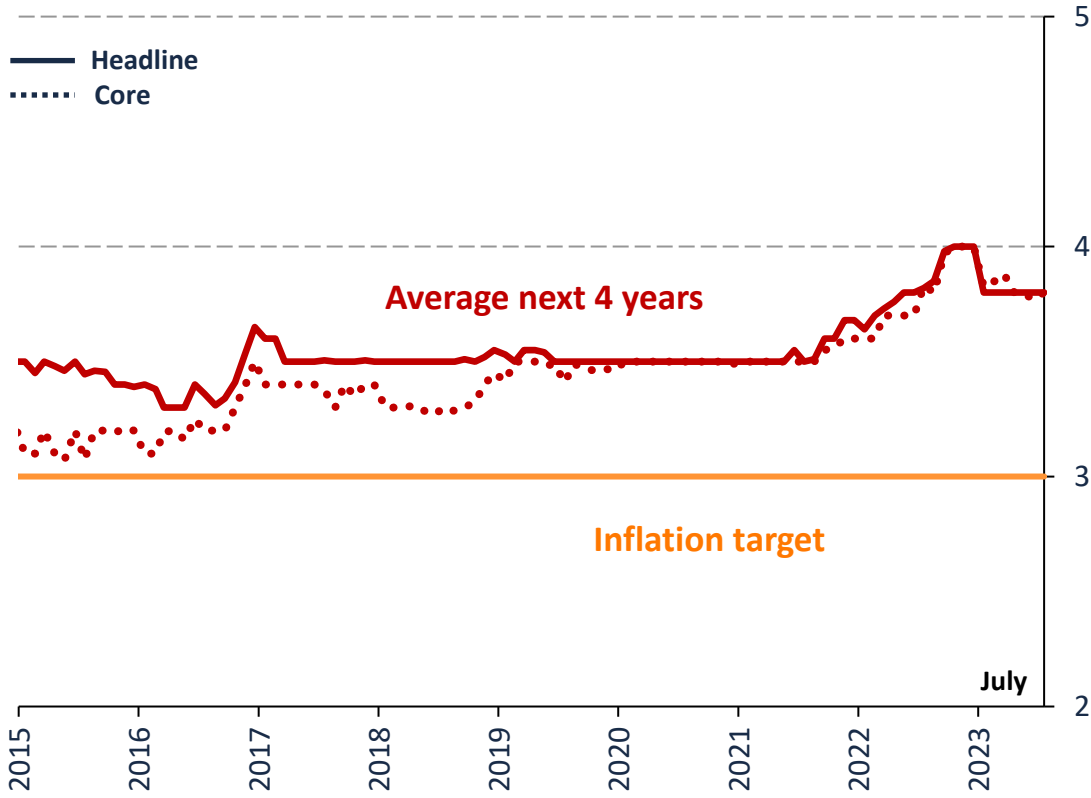
%



Source: Banco de México's Survey of Private Sector Forecasters.

Median of headline and core inflation expectations for the next 1-4 years

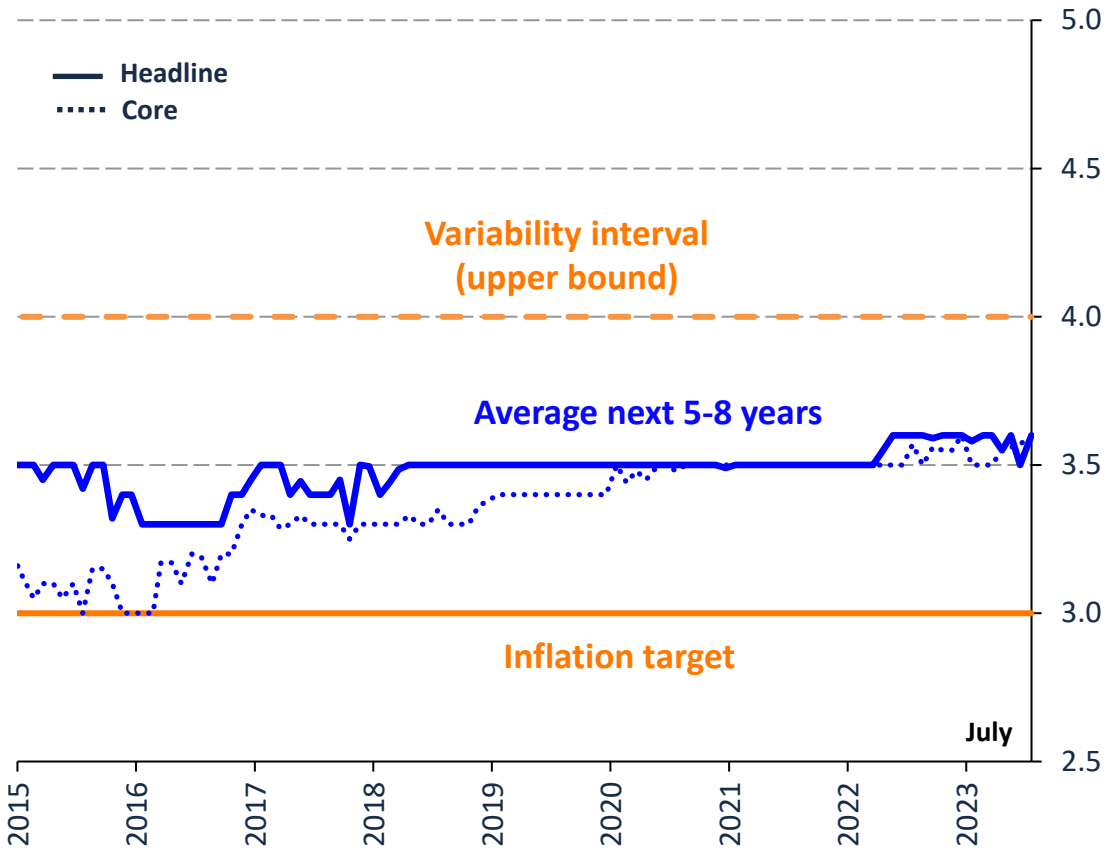
%



Source: Banco de México's Survey of Private Sector Forecasters.

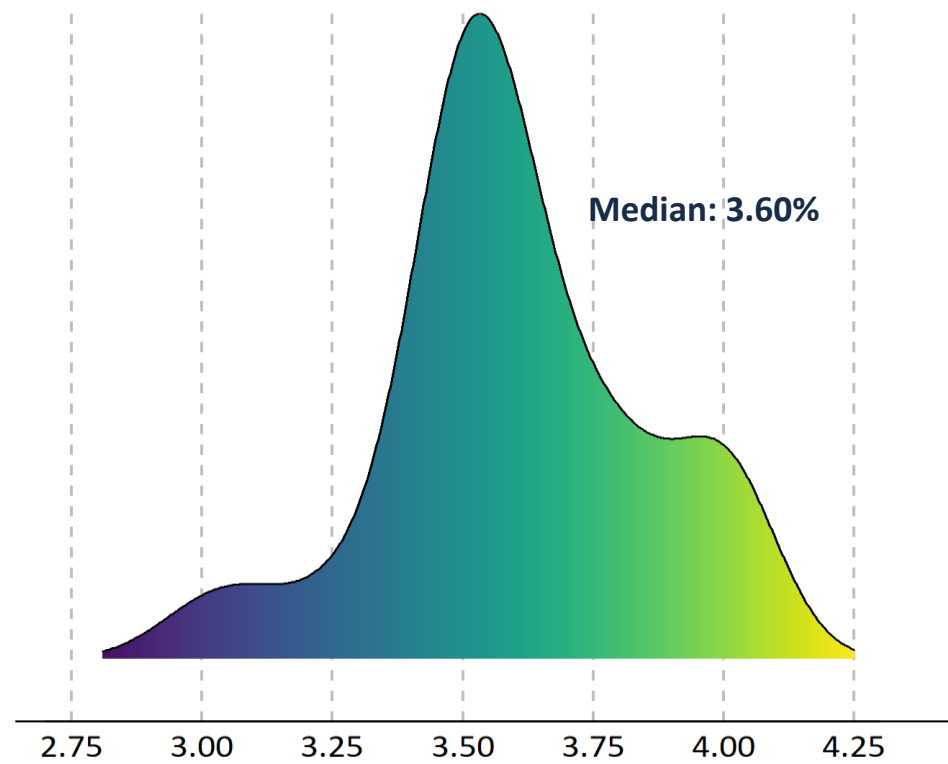
The strengthening of the monetary policy stance during this inflationary episode has contributed to keep longer-term inflation expectations anchored.

Median of long-term inflation expectations  
%



Source: Banco de México's Survey of Private Sector Forecasters.

Distribution of average headline inflation expectations  
for the next 5-8 Years

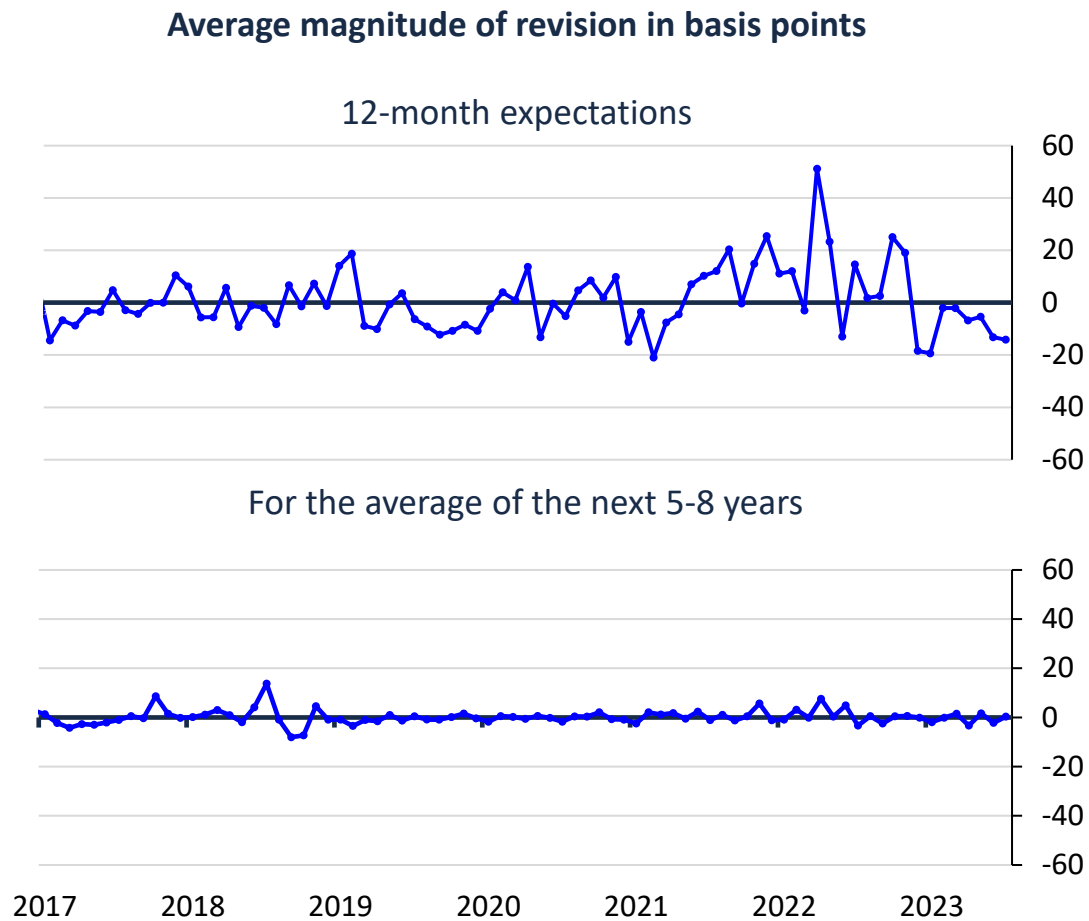
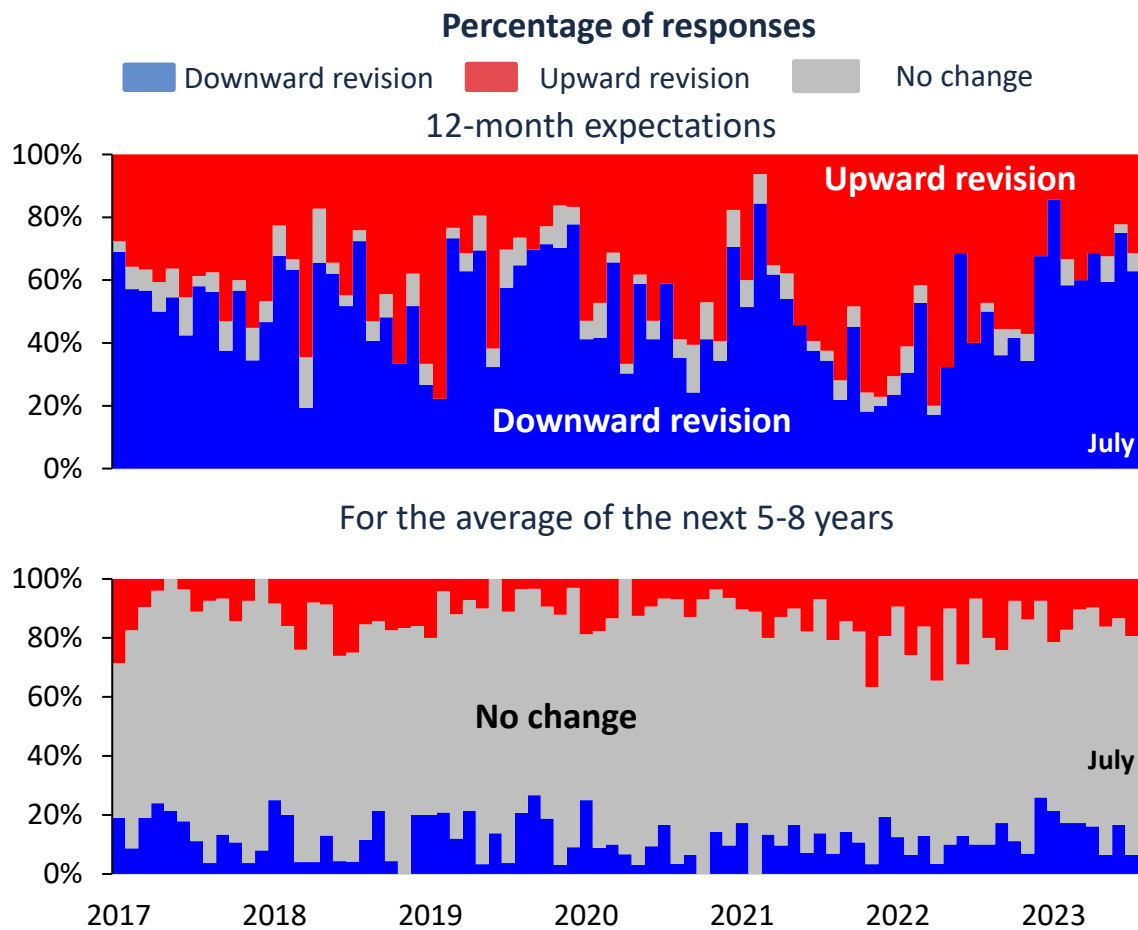


Source: Banco de México's Survey of Private Sector Forecasters. The reported figures correspond to the surveys published on February 2, 2021 and August 1, 2023.



Each month, the majority of specialists have kept their long-term inflation expectations unchanged, which is further evidence of its anchoring.

### Monthly revisions to 12-month and 5- to 8-year average headline inflation expectations

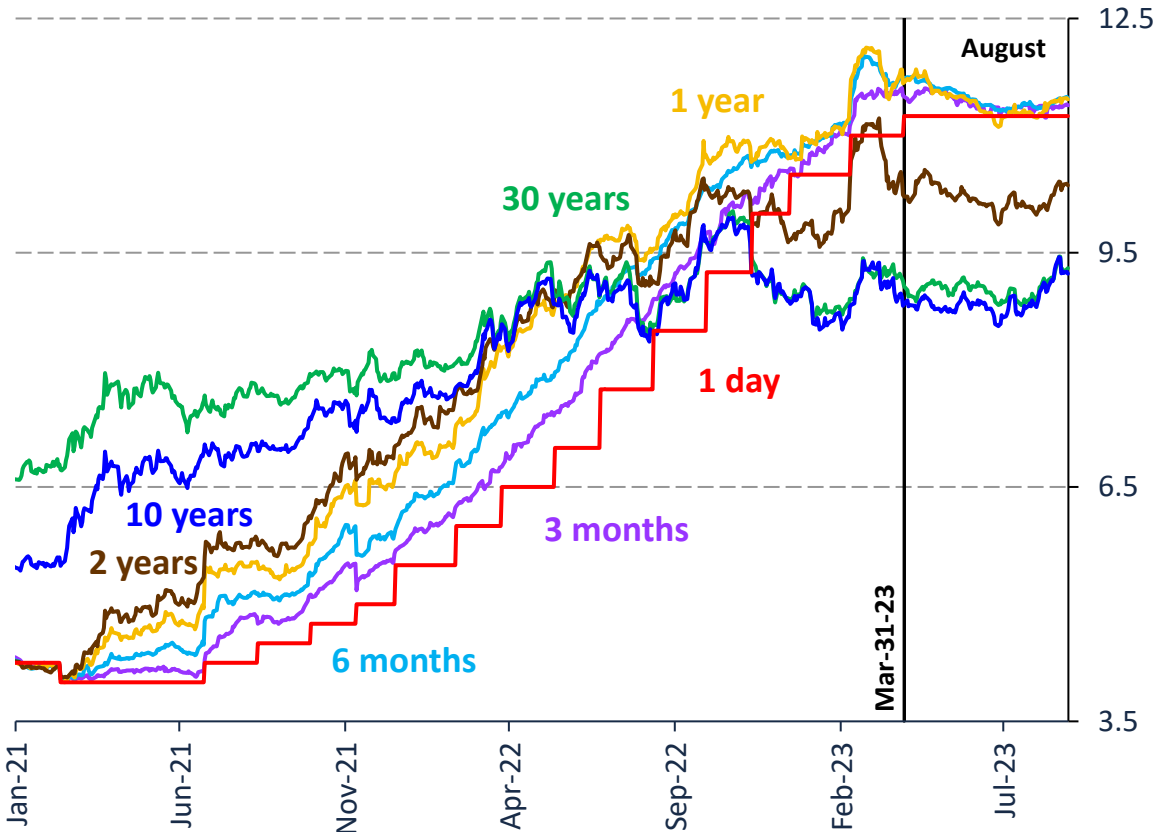


Source: Own estimate based on Banco de México's Survey of Private Sector Forecasters. The reported figures correspond to the surveys published on January 2017 and August 2023.

Short-term interest rates decreased between April and July. On the other hand, medium and long-term interest rates, which had fluctuated within a narrow range until the end of July, have had a slight upward adjustment since the beginning of August.

Target for the overnight interbank interest rate and government bond yields

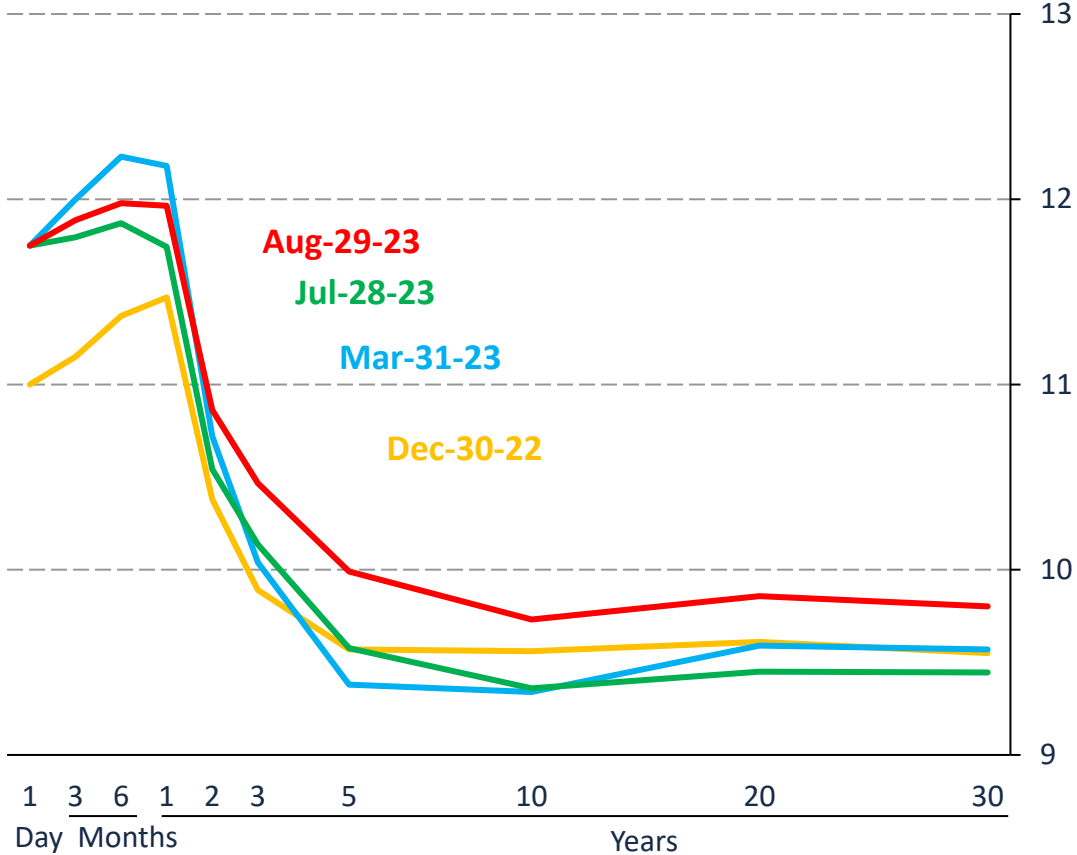
%



Note: The vertical lines corresponds to March 31, 2023.  
Source: Proveedor Integral de Precios (PiP).

Yield curve of Mexican government bonds

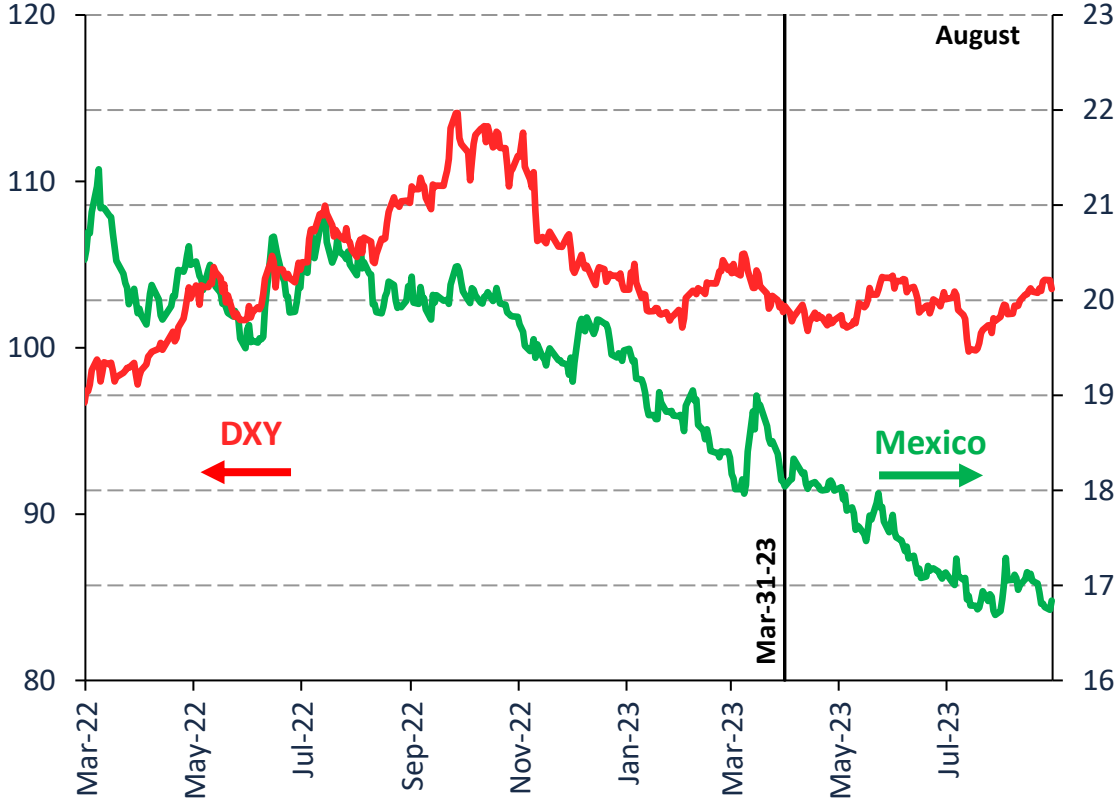
%



Source: Proveedor Integral de Precios (PiP).

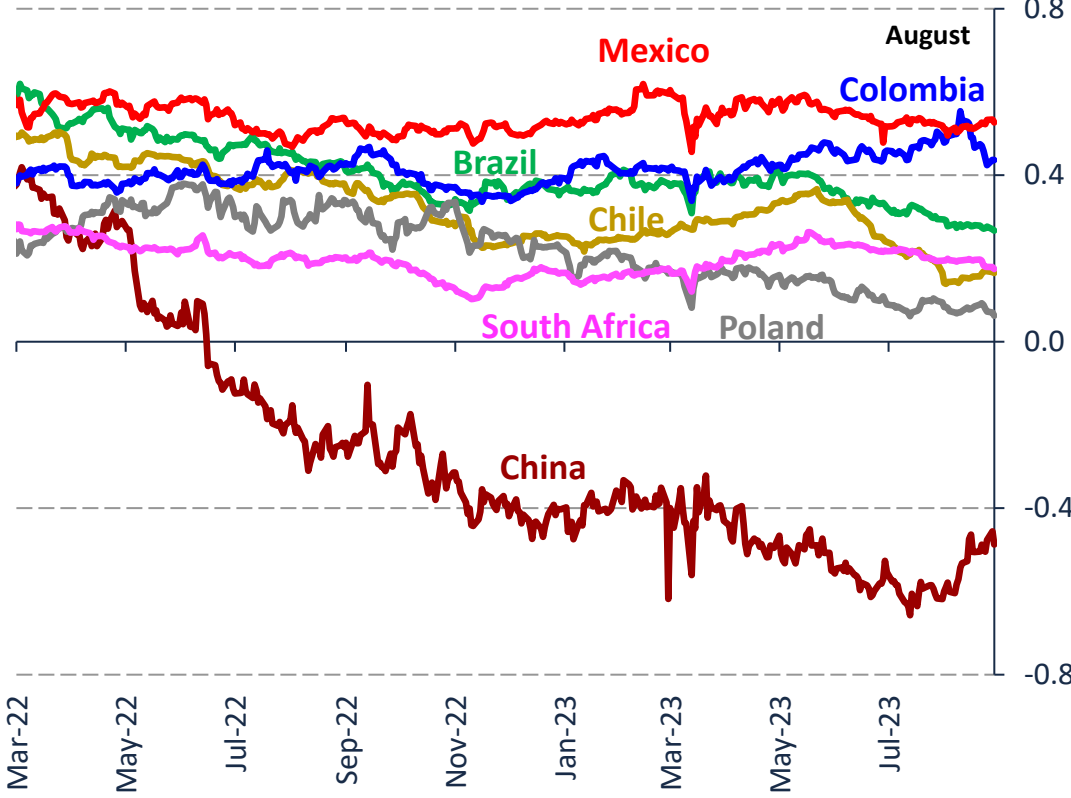
The Mexican peso appreciated during the period covered by this Report. However, it recently exhibited volatility and a slight upward adjustment, which has been reversing.

Nominal exchange rate and DXY <sup>1/</sup>  
Pesos per USD, no units



1/ The observed rate is the daily FIX exchange rate. For the DXY Index, an increase represents an appreciation of the US dollar. The vertical line corresponds to March 31, 2023. Source: Banco de México and Bloomberg.

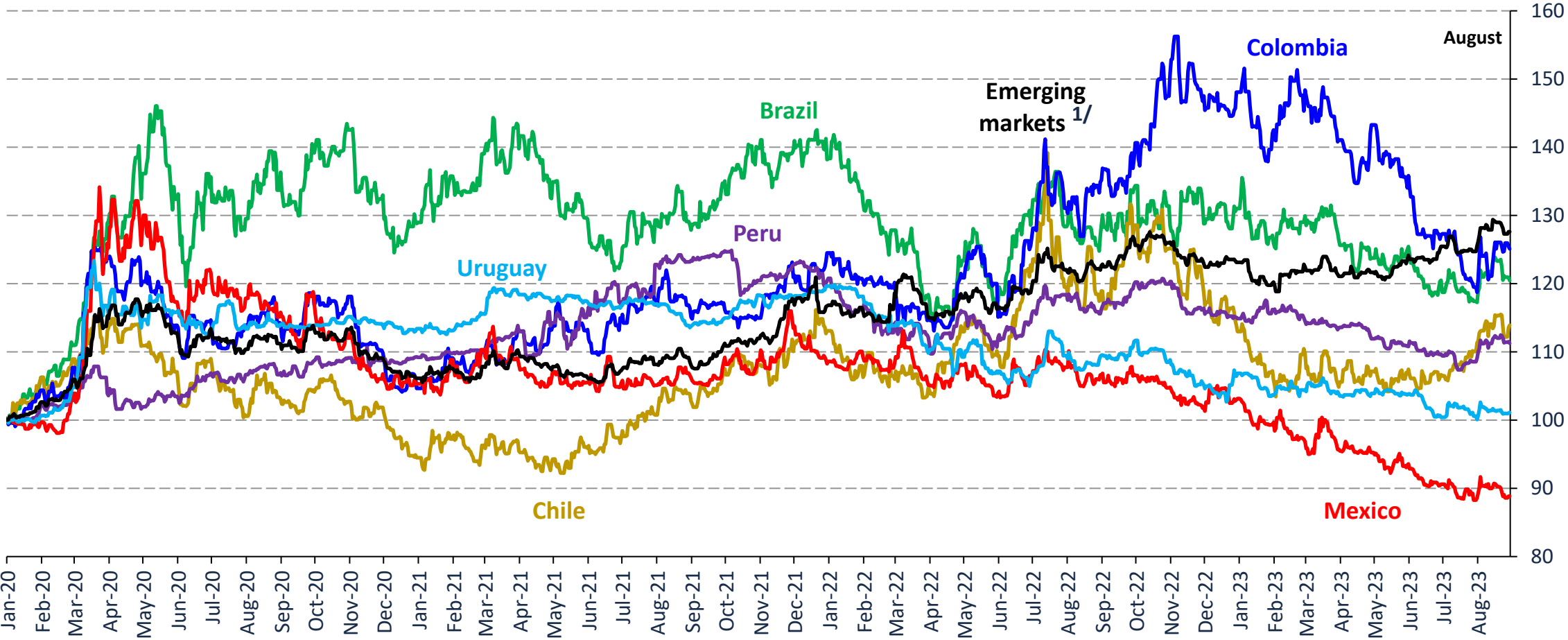
Volatility-adjusted spreads between emerging markets  
1-year interest rates and those of the U.S. <sup>2/</sup>  
No units



2/ The spreads are calculated with the implied spread in 1-year foreign exchange forwards, adjusted by implied volatility of the same time span. Source: Banco de México with Bloomberg data.

The Mexican peso stands out as one of the most resilient among emerging market currencies.

Exchange rate against the US dollar  
Index Jan-01-2020=100



1/ Refers to the JP Morgan Emerging Market Currency Index (EMCI) Fixing.  
Source: Bloomberg.

# Outline

**1 External conditions**

**2 Current situation of the Mexican economy**

**3 Inflation**

**4 Monetary policy**

**5 Forecasts and final remarks**

# Economic activity outlook

## GDP growth <sup>1/</sup> %

### QR April - June 2023

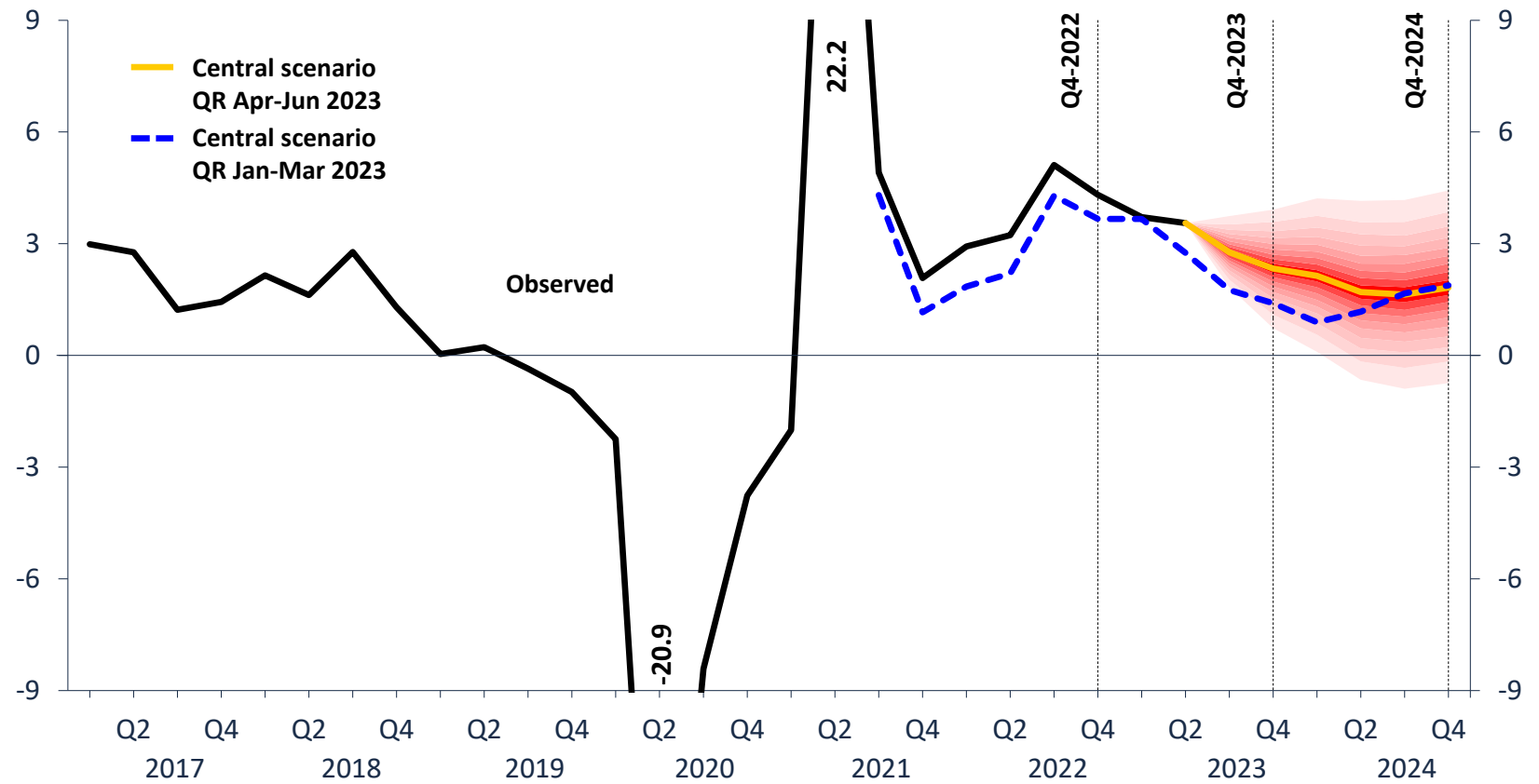
Year	Point	Interval
2023	3.0	2.5 a 3.5
2024	2.1	1.3 a 2.9

### QR January - March 2023

Year	Point	Interval
2023	2.3	1.7 a 2.9
2024	1.6	0.6 a 2.6

## Fan chart

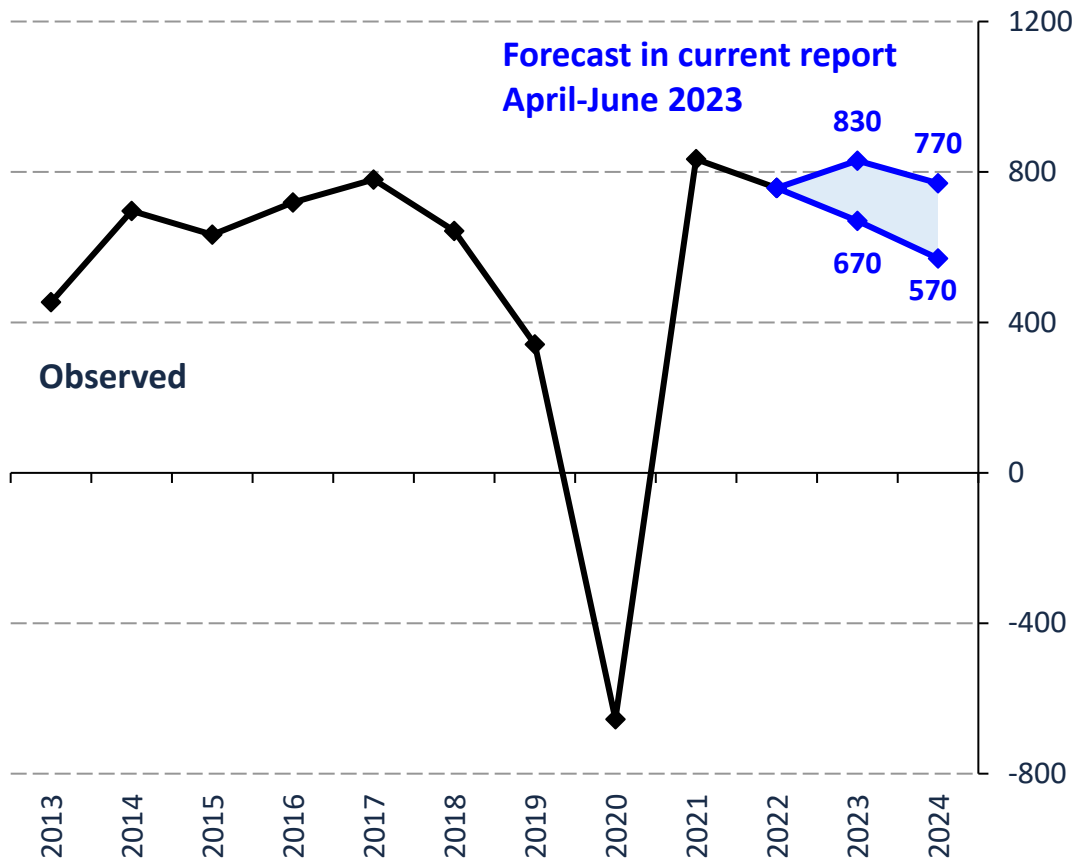
GDP  
Annual %, s. a.



s. a. / Seasonally adjusted series. 1/ Forecasts with figures without seasonal adjustment. Mexico's GDP growth in 2022 was 3.9% in non-seasonally adjusted figures. Note: In the central scenario of the Quarterly Report April-June 2023, the forecast starts in Q3-2023. In the central scenario of the previous report, the forecast starts in Q2-2023. Source: INEGI and Banco de México.

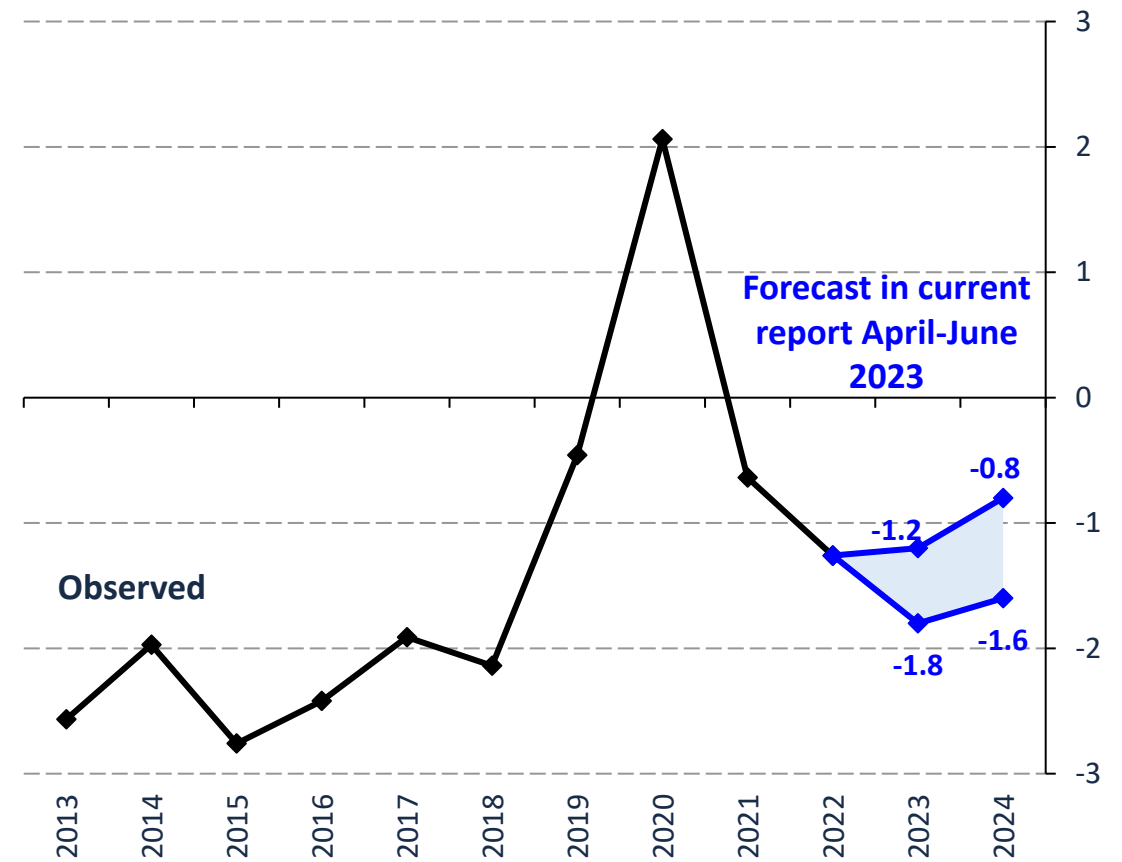
# Economic activity outlook

## Increase in number of IMSS-insured jobs Thousands



Source: IMSS and Banco de México.

## Current account % of GDP



Source : Banco de México.

# Risks to growth

Risks to growth are balanced

## On the downside

- ↓ A lower external demand, particularly in the event of a deep and long-lasting recession in the United States
- ↓ Tighter financial conditions and/or episodes of volatility in financial markets
- ↓ New negative impacts on international trade
- ↓ Lower-than-expected or insufficient recovery of investment spending to support the growth of the economy, particularly in the long term
- ↓ That weather phenomena adversely impact national economic activity

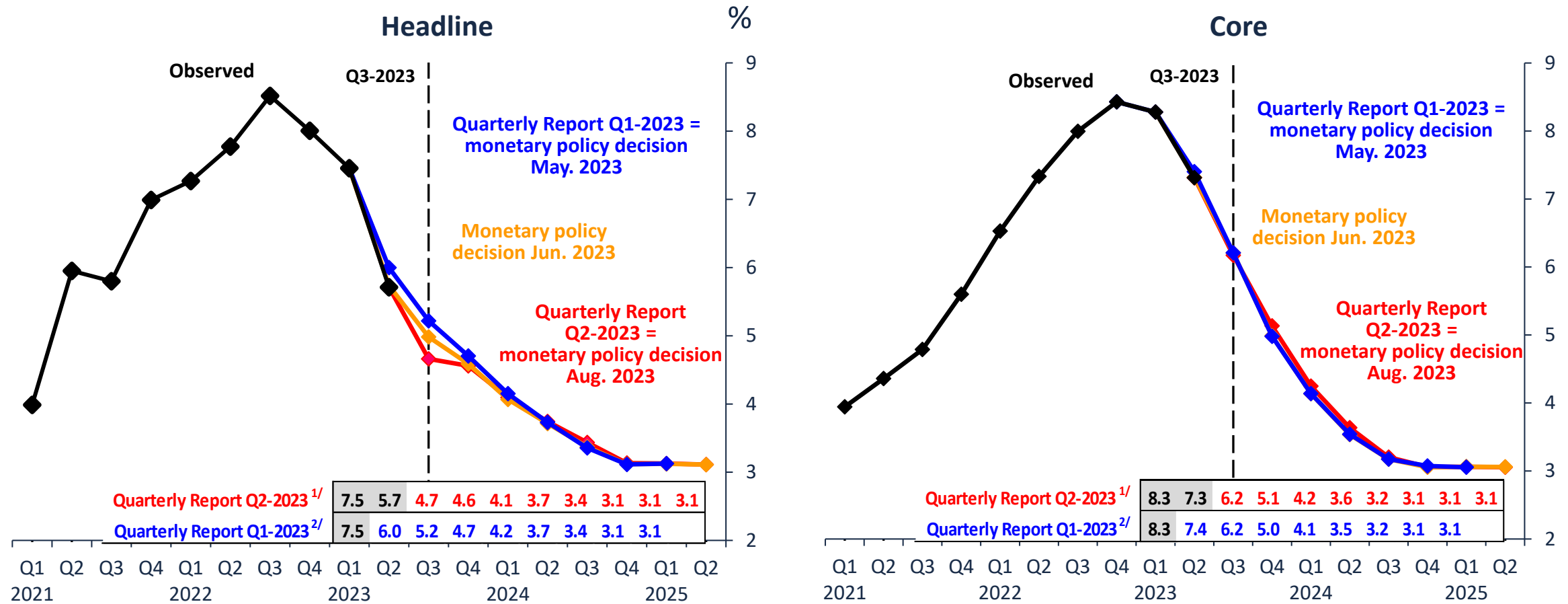
## On the upside

- ↑ That the slowdown in the US economy is smaller than expected
- ↑ That the Mexican economy shows a greater-than-expected resilience in light of the complicated international environment and the anticipated weakness in global economic growth
- ↑ That, within the USMCA framework, Mexico will be an attractive investment destination
- ↑ That higher-than-anticipated public spending is observed



The most recent headline and core inflation forecasts have had minor adjustments for the short term. The period in which these indicators are expected to reach levels close to the 3% target remains Q4-2024.

### Annual inflation forecasts



1/ Forecast since August 2023. It corresponds to the forecast published in the Monetary Policy Statement of Aug 10, 2023. 2/ Forecast since May 2023. It corresponds to the forecast published in the Monetary Policy Statement of May 18, 2023.

Source: INEGI for annual variation observed data and Banco de México for forecasts.

# Risks to inflation outlook within the forecast horizon

The balance of risks to the expected path of inflation over the forecast horizon remains biased to the upside.

## On the upside

- ↑ Persistence of core inflation at high levels
- ↑ Episodes of exchange rate depreciation
- ↑ Higher cost-related pressures that could be passed on to consumer prices
- ↑ Pressures on energy or agricultural and livestock products prices

## On the downside

- ↓ A greater-than-anticipated deceleration of global economy
- ↓ A lower pass-through of some cost-related pressures
- ↓ That the exchange rate appreciation contributes more than anticipated to mitigate certain pressures on inflation
- ↓ A greater-than-anticipated effect of the Federal Government's measures undertaken in response to high prices

# Final remarks

- The Governing Board will continue setting its monetary policy stance with the strong commitment to foster an **orderly adjustment of relative prices**, of **financial markets** and of the economy as a whole, in order to lead inflation to its 3% target and **maintain** inflation **expectations anchored**.
- Thus, Banco de México will persevere in its efforts to restore **low and stable inflation** in order to **maintain the purchasing power of the currency** and mitigate the multiple costs associated with high and volatile inflation. Among these are the decline in household's purchasing power, as well as the negative effects on the planning of productive projects and on investment decisions.
- it is essential to maintain the country's macroeconomic soundness, including **fiscal discipline**, a **healthy financial system**, and a **monetary policy** focused on achieving **price stability**. An environment conducive to investment and productive activity must also be fostered. It is also necessary to adopt measures to increase the **country's productivity** in order to generate more and better jobs. All of this will allow to lay the foundation for greater and **sustained growth** in the long term, which will contribute to **improve households' quality of life**.

# Annex - Boxes

**1** Nearshoring of semiconductor production promoted by the US government

**2** Mexico's gain of share in US imports of goods

**3** Cyclical and non-cyclical factors in the evolution of Mexico's labor participation rate since 2005

**4** Estimation of an inflation regime-switching model

**5** Anchoring of long-term inflation expectations in Mexico



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