

# Quarterly Report

April - June 2022

August 31, 2022



BANCO DE MÉXICO®

**Banco de México has conducted monetary policy in an increasingly complex and uncertain environment, generated by the economic effects of the pandemic and the military conflict between Russia and Ukraine.**



**Externally...**

**World inflation continued increasing. In this context, most central banks kept withdrawing the monetary stimulus. Global economic activity weakened and its outlook deteriorated.**

**Domestically ...**

**Annual headline inflation continued increasing, reaching levels unseen in decades. Economic activity continued to recover and financial markets underwent episodes of volatility.**



**In this context, Banco de México took actions to maintain longer-term inflation expectations anchored, and to foster an orderly adjustment of financial markets.**

# Outline

**1 External conditions**

**2 Current situation of the Mexican economy**

**3 Inflation**

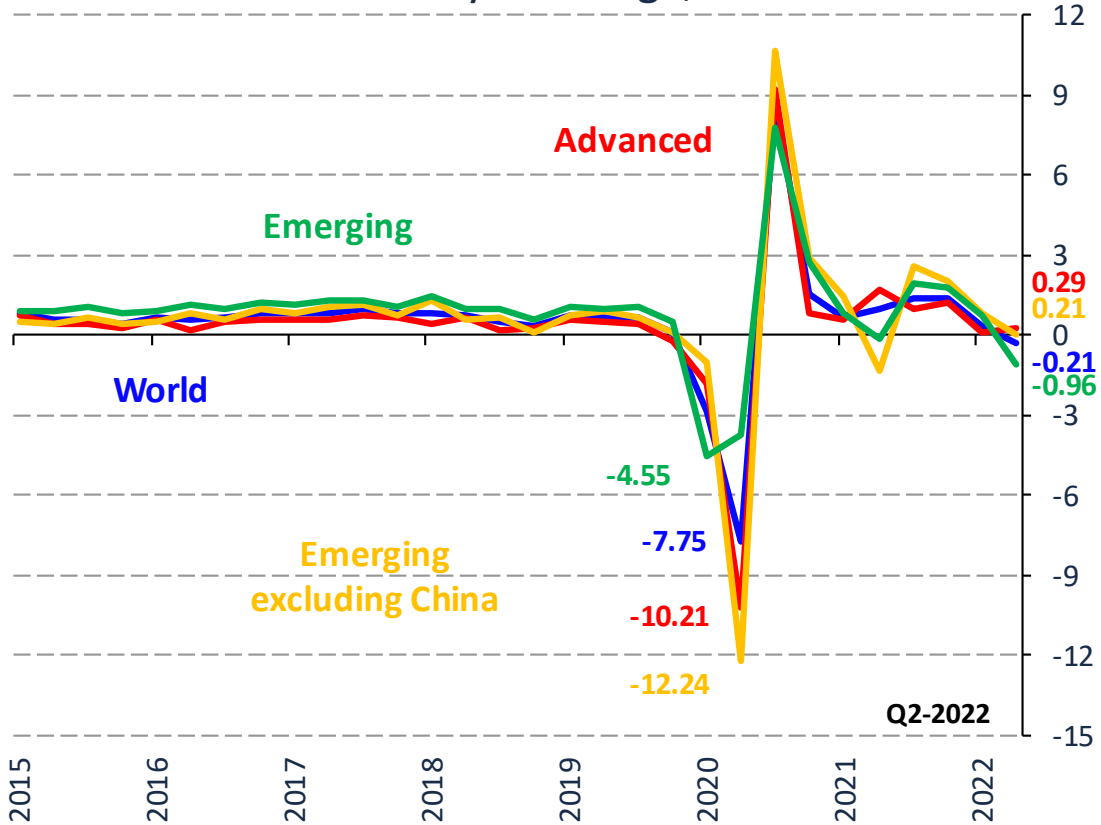
**4 Monetary policy**

**5 Forecasts and final remarks**

Global economic activity weakened during Q2-2022, mainly due to the continued negative economic effects generated by the military conflict, the implementation of temporary lockdowns in China to contain COVID-19 infection, and the tightening of global financial conditions.

### World Economy

**Real GDP Growth**  
Quarterly % change, s. a.



**World GDP Growth Forecast**  
Annual % change

	WEO		Change from	
	July 2022		April 2022	
	2022	2023	2022	2023
<b>World</b>	<b>3.2</b>	<b>2.9</b>	<b>-0.4</b>	<b>-0.7</b>
<b>Advanced</b>	<b>2.5</b>	<b>1.4</b>	<b>-0.8</b>	<b>-1.0</b>
United States	2.3	1.0	-1.4	-1.3
Euro area	2.6	1.2	-0.2	-1.1
Japan	1.7	1.7	-0.7	-0.6
United Kingdom	3.2	0.5	-0.5	-0.7
<b>Emerging</b>	<b>3.6</b>	<b>3.9</b>	<b>-0.2</b>	<b>-0.5</b>
Excl. China	3.7	3.6	0.2	-0.5
Mexico	2.4	1.2	0.4	-1.3
China	3.3	4.6	-1.1	-0.5
India	7.4	6.1	-0.8	-0.8
Brazil	1.7	1.1	0.9	-0.3

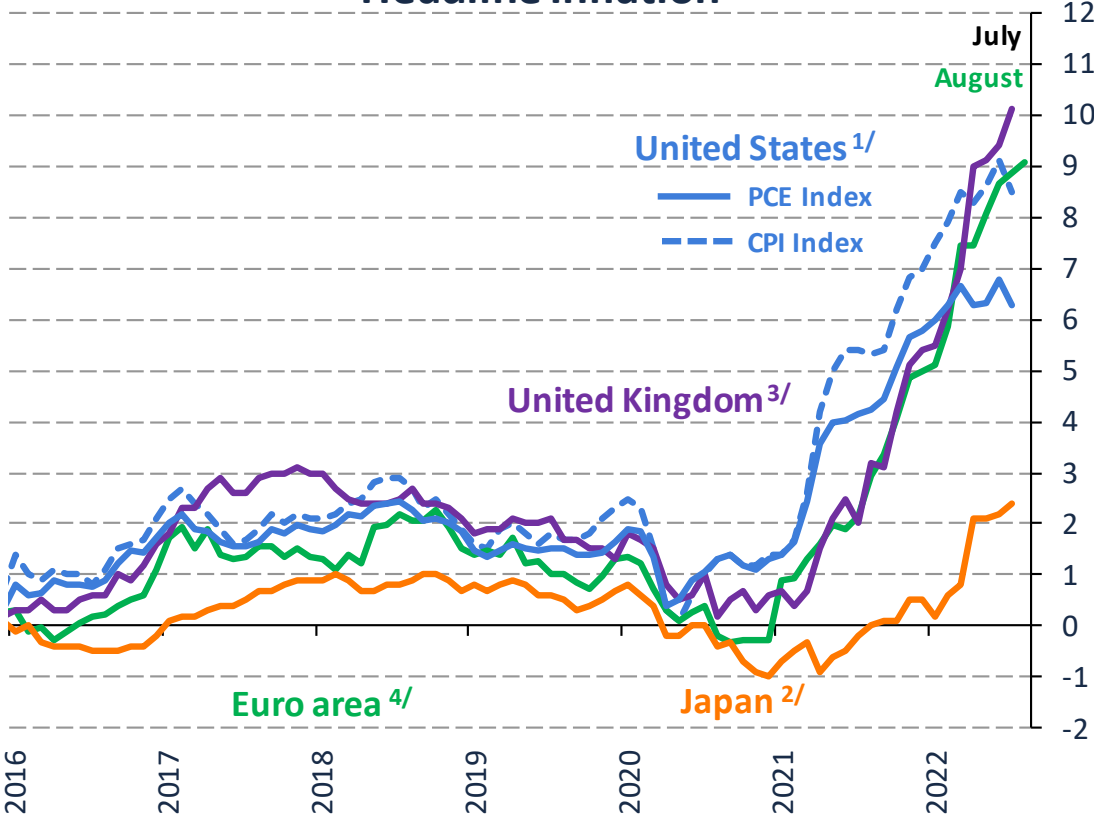
Source: International Monetary Fund (IMF), World Economic Outlook April and July 2022.

s. a. / Seasonally adjusted figures. Note: The sample of countries used for the calculation represents 86% of world GDP measured by purchasing power parity. Forecasts are used for some countries in the sample Q2. Source: Prepared by Banco de México with information from Haver Analytics and J.P. Morgan.

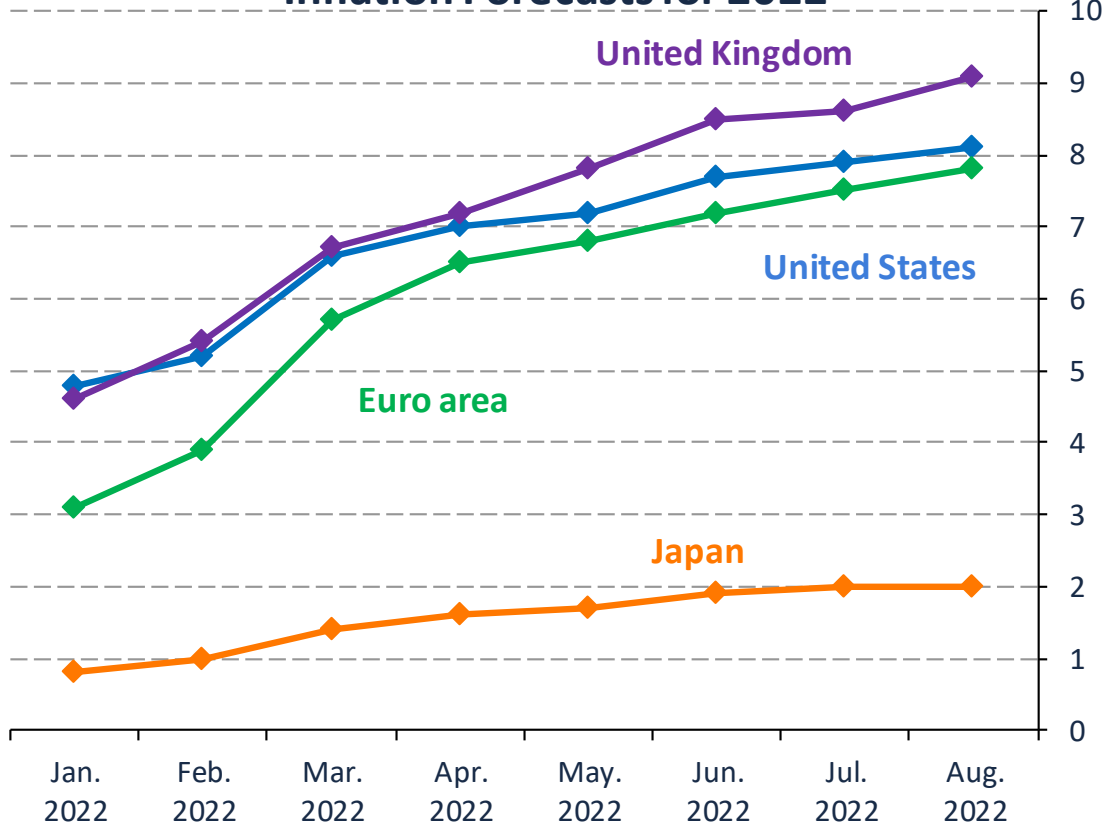
In most of the major advanced economies, headline and core inflation continued increasing and headline inflation remained significantly above their respective central banks' targets. Short-term inflation expectations kept increasing.

### Advanced Economies Annual % change

Headline Inflation



Inflation Forecasts for 2022



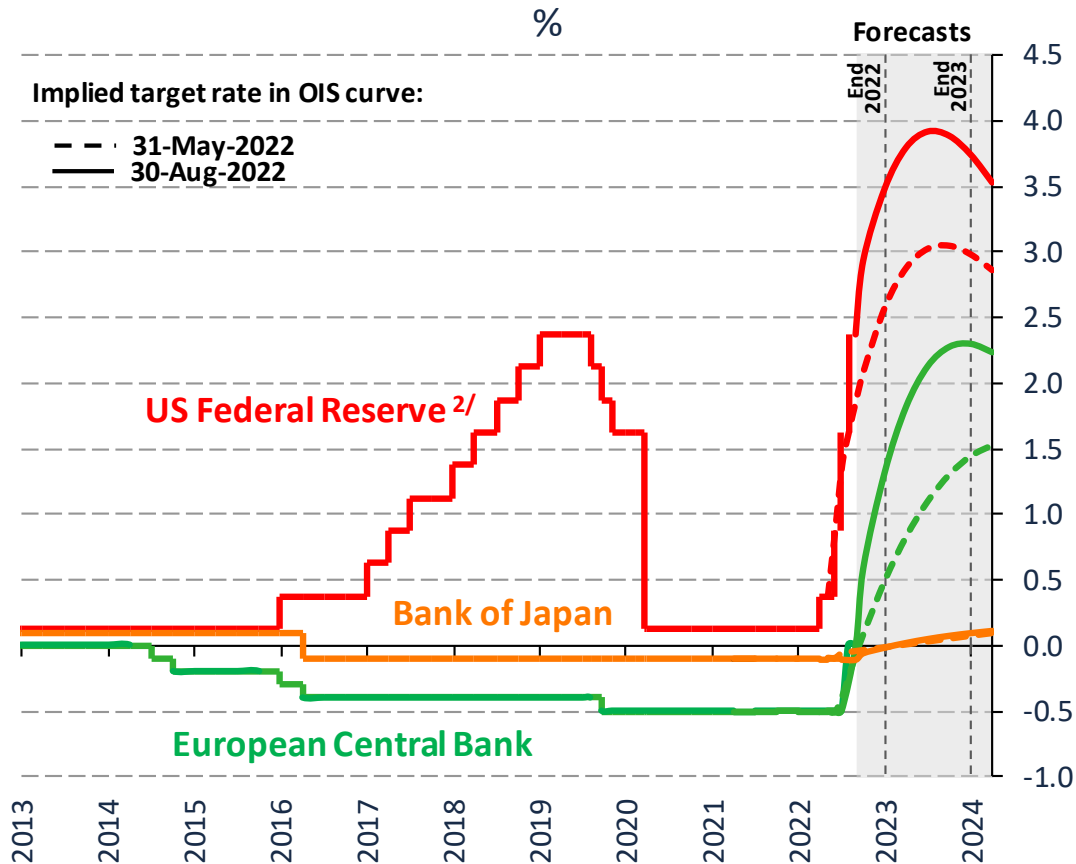
1/ The solid line refers to the Personal Consumption Expenditure Price Index (PCE) and the dotted line shows the Consumer Price Index (CPI). 2/ Excludes fresh food. This series does not include the effect of the consumption tax increase in May 2014 and October 2019, nor the effect of the free daycare and preschool program in October 2019. 3/ The harmonized index is shown. 4/ Preliminary figures published for August. Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Eurostat, Bank of Japan, Office for National Statistics of the UK.

Source: Consensus Forecasts.



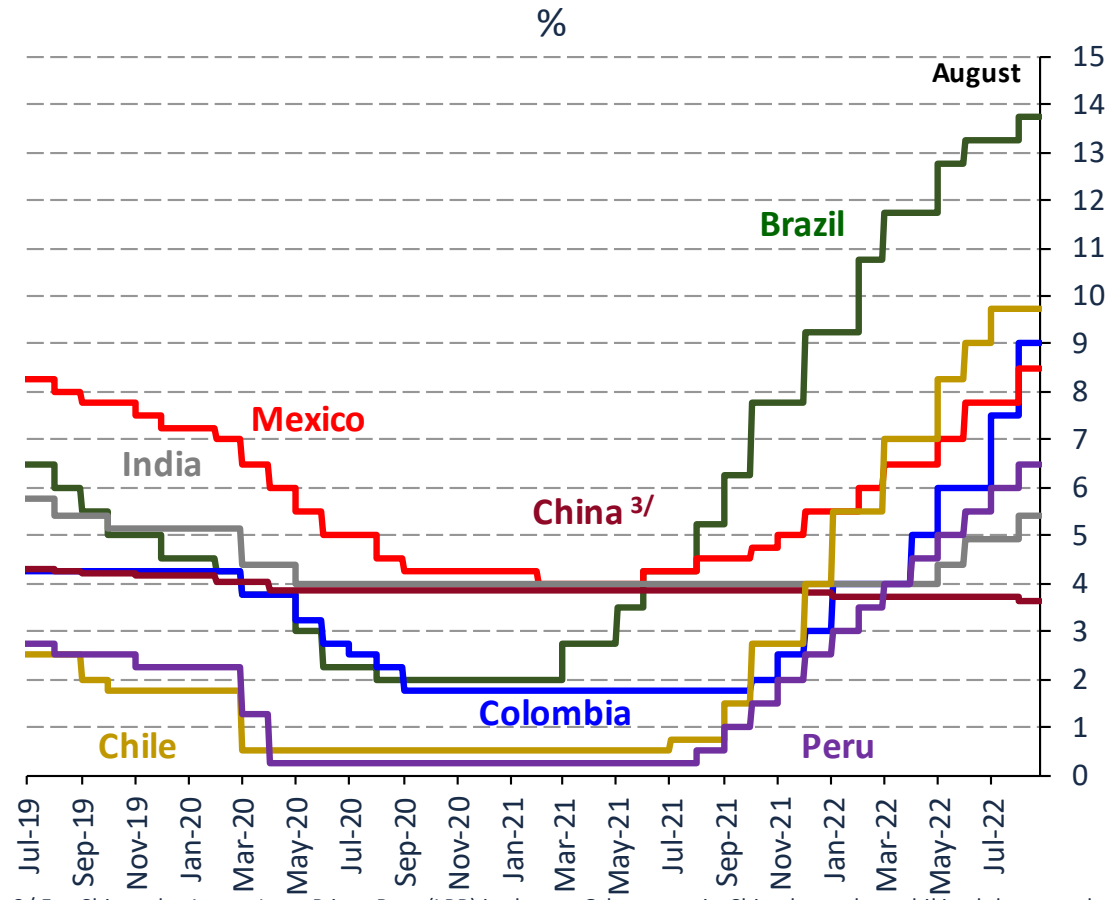
Central banks in most advanced economies continued to reduce their monetary stimulus, in some cases accelerating the pace of said process. Similarly, most central banks in the main emerging economies raised their reference rates.

Reference Rates and Implied Trajectories in OIS Curves <sup>1/</sup>



1/ OIS: Fixed-for-floating swap where the fixed interest rate is the overnight effective reference rate. 2/ Data for the observed federal funds rate corresponds to the average between the lower and upper bounds of the target range (2.25% - 2.50%). Source: Prepared by Banco de México with data from Bloomberg.

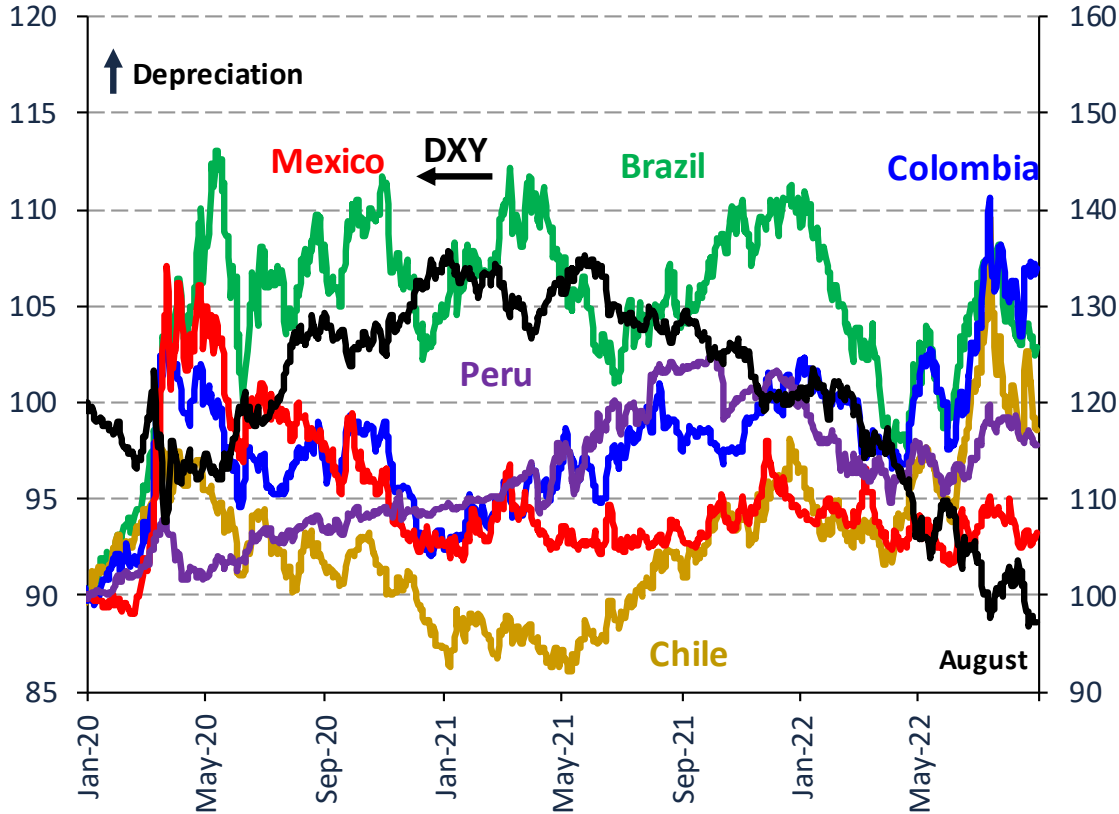
Reference Rates in Emerging Economies



3/ For China, the 1-year Loan Prime Rate (LPR) is shown. Other rates in China have also exhibited downward movements. Source: Haver Analytics.

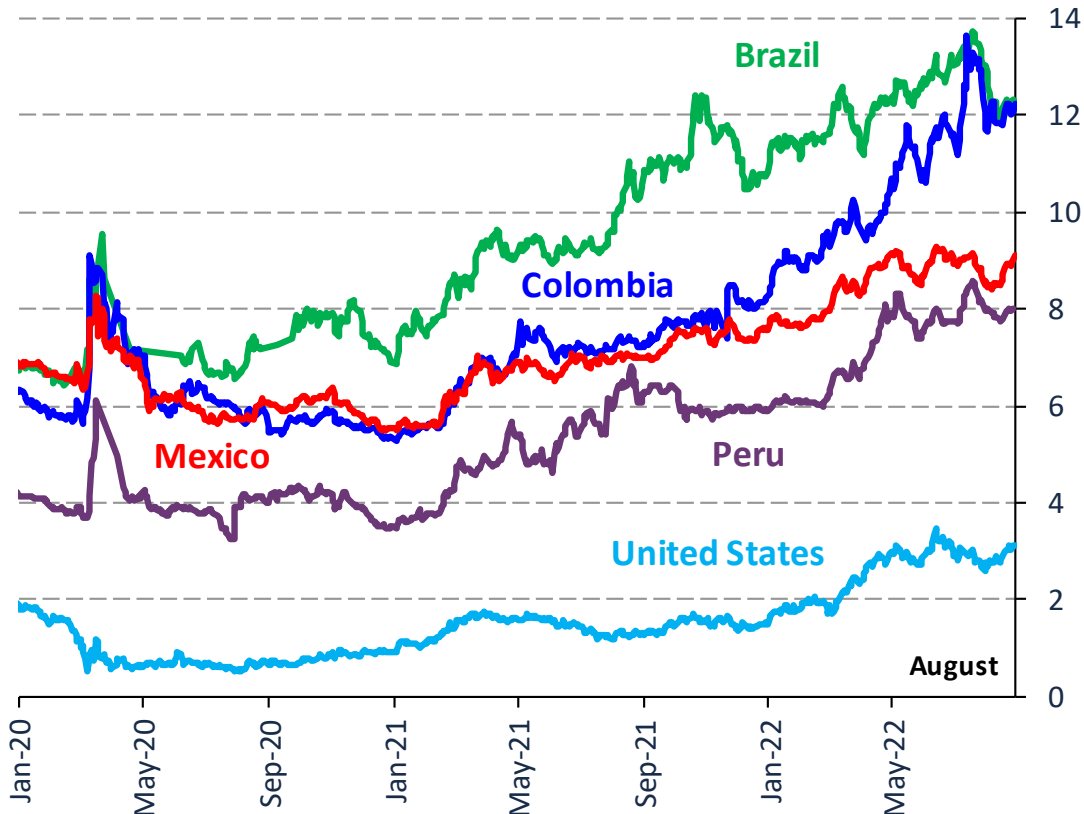
Global financial markets continued registering episodes of volatility, as well as a tightening of financial conditions. The US dollar strengthened. Long-term interest rates increased, although in some cases such trend has reversed recently.

**DXY Index and Nominal Exchange Rate against USD**  
Index Jan-01-2020=100



Note: The DXI Index was inverted, hence an upward movement indicates a depreciation for all series. Source: Bloomberg.

**10-year Government Bond Nominal Interest Rates**  
%



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

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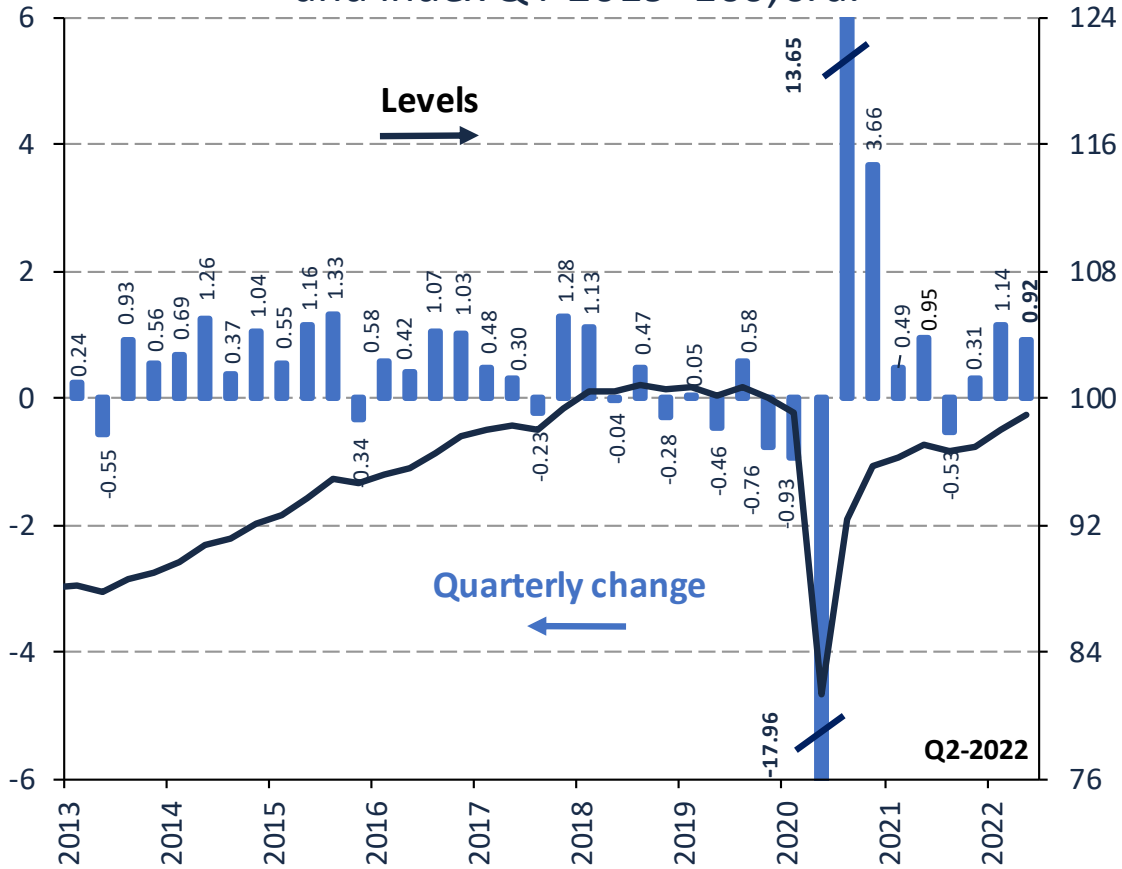
**4 Monetary policy**

**5 Forecasts and final remarks**



In Q2-2022, economic activity in Mexico continued recovering despite the complex global economic environment and the uncertainty caused by a rebound in the number of COVID-19 infections.

**Gross Domestic Product <sup>1/</sup>**  
 Quarterly % change  
 and index Q4-2019=100, s. a.

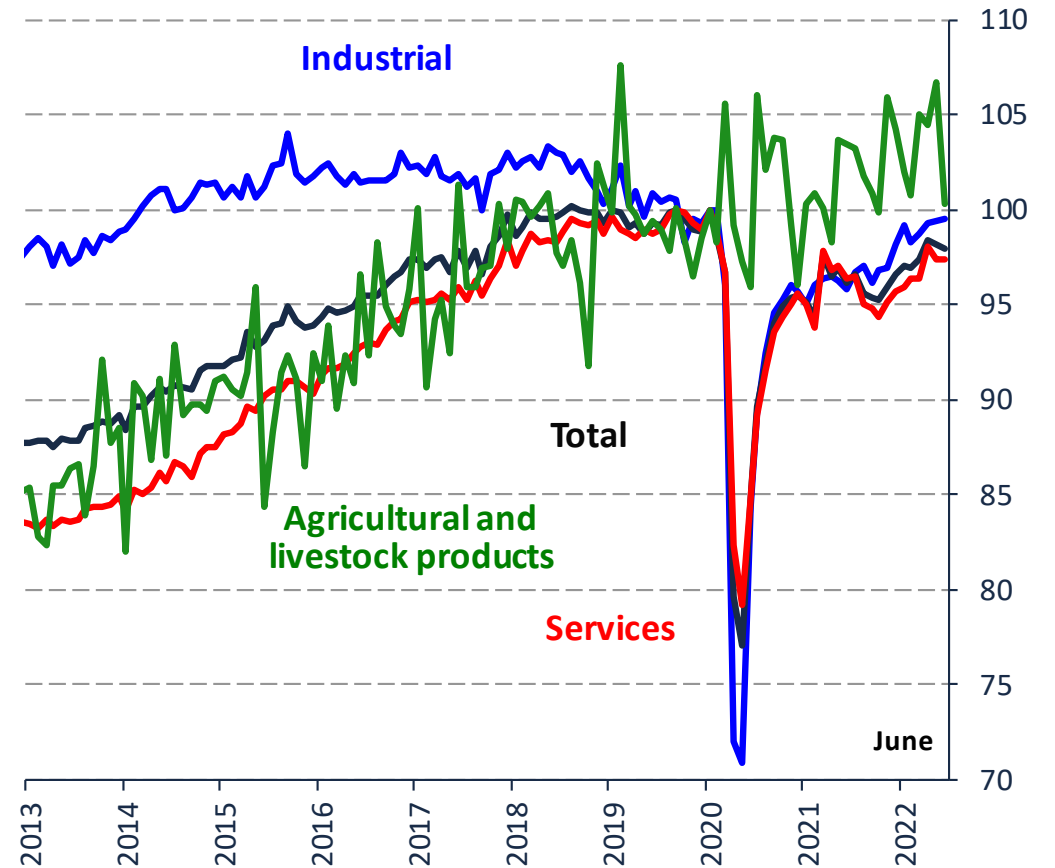


s. a. / Seasonally adjusted figures.

<sup>1/</sup> The range of the chart for the quarterly change in GDP has been narrowed to facilitate its reading. The labels correspond to quarterly percentage changes for Q2 and Q3, 2020.

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

**Global Index of Economic Activity**  
 Index Jan-2020=100, s. a.

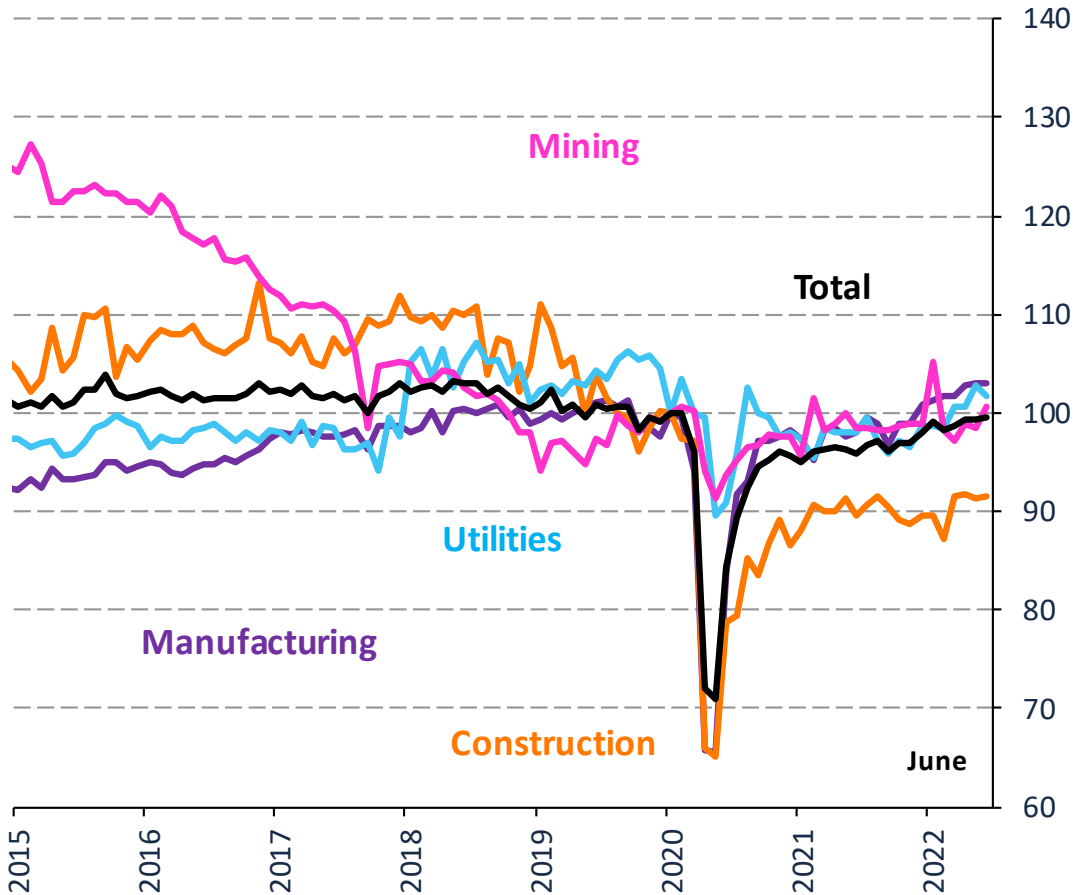


s. a. / Seasonally adjusted figures.

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

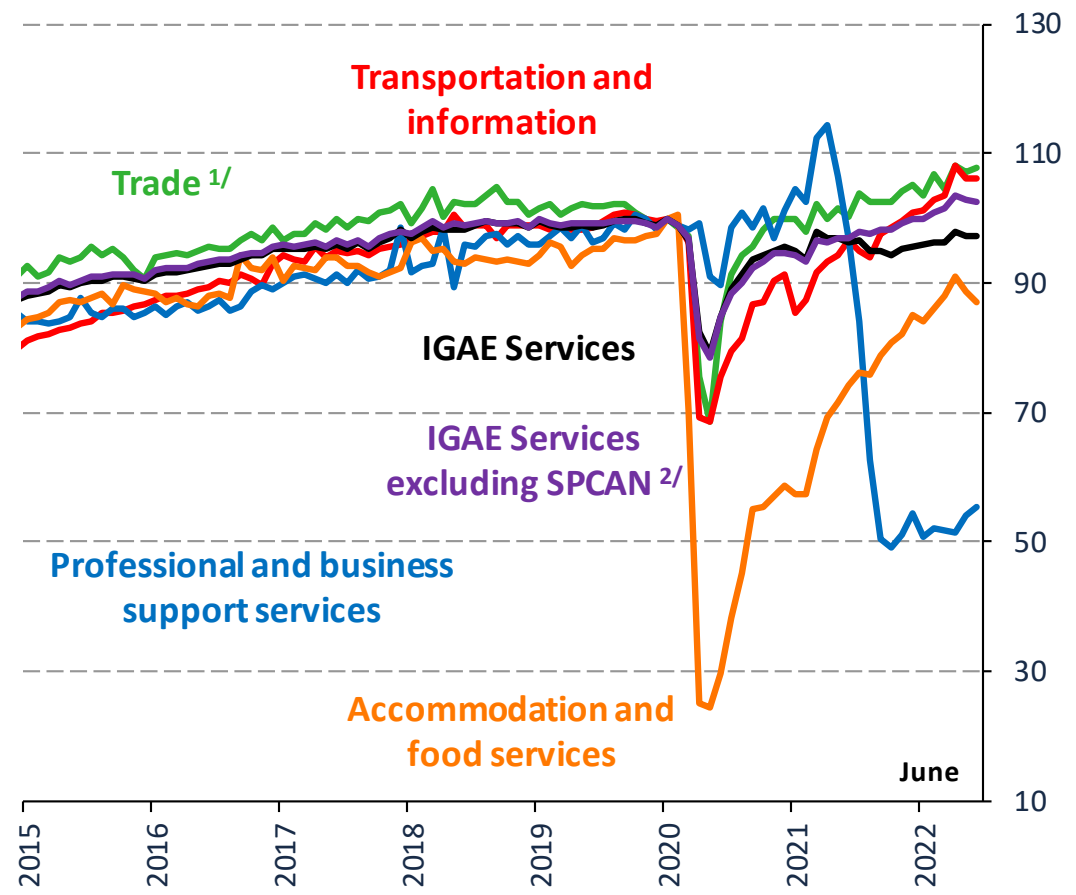
**Industrial activity continued its recovery, driven mainly by manufacturing. Services performed better overall, after having exhibited weakness in S2-2021.**

**Industrial Activity**  
Index Jan-2020=100, s. a.



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

**IGAE Services**  
Index Jan-2020=100, s. a.

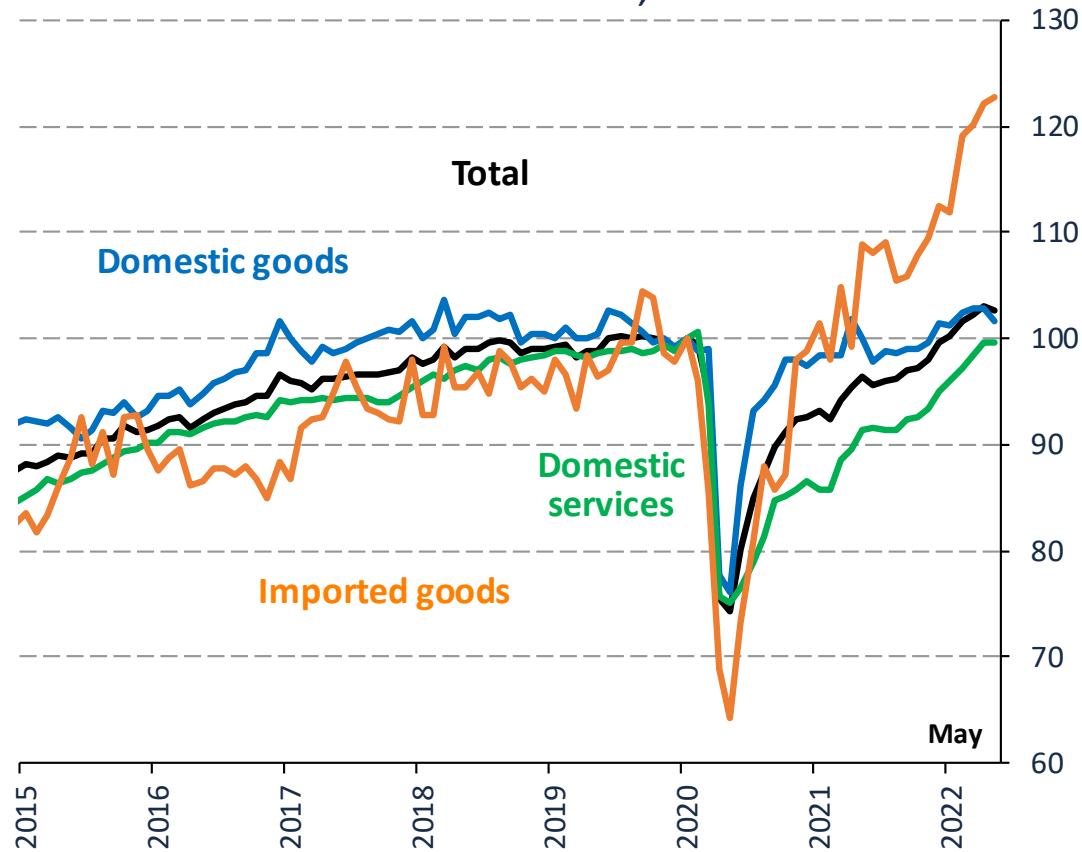


s. a. / Seasonally adjusted figures.  
1/ Includes both wholesale and retail trade.  
2/ Excluding professional, corporate and business support services (SPCAN, for its acronym in Spanish).  
Source: Mexico's National Accounts System (SCNM, for its acronym in Spanish), INEGI.

During the April-May period, private consumption continued showing dynamism. Gross fixed investment grew moderately in relation to the previous quarter, with a differentiated behavior among its components.

### Total Private Consumption and its Components

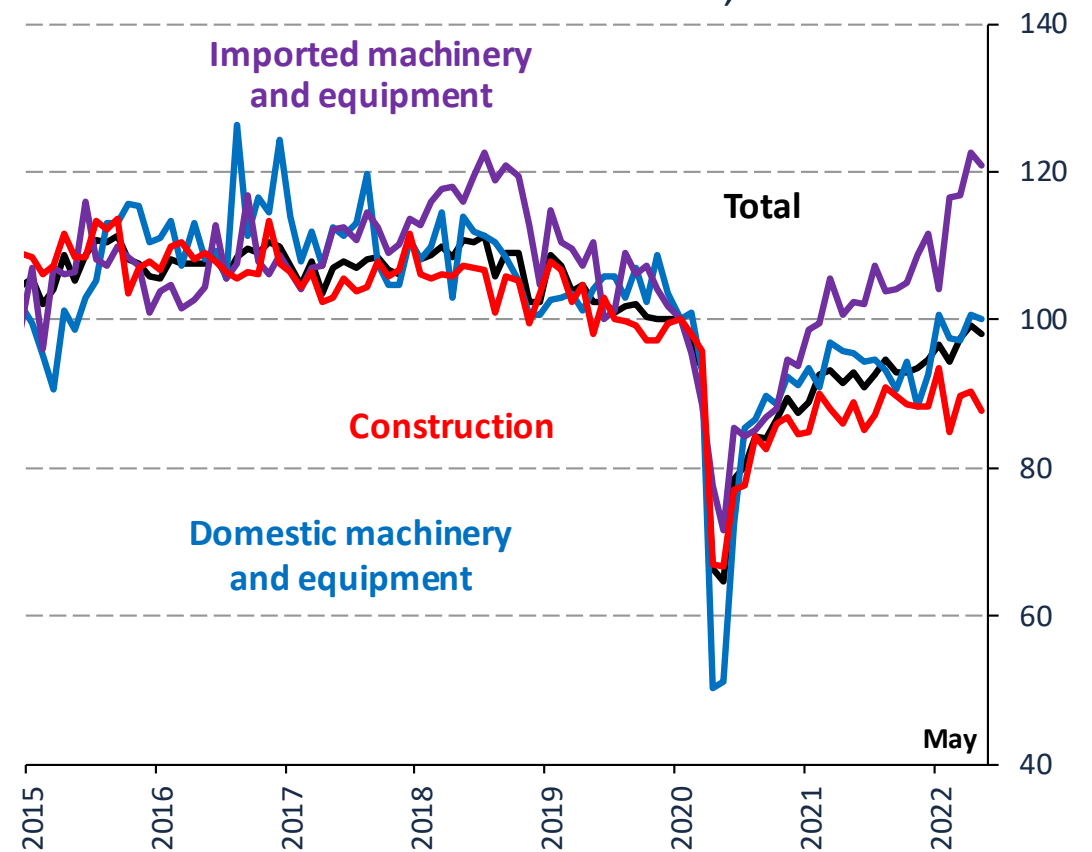
Index Jan 2020=100, s. a.



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

### Investment and its Components

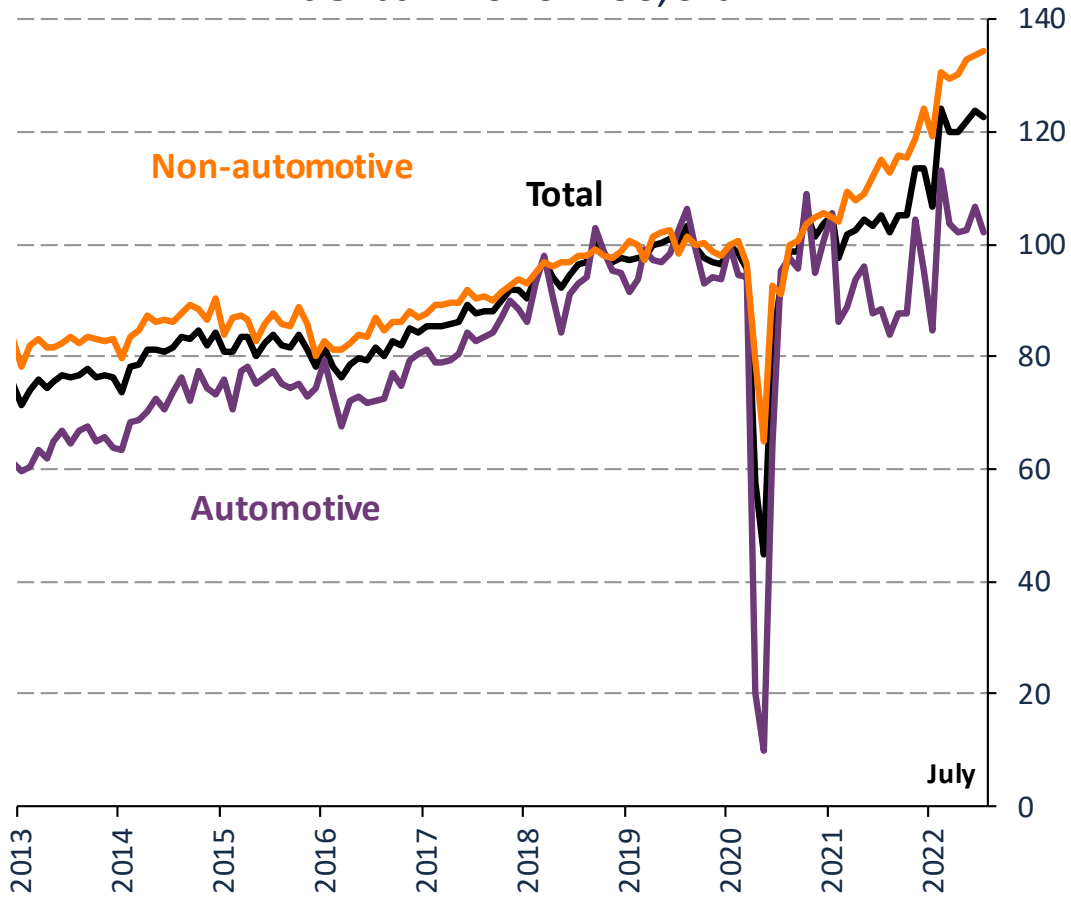
Index Jan-2020=100, s. a.



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

In Q2-2022, the value of manufacturing exports continued increasing and the current account registered a minor deficit.

**Automotive and Non-automotive  
Manufacturing Exports <sup>1/</sup>**  
Index Jan-2020=100, s. a.

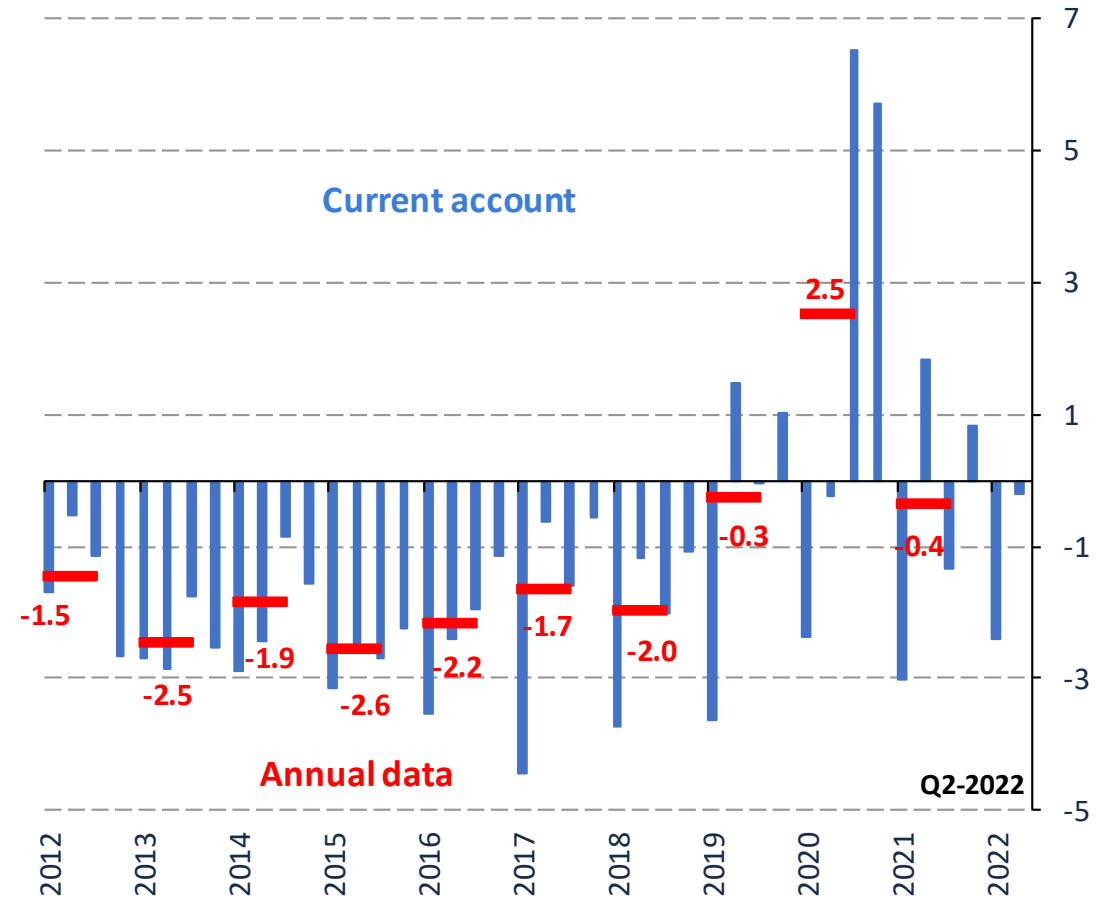


s. a. / Seasonally adjusted figures.

<sup>1/</sup> Based in current US dollars.

Source: Prepared by Banco de México with data from *PMI Comercio Internacional*, S.A. de C.V., SAT, SE, Banco de México, INEGI. Commercial Balance of Goods of Mexico. SNIEG. Information of National Interest.

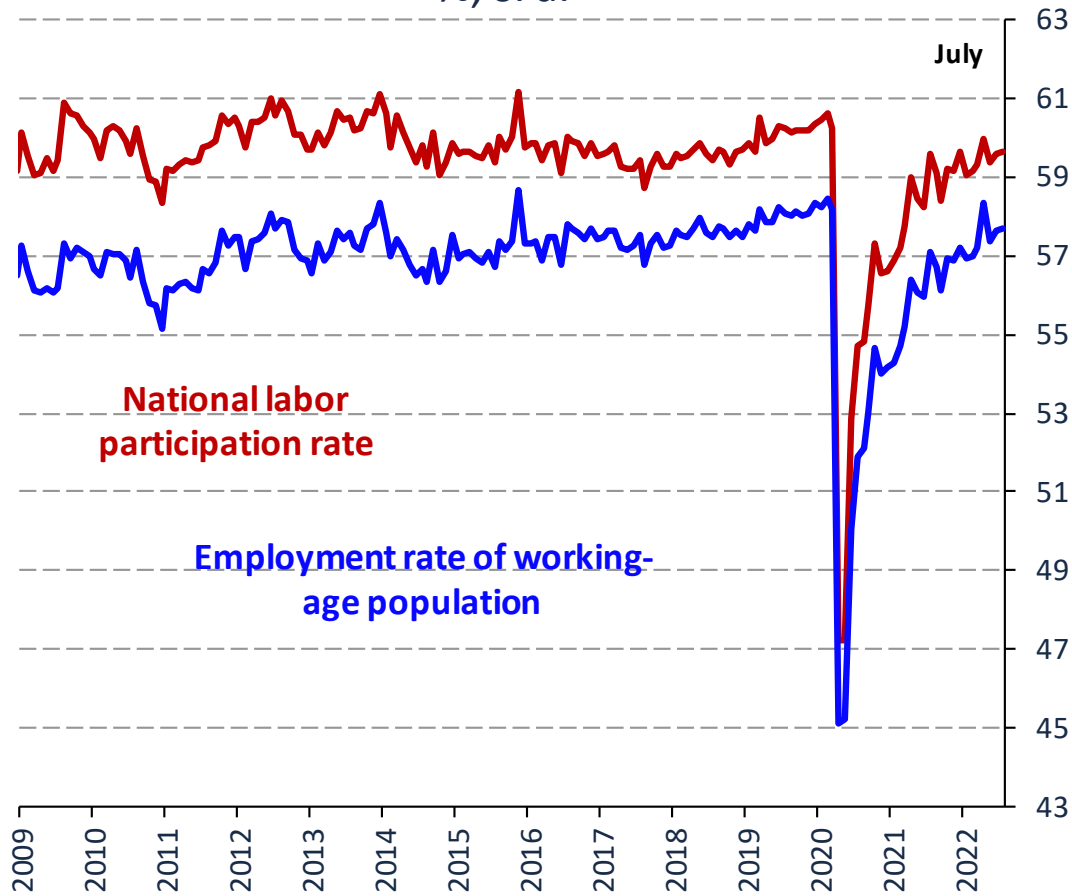
**Current Account  
% of GDP <sup>2/</sup>**



<sup>2/</sup> For figures as a proportion of GDP, the GDP corresponding to each quarter is used.  
Source: Banco de México and INEGI.

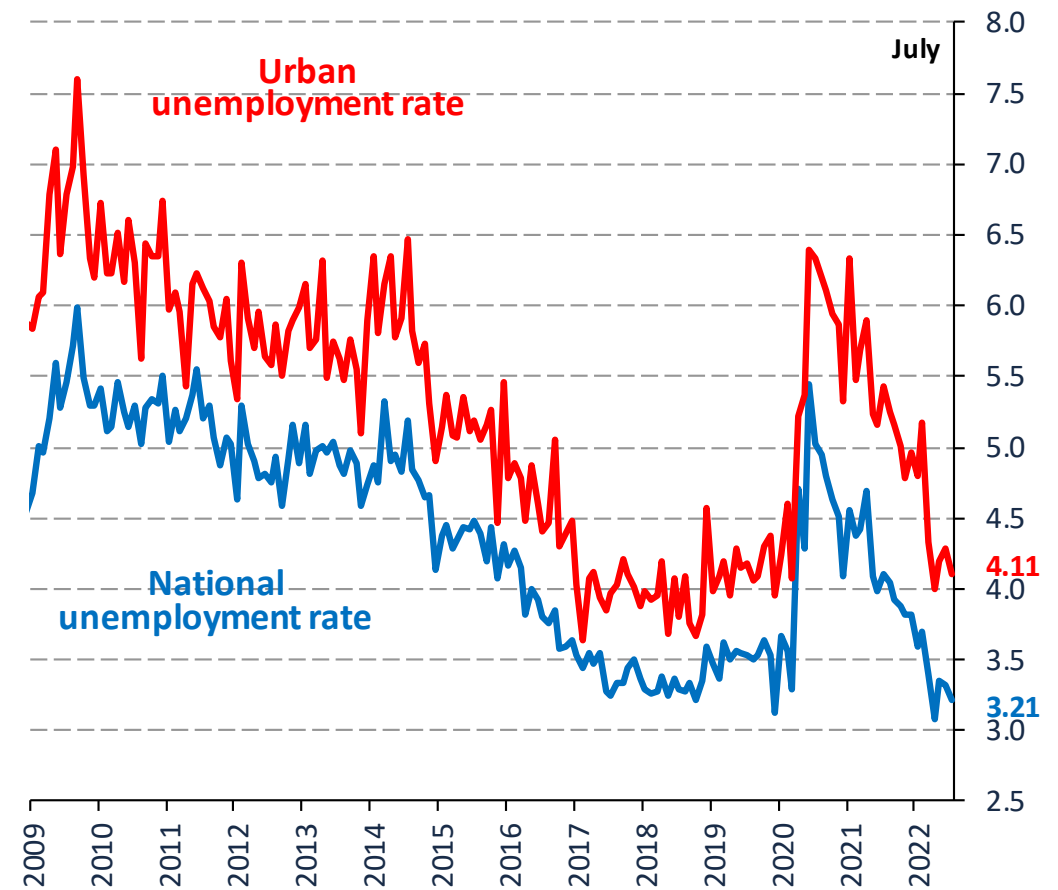
# In Q2-2022 and in early Q3-2022, different labor market indicators improved compared to Q1-2022.

## National Labor Participation Rate <sup>1/</sup> and Employment Rate of Working-age Population <sup>2/</sup> %, s. a.



s. a. / Seasonally adjusted figures. 1/ Percentage of Economically Active Population (PEA, for its acronym in Spanish) with respect to the population of 15 years and older. 2/ Percentage of population of 15 years and older.  
Source: Prepared by Banco de México with data from INEGI (ENOE, ETOE and ENOEN).

## National and Urban Unemployment Rates %, s. a.



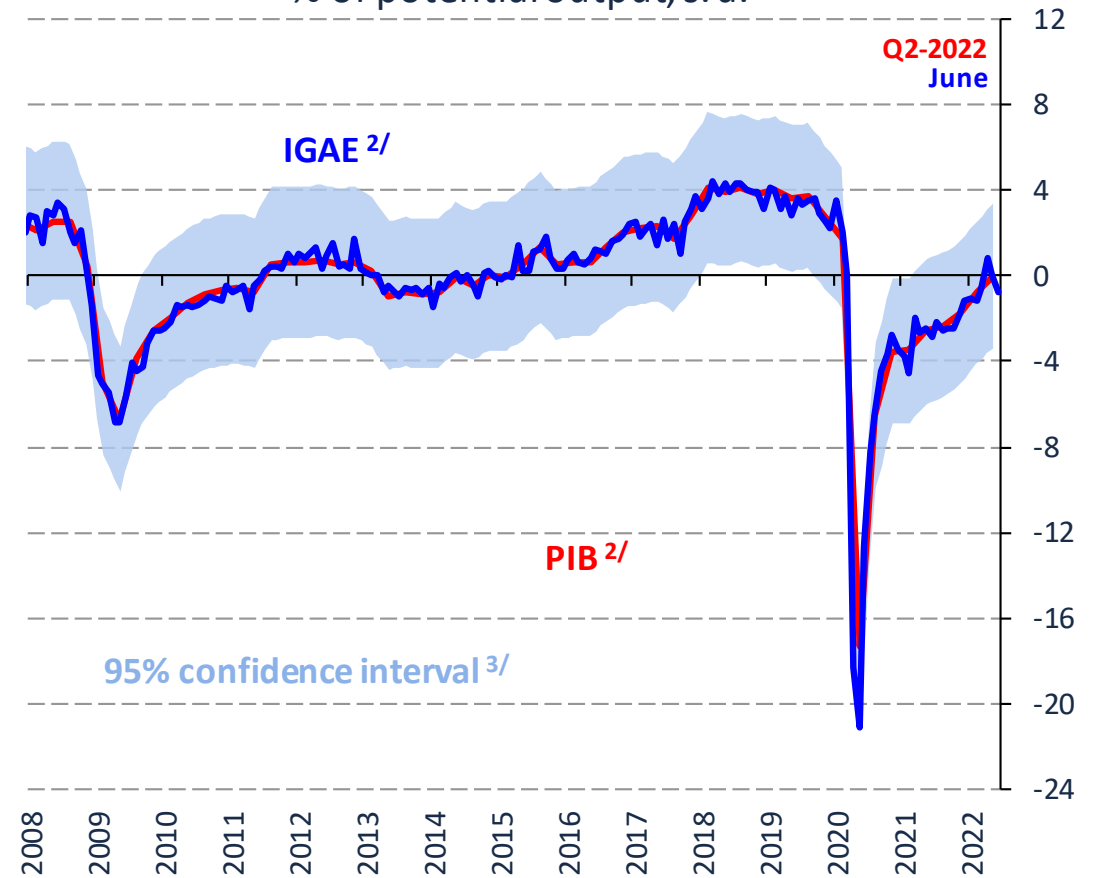
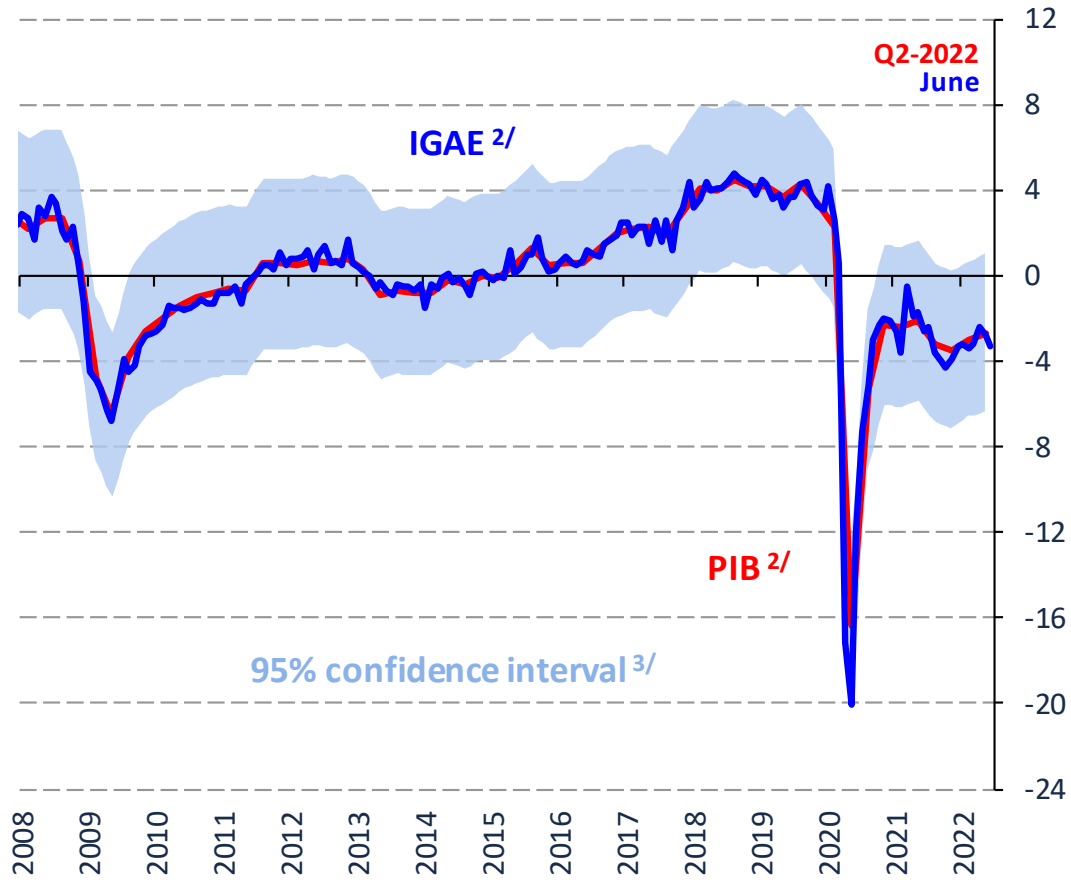
s. a. / Seasonally adjusted figures.  
Source: Prepared by Banco de México with data from INEGI (ENOE, ETOE and ENOEN).

The estimated negative output gap was smaller than in Q1-2022, in line with the positive evolution of economic activity during this period.

### Output Gap Estimate <sup>1/</sup>

Gross Domestic Product  
% of potential output, s. a.

Gross Domestic Product Excluding Professional,  
Corporate and Support Services <sup>4/</sup>  
% of potential output, s. a.



s. a. / 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/ GDP figures as of Q2-2022 and IGAE figures as of June 2022. 3/ Output gap confidence interval calculated with a method of unobserved components. 4/ Excludes professional, scientific and technical services; corporate and business management; and business support and waste management.

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



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**3** Inflation

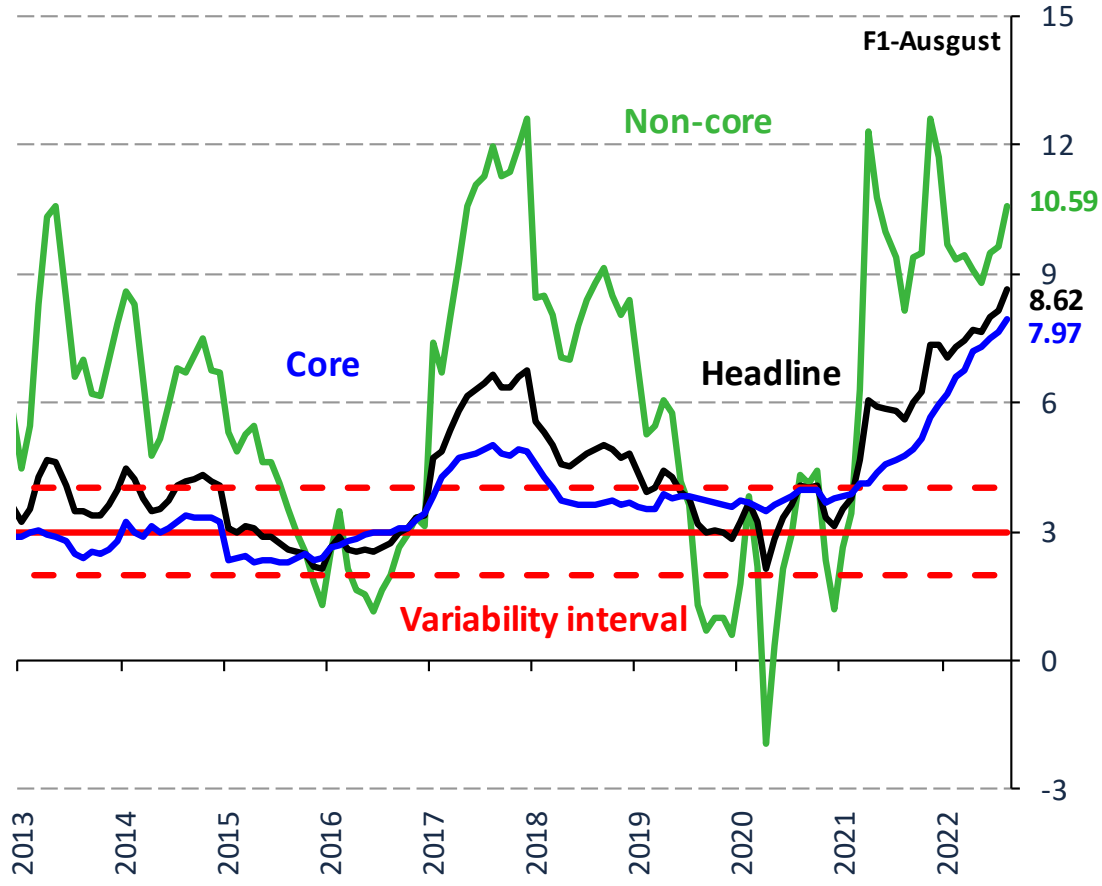
**4** Monetary policy

**5** Forecasts and final remarks

During Q2-2022, annual headline inflation continued increasing, reaching levels unseen in over two decades, reflecting the accumulated impact of the pandemic-related shocks and the military conflict between Russia and Ukraine.

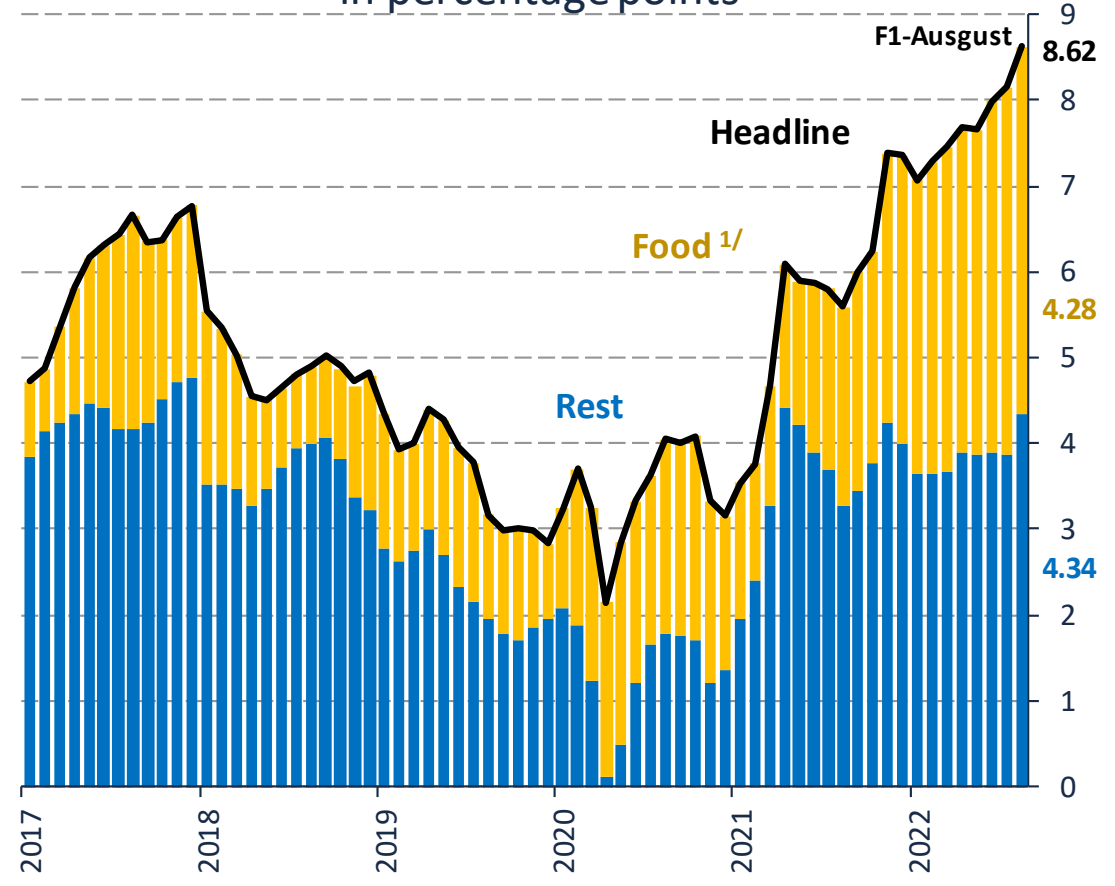
### Consumer Price Index

Annual % change



Source: INEGI.

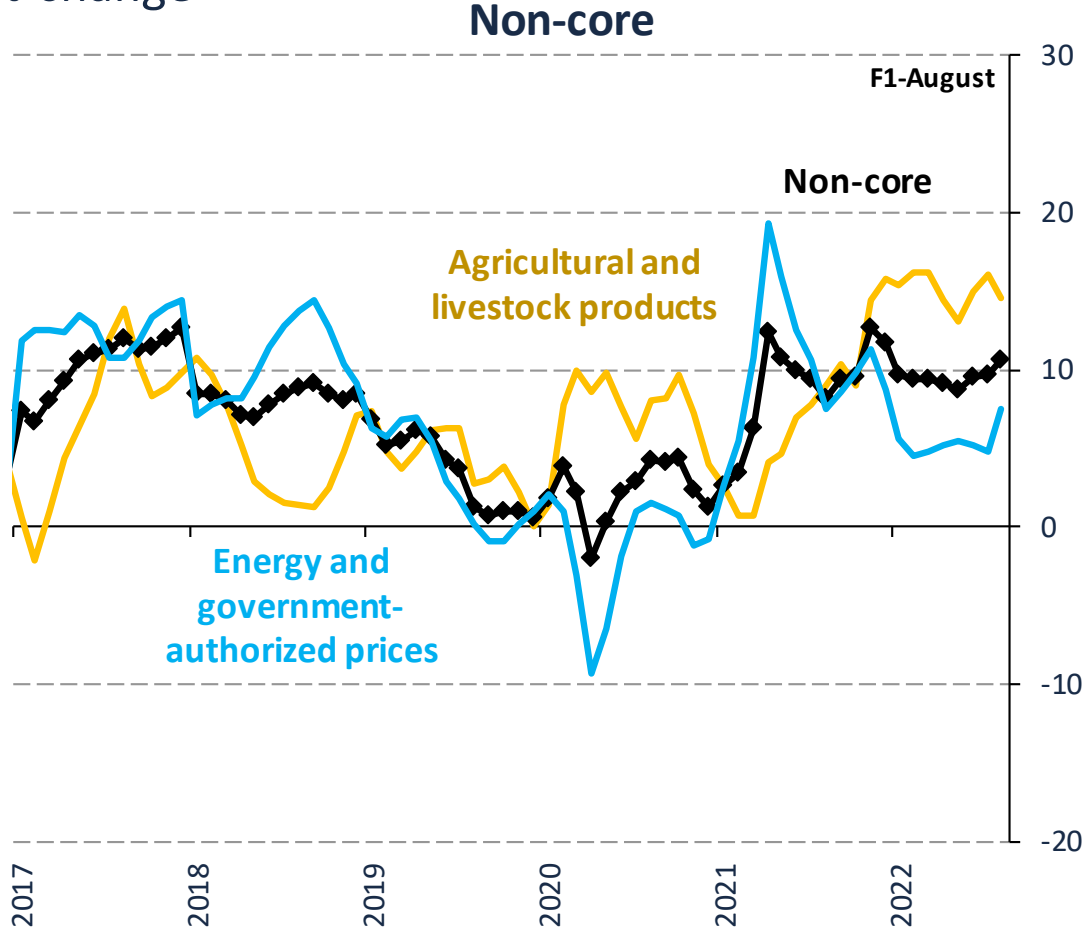
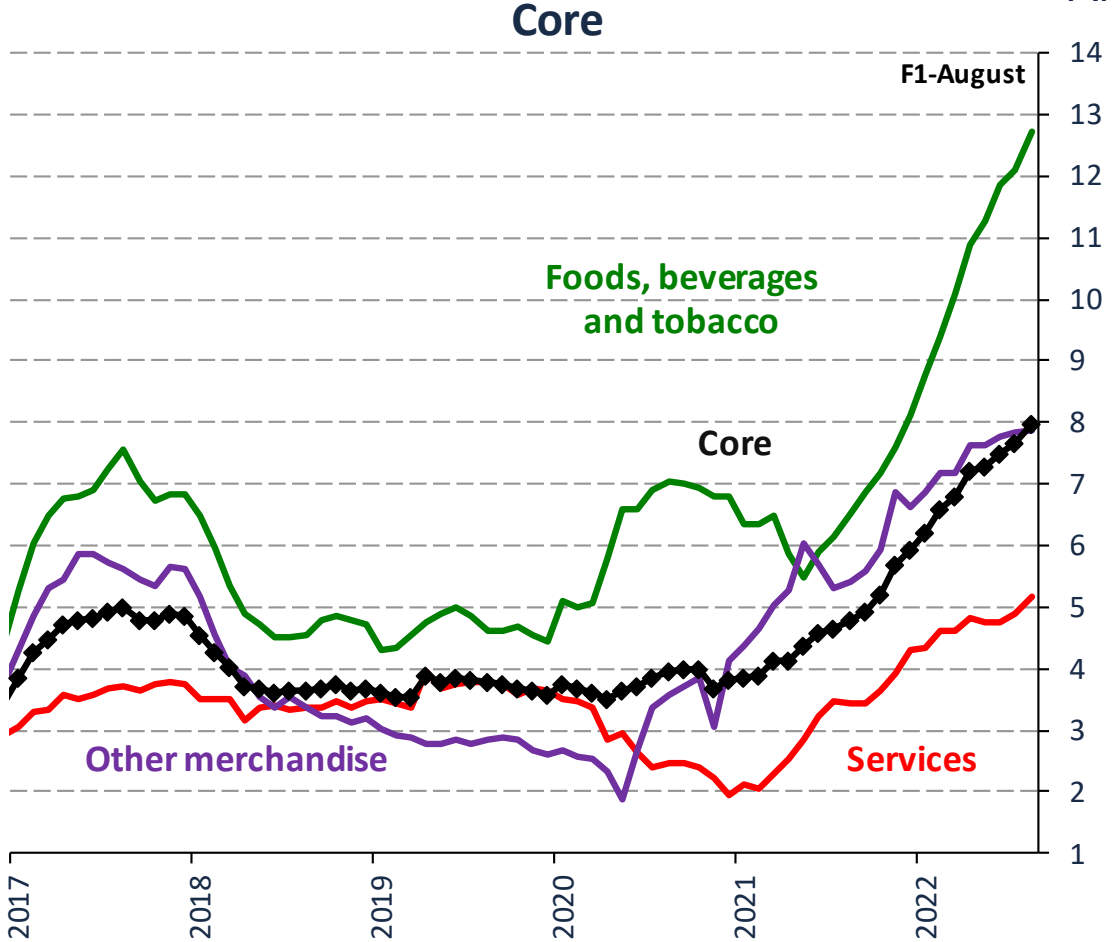
Annual % change and incidences in percentage points



1/ It includes food from the core and non-core components, as well as beverages and tobacco.  
Source: INEGI.

**Core inflation has trended upwards since December 2020, while non-core inflation remains at high levels.**

**Price Sub-indices**  
Annual % change

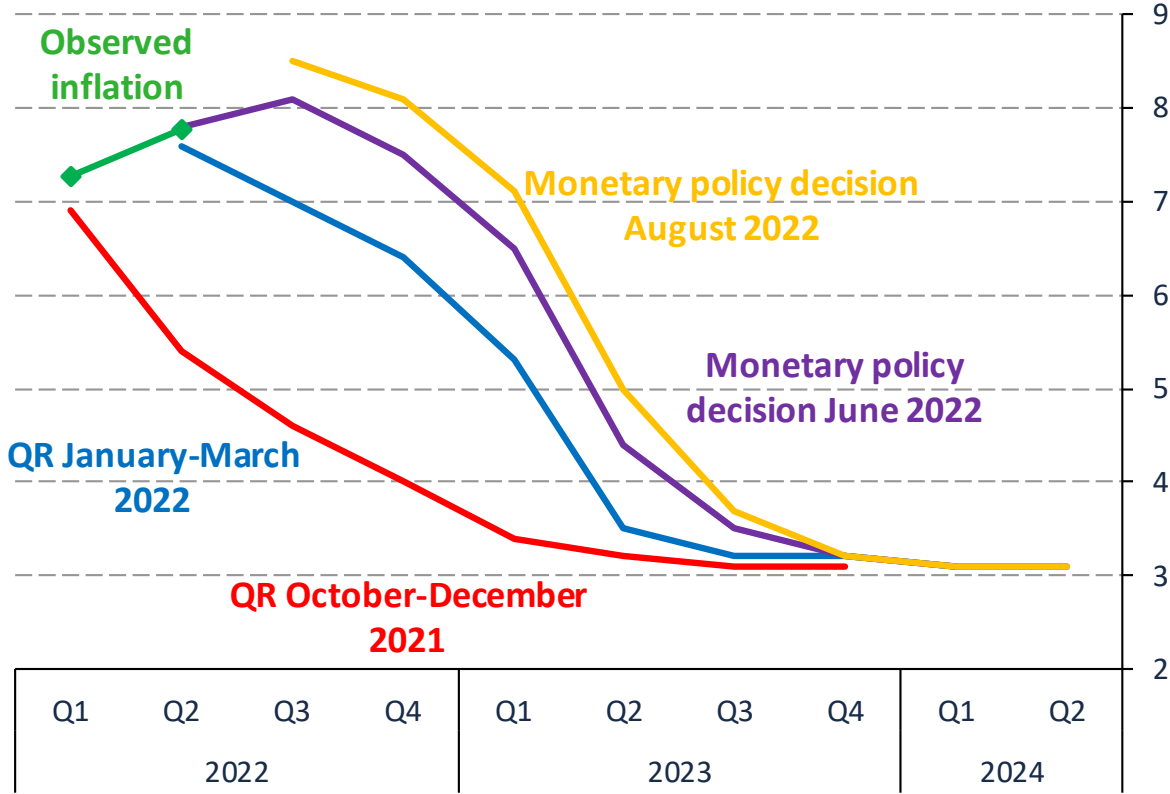


Source: INEGI.

Source: INEGI.

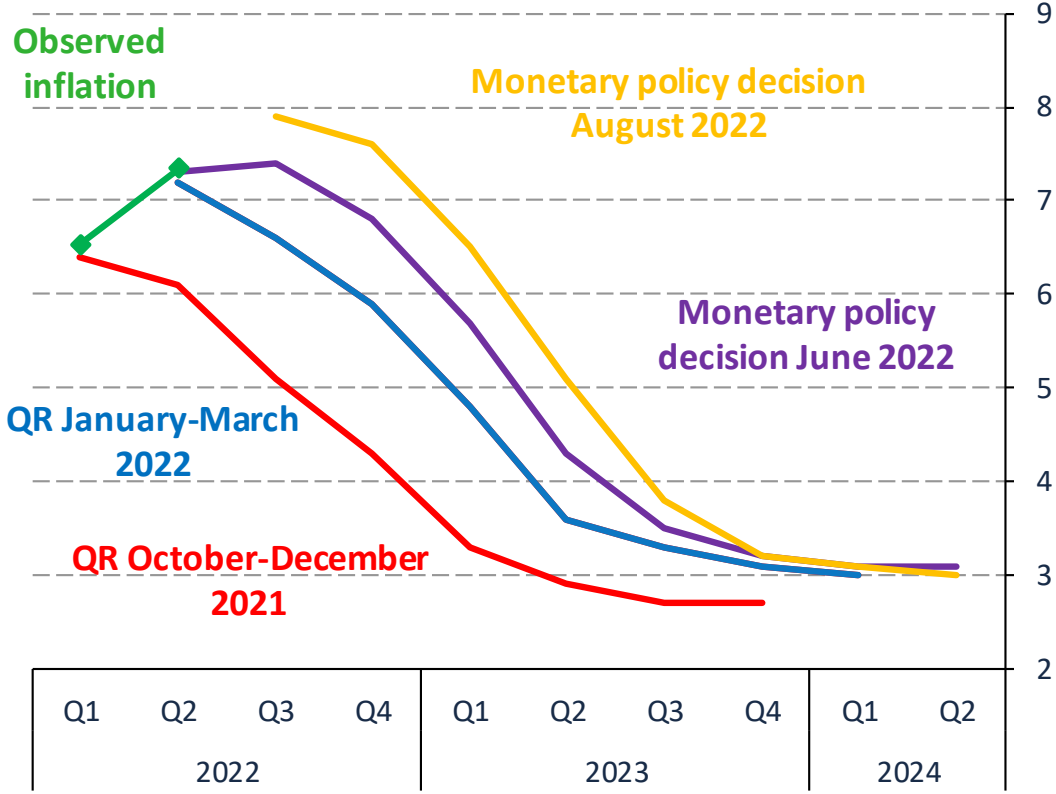
In this complex environment, inflation has continued facing unexpected shocks, attaining levels above those previously estimated. In this juncture, following the previous Quarterly Report, the inflation forecast was revised upwards in the Monetary Policy Statements of June 23 and August 11.

**Headline Inflation Forecasts**  
Annual % change



Note: Observed inflation refers to the average of the quarter.  
Source: Banco de México and INEGI.

**Core Inflation Forecasts**  
Annual % change



Note: Observed inflation refers to the average of the quarter.  
Source: Banco de México and INEGI.

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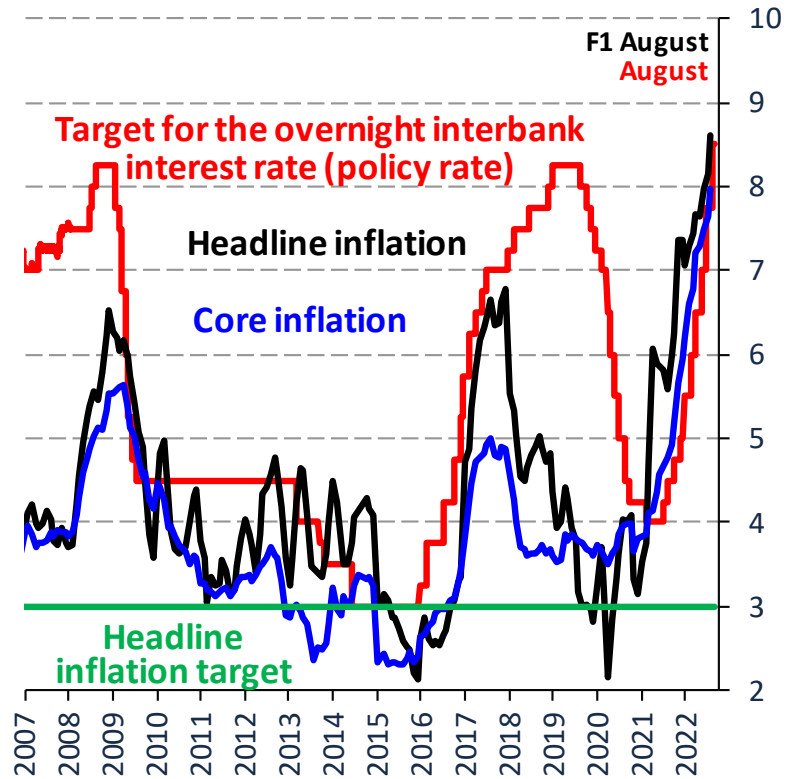
**3 Inflation**

**4 Monetary policy**

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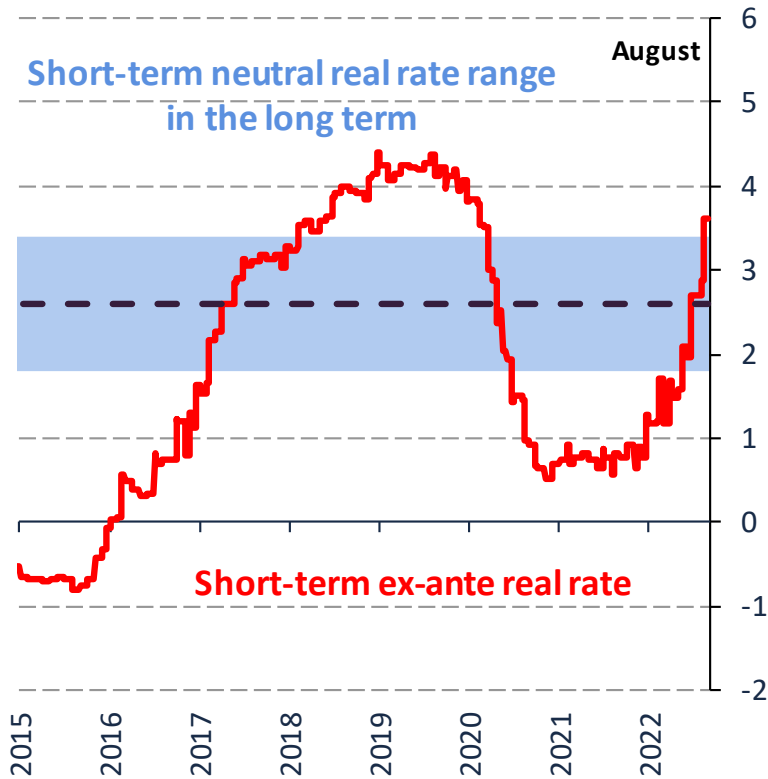
In view of the intensification of inflationary pressures and the greater challenge to control inflation, the Governing Board raised the target for the Overnight Interbank Interest Rate by 75bp in its June and August meetings, up to a level of 8.50%.

Target for the Overnight Interbank Interest Rate, Headline and Core Inflation <sup>1/</sup>  
Annual %

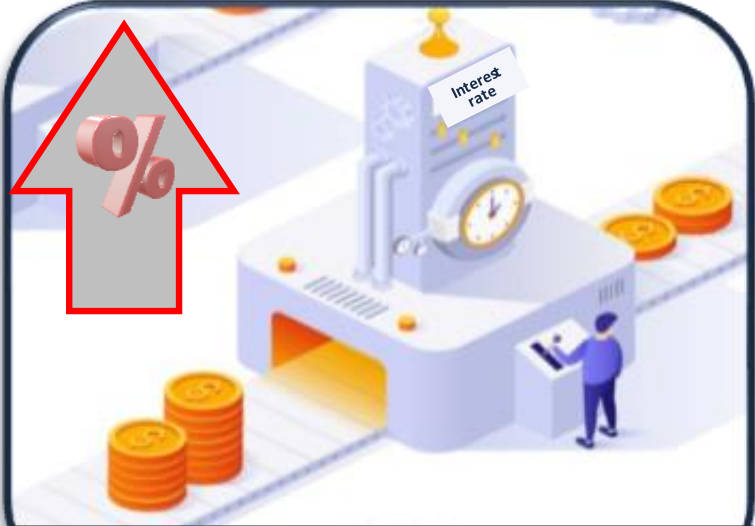


1/ The data shown up to January 20, 2008 corresponds to the Overnight Interbank Interest Rate (policy rate). Source: Banco de México with INEGI data.

Short-term Ex-Ante Real Rate and Estimated Range for the Short-term Neutral Real Rate in the Long Term <sup>2/</sup>  
Annual %



2/ 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 from Banco de México's Survey published on August 1, 2022. The dotted line corresponds to the midpoint of the range for the short-term neutral real rate in the long term, which is now between 1.8 and 3.4%. Source: Banco de México.

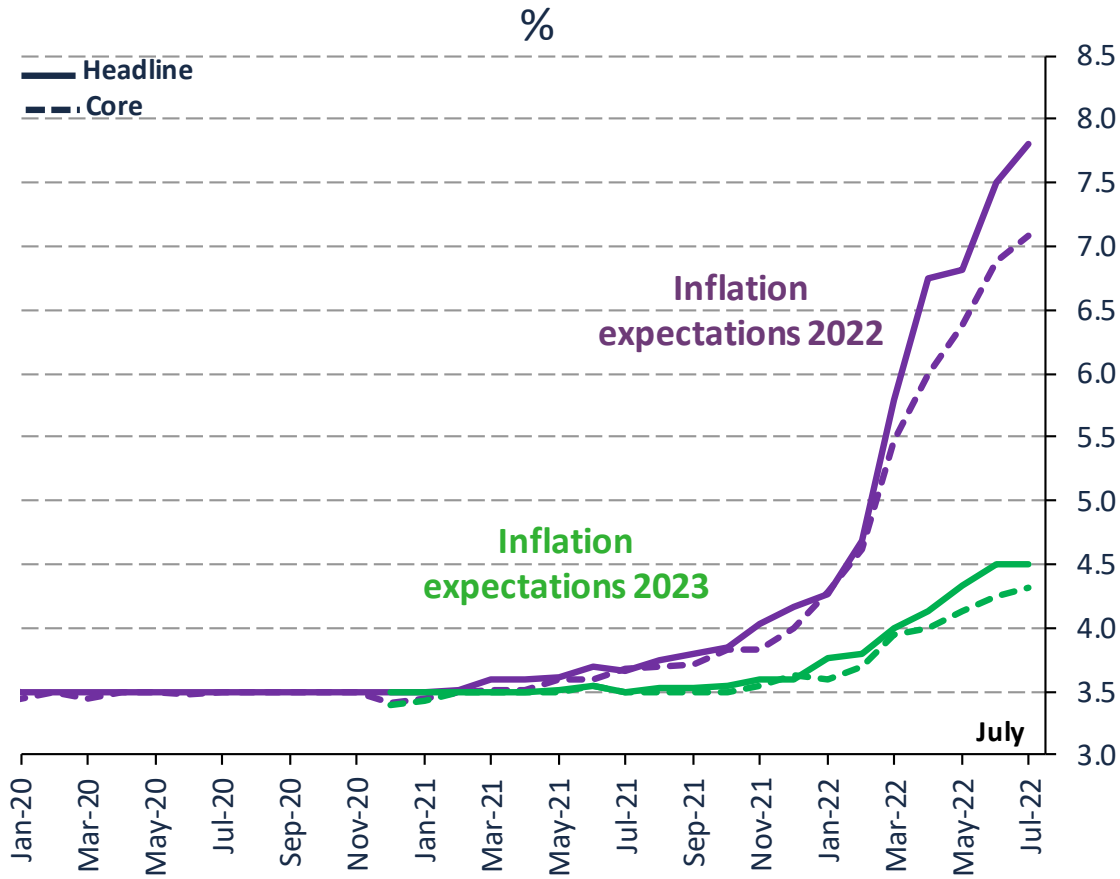


*In its monetary policy decision of August, the Governing Board restated that it will assess the magnitude of the upward adjustments in the reference rate in its next policy decisions based on the prevailing conditions, thus reinforcing Banco de México's commitment to its constitutional mandate.*



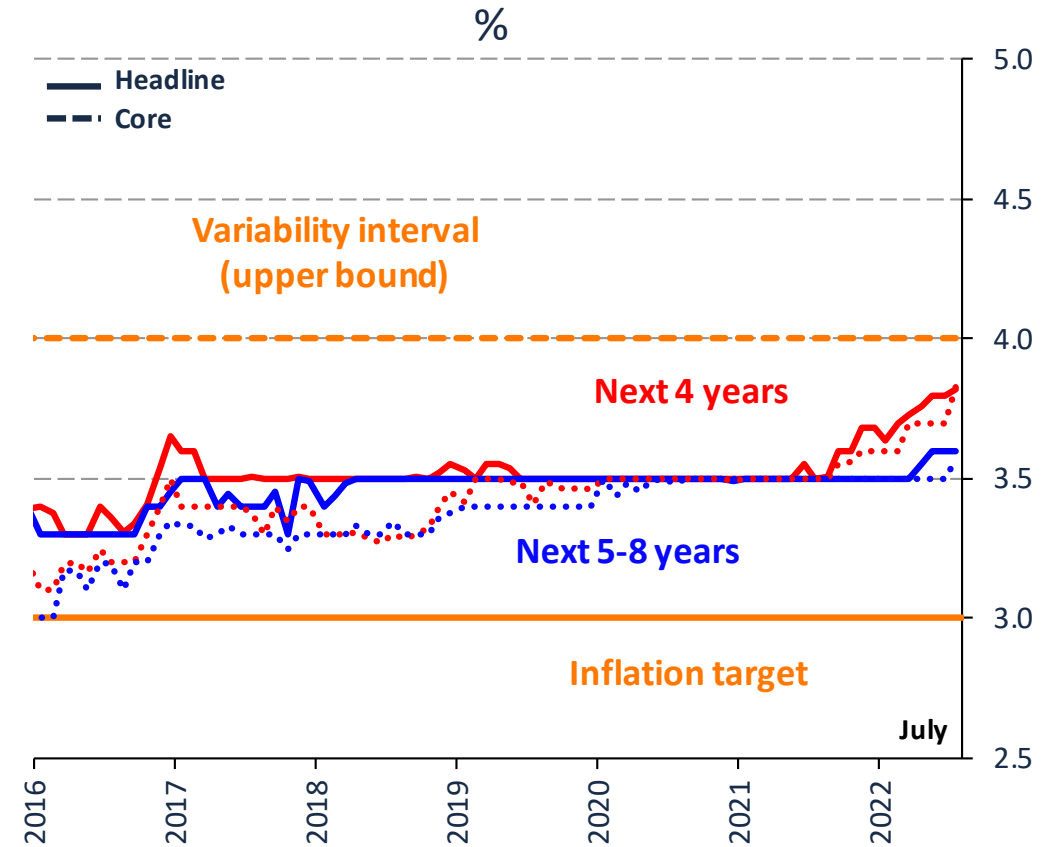
Headline and core inflation expectations for the end of 2022 and 2023 increased between March and July 2022. Medium- and long-term expectations were revised upwards to a lesser degree.

Median of Headline and Core Inflation at the End of 2022 and 2023



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

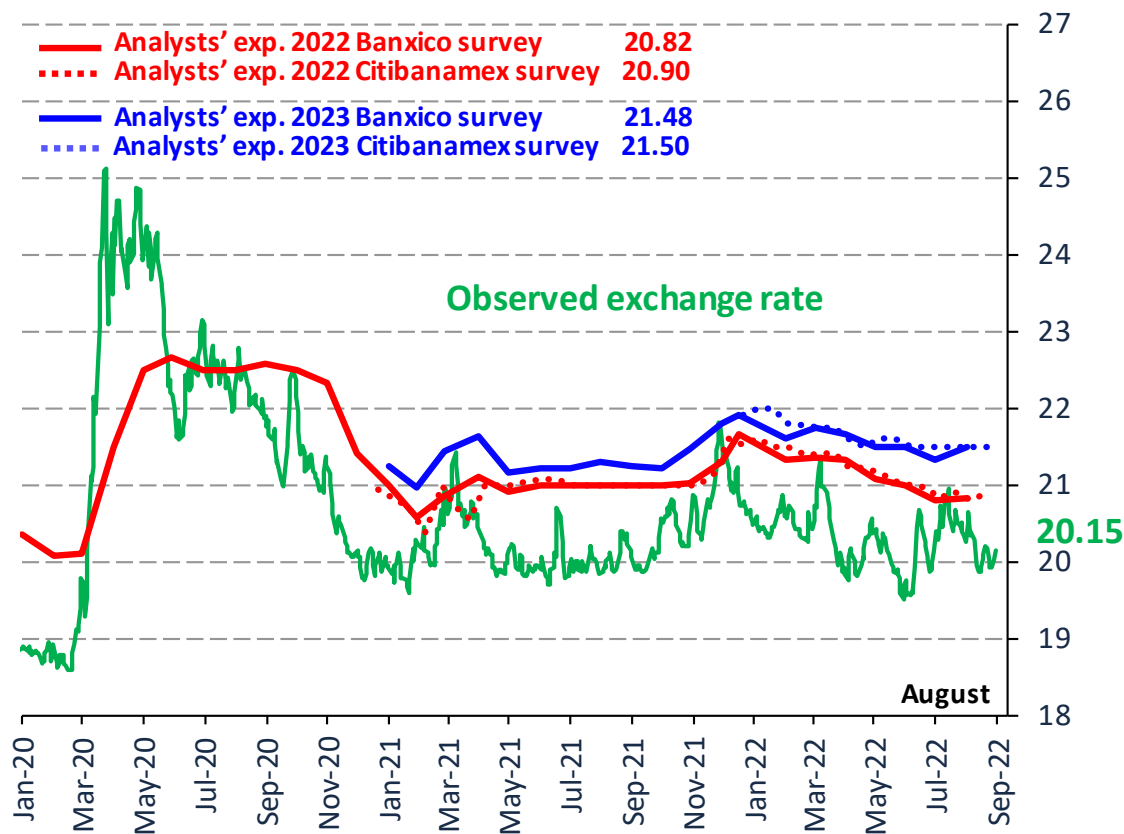
Median of Medium- and Long-term Inflation Expectations



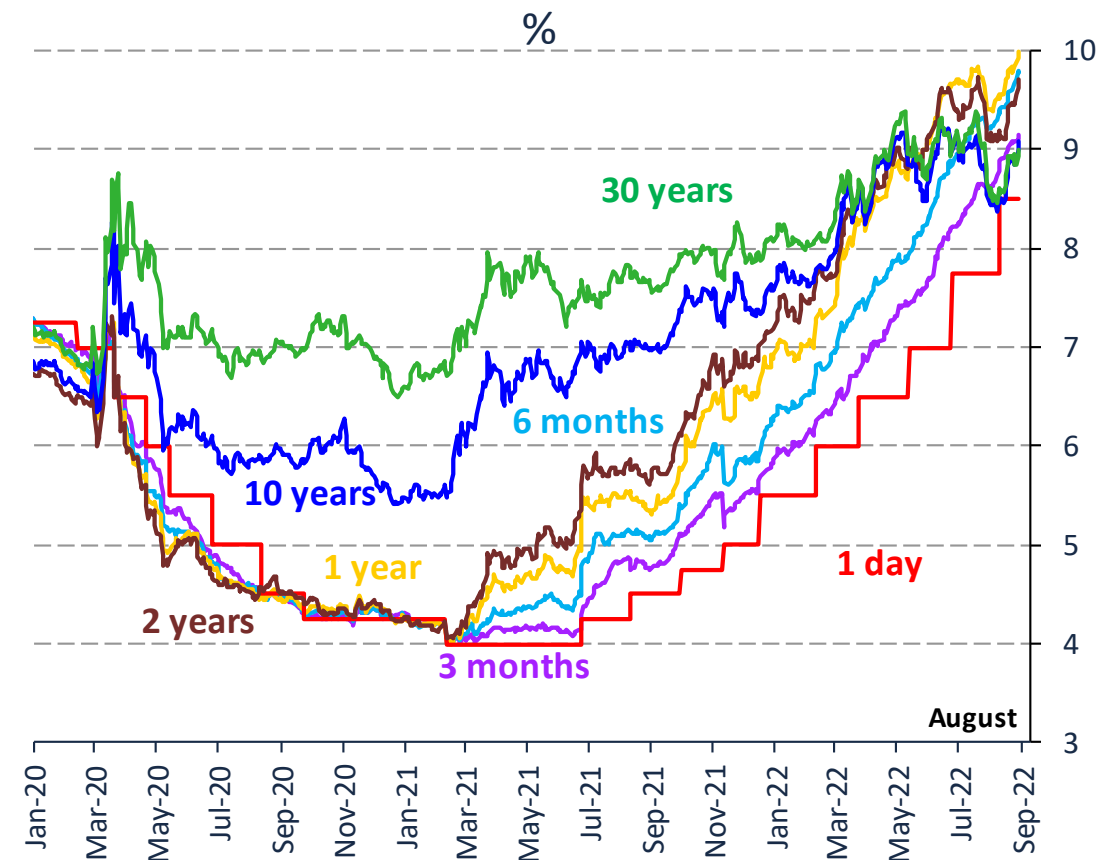
Source: Banco de México's Survey of Private Sector Forecasters.

From the end of March to date, the Mexican peso experienced some episodes of volatility, although it generally performed in a resilient and orderly manner. Interest rates registered generalized increases.

### Nominal Exchange Rate <sup>1/</sup> Pesos per US dollar



### Target for the Overnight Interbank Interest Rate and Government Bond Yields



1/ Observed exchange rate refers to the daily FIX exchange rate. Figures next to analysts' expectations correspond to the medians of Banco de México's survey for July, published on August 1, 2022 and the Citibanamex survey of August 22, 2022.  
Source: Banco de México and Citibanamex.

Source: Proveedor Integral de Precios (PiP).

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# Economic Activity Outlook

Despite the lower dynamism expected for S2-2022, the expectation for 2022 as a whole remains unchanged relative to the previous Report, as a result of a greater-than-anticipated growth of the economy in Q2-2022.

The revised forecast for 2023 reflects a more adverse growth scenario that the Mexican economy is expected to face.

## GDP Growth %

	Report	2022	2023
Current	Lower Limit	1.7	0.8
	<b>Central Scenario</b>	<b>2.2</b>	<b>1.6</b>
	Upper Limit	2.7	2.4
Previous	Lower Limit	1.6	1.4
	<b>Central Scenario</b>	<b>2.2</b>	<b>2.4</b>
	Upper Limit	2.8	3.4

## Increase in Number of IMSS-insured Jobs Thousands

Report	2022	2023
Current	640 a 800	420 a 620
Previous	560 a 760	490 a 690

## Current Account % of GDP

Report	2022	2023
Current	-1.3 a -0.6	-0.8 a 0.0
Previous	-0.5 a 0.2	-0.5 a 0.3

## Risks to Growth

The balance of risks remains significantly biased to the downside

### ON THE DOWNSIDE

- ↓ A lower external demand, particularly from the U.S., to the detriment of economic activity in Mexico.
- ↓ That the impact on trade or the bottlenecks continue or intensify, leading to input shortages and higher production costs.
- ↓ Tighter financial conditions and episodes of volatility in international financial markets.
- ↓ A lower-than-expected recovery of investment spending.
- ↓ That the COVID-19 pandemic continues affecting supply and demand conditions in the global economy.
- ↓ That extreme weather phenomena affect economic activity adversely.

### ON THE UPSIDE

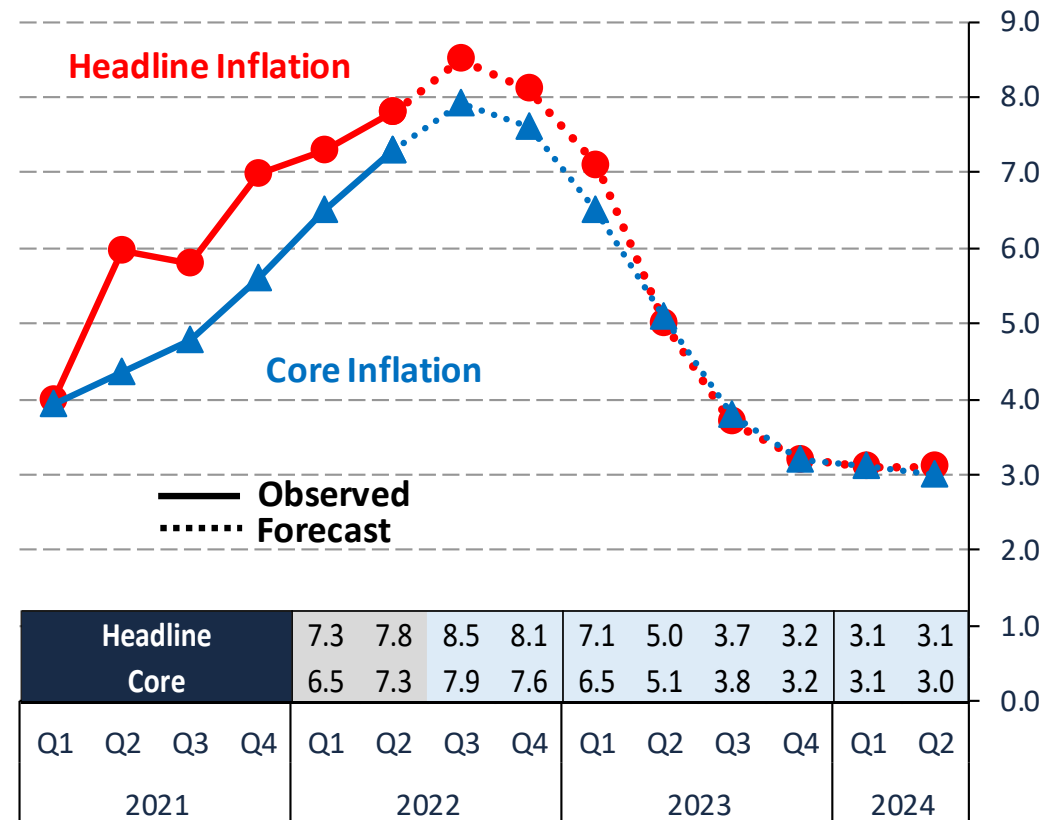
- ↑ That the downward trajectory in the number of COVID-19 infections and the adaptation of the economy to conditions imposed by the pandemic lead to a more vigorous recovery.
- ↑ That, within the USMCA framework, Mexico becomes an attractive destination for investment.
- ↑ That global financial conditions are more conducive to economic growth.

# Inflation Outlook

The inflation trajectory presented in the Monetary Policy Statement of August is maintained.

Following the increase in Q3-2022, both headline and core inflation are expected to decrease throughout the forecast horizon, and to attain levels close to 3% in Q1-2024.

Forecasts for Annual Headline and Core Inflation <sup>1/</sup>  
%



<sup>1/</sup> Quarterly average of annual inflation. Forecast since August 2022. It also corresponds to the forecast published in the Monetary Policy Statement of August 11, 2022. Source: Banco de México and INEGI.



## Risks to Inflation Outlook within the Forecast Horizon

The balance of risks remains significantly biased to the upside

### ON THE UPSIDE

- ↑ Persistence of core inflation at high levels.
- ↑ External inflationary pressures associated with the evolution of the pandemic.
- ↑ Greater inflationary pressures derived from the geopolitical conflict, particularly on food and energy products.
- ↑ Episodes of exchange rate depreciation.
- ↑ Cost-related pressures associated with hiring conditions and wages.

### ON THE DOWNSIDE

- ↓ A greater-than-anticipated deceleration in global economic activity.
- ↓ A reduction in the intensity of the military conflict between Russia and Ukraine.
- ↓ That production and distribution chains resume efficient operations.
- ↓ That, given the slack conditions, neither cost-related pressures or labor contracting conditions exert pressure on prices.
- ↓ That the measures implemented by the Policy Program to Fight Inflation and High Prices (PACIC) have a greater-than-anticipated effect.

# Final Remarks

- The uncertainty surrounding the evolution of the **pandemic**, the consequences of the **military conflict** in Eastern Europe, the current **economic environment** in the **United States**, and the **high inflation levels** worldwide have contributed to **deteriorate** the **global economic growth** outlook.
- In the face of this challenge, and to support the **resilience of the Mexican economy**, it is essential to maintain **solid macroeconomic fundamentals**, including a **sound and resilient financial system**, as well as a **monetary policy** focused on attaining **price stability**.
- In this regard, **Banco de México's Governing Board** sets its **monetary policy** with the aim of promoting an **orderly adjustment of relative prices**, of the **financial markets** and of the **economy** overall, leading to the **convergence of inflation to its 3% target**.

# Annex – Boxes

**1** Recent Evolution of Capital Flows to Mexico and Other Emerging Economies

**2** Droughts in Mexico and their Potential Impact on Economic Activity

**3** Recent Evolution of Nominal Wages of IMSS-insured Workers

**4** Trade Credit during the Pandemic

**5** The Differentiated Increase in the Cost of the Consumption Basket of Mexican Households

**6** Pass-through of Mexico's Reference Rate on Interest Rates at Different Maturities

**7** Recent Revisions to the Credit Rating and Outlook of Mexico and Pemex

## Annex – Release Dates of Monetary Policy Statements, Minutes of the Governing Board regarding Monetary Policy Decisions, Quarterly Reports and Financial Stability Reports

	Monetary Policy Statements <sup>1/</sup>	Minutes of the Governing Board Meetings regarding Monetary Policy Decisions <sup>2/</sup>	Quarterly Reports <sup>3/</sup>	Financial Stability Reports
January		5 <sup>4/</sup>		
February	9	23		
March	30		1	
April		13		
May	18		31	
June	22	1		14
July		6		
August	10	24	30	
September	28			
October		12		
November	9	23	29	
December	14 <sup>5/</sup>			6

1/The calendar considers eight dates for monetary policy statements' announcement in 2023. However, just as in previous years, Banco de México reserves the right to modify the monetary policy stance on dates different from the preestablished ones, should there be extraordinary events that call for the central bank's intervention. The monetary policy statements will continue to be released on Thursdays at 13:00, just as in 2022. 2/ The corresponding Minutes of the Governing Board monetary policy meetings will be published on Thursdays, two weeks after each monetary policy statement is released. 3/ The Quarterly Report to be published on March 1 corresponds to the fourth quarter of 2022; the one released on May 31, to the first quarter of 2023; the one published on August 30, to the second quarter of 2023; and that of November 29, to the third quarter of 2023. 4/ The corresponding Minutes of the Governing Board Meeting of December 2022 will be published on January 5, 2023. 5/ The Minutes of the Governing Board Meeting of December 2023 will be published on Thursday, January 4, 2024.



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