



BanxicoWatch

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Banxico: decline in activity slows down and monetary pause is extended. The overnight rate is kept at 4.50% and all options are left open

- **Global economic background: better outlook.** Based on recent data and in line with past statements, the feeling that the recession has touched bottom in industrialized countries is confirmed. However, the weakness of the labor market in the United States is an important factor that is affecting the strength of global economic recovery. In emerging economies, especially Asian economies, recovery, driven by strong internal demand and an upturn in international trade, seems to be imminent.
- **Mexico economic background: fall in industrial activity slowed in 3Q09.** Banxico reasserts the severity of economic decline in Mexico during 1H09 given its heavy dependency on the foreign climate and the US economy, as well as its high concentration in export sectors that have been hit particularly hard by this crisis. The expectation that 2H09 will see better results is also confirmed. However, it is highlighted that, in spite of the recent upturn in the automobile sector, recovery in employment and comprehensive wages will be slow and will depend heavily on the performance of the world economy.
- **Inflation scenario: without changes.** Regarding inflation, the monetary authorities confirmed that this has maintained its downward trend in light of the fall in the merchandise sub-index, since May, and the fall in the services sub-index since several months back. Expectations of inflation at around 4% by the end of the year are also asserted.
- **The Board of Governors decided to extend the monetary pause announced in the last statement. In our opinion this is a very prudent stance, by keeping room for maneuver for when new information comes in.** It stated that any future monetary policy action will be subject to the development of the risk balance based on the economy and the inflation rate with regard to the 3% target for the end of 2010.
- **We think that the balance of risks will continue to be biased towards lower inflation, allowing the monetary pause to at least be held for a longer period of time than discounted by markets** in accordance with the rigid downtrend in long-term rates. At the next meeting (18 September), Banxico will keep the bank lending rate at 4.5%. Thereafter, the option of a further cut is still open.