

Banxico Flash

Mexico

Banxico's Inflation Report does not change our perspective of a monetary easing next December 2nd

Banxico's Inflation Report November 9th, 2011

- **Economic Activity.** Banxico cut in 0.3 and 0.5pp its 2011 and 2012 economic growth forecasts, respectively. That is, it forecast a GDP growth between 3.5 and 4% in 2011 and between 3 and 4% in 2012. The US economic slowdown is stressed as the main factor behind the forecasts cut. Thus, Banxico expects the output gap will close at a lower pace and therefore a lack of demand pressures on prices during 2012.
- **Inflation.** Banxico did marginal changes on its forecast and kept stressing that inflation is constrained by the slack in the economy, in particular in the labor market. In addition, underlined the reduction of exchange rate pass-through and the reduction of inflationary pressures from commodity markets
- **Risks.** On the activity side, the fiscal situation on some European countries and the structural weaknesses of the US economy could reduce external demand. Also a long tail event in the financial markets that affects economic activity negatively isn't ruled out at this point. On the inflation front, in the short term an additional supply shock in commodities markets that affects the prices of grains, or a depreciation of the peso that alters the price formation process are the upwards risks.
- **Assesment.** There are no big changes in the tone with respect to the last policy statement or the corresponding minutes, Banxico reduces it's growth forecasts for 2011 and 2012 and establishes a negative bias in case of additional deterioration of the world economy. This report supports our perspective of a reduction in the policy rate next December, as long as the exchange rate and its volatility allow it.

Table 1

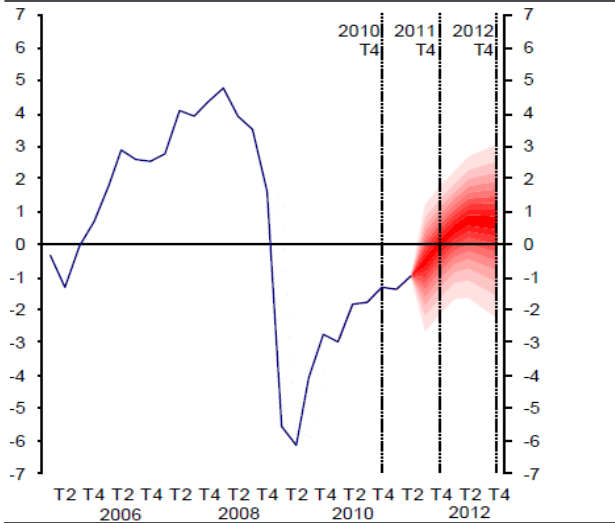
Banxico's Macroeconomic Scenario

	1Q2011 Report		2Q2011 Report		3Q2011 Report	
	2011	2012	2011	2012	2011	2012
Growth US (annual %)*	2.7	3.2	1.8	2.5	1.8	2.1
Growth Mexico (annual %)	(4.0-5.0)	(3.8-4.8)	(3.8-4.8)	(3.5-4.5)	(3.5-4.0)	(3.0-4.0)
Employment (thousands of workers at IMSS)	(600-700)	(600-700)	(575-675)	(575-675)	(560-620)	(500-600)
Current Account (% of GDP)	1		1.1		1.0	1.4
Memorandum growth forecast by BBVA Research GDP (annual %)	4.7	3.8	4.1	3.8	3.8	3.3

*Consensus of Blue Chip survey

Source: BBVA Research & Banxico

Graph 1

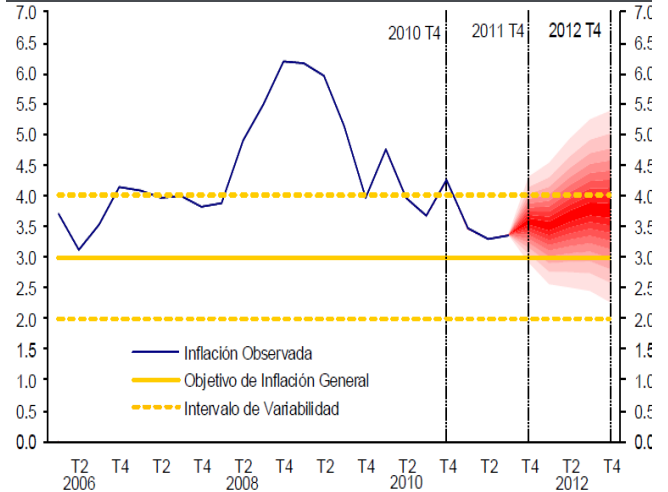
Fan Chart: Output Gap

Source: Banxico

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Graph 2

Fan Chart: CPI Inflation Forecast

Source: Banxico

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