

# Mexico Banxico Flash

## Banxico maintains its forecasts unchanged as well as its neutral tone

Banxico's Inflation Report April-June, 2012

- **Economic Activity.** Banxico kept unchanged its forecasts of GDP growth for 2012 and 2013. The estimation range for 2012 stays between 3.25% and 4.25%, while in 2013 the forecast range remains between 3.0% and 4.0%. During the press conference to present the inflation report it was stressed the importance of the domestic demand as a relevant factor to explain the current economic growth given the slowdown of global demand. In addition, the central bank pointed out that the output gap has already closed, however, at the moment, there are no signals of demand side pressure on prices. The latter given that economic slack remains.
- **Inflation:** The report stresses that the recent acceleration of inflation is due mostly to the non core component, which has been affected by increases in agricultural prices, the avian flu outbreak in Jalisco, and the higher prices of grains and energy in the world. It was pointed out that the slight increase in core inflation was mostly due to higher services prices but that they remain well below 3% (2.5% y/y in July); and more recently to a new acceleration of merchandise prices in response to higher grain prices and the peso depreciation. It was highlighted that this external shocks will be transitory and within the report, evidence was provided that they haven't caused second round effects. It was reiterated that economic slack prevails and that aggregate demand hasn't expanded strongly enough to pressure prices upwards. Therefore despite inflation will be higher than 4% in the 3Q12 it will be able to end the year below that threshold and that it will maintain between 3% and 4% during-2013.
- **Risks:** Regarding economic activity, the downward risks are concentrated in the reduction of US growth, biased by the uncertainty of its fiscal adjustment; and in an increase of financial volatility stemming from the fiscal crisis in Europe and its possible contagion to US financial system. As for inflation upward risks to inflation are related to new supply shocks in local agricultural and livestock markets, new increases in energy and grain prices and a new peso depreciation. Downwards risks are the possibility of lower than expected economic activity in the world and the continuation of the recent peso appreciation.
- **Assesment:** Banxico maintains its neutral considering that the recent spike in inflation will be short lived and given that the medium term downside risks on domestic economic activity remain. In general, BBVA Research's economic scenario is in line with Banxico's, therefore we consider that this report continues supporting our perspective of monetary pause in the remainder of 2012.

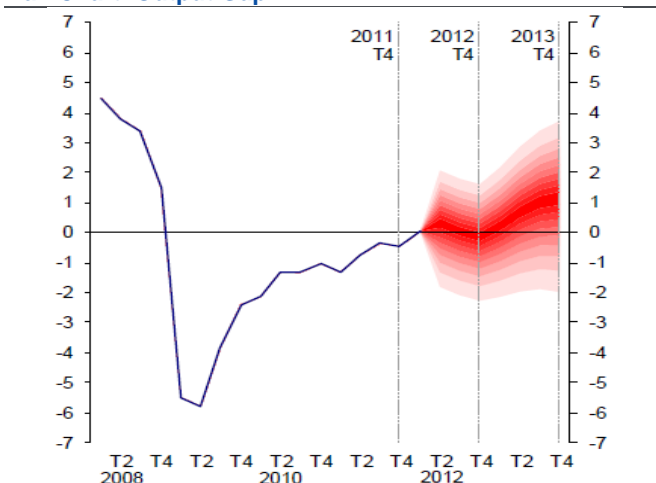
Table 1

**Banxico's Macroeconomic Scenario**

	3Q11 Report	4Q11 Report	1Q12 Report		2Q12 Report	
	2012	2012	2012	2013	2012	2013
Growth US (annual %)*	2.1	2.2	2.3	2.5	2.2	2.1
Growth Mexico (annual %)	(3.0-4.0)	(3.0-4.0)	(3.25-4.25)	(3.0-4.0)	(3.25-4.25)	(3.0-4.0)
Employment (thousands of workers at IMSS)	(500-600)	(500-600)	(540-640)	(500-600)	(540-640)	(500-600)
Current Account (% of GDP)	1.4	1.2	1.0	1.3	0.9	1.4
Memorandum growth forecast by BBVA Research GDP (annual %)	3.3	3.3	3.7	3.0	3.7	3.0
*Consensus of Blue Chip survey						

Source: BBVA Research &amp; Banxico

Graph 1

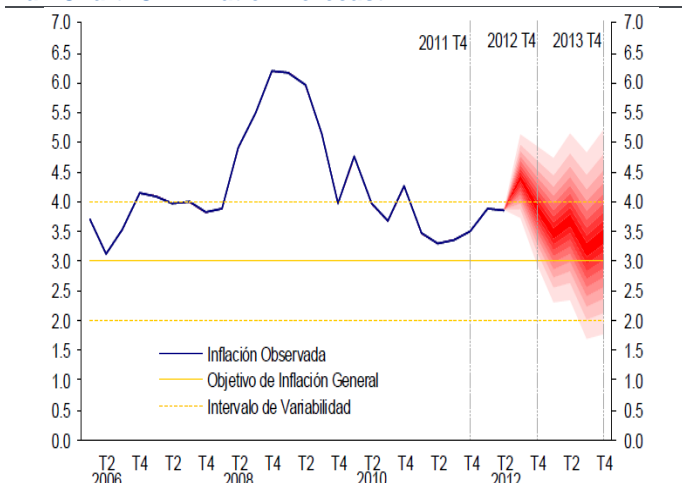
**Fan Chart: Output Gap**

Source: Banxico

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Graph 2

**Fan Chart: CPI Inflation Forecast**

Source: Banxico

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