

# Mexico Banxico Flash

Banxico maintains a hawkish tone. An inflation fall in the coming months, the key issue.

Banxico's Inflation Report July-September, 2012

- Economic Activity.** Banxico tightened its forecast interval for GDP growth for 2012 and kept unchanged its forecasts for 2013. The estimation range for 2012 changed from 3.25%-4.25% to 3.50%-4.00%, while in 2013 the forecast range remains between 3.0% and 4.0%. Banxico stressed that the fact that the output gap has closed reduces the room to offset the effects of supply shocks. In addition, it will be worth to overlook wages, given its recent slight increase. Although this increases are restricted to the public sector.
- Inflation.** The report points out that inflation reached its maximum in September and estimates that at year's end it will be around 4.0%. The latter based on an adjustment perspective of the agricultural production affected by the bird flu, an exchange rate appreciation and the slowdown of the global growth, that would reduce commodity prices.
- Monetary policy.** It was underlined that if supply shocks remain and the downwards trend of core and general inflation are not confirmed, a rate hike would proceed.
- Risks.** On the inflationary side the upward risks are a possible hike of public tariffs, the return of financial volatility and the fact that after several months of inflation above 4.0% the possibilities of a generalized price increase have risen. Regarding economic activity, risks are biased downwards as a result of the slowdown of the world economy and the financial volatility stemming from the European crisis.
- Assessment:** Banxico conditions its monetary stance to a downwards inflation trend. Given the lack of evidence of second round effects and our perspective that inflation falls below 4.0% in the first half of 2013, we consider that the monetary pause will remain in the coming months.

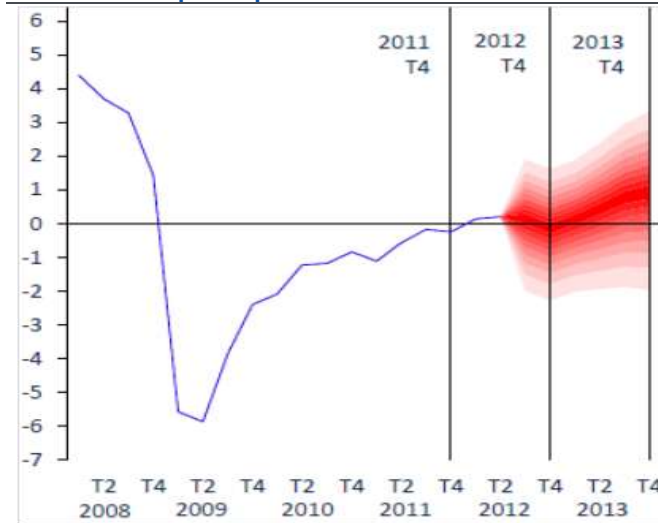
Table 1

Banxico's Macroeconomic Scenario

	1Q12 Report		2Q12 Report		3Q12 Report	
	2012	2013	2012	2013	2012	2013
Growth US (annual %)*	2.3	2.5	2.2	2.1	2.1	2.0
Growth Mexico (annual %)	(3.25-4.25)	(3.0-4.0)	(3.25-4.25)	(3.0-4.0)	(3.5-4.0)	(3.0-4.0)
Employment (thousands of workers at IMSS)	(540-640)	(500-600)	(540-640)	(500-600)	(600-700)	(500-600)
Current Account (% of GDP)	1.0	1.3	0.9	1.4	0.4	1.6
<b>Memorandum:</b>						
BBVA Research GDP forecast (annual %)	3.7	3.0	3.7	3.0	3.7	3.0
*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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