

Banxico Flash

Despite supply shocks and recent moderation of economic activity, Banxico keeps unchanged its inflation and economic growth forecasts

Banxico's Inflation Report January-March 2013

- **Economic Activity.** Banxico kept unchanged its GDP forecasts for 2013. The estimation range stayed between 3.0 and 4.0%, based on a GDP growth in the first quarter of 0.5%. For 2014 the forecast range was situated between 3.2% and 4.2%. At a press conference, in a less pessimistic tone than the previous inflation report, the governor emphasized that the origin of the recent weakness in the domestic activity figures lies in the deceleration of the external demand. However, he stressed that, at the moment, the recent moderation is not enough to change the GDP growth forecasts.
- **Inflation.** Regarding inflation the recent spike in inflation was explained, emphasizing that it was caused purely by supply shocks within agricultural and livestock markets and by a recent increases in the prices of public transportation, and that so far this shocks have not caused second round effects, a fact demonstrated by a core inflation around 3% y/y. It was put forward that inflation will begin falling consistently in June, and that it will end 2013 within 3% and 4% and that around the second half of 2014 it could even reach levels close to 3%. In general the trajectory of Banxico's forecast is consistent with our view, as we also incorporate that supply shocks are the drivers of the last inflation spikes, and that persistent economic slack will remain the main factor that will keep core inflation bounded in coming quarters.
- **Monetary policy.** At a press conference about the presentation of the report, Banxico's governor pointed out that the relaxed monetary policy stance in developed countries is one of several factors the Board take into account when making the monetary policy decisions.
- **Assessment:** As inflation and economic activity expectations remain we consider that, at the moment, a monetary pause is still consistent with the current environment. However, if economic activity impairs and inflation is below 4% the probabilities of a rate cut increase.

Table 1

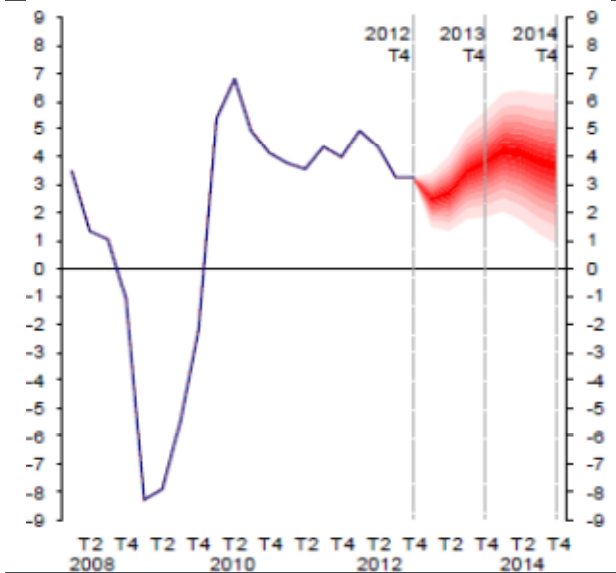
Banxico's Macroeconomic Scenario

	3Q12 Report		4Q12 Report		1Q13 Report	
	2012	2013	2013	2014	2013	2014
Growth US (annual %)*	2.1	2	1.9	2.8	2.1	2.7
Growth Mexico (annual %)	(3.5-4.0)	(3.0-4.0)	(3.0-4.0)	(3.2-4.2)	(3.0-4.0)	(3.2-4.2)
Employment (thousands of workers at IMSS)	(600-700)	(500-600)	(550-650)	(700-800)	(550-650)	(700-800)
Current Account (% of GDP)	0.4	1.6	1.3	1.7	1.3	1.4
Memorandum:						
BBVA Research GDP forecast (annual %)	3.7	3.0	3.1	3.1	3.1	3.1
*Consensus of Blue Chip survey						

Source: BBVA Research & Banxico

Graph 1

Fan Chart: GDP growth (% y/y)



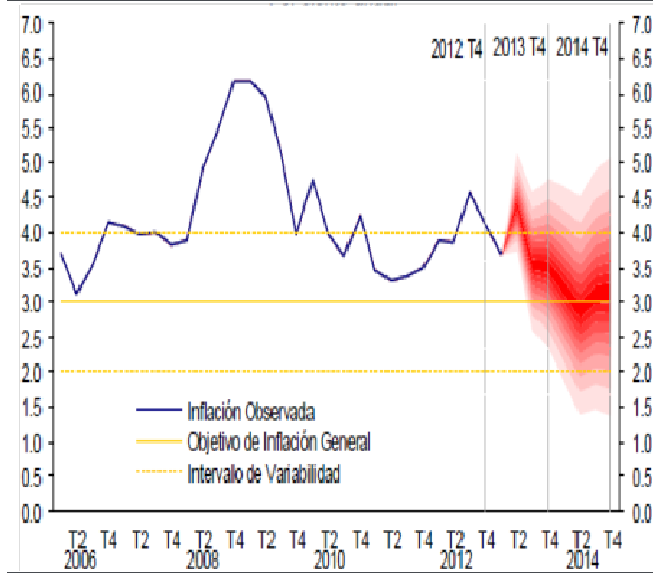
Source: Banxico

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Graph 2

Fan Chart: CPI Inflation Forecast



Source: Banxico

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