

Mexico Inflation Flash

The inflation outlook remains benign

Headline: actual: -0.32% MoM (BBVAe: -0.30%; consensus: -0.36%)

Core: actual: 0.09% MoM (BBVAe: 0.06%; consensus: 0.06%)

- **Headline inflation increased broadly in line with our forecast while core inflation surprised slightly to the upside**
- **What next? The annual inflation rate can be expected to rise gradually towards levels slightly above 4.0% in following months before decreasing towards 3.7% at the end of the year**

Headline inflation decreased 0.32% MoM in May. This print was broadly in line with our above-consensus forecast and slightly above market expectations (BBVAe: -0.30%; consensus: -0.36%). In annual terms, headline inflation inched up to 3.51% from 3.50% in April. Core inflation increased 0.09% MoM in May, above market expectations (BBVAe and consensus: 0.06%). The surprise came from the core goods which increased 0.28% MoM in May (BBVAe: 0.18%). In annual terms, core inflation decreased to 3.0% from 3.11% in April, confirming the absence of demand-side pressures.

The decline in non-core inflation, pushed down by the seasonal reduction in electricity tariffs, was broadly in line with our forecast. Meat and eggs prices accelerated as we expected, offsetting part of the decline. Non-core inflation decreased 1.64% MoM in May (BBVAe: -1.50%; consensus:-1.75%). The deceleration was mainly driven by the seasonal reduction in electricity tariffs. Energy and regulated prices declined 3.06% MoM (BBVAe: -2.84%) pushed down by a 4.94% MoM reduction in energy prices (BBVAe: -4.85%) due to the seasonal reduction in electricity tariffs (-22.7% MoM). The more volatile prices -non-core food prices- increased 0.79% MoM. This print was broadly in line with our forecast (BBVAe: 0.66%). Fruit and vegetable prices decreased 3.68% MoM (BBVAe: -3.13%) while meat and eggs prices increased 3.22% (BBVAe: 3.40%). We expect meat and eggs prices to remain pressured in June.

Core inflation surprised slightly on the upside, driven by the core goods component. We were expecting a slightly lower core inflation print on the back of the seasonal reduction in tourist services and airfares after the Easter holidays and a mild increase in core goods prices. However, core inflation increased 0.09% MoM in May, above market expectations (BBVAe and consensus: 0.06%) mainly pushed up by the core goods prices which increased 0.28% MoM (BBVAe: 0.18%). Pressures mainly came from core food prices which increased 0.47% MoM (BBVAe: 0.37%). Services declined 0.06% MoM (BBVAe: -0.04%). In annual terms, core inflation decreased to 3.0% from 3.11% in April, confirming the absence of demand-side pressures. We continue to expect the annual rate to stand close to 3.0% in June before increasing somewhat from July onwards (BBVAe: 3.16% on average in H2 2014), if as expected the economy strengthens.

Bottom line: Because of base effects, we expect annual headline inflation to start to rise gradually in June (to 3.8-3.9%) and to run slightly above 4.0% from July to October, before decreasing towards 3.7% at the end of the year. Core inflation should remain under control the rest of the year but is likely to accelerate slightly in H2 2014 if as expected the economy strengthens.

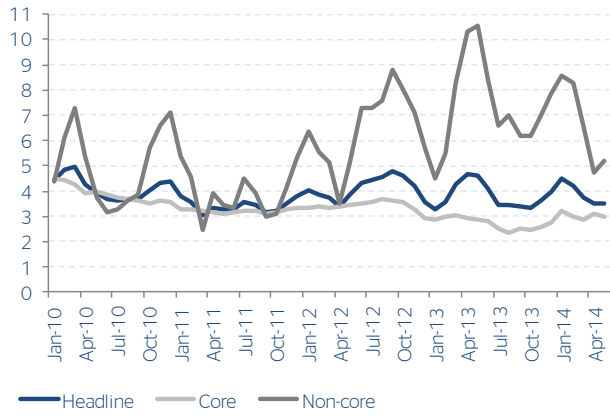
Table 1

Inflation (MoM and YoY % change)

	Inflation				
	MoM % change			YoY % change	
	May-14	BBVAe	consensus	May-14	Apr-14
CPI	-0.32	-0.30	-0.36	3.51	3.50
Core	0.09	0.06	0.06	3.00	3.11
Non Core	-1.64	-1.49	-1.75	5.19	4.75

Chart 1

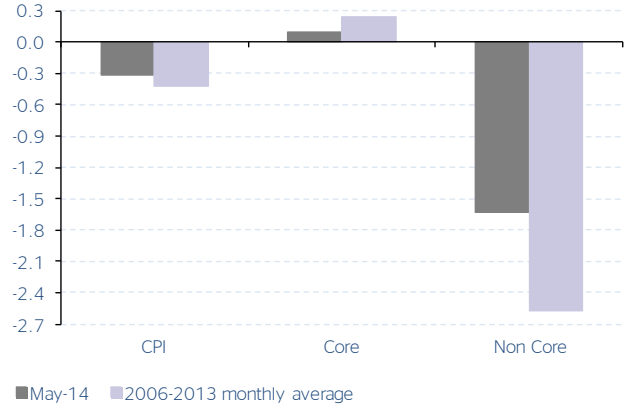
Inflation and components (YoY % change)



Source: BBVA Research, INEGI

Chart 2

Inflation and components (MoM % change)



Source: BBVA Research, INEGI

Javier Amador
javier.amadord@bbva.com



Avenida Universidad 1200, Colonia Xoco, México DF, CP 03339 | www.bbvarresearch.com

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.