

Economic Analysis

Subdued inflation outlook

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Headline: actual: -0.26% FoF (BBVAe: -0.22%; consensus: -0.24%)**Core: actual: 0.16% FoF (BBVAe: 0.14%; consensus: 0.14%)**

- **Today's print supports our subdued inflation outlook and our year-end forecasts of 2.8% for headline inflation and 2.7% for core inflation**

Headline inflation decreased 0.26% m/m in April, broadly in line with expectations (BBVAe: -0.22%, consensus -0.24%). In annual terms, inflation edged down to 3.06% from 3.14% in March. The small surprise to our forecast came mainly from a lower than expected increase in meat and egg prices. Core inflation was 0.16% m/m, almost in line with consensus expectations (BBVAe: 0.14%, consensus: 0.14%). In annual terms, core inflation decreased to 2.31% from 2.45% in the previous month. Today's print supports our subdued inflation outlook and our year-end forecasts of 2.8% for headline inflation and 2.7% for core inflation. We continue to believe that our forecasts leave room to absorb possible pass-through and supply-shocks' related pressures in coming months. Notably, if our forecasts of headline inflation for May and June are close to be correct (-0.33% and 0.18% MoM, respectively), cumulative inflation to June will be close to 0.0% (0.10%), by far the record low.

The subdued core inflation increase was mainly led by low services prices. The core inflation print was mainly driven by a low increase in services inflation (0.05% MoM), which however was slightly higher than we anticipated (BBVAe: 0.01%). Annual services inflation stands at 2.0%, reflecting the reduction in telecommunication services at the beginning of the year but also the soft demand. Meanwhile, core goods inflation increased broadly in line with our expectation (0.28% MoM, BBVAe: 0.30%). FX pass-through has remained modest and is behind the acceleration in other core goods inflation to 2.45% in April from 1.66% in January. Core inflation will likely remain well below 3.0% for the rest of the year but is also likely to gradually increase throughout the year as economic growth firms up.

The drop in vegetable prices and the seasonal adjustment of electricity tariffs are behind the low non-core inflation print. Non-core inflation was -1.51% MoM (BBVAe: -1.41%), pushed down by a 14.1% MoM decrease of electricity tariffs as a result of the start of warm season tariffs in 15 cities. After surging in March, gasoline prices at the border must have fallen to explain the 0.48% MoM drop in average low-octane gasoline prices. Pressures on poultry prices and beef prices (2.4% and 0.5% MoM, respectively) were partially offset by declines in pork (-2.1% MoM) and egg prices (-0.5% MoM).

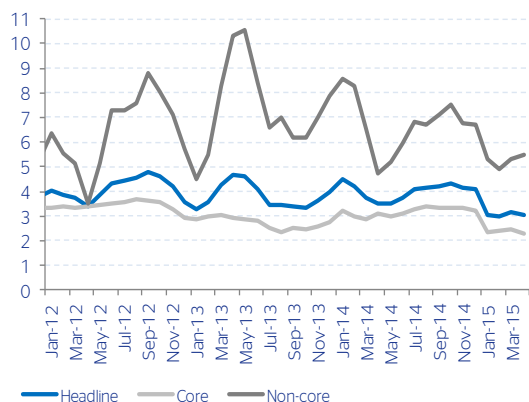
Bottom line: Today's print supports our view that annual inflation is likely to remain close to Banxico's target (3.0%) throughout 2015, and seems to confirm that core inflation will remain subdued despite the weak peso in a context of weak domestic demand.

Table 1
Inflation (MoM and YoY % change)

Inflation					
	MoM % change			YoY % change	
	Apr-15	BBVAe	consensus	Apr-15	Mar-15
Headline	-0.26	-0.22	-0.24	3.06	3.14
Core	0.16	0.14	0.14	2.31	2.45
Non Core	-1.51	-1.41	-1.49	5.46	5.29

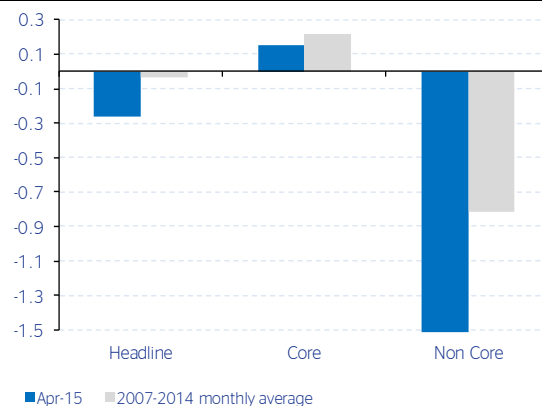
Source: BBVA Research, INEGI

Graph 1
Inflation and components (YoY % change)



Source: BBVA Research, INEGI

Graph 2
Inflation and components (MoM % change)



Source: BBVA Research, INEGI

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