

# Mexico Inflation Flash

## April's biweekly CPI: Headline Inflation Soars Driven by Persistent Supply Shocks, While Core Remains Near 3%.

General: Actual: -0.09% f/f vs. BBVA: -0.12% f/f Consensus: -0.09% f/f

Core: Actual: 0.05% m/m, vs. BBVA: 0.05% f/f Consensus: 0.09% f/f

- Annual inflation keeps accelerating as supply shocks affecting its non-core component, such as the disruptions in poultry and some fruit markets persist. Additionally during April's first half increases in the prices of urban transport also contributed
- Core inflation remains at 3.0%, as the merchandise inflation keeps falling, offsetting increases in services prices
- In the short term the inflation remains vulnerable to supply shocks within its non-core component, which could difficult inflation convergence below 4% in coming months. However if production in these markets normalizes soon, favorable fundamentals such as a stronger peso, lower commodity prices globally and the ample availability of resources within the economy should prevail, allowing inflation decrease in coming months, and ending the year around 3.8% y/y

April's biweekly inflation fell -0.09% f/f, in line with our forecast (-0.12% f/f) and the market consensus (-0.09% f/f), however it is noteworthy to clarify that very few market participants besides BBVA Research came close to the actual outcome, this is evident given the high standard deviation of the consensus forecast of 0.15%. Annually it rose from 4.25% y/y in March to 4.72% y/y. Core inflation increased 0.05% m/m in line with our estimate and slightly below the market consensus (0.08 f/f), remaining stable around 3% in annual terms. Non-Core inflation rose from 8.3% y/y in March to 10.4% y/y as the supply shocks that have affected it recently persist.

**Core inflation remained around 3.0% as the decrease in merchandise inflation was enough to fully offset the increase in services prices.** Merchandise prices increased 0.14% f/f, as previous pressures keep fading causing its annual inflation to fall from 3.8% y/y in March to 3.7% y/y. Its processed food component remains stable at 4.6% y/y as in previous months. The inflation of the rest of merchandise component fell from 3.2% in March to 3.0% thanks to a stronger peso and the still feeble domestic demand. The prices of services increased from 2.35% y/y in February to 2.4% y/y as the inflation of the rest of services rose from 0.3% y/y in January to 2.1% y/y, this acceleration is caused by the end of holiday rebates in Mobile Telephony prices, which should stabilize finally in coming months. Positive fundamentals as a stronger peso, lower commodity prices globally and a feeble local demand will cause core inflation to remain stable near 3% for a few more months, as lower merchandise prices offset some increases within services prices, however core inflation could pick-up slightly at year's end if the holiday rebates in mobile telephony from 2012 are not offered again this year.

**Non Core inflation increased thanks to price acceleration in all of its components.** Agricultural and livestock prices inflation increased from 14.3% in March to 17.5% y/y, thanks mostly to an unfavorable base effect and sharp increases in the prices of green tomatoes, chicken and peppers. Some of these shocks are caused by uncommon supply disruptions like the avian flu outbreak in Guanajuato, however production could normalize in coming months. Public prices reached to 6.5% y/y (5.0% y/y March) as the inflation of tariffs set by local governments accelerated from 3.4% y/y in March to 6.0% y/y thanks to increases in urban transport in Mexico city. Energy prices increased from 5.9% to 6.6% y/y thanks to pressures in domestic gas prices. Non-Core inflation will continue increasing in coming weeks as the normalization of fruit and livestock markets should take some more time, gasoline prices could keep adjusting upwards and the acceleration of local tariff inflation could continue, therefore we expect non-core inflation will fall consistently until the second half of the year.

Bottom line: In the short term the inflation remains vulnerable to supply shocks within its non-core component, which could difficult inflation convergence below 4% in coming months. However if production in these markets normalizes soon, favorable fundamentals such as a stronger peso, lower commodity prices globally and the ample availability of resources within the economy should prevail, allowing inflation decrease in coming months, and ending the year around 3.8% y/y.

Table 1

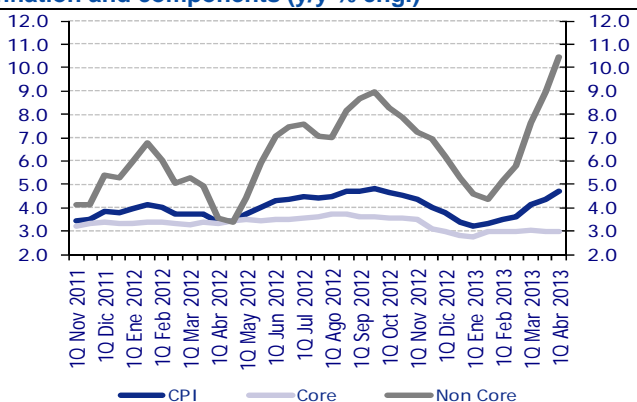
**Inflation (y/y and m/m % change)**

	Var. % q/q			Var. % a/a		
	1Q Abr 2013	Consenso	BBVA Research	1Q Abr 2013	Consenso	BBVA Research
<b>INPC</b>	<b>-0.09</b>	<b>-0.09</b>	<b>-0.12</b>	<b>4.72</b>	<b>4.72</b>	<b>4.69</b>
<b>Subyacente</b>	<b>0.05</b>	<b>0.08</b>	<b>0.05</b>	<b>3.00</b>	<b>3.03</b>	<b>3.00</b>
<b>No Subyacente</b>	<b>-0.56</b>	<b>-0.67</b>	<b>-0.70</b>	<b>10.44</b>	<b>10.31</b>	<b>10.28</b>

Source: BBVA Research

Graph 1

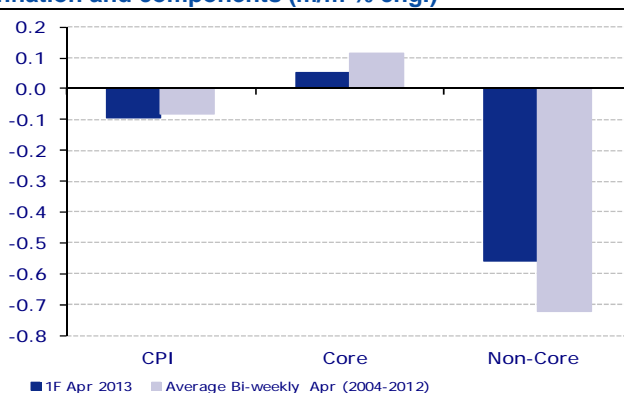
**Inflation and components (y/y % chg.)**



Source: BBVA Research with INEGI data.

Graph 2

**Inflation and components (m/m % chg.)**



Source: BBVA Research with INEGI data.

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