

Mexico Inflation Flash

April's inflation: Headline Inflation Peaks as Core Inflation Falls Again Below 3%

General: Actual: 0.07% m/m vs. BBVA: 0.13% m/m Consensus: 0.10% m/m

Core: Actual: 0.08% m/m, vs. BBVA:0.05% m/m Consensus:0.1% m/m

- Annual inflation kept accelerating driven exclusively by non-core supply shocks, such as the disruptions in poultry and some fruit markets. Additionally in April increases to the prices of urban transport boosted non core inflation further
- Core inflation fell below 3%, as merchandise inflation keeps falling, and services inflation remains in check
- In the short term, inflation remains vulnerable to supply shocks within its non-core component, which could delay inflation convergence below 4% during the few next months. However if production in these markets normalizes soon and favorable fundamentals such as a stronger peso, lower commodity prices globally and the ample availability of resources within the economy prevail, inflation will decrease sharply in coming months, and will end the year well below 4%

April's biweekly inflation increased 0.07% m/m, in line with our forecast (0.13% f/f) and the market consensus (0.10% m/m), annually it rose from 4.25% y/y in March to 4.65% y/y. Core inflation increased 0.08% m/m in line with our estimate and market consensus, falling in annual terms from 3% in March to 2.95%. Non-Core inflation rose from 8.3% y/y in March to 10.3% y/y as the supply shocks that have affected it recently persist.

Core inflation fell below 3.0% as the decrease in merchandise inflation was enough to fully offset the very mild increase in services prices. Merchandise prices increased 0.14% m/m, as the pressures experienced last year keep fading, causing its annual inflation to fall from 3.8% y/y in March to 3.6% y/y. Its processed food component fell from 4.6% y/y in the previous month to 4.5%. Meanwhile, the inflation of the rest of merchandise component fell from 3.2% in March to 2.95%, thanks to a stronger peso and the still feeble domestic demand. The prices of services remained stable around 2.35% y/y as in March. Its education and housing components remained stable at 4.57% y/y and 2.10% y/y respectively. Its other services component seems to have finally stabilized at around 2% after the sharp increase it experienced in the first quarter, which happened after reaching its all time low in December 2012 (-0.72% y/y). This increase was caused by the end of holiday rebates in mobile telephony, whose prices seem to have stabilized now. Strong fundamentals such as the stronger peso, lower grain prices globally and persistent economic slack will continue favoring low core inflation.

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 17.2% y/y, thanks mostly to an unfavorable base effect and sharp increases in the prices of green tomatoes, eggs, chicken and lemons. Some of these shocks are caused by uncommon supply disruptions like the avian flu outbreak in Guanajuato, however production should begin normalizing 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 6.3% y/y thanks to increases in urban transport in Mexico city. Energy prices increased from 5.9% to 6.5% y/y thanks to pressures in domestic gas prices. Non-Core inflation could continue increasing in coming weeks if the normalization of fruit and livestock markets does not materialize soon, gasoline prices keep adjusting upwards and the acceleration of local tariffs inflation continues. However in all likelihood it will begin falling in the short term.

Bottom line: In the short term, inflation remains vulnerable to supply shocks within its non-core component, which could delay inflation convergence below 4% during the few next months. However if production in these markets normalizes soon and favorable fundamentals such as a stronger peso, lower commodity prices globally and the ample availability of resources within the economy prevail, inflation will decrease sharply in coming months, and will end the year well below 4%.

Table 1

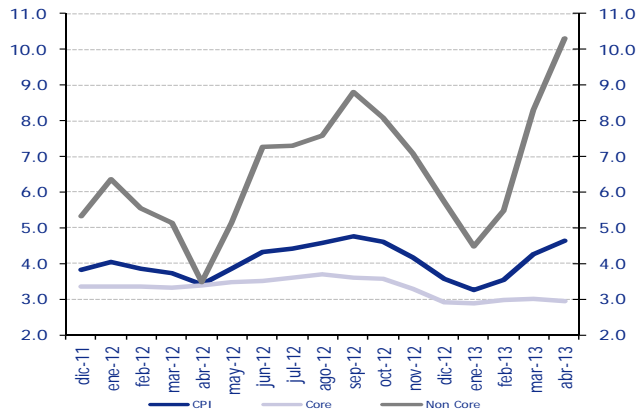
Inflation (y/y and m/m % change)

	m/m % Change			y/y % Change	
	abr-13	Consensus	BBVA Research	mar-13	abr-13
CPI	0.07	0.10	0.13	4.25	4.65
Core	0.08	0.10	0.04	3.02	2.95
Non Core	0.00	0.10	0.43	8.29	10.32

Source: BBVA Research

Graph 1

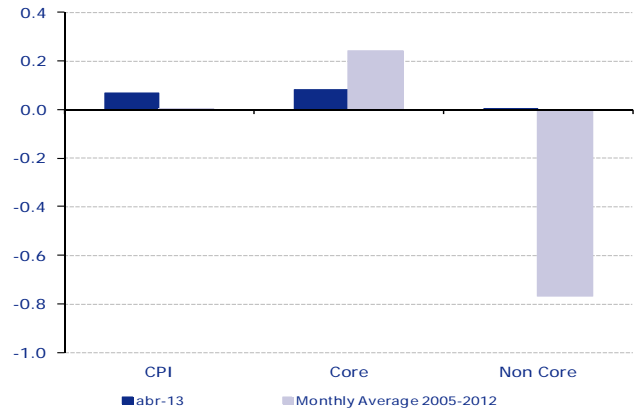
Inflation and components (y/y % change)



Source: BBVA Research with INEGI data.

Graph 2

Inflation and components (m/m % change)



Source: BBVA Research with INEGI data.

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