

Mexico Inflation Flash

September's inflation: came in lower than our below-consensus expectation

Headline: Actual: 0.38% MoM (BBVA Research: 0.43%; Consensus: 0.45%)

Core: Actual: 0.32% MoM (BBVA Research: 0.30%; Consensus: 0.35%)

- Core inflation remains subdued while non-core inflation was lower than anticipated
- In our view, with no signs of demand-side inflation pressures and continued economic weakness, Banxico is likely to cut the reference rate 25bp at the October 25 monetary policy meeting

Headline inflation surprised slightly to the downside and came in at 0.38% MoM in September, closer to our below-consensus forecast (BBVA Research: 0.43%; Consensus: 0.45%), decreasing slightly in annual terms to 3.39% from 3.46% in August. The downside surprise was mainly driven by a milder-than-expected increase in non-core prices but also by a low core print. Core inflation increased 0.32% MoM, close to our below-consensus-forecast (BBVA Research: 0.30%; Consensus: 0.35%). With this print, annual core inflation increased to 2.52% from the 2.37% all-time low observed in August.

Non-core inflation increased less than expected. Non core inflation rose 0.55% MoM (vs. a 0.86% we were expecting), decreasing in annual terms to 6.2% from 7.0% in August, resuming the downward trend which was briefly interrupted in the first fortnight of August. Fruit and vegetable prices rose 1.80% MoM while meat and eggs prices increased 0.14% MoM. We were expecting slightly milder increases on the former (1.19% MoM) but significantly higher on the latter (1.38% MoM). Thus, the downside surprise was mainly driven by a much better price outcome from the meat and eggs component. So far in October, meat and eggs prices continue to behave well while the impact of recent floodings on fruit and vegetable prices is being milder than what we had discounted in our forecast. Yet, there could be a lag in those effects and we would like to continue monitoring incoming information before changing our monthly forecast.

Core inflation was closer to our below-consensus forecast and although it broke the downward trend in annual terms seen over the previous five months, it continues to reveal the absence of demand-side pressures. Core inflation was 0.32% MoM (BBVA Research: 0.30%; Consensus: 0.35%), increasing in annual terms to 2.52% from the 2.37% all-time low observed in August. The 2.16% MoM seasonal increase in tuitions was identical to our forecast (2.16% 2w/2w). The slight upward surprise compared to our below-consensus forecast was on the back of the core goods prices which increased 0.41% MoM (vs. our 0.33% forecast) with non-food core goods increasing 0.54% MoM. Over the last two months the average monthly increase of this component is 0.44% significantly higher than the 0.02% observed on average during the first seven months of the year. The stronger prints over the last two months suggest that the core goods component has bottomed out, reflecting the recent peso depreciation. However, core services inflation remains subdued on the back of the ample economic slack: the "other services" component decreased -0.19% MoM (vs. our -0.13% forecast), the second consecutive monthly decline.

Bottom line: considering there are no signs of demand-side inflation pressures, core services inflation remains very low reflecting the ample economic slack, economic activity is not rebounding as expected in the third quarter and risks have tilted further to the downside on the back of the recent hurricanes and the US government shutdown, we continue to expect a 25bp cut at the October 25 Banxico monetary policy meeting.

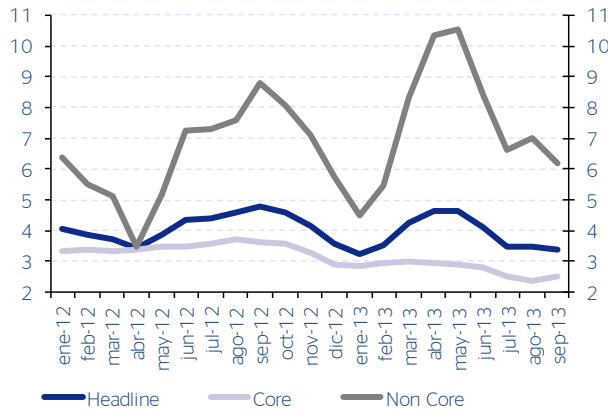
Table 1
Inflation (YoY and MoM % change)

	Inflation				
	MoM % change			YoY % change	
	Sep-13	Consensus	BBVA Research	Sep-13	Aug-13
CPI	0.38	0.45	0.43	3.39	3.46
Core	0.32	0.35	0.30	2.52	2.37
Non Core	0.55	0.78	0.86	6.20	7.01

Source: BBVA Research, INEGI

Graph 1

Inflation and components (YoY % chg.)



Source: BBVA Research, INEGI

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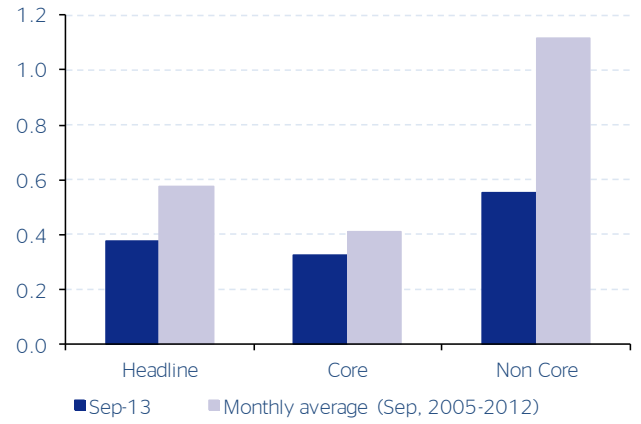
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Graph 2

Inflation and components (MoM % chg.)



Source: BBVA Research, INEGI