

Mexico Inflation Flash

November's inflation

Headline: Actual: 0.93% YoY (BBVAe: 0.90%; consensus: 0.91%)

Core: Actual: 0.14% MoM (BBVAe: 0.14%; consensus: 0.16%)

- **Headline inflation increased on the back of food price pressures and the seasonal increase in electricity tariffs...**
- **... while core inflation came in exactly in line with our below-consensus forecast on the back of core goods price deflation**

Headline inflation came in pretty much in line with expectations, increasing 0.93% in November (BBVAe: 0.90%; consensus: 0.91%). Annual inflation reached 3.62%, increasing from 3.36% in October. Core inflation was 0.14% MoM, exactly in line with our below-consensus forecast (BBVAe: 0.14%; consensus: 0.16%). As expected, this positive reading was driven mainly by deflation in core good prices (-0.02% MoM) that materialized in the second fortnight of the month (-0.06% FoF) due to the "Buen Fin" related price discounts that mark the start of holiday sales. In annual terms, core inflation increased to 2.56% from 2.48% in October.

Non-core inflation was a touch above our forecast on the back of unexpected additional food prices pressures in the second fortnight of the month. Non core inflation rose 3.54% MoM, a touch above our forecast (3.41%), reaching 7.02% in annual terms. The energy component increased 5.96% MoM, broadly in line with our forecast, mainly driven higher by a 22.6% MoM seasonal adjustment in the electricity tariffs (summer tariffs ended in 10 cities). Following the large upside surprise in perishable food prices in the first fortnight (2.34% FoF), this component surprised us again to the upside and increased 0.52% FoF in the second fortnight (we were not expecting an additional increase).

Core inflation was exactly in line with our below-consensus forecast on the back of core goods price deflation. Core inflation was 0.14% MoM, exactly in line with our below-consensus forecast (BBVAe: 0.14%; consensus: 0.16%). As expected, this positive reading was driven mainly by deflation in core good prices (-0.02% MoM) that materialized in the second fortnight of the month (-0.06% FoF) due to the "Buen Fin" related price discounts that mark the start of holiday sales. In annual terms, core inflation increased to 2.56% from 2.48% in October. Prices of the "other services" component continued to show acceleration, up 0.45% MoM after increasing 0.48% MoM in October. The strong services prints over the past few months have been driven mainly by increases in mobile phone rates but nonetheless also suggest that the recent improvement in economic activity point to a gradual increase in core prices. Considering that the steep discounts in mobile phone rates seen in late 2012 are not repeating this year, year-end annual core inflation could be slightly above our 2.62% forecast, probably close to 2.7%.

Bottom line: we adjusted our year-end headline inflation forecast to 3.7% from 3.6% to account for the recently announced increase in subway prices (from 3 to 5 pesos per ride) while the temporary effects in prices of the fiscal reform will push up inflation to 4.2% in January 2014. Meanwhile, we have a slight upward bias on our 2.62% year-end core inflation forecast. All in all, the inflation outlook is consistent with Banxico's decision to keep rates on hold for the foreseeable future.

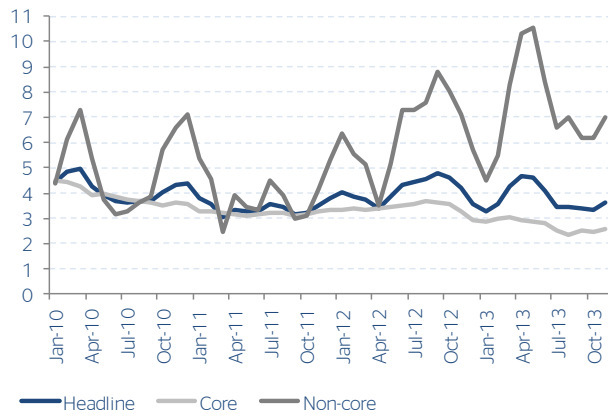
Table 1

Inflation (MoM and YoY % change)

Inflation					
	MoM % change			YoY % change	
	nov-13	consensus	BBVAe	nov-13	oct-13
CPI	0.93	0.92	0.90	3.62	3.36
Core	0.14	0.16	0.14	2.56	2.48
Non Core	3.54	3.43	3.41	7.02	6.18

Chart 1

Inflation and components (YoY % change)



Source: BBVA Research, INEGI

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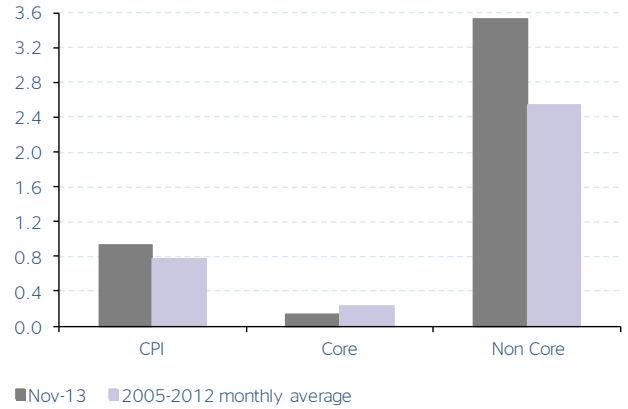
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Chart 2

Inflation and components (MoM % change)



Source: BBVA Research, INEGI