

Mexico Inflation Flash

Inflation is back to Banxico's tolerance interval

Headline: Actual: 0.17% FoF (BBVAe: 0.18%; consensus: 0.19%)

Core: Actual: 0.11% FoF (BBVAe: 0.13%; consensus: 0.17%)

- Headline inflation returned to Banxico's 3.0% +/- 1pp tolerance interval as anticipated, while core inflation is close to 2013's year-end level
- We believe headline inflation will remain below 4.0% in coming reports before accelerating from June, while core inflation will remain close to 3.0% before increasing somewhat during H214

Headline inflation increased 0.17% FoF in the first fortnight of March. This increase was broadly in line with expectations and closer to our below-consensus forecast (BBVAe: 0.18%, consensus: 0.19%). In annual terms, headline inflation decelerated to 3.89% from 4.26% in the second fortnight of February, returning to Banxico's 3.0% +/- 1pp tolerance interval. Core inflation was 0.11% FoF, also closer to our below-consensus forecast (BBVAe: 0.13%, consensus: 0.17%). In annual terms, core inflation decreased to 2.84% from 2.90% in the second fortnight of February as it continues to benefit from the slack in the economy. As we expected, after the temporary effect of the new taxes, headline inflation is below 4.0% and core inflation is close to December 2013 level (2.8%).

Core inflation was broadly in line with our below-consensus forecast, surprising the consensus on the downside.

Core inflation increased 0.11% FoF, broadly in line with our below-consensus forecast (BBVAe: 0.13%, consensus: 0.17%). This reading was explained by both low core goods inflation (0.13% FoF) and low services inflation (0.09% FoF). In annual terms, core inflation decreased to 2.84% from 2.90% in the second fortnight of February (BBVAe: 2.86%; consensus: 2.90%) and is already close to December 2013's level (2.8%). Recent low core inflation readings suggest that it continues to benefit from the slack in the economy while the core inflation breakdown points to the absence of demand-side pressures.

Non-core inflation was broadly in line with our above-consensus forecast, surprising the consensus on the upside.

Non-core inflation rose 0.38% FoF, broadly in line with our above-consensus forecast (BBVAe: 0.35%; consensus 0.26%). The non-core component was driven higher as we expected by an increase in fruit and vegetable prices (0.98% FoF). As we expected, lemon prices surged 21.6% FoF and this increase was partially offset by the large drop in tomato prices (-7.5% FoF). Administered and regulated prices increased 0.26% FoF, pushed higher by the 0.45% FoF energy-related inflation.

Bottom line: Today's report confirms that inflation has behaved in the first quarter as we anticipated, increasing temporarily in January and returning to Banxico's 3.0% +/- 1pp tolerance interval in March. We anticipate that annual inflation will remain below 4.0% in the coming reports before starting to increase from June as unfavorable base effects begin to be reflected. Core inflation will continue to benefit from the weak aggregate demand and is likely to remain close to 3.0% before starting to increase somewhat during H214 if as expected the economy strengthens.

Table 1

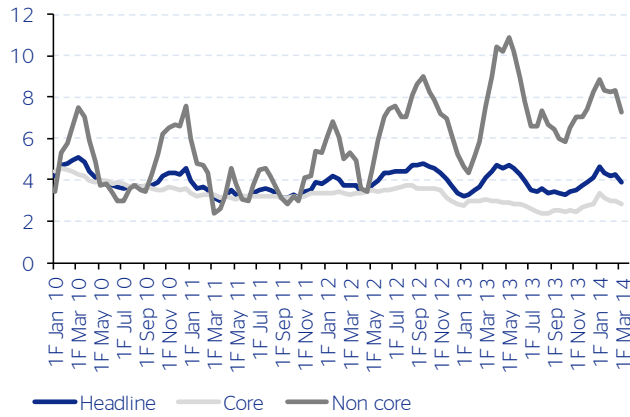
Inflation (FoF and YoY % change)

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Mar 2014	BBVAe	Consensus	1F Mar 2014	BBVAe	Consensus
Headline	0.17	0.18	0.19	3.89	3.90	3.91
Core	0.11	0.13	0.17	2.84	2.90	2.86
Non Core	0.38	0.35	0.26	7.29	7.26	7.16

Source: BBVA Research, INEGI

Chart 1

Inflation and components (YoY % change)



Source: BBVA Research, INEGI

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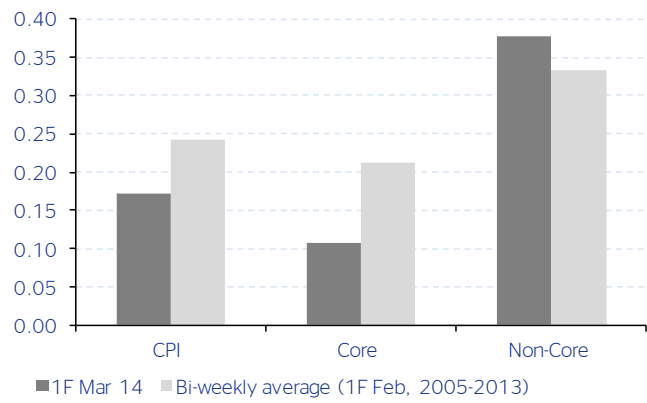
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Chart 2

Inflation and components (FoF % change)



Source: BBVA Research, INEGI