



September 8, 2011 | Mexico

## August's inflation: annual reduction due to the vanishing pressures in the prices of processed food. Lack of demand pressures.

**CPI: Observed: 0.16% mom vs BBVA: 0.17% mom Consensus: 0.21 mom**  
**Core: Observed: 0.12% mom vs BBVA: 0.16% mom Consensus: 0.14% mom**

**August's inflation confirms the downwards surprise registered during the first fortnight, given the marginal rise in the prices of processed food. Core inflation remains bounded by the lack of demand pressures over prices.**

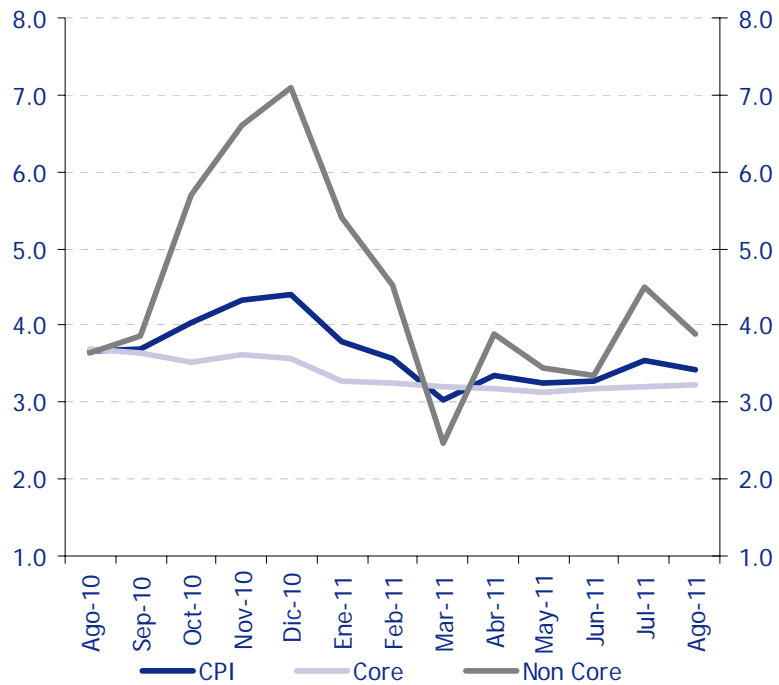
- August's inflation turned out lower than expected by the market (0.21% mom) and in line with BBVA Research's forecast (0.17% mom). In annual terms it reduced from 3.55% yoy to 3.42% yoy, due to a slowdown of the prices of merchandise and non core inflation.
- Core inflation remained stable in annual terms at 3.2% yoy, this was due because the favorable performance in the prices of merchandise was compensated by the acceleration of the prices of education, from 4.4% yoy to 4.9% yoy in august. Even when some core prices such as education show downwards rigidity, we estimate core inflation will remain bounded by a long time thanks to the absence of demand pressures.
- Non-Core inflation raised 0.3% mom, reducing in annual terms from 4.5% to 3.9%, this good performance is due to a slowdown in the prices of farm products from 5.6% yoy in July to 4.4% yoy in August. We estimate that inflation will end the year around 3.5% yoy, however there is a downwards bias to this forecast if household expenditure slows further, limiting potential cost pass through to the final consumers.

Inflation (m/m & y/y % chg.)					
	M/M % Change			Y/Y % Change	
	Ago-11	Consensus	BBVA	Jul-11	Ago-11
CPI	0.16	0.21	0.17	3.55	3.42
Core	0.12	0.14	0.16	3.19	3.22
Non Core	0.29	0.44	0.20	4.51	3.90

Source: BBVA Research with INEGI data

## General Inflation & components (Y/Y % chg)

Source: BBVA Research with Banxico data



## General Inflation & components (M/M % chg.)

Source: BBVA Research with Banxico data

