

BBVA Research Flash

Mexico

Monthly inflation: the lowest September rate since 1970

- **CPI: Observed: 0.25% mom vs BBVA: 0.20% mom Consensus: 0.28% mom**
- **Core: Observed: 0.27% mom vs BBVA: 0.28% mom Consensus: 0.29% mom**
- **Driven by lower than expected education prices, a reduction for the second consecutive month in the prices of fruits and vegetables and lighter pressures over the prices of processed food, inflation had its lower monthly rate for September since 1970**
- **We estimate inflation will close 2011 around 3.3% yoy, however this forecast has a downwards bias, because despite the recent depreciation of the Peso, we estimate that the abundance of productive factors in the economy will keep limiting the cost transmission to the consumers**

During September inflation rose 0.25% mom, lower than expected by market consensus (0.29%) and higher than the BBVA Research forecast (0.20%). In annual terms inflation reduced from 3.4% in August to 3.1% in September.

Core Inflation rose 0.27% mom in line with market consensus and BBVA Research (0.29% and 0.28% respectively) reducing annually from 3.2% in August to 3.1%. Within its components, the merchandise index remained stable in annual terms around 4.4%, thanks to milder pressures over the prices of processed food. Meanwhile the services index reduced in annual terms from 2.2% to 2%, due to the slowdown of the education subindex from 4.9% in August to 4.1% in September. The absence of demand pressures and the eventual vanish of pressures from commodities will be the drivers of core inflation in coming months, despite some exchange rate pass through might be experienced.

Non-Core inflation reduced annually from 3.9% to 3% thanks to new reduction in the prices of fruits and vegetables, confirming the positive performance it has shown all of the year.

We estimate inflation will close 2011 around 3.3% yoy, however this forecast has a downwards bias, because despite the recent depreciation of the Peso, we estimate that the abundance of productive factors in the economy will keep limiting the cost transmission to the consumers.

Table 1

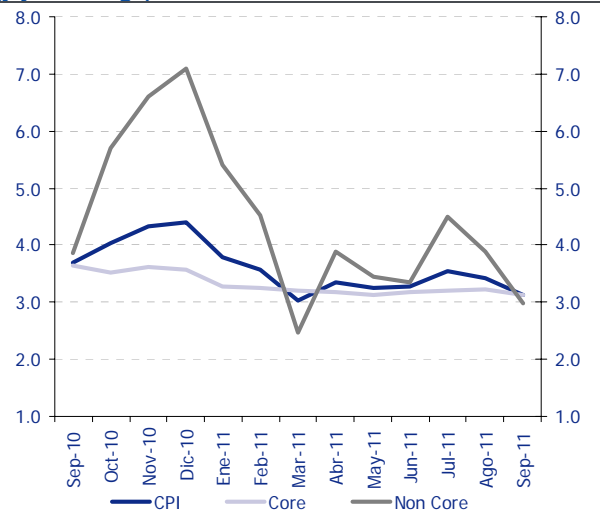
Inflation (m/m and y/y % change)

	M/M % Change			Y/Y % Change	
	Sep-11	Consensus	BBVA	Ago-11	Sep-11
CPI	0.25	0.29	0.20	3.42	3.14
Core	0.27	0.29	0.28	3.22	3.12
Non Core	0.17	0.29	-0.06	3.90	2.98

Source: BBVA Research with INEGI data

Chart 1

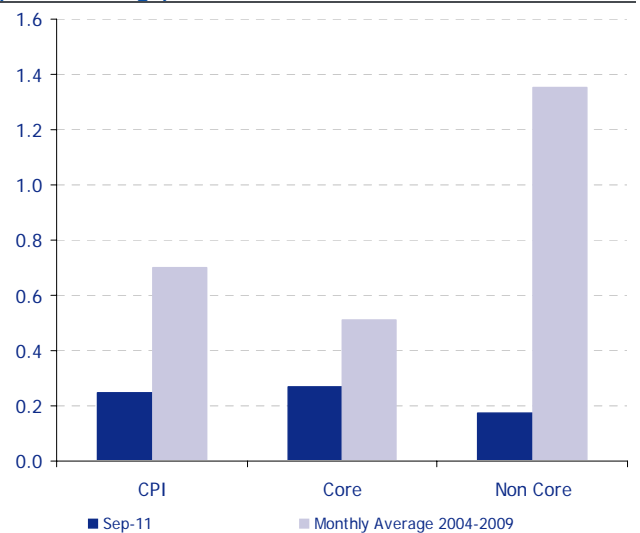
General Inflation and Components
(y/y % change)



Source: BBVA Research with INEGI data

Chart 2

General Inflation and Components
(m/m % change)



Source: BBVA Research with INEGI data

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