

Inflation Flash

Mexico

Inflation for October: slight annual rebound caused by higher than expected energy prices

- **CPI: Observed: 0.67% mom vs BBVA: 0.7% mom Consensus: 0.7% mom**
- **Core: Observed: 0.26% mom vs BBVA: 0.23% mom Consensus: 0.29% mom**
- **Inflation rebounded slightly in annual terms driven by the prices of energy which accounted for 0.45% points of the 0.67% that inflation rose in October**
- **We estimate inflation will close the year around 3.4%. Despite there are some short term factors that might deviate inflation upwards such as the high prices of corn, wheat and oil, and to a lower extent the depreciation of the peso caused by global uncertainty, inflation is fundamentally bounded, given that economic growth is not strong enough to generate demand pressures.**

During October inflation rose 0.67% mom (3.2% yoy) in line with market consensus and BBVA Research's forecast of 0.7% mom in both cases. Core inflation rose 0.26% mom also as expected (Consensus 0.29% mom BBVA Research 0.23% mom), however this component performed below its medium term trend.

Core inflation raised 0.26% mom rebounding annually from 3.1% yoy in September to 3.2% in October. Within its components, processed food (0.58% mom) showed renewed pressures due to the persistence of the high prices of grains in the world, however non-food merchandise (0.18% mom) remains unaffected by the depreciation of the peso and it even reduced annually from 2.17% in September to 1.93% in October. The prices of services rebounded annually from 2.03% yoy to 2.3% yoy, driven by increases in the prices of professional services and moderate pressures in the housing and education components.

Core Inflation raised 2.12% monthly reaching an annual rate of 3.25% yoy. The prices of energy grew from 4.3% yoy in September to 5.6% in October, due to higher than expected adjustments in the prices of electricity and gas, caused by the high prices of these commodities globally. On the other hand fruits and vegetables reduced their prices -1.45% mom, this favorable performance has been an anchor for inflation all year.

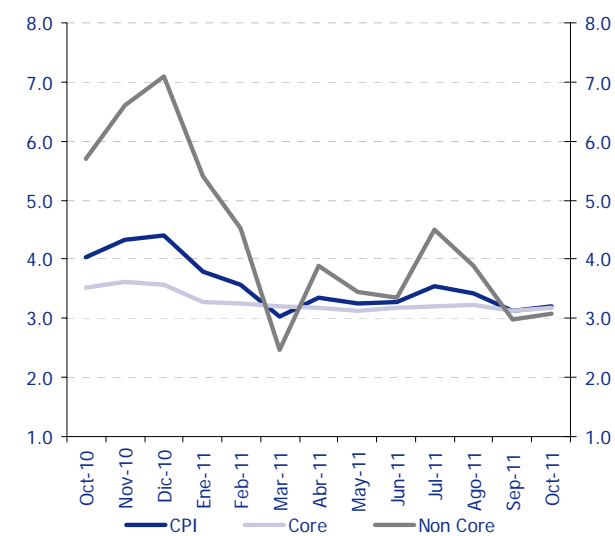
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Table 1
Inflation (m/m and y/y % change)

| | M/M % Change | | | Y/Y % Change | |
|-----------------|--------------|-------------|-------------|--------------|-------------|
| | Oct-11 | Consensus | BBVA | Sep-11 | Oct-11 |
| CPI | 0.67 | 0.70 | 0.70 | 3.14 | 3.20 |
| Core | 0.26 | 0.29 | 0.23 | 3.12 | 3.19 |
| Non Core | 2.12 | 2.05 | 2.25 | 2.98 | 3.09 |

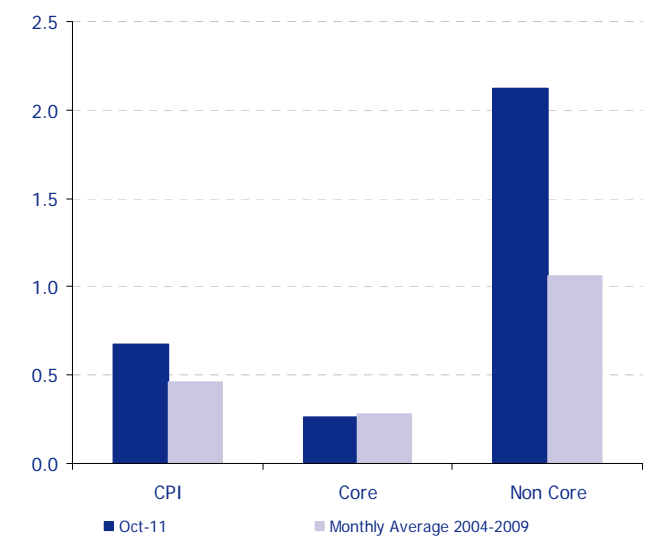
Source: BBVA Research with INEGI data

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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