

Inflation Flash

Mexico

Inflation during November's first fortnight: in line with BBVA Research forecast. Dec-11 inflation could reach 3.5% with core component anchored around 3.2%.

- **CPI: Observed: 0.96% fof vs BBVA: 0.97% fof Consensus: 0.76% fof**
- **Core: Observed:0.25% fof vs BBVA: 0.15% fof Consensus:0.16% fof**
- **Annual Inflation raised because of the increases in electric tariffs and the prices of mobile phone services and touristic services. The incidence of the prices of energy and other services explains 80% of the fortnightly increase.**
- **We estimate inflation will close the year around 3.5% Some risks tied to supply problems in some specific livestock markets exist. However the stronger inflation trend will remain anchored to rates close to 3%, in coherence with the absence of demand pressures given the roominess in the economy. In this context the potential effects of exchange rate pass through, are limited ,**

During November's first fortnight inflation raised 0.96% fof, way above market consensus (0.76% fof) and in line with BBVA Research's forecast (0.97% fof). The core component raised 0.25% fof, above the market consensus (0.16% fof) and BBVA Research's forecast (0.15% fof). All of its components rose above the average of the last seven years, but the surprise was mostly due to non-core prices (Chart 2)

Core inflation raised 0.25% fof and reached an annual rate of 3.23%, a slight rebound after the 3.19% registered in October. Inside it, the prices of merchandises were bounded, because the prices of processed food (0.21% fof) showed lower pressures than in the last two fortnights and the rest of the merchandises (0.214% fof) keep behaving favorably despite the depreciation of the Peso. On the other hand services raised 0.27% fof rebounding in annual terms from 2.24% in October to 2.35% in November's first half. This was due to pressures in prices such as mobile phone services (2.52% fof), snack bars (0.41% fof), airfares (5.01% fof), professional services (5.4% fof) and packed tours (2.54% fof). Despite core inflation rebounded slightly during the fortnight, and might show additional pressures in the short term, in the mid term the absence of demand pressures and limited exchange rate pass through, will be its main determinants.

Non-Core inflation kept rising annually, growing from 3.1% in October to 4.1% in November's first fortnight, because of extraordinary increases exist in the electric service tariffs (22.07% fof) and livestock such as beef (1.53% fof). These pressures are mostly caused by the high prices of commodities globally and to a lower extent to exchange rate pass through. Despite this, the prices of fruits and vegetables and the tariffs set by local governments remain very favorable and remain a support for low inflation.

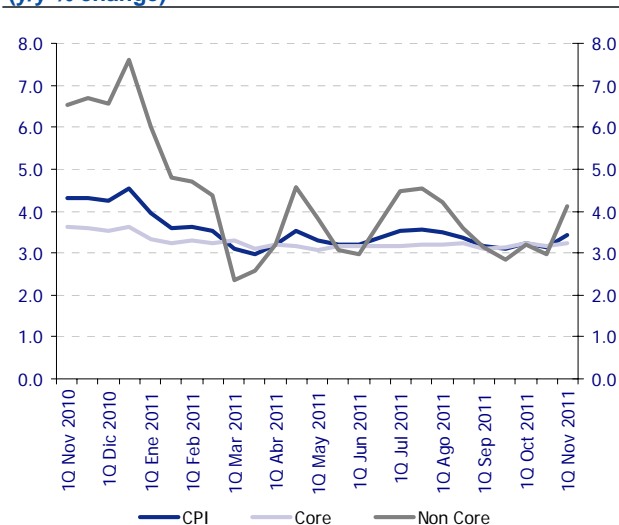
We estimate inflation will close the year around 3.5% although we must be vigilant during the last fortnights of the year of specific pressures in the prices of processed food, other services, energy, livestock, and possible exchange rate pass through. However we maintain that inflation will keep responding to the absence of demand pressures given the roominess in the economy, and that in this context, the effects of exchange rate pass through are very small.

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

	Inflation (Bi-weekly and annual % chg.)						
	Bi-weekly % chg.				Annual % chg.		
	1F Nov 2010	1F Nov 2011	Consensus	BBVA Research	1F Sep 2011	Consensus	BBVA Research
CPI	0.68	0.97	0.76	0.98	3.44	3.23	3.45
Core	0.18	0.25	0.16	0.15	3.23	3.13	3.12
Non Core	2.29	3.41	2.74	3.72	4.11	3.43	4.42

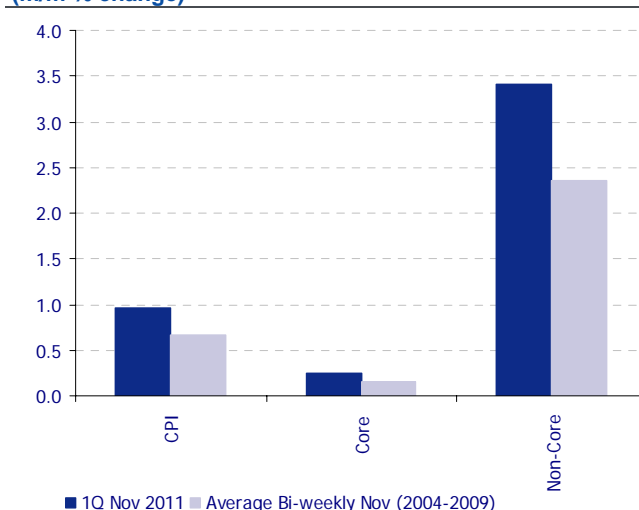
Source: BBVA Research with INEGI data

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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