

Inflation Flash

Mexico

Inflation during November: annual increase due to non core prices and specific pressures in some services

- **CPI: Observed: 1.08 mom vs BBVA: 1.09% mom Consensus: 1.07% mom**
- **Core: Observed: 0.32% mom vs BBVA: 0.32% mom Consensus: 0.32% mom**
- **Electric tariffs accounted for 60% of the monthly inflation.**
- **Additionally the prices of livestock remain pressured due to the high prices of grains globally.**
- **Pressures in the prices of some services don't suppose upwards change in the overall trend of the core component.**
- **Inflation will continue responding to the absence of demand pressures in the in the mid term given the roominess in the economy.**

During November inflation grew 1.08% mom, in line with BBVA Research's forecast and the market consensus. Inflation accelerated annually from 3.2% in October to 3.48% in November and the core component accelerated from 3.19% to 3.28%. In this way products subject to more volatile oscillations contributed more intensely to the inflation pick up.

Within core inflation, the prices of merchandise grew 0.34% mom a relatively low increase due to the moderation of pressures over processed food and the absence of impact from demand in the rest of merchandises. The prices of services accelerated from 2.24% to 2.41% due to pressures in the prices of mobile phone service (2.12% mom), and air transportation (5.7% mom), increases that we consider transitory in a context of moderate demand. The fundamentals that have supported a low Core Inflation during 2011 will remain in force in 2012, so despite that some specific prices might reflect short term exchange rate pass through or transmissions from commodity prices, the absence of demand pressures will prevent the generalization of this increases.

Non-Core inflation continued increasing annually from 3.1% in October to 4.1% in November, because of extraordinary increases in the electric service tariffs (22.07% mom) and livestock such as beef (2.9% mom), both increases are related to the high prices of commodities globally and to a lower extent to exchange rate pass through. Despite the former, the favorable performance in the prices of fruits and vegetables and the tariffs set by local governments continue, limiting the acceleration of general inflation.

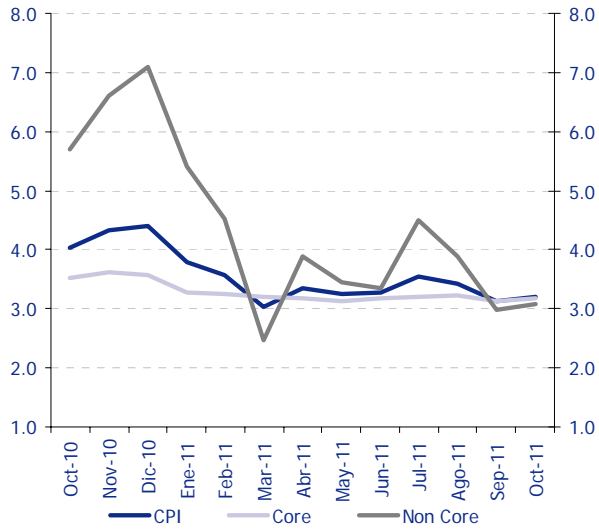
We estimate inflation will close the year around 3.5% although with a mild upwards bias, due to the risk of pressures in some specific foods or services such as those detailed above. We maintain that in the mid term inflation will keep responding to the absence of demand pressures given the roominess in the economy to absorb demand increases.

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

	M/M % Change			Y/Y % Change	
	Nov-11	Consensus	BBVA	Oct-11	Nov-11
CPI	1.08	1.07	1.09	3.20	3.48
Core	0.32	0.32	0.32	3.19	3.28
Non Core	3.67	3.54	3.63	3.09	4.13

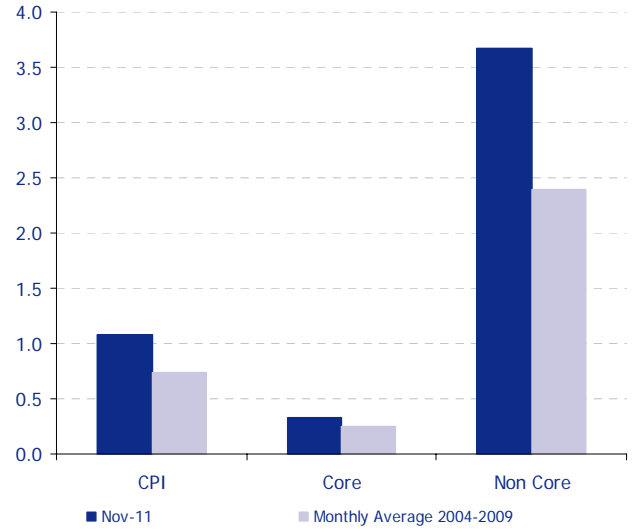
Source: BBVA Research with INEGI data

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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