

Flash Inflación

Mexico

January 2011 bi-weekly inflation way above our forecast: reductions in telephone calls didn't compensate enough the rising agricultural, energy and merchandise prices

CPI: Observed: 0.32% fof vs BBVA: -0.05% fof Consensus: 0.25% fof
Core: Observed: 0.20% fof vs BBVA: -0.20% fof Consensus: 0.21% fof

- **Prices rose driven again by their more volatile components. Energy, corn and the exchange rate have overcompensated the absence of demand pressures and the downwards step in telephone tariffs.**
- **The merchandise subindex keeps accelerating, now also in the other merchandise index.**
- **Services remain bounded, reflecting the absence of demand pressures and higher competence in specific markets such as telephone services and air transport.**
- **On average during 2012, inflation will be around 4%, however, at the end of the year it will be within Banxico's price stability range**

During January's first fortnight inflation raised 0.32% fof, above market consensus (0.21% fof) and way above BBVA Research's forecast (-0.05% fof). Core inflation raised 0.20% fof, in line with market consensus and also way above our forecast of -0.2% fof.

Core inflation raised 0.20% fof reaching an annual rate of 3.3% yoy below the 3.4% yoy from December. Within it, the prices of merchandise remain pressured by the scarcity of corn in Mexico, which is an upwards risk for processed food, despite the former this prices reduced in annual terms from 7.3 in December to 7.1% during the first fortnight, thanks to the base effect of tobacco taxes enforced at the beginning of 2011 and faster growth in tortilla prices at that time.

The persistence of the recent peso depreciation during the last four months of 2011, is reflected in the higher prices of the rest of the merchandise subindex, however in annual terms they remain with very low inflation (2.7% yoy). The prices of services reduced -0.06% in the fortnight, thanks to the stability in the prices of housing and education and a sharp decrease in the rest of services subindex (-0.3% fof). This subindex includes the decrease of the prices of touristic packages and air transportation caused by the end of the holiday season, and the reduction in land line calls to mobile phones. This last reduction that we estimated would be much more intense was our biggest forecast error, because we overestimated the quantity of calls consumers make from land lines to mobile phones.

Core Inflation will remain stable the rest of the month, but it will increase slightly in annual terms in coming months because the pressures in the prices of merchandise will continue in the near term. However services will remain an anchor to inflation given the absence of demand pressures.

Non core inflation raised 0.71% fof, reaching an annual rate of 6% (5.3% yoy in December). This index is being pressured by the rising cost of livestock and energy, which have matched increases in the prices of fruits and vegetables that are consistent with the season. Tariffs set by local governments keep reducing in annual terms (from 2.4% in December to 1.9% in the fortnight) and help partially compensating the shocks in livestock and energy prices.

Inflation will be above Banxico's upper variability bound (4%) during part of the year as a result of the combination of upwards pressures in the prices of merchandise, livestock and energy. However, given that the rest of its components and mostly services prices remain well bounded by the lack of demand pressures, and well anchored expectations, inflation will end the year below 3%.

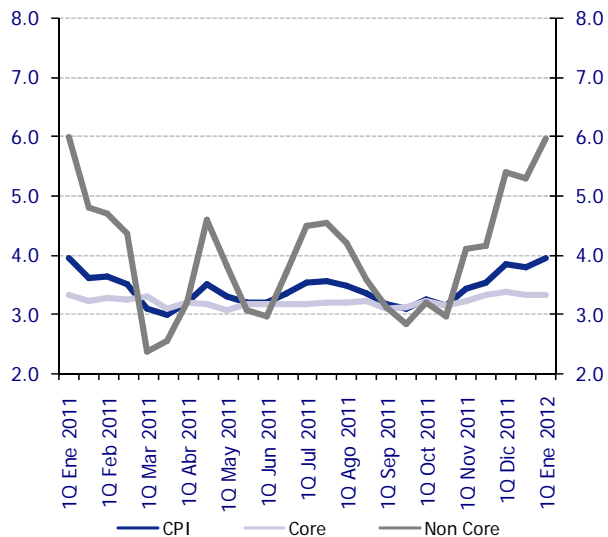
Table 1

Inflation (fof and yoy % change)

	Bi-weekly % chg.			Annual % chg.		
	1F Jan 2012	Consensus	BBVA Research	1F Jan 2012	Consensus	BBVA Research
CPI	0.32	0.25	-0.05	3.94	3.87	3.56
Core	0.20	0.21	-0.20	3.32	3.34	2.92
Non Core	0.71	0.38	0.44	5.97	5.62	5.69

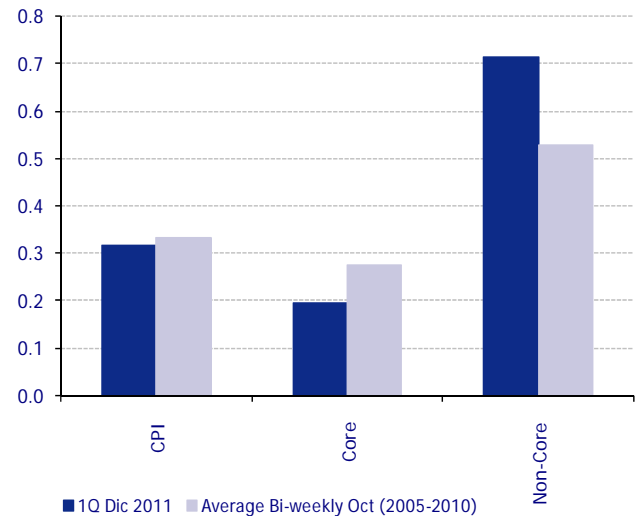
Source: BBVA Research with INEGI data

Chart 1

General Inflation and Components (yoy % change)

Source: BBVA Research with INEGI data

Chart 2

General Inflation and Components (mom % change)

Source: BBVA Research with INEGI data

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