

Inflation Flash

Mexico

January 2012 inflation: reaches over 4% due to a base effect in agricultural prices and upwards pressures in merchandise and livestock prices

CPI: Observed: 0.71% mom vs BBVA: 0.82% mom Consensus: 0.65% mom
Core: Observed:0.45% mom vs BBVA: 0.43% mom Consensus:0.4% mom

- **Inflation remains accelerating annually mainly because of the strong increases in non core prices since October.**
- **The merchandise subindex remains pressured in both its manufactures and food components although the later reduced annually during January due to a base effect against the same month in 2011 when the IEPS tax on cigarettes was raised.**
- **Services prices remain well bounded, reflecting the lack of demand pressures and the higher degree of competition in specific markets such as telephonic services and air transportation.**

During January inflation raised 0.71% m/m above market consensus (0.65% m/m) and below BBVA Research's estimate (0.82% m/m), reaching 4.05% annually, above Banxico's variability range (3% +-1 pp) upper boundary. Core inflation raised 0.45% m/m slightly above market consensus (0.4% m/m) and BBVA Research's estimate (0.43% m/m), reaching 3.34% y/y practically unchanged from last December (3.35%).

Within core inflation pressures in the merchandise component prevail. Food merchandise prices raised 1.28% m/m however it reduced annually from 7.3% in December to 7.2%, because of a base effect against January 2011 when the IEPS tax on cigarettes was raised. The rest of the merchandise component raised 0.51% m/m growing annually from 2.4% last month to 2.7% in January, as a result of the Peso depreciation of the last months. Services raised 0.11% m/m and reduced in annual terms from 2.4% in December to 2.3%, thanks to the very favorable cycle in housing and the rest of services prices that more than compensated the slight pressures observed in the prices of education. We estimate a moderate acceleration in core inflation in coming months, thanks to pressures in merchandise prices caused by the high prices of commodities globally and the Peso depreciation, however this will be limited given the lack of demand pressures, so core inflation will probably reduce during the second half of the year.

Non core inflation raised 1.55% m/m accelerating from 5.3% in December to 6.4% in January, maintaining the acceleration it has suffered since October. Within its components the prices of farm produce raised 3.23% m/m because we are at the low productivity phase of the two year agricultural cycle and because the prices of livestock, are being pressured by higher input costs and the exchange rate depreciation, causing the farm produce component to accelerate from 3.7% y/y in December to 7.4% in January. The prices of energy and tariffs set by local governments raised 0.63% m/m and reduced annually from 8.3% to 8% because of the reduction of the car owners tax in some states and in general the small increases in tariffs set by local governments and the lower pressures in electricity prices. Non core inflation will remain pressured by livestock prices, given their high input cost in international markets, and the affectations suffered from the drought in the north of the country, which will concur with a higher contribution to inflation of agricultural prices.

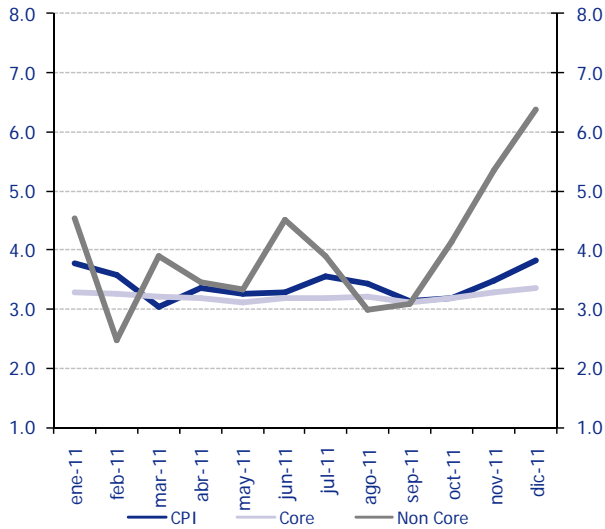
Despite inflation will remain above 4% for some months, given that core inflation will remain reasonably low because of the absence of demand pressures, we consider that as soon as the pressures in livestock and merchandise prices start vanishing, inflation will converge with relative ease to Banxico's variability range, and that it will close the year well within its boundaries.

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

	m/m % Change			y/y % Change	
	ene-12	Consensus	BBVA Research	dic-11	ene-12
CPI	0.71	0.65	0.82	3.82	4.05
Core	0.45	0.40	0.43	3.35	3.34
Non Core	1.55	1.47	2.11	5.34	6.38

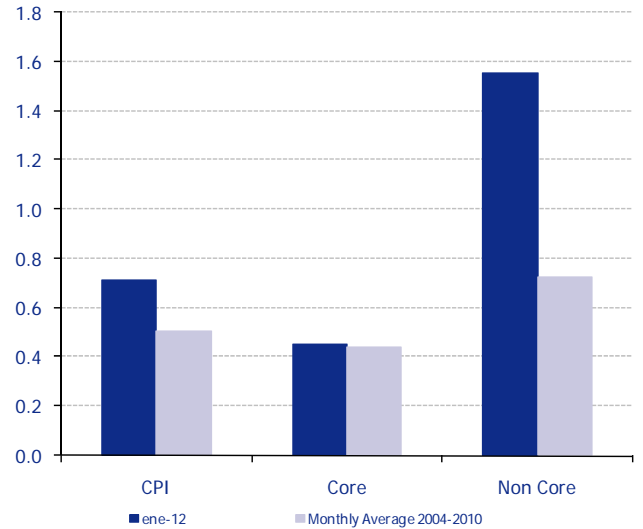
Source: BBVA Research with INEGI data

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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