

Inflation Flash

Mexico

February's first fortnight inflation: temporal break in annual increases surprises consensus

CPI: Observed: 0.07% fof vs BBVA: 0.0% fof Consensus: 0.17% fof
Core: Observed: .26% fof vs BBVA: 0.18% fof Consensus: 0.18% fof

- Inflation remained stable at 4% y/y, but it will resume its rising path in March
- The merchandise subindex remains pressured upwards by processed food; tortillas and cigarettes contributed the most to the increase
- Non core inflation fell during the fortnight thanks to the positive juncture of the prices of fruits and vegetables and that the pressures in livestock and energy are eroding

During February's first fortnight inflation increased 0.07% f/f, well below the 0.17% f/f forecast of market consensus and slightly higher than BBVA Research's forecast of 0.0% f/f. Core inflation increased 0.26% f/f above market consensus and BBVA Research's forecast of 0.18% fof, with this result it accelerated from 3.3% y/y in January to 3.4% in February's first two weeks.

Within core inflation merchandise remains pressured upwards while services remain stable and close to its lowest historical annual rate. Merchandise increased 0.45% f/f driven by a rise of 0.51% f/f in processed food, which accelerated again in annual terms (from 7.2% y/y in January to 7.5% y/y in February's first fortnight). Last month the prices of processed food had decelerated due to a base effect caused by the enforcement of the IEPS tax on cigarettes at the beginning of 2011. The prices of services remained unchanged annually at a 2.3% rate as a result of an acceleration of education prices that was compensated by a slowdown in the prices of housing and other services.

Non core inflation decreased 0.6% f/f due to falling fruit and vegetable prices and to the cancellation or reduction of the car owners tax in some states. In additionally, the pressures in livestock and energy prices seem to be eroding, since these components had less intense increases than in previous fortnights. In this way Non core inflation reduced from 6.4% in January to 6% in February's first fortnight.

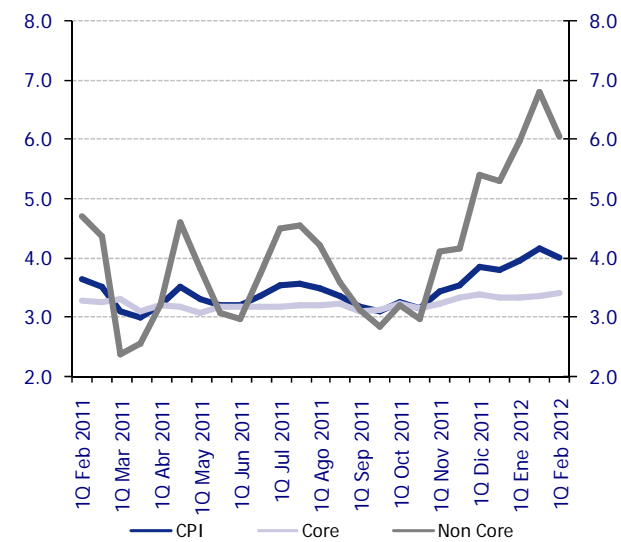
The low inflation in February's first fortnight was mainly a result of volatile factors but despite this we consider that the upwards pressures that have been affecting the prices during the last few months are ending (except those within processed food, which reflect the high prices of grains), we also think that annual inflation will resume rising in march. This as a result of the base effect inflation will face through summer after a 2011 with very low inflation during those months. All in all, we expect inflation to close 2012 well below 4% due to the absence of demand pressures, lower exchange rate pressures and the exhaustion in the increases of grain prices worldwide.

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

	Bi-weekly % chg.			Annual % chg.		
	1Q feb 2012	Consensus	BBVA Research	1Q Feb 2012	Consensus	BBVA Research
CPI	0.07	0.17	0.00	4.01	4.12	3.94
Core	0.26	0.18	0.18	3.40	3.32	3.32
Non Core	-0.54	0.14	-0.59	6.04	6.77	5.99

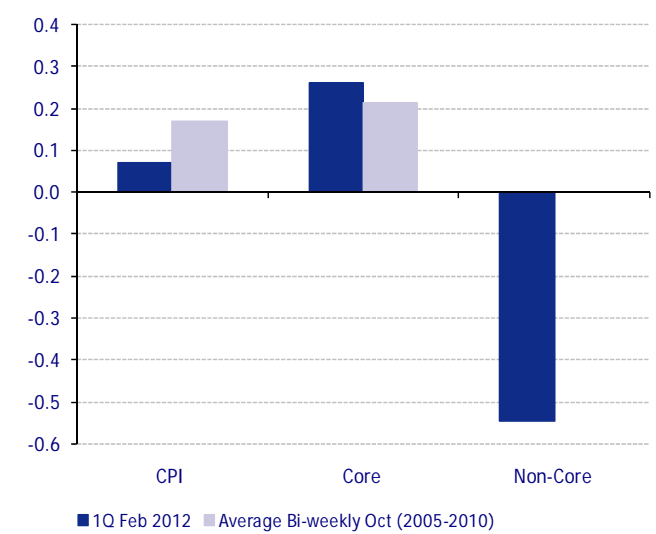
Source: BBVA Research with INEGI data

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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