

Inflation Flash

Mexico

February's inflation: the decline in non-core prices reduces headline inflation more than expected

CPI: Observed: 0.20% mom vs BBVA: 0.31% mom Consensus: 0.29% mom
Core: Observed: 0.43% mom vs BBVA: 0.48% mom Consensus: 0.47% mom

- Inflation reduced from 4.05% yoy in January to 3.87% in February thanks to lower than expected non-core inflation.
- The sharp decline in agricultural prices, lower than expected livestock product price increases and the cancelation of the car owner's tax in several States, were the main drivers of this downwards surprise.
- The merchandise index remains pressured by processed food prices; however the prices of services keep reducing annually limiting the increases in core inflation.
- We maintain our view that inflation will rise above 4% in coming quarters, with balanced risks: upwards if oil prices keep increasing and downwards if the pressures over food fade away.

In February consumer prices increased 0.20% mom surprising downwards BBVA Research and the market consensus. Core inflation also turned out lower than expected, however the non-core component was the biggest downwards surprise by reducing -0.51% mom, below our forecast of -0.25% mom and the implicit consensus estimate of -0.30% mom.

Core inflation reached 3.37% yoy (3.34% yoy in January). Within the component, merchandise prices remain pressured by the high prices of grains in world markets and by the scarcity of corn in Mexico. The rest of merchandising also increased annually growing from 2.7% in January to 2.8% in February; however this increase was lower than those observed in during the prior two months, which hints that the exchange rate pressures that had affected them were limited and are fading. On the other hand services keep a very stable behavior and decreased slightly from 2.3% yoy in January to 2.2% yoy in February. Education prices have accelerated during the past two months however this has been offset by the deceleration of the prices of housing and the rest of services. In this last subindex its noteworthy the -3.51% mom decrease of internet services during February.

Non-core inflation reduced its annual rate in February to 5.5% yoy (6.4% yoy in January) due to the sharp decrease of agricultural prices (-5.3% mom), that the pressures from the high prices of grains that are affecting livestock prices seem to be peaking –its monthly increase was the lowest in seven months- and finally, to the cancelation of the tax owners tax in several States (causing a -0.5% mom decrease in Tariffs set by local governments). Energy prices remained stable at an 8% yoy rate, however in recent days factors like the recent spike of oil prices, that might affect them in the short run have became relevant again.

In summary, February's low inflation was caused by volatile factors, which we can't rule out could prevail in the short run. However external pressures like the spike in oil prices and several grains, and the low availability of corn in the country lead us to think that the inflation risk balance is equilibrated. Given this we maintain our scenario of inflation above 4% in the central months of the year, and that it will return below this level during the last quarter of 2012.

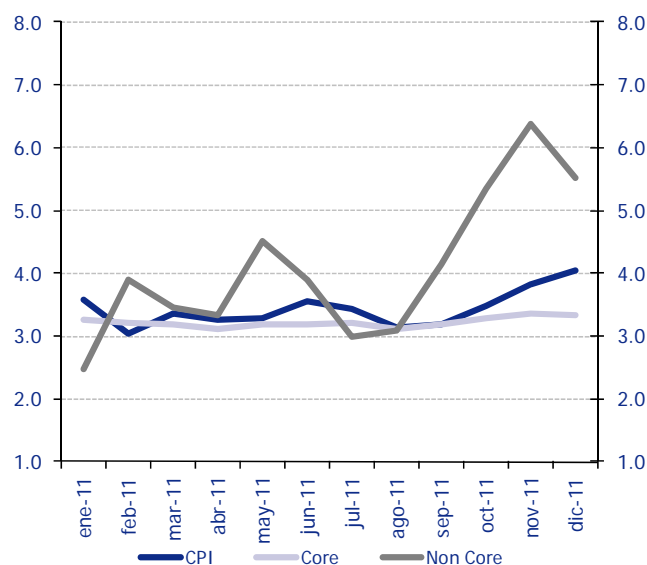
Table 1

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

	m/m % Change			y/y % Change	
	feb-12	Consensus	BBVA Research	ene-12	feb-12
CPI	0.20	0.29	0.31	4.05	3.87
Core	0.43	0.47	0.48	3.34	3.37
Non Core	-0.51	-0.30	-0.25	6.38	5.53

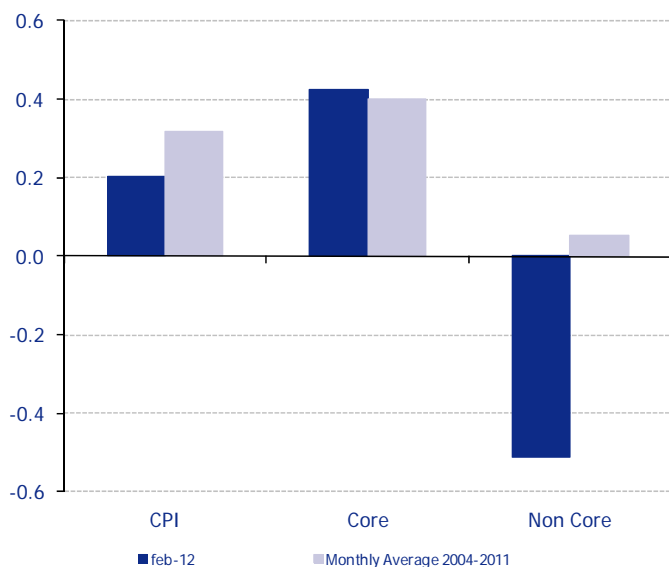
Source: BBVA Research with INEGI data

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

Regards,
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