

# Mexico Flash

Inflation during March's first fortnight: downwards surprise caused by agricultural and processed food prices and cancellation of the car owners tax.

**General: Actual: 0.05% f/f vs. BBVA:0.33% f/f Consensus:0.19% f/f**  
**Core: Actual: 0.43% f/f vs. BBVA:0.29% f/f Consensus:0.22% f/f**

- **Additional to the strong reductions in agricultural and livestock prices and the cancellation of the car owners tax, lower than expected processed food prices contributed to the surprise.**
- **The prices of manufactured goods have overcome the effects of the exchange rate depreciation that occurred during the second half of 2011.**
- **This outcome improves the short run inflation perspective, we reiterate that inflation will end 2012 below 4%, but upside risks such as the oil price increase and a possible reversal of the reduction of the grain prices must be monitored. Core inflation remains well anchored between 3.2% and 3.5%.**

During March's first fortnight inflation raised 0.05% f/f, surprising BBVA and the consensus forecasts. Core inflation raised 0.16% f/f, also lower than expected. Non Core inflation was the main contributor to the surprise by decreasing 0.33% f/f.

Core inflation reached 3.26% y/y (3.37 in February). Within its components, merchandise showed a sharp decrease in annual terms from 7.3% y/y in February to 6.73% in March's first fortnight, due to a much lower than expected increase in the prices of processed food (0.13% q/q) caused by weaker pressures from the prices of grains in international markets. Additionally the component of non food merchandise has completely overcome the effects of the exchange rate depreciation that occurred during the second half of 2011. Services remained well bounded thanks to the stability of housing and education prices and to a new reduction in the annual inflation of the rest of services, influenced by the reduction of the price of internet services and increases lower than those of 2011 in the prices of touristic services and air transportation.

Non core inflation reduced slightly from 5.5% in February to 5.3% in the fortnight, this result is due to new decreases in the prices of agricultural products (-0.34% f/f), livestock (-0.11% f/f) and by the tariffs set by local governments (-0.34% q/q). Additionally the energy prices subindex turned out better than expected thanks to the decrease observed in the prices of electricity that compensated the increase in home gas prices.

Again, the most volatile factors caused the very small inflation increase during the fortnight. We consider that inflation risks are balanced because despite that the effects of the high grain prices and the exchange rate depreciation are almost vanished, we must monitor the effects that the increase in oil prices might have and its possible contagion to other commodities such as corn. We reiterate that inflation at year's end will be well within Banxico's variability range.

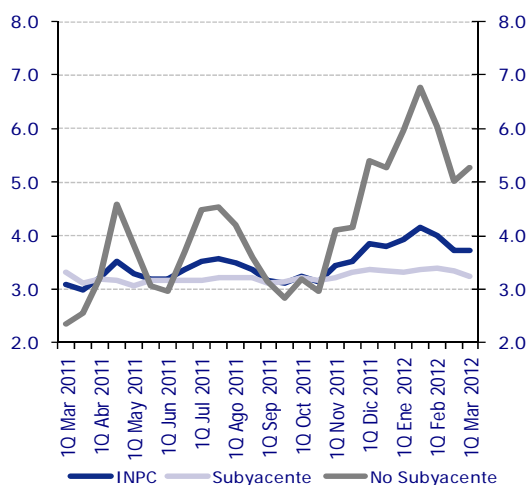
Table 1

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

	Bi-weekly % chg.			Annual % chg.		
	1F Mar 2012	Consensus	BBVA Research	1F Mar 2012	Consensus	BBVA Research
<b>CPI</b>	<b>0.05</b>	<b>0.17</b>	<b>0.33</b>	<b>3.72</b>	<b>3.85</b>	<b>4.02</b>
<b>Core</b>	<b>0.16</b>	<b>0.19</b>	<b>0.29</b>	<b>3.26</b>	<b>3.28</b>	<b>3.39</b>
<b>Non Core</b>	<b>-0.33</b>	<b>0.10</b>	<b>0.46</b>	<b>5.29</b>	<b>5.74</b>	<b>6.12</b>

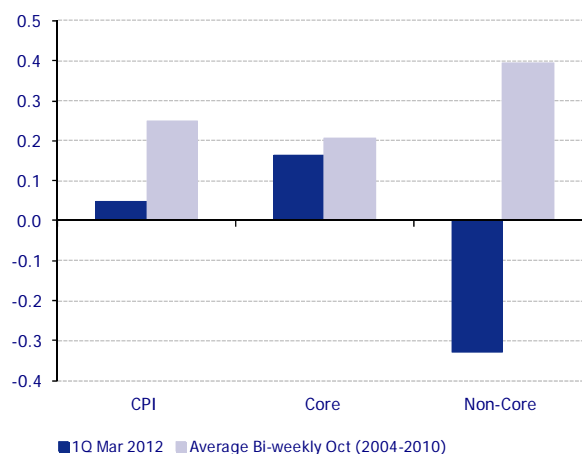
Source: BBVE Research

Graph 1

**Inflation and components (y/y % chg.)**

Source: BBVA Research

Graph 2

**Inflation and components (f/f % chg.)**

Source: BBVA Research

Pedro Uriz Borrás  
 pedro.uriz2@bbva.com  
 +52 55 56 21 77 18

**Disclaimer**

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.