

# Mexico Flash

March's inflation: new reduction in the annual rate due to a sharp reduction in non core inflation.

**General: Actual: 0.06% m/m vs. BBVA:0.05% m/m Consensus:0.08% m/m**

**Core: Actual: 0.24% m/m, vs. BBVA:0.26% m/m Consensus:0.26% m/m**

- **The low inflation during March was caused by reductions in agricultural and live stock prices and the elimination of the tax owners tax in several states; all non core prices.**
- **The fading of pressures in the prices of processed food is a new positive factor that anchors core inflation.**
- **Inflation remained within Banxico's 3% objective variability range during the first quarter, since January the 2012 inflation perspective improved, however we must be vigilant to possible external shocks such as the high oil prices or a new exchange rate depreciation.**

During March 2012 inflation rose 0.06% m/m very close to the forecasts of the market consensus (0.08% m/m) and BBVA Research (0.05% m/m), reaching an annual rate of 3.73% y/y, which is lower than the one registered in February of 3.87% y/y. Core inflation raised 0.24% m/m also in line with market consensus and BBVA Research. Again the non core component was the main factor behind the low inflation during the month.

Core inflation reached 3.31% y/y (3.37% y/y February). Within its components the annual inflation of merchandise decelerated from 4.75% in February to 4.51% in March, this positive outcome was caused by the fading of pressures caused by the high prices of grains in the world and the exchange rate depreciation in the processed food and the rest of merchandise components. The prices of services grew slightly from 2.2% y/y in February to 2.3% y/y in March, within its components the prices of housing and education remain stable, although the first ones are in minimal levels. On the other hand the prices of the rest of services increased slightly from 1.9% in February to 2.1% in March, driven by the increases in the prices related to tourism given the Holly Week break, however this increases were partially compensated by new reductions in the prices of internet access and mobile phone service.

Non core inflation reduced from 5.5% in February to 5.1% in March, this was due to new decreases in the prices of agricultural products (-3.7% m/m), livestock (-0.33% m/m) and by the tariffs set by local governments (-0.74% m/m). 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.

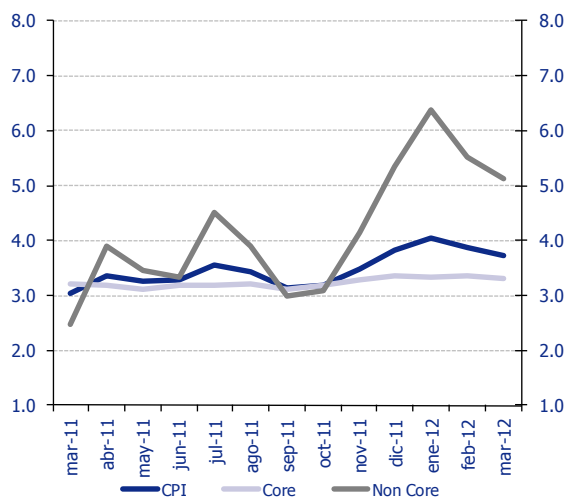
Again, the most volatile factors of inflation caused the very small inflation increase during the month. Even if inflation perspectives for 2012 have improved since January, we consider that inflation risks are balanced because despite that the effects of the high grain prices and the exchange rate depreciation 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)

|          | m/m % Change |           |               | y/y % Change |        |
|----------|--------------|-----------|---------------|--------------|--------|
|          | mar-12       | Consensus | BBVA Research | feb-12       | mar-12 |
| CPI      | 0.06         | 0.08      | 0.05          | 3.87         | 3.73   |
| Core     | 0.24         | 0.26      | 0.26          | 3.37         | 3.31   |
| Non Core | -0.55        | -0.51     | -0.64         | 5.53         | 5.12   |

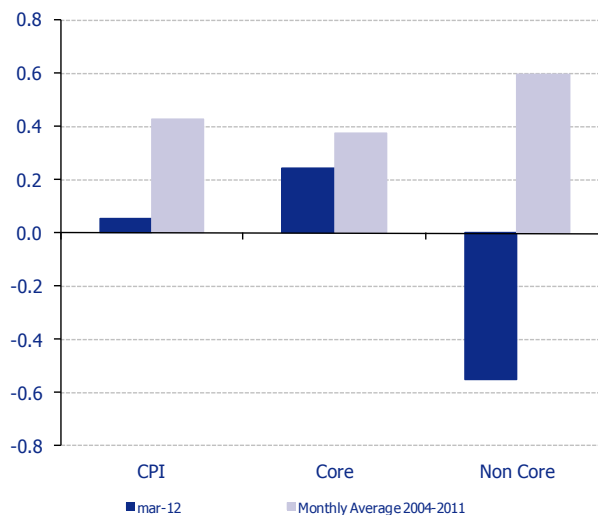
Source: BBVE Research

Graph 1  
Inflation and components (y/y % chg.)



Source: BBVA Research

Graph 2  
Inflation and components (m/m % chg.)



Source: BBVA Research

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