

Mexico Inflation Flash

May 2012 inflation: the most volatile prices push inflation towards 4%, a spike that will reverse after the summer.

General: Actual:-0.32% m/m vs. BBVA:-0.26% m/m Consensus:-0.34% m/m
Core: Actual: 0.27% m/m, vs. BBVA:0.25% m/m, Consensus:0.27% m/m

- **CPI inflation decreased -0.31% m/m, less than a year ago (-0.74% y/y) causing an inflation spike from 3.4% in April to 3.9% in May.**
- **The annual increase in annual core inflation (from 3.4% to 3.5%) is also due to a tough comparison vs. 2011 and not to generalized pressures in the component.**
- **Inflation will close the year below 4%, though between June and September it could rise above that threshold.**

In May CPI reduced -0.32% m/m, a decrease stronger than anticipated by BBVA Research and close to the market consensus forecast. The monthly decrease of prices during May, pushed annual inflation 0.5% higher, from 3.4% y/y to 3.9%. As for core inflation, which turned out very close to BBVA Research's forecast, the annual increase was of 0.1% from 3.4% to 3.5%. In this way, the non core-component increased sharply to 5.2% from 3.5% in April.

Despite the increases in core inflation during the last three months it remains well bounded. The prices of merchandise remained stable around 4.5% y/y, with food moderating its inflation while the inflation of the rest of merchandise is picking up in a scenario where the economy keeps recovering and the exchange rate has depreciated since last summer. Within the services subindex the prices of housing keep reducing in annual terms and reach historical minimums (1.86% a/a); in contrast, the prices of education rose from 4.3% in April to 4.5% in May, while the prices of the rest of services grew from 2.6% in April to 2.9%. Even when core inflation increased in May, we consider it has a small margin to accelerate further because even when the economy keeps recovering and the peso has depreciated since summer, the lack of demand pressures prevails given the availability of productive factors, which together with the downwards risks that the delicate situation of the world supposes, the room to pass cost increases to consumers remains narrow.

Non-core inflation picked up due to an increase of the prices of fruits and vegetables whose inflation went from -13.5% y/y in April to -2.1% y/y in May. Even when its contribution was less favorable, as long as they only increase moderately, non core inflation will remain relatively bounded, because both the prices of livestock and energy have decelerated since the first quarter of the year, additionally the prices of oil and have moderated and the prices set by public governments are not expected to increase this year, effects that could compensate a moderate increase in the prices of fruits and vegetables.

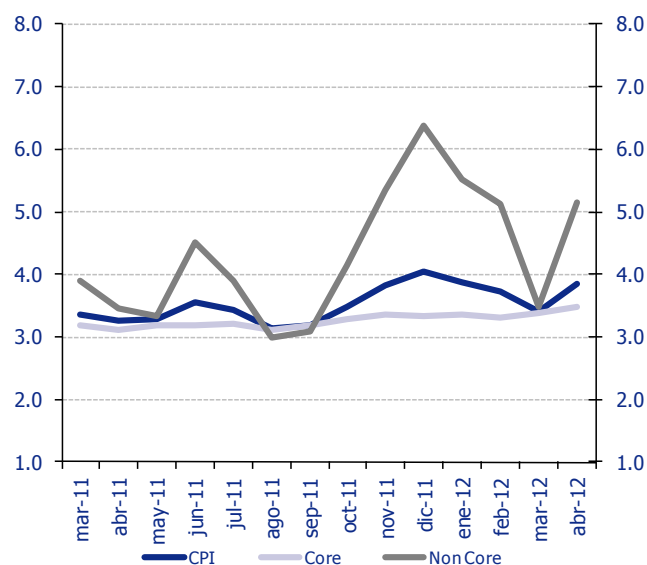
Even when inflation could rise above 4% transiently during the summer, we consider that the conditions remain for inflation to reduce below that threshold at year's end, because i) there are no demand pressures, ii) the exchange rate pass through is low; iii) the prices of commodities have moderated in world markets, and iv) the risks over the world economy are biased downwards,

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

Inflation (m/m & y/y % chg.)					
	m/m % Change			y/y % Change	
	may-12	Consensus	BBVA Research	abr-12	may-12
CPI	-0.32	-0.34	-0.26	3.41	3.85
Core	0.27	0.27	0.25	3.39	3.48
Non Core	-2.26	-2.35	-1.94	3.49	5.15

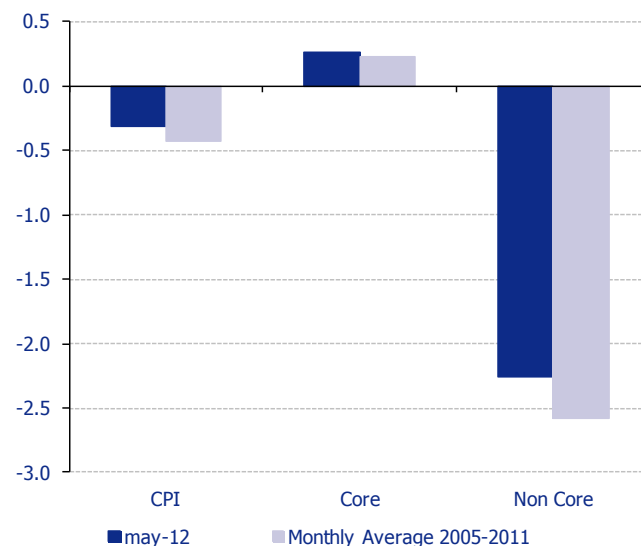
Source: BBVA Research

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



Source: BBVA Research

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



Source: BBVA Research

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

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