

# Mexico Flash

More pressures within non core inflation during June's first fortnight while, Banxico reiterates its neutral monetary policy tone

General: Actual: 0.24% q/q vs. BBVA: 0.15% q/qm Consensus: 19% q/q  
Core: Actual: 0.10% q/q, vs. BBVA:0.14% q/q, Consensus:0.12% q/q

- The CPI increased 0.24% f/f driven by a new increase of non core inflation due to the strong rise in the prices of domestic gas, fruits and vegetables.
- We maintain inflation will end the year below 4%, although between June and September it will remain above that threshold.
- In the minutes released today from the June 8 monetary policy meeting, the board adopted a balanced and symmetrical tone and reassured that it will modify its monetary stance in any which way in congruence to the conditions they face.

During June's first fortnight the CPI raised 0.24% f/f reaching an annual rate of 4.3% from 3.9% in May. The core component increased 0.1% f/f reaching 3.5% a/a, practically unchanged since May. Non core inflation raised 0.72% f/f accelerating in annual terms from 5.9% in May to 7.1% in June's first half.

**Core inflation remains stable in annual terms, however within its merchandise component some upwards pressures emerged compensated by a reduction in the prices of the other services component.** The prices of merchandise increased 0.26% f/f, causing its annual rate to spike from 4.5% in May to 4.73% in the past fortnight. Both the prices of processed food as the prices of the rest of merchandise increased their annual rate, although the increase of the food driven by an increase in the prices of corn tortillas is more relevant given its inflation moderated in the previous three months. The rest of merchandise kept increasing annually, accelerating from 3.1% y/y in May to 3.4% y/y in June's first fortnight, consistent with a context of continuous economic recovery that opens the possibility for producers, to pass through cost increases as a result of the exchange rate depreciation. All in all, we still consider that the recent increases of this prices don't pose relevant upwards risks given the lack of demand pressures as the services component shows. This last component decelerated again going from 2.6% y/y in May to 2.5% y/y June's 1F, thanks to the stability of housing and education prices and to a new reduction in the prices of the rest of services led again by a decrease in the prices of mobile phone services. The slack in the economy will remain an anchor for core inflation to remain bounded, because it will continue as a barrier for producers to pass through more intensively cost increases to consumers either if they are caused by higher input prices or by the exchange rate depreciation. **However, as mentioned in the July 8 policy meeting minute, in case the exchange rate remains depreciated for a prolonged period, more intense pass through can't be ruled out.**

**Non core inflation keeps increasing on an annual basis although within its components not everything is negative.** Again the increase in non core inflation was due to the sharp increases of agricultural prices (4.5% f/f) and the prices of energy (0.49% f/f) this last ones influenced by the strong fortnightly increases of L.P. Gas (0.72% f/f) and natural gas (4.7% f/f). However the prices of livestock had their sharpest fortnightly contraction of the year (-0.48%) due to reductions in the prices of chicken products and that the tariffs set by local governments have only increased 0.3% annually. To the extent that the increases of the prices of fruits and vegetables are transitory, the non core component will tend to stabilize.

**It's already accounted for that inflation will remain above 4% until after September, however the conditions for it to return below that threshold prevail. The accumulation of non core shocks and the base effect, have driven inflation above 4%, however the continuous economic slack in the economy and the reduction in the prices of grains and oil globally will compensate the Peso weakness in case it continues.**

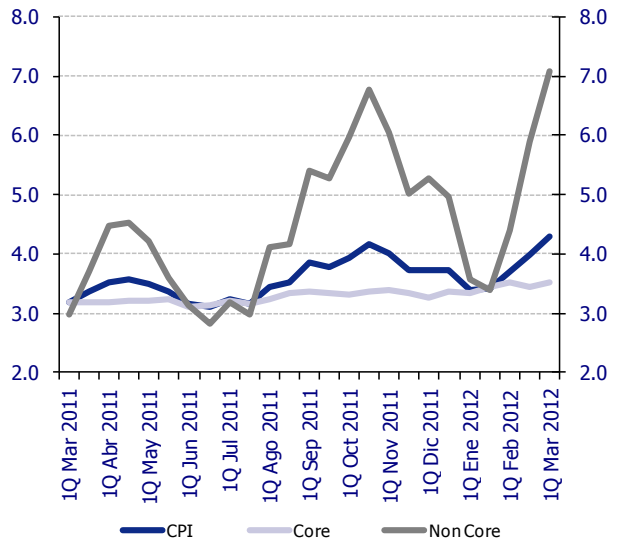
Table 1

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

	Bi-weekly % chg.			Annual % chg.		
	1F Jun 2012	Consensus	BBVA Research	1F Jun 2012	Consensus	BBVA Research
<b>CPI</b>	<b>0.24</b>	<b>0.19</b>	<b>0.15</b>	<b>4.30</b>	<b>4.25</b>	<b>4.21</b>
<b>Core</b>	<b>0.10</b>	<b>0.14</b>	<b>0.12</b>	<b>3.51</b>	<b>3.55</b>	<b>3.53</b>
<b>Non Core</b>	<b>0.72</b>	<b>0.35</b>	<b>0.25</b>	<b>7.07</b>	<b>6.69</b>	<b>6.58</b>

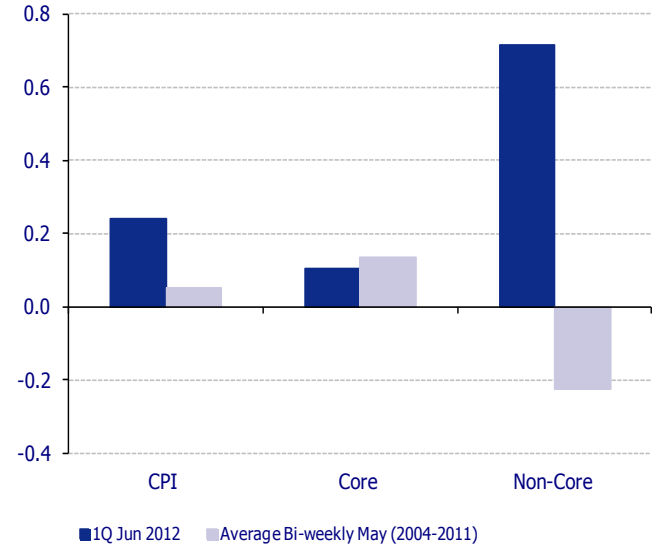
Source: BBVA Research

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

Iván Martínez Urquijo  
ivan.martinez.2@bbva.com  
+525556216503

Arnoldo López Marmolejo  
arnoldo.lopez@bbva.com



Avenida Universidad 1200, Colonia Xoco, México DF, CP 03339 | www.bbva.com

## 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.