

Inflation Flash Mexico

Inflation reaches its highest level since 2010, 4.34% annually. Base effect and transitory supply shocks will permit inflation to end 2012 below 4%.

General: Actual: 0.46% m/m vs. BBVA: 0.43% m/m Consensus: 42% m/m
Core: Actual: 0.22% m/m, vs. BBVA: 0.21% m/m, Consensus: 0.21% m/m

- The CPI increased 0.46% m/m driven by a new hike in non core inflation resulting from increases in prices of fruits and vegetables (7.84% m/m), and in less proportion from energy prices (0.76% m/m).
- We consider inflation will end the year below 4% because of the favorable comparison effect and the slack in the economy. Between July and October inflation will be above this level.
- Notwithstanding, it is necessary to follow closely the prices of poultry and maize products given the recent avian flu outbreak in the state of Jalisco and the US drought, respectively, that could generate transitory pressures on these markets.

During June, the CPI was in line with BBVA Research and market expectations, and raised 0.43% m/m, reaching an annual rate of 4.34% from 3.85% in May. The core component increased 0.22% m/m reaching 3.50% y/y, practically unchanged since May. Non core inflation raised 1.30% m/m accelerating in annual terms from 5.15% in May to 7.84% in June.

Core inflation remains stable in 3.50% in annual terms. However, food prices continue being a factor of pressure, compensated to the downside by prices of services. The prices of merchandise increased 0.36% m/m, causing its annual rate to increase slightly from 4.50% in May to 4.66%. The main factor behind this hike is the increase in processed food, standing out the price of corn tortillas (1.14% m/m). The rest of merchandise increased at annual rate, but remain bounded in 3.29% y/y, consistent with a moderate economic recovery that limits the producers to increase prices significantly because of exchange rate depreciation or demand. The lack of demand pressures is also observed in the behavior of the prices of services, 42% of the CPI basket, which are in 2.54% y/y.

Non core inflation keeps increasing on an annual basis, and has already reached 7.26%. The acceleration in this component continues being the result of increases in fruits and vegetables (12.75% y/y) and energy products (7.87% y/y). On the contrary, the prices of livestock have fallen (-0.47% m/m) given the recent reduction in the price of poultry products. These products could accelerate more than previously expected in July and August because of a lower supply resulting from an outbreak of avian flu in the state of Jalisco. Other factor of pressure is the price of maize given the recent drought in the US.

We consider that inflation will be above 4.0% until October. However, the slack in the economy and the favorable comparison effect will permit inflation to end the year below this level. In July, inflation will be in 4.2% given the recent behavior of the prices of maize and poultry products. The slack in the global and local economy limit the complete pass-through to prices of the increase in costs.

Table 1

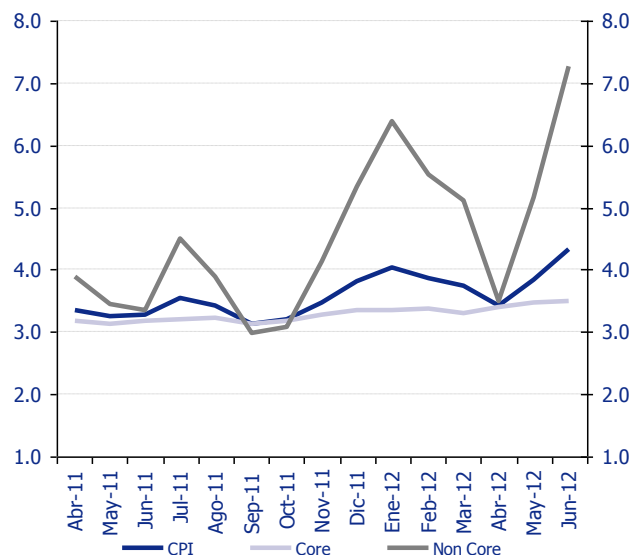
Inflation (y/y and m/m % change)

Inflation (m/m & y/y % chg.)					
	m/m % Change			y/y % Change	
	Jun-12	Consensus	BBVA Research	May-12	Jun-12
CPI	0.46	0.42	0.43	3.85	4.34
Core	0.22	0.21	0.21	3.48	3.50
Non Core	1.30	1.11	1.16	5.15	7.26

Source: BBVA Research with INEGI data

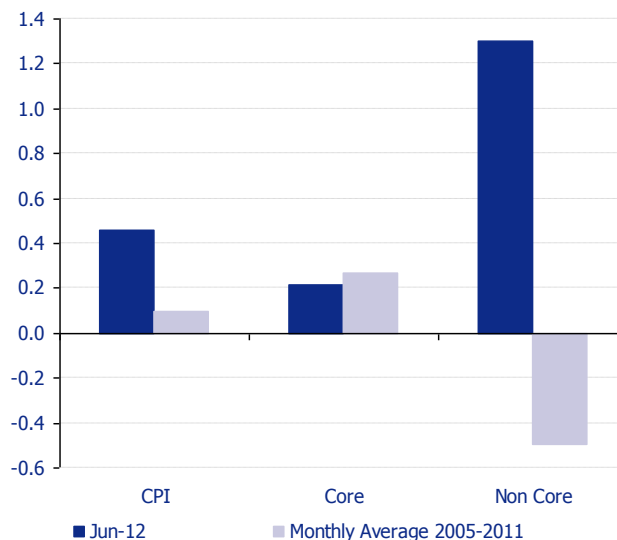
Source: BBVA Research

Graph 1

Inflation and components (y/y % chg.)

Source: BBVA Research

Graph 2

Inflation and components (m/m % chg.)

Source: BBVA Research

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