

Mexico Inflation Flash

July's Biweekly Inflation surprises upwards because of the shock caused by the avian flu outbreak

General: Actual: 0.39% f/f vs. BBVA: 0.24% f/f Consensus: 0.29% f/f
Core: Actual: 0.20% f/f, vs. BBVA: 0.12% f/f, Consensus: 0.16% f/f

- The avian flu outbreak caused livestock prices to soar, elevating non-core inflation which was already being affected by spikes in energy and agricultural prices
- Despite some mild pressures in the merchandise component, core inflation remains well bounded by lack of demand pressures
- We still estimate inflation will end the year below 4%, but the risk of this outcome not happening is increasing

July's biweekly inflation raised 0.39%; it increased from 4.34% annually in June to 4.45%. Core inflation raised 0.20% f/f and reached 3.56% yoy, a mild increase from the 3.5% annual rate in June. Non-Core inflation raised 1.02% f/f, reaching its highest annual rate of the year 7.55% y/y.

Core inflation increased annually due to slight pressures in the prices of processed food and manufactures. The prices of processed food increased 0.35% f/f, reaching an annual rate of 6.54% y/y, an increase of 0.1% from June, reflecting higher corn prices and some exchange rate pass through. Meanwhile the prices of manufactures raised 0.13% f/f reaching 3.45% annually, an increase of 0.16% from June, affected slightly by the peso depreciation but mostly a very unfavorable base effect against 2011, when summer season offers were much more aggressive. **Services remain very well bounded because of the absence of demand pressures**, their biweekly annual rate was 2.52% y/y, practically unchanged compared with their June's rate.

Non-core inflation increased further annually due to a shock in livestock prices caused by the avian flu outbreak. The prices of live stock soared 3.06% f/f thanks to increases in the prices of eggs (15.76% fof) and poultry (3.87% fof). The prices of agricultural products increased 1.01% fof, signaling that their seasonal spike might be close to an end. The prices of energy remained high in annual basis reaching 7.92% y/y, 0.05% higher than they were in June. Non-core inflation could start reducing in coming months, as it could benefit from a positive comparison against 2011 since October, however this depends on no further shocks arising.

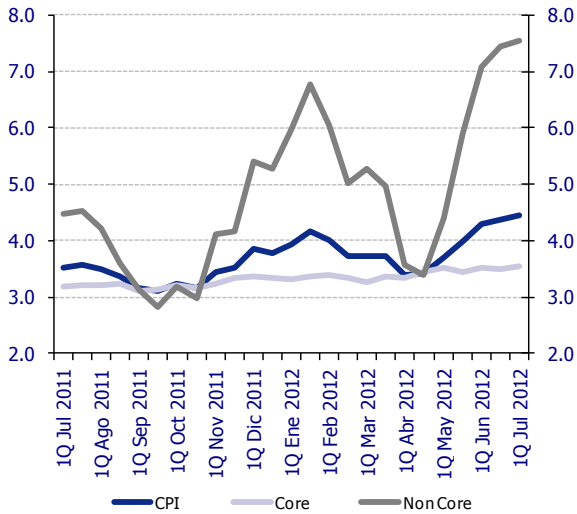
Bottom line: the Mexican inflation is being affected by several transitory supply and external shocks of diverse intensities. As soon as they start vanishing, they will enable inflation to resume its convergence within Banxico's objective bound, thanks to the containment of core inflation caused by lack of demand pressures. However, the probability of inflation reducing below 4% in December is reducing.

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

	Bi-weekly % chg.			Annual % chg.		
	1F Jul 2012	Consensus	BBVA Research	1F Jul 2012	Consensus	BBVA Research
CPI	0.39	0.29	0.24	4.45	4.34	4.29
Core	0.20	0.15	0.12	3.56	3.50	3.47
Non Core	1.02	0.75	0.64	7.55	7.27	7.15

Source: BBVA Research

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



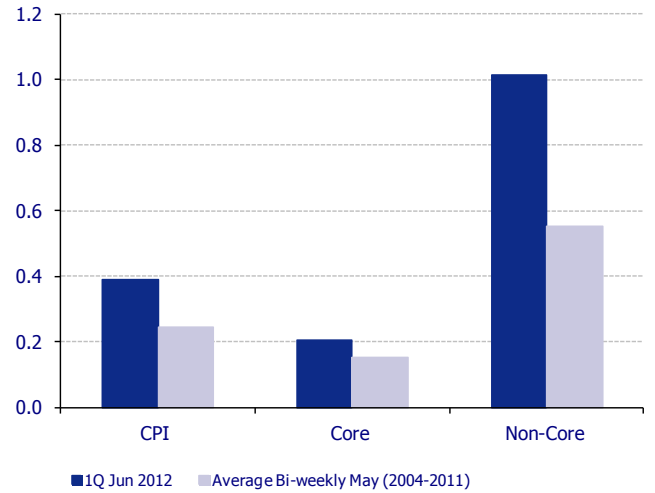
Source: BBVA Research

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



Source: BBVA Research

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