

Mexico Inflation Flash

Inflation rose again in July thanks to supply shocks and the effects of peso depreciation

General: Actual: 0.56% m/m vs. BBVA: 0.63% m/m Consensus: 0.58% m/m
Core: Actual: 0.31% m/m, vs. BBVA:0.33% m/m, Consensus:0.32% m/m

- **The avian flu outbreak caused livestock prices to soar, maintaining non-core inflation - already being affected by spikes in energy and agricultural prices- very high.**
- **Core inflation accelerated because of pressures within its merchandise component given the increases in grain prices and the peso depreciation**
- **We estimate inflation will end the year below 4%, however the next couple of months will be decisive to see if the recent supply shocks vanish and if no new pressures arise within core inflation.**

July's inflation increased by 0.56% m/m accelerating on an annual basis from 4.3% y/y to 4.4% y/y. Core inflation increased 0.31% m/m and also accelerated in annual terms from 3.5% y/y in the previous month to 3.6% in July. Non core inflation remained stable at 7.3% y/y.

Core inflation is still being pressured by the prices of merchandise. The processed food subcomponent accelerated for the second month in a row reaching 4.9% y/y after averaging 4.5% y/y between March and May, the recent spikes in the prices of grains are the main cause for this increase. Meanwhile the prices of the rest of merchandise reached 3.6% y/y, accelerating for the ninth month in a row and reaching its highest rate since November 2010, however as this increase is mostly due to the persistent exchange rate depreciation since September 2011, we expect it will reach its highest rate during the next couple of months. Services prices remain well anchored at 2.5% y/y reflecting the lack of demand pressures in the economy and should remain a support for low inflation the rest of the year; however the annual increases of the prices of education could pressure them upwards in August and September.

Non core inflation remained stable at 7.5% pressured by the increase in the prices of livestock caused by the avian flu outbreak at the beginning of the month. The prices of energy remain a source of upwards pressure as electric fees and household gas prices are being affected by high oil prices. The prices of fruits and vegetables decelerated on an annual basis in July, however wholesale prices are still increasing on a monthly basis signaling that this year could prove worse than previously expected.

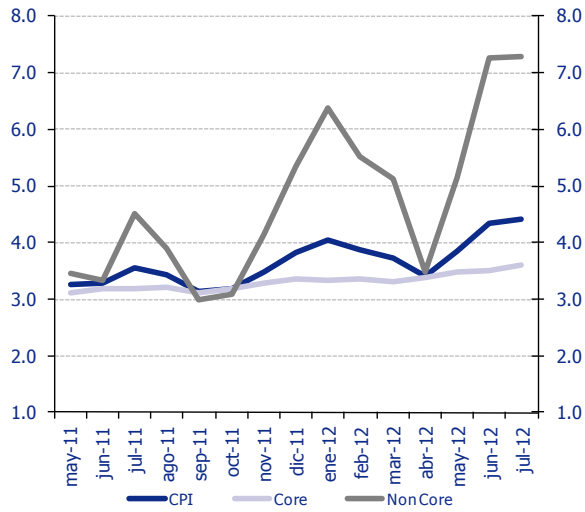
Bottom line: Inflation has increased in recent months because of many consecutive supply shocks that have occurred since 2011 in the commodities markets and the persistent peso depreciation. However it has good chances of ending 2012 below 4% because many of these shocks should be outlived in the remainder of the year –if no further supply shocks occur- due to favorable base effects and the fact that demand pressures are inexistent due to the ample availability of productive resources in the economy.

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

	m/m % Change			y/y % Change	
	Jul-12	Consensus	BBVA Research	Jun-12	Jul-12
CPI	0.56	0.58	0.63	4.34	4.42
Core	0.31	0.32	0.33	3.50	3.59
Non Core	1.41	1.44	1.62	7.26	7.30

Graph 1

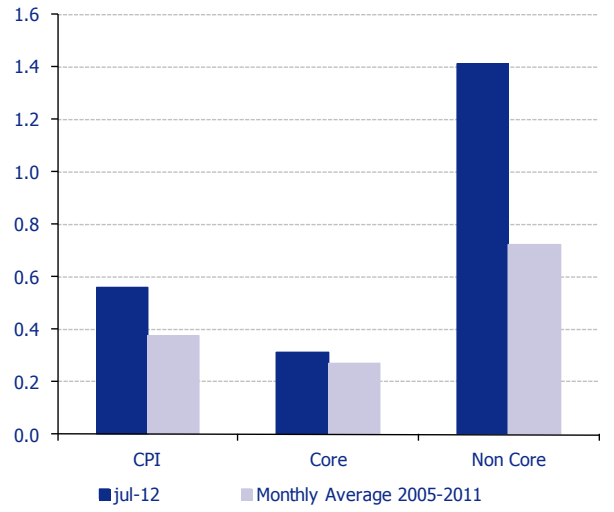
Inflation and components (y/y % chg.)



Source: BBVA Research

Graph 2

Inflation and components (ff/ff % chg.)



Source: BBVA Research

Pedro Uriz Borrás
pedro.uriz2@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.