

# Mexico Inflation Flash

August's bi-weekly inflation: slightly better than expected, however external shocks persist.

General: Actual: 0.14% f/f vs. BBVA: 0.2% f/f Consensus: 0.19% f/f

Core: Actual: 0.16% f/f, vs. BBVA: 0.12% f/f, Consensus: 0.15% f/f

- A decrease in fruit and vegetable prices caused a moderation in non-core inflation; however pressures within its livestock and energy components persist.
- Core inflation keeps accelerating because of pressures within its merchandise component, but services prices remain well bounded below 3%
- We estimate inflation will end the year below 4%, however new supply shocks could prevent inflation from dropping below this threshold.

August's bi-weekly inflation increased 0.14% f/f slightly below market consensus (0.19% f/f) and our estimate (0.2% f/f), it reached 4.45% annually a slight increase from July's result of 4.42%. Core inflation turned out slightly higher than expected by increasing 0.16% f/f, it reached 3.7% y/y increasing from its July rate of 3.6% y/y. Non-core inflation reduced slightly in an annual basis from 7.3% in July to 7% in August's first fortnight.

**Merchandise inflation keeps increasing driving core inflation higher.** Merchandise prices increased 0.28% f/f and reached 5.3% y/y (from 4.9% in July). Its processed food component is being pressured by the high prices of grains causing it to accelerate since May. The rest of merchandise prices have been increasing slowly since October, given the peso depreciation and the continuous –although slow- recovery of the economy. The prices of services increased 0.05% f/f and reached 2.4% y/y, moderating slightly from July's 2.5% y/y rate, this deceleration was caused by lower than expected increases in the prices of education and the seasonal reduction of the prices of touristic services given the end of the summer holidays. Core inflation is being pressured mainly by external shocks such as the prices of grains and the exchange rate depreciation, however as demand is not growing fast enough to cause generalized pressures over prices, its services component remains well bounded at a low annual rate.

**Non core inflation moderated its annual rate driven by a seasonal decrease in the prices of fruits and vegetables; however its livestock and energy components remain pressured.** Livestock prices increased 0.55% f/f reaching an annual rate of 12.37% y/y, a slight moderation from July's 12.81% y/y, this prices accelerated last month because of the avian flu outbreak in Jalisco state, the situation has stabilized since then but we can't rule out further increases given the high prices of grains globally that affect the costs of all livestock producers. Energy prices have been accelerating since May due to the persistent high prices of oil and gas.

**Bottom line:** It is important to highlight that the recent spike in inflation is caused mostly by the an accumulation of supply shocks and to a lower extent to the exchange rate depreciation, also, at this point there are no generalized pressures over prices, as demand remains weak bounding the prices of services . We consider inflation could peak in September and that it will reduce considerably during the fourth quarter ending the year below 4%, however if new shocks arise they will prevent inflation from reducing below this threshold.

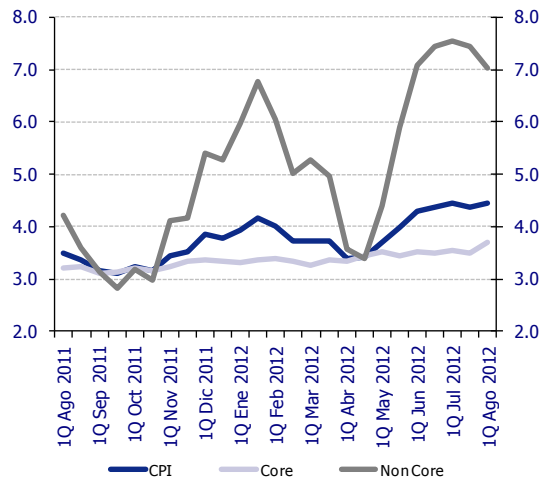
Table 1

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

	Bi-weekly % chg.			Annual % chg.		
	1F Ago 2012	Consensus	BBVA Research	1F Ago 2012	Consensus	BBVA Research
<b>CPI</b>	<b>0.14</b>	<b>0.19</b>	<b>0.20</b>	<b>4.45</b>	<b>4.50</b>	<b>4.51</b>
<b>Core</b>	<b>0.16</b>	<b>0.15</b>	<b>0.12</b>	<b>3.70</b>	<b>3.69</b>	<b>3.66</b>
<b>Non Core</b>	<b>0.07</b>	<b>0.32</b>	<b>0.46</b>	<b>7.03</b>	<b>7.30</b>	<b>7.45</b>

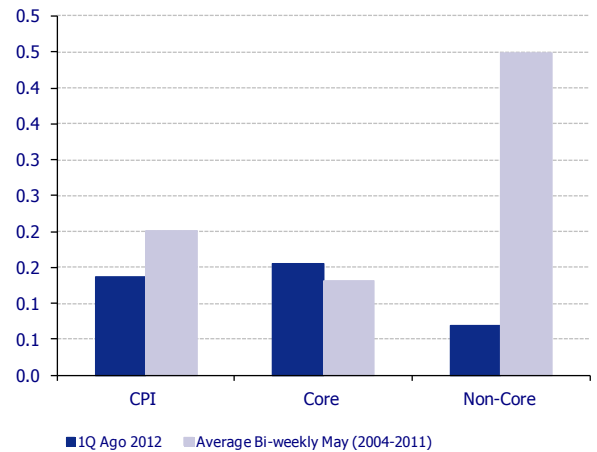
Source: BBVA Research

Graph 1

**Inflation and components (y/y % chg.)**

Source: BBVA Research

Graph 2

**Inflation and components (f/f % chg.)**

Source: BBVA Research

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