

Mexico Inflation Flash

Septembers Inflation: Reaching its Annual Peak due to Non Core Shocks

General: Actual: 0.44% m/m vs. BBVA: 0.45% m/m Consensus: 0.45% m/m
Core: Actual: 0.18% m/m, vs. BBVA: 0.19% m/m, Consensus: 0.19% m/m

- **Core inflation reduced annually confirming that the recent spike in inflation is consequence of volatile factors.**
- **Non Core inflation was the highest since January 2009 due to the accumulation of shocks over the last few months.**
- **Inflation will decrease during the fourth quarter and we expect it could approach 4.05% at year's end, however it could fall less if new Non Core shocks arise.**

Septembers General Inflation reached 4.77% y/y an increase since August's 4.57% y/y, while Core inflation reduced from 3.7% y/y in August to 3.6% y/y in September. Confirming that the recent spike of inflation above 4% is consequence of the acceleration of Non Core Inflation from 3.5% y/y in April to 8.8% y/y in September, its highest level since January 2009. Shocks within livestock markets and seasonal increases in agricultural prices are the main drivers of this increase.

Core inflation reduced annually thanks to falling prices within its services subindex. Services inflation reduced from 2.43% in August to 2.23% in September because of falling prices of fixed and mobile phone services, professional services and air transportation, while the prices of housing and education remained stable. Services inflation remains low because the slow recovery of economic activity prevents demand from pressuring prices upwards. The merchandise subindex remained stable at 5.24% y/y, because processed food inflation accelerated at a slower pace than in previous months and because the inflation of non food goods decelerated slightly. Merchandise inflation has benefited from the recent exchange rate appreciation, if the peso holds during in the following months, it might be near its annual peak, however a new acceleration of grains in world markets remains an upwards risk that could affect it in coming months.

Non core inflation is still being affected by the strong increases of the prices of agricultural and livestock prices. Agricultural inflation reached 13.4% y/y in September, this was a consequence of strong increases in the prices of products such as tomatoes whose offer should increase in coming weeks, at least preventing further acceleration. Livestock inflation accelerated from 13.7% in August to 17.7% in September, because the effects of the avian flu outbreak discovered in July continued affecting the prices of eggs and chicken, and because the prices of meat are being affected by the high prices of grains globally. In coming weeks this prices will begin reducing; however the strength of the shocks they have experienced will cause them to decrease their inflation slowly. Energy inflation reduced their inflation from 8.3% y/y in August to 7.5% y/y in September, this was due to decelerating electricity prices, however we cannot call this reduction a trend until the we see the strength of the winter fee adjustments that will take place in October and November, which could cause a new acceleration of this prices.

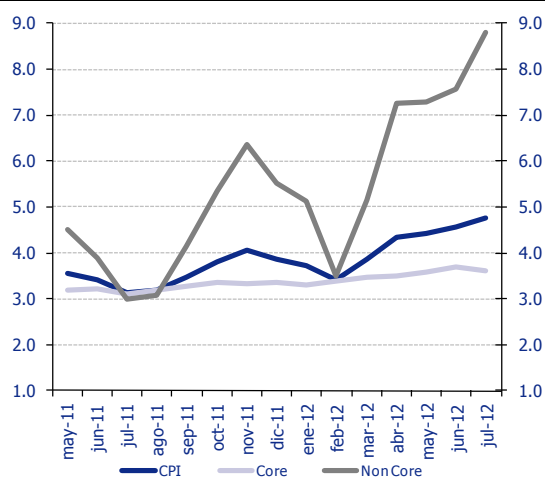
Bottom line: Inflation peaked in September, and we can confirm that its recent spike above 4% was caused by shocks experienced by Non core prices. Core inflation will remain well below 4% as demand hasn't recovered strong enough to pressure prices. Inflation will decrease during the fourth quarter and we expect it could approach 4.05% at year's end, however it could fall less if new Non Core shocks arise.

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

Inflation (m/m & y/y % chg.)					
	m/m % Change			y/y % Change	
	sep-12	Consensus	BBVA Research	ago-12	sep-12
CPI	0.44	0.45	0.45	4.57	4.77
Core	0.18	0.19	0.19	3.70	3.61
Non Core	1.32	1.31	1.31	7.58	8.81

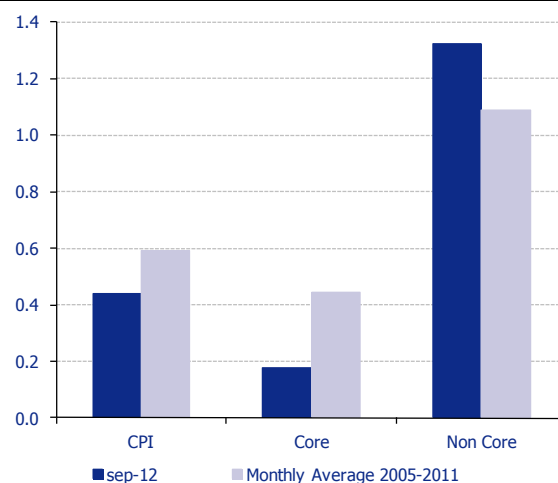
Source: BBVA Research

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



Source: BBVA Research with INEGI data.

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



Source: BBVA Research with INEGI data.

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