

Mexico Inflation Flash

October's Inflation: Inflation Falls as Past Supply Shocks Keep Fading

General: Actual: 0.51% m/m vs. BBVA: 0.57% m/m Consensus: 0.54% m/m
Core: Actual: 0.23% m/m, vs. BBVA: 0.24% m/m, Consensus: 0.25% m/m

- After peaking in September (4.77% y/y) inflation decelerated during October to 4.6% as past supply shocks started fading.
- Core inflation also kept reducing after peaking in August (3.7% y/y) although at a slower pace, reaching 3.58% y/y.
- Inflation began decreasing in October; however it will remain above 4% the rest of the year. Pressures in early 2013 will keep inflation above the 4% threshold during the first months of the year, but we consider inflation is bound to reduce within Banxico's variability range, as the worse supply shocks will keep fading and we don't expect demand pressures in the near future.

October's Inflation dropped to 4.6% y/y from 4.8% in September. Core inflation remained at close to 3.6% y/y as it did in September. Non core inflation fell from 8.8% to 8.1% y/y and thus was the main contributor to the decrease in general inflation.

Core inflation remained stable around 3.6% y/y given the deceleration of processed food prices, the improved performance of the rest of merchandise prices, and the low inflation within its services component. Merchandise prices increased 0.29% m/m reducing slightly from the 5.24% y/y in September to 5.17% y/y in October. This was caused by a reduction in processed food from 6.9% y/y in September to 6.7% y/y in October, as a consequence of weaker pressures coming from global grain prices, and a very favorable basis effect. The inflation of the rest of merchandise remained stable around 4% as in the past two months, signaling that despite the moderate peso appreciation during the past few months has been moderate, it has contributed to stabilize this prices. Services inflation remained at 2.25% y/y as in September, the stable and low inflation of this component proves that supply shocks haven't affected general price formation within the economy, and that the recovery of private consumption hasn't been strong enough to cause demand pressures.

Non Core inflation reduced on an annual basis as livestock and energy prices had a strong deceleration. The prices of fruits and vegetables reduced -1.41% m/m in October, however on an annual basis their inflation remained stable at 13.4% y/y because of the strong increases they had in previous months. Meanwhile livestock prices rose less than expected and began reducing their annual inflation from 17.7% y/y in September to 17% y/y as the prices of eggs have stabilized after surging in previous months because of the avian food outbreak in Jalisco. Energy inflation reduced from 7.5% to 6% due to lower than expected seasonal increases in the prices of electricity caused by slightly lower oil prices, the exchange rate appreciation and the new fair billing policy at the electric company. The inflation of tariffs set by local governments reached 0.24% y/y, despite being very low it has increased in the past few months and can accelerate intensely at the beginning of 2013 as new local governments could rise some prices in order to strengthen local public finance.

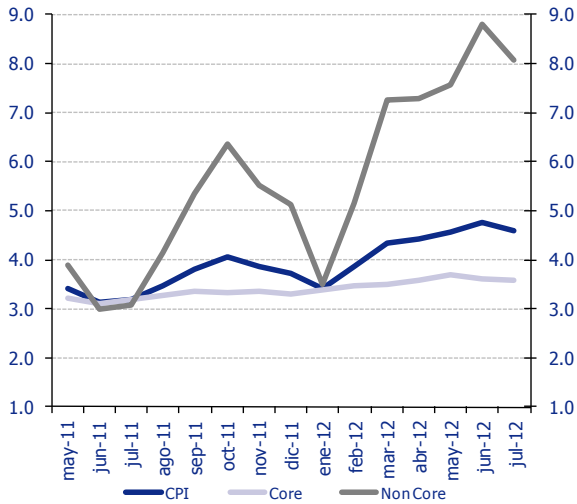
Bottom line: Inflation began decreasing in October; however it will remain above 4% the rest of the year. Pressures in early 2013 will keep inflation above the 4% threshold during the first months of the year, but we consider inflation is bound to reduce within Banxico's variability range as the worse supply shocks will keep fading and we don't expect demand pressures in the near future.

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

	m/m % Change			y/y % Change	
	oct-12	Consensus	BBVA Research	sep-12	oct-12
CPI	0.51	0.55	0.57	4.77	4.60
Core	0.23	0.25	0.24	3.61	3.58
Non Core	1.42	1.54	1.66	8.81	8.07

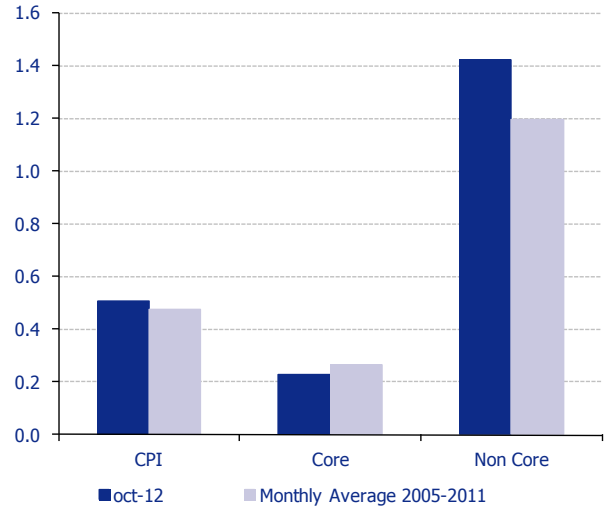
Source: BBVA Research

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



Source: BBVA Research with INEGI data.

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



Source: BBVA Research with INEGI data.

Pedro Uriz Borrás
 pedro.uriz2@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.