# Mexico Inflation Flash

## November's Inflation: Sharper than Expected Fall, Thanks to Mobile Phone Services

**General: Actual: 0.68% m/m vs. BBVA: 0.75% m/m Consensus: 0.84% m/m**
**Core: Actual: 0.05% m/m, vs. BBVA:0.23% m/m, Consensus:0.25% m/m**

- **Inflation fell sharply in November thanks to a strong fall in Core inflation caused by much lower than expected mobile phone services prices.**
- **As expected by Banxico inflation is reducing in the 4Q12 and it could end the year below 4%.**
- **Inflation remains on the path expected by the central bank, confirming that the recent peak was caused mainly by volatile prices. However some risks remain as agricultural prices could increase in coming months, an exchange rate depreciation, livestock prices remain high, and public tariffs could increase more than expected at the beginning of the year, factors than can keep inflation close to 4% during the first half of 2013.**

November's inflation dropped from 4.6% in October to 4.2% y/y. Core inflation dropped from 3.6% to 3.3% y/y thanks to a sharp decrease in the prices of services from 2.2% to 1.7% y/y. Non core inflation reduced from 8.1% to 7.1% y/y. As opposed to the October's fall in inflation, in November the contribution of Core inflation to the decrease was significant.

**Core inflation fell from 3.6% y/y in October to 3.3% y/y given the deceleration in services prices, however merchandise inflation remains high and stable at 5.2% since august.** Merchandise prices increased 0.38% m/m, as both of its components -processed food and rest of merchandise- increased slightly more than expected, affected by very high grain prices globally, and the persistent weakness in the peso that makes imports more expensive. Services prices decreased -0.23% m/m and reached 1.7% y/y its lowest annual rate in history. The housing and education service subcomponents remain unpressured at 2.0% y/y and 4.5% y/y respectively. The rest of services component continues performing very favorably, reaching 0.56% y/y its lowest annual rate in history. This positive performance is related to increased competition and regulation in telecommunication services, which causes its prices to fall, mobile phone services have been leading this decreases in recent months and they fell very sharply in November -18.5% m/m. Core inflation will remain bounded due to economic slack, as unemployment remains high and it prevents consumption from pressuring prices, the increasing competition in the telecommunications sector could push it near 3% in some months of 2013. Additionally the discount program "BUen Fin" (Mexico's "Black Firday") seem to have a downwards effect on prices in November. However merchandise prices remain pressured and at this point as the shocks affecting it seem very persistent.

**Non Core inflation reduced again on an annual basis as livestock and energy prices kept decelerating and fruits and vegetables timely reduced its inflation in November.** Agricultural and livestock prices inflation reduced from 15.4% in October to 13.0% y/y, thanks to sharp decrease in the prices of tomatoes and slightly lower poultry prices, however meat is being pressured by high grain prices and it could cause the reduction of the inflation of this component to be slower. Public prices remained stable at 3.9% because even though energy prices inflation kept falling (from 6% in October to 5.8% y/y), the inflation of tariffs set by local governments has increased in the last two months, however this increases have been mild and its inflation level remains very low at 0.5% y/y. Non core inflation keeps falling as supply shocks continue fading, however some risks prevail as we can´t rule out new supply shocks and/or public tariffs could increase more than expected at the beginning of 2013.

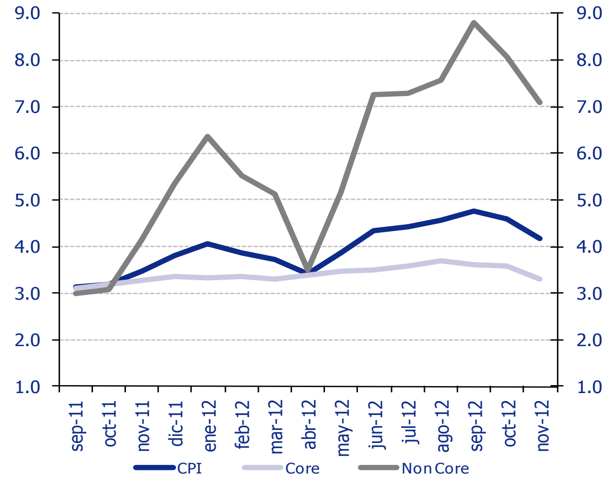
**Bottom line: Inflation remains on the path expected by the central bank, confirming that the recent peak was caused mainly by volatile prices. However some risks remain as agricultural prices could increase in coming months, an exchange rate depreciation, livestock prices remain high, and public tariffs could increase more than expected at the beginning of the year, factors than can keep inflation close to 4% during the first half of 2013.**

Table 1
**Inflation (y/y and m/m % change)**

| | m/m % Change | | | y/y % Change | |
|---|---|---|---|---|---|
| | nov-12 | Consensus | BBVA Research | oct-12 | nov-12 |
| **CPI** | **0.68** | **0.84** | **0.75** | 4.60 | **4.18** |
| **Core** | **0.05** | **0.25** | **0.23** | 3.58 | **3.30** |
| **Non Core** | **2.73** | **2.79** | **2.47** | 8.07 | **7.09** |

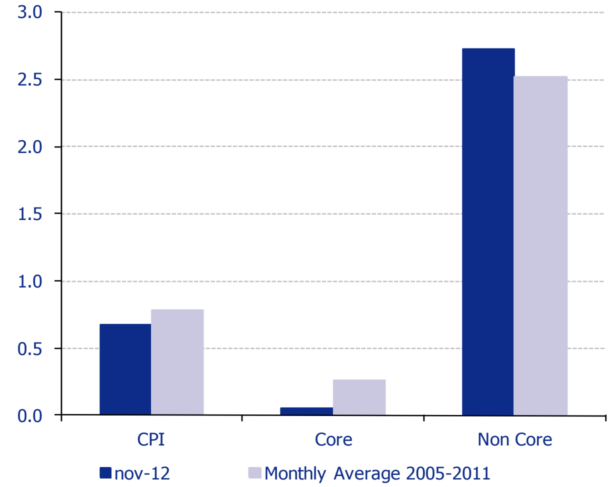
Source: BBVA Research

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.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