

# Mexico Inflation Flash

## January biweekly inflation: Inflation Drops Again as Non-Core Prices Surprise Downwards

General: Actual: 0.15% f/f vs. BBVA: 0.39% f/f Consensus: 0.32% f/f

Core: Actual: 0.18% m/m, vs. BBVA:0.25% m/m, Consensus:0.23% m/m

- Inflation fell to 3.2% y/y driven by lower than expected non-core prices and the continuity of the positive behavior of core inflation.
- Core inflation reached 2.8%, as merchandise inflation keeps falling; however services inflation bottomed in December and increased this month.
- The inflation risk balance has improved as commodity prices have stabilized both locally and globally, the exchange rate has appreciated and the economic slack prevents demand from pressuring prices. Despite we can't rule out new supply shocks, right now the most relevant upwards risk to inflation seems to be the possible increases in tariffs set by local governments which have not materialized yet, Therefore we consider inflation will remain well bounded throughout the year.

January's bi-weekly inflation increased 0.15% f/f, lower than BBVA Research and the market consensus expected, dropping from 3.6% y/y in December to 3.2% y/y. Core inflation increased 0.18% f/f, also below expectations, and reached 2.8% y/y a decrease from the 2.9% y/y print in December. Non-Core inflation dropped from 5.75% y/y in December to 4.6% y/y, leading the way for the positive outcome at the beginning of the year.

**Core inflation fell to 2.8% y/y but this time the decrease in merchandise inflation was the driver, as the prices of services seem to have bottomed in December.** Merchandise prices increased 0.17% f/f, as pressures within processed food continue fading causing its annual inflation to fall from 6.1% y/y in December to 5.4% y/y. The inflation of the rest of Merchandise dropped to 3.9% y/y after remaining stable around 4.1% the past couple of months, due to a still feeble demand and the effects of the recent peso appreciation. The prices of services increased from 1.15% y/y in December to 1.3% y/y as the inflation of higher education and restaurants increased and the recent drops in mobile phone prices seem to have ended. The prices of merchandise remain on a lowering trend, which if no new shocks arise, should continue in coming months, this will compensate some increases within services inflation that we consider will be moderate, setting up the scenario for core inflation to remain under control during the year.

**Non Core inflation keeps falling as the shocks that affected in 2012 have eased.** Agricultural and livestock prices inflation reduced from 9.2% in December to 6.0% y/y, thanks to a sharp decrease in the inflation of fruits and vegetables and stable livestock prices. Public prices remained stable at 3.8% y/y as the decrease in the inflation of tariffs set by local governments compensated the increase in energy inflation. Non-Core inflation should remain in check in coming months as livestock markets should keep normalizing, compensating the higher increases in gasoline prices and the acceleration of local tariff inflation. Agricultural prices will cause the bigger oscillations in non core inflation during the year, but we don't expect extraordinary pressures in this sub-index.

**Bottom line: The inflation risk balance has improved as commodity prices have stabilized both locally and globally, the exchange rate has appreciated and the economic slack prevents demand from pressuring prices. Despite we can't rule out new supply shocks, right now the most relevant upwards risk to inflation seems to be the possible increases in tariffs set by local governments which have not materialized yet, Therefore we consider inflation will remain well bounded throughout the year.**

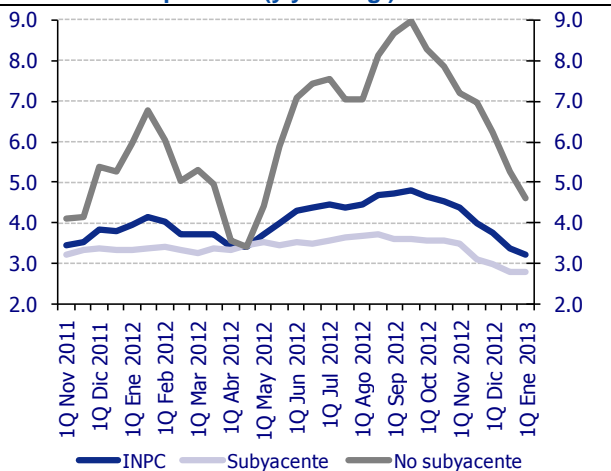
Table 1

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

	Bi-weekly % chg.			Annual % chg.		
	1F Jan 2013	Consensus	BBVA Research	1F Jan 2013	Consensus	BBVA Research
<b>CPI</b>	<b>0.15</b>	<b>0.32</b>	<b>0.39</b>	<b>3.21</b>	<b>3.38</b>	<b>3.45</b>
<b>Core</b>	<b>0.18</b>	<b>0.23</b>	<b>0.25</b>	<b>2.78</b>	<b>2.83</b>	<b>2.85</b>
<b>Non Core</b>	<b>0.08</b>	<b>0.62</b>	<b>0.85</b>	<b>4.61</b>	<b>5.17</b>	<b>5.41</b>

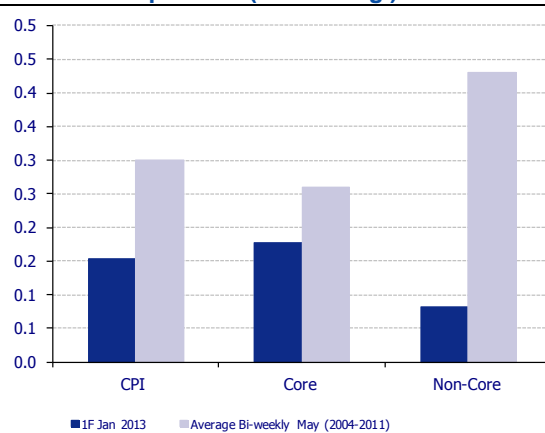
Source: BBVA Research

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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