

Mexico Inflation Flash

March's bi-weekly inflation: Food-driven upside surprise; temporary increase and low and stable core inflation keep monetary policy expectations unchanged

Headline: Actual: 0.52% f/f vs. BBVA: 0.30% f/f, Consensus: 0.28% f/f
Core: Actual: 0.26% f/f, vs. BBVA: 0.23% f/f, Consensus: 0.17% f/f

- The bi-weekly headline CPI index for the first fortnight of March reached a 4.13% y/y print after rising by 0.52% f/f, much more than expected. The upside surprise was driven by stronger-than-anticipated food pressures: the fruits and vegetables component increased 6.20% f/f while livestock prices rose 1.00% f/f
- Core inflation rose by 0.26 f/f, reaching 3.06% y/y. Compared with our expectations, upside surprises were located in the rest of services component, as mobile phone fees increased again after falling slightly in the second fortnight of February, and to a lesser extent in the core food component.
- In spite of the upside surprise, the balance of risks on inflation remains positive as core inflation remains low and stable and the increase in headline prices should prove short lived. Moreover, fundamentals remain positive and have even improved somewhat over the past few weeks as the economic slack remains unchanged but the Peso has further appreciated – which could further lower inflation pressures in the core goods component. Therefore we maintain our view that after a temporary increase, inflation will return to below 4% levels for the rest of the year. Given that Banxico is going to remain vigilant on the inflation path, today's print reinforce our view that it will adopt a “wait-and-see” stance in the near future.

The bi-weekly headline CPI index for the first fortnight of March reached a 4.13% y/y print (3.55% y/y in February), after rising by 0.52% f/f, much more than expected. Core inflation increased 0.26% f/f, accelerating slightly to 3.06% y/y (2.96% y/y in February). Non-Core inflation rose from 4.5% y/y in February to 5.0% y/y.

Core inflation rose by 0.26 f/f, reaching 3.06% y/y. Compared with our expectations, upside surprises were located in the rest of services component, as mobile phone fees increased again after falling slightly in the second fortnight of February, and to a lesser extent in the core food component. Merchandise prices increased 0.20% f/f and although its annual inflation stopped falling, it remained stable at 3.87% (vs. 3.86% in February) after remaining above 4% in the previous 22 months. The slight increase in annual inflation was driven by an increase in the processed food component while the rest of merchandise component remained unchanged. Stable grain prices, a stronger Peso and a still weak demand, point to the absence of significant pressures going forward. The prices of services increased from 2.21% y/y in February to 2.38% y/y driven by the acceleration in the rest of services component from 1.66% in February to 2.04% in the first fortnight of March. This acceleration was caused by renewed increases in mobile phone prices. In the absence of unexpected increases, merchandise inflation should resume its downward trend which would offset moderate increases within services inflation, setting up the baseline scenario for core inflation to remain in check all year.

Non Core inflation increased much more than expected due to an upside swing of food prices. The upside surprise in headline CPI was driven by stronger-than-anticipated food pressures: the fruits and vegetables component increased 6.20% f/f while livestock prices rose 1.00% f/f. Agricultural and livestock prices inflation jumped from 7.5% in February to 12.4% y/y. In terms of contribution, tomatoes dominate the impact on inflation of the fruits and vegetables group: the price of red tomatoes rose 15.4% f/f and green tomatoes, 39.8%. As we anticipated, the recent avian flu outbreak in Guanajuato caused pressures in livestock prices: the price of eggs rose 2.70% f/f and poultry, 1.34%. Meanwhile, public prices remained unchanged at 4.4% y/y. As usual, food prices will cause the bigger swings in non core inflation during the year, but we don't expect extraordinary pressures in this sub-index.

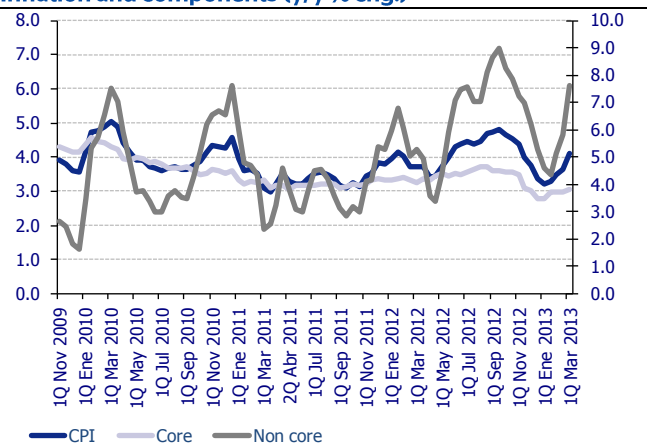
Bottom line: In spite of the upside surprise, the balance of risks on inflation remains positive as core inflation remains low and stable and the increase in headline prices should prove short lived. Moreover, fundamentals remain positive and have even improved somewhat over the past few weeks as the economic slack remains unchanged but the Peso has further appreciated –which could further lower inflation pressures in the core goods component. Therefore we maintain our view that after a temporary increase, inflation will return to below 4% levels for the rest of the year. Given that Banxico is going to remain vigilant on the inflation path, today’s print reinforce our view that it will adopt a “wait-and-see” stance in the near future.

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

Inflation (Bi-weekly and annual % chg.)						
	Bi-weekly % change			Annual % change		
	1F Mar 2013	Consensus	BBVA Research	1F Mar 2013	Consensus	BBVA Research
CPI	0.52	0.28	0.30	4.12	3.87	3.90
Core	0.26	0.17	0.23	3.06	2.97	3.03
Non Core	1.36	0.64	0.53	7.61	6.84	6.72

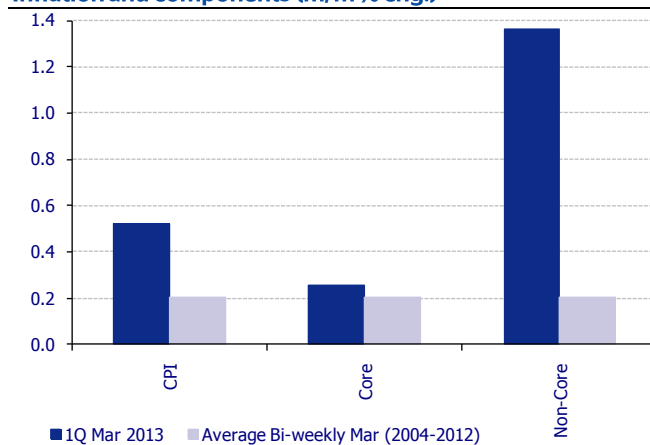
Source: BBVA Research

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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