

Mexico Inflation Flash

June's inflation: Inflation Approaches 4% Due To Lower Fruit And Vegetable Prices And Falling Core Inflation

General: Actual: -0.06% m/m vs. BBVA:-0.05% m/m Consensus: -0.02% m/m

Core: Actual: 0.13% m/m, vs. BBVA:0.15% m/m Consensus: 0.17% m/m

- Thanks to a strong decline in green tomatoes, lemons and egg prices non core inflation fell sharply, enabling general inflation to approach 4%.
- Core inflation remains below 3% y/y as the inflation of its goods component keeps moderating.
- Inflation is now clearly heading towards 4% y/y, and in the absence of new supply shocks, it should fall below that threshold before September, as favorable fundamentals such as lower international commodity prices and the ample availability of resources within the economy prevail. None the less non-core inflation remains the main upwards risk given the very high volatility shown by its components this year.

June's inflation fell -0.06% m/m, in line with our forecast (-0.05% m/m) and below market consensus (-0.02% m/m), falling in annual terms from 4.63% y/y in May to 4.09% y/y. Core inflation increased 0.13% m/m slightly below our estimate and market consensus, annually it fell from 2.9% y/y in May to 2.8% y/y. Non-Core inflation fell -0.69% m/m, decreasing in annual terms from 10.6% y/y in May to 8.4% y/y.

Core inflation remains well below 3.0% thanks to the continuous moderation of its goods component. Goods prices increased 0.01% m/m, causing its annual inflation to fall from 3.5% y/y in May to 3.1% y/y. Its processed food component fell from 4.4% y/y in the previous month to 3.9% y/y. Meanwhile, the inflation of the rest of goods component fell from 2.8% y/y in May to 2.5% y/y, thanks to a still feeble domestic demand, the beginning of summer sales and a stronger peso throughout most of the year. The prices of services increased from 2.4% y/y in May to 2.5% y/y, this increase is due to a slight acceleration in housing and the rest of services inflation, however this should be short lived as weak demand still doesn't justify sharp price increases right now. Strong fundamentals such as lower international grain prices and persistent economic slack will continue favoring low core inflation, which in case of further deceleration of the economy could moderate even more, however the peso depreciation continues, this could partially compensate the pressures pushing down core inflation caused by weaker economic activity.

Non Core inflation fell thanks to decreases in fruits and vegetables and egg. Agricultural inflation decreased from 15.1% y/y in May to -1.2% y/y thanks to falling green tomato and lemon prices as they had been affected in previous months by bad weather and a plague respectively, and, to a very favorable base effect. Livestock inflation increased from 15.1% y/y in May to 15.4% y/y, as poultry markets remain affected by the avian flu, however egg prices fell during the month compensating the increases in chicken prices. Energy prices rose from 8.2% y/y in May to 8.4% y/y because the inflation of gasoline and heating gas keeps increasing strongly, as the government is subsidizing these products less this year in order to rein in the high fiscal cost paid in previous years. Finally, the inflation of tariffs set by local governments increased from 6.5% y/y in May to 7.1% y/y, thanks to increases in the prices of public transportation. Agricultural and livestock prices should continue falling in coming weeks, and, thanks to a favorable base effect, non core inflation will fall sharply in coming months. However public prices remain an upwards risk, given the smaller energy subsidies and weak local government finance.

Bottom line: Inflation is now clearly heading towards 4% y/y, and in the absence of new supply shocks, it should fall below that threshold before September, as favorable fundamentals such as lower international commodity prices and the ample availability of resources within the economy prevail. None the less non-core inflation remains the main upwards risk given the very high volatility shown by its components this year.

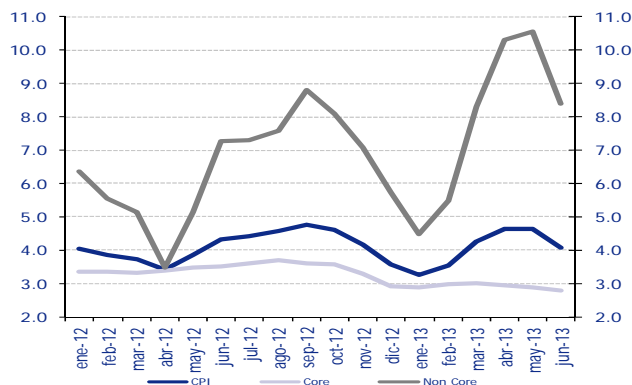
Table 1

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

	m/m % Change			y/y % Change	
	jun-13	Consensus	BBVA Research	may-13	jun-13
CPI	-0.06	-0.02	-0.05	4.63	4.09
Core	0.13	0.17	0.15	2.88	2.79
Non Core	-0.69	-0.65	-0.71	10.56	8.39

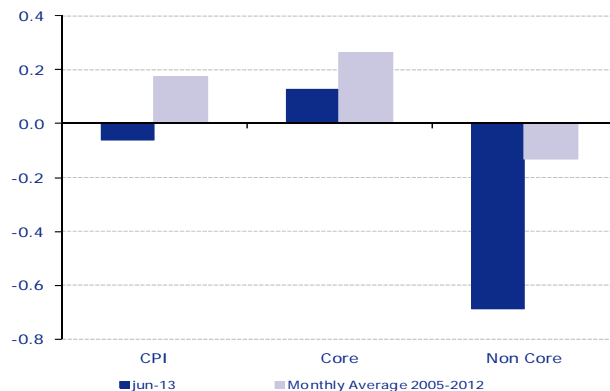
Source: BBVA Research

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.

Pedro Uriz Borrás
pedro.uriz2@bbva.com



| Avenida Universidad 1200, Colonia Xoco, México DF, CP 03339 | www.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.