

Mexico Inflation Flash

Inflation continues falling in July, and the core inflation reaches its historical low

General: Actual: -0.03% m/m vs. BBVA: -0.08% Consensus: 0.01%f

Core: Actual: 0.03% m/m vs. BBVA: 0.04% Consensus: 0.08%

- Inflation is already below 3.5% as a result of the economic slack and the dilution of supply shocks in agricultural products. Also, core inflation reaches its historical low, 2.5%
- Given the economic slack, in the absence of new supply shocks, the inflation in December could be close to 3.3%. Therefore, the inflation will be within Banxico's range around objective during the rest of the year

July's inflation fell -0.03% m/m, slightly below market consensus (0.01%) and slightly less negative than our forecast (-0.08%). For the third consecutive month inflation posted a negative print. On an annual terms inflation reached 3.47%, its first print below 4.0% since February. Core inflation increased 0.03% m/m, below market estimates (0.08%) and in line with our forecast (0.04%). As a result, annual core inflation reached its lowest level in history, 2.50%. Non core inflation fell -0.26% m/m (6.6% y/y), and continues moderating.

Core inflation continuous trending downwards driven by a moderation in its goods component, which fell -0.16% m/m (2.64% y/y). It is worth mentioning that the component other services maintains moderate levels, 2.0% in July, as a consequence of modest increases in the prices of touristic services during the summer season, and an additional reduction in the price of mobile telephony services.

Non Core inflation decreased as a result of a reduction in agricultural and livestock prices that suffered supply shocks in the previous year. In this occasion, products such as egg, chicken, and green tomato had an important downside contribution to inflation.

Bottom line: Given the economic slack, in the absence of new supply shocks, the inflation in December could be close to 3.3%. Therefore, the inflation will be within Banxico's range around objective during the rest of the year.

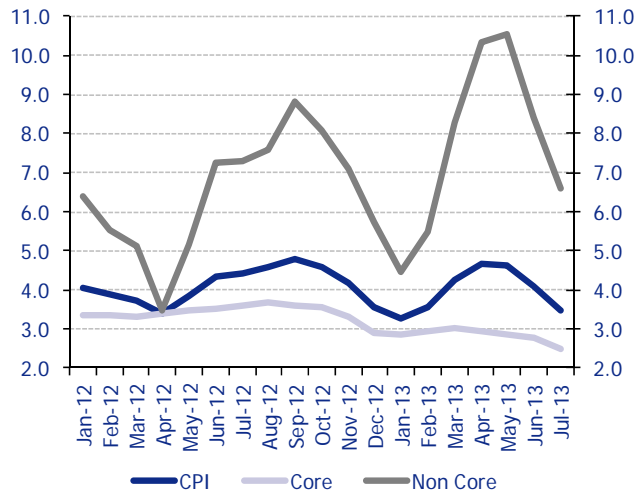
Table 1
Inflation

	m/m % change			y/y % change	
	jul-13	Consensus	BBVA Research	jun-13	jul-13
CPI	-0.03	0.01	-0.08	4.09	3.47
Core	0.03	0.08	0.04	2.79	2.50
Non Core	-0.26	-0.22	-0.48	8.39	6.60

Source: BBVA Research

Graph 1

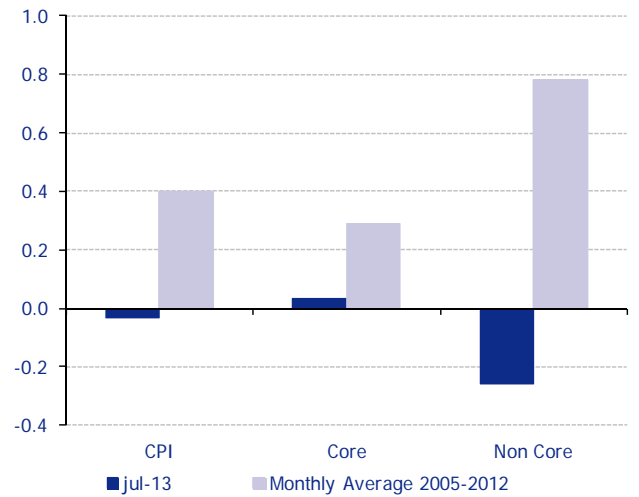
Inflation and components (y/y % chg.)



Source: BBVA Research with INEGI data.

Graph 2

Inflation and components (m/m % chg.)



Source: BBVA Research with INEGI data.

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