

Mexico Inflation Flash

September's biweekly inflation: core inflation surprised us on the upside

Headline: Actual: 0.34% 2w/2w vs. BBVA: 0.29% 2w/2w Consensus: 0.27% f/f

Core: Actual: 0.30% 2w/2w, vs. BBVA: 0.16% 2w/2w Consensus: 0.20% f/f

- Core inflation surprised us on the upside while non-core inflation was lower than anticipated
- In our view, even though headline inflation is likely to accelerate in the short-term and that core inflation has bottomed-out, Banxico will implement an additional rate cut on October 25 as the economic recovery is still soft and core inflation remains well under 3%

Headline inflation surprised slightly to the upside and came in at 0.34% 2w/2w in the first fortnight of September, higher than our above-consensus forecast (BBVA Research: 0.29%; consensus: 0.27%), increasing in annual terms to 3.46% from 3.37% in the second fortnight of August. The upside surprise was the result of a stronger core print. Core inflation increased 0.30% 2w/2w, surprising on the upside (BBVA Research: 0.16%; consensus: 0.20%). With this print, annual core inflation increased to 2.54% from the 2.35% all-time low observed in the second fortnight of August.

Non-core inflation increased less than expected. Non core inflation was 0.46% 2w/2w, decreasing in annual terms to 6.44% from 6.68% in the second fortnight of August, resuming the downward trend which was briefly interrupted in the first fortnight of August. Fruit and vegetable prices rose 0.50% 2w/2w while meat and eggs prices increased 0.57% 2w/2w. We were expecting stronger increases on these components (of 0.69% 2w/2w and 2.38% 2w/2w, respectively) that did not materialize. Even though annual non-core inflation resumed its downward trend, the severe floods seen over the past two weeks in several states could lead to a new important supply shock in the next fortnights.

Core inflation surprised us on the upside, breaking the downward trend in annual terms seen over the last seven fortnights. Core inflation was 0.30% 2w/2w (BBVA Research: 0.16%; consensus: 0.20%), increasing in annual terms to 2.54% from the 2.35% all-time low observed in the second fortnight of August. The 2.13% 2w/2w seasonal increase in tuitions was in line with our expectations (2.16% 2w/2w). The surprise was on the back of the core goods prices which rebounded increased 0.36% 2w/2w (vs. our 0.18% 2w/2w forecast) with its two components increasing more than we were expecting: food core goods 0.22% 2w/2w (vs. our 0.17% 2w/2w forecast) and non-food core goods 0.48% 2w/2w (vs. our 0.18% 2w/2w forecast). The strong print suggests that the core goods component has bottomed out and the economy might be starting to recover. However, core services inflation remains subdued on the back of the ample economic slack: the "other services" component decreased -0.10% 2w/2w, the fourth consecutive bi-weekly decline.

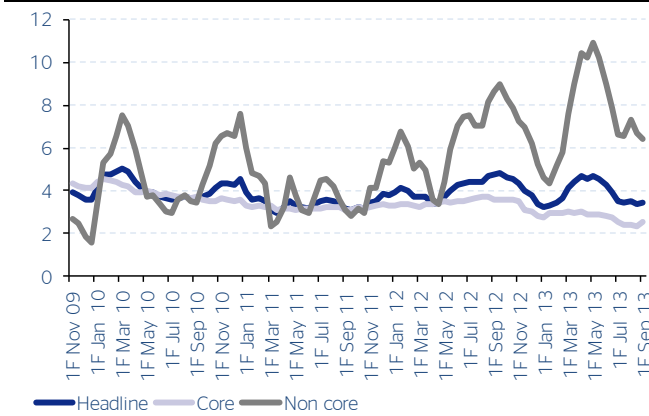
Bottom line: although there are no signs of demand-side inflation pressures and core services inflation remains very low, the upside surprise in core goods prices along with the likelihood of a strong rebound in the non-core component in the next two fortnights suggest that core inflation might have already bottomed out while headline inflation is likely to accelerate in the short-term. However, considering that core inflation is likely to remain below 3% and we're just seeing the initial signs of an economic recovery, we continue to expect Banxico to cut its reference rate another 25bp on October 25.

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

CPI Inflation (Bi-weekly and annual % chg.)						
	Bi-weekly % change			Annual % change		
	1F Sep 2013	Consensus	BBVA Research	1F Sep 2013	Consensus	BBVA Research
Headline	0.34	0.27	0.29	3.46	3.41	3.39
Core	0.30	0.20	0.16	2.54	2.43	2.39
Non Core	0.46	0.60	0.65	6.44	6.59	6.64

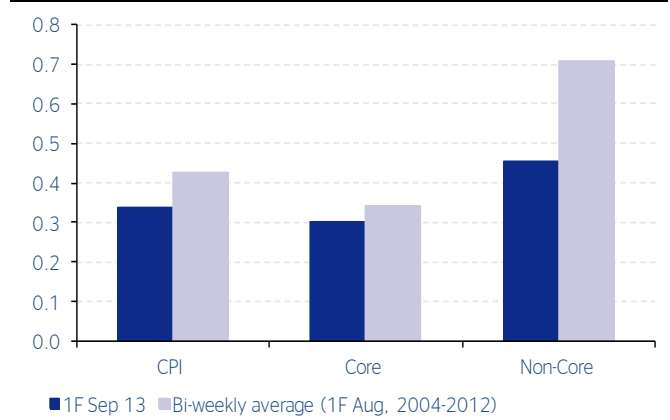
Source: BBVA Research, INEGI

Graph 1

Inflation and components (y/y % chg.)

Source: BBVA Research, INEGI

Graph 2

Inflation and components (f/f % chg.)

Source: BBVA Research, INEGI

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