

# Mexico Inflation Flash

## October's bi-weekly inflation

Headline: Actual: 0.40% FoF (BBVAe: 0.51%; consensus: 0.37%)

Core: Actual: 0.13% FoF (BBVAe: 0.14%; consensus: 0.13%)

- Core inflation remains subdued while non-core inflation was lower than anticipated
- In our view, with no signs of demand-side inflation pressures and continued economic weakness, everything is set for a 25bp rate cut at tomorrow's monetary policy meeting

Headline inflation surprised us to the downside and came in at 0.40% FoF in the first fortnight of October, slightly above the consensus expectation and below our above-consensus forecast (BBVAe: 0.51%; consensus: 0.38%). Annual inflation decreased to 3.27% YoY from 3.32% in the second fortnight of September. The downside surprise was mainly driven by an unexpected drop in fruit and vegetable prices which decreased 1.26% FoF while we were expecting a 2.3% FoF rise. Core inflation was 0.14% FoF, in line with expectations, slightly decreasing in annual terms to 2.46% YoY from 2.50% in the second fortnight of September.

**Higher non-core inflation on the back of the beginning of the seasonal adjustment of the electricity tariffs, but the print was lower-than-expected due to the reduction in fruits and vegetable prices.** Non core inflation rose 1.28% FoF while we were expecting a stronger rise (1.78%), decreasing in annual terms to 5.85% YoY from 5.96% in the second fortnight of September. The energy component increased 4.2% FoF, slightly more than our 3.5% forecast, due to the beginning of the seasonal adjustment of the electricity tariffs (summer tariffs ended in 15 cities). The downside surprise in the non-core component relative to our forecast was mainly driven by an unexpected drop in fruit and vegetable prices which decreased 1.26% FoF while we were expecting a 2.3% FoF rise, signaling not only a low but an in-existent impact of recent floods. Meat and eggs prices decreased -0.77% FoF, while we were expecting a weaker reduction (-0.10% FoF).

**Core inflation was in line with expectations, mainly driven by tourism services.** Core inflation was 0.14% FoF (BBVAe: 0.14%; consensus: 0.13%), slightly decreasing in annual terms to 2.46% YoY from 2.50% in the second fortnight of September. Both core goods and core services prices increased 0.14% FoF. Non-food core goods increased just 0.03% FoF while core foods increased 0.27% FoF. Other services prices increased 0.23% FoF driven higher by tourism services (1.83% FoF). The weaker-than-expected prints of the core goods component after surprising to the upside in September reveals the absence of demand-side pressures while core services inflation remains subdued on the back of the ample economic slack. Today's low core print supports our below-consensus 2.6% YoY year-end core inflation forecast.

**Bottom line: considering that there are no signs of demand-side inflation pressures and economic activity in the third quarter is not accelerating as much as we were anticipating, today's inflation print further supports our call for an additional 25bp rate cut in the reference rate at tomorrow's monetary policy meeting.**

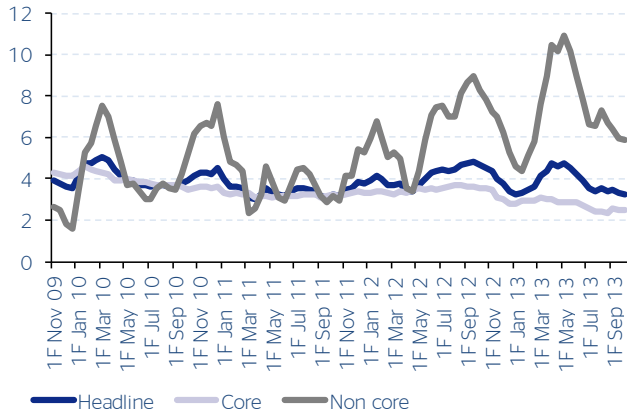
Table 1

Inflation (FoF and YoY % change)

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Oct 2013	BBVAe	Consensus	1F Oct 2013	BBVAe	Consensus
Headline	0.40	0.51	0.37	3.27	3.38	3.24
Core	0.14	0.14	0.13	2.46	2.46	2.47
Non Core	1.28	1.78	1.19	5.85	6.37	5.76

Chart 1

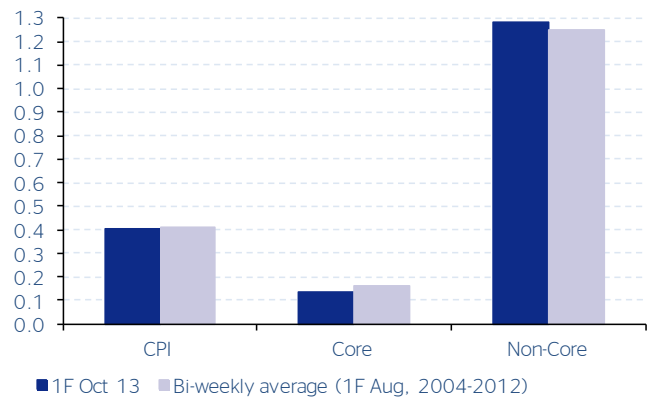
**Inflation and components (YoY % change)**



Source: BBVA Research, INEGI

Chart 2

**Inflation and components (FoF % change)**



Source: BBVA Research, INEGI

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