

# Mexico Inflation Flash

## December's inflation

**Headline:** Actual: 0.57% YoY (BBVAe: 0.47%; consensus: 0.52%)

**Core:** Actual: 0.33% MoM (BBVAe: 0.30%; consensus: 0.35%)

- Headline inflation closed the year at 3.97%, just below the ceiling of Banxico's target range
- Core inflation accelerated somewhat at the end of the year on the back of an upward trend in the core services component but closed the year at 2.8%

Headline inflation came in above expectations, increasing 0.57% MoM in December (BBVAe: 0.47%; consensus: 0.52%). Annual inflation closed the year registering an increase of 3.97% YoY (increasing from 3.62% YoY in November), just below the ceiling of Banxico's target range. Core inflation came in at 0.33% MoM, below consensus expectations but a touch above our below-consensus forecast (BBVAe: 0.30%; consensus: 0.35%), equivalent to a 2.78% annual inflation (increasing from 2.56% YoY in November). As expected, the strong headline inflation print was led by perishable food price pressures which were stronger than anticipated in the second fortnight of December. Both the goods and services core components registered strong increases in December, 0.36% MoM and 0.30% MoM, respectively.

**Non-core inflation was higher than anticipated, led by stronger-than-expected perishable food price pressures in the second fortnight.** Non core inflation rose 1.35% MoM, above our forecast (1.03% MoM), reaching 7.84% in annual terms. Although the impact on inflation of the increase in subway fares in Mexico city was below our expectation with an increase of 0.06 percentage points (pp), perishable food prices increased more than expected. The impact of tomato, poultry and meat prices on monthly inflation was 0.18 pp, as the prices of these products increased 27% MoM, 2.3% and 0.8%, respectively.

**Core inflation accelerated somewhat at the end of the year.** Core inflation was 0.33% MoM, below consensus expectations but a touch above our below-consensus forecast (BBVAe: 0.30%; consensus: 0.35%), equivalent to a 2.78% annual inflation (increasing from 2.56% YoY in November). This reading was led by both the goods and services core components which registered strong increases in December, 0.36% MoM and 0.30% MoM, respectively. Prices of the "other services" subindex continued accelerating with an increase of 0.55% MoM after increasing 0.46% MoM on average over the past two months, in spite of a 2.3% MoM decrease in mobile phone rates in December. In annual terms, the core services component increased from 2.5% YoY in October to 3.5% YoY in December. This upward trend was partially offset by the downward trend in the core goods component at the end of the year, with annual inflation decreasing from 2.4% YoY in October to 1.9% YoY in December.

**Bottom line:** Headline inflation will significantly accelerate in January to around 4.5% YoY on the back of the supply shock arising from the fiscal reform and remain above Banxico's target range in February, before decreasing to levels within the target range in March. Thus, as the effects are likely to prove temporary and given the economic slack resulting from the deceleration in 2013, we continue to expect Banxico to remain on hold for a prolonged period of time.

Table 1

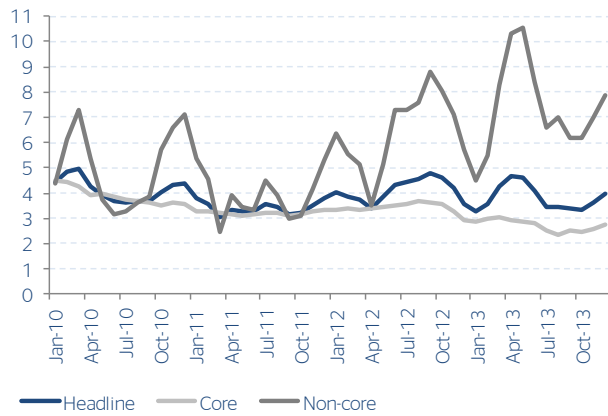
### Inflation (MoM and YoY % change)

Inflation					
	MoM % change			YoY % change	
	Dec-13	consensus	BBVAe	Dec-13	Nov-13
CPI	0.57	0.52	0.47	3.97	3.62
Core	0.33	0.35	0.30	2.78	2.56
Non Core	1.35	1.08	1.03	7.84	7.02

Source: BBVA Research, INEGI

Chart 1

## Inflation and components (YoY % change)



Source: BBVA Research, INEGI

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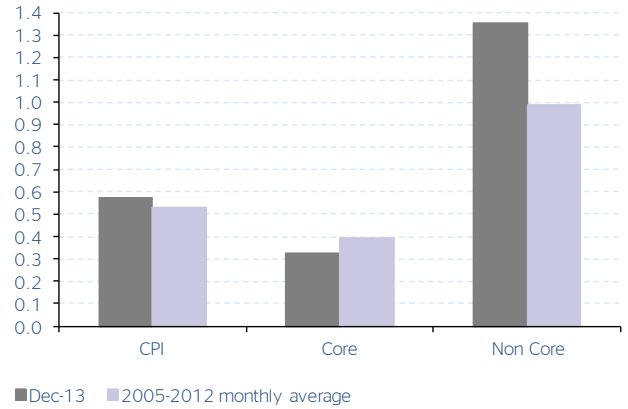
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Chart 2

## Inflation and components (MoM % change)



Source: BBVA Research, INEGI