

# Mexico Inflation Flash

## Inflation returned to Banxico's tolerance interval in March

Headline: actual: 0.27% MoM (BBVAe: 0.27%; consensus: 0.30%)

Core: actual: 0.21% MoM (BBVAe: 0.18%; consensus: 0.19%)

- **Headline inflation returned to Banxico's 3.0% +/- 1pp tolerance interval in March as we anticipated, while core inflation is close to 2013's year-end level**
- **We believe annual headline inflation will edge down further in April before starting to accelerate in June as unfavorable base effects begin to be reflected**

Headline inflation increased 0.27% MoM in March, exactly in line with our below-consensus forecast (BBVAe: 0.27%, consensus: 0.30%). In annual terms, headline inflation decelerated to 3.76% from 4.23 in February and 3.89% in the first half of March. Core inflation increased 0.21% MoM, slightly above expectations (BBVAe: 0.18%, consensus: 0.19%). The upside surprise in core prices was driven by a higher-than-anticipated increase in other services prices (0.37% MoM; BBVAe: 0.23%) which were pushed up by a 0.57% MoM increase in food related services and a 5.77% increase in flight fares. In annual terms, core inflation decreased to 2.89% from 2.98% in February.

**Non-core inflation was close to our below-consensus forecast, surprising the consensus on the downside.** Non-core inflation rose 0.46% MoM, close to our below-consensus forecast (BBVAe: 0.57%; consensus 0.66%). The non-core component was driven higher by a 0.42% MoM increase in fruit and vegetable prices, pushed up by lemon prices which surged 41.2% MoM. This increase was partially offset by the large drop in tomato prices (-14.3% MoM), onion prices (-6.1% MoM) and bean prices (-5.6% MoM). Beef prices rose significantly in March (1.92% MoM) and our price monitoring points to further increases in April. Energy-related and regulated prices increased 0.31% MoM, FoF, pushed higher by the 0.56% MoM energy-related inflation (BBVAe: 0.59%).

**Core inflation was slightly higher than expected, but continues to benefit from the slack in the economy.** Core inflation increased 0.21% MoM, slightly above expectations (BBVAe: 0.18%, consensus: 0.19%). The upside surprise in core prices was driven by a higher-than-anticipated increase in other services prices (0.37% MoM; BBVAe: 0.23%) which were pushed up by a 0.57% MoM increase in food related services and a 5.77% increase in flight fares. This increase was ahead of Easter holidays probably as companies tried to take advantage of higher demand due to the long-weekend in the second half of March. All other core components remained subdued and behaved as we expected. Core goods prices increased 0.18% MoM (BBVAe: 0.17%), with core food prices increasing 0.11% MoM (BBVAe: 0.08%) and other core goods prices rising 0.24% MoM (BBVAe: 0.23%). The other components of core services also increased in line with our expectations: housing services prices increased 0.18% MoM (BBVAe: 0.19%), while education services prices (tuitions) edged up 0.02% MoM (BBVAe: 0.01%). All in all, core prices do not show any signs of demand-side pressures. We expect core prices to remain subdued but annual core inflation is likely to hover around 3.0% in the next three months before increasing somewhat in 2H14 (3.2% on average).

**Bottom line:** today's report confirms that inflation has behaved in the first quarter as we anticipated, increasing temporarily in January and returning to Banxico's 3.0% +/- 1pp tolerance interval in March. We anticipate that annual inflation will edge down further to 3.67% in April with the beginning of the seasonal electricity subsidies and remain close to that level in May before starting to accelerate in June as unfavorable base effects begin to be reflected. Inflation is likely to break Banxico's tolerance interval in July and remain above the 4.0% threshold until October before falling in November and closing the year within Banxico's tolerance interval. Meanwhile, core inflation is likely to remain close to 3.0% in 2Q14 before starting to increase somewhat during H214, if as expected the economy strengthens.

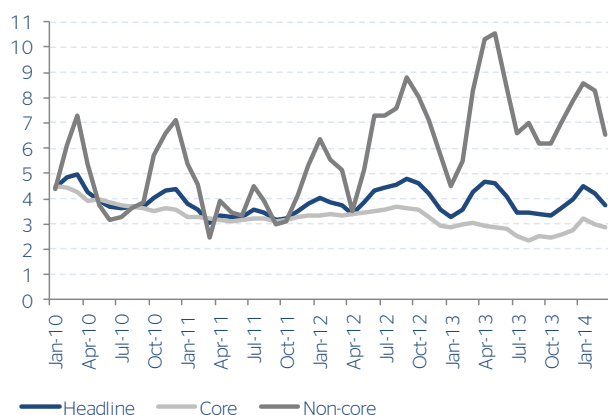
Table 1

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

Inflation					
	MoM % change			YoY % change	
	Mar-14	BBVAe	consensus	Mar-14	Feb-14
CPI	0.27	0.27	0.30	3.76	4.23
Core	0.21	0.18	0.19	2.89	2.98
Non Core	0.46	0.57	0.66	6.54	8.28

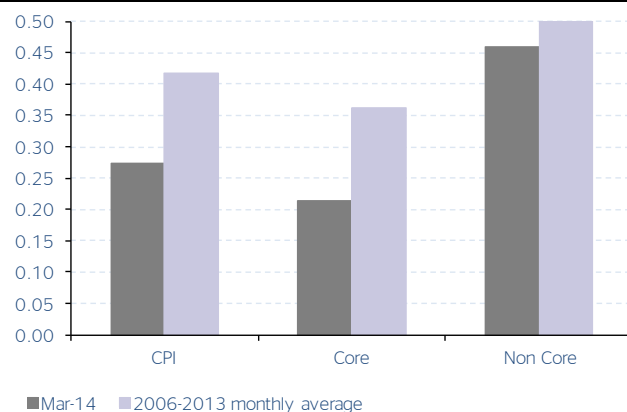
Source: BBVA Research, INEGI

Chart 1

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

Source: BBVA Research, INEGI

Chart 2

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

Source: BBVA Research, INEGI

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