

Mexico Inflation Flash

Inflation: lowest point probably behind us

Headline: actual: -0.19% MoM (BBVAe: -0.10%; consensus: -0.13%)

Core: actual: 0.29% MoM (BBVAe: 0.34%; consensus: 0.36%)

- **Headline inflation fell more than expected in April: a lower-than-expected core core print and a plunge in fruit and vegetable prices in the second fortnight were behind the surprise**
- **What next? The annual inflation rate can be expected to remain close to 3.5% in May and then to rise gradually towards 4.0% in following months before decreasing towards 3.7% at the end of the year**

Headline inflation decreased 0.19% MoM in April. This monthly decline was larger than expected (BBVAe: -0.10%, consensus: -0.13%). In annual terms, headline inflation decreased to 3.50% from 3.76% in March. The surprise came from both a weaker-than-expected core inflation, led by a large reduction in other core services prices in the second half of the month (-0.53% FoF), and an unexpected plunge in fruit and vegetable prices in the second fortnight (-3.26% FoF). Core inflation increased 0.29% MoM, slightly less than our below-consensus forecast (BBVAe: 0.34%, consensus: 0.36%). In annual terms, it increased to 3.11% from 2.89% in March.

Core inflation was lower than expected. Core goods inflation increased 0.23% MoM, exactly in line with our forecast. By components, core food prices increased 0.30% MoM (BBVAe: 0.29%) while other core goods prices rose 0.18% MoM (BBVAe: 0.19%). The downside surprise in core prices was driven by a larger-than-anticipated decline in other core services prices in the second half of the month (-0.53% FoF vs. BBVAe: -0.18% FoF). This component increased 0.62% MoM (BBVAe: 0.80%). The other two components of core services inflation increased exactly in line with our forecasts. Education services prices (tuitions) edged up 0.02% MoM (BBVAe: 0.02%) while housing services prices increased 0.16% MoM (BBVAe: 0.16%). All in all, core inflation continues to reflect the lack of demand-side pressures. Today's print besides suggests that the core services pressures observed in the first half of the month were temporary and simply reflected the Easter holidays seasonal increase in plane tickets and other tourism-related services. We expect core inflation to remain slightly above 3.0% in coming months before increasing somewhat in 2H14 (3.2% on average).

Non-core inflation plunged more than expected. Non-core inflation decreased 1.67% MoM (BBVAe: -1.55%; consensus: -1.75%). Energy and regulated prices declined 2.00% MoM (BBVAe: -1.93%). Within this component, energy prices decreased exactly in line with our forecast (-3.14% MoM). The downside surprise was driven by a larger-than-expected decline in fruit and vegetable prices (-5.47% MoM vs. BBVAe: -3.56%).

Bottom line: Annual inflation can be expected to remain close to 3.5% in May and then to rise gradually towards 4.0% in following months before decreasing towards 3.7% at the end of the year. Meanwhile, we expect core inflation to remain slightly above 3.0% in coming months before increasing somewhat in 2H14 (3.2% on average), if as expected the economy strengthens.

Table 1

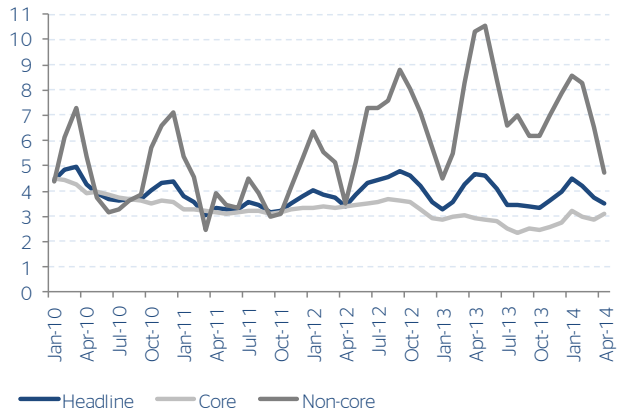
Inflation (MoM and YoY % change)

	Inflation				
	MoM % change			YoY % change	
	Apr-14	BBVAe	consensus	Apr-14	Mar-14
CPI	-0.19	-0.10	-0.13	3.50	3.76
Core	0.29	0.34	0.36	3.11	2.89
Non Core	-1.67	-1.55	-1.75	4.75	6.54

Source: BBVA Research, INEGI

Chart 1

Inflation and components (YoY % change)



Source: BBVA Research, INEGI

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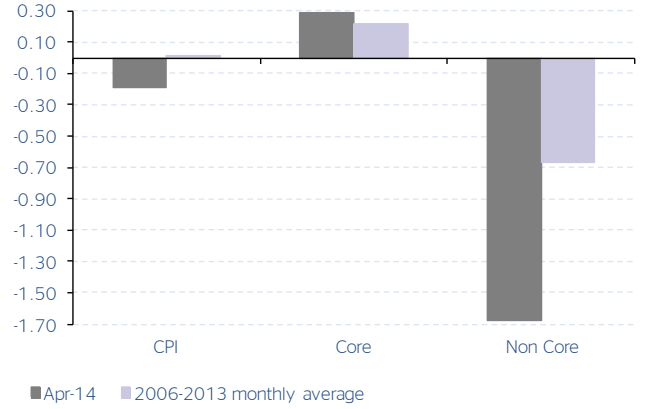
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Chart 2

Inflation and components (MoM % change)



Source: BBVA Research, INEGI