

Mexico Inflation Flash

Inflation remains under control

Headline: actual: -0.37% MoM (BBVAe: -0.37%; consensus: -0.36%)

Core: actual: 0.06% MoM (BBVAe: 0.11%; consensus: 0.11%)

- Headline inflation declined in line with expectations while core inflation surprised to the downside
- 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 0.37% FoF in the first fortnight of May. This was pretty much in line with expectations and exactly in line with our below-consensus forecast (BBVAe: -0.37%; consensus: -0.36%). In annual terms, headline inflation decreased to 3.44% from 3.47% in the second fortnight of April. Core inflation increased 0.06% FoF, slightly less than consensus expectations (BBVAe: 0.11%; consensus: 0.11%). The surprise was mainly driven by the core other services component, which fell a tad more than expected (-0.14% FoF), and to a lesser extent by a smaller-than-expected increase in the other goods component (0.02% FoF). In annual terms, core inflation decreased to 2.97% from 3.11% in the second fortnight of April.

Non-core inflation was broadly in line with expectations. Non-core inflation decreased 1.72% FoF (BBVAe: -2.02%; consensus: -1.97%). Energy and regulated prices declined 3.20% FoF due to the seasonal reduction in electricity tariffs (-22.7% FoF) and a 1.25% FoF in fruit and vegetable prices driven by significant declines in tomato, lemon and onion prices which together contributed with -0.09 pp of the -0.37% FoF decline of the headline index. The decline in the non-core component was partially offset by the 1.93% increase in meat and egg prices.

Core inflation was lower than expected. We were expecting a low core inflation print on the back of the seasonal reduction in tourist services and airfares after the Easter holidays. However, a larger-than-expected reduction in these prices is behind the downside surprise in the core index. The core services component decreased 0.01% FoF, while the core goods component rose 0.13% FoF. Today's print continues to reflect the absence of demand-side pressures. We now expect core inflation to increase 0.07% MoM in May (0.13% previously) and thus the annual rate to run close to 3.0% in both May and June before increasing somewhat from July onwards (BBVAe: 3.2% on average in H2 2014).

Bottom line: Because of base effects, we expect annual headline inflation to start to rise gradually in June. We expect the annual rate to run slightly above 4.0% from July, in line with the central bank which acknowledged yesterday in its Inflation Report that inflation is likely to be above that level during some months of H2 2014. Yet, we expect inflation to stand at 3.7% by year-end. The inflation outlook continues to be consistent with a prolonged monetary policy pause.

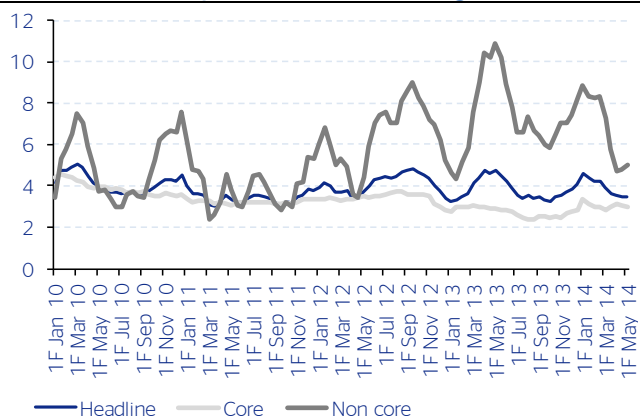
Table 1

Inflation (FoF and YoY % change)

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F May 2014	BBVAe	Consensus	1F May 2014	BBVAe	Consensus
Headline	-0.37	-0.37	-0.36	3.44	3.44	3.45
Core	0.06	0.11	0.11	2.97	3.02	3.02
Non Core	-1.72	-2.02	-1.97	5.02	4.70	4.75

Source: BBVA Research, INEGI

Chart 1

Inflation and components (YoY % change)

Source: BBVA Research, INEGI

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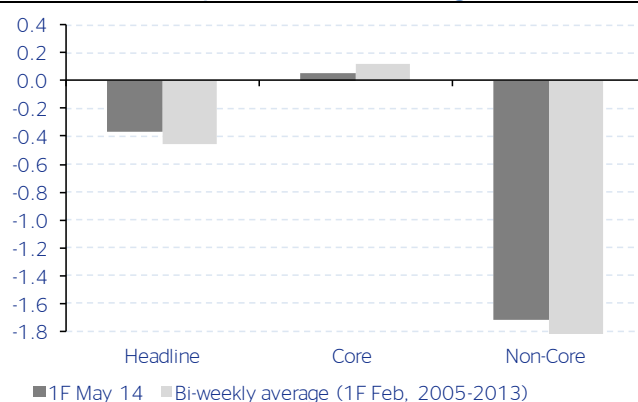


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Chart 2

Inflation and components (FoF % change)

Source: BBVA Research, INEGI