

Mexico Inflation Flash

January's inflation: Monthly Inflation Surprises Upwards due to Telephone Services; However Inflation keeps Easing Annually

General: Actual: 0.40% m/m vs. BBVA: 0.26% m/m Consensus: 0.30% m/m

Core: Actual: 0.42% m/m, vs. BBVA: 0.21% m/m Consensus: 0.29% m/m

- Inflation fell to 3.25% y/y driven by lower than expected non-core prices and the positive behavior merchandise prices.
- Core inflation remained stable at 2.9%, as merchandise inflation keeps falling; however services inflation increased markedly after bottoming in December.
- The inflation risk balance remains favorable as merchandise inflation keeps falling and Agricultural and Livestock prices continue on a lowering trend. However tariffs set by local governments remain an upwards risk as further acceleration is expected due to the weakness in local public finance. We do not expect mobile phone prices to pressure inflation, as aggressive offers suggests changes in price behavior; however its seasonal pattern remains uncertain. Despite the negative surprise in January's second fortnight, the monthly outcome was positive and therefore we maintain our perspective that inflation will remain bounded in 2013.

January's inflation increased 0.4% m/m, higher than BBVA Research and the market consensus expected, annually it fell from 3.6% y/y in December to 3.25% y/y. Core inflation increased 0.42% m/m, also above expectations, and remained stable at 2.9% y/y as in December. Non-Core inflation dropped from 5.75% y/y in December to 4.5% y/y.

Core inflation remained at 2.9% y/y as the easing Merchandise inflation was offset by higher services prices. Merchandise prices increased 0.24% m/m, as pressures within processed food continue fading causing its annual inflation to fall from 6.1% y/y in December to 5.2% y/y. The inflation of the rest of Merchandise dropped to 3.7% y/y after being above 4.0% the past five months; this decrease is due to a still feeble demand and the effects of the recent peso appreciation. The prices of services increased from 1.15% y/y in December to 1.6% y/y as the inflation of higher education and restaurants increased and the recent drops in mobile phone prices reversed partially as the holiday discount season ended. The prices of merchandise remain on a lowering trend, which if no new shocks arise, should continue in coming months; this will compensate some increases within services inflation that we consider will be moderate, setting up the scenario for core inflation to remain in check during the year.

Non Core inflation keeps falling as the shocks that affected in 2012 have eased. Agricultural and livestock prices inflation reduced from 9.2% in December to 5.5% y/y, thanks to a sharp decrease in the inflation of fruits and vegetables driven by lower tomato prices and pressures over livestock prices keep fading. Public prices increased slightly to 3.9% y/y as the inflation of tariffs set by local governments accelerated slightly in January. Non-Core inflation should remain in check in coming months as livestock markets should keep normalizing, compensating the higher increases in gasoline prices and the acceleration of local tariff inflation. Agricultural prices will cause the bigger oscillations in non core inflation during the year, but we don't expect extraordinary pressures in this sub-index.

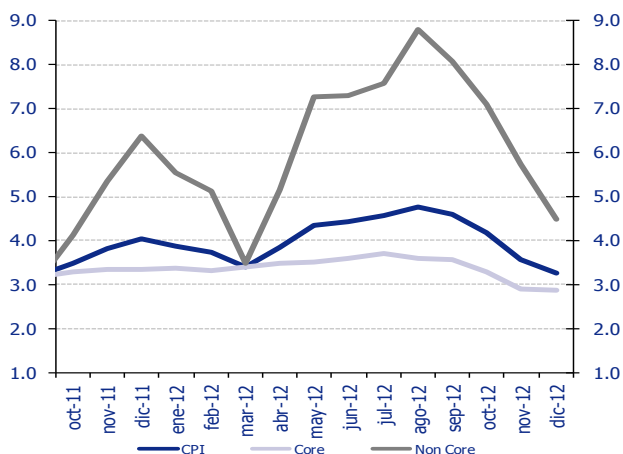
Bottom line: The inflation risk balance remains favorable as merchandise inflation keeps falling and agricultural and livestock prices continue on a lowering trend. However tariffs set by local governments remain an upwards risk as further acceleration is expected due to the weakness in local public finance. We do not expect mobile phone prices to pressure inflation, as aggressive offers suggest changes in price behavior; however its seasonal pattern remains uncertain. Despite the negative surprise in January's second fortnight, the monthly outcome was positive and doesn't change our perspective that inflation will remain bounded in 2013.

Table 1
Inflation (y/y and m/m % change)

	m/m % Change			y/y % Change	
	Jan 2013	Consensus	BBVA Research	Dec 2012	Jan 2013
CPI	0.40	0.30	0.26	3.57	3.25
Core	0.42	0.29	0.21	2.90	2.88
Non Core	0.33	0.33	0.42	5.74	4.47

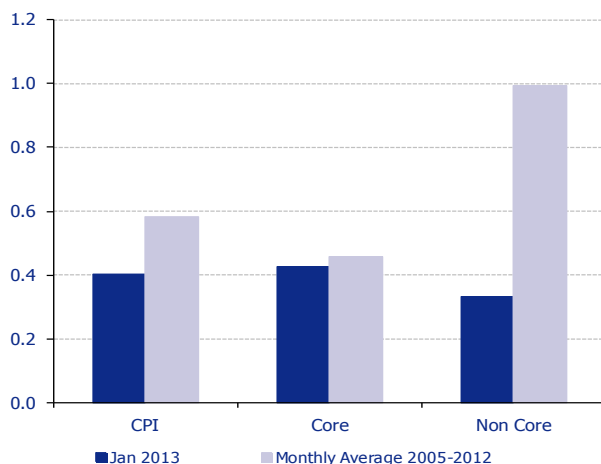
Source: BBVA Research

Graph 1
Inflation and components (y/y % chg.)



Source: BBVA Research with INEGI data.

Graph 2
Inflation and components (m/m % chg.)



Source: BBVA Research with INEGI data.

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