

Mexico Inflation Flash

October's inflation

Headline: Actual: 0.48% YoY (BBVAe: 0.43%; consensus: 0.46%)

Core: Actual: 0.19% MoM (BBVAe: 0.15%; consensus: 0.19%)

- Core inflation remains subdued while non-core inflation was driven higher by electricity tariffs
- In our view, core inflation is likely to remain well behaved in coming months

Headline inflation came in pretty much in line with expectations, increasing 0.48% in October (BBVAe: 0.43%; consensus: 0.46%). Annual inflation remained practically unchanged, decreasing to 3.36% YoY from 3.39% in September. Core inflation was 0.19% MoM, in line with consensus expectations and a tad above our below-consensus forecast (BBVAe: 0.15%), slightly decreasing in annual terms to 2.48% YoY from 2.52% in September. Compared with our forecast, the upside surprise was mainly driven by a stronger-than-anticipated acceleration in the "other services" component which rose 0.46% MoM (BBVAe: 0.25%), driven higher by a 2.13% MoM increase in mobile phone rates. The strong services print more than offset the softer-than-expected increase in the core goods component (actual: 0.11% MoM; BBVAe: 0.15%).

Core inflation was a tad firmer than our expectation, driven higher by mobile phone rates. Core inflation was 0.19% FoF, in line with consensus expectations and a tad above our below-consensus forecast (BBVAe: 0.15%), slightly decreasing in annual terms to 2.48% YoY from 2.52% in September. Compared with our forecast, the upside surprise was mainly driven by a stronger-than-anticipated acceleration in the "other services" component which rose 0.46% MoM (BBVAe: 0.25%), driven higher by a 2.13% MoM increase in mobile phone rates. The strong services print more than offset the softer-than-expected increase in the core goods component (actual: 0.11% MoM; BBVAe: 0.15%). Within the core goods component, core foods increased 0.29% MoM (BBVAe: 0.30%) while non-food core goods softened -0.04% MoM (BBVAe: 0.04%). In annual terms, core goods inflation softened in October to 2.41% from 2.59% in September while core services rose to 2.54% from 2.45% in September. The weaker-than-expected print of the core goods component, after surprising slightly to the upside in September, reveals the absence of demand-side pressures while even though core services inflation surprised us slightly to the upside it was driven by an unexpected increase in mobile phone services prices and remains subdued on the back of the ample economic slack. For now, we continue to expect core inflation to close the year near our 2.6% below-consensus forecast as we believe than mobile phone companies will lower their prices once again in the last two months of the year.

Non-core inflation was driven higher the beginning of the seasonal adjustment of the electricity tariffs. Non core inflation rose 1.41% MoM, in line with our forecast (1.40%), remaining practically unchanged in annual terms at 6.2%. The energy component increased 4.26% MoM, broadly in line with our 4.20% forecast, mainly driven higher by a 18.7% MoM seasonal adjustment in the electricity tariffs (summer tariffs ended in 15 cities). Although perishable prices increased in the second fortnight of the month after decreasing in the first fortnight, leading to a 0.30% MoM increase, price pressures from this component remain absent.

Bottom line: we expect inflation to remain stable and close the year around forecasts (BBVAe: 3.43%; Banxicoe: 3.5%) and core inflation to remain subdued and close the year near our 2.6% below-consensus forecast unless mobile phone companies continue to surprisingly increase rates in coming months in a context of continued economic weakness. Today's print has no influence on Banxico's decision to keep rates on hold for the foreseeable future.

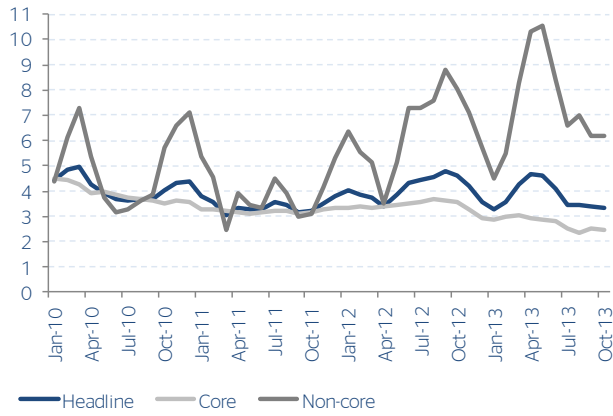
Table 1

Inflation (MoM and YoY % change)

	Inflation				
	MoM % change			YoY % change	
	oct-13	consensus	BBVAe	oct-13	sep-13
CPI	0.48	0.46	0.43	3.36	3.39
Core	0.19	0.19	0.15	2.48	2.52
Non Core	1.41	1.35	1.40	6.18	6.20

Chart 1

Inflation and components (YoY % change)



Source: BBVA Research, INEGI

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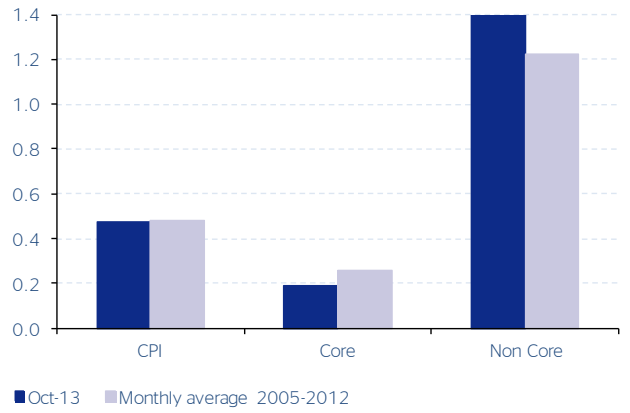
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Chart 2

Inflation and components (MoM % change)



Source: BBVA Research, INEGI