

Mexico

Economic Watch

April 7, 2011

Inflation: lower than expected, it reached its minimum level in 2011. From now on, it should rise

Economic Analysis

March 2011 inflation

- The CPI rose by 0.19% m/m in March, less than expected (BBVA Research: 0.30%; Consensus: 0.27%). In annual terms, the inflation rate was 3.04%.
- The core index rose by 0.30% m/m (BBVA Research: 0.37%; market: 0.38%), due to an unexpected reduction in mobile telephony prices. The prices of processed foodstuffs, particularly corn by-products, continue to rise.
- Non-core inflation dropped by 0.16% m/m owing to the fall in agricultural prices and the reduction in the automobile ownership fees in various cities.
- Starting in April, inflation should rise driven by: i) the effect of comparison with very low monthly rates in the second quarter of 2010 and ii) pressures on commodity prices, in a context in which the tone of demand will no longer be a major factor moderating price pressures.

The drop in the annual CPI rate to 3.04% from the 3.57% recorded in February is a result of the base effect in relation to 1Q10, when inflation was affected by the rise in VAT rates and various government rates. However, the result posted in March was better than expected due to an unanticipated reduction in the prices of mobile telephony and vehicle ownership fees in various cities.

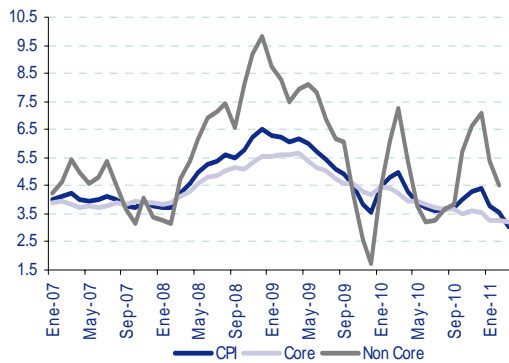
Core inflation, which also fell in annual terms, showed asymmetric effects in its components. On the one hand, upward pressures on foodstuff prices increased, particularly those of corn and its by-products (*tortillas*: 3.93% m/m). On the other hand, containment in service prices thanks to a 3.5% m/m reduction in mobile phone services and a lower upward contribution of tourist services owing to the seasonal effect of the Holy Week in Easter. We believe that pressures on the prices of foodstuffs are still very significant and are unlikely to ease in the short term, while the most positive factors seem to be more temporary.

Within non-core inflation, which fell in the month (-0.16% m/m) due to the drop in the prices of agricultural prices and vehicle ownership fees, energy prices continue to be under pressure. Although the rise in the price of gasoline continues as planned, without incorporating the greater pressures on the benchmark prices of gasoline, electricity can be reacting, at least in part, to the higher oil prices.

As expected, in March inflation reached its minimum level in the year and, despite the good monthly result, should start rising in annual terms in April. Although some temporary factors contributed to a lower than expected inflation rate in March, the fundamental risks still exist –oil and grain prices on international markets– in an environment where demand will no longer hold back the capacity for transferring the higher costs to the end consumer. However, we should keep an eye on the annual increase in inflation in April, which could reach 3.52%.

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Chart 1
General inflation and components
(y/y % change)



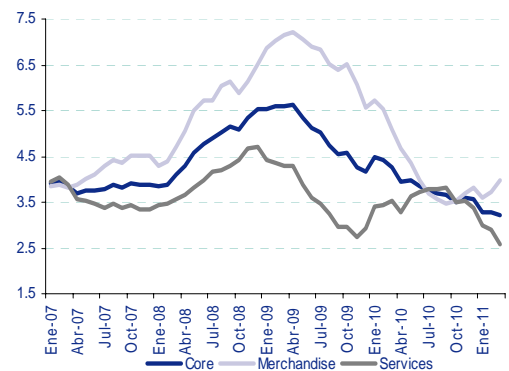
Source: BBVA Research with Banxico data

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

	Weight	MoM % Chg.			YoY % Chg.		
		Mar-10	Mar-11	Average March 03-09	Ene-11	Feb-11	Mar-11
CPI	100.00	0.71	0.19	0.44	3.78	3.57	3.04
Core	74.77	0.35	0.30	0.38	3.27	3.26	3.21
Merchandise	37.03	0.23	0.48	0.38	3.60	3.71	3.97
Processed Food	14.67	0.16	0.90	0.47	4.51	4.78	5.55
Other Merchandis	22.35	0.28	0.17	0.31	2.88	2.86	2.75
Services	37.74	0.46	0.15	0.38	3.00	2.89	2.57
Housing	17.86	0.23	0.21	0.35	2.34	2.12	2.10
Education	5.20	0.07	0.04	0.10	4.62	4.49	4.46
Other Services	14.68	0.82	0.11	0.49	3.06	3.07	2.34
Non-Core	25.23	1.85	-0.16	0.65	5.39	4.53	2.46
Farm Produce	8.07	3.55	-1.25	0.88	4.03	3.09	-1.69
Fruits/Vegetables	3.27	8.45	-3.05	1.19	7.50	4.76	-6.36
Meats	4.80	0.23	0.05	0.70	1.77	2.04	1.86
Energy & Govt.	17.17	0.78	0.44	0.51	6.15	5.32	4.96
Energy	7.77	0.69	0.76	0.55	6.12	5.88	5.96
Govt. Fees	9.39	0.92	-0.15	0.43	6.20	4.38	3.27

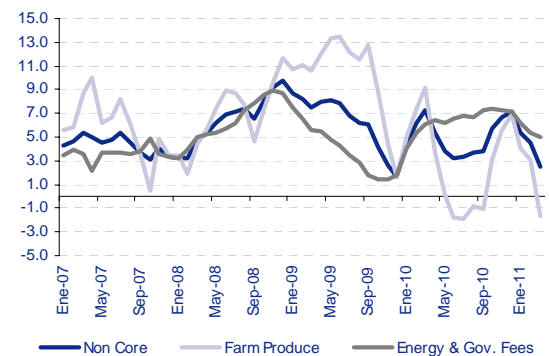
Source: BBVA Research with Banxico data and the Banamex survey data

Chart 2
Core inflation and components
(y/y % change)



Source: BBVA Research with Banxico data

Chart 3
Non-core inflation and components
(y/y % change)



Source: BBVA Research with Banxico data

Table 2
Inflation forecast breakdown for April
(m/m and y/y % change)

	Peso (%)	Monthly change (%)				Annual change (%)		
		2003-2009	Feb-11	Mar-11	Abr-11	Feb-11	Mar-11	Abr-11
CPI-Mx	100.0	0.19	0.38	0.19	0.15	3.57	3.04	3.52
Core-Mx	74.8	0.32	0.40	0.30	0.41	3.26	3.21	3.52
Goods	37.0	0.33	0.53	0.48	0.47	3.71	3.97	4.20
Food products	14.7	0.44	0.68	0.90	0.81	4.78	5.55	6.22
Other Goods	22.4	0.26	0.43	0.17	0.21	2.86	2.75	2.64
Services	37.7	0.30	0.29	0.15	0.37	2.89	2.57	2.96
Rent	17.9	0.32	0.20	0.21	0.18	2.12	2.10	2.17
Education	5.2	0.12	0.14	0.04	0.06	4.49	4.46	4.46
Other serv.	14.7	0.34	0.43	0.11	0.64	3.07	2.34	3.16
Non Core-Mx	25.2	-0.23	0.28	-0.16	-0.73	4.53	2.46	3.43
Farm products	8.1	0.61	-0.01	-1.25	0.49	3.09	-1.69	1.11
Fruits//Vegetables	3.3	1.58	-0.86	-3.05	0.82	4.76	-6.36	-0.60
Meat//Eggs	4.8	0.07	0.60	0.05	0.24	2.04	1.86	2.41
Public managed	17.2	-0.74	0.45	0.44	-1.43	5.32	4.96	4.76
Energy	7.8	-1.40	0.57	0.76	-2.39	5.88	5.96	5.94
Controlled prices	9.4	0.38	0.24	-0.15	0.21	4.38	3.27	2.87
								Monthly Revision

Source: BBVA Research with Banxico data

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