

# Inflation Flash

Mexico

## Inflation during December's first fortnight: upwards surprise caused mainly by non core factors

- **CPI: Observed: 0.51% fof vs BBVA: 0.36% fof Consensus: 0.34% fof**
- **Core: Observed:0.35% fof vs BBVA: 0.22% fof Consensus:0.27% fof**
- **To the continued pressures in electricity and livestock prices, increases in other non core products like heating gas and tomatoes were added.**
- **The prices influenced by commodities are being affected more intensely by the depreciation of the currency**
- **Despite the previous, the prices of services remain bounded; this is a reflection that demand is not generating upwards pressures on prices.**

During December's first fortnight inflation raised 0.51% fof, reaching 3.85% annually from the previous 3.48% yoy in November. This annual rebound is due mainly to pressures in several non core products and in processed food, but turned out circumstantially acute, because of a base effect against the same fortnight during 2010 when inflation was abnormally low. This effect vanished completely during December's 2010 second fortnight; because of this 2011 annual inflation will be lower than that of December's first fortnight

Core inflation raised 0.35% fof, reaching 3.37% yoy. Within it the prices of processed food remained pressured and raised 0.55% fof reaching an annual rate of 7.56%, a very high rate influenced by the prices of grains and to a lower extent to the exchange rate. Non food merchandise, raised 0.26% fof, its annual rate grew from 1.95% in November to 2.23% yoy in Decembers first fortnight, despite this increase this prices remain bounded and to the extent that consumption remains slow, the exchange rate pass-through will be limited. The prices of services raised 0.31% fof resulting in an annual rate of 2.41% yoy as in November, this favorable performance is due to the lack of demand pressures and it's expected to continue at least during the next few months.

Non-Core inflation raised 1% fof thanks to increases of 2.3% fof of farm produce and of 0.5% fof of energy prices annually non core inflation grew from 4.1% in November to 5.4% yoy in December's first fortnight. Within it, the prices of energy and livestock are raising because of the high prices of commodities and the peso depreciation, however the favorable performance of the prices of fruits and vegetables and government tariffs has helped to avoid a sharper increases in the sub-index.

Inflation keeps accelerating annually, however core prices remain bounded because despite the currency depreciation and the high prices of commodities, the recovery of consumption in Mexico lacks enough intensity to generate demand pressures on prices and limits the cost pass-through to consumers. Inflation will end the year around 3.7% and we consider that during 2012 will continue below 4% despite the short term risks like exchange rate pass-through, because the rest of its fundamentals remain consistent with contained inflation.

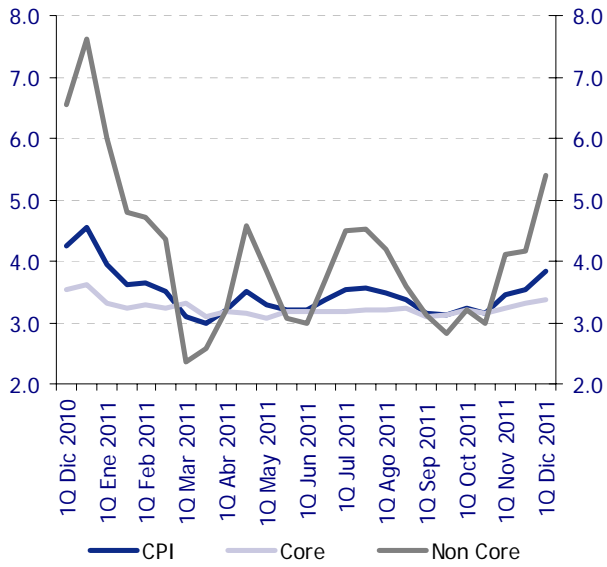
Table 1

### Inflation (m/m and y/y % change)

|          | Bi-weekly % chg. |           |               | Annual % chg. |           |               |
|----------|------------------|-----------|---------------|---------------|-----------|---------------|
|          | 1F Nov 2011      | Consensus | BBVA Research | 1F Sep 2011   | Consensus | BBVA Research |
| CPI      | 0.51             | 0.34      | 0.36          | 3.85          | 3.68      | 3.70          |
| Core     | 0.35             | 0.27      | 0.22          | 3.37          | 3.29      | 3.24          |
| Non Core | 1.03             | 0.57      | 0.82          | 5.40          | 4.92      | 5.18          |

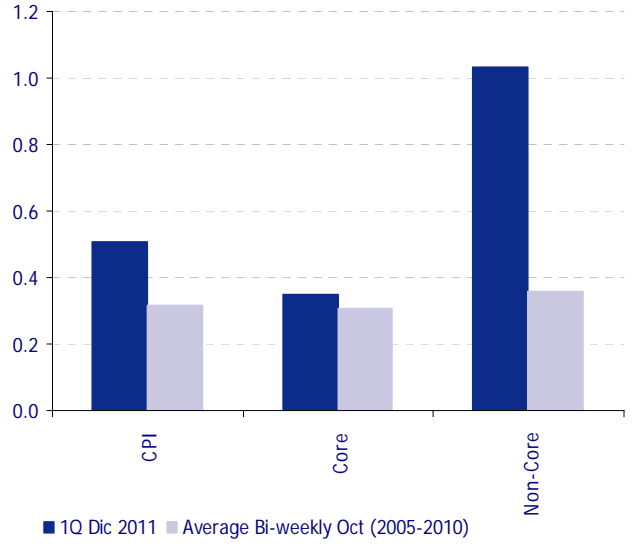
Source: BBVA Research with INEGI data

Chart 1  
**General Inflation and Components**  
 (y/y % change)



Source: BBVA Research with INEGI data

Chart 2  
**General Inflation and Components**  
 (m/m % change)



Source: BBVA Research with INEGI data

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