

Mexico Weekly Flash

March Inflation and Industrial Output in February

March Inflation (Monday, April 9)

Forecast: 0.05% m/m 3.72% y/y

Consensus: 0.1% y/y

Previous: 0.2% m/m 3.87% y/y

Next Monday sees the release of March inflation figures. We expect to see a slight reduction in the annual rate compared to the 3.87% in February. Inflation surprised with a downward move in March in the first two weeks thanks to the major reductions in agriculture and livestock prices, as well as the rates set by local governments. We expect a 0.26% m/m increase in core inflation meaning it will remain in the 3.3 to 3.4% annual rate range where it has sat since December. The last two months have been very positive in terms of inflation forecasts for the year. Nonetheless, we will have to keep a close eye on what happens on world commodities markets, especially oil and grain. In addition, we will need to look at the performance of agriculture and livestock prices in Mexico since they may lead to some temporary increases in inflation. As seen in the core component performance, however, there are no major demand pressures on prices given the prevailing slack in the Mexican economy. For the moment, this is the biggest support for price stability.

Industrial Output in February (Wednesday, April 11)

Forecast: 0.3% m/m 3.8% y/y

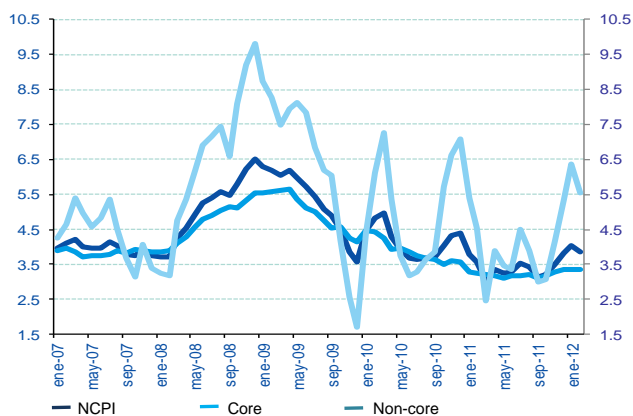
Consensus: N.A.

Previous: 0.8% m/m 3.8% y/y

This Tuesday sees the release of industrial output performance for February. We estimate a slight decrease from the previous advance of 0.8% to 0.3% m/m in February. It should be stated that US manufacturing has seen a slowing monthly performance, from 1.3% in December 2011 and January 2012 to 0.3% in February. In contrast, both domestic automotive production and the IMEF indicator coincided in showing upswings in the February figure over the previous month: in the former, from 0.3% m/m in the aforementioned two months to 11.9% in February and in the latter, from -1.7% to 3.9% in the second month of the year. By components, the performance of the manufacturing sector was particularly notable while construction maintains a slight advance with an expected slowdown over the year.

Chart 1

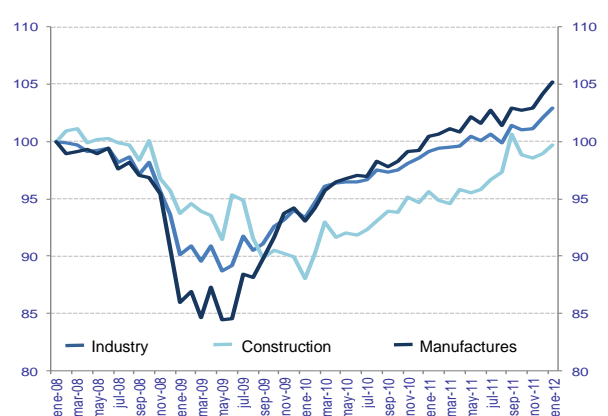
Recorded annual inflation (%)



Source: BBVA Research and INEGI

Chart 2

Industrial Output (Jan 2008 index=100)



Source: BBVA Research with INEGI data

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