

Mexico Inflation Flash

April's inflation: in line with expectations; the non-core component continues being the factor behind the reduction

General: Actual:-0.31% m/m vs. BBVA:-0.31% m/m Consensus:-0.34% m/m

Core: Actual: 0.15% m/m, vs. BBVA:0.11% m/m Consensus:0.12% m/m

- **Consolidation of falls in the non-core prices with reductions in three consecutive months. In this occasion, the low inflation is explained mainly by a reduction in agricultural prices and the lower electricity tariffs resulting from the warm season scheme.**
- **The annual inflation reaches 3.41%, which provides room for inflation to continue within Banxico's objective range of 3%+/-1% in the following months. Nevertheless, it is important to be vigilant to the possible pass-through to prices of the increasingly recurrent volatility movements of the currency resulting from global uncertainty.**

During April 2012, the CPI fell (-)0.31% m/m, the level expected by BBVA Research and very close to the forecast of the market consensus of (-)0.34% m/m. In consequence, annual inflation reached 3.41%, which is lower than the one registered in March of 3.73%. The core prices raised 0.15% m/m also in line with market consensus and BBVA Research. The non-core component consolidated as the main factor behind the low inflation with three consecutive monthly falls in February, March and April.

Core inflation reached 3.39% y/y, a similar level to the one registered in March of 3.31%. This is explained by an annual inflation of merchandises of 4.48% that remains stable with respect to the previous month consequence of a lower growth of the grains international prices and a low exchange rate pass-through. In addition, the prices of services practically did not change (0.01% m/m) and its annual variation continues below 2.5% y/y. The reduction in the prices of tourism and mobile phone services continue contributing to this good performance.

The reduction in non-core prices persists, and went from 5.12% y/y in March to 3.49% in April. This behavior is explained by the reduction in the prices of agricultural products (-1.07% m/m), replica of their international prices, and the energy (-3.37% m/m) with the coming into force of the electricity tariffs of warm season in different cities.

The consolidation of falls in the non-core prices, with reductions in three consecutive months, has significantly contributed to maintain a low inflation. The actual inflation level provides room for inflation to continue within Banxico's objective range of 4%+/-1% in the following months. It is considered that the inflationary risks remain balanced. On one hand, the increasingly recurrent volatility movements of the currency and the increase in oil price are risks to the upside. On the other hand, a possible global economic deceleration resulting from the European crisis is the main downward risk factor.

Table 1

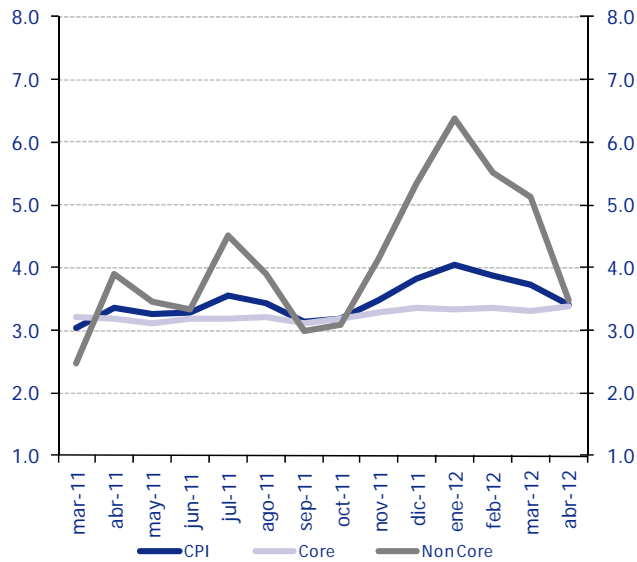
Inflation (y/y and ff % change)

Inflation (m/m & y/y % chg.)					
	m/m % Change			y/y % Change	
	abr-12	Consensus	BBVA Research	mar-12	abr-12
CPI	-0.31	-0.34	-0.31	3.73	3.41
Core	0.15	0.12	0.11	3.31	3.39
Non Core	-1.84	-1.86	-1.70	5.12	3.49

Source: BBVA Research

Graph 1

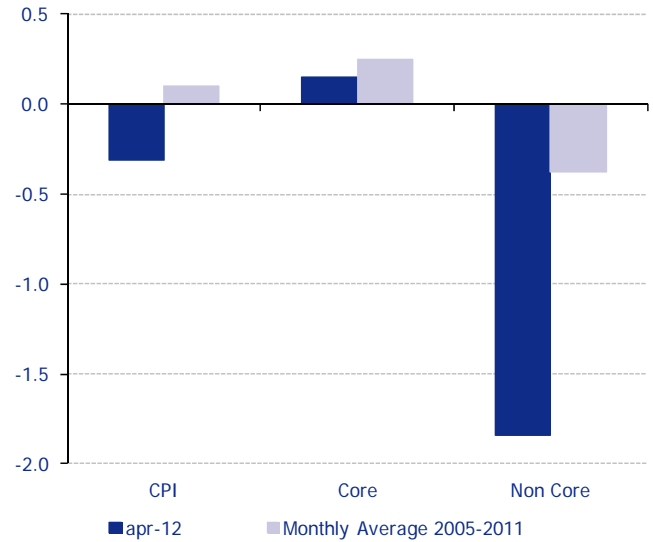
Inflation and components (y/y % chg.)



Source: BBVA Research

Graph 2

Inflation and components (m/m % chg.)



Source: BBVA Research

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