

Mexico Inflation Flash

November's biweekly inflation: Inflation Continues Falling as Supply Shocks Keep Fading

General: Actual: 0.79% f/f vs. BBVA: 0.75% f/f Consensus: 0.75% f/f
Core: Actual: 0.18% f/f, vs. BBVA:0.20% f/f, Consensus:0.20% f/f

- **As expected inflation continues decelerating, as past supply shocks fade and core inflation continues on a lowering path.**
- **Core inflation fell again at the beginning of November as its services component keeps moderating its inflation.**
- **Inflation kept falling at the beginning of November and it will continue on this path the rest of the year, although it won't end 2012 below 4%. In 2013 inflation will reach Banxico's range around the second quarter, but some risks at the beginning of the year, such as new supply shocks, further peso depreciation and/or higher than expected public prices could delay this convergence. However demand pressures will remain inexistent.**

November's biweekly inflation dropped from 4.6% in October to 4.4% y/y. Core inflation dropped from 3.6% to 3.5% y/y thanks to a sharp decrease in the prices of services from 2.2% to 2% y/y. Non core inflation reduced from 8.1% to 7.2% y/y leading the reduction in general inflation.

Core inflation reduced to 3.5% y/y given the deceleration in services prices, however merchandise inflation increased slightly from 5.2% to 5.3% y/y. Merchandise prices increased 0.35% f/f, as both of its components -processed food and rest of merchandise- increased slightly more than expected, signaling that producers keep struggling with high grain prices globally, and that the cost adjustments caused by the peso depreciation are still going on. Services prices increased only 0.03% f/f for the second fortnight in a row, its housing and education components remain unpressured, while its rest of services component continues performing very favorably, reaching 1.3% its lowest annual rate since July 2011 and its third lowest in history. This positive performance is related to increased competition in telecommunication services, which causes its prices to fall. Core inflation will remain bounded due to economic slack, as unemployment remains high and it prevents consumption from pressuring prices, and because of the increasing competition in the telecommunications sector. However merchandises could remain slightly pressured the remainder of the year as peso volatility continues and grain prices remain high.

Non Core inflation reduced again on an annual basis as livestock and energy prices kept decelerating and fruits and vegetables timely reduced its inflation in the beginning of November. Agricultural and livestock prices inflation reduced from 15.4% in October to 13.4% y/y, thanks to sharp decrease in the prices of tomatoes and lower poultry prices, however meat is being pressured by high grain prices and it could cause the reduction of the inflation of this component to be slower. Public prices remained stable at 3.9% because even though energy prices inflation kept falling (from 6% in October to 5.8% y/y), the inflation of tariffs set by local governments has increased in the last two months, however this increases have been mild and its inflation level remains very low at 0.5% y/y. Non core inflation keeps falling as supply shocks continue fading, however some risks prevail as we can't rule out new supply shocks and/or public tariffs could increase more than expected at the beginning of 2013.

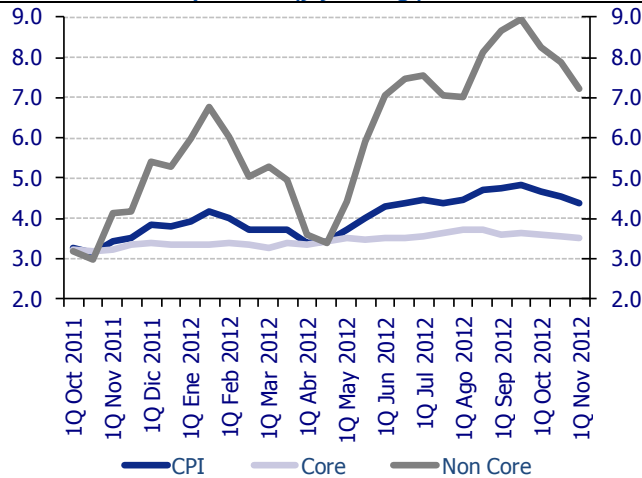
Bottom line: Inflation kept falling at the beginning of November and it will continue on this path the rest of the year, although it won't end 2012 below 4%. In 2013 inflation will reach Banxico's range around the second quarter, but some risks at the beginning of the year such as new supply shocks, further peso depreciation and/or higher than expected public prices could delay this convergence. However demand pressures will remain inexistent.

Table 1
Inflation (y/y and f/f % change)

	Bi-weekly % chg.			Annual % chg.		
	1F Nov 2012	Consensus	BBVA Research	1F Nov 2012	Consensus	BBVA Research
CPI	0.79	0.75	0.75	4.36	4.32	4.32
Core	0.18	0.20	0.20	3.50	3.52	3.52
Non Core	2.79	2.56	2.56	7.22	6.99	6.99

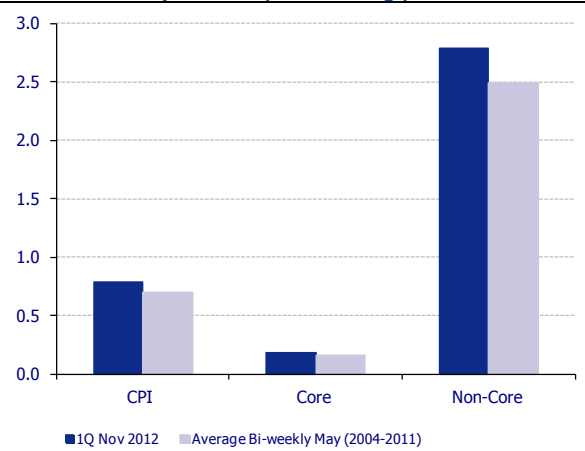
Source: BBVA Research

Graph 1
Inflation and components (y/y % chg.)



Source: BBVA Research with INEGI data.

Graph 2
Inflation and components (m/m % chg.)



Source: BBVA Research with INEGI data.

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