

Mexico Inflation Flash

August's biweekly inflation: there are no signs of demand-side inflation pressures

Headline: Actual: 0.26% f/f vs. BBVA: 0.14% f/f Consensus: 0.16% f/f

Core: Actual: 0.10% f/f, vs. BBVA: 0.15% f/f Consensus: 0.12% f/f

- Non core inflation surprised to the upside but core inflation remains subdued
- In our view, considering that core inflation is under control, headline inflation is well below the upper range of Banxico's target, and economic weakness was sharper than expected in 1H13, Banxico could cut rates at the next meeting (September 6th). However, with the Federal Reserve's tapering about to start we cannot rule out that Banxico decides to remain on hold.

Headline inflation surprised to the upside and came in at 0.26% in the first fortnight of August, above our below-consensus forecast (BBVA Research: 0.14%, consensus: 0.16%), increasing in annual terms to 3.54% from 3.42% in the second fortnight of July. The upside surprise was the result of higher-than-anticipated increases in the perishable component (1.35% f/f), driven by sharp fruits and vegetable price increases (3.68% f/f). In contrast, core inflation surprised slightly to the downside, increasing 0.10% f/f (BBVA Research: 0.15%, consensus: 0.12%). In annual terms, core inflation declined to 2.38% from 2.44% in the second fortnight of July, a new all-time low.

Non Core inflation increased much more than expected. Non core inflation was 0.78% f/f, increasing in annual terms to 7.34% from 6.58%, and interrupting the downward trend observed in the last five fortnights. We were expecting a slight increase in this subindex (0.11% f/f) on the back of a significant decrease in chicken prices. This expected drop was observed (-1.08%) while other unexpected price drops also helped (e.g. -1.01% in mobile phone prices); however, tomato and egg prices increased substantially (12.15% f/f and 1.95% f/f, respectively).

Core inflation remains subdued. Core inflation was 0.10% f/f, a tad below expectations (BBVA Research: 0.15%, consensus: 0.12%). With the end of summer sales, core goods prices rebounded as anticipated, increasing 0.25% f/f after falling for three consecutive fortnights (-0.09% on average). Besides, we were incorporating the seasonal increase in tuition fees (1.63% f/f for university and 1.61% f/f for high school). However, the services price index declined unexpectedly (-0.02% f/f) driven by significant reductions of tourism services prices (-6.2% f/f) and air transportation prices (-11.9% f/f). In annual terms, core inflation declined to 2.38% from 2.44% in the second fortnight of July, a new all-time low.

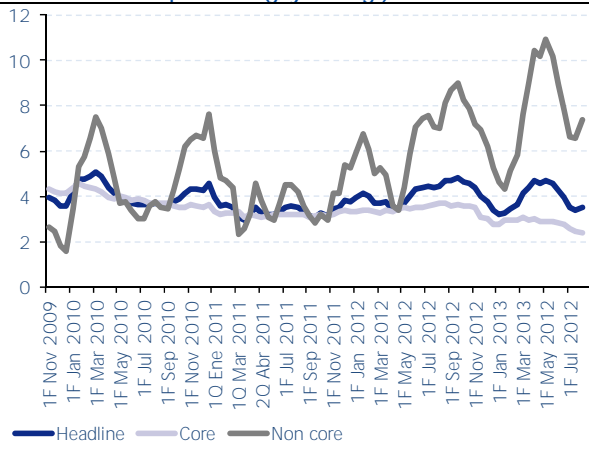
Bottom line: there are no signs of demand-side inflation pressures. In our view, considering that core inflation is under control, headline inflation is well below the upper range of Banxico's target, and economic weakness was sharper than expected in 1H13, Banxico could cut rates at the next meeting (September 6th). However, with the Federal Reserve's tapering about to start, we cannot rule out that Banxico decides to remain on hold.

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

	CPI Inflation (Bi-weekly and annual % chg.)					
	Bi-weekly % change			Annual % change		
	1F Jul 2013	Consensus	BBVA Research	1F Jul 2013	Consensus	BBVA Research
Headline	0.26	0.16	0.14	3.54	3.44	3.42
Core	0.10	0.12	0.15	2.38	2.40	2.43
Non Core	0.78	0.30	0.11	7.34	6.83	6.62

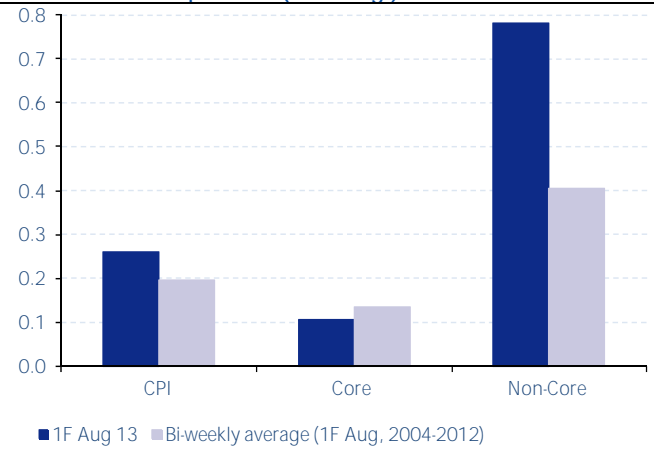
Source: BBVA Research, INEGI

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



Source: BBVA Research, INEGI

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



Source: BBVA Research, INEGI

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