Mexico Inflation Flash

Inflation in the first fortnight of November

Headline: Actual: 0.85% FoF (BBVAe: 0.71%; consensus: 0.72%)

Core: Actual: 0.11% FoF (BBVAe: 0.16%; consensus: 0.14%)

- **Headline inflation surprised on the upside, driven higher by perishable food prices**
- **Today's lower-than-expected core print reinforces our below-consensus year-end core inflation forecast, which remains unchanged at 2.6% (Consensus: 2.8%)**

Headline inflation came in above expectations, increasing 0.85% FoF in the first fortnight of November (BBVAe: 0.71%, consensus: 0.72%) on the back of higher-than-expected pressures in the perishable price component. Annual inflation reached 3.51%, increasing from 3.45% in the second fortnight of October. Core inflation was 0.11% FoF, a touch below expectations (BBVAe: 0.16%, consensus: 0.14%). The lower-than-expected print pushed down annual core inflation to 2.43% from 2.49% in the previous fortnight. Within its components, a softer-than-expected increase in core goods prices (0.03% FoF) offset the surprising increase in professional services (6.56% FoF) which pushed up the core services component (0.18% FoF). Core inflation continues to benefit from economic weakness, particularly the recent weak consumption readings which apparently have limited firms' pricing power. In such a context, today's print reinforces our below-consensus year-end core inflation forecast (BBVAe: 2.6%, consensus: 2.8%).

Non-core inflation surprised on the upside, driven higher by significant increases in perishable food prices. Non core inflation rose 3.27% FoF, reaching 7.01% in annual terms (BBVAe: 7.2% FoF, consensus: 5.93%). The energy component increased less-than-expected, mainly driven higher by a 22.6% FoF seasonal adjustment in the electricity tariffs (summer tariffs ended in 10 cities), but a large upward surprise in perishable food prices (6.03% FoF) more than offset the lower increase in electricity tariffs. We were expecting a significant increase (3.5% FoF) in this component influence by the aftermath of the September hurricanes, but it still surprised us on the upside, mainly driven higher by strong increases in tomato and onion prices (14.9% FoF and 14.8% FoF, respectively), which together accounted for 0.10 pp of the bi-weekly increase in headline inflation.

Core inflation continues to benefit from economic weakness and reflects the absence of demand-side inflation pressures. Core inflation was 0.11% FoF, a touch below expectations (BBVAe: 0.16%, consensus: 0.14%). The lower-than-expected print pushed down annual core inflation to 2.43% from 2.49% in the previous fortnight. Within its components, a softer-than-expected increase in core goods prices (0.03% FoF) –pushed downward by both core food prices (0.03% FoF) and other core goods prices (0.03% FoF)- offset the surprising increase in professional services (6.56% FoF) which pushed up other services prices (0.32% FoF), driving higher the core services component (0.18% FoF). Core inflation continues to benefit from economic weakness.

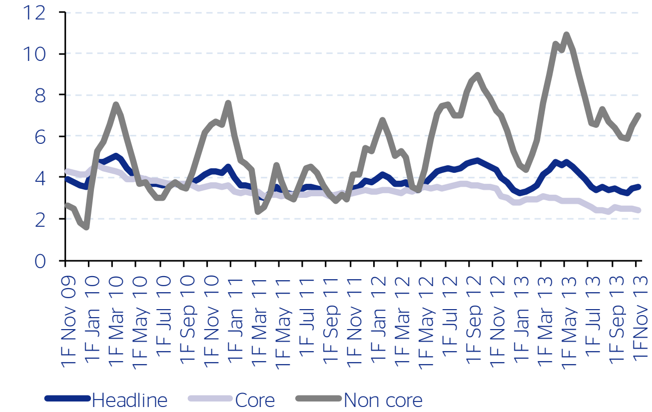
Bottom line: Taking into account the higher-than-expected increase in non-core prices, we now expect headline inflation to reach 3.6% by year-end (+0.1 pp). However, we consider that today's print reinforces our below-consensus year-end core inflation forecast, which remains unchanged at 2.6% (Consensus: 2.8%).

Table 1
Inflation (FoF and YoY % change)

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Nov 2013	BBVAe	Consensus	1F Nov 2013	BBVAe	Consensus
Headline	0.85	0.71	0.72	3.51	3.37	3.38
Core	0.11	0.16	0.14	2.43	2.46	2.48
Non Core	3.27	2.60	2.71	7.01	6.32	6.43

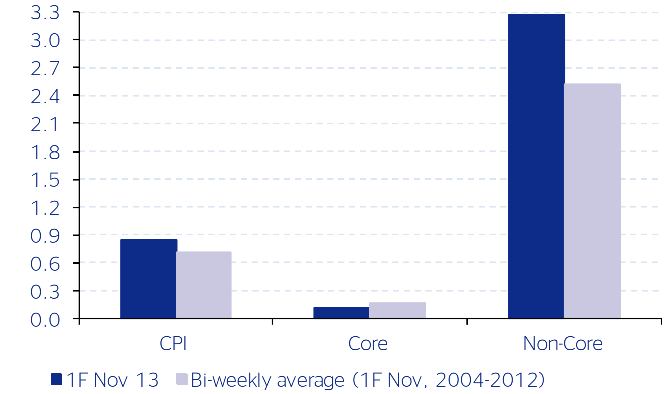
Source: BBVA Research, INEGI

Chart 1
Inflation and components (YoY % change)



Source: BBVA Research, INEGI

Chart 2
Inflation and components (FoF % change)



Source: BBVA Research, INEGI

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