# Mexico Inflation Flash

## Inflation in May: Supply Shocks Within Non Core Inflation Prevents Headline Inflation from Falling

**General: Actual: -0.33% m/m vs. BBVA: -0.39% m/m Consensus: -0.31% m/m**
**Core: Actual: 0.20% m/m, vs. BBVA:0.17% m/m Consensus:0.21% m/m**

- **Annual inflation remained near 4.65% y/y because supply shocks in livestock, energy and tariffs set by local governments caused further acceleration in non core inflation.**
- **Core inflation fell again as goods inflation keeps benefiting from exchange rate annual appreciation and lower commodity prices, and economic slack keeps services inflation bounded.**
- **Inflation might take longer to fall below 4.0% as supply shocks in non-core inflation are proving resilient. However, as production in these markets will eventually normalize, and as favorable fundamentals such as a stronger peso, lower international commodity prices and the ample availability of resources within the economy prevail, inflation will fall in coming months, and will end the year below 4.0%.**

May's inflation fell -0.31% m/m, above our forecast (-0.39% m/m) and in line with market consensus (-0.31% m/m), annually it fell slightly from 4.65% y/y in April to 4.63%. Core inflation increased 0.20% m/m above our estimate and in line with market consensus, annually it fell from 2.95% y/y in April to 2.88% y/y. Non-Core annual inflation rose from 10.3% y/y in April to 10.6% y/y as some of the supply shocks that have been affecting it this year persist.

**Core inflation remains well below 3.0% as the inflation of both of its components, goods and services, remains stable.** Goods prices increased 0.17% m/m, causing its annual inflation to fall from 3.6% y/y in April to 3.5% y/y. Its processed food component fell from 4.5% y/y in the previous month to 4.4% y/y. Meanwhile, the inflation of the rest of goods component fell from 3.0% y/y in April to 2.8% y/y, thanks to the stronger peso and the still feeble domestic demand. The prices of services remained stable around 2.4% y/y as in April. Its education component fell from 4.6% in April to 4.4% while its housing and other services components remained stable close to 2.1% and 2.0%, respectively. Strong fundamentals such as the stronger peso (even with the recent volatility), lower international grain prices and persistent economic slack will continue favoring a low core inflation, which in case of further deceleration of the economy could moderate even more.

**Non Core inflation increased as lower agricultural prices could not offset pressures within the livestock, energy and tariffs components.** Agricultural inflation decreased from 25.1% y/y in April to 15.5% y/y thanks to lower green tomato and lemon prices which had been affected in previous months by bad weather and a plague, respectively, and were the main cause of the spike in agricultural inflation. Livestock inflation rose from 12.6% y/y in April to 15.1% y/y as poultry markets remain affected by avian flu which has been persistent this year. Energy prices rose from 6.5% y/y in April to 8.2% y/y despite the favorable trend in electricity prices that decreased -4.3% y/y. The inflation of premium gasoline and heating gas keeps increasing strongly as the government is subsidizing less the prices of these products this year, given the high fiscal cost paid in previous years. Finally, the inflation of tariffs set by local governments increased from 6.3% y/y in April to 6.5% y/y as the weakness in local government finance remains an upward inflation risk. Agricultural prices will continue falling in coming weeks, and as livestock prices are expected to normalize, we consider non-core inflation is at its highest year level. A favorable base effect will enable it to fall in coming months, once progress in poultry prices is finally achieved.

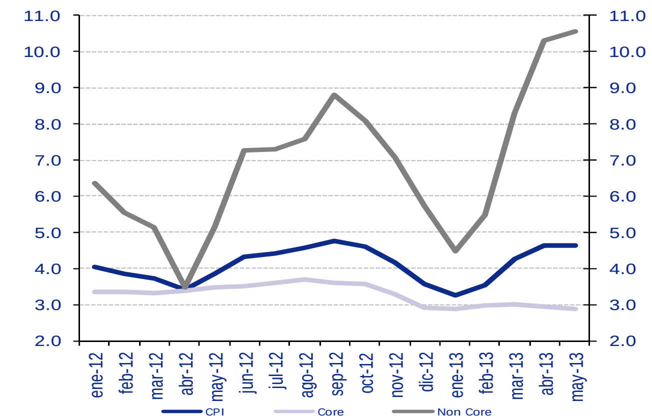
**Bottom line: Inflation might take longer to fall below 4.0% as supply shocks in non-core inflation are proving resilient. However as production in these markets will eventually normalize, and as favorable fundamentals such as a stronger peso, lower international commodity prices and the ample availability of resources within the economy prevail, inflation will fall in coming months, and will end the year below 4.0%.**

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

| | m/m % Change | | | y/y % Change | |
|---|---|---|---|---|---|
| | may-13 | Consensus | BBVA Research | abr-13 | may-13 |
| **CPI** | **-0.33** | **-0.31** | **-0.39** | 4.65 | **4.63** |
| **Core** | **0.20** | **0.21** | **0.17** | 2.95 | **2.88** |
| **Non Core** | **-2.05** | **-2.03** | **-2.24** | 10.32 | **10.56** |

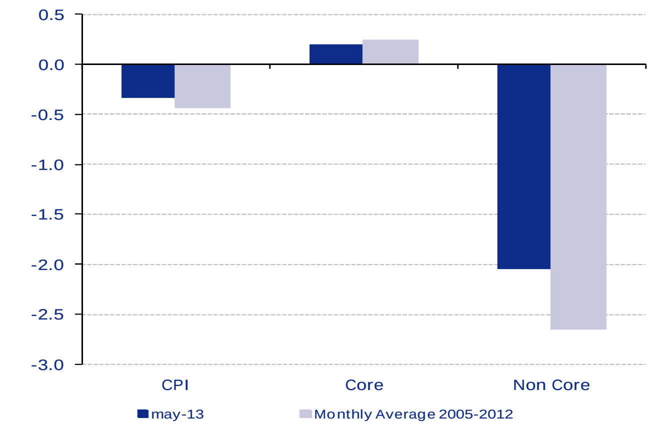
Source: BBVA Research

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.


Pedro Uriz Borrás
pedro.uriz2@bbva.com



BBVA RESEARCH | Avenida Universidad 1200, Colonia Xoco, México DF, CP 03339 | www.bbvaresearch.com