

Inflation in July explained by higher government tariffs

August 9, 2016

www.banorte.com
www.ixe.com.mx
@ analisis_fundam

- **INEGI just published its inflation report for July**
- **Headline inflation (Jul): 0.26%/m/m (Banorte-Ixe: 0.27%/m/m; consensus: 0.33%/m/m)**
- **Core inflation (Jul): 0.17%/m/m (Banorte-Ixe: 0.19%/m/m; consensus: 0.19%/m/m)**
- **Inflation July was explained by pressures on government tariffs prices along with increases in the price of services**
- **With these numbers, annual inflation is at 2.65% vs. 2.54% in previous month**
- **CPI dynamics could result in fewer pressures in the short-end**

Delia Paredes
Executive Director of Economic Analysis
delia.paredes@banorte.com

Alejandro Cervantes
Senior Economist, Mexico
alejandro.cervantes@banorte.com

Fixed income and FX Strategy

Alejandro Padilla
Director de Estrategia
Renta Fija y Tipo de Cambio
alejandro.padilla@banorte.com

Juan Carlos Alderete, CFA
FX Strategist
juan.alderete.mactal@banorte.com

Santiago Leal
Analyst Fixed Income and FX
santiago.leal@banorte.com

Consumer prices increased 0.26%/m/m in July, in line with our expectations but lower than consensus. Core inflation was 0.17% vs. our 0.19% estimate. The main deviation from our forecast comes from: (1) A lower than expected contribution of services prices (11.6bps vs. our 13.9bps); (2) an underestimation of merchandise prices (1.2bps vs. our 0.6bps); and (3) lower than expected reduction in agricultural prices (-7.2bps vs. our -8.6bps), as shown in the table below.

Inflation by components in July
%/monthly incidence

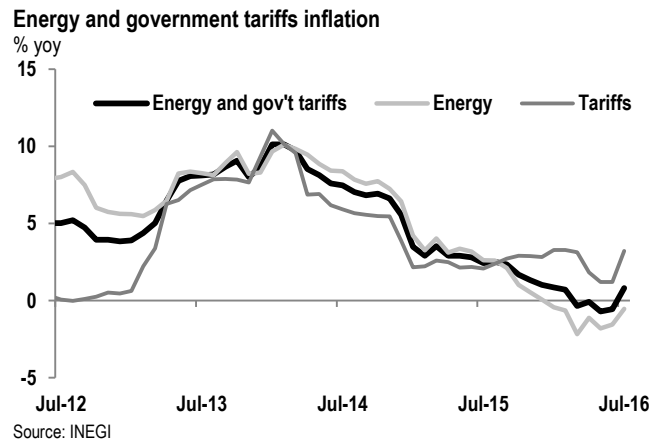
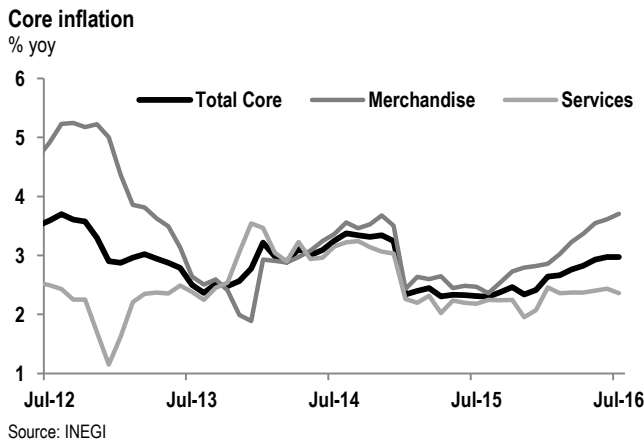
	INEGI	Banorte-Ixe	Difference
Total	0.26	0.27	-0.006
Core	0.13	0.15	-0.017
Goods	0.01	0.01	0.006
Processed foods	0.01	0.00	0.008
Other goods	0.00	0.00	-0.002
Services	0.12	0.14	-0.023
Housing	0.04	0.04	-0.002
Education	0.01	0.01	-0.001
Other services	0.07	0.09	-0.020
Non-core	0.13	0.12	0.010
Agriculture	-0.07	-0.09	0.014
Fruits & vegetables	-0.05	-0.05	-0.001
Meat & eggs	-0.02	-0.04	0.015
Energy & government tariffs	0.21	0.22	-0.003
Energy	0.10	0.11	-0.001
Government tariffs	0.11	0.11	-0.002

Source: Banorte-Ixe with data from INEGI and Banco de México.
Note: Contributions might not add due to the number of decimals allowed in the table.
Previous to year 2011, contributions might not add because of the change in CPI-calculation methodology

Document for distribution among public

Inflation in July was explained by pressures on government tariffs and on the price of services. In the first case, tariffs set by the government rose 2% on the back of higher subway fares, which rose 25.7% in the first half of the month. Meanwhile, prices of other services were up 0.41% m/m due to seasonal pressures (summer vacation season) on air transportation and tourism services prices. These pressures were partly offset by the drop in prices of mobile phone service (-3.9%). Also in the core index, merchandise prices increased 0.03% m/m. Meanwhile, energy prices were up 1.09% on the back of the announced increases of low grade (1.57%) and high grade (2.25%) gasoline prices. Finally, agricultural prices fell 0.77% m/m on the back of the reduction in the prices of products like poultry (-2.04%), *Husk* tomatoes (-18.97%) and lemons (-20.4%), among others.

With these data, annual inflation is at 2.65% vs. 2.54% in the previous month. Meanwhile, core inflation remains at 2.97%. We continue to see pressures on merchandise prices, on the back of the contagion coming from the depreciation of the Mexican peso, although inflation in the rest of the components of the core sub-index remains relatively stable, as shown in the chart below. In this context, we maintain our expectation that inflation will end the year at around 2.8%, taking into account, among others: (1) Increases in gasoline prices; (2) increases in electricity rates high consumption; and (3) the fact that *INEGI* has delayed the coming year change in CPI methodology.



From our fixed income and FX strategy team

CPI dynamics could result in fewer pressures in the short-end. Today's inflation report in Mexico came in line with our expectations but below consensus, resulting in a 3-4bps rally in short-term nominal-rate securities, while inflation-linked bonds Udibonos sold off nearly 7bps in every maturity. In our view, current conditions could result in fewer pressures in the short-end of the yield curve ahead of Banxico's communiqué on Thursday. Overall, we hold our trade idea regarding long positions on Mbono Jun'21 and Udibono Jun'19 given the current pricing of these securities. More details in our research note "*Mexico Trade Idea: Buy Udibono Jun'19 and Mbono Jun'21*" <[pdf](#)>, published on July 13th, 2016.

Disclaimer

The information contained in this document is illustrative and informative so it should not be considered as an advice and/or recommendation of any kind. BANORTE is not part of any party or political trend.

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Alejandro Cervantes Llamas	Senior Economist, Mexico	alejandro.cervantes@banorte.com	(55) 1670 - 2972
Katia Celina Goya Ostos	Senior Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Miguel Alejandro Calvo Domínguez	Economist, Regional & Sectorial	miguel.calvo@banorte.com	(55) 1670 - 2220
Juan Carlos García Viejo	Economist, International	juan.garcia.viejo@banorte.com	(55) 1670 - 2252
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Juan Carlos Alderete Macal, CFA	FX Strategist	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Santiago Leal Singer	Analyst Fixed income and FX	santiago.leal@banorte.com	(55) 1670 - 2144

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Equity Research Analyst	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Senior Equity Research Analyst – Conglomerates/Financials/ Mining/ Chemistry	marissa.garza@banorte.com	(55) 1670 - 1719
Marisol Huerta Mondragón	Equity Research Analyst – Food/Beverages	marisol.huerta.mondragon@banorte.com	(55) 1670 - 1746
José Itzamna Espitia Hernández	Equity Research Analyst – Airports / Cement / Infrastructure / Fibras	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research Analyst – Auto Parts/ Consumer Discretionary / Real Estate	valentin.mendoza@banorte.com	(55) 1670 - 2250

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Idalia Yanira Céspedes Jaén	Analyst, Corporate Debt	idalia.cespedes@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454