

Inflation during March spurred by higher fruits and vegetables prices

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- **INEGI just published its inflation report for March**
- **Headline inflation (March): 0.61% m/m; Banorte-Ixe: 0.58% m/m; consensus: 0.58% m/m (range of estimates: 0.49% to 0.62%); previous: 0.58% m/m**
- **Core inflation (March): 0.57% m/m; Banorte-Ixe: 0.54% m/m; consensus: 0.53% m/m (range of estimates: 0.46% to 0.58%), previous: 0.76% m/m**
- **Inflation in March was explained by pressures on fresh fruits and vegetables prices as well as goods prices**
- **With these numbers, annual inflation stands at 5.35%, above the 4.86% seen in the previous month**
- **We continue to expect year-end inflation at 5.7%**

Consumer prices increased 0.61% m/m in March (Banorte-Ixe: 0.58% m/m). In addition, core inflation was 0.57% vs. our 0.54% estimate. The main deviation from our forecast comes from: (1) A lower than expected contribution of energy prices (-3.9bps vs our -2.1bps); (2) an underestimation of fruits and vegetables prices (19bps vs our 16.3bps); and (3) a higher contribution of other services (11.5bps vs. our 9bps), as shown in the table below.

March inflation by major subcomponent

Monthly incidence, %

	Observed	Banorte-Ixe forecast	Difference
Headline	0.61	0.58	0.03
Core	0.42	0.40	0.03
Goods	0.27	0.26	0.01
Processed foods	0.12	0.12	0.01
Other goods	0.15	0.15	0.00
Services	0.16	0.14	0.02
Housing	0.04	0.04	0.00
Education	0.00	0.00	0.00
Other services	0.11	0.09	0.02
Non-core	0.19	0.18	0.01
Agricultural	0.20	0.18	0.02
Fresh fruits and vegetables	0.19	0.16	0.03
Meat and egg	0.01	0.01	0.00
Energy and government regulated	-0.02	0.00	-0.02
Energy	-0.04	-0.02	-0.02
Government regulated	0.02	0.02	0.00

Source: INEGI, Banorte-Ixe

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

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Inflation in March was explained by pressures on fresh fruits and vegetables prices. According to *INEGI*, among the items with the highest change in prices were other fruits and vegetables (5.81% m/m), mainly due to increases in the prices of husk tomatoes (53.87% m/m), lemons (33.73% m/m) and tomatoes (12.69% m/m). Moreover, another sub-index with substantial changes was other goods, which grew 0.79% m/m.

On the other hand, the biggest decreases were seen in the energy prices, which declined 0.34% m/m, driven by lower prices of both low and high grade gasoline (-1.32% m/m and -0.88% m/m respectively).

With these numbers, annual inflation stands at 5.35%, 49bp above the February's figure. Moreover, core inflation in March marginally increased from 4.26% last month to 4.48%. Looking ahead, we consider that inflation will be impacted by: (1) The increase and liberalization of gasoline prices; and (2) second round effects stemming from the higher pass-through effect of the depreciation of the Mexican peso and higher energy costs to prices. We continue to expect the headline index to close 2017 at 5.7% yoy.

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