

Press Release
Number 17/2015

Mexico City, March 8th, 2015

**LOWER PRICES OF TELECOMMUNICATION SERVICES BY OPERATION OF REGULATORY
MEASURES AND CONCESSIONAIRES NEW PACKAGES**

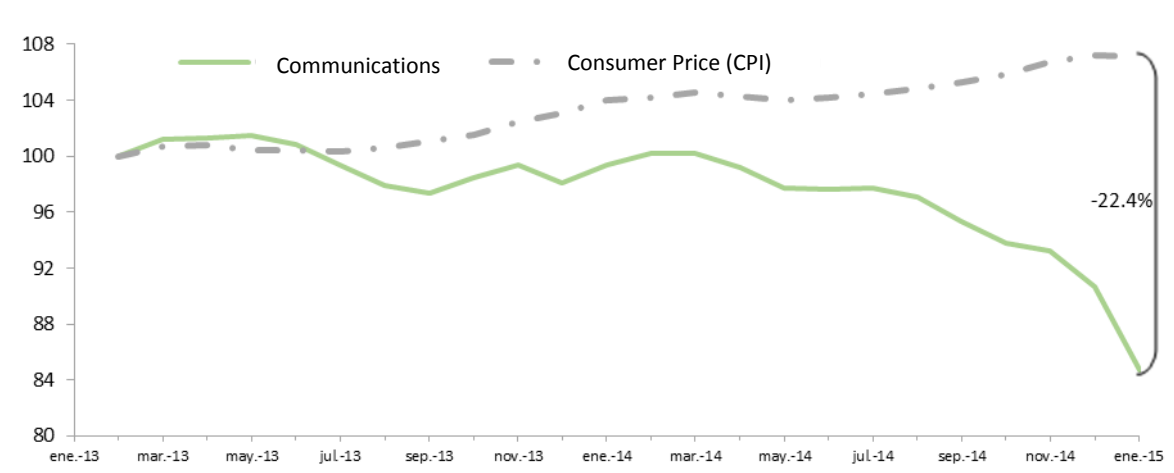
- While the National Consumer Price Index (CPI) registered a growth rate of 7.2% between February 2013 and January 2015, the communications price index fell by 15.3%
- In mobile telephony reduced prices were observed in 16.7% for that period
- In Long International Distance there was a decrease of 40% from January 2015, indicating an indirect impact by eliminating the charge for Long National Distance, because the operators included minutes for calls abroad in their plans

Under the behavior observed in the price indices reported by the National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía*, INEGI), the Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones*, IFT) conducted an analysis of the various price indices of services that integrate it, particularly those that make up the telecommunications sector. The price index of communication has become increasingly important within the basic basket of consumer services. It currently has a weighting in the overall National Consumer Price Index (CPI) of 4%. This weighting is higher, e.g. the total of fruits and vegetables, beef, pork and chicken as a whole.

Figure 1 shows the behavior of the index during the period between February 2013 and January 2015. The growth rate of the CPI during the study period was 7.2%, while the communications price index for the same period decreased by 15.3 percent.

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Figure 1. Communications Price Index and CPI



Source: IFT with INEGI data.

Note: February Index Base 2013=100.

Price indices for telecommunications sector services

From the components of the overall price index communication behavior of prices, six services within the telecommunications sector were analyzed:

- Mobile Telephony
- Fixed Telephony
- National long distance
- International Long Distance
- Internet
- Restricted TV

In all cases a comparison of these indices compared to the CPI was carried out.

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Mobile Telephony

From February 2013 to March 2014, the price index of mobile phone service has averaged 100.3 points, i.e., on average there were no significant changes during this period, since the base of the index equals 100. Later a fall in the index is observed, it is emphasized after the first quarter of 2014.

During the analyzed period the rate of change of the price index of mobile services decreased by 16.7%, which contrasts with the increase of 7.2% in the CPI (see Figure 2). Of the services analyzed, this is the one that presents more global communications price index (correlation about 97%) alike behavior.

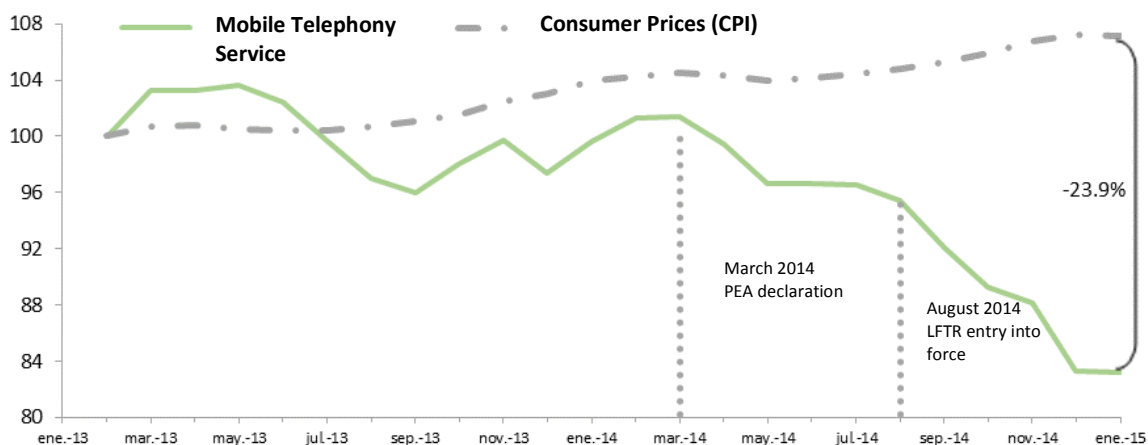
In the case of mobile telephony during the period under review were two factors that presumably could have affected the change in the trend of the price index:

- The statement of the Preponderant Economic Agent (PEA) in March 2014, which resulted on the removal of roaming charge, unlock of equipment and imposition of charges to PEA for asymmetric interconnection since April.

The entry into force of the Federal Telecommunications and Broadcasting Law (*Ley Federal de Telecomunicaciones y Radiodifusión*, LFTR) in August 2014, where is established the zero rate at PEA interconnection.

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Figure 2. Services Prices Index of Mobile Telephony and CPI



Source: IFT with INEGI data.

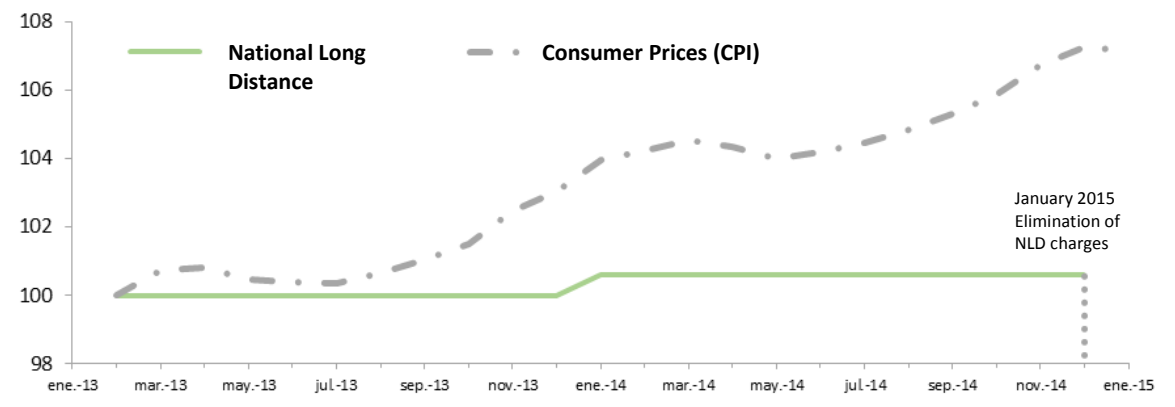
Note: February Index Base 2013=100.

National Long Distance (NLD)

From January 2015, charges for national long distance were removed. This implied that all calls made by users in the country were considered local. The impact of this measure on the price index of NLD is that from the beginning of 2015 the index is zero (see Figure 3).

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Figure 3. NLD and CPI Price Index



Source: IFT with INEGI data.

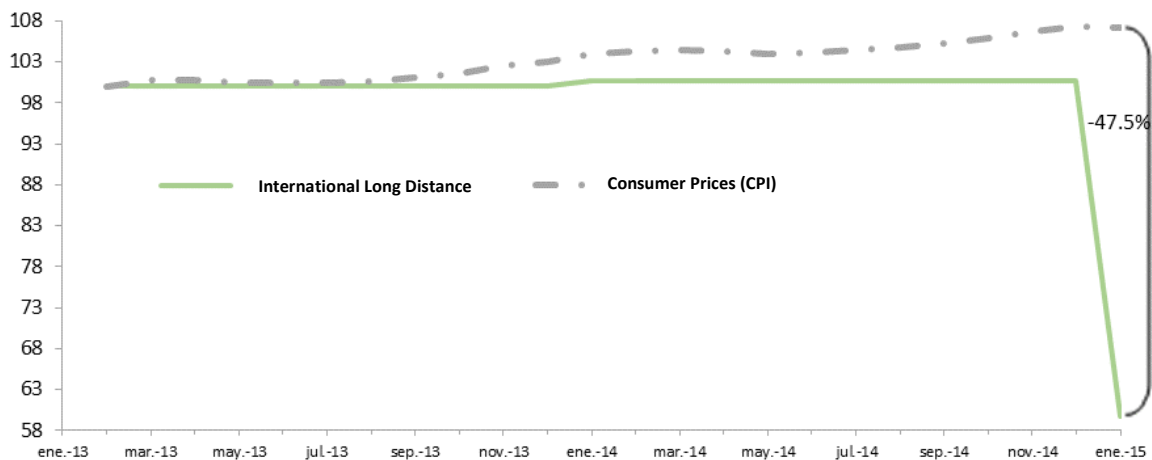
Note: February Index Base 2013=100.

International Long Distance (ILD)

Regarding ILD price index, the elimination of charges for NLD had an indirect impact, but significant. This includes an improvement in offering fixed telephony packages offered by operators, including the PEA, in late 2014, whose purpose is to make their products more competitive. These included international minutes within their packages while the price of additional international minutes decreased. This translates into a 40% decline from January 2015.

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International Long Distance and CPI Price Index

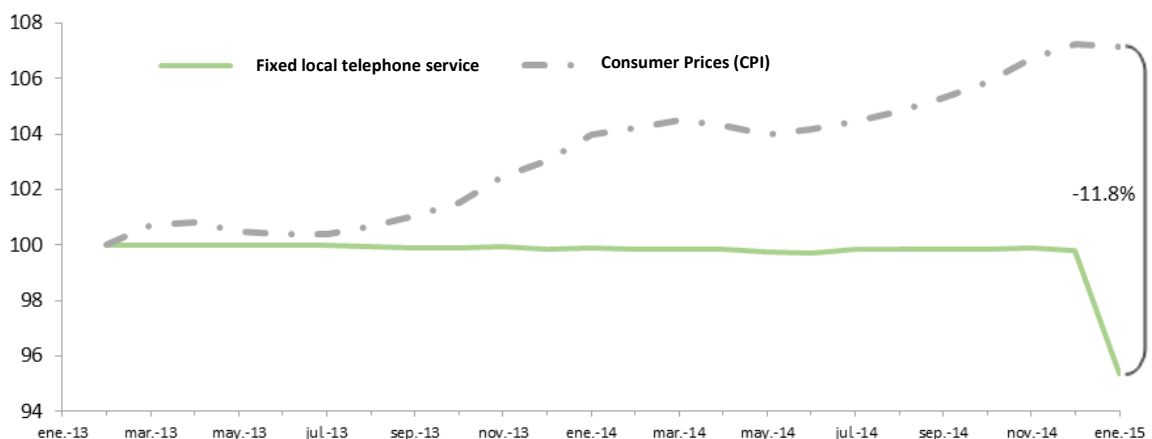


Source: IFT with INEGI data.
Note: February Index Base 2013=100.

Fixed telephony

The price index of fixed local telephone service noted a decrease of 4.6% in the period analyzed, which can be also explained by the introduction of new packages of fixed telephone services at the end of 2014, as mentioned above.

Fixed local telephone service and CPI Price Index



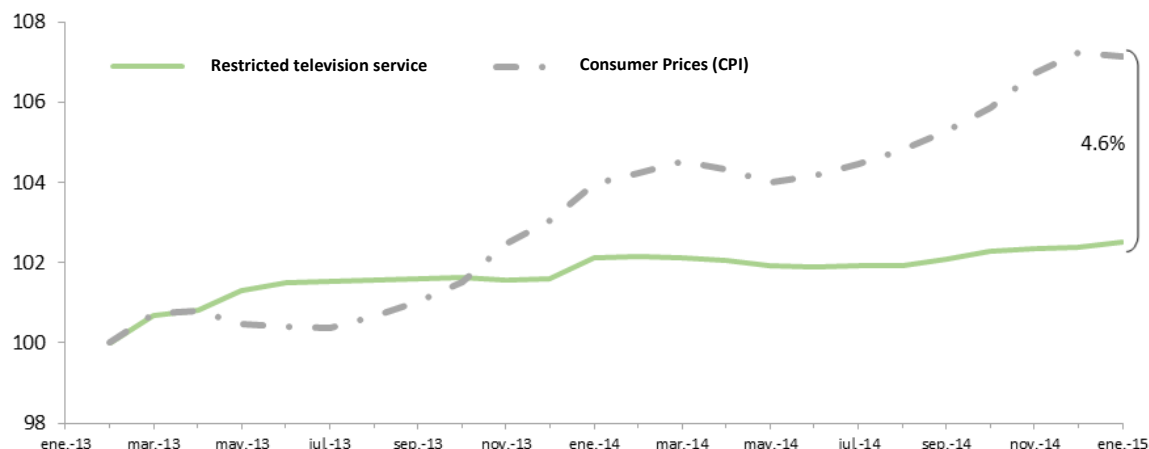
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Source: IFT with INEGI data.
Note: February Index Base 2013=100.

Restricted TV

The restricted television service index of prices showed a growth of only 2.5% during the study period. This growth is equivalent to just under a third of the recorded by the CPI during the same period. Note that this was the only sector of telecommunications service that recorded an increase.

Restricted television service and CPI Price Index



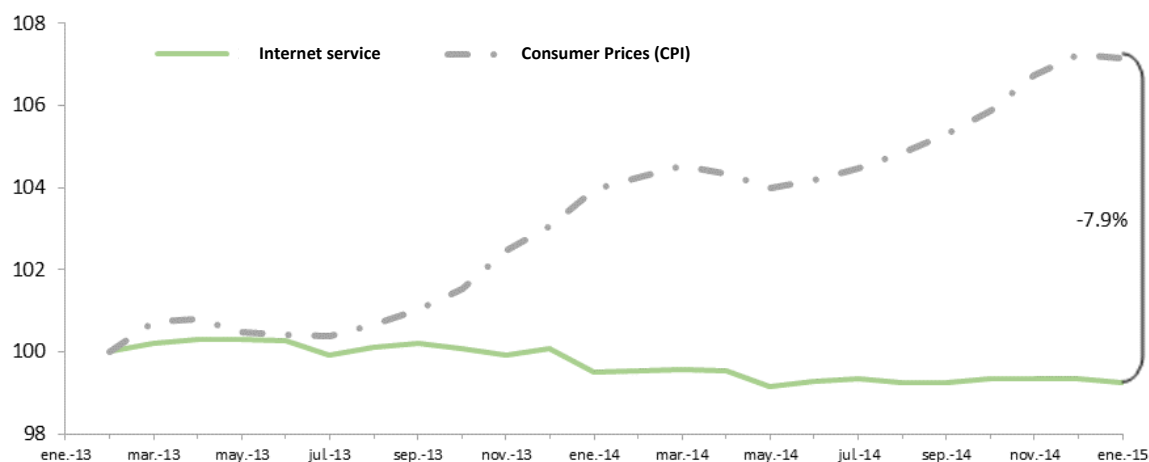
Source: IFT with INEGI data.
Note: February Index Base 2013=100.

Internet

The price index of Internet service recorded a decrease during the period of 0.8%, but it is worth noting that when compared with growth of 7.2% in the CPI represent a significant decrease in real terms.

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Internet service and CPI Price Index



Source: IFT with INEGI data.
Note: February Index Base 2013=100.

Structural change in the communications price index

A statistical exercise was conducted to the series of communications price index in order to find evidence of any structural change after the entry into force of the measures related to the declaration of preponderance on March 2014. Two periods were defined: November 2007 to March 2014 and April 2014 to January 2015.¹ Although the analysis does not prove causality between regulatory measures and the price index reduction, it does reveal statistical evidence that prices decline further in communications from regulatory measures mentioned above, which shows evidence of an structural² change.

¹ These two periods were defined because from November 2007 began a downward trend in the communications price index. The average annual growth rate for the period November 2007 to March 2014 was -3.4%, while the average rate of annual growth in April 2014 to January 2015 was -18.9%.

² The statistical method to infer structural change Chow test was used. The results show that there is a structural change of structural change from April 2014 with a higher level of significance at 98%.

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Summary table

The following table presents a summary of the price indices presented. The difference with respect to CPI is calculated as the difference between the rate of change of the CPI and the exchange rate of the respective indices. It is observed that all growths, except the index of restricted television service, are negative for the CPI. This means that these indices behaved contrary to the CPI increase.

Price Index	Rate of change (%) Feb 13 - Jan 15	Differential in respect to CPI
Consumer Price Index (CPI)	7.2	NA*
Communications Index	-15.3	-22.4
Restricted television service	2.5	4.6
Internet service	-0.8	-7.9
Local fixed telephone service	-4.6	-11.8
Mobile telephone service	-16.7	-23.9
International long distance	-40.3	-47.5
National long distance	-100.0	-107.2

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The Federal Institute of Telecommunications (IFT) is the autonomous body entrusted with the regulation, promotion and supervision of the efficient performance of broadcasting and telecommunications sectors in Mexico, and also exercises, in exclusive manner, the authorities in matters of economic competition of such sectors pursuant to the Decree whereby several provisions of Articles 6, 7, 27, 28, 94 and 105 of the Political Constitution of the United Mexican States are amended and supplemented in telecommunications matters, published in the Official Gazette of the Federation on June 11th of 2013.

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