

# Mexico Inflation Flash

## Price pressures from new taxes should be temporary

Headline: Actual: 0.89% YoY (BBVAe: 0.95%; consensus: 0.98%)

Core: Actual: 0.85% MoM (BBVAe: 0.82%; consensus: 0.89%)

- **Headline and core inflation reached 4.5% and 3.2% in annual terms, as we expected**
- **Today's inflation print does not show second-round effects on prices from the fiscal reform, reinforcing our view that price pressures arising from new taxes should prove temporary.**

Headline inflation in January was lower than consensus expectations, increasing 0.89% MoM, closer to our below-consensus forecast (BBVAe: 0.95%; consensus: 0.98%). With this result, annual inflation accelerated to 4.48% (BBVAe: 4.54%; consensus: 4.57%), above the target rate (3.0% +/- 1pp). Core inflation came in at 0.85% MoM, below consensus expectations but a touch above our below-consensus forecast (BBVAe: 0.82%; consensus: 0.89%). In annualized terms it accelerated to 3.2% from 2.8% at the end of 2013. As expected, the acceleration of annual inflation mainly reflected the effect of the tax reform -new taxes on sodas, junk food and fuels-, while the strong monthly prints also reflected seasonal adjustments in public tariffs and education services. As was the case in the first fortnight, the slight upside surprise in core prices was mainly driven by stronger-than-expected increases in food related services.

**Non-core inflation was lower than anticipated, led by fruit and vegetables group deflation.** Although non-core inflation rose somewhat more than typically in January (see chart 2) due to the new taxes on fuels, it surprised slightly to the downside mainly driven by a larger-than-expected deflation of the fruit and vegetables group (-4.3% MoM vs. BBVAe: -2.6%). This deflation was led by a 35.5% MoM drop in tomato prices which had a -0.22 pp (percentage points) impact on the monthly headline inflation reading. Meanwhile, gasoline prices contributed with 0.08pp to the monthly headline inflation, while poultry prices jumped 3.77% MoM. In annual terms, non-core inflation reached 8.6%.

**Core inflation was broadly in line with our below-consensus forecast.** Core inflation was 0.85% MoM, (BBVAe: 0.82%; consensus: 0.89%). The strong monthly print was mainly driven by the core food component which rose 2.35% MoM as new taxes came into effect, particularly on sodas' prices which jumped 12.8% MoM, contributing with 0.18pp of the monthly core inflation. The other goods component remained contained, rising 0.39% MoM. As was the case in the first fortnight, the slight upside surprise in core prices was mainly driven by stronger-than-expected increases in food related services. The other services component rose 0.85% MoM led by the 1.85% increase in snack bars and fast-food restaurant prices coupled with the 1.52% MoM increase in restaurant prices. Despite this upward surprise, in annual terms the core services component remained at 3.5% YoY, while the acceleration in the core goods component (to 2.9% YoY in January from 1.9% YoY in December) mainly responds to the spike in the core food component which jumped to 4.6% YoY in January from 2.7% in December. Thus, the monthly core print is broadly in line with our initial estimate of the effect of the tax reform and up to now does not suggest any second-round effects.

**Bottom line: We continue to expect price pressures arising from new taxes to prove temporary. Today's inflation print reinforces our view of the absence of second-round effects from the tax effects in prices as there is no evident acceleration in prices not related with the goods in which the new taxes were applied. Thus, as the effects are likely to prove temporary and given the economic slack resulting from the deceleration in 2013, we continue to expect Banxico to remain on hold for a prolonged period of time. Annual inflation will be moving towards the target as soon as in February and is likely to stand below 4.0% in March.**

Table 1

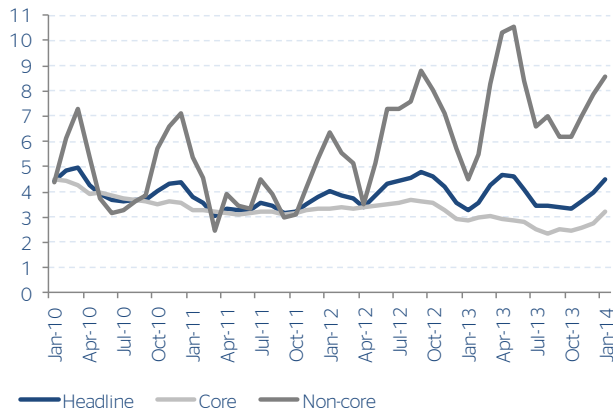
**Inflation (MoM and YoY % change)**

Inflation					
	MoM % change			YoY % change	
	Jan-14	BBVAe	consensus	ene-14	dic-13
CPI	0.89	0.95	0.98	4.48	3.97
Core	0.85	0.82	0.89	3.21	2.78
Non Core	1.02	1.38	1.28	8.58	7.84

Source: BBVA Research, INEGI

Chart 1

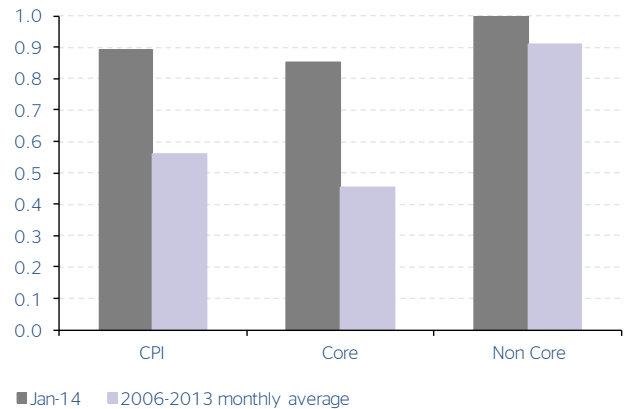
**Inflation and components (YoY % change)**



Source: BBVA Research, INEGI

Chart 2

**Inflation and components (MoM % change)**



Source: BBVA Research, INEGI

Javier Amador  
[javier.amadord@bbva.com](mailto:javier.amadord@bbva.com)



Avenida Universidad 1200, Colonia Xoco, México DF, CP 03339 | [www.bbvarresearch.com](http://www.bbvarresearch.com)

**Disclaimer**

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research and BBVA Bancomer S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer on behalf of itself and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA Bancomer, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.