

# Mexico Inflation Flash

## Inflation is on a declining trend as expected following the one-off increase in January

Headline: Actual: 0.25% MoM (BBVAe: 0.25%; consensus: 0.23%)

Core: Actual: 0.28% MoM (BBVAe: 0.27%; consensus: 0.28%)

- Inflation is heading towards its target as expected while core inflation remains subdued
- Today's report confirms the transitory condition of January's fiscal shock and shows that inflation continues to benefit from the slack in the economy

Headline inflation increased 0.25% MoM in February, exactly in line with our above-consensus forecast (BBVAe: 0.25%, consensus: 0.23%), driven higher as we expected by an increase in fruit and vegetable prices in the second fortnight (0.98% FoF) which partially offset the large drop observed in the first fortnight. In annual terms, headline inflation decelerated to 4.23% from 4.48 in January. Core inflation increased 0.28% MoM, in line with expectations (BBVAe: 0.27%, consensus: 0.28%), mainly driven higher by other services prices (0.63% MoM; BBVAe: 0.56%) which were pushed up by a 1.7% MoM increase in mobile rates. As we expected, core inflation continues to benefit from the slack in the economy: the other core goods prices did not increase (0.00% MoM; BBVAe: 0.02%). In annual terms, core inflation decreased to 2.98% from 3.21% in January. Today's inflation report thus shows that headline inflation entered a declining trend and confirms the transitory effect on prices of the new taxes as data reveal the absence of any second-round effects. We expect both annual headline and annual core inflation to edge down further in March.

**Non-core inflation increased in the second fortnight as we expected, driven higher by fruit and vegetable prices.** Non-core inflation rose 0.17% MoM, broadly in line with our above-consensus forecast (BBVAe: 0.18%; consensus 0.07%). The non-core component was driven higher as we expected by an increase in fruit and vegetable prices in the second fortnight (0.98% FoF) which partially offset the large drop observed in the first fortnight. This increase was mainly driven by the surge in lemon prices which increased 68% MoM. The fruit and vegetable prices monthly reading was broadly in line with our forecast (-2.13% MoM; BBVAe: -2.09%). Administered and regulated prices, increased 0.68% MoM, mainly driven higher by the 0.87% FoF energy-related inflation.

**Core inflation continues to benefit from the slack in the economy.** Core inflation increased 0.28% MoM, in line with expectations (BBVAe: 0.27%, consensus: 0.28%), mainly driven higher by other services prices (0.63% MoM; BBVAe: 0.56%) which were pushed up by a 1.7% MoM increase in mobile rates. As we expected, core inflation continues to benefit from the slack in the economy: the other core goods prices did not increase (0.00% MoM; BBVAe: 0.02%). The other core components increase in line with our expectations and thus do not show any sign of demand pressures: core food prices rose 0.28% MoM (BBVAe: 0.30% MoM), housing services prices increased 0.24% m/m (BBVAe: 0.21%), while education services prices (tuitions) edged up 0.30% MoM (BBVAe: 0.31%). In annual terms, core inflation decreased to 2.98% from 3.21% in January.

**Bottom line:** Today's data confirms the transitory effect on inflation of the fiscal reform and shows that inflation continues to benefit from the economic slack. We expect headline inflation to continue on a downward trend in coming months and to remain below the 4.0% threshold until May while core inflation is likely to remain subdued in coming months before increasing somewhat in the second half of the year if as expected the economy strengthens.

Table 1

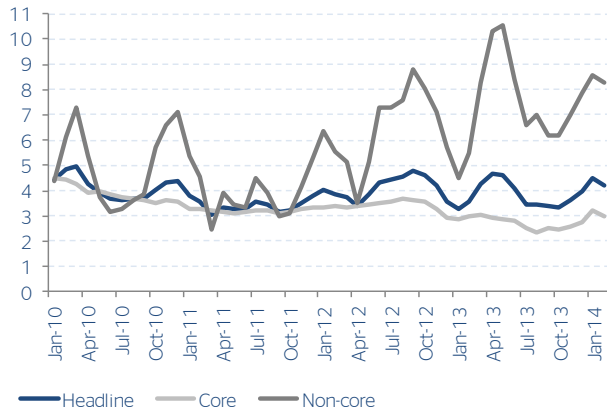
**Inflation (MoM and YoY % change)**

Inflation					
	MoM % change			YoY % change	
	Feb-14	BBVAe	consensus	feb-14	ene-14
CPI	0.25	0.25	0.23	4.23	4.48
Core	0.28	0.27	0.28	2.98	3.21
Non Core	0.17	0.18	0.07	8.28	8.58

Source: BBVA Research, INEGI

Chart 1

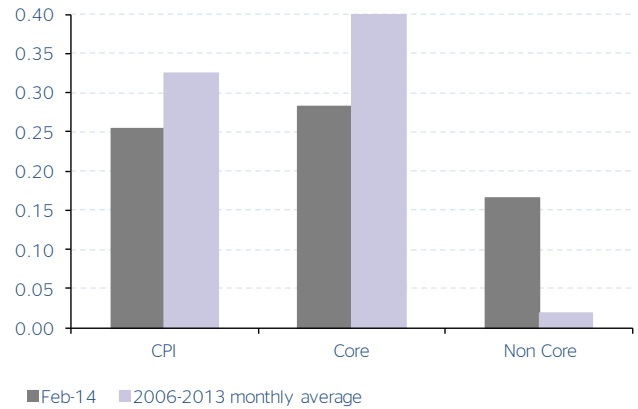
**Inflation and components (YoY % change)**



Source: BBVA Research, INEGI

Chart 2

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



Source: BBVA Research, INEGI

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