

Mexico Inflation Flash

Inflation surprised on the downside in the first fortnight of February

Headline: Actual: 0.12% FoF (BBVAe: 0.23%; consensus: 0.19%)

Core: Actual: 0.12% FoF (BBVAe: 0.22%; consensus: 0.22%)

- Inflation surprised on the downside driven by a lower-than-expected core inflation print. The non-core component was favored as expected by perishable food prices.
- Today's positive report seems to confirm the transitory condition of January's fiscal shock

Headline inflation increased 0.12% FoF in the first fortnight of February, well below expectations (BBVAe: 0.23%, consensus: 0.19%). This downside surprise was mainly driven by a much lower-than-expected core inflation print: 0.12% (BBVAe: 0.22%, consensus: 0.22%). In annual terms, headline inflation decelerated to 4.2% from 4.3% in the second fortnight of January, while core inflation reached 3.0%, 0.1pp lower than the level observed in the previous fortnight. Thus, as expected, following the fiscal shock in January, annual inflation is heading towards its target. Moreover, today's positive report seems to confirm the transitory effect on prices of the new taxes as data reveal the absence of any second-round effects.

Core inflation surprised on the downside, confirming the absence of second-round effects. Core inflation was 0.12% FoF (BBVAe: 0.22%, consensus: 0.22%). In annual terms, core inflation reached 3.0%, 0.1pp lower than the level observed in the previous fortnight. Core goods inflation was 0.12% FoF, while services inflation was 0.14% FoF. Notably, all sub indices within the core component remain subdued reflecting the transitory condition of the fiscal shock and the continued benefits on inflation arising from the economic slack. Core food inflation was only 0.07% FoF (compared with 2.03% FoF and 0.41% FoF in the previous two fortnights, respectively) while core other goods inflation was 0.12% FoF. Meanwhile, core other services inflation was 0.16% FoF (0.65% FoF on average in the previous two fortnights).

Non-core inflation was benefited by the decline in perishable food prices, as we expected. Non core inflation rose 0.12% FoF, a touch below our expectation, and reached 8.22% in annual terms. The 0.60% FoF decrease in non-core food prices, mainly driven by the 1.40% FoF drop in fruit and vegetable prices, was partially offset by the 0.55% FoF increase in administered and regulated prices, mainly driven by the 0.79% FoF energy inflation.

Bottom line: The lower-than-expected increase in core prices confirms the transitory effect on inflation of the fiscal reform and suggests that inflation continues to benefit from the economic slack. We continue to expect headline inflation to head towards its target in coming months while core inflation is likely to remain subdued before increasing somewhat in the second half of the year as the economic recovery strengthens.

Table 1

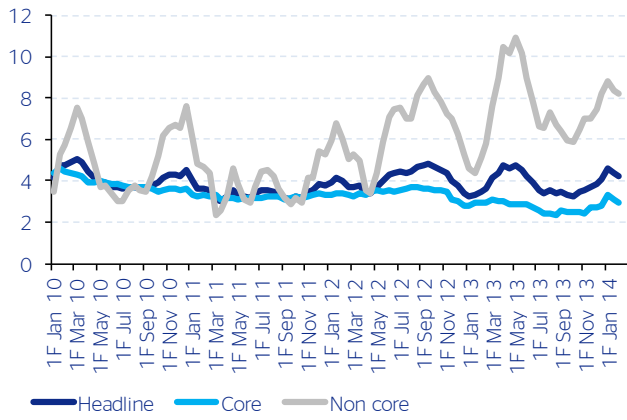
Inflation (FoF and YoY % change)

CPI Inflation						
	Bi-weekly % change			Annual % change		
	1F Feb 2014	BBVAe	Consensus	1F Feb 2014	BBVAe	Consensus
Headline	0.12	0.23	0.19	4.21	4.33	4.29
Core	0.12	0.22	0.22	2.97	3.08	3.08
Non Core	0.12	0.26	0.09	8.22	8.38	8.18

Source: BBVA Research, INEGI

Chart 1

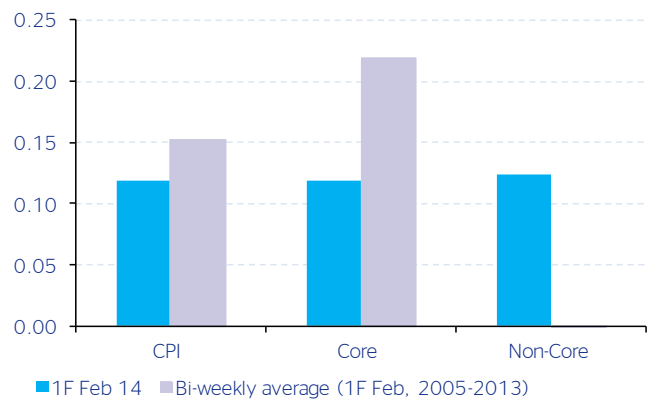
Inflation and components (YoY % change)



Source: BBVA Research, INEGI

Chart 2

Inflation and components (FoF % change)



Source: BBVA Research, INEGI

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