

PM Datanote: CPI, Mexico, January

In one line: Inflation started the year well under control; pressures are easing.

Consumer prices in Mexico rose 0.1% month-to-month in January, below the consensus, 0.2%. Inflation fell to 4.4% year-over-year in January from 4.8% in December, also below the consensus, 4.5%.

The main driver of the modest m/m increase in January, which was much less than the 0.5% increase a year ago, and the 1.7% leap in January 2017, was the 0.2% rise in the core. This increase was driven by goods prices, rising a modest 0.3% month-to-month. Non-food goods prices rose 0.1%, in line with their recent trend. Meanwhile, the services index rose just 0.1% in January, after a 0.6% increase in December, driven by falls in airfares (-32%) and tourist packages (-12%). The effects of the minimum wage increase early this month and inertia has been limited on the services components, which will ease some of Banxico's fears. The year-over-year core rate eased to 3.6% from 3.7% in December.

The non-core group, meanwhile, fell 0.3%. Fresh food prices rose 0.4% m/m, but the increase was fully offset by a 0.7% drop in energy prices. Non-core inflation, plunged to 6.8% y/y from 8.4% in December.

Mexico's inflation is starting to fall consistently, and we expect the underlying trend to ease gradually towards Banxico's 3% target throughout the year. Domestic inflation pressures remain subdued, with little evidence of a pass-through effects from higher import prices. The MXN rebound in December through mid-January and its recent stability will help to keep underlying pressures tame. Moreover, AMLO ordered a reduction in gasoline prices and VAT in northern states to bring them in line with U.S. border cities, where retailers are not subject to government price controls. The downside on the CPI has been stronger than we expected. Moreover, the effect of recent fuel shortages has been modest, at least for now.

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The chart shows that inflation has edged lower since mid-last year and underlying pressures are also falling rapidly. Banxico likely will remain on hold in the foreseeable future.

