

## Economic Analysis

# Still little evidence to suggest that higher import costs (due to a weaker Peso) have been passed on to consumer prices

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**Headline: actual: 0.19% MoM (BBVAe: 0.20%; consensus: 0.21%)****Core: actual: 0.34% MoM (BBVAe: 0.37%; consensus: 0.37%)**

- **There is still little evidence to suggest FX pass-through**
- **In a context of weak demand and ample economic slack, pass-through should be contained**

Headline inflation increased 0.19% MoM in February, broadly in line with expectations (BBVAe: 0.20%, consensus: 0.21%). In annual terms, headline inflation edged down to 3.00% from 3.07% in January (BBVAe: 3.01%, consensus: 3.02%), reaching Banxico's 3.0% target for the first time since May 2006. Core inflation was 0.34% MoM, surprising slightly to the downside (BBVAe: 0.37%, consensus: 0.37%). In annual terms, core inflation edged up slightly to 2.40% from 2.34% in January.

**There is still little evidence to suggest FX pass-through.** The source of the surprise was core goods prices which increased 0.33% MoM (BBVAe: 0.40%), as the second fortnight core goods inflation print was -0.02% FoF, on the back of a 0.07% FoF decline in the core food component and a 0.02% FoF increase in the other goods component. Following the upside surprise in the first fortnight some argued that there was already some evidence of FX pass-through. We pointed out that the 0.59% FoF increase in the other core goods component in the first fortnight was probably offsetting the negligible increase observed since the exchange rate (ER) began to increase sharply (November 2014): until that time, it had decreased in three of the previous five fortnights and had averaged a 0.02% FoF increase over that period. Today's print thus continues to suggest that there have not been significant FX pass-through effects yet, likely because domestic demand remains rather weak. Continued weakness of domestic demand still makes it less likely that higher import costs, due to a weaker peso, will be fully passed on to consumers. Core services prices increased 0.35% MoM (BBVAe: 0.34%).

**Non-core inflation was favored by lower food inflation; yet, pressures on beef prices continue.** Non-core inflation was -0.27% MoM, pushed down again by the decrease in fruit and vegetable prices (-3.61% MoM). Pressures on beef prices continued (1.09% MoM). Energy-related prices decreased slightly (-0.03% MoM).

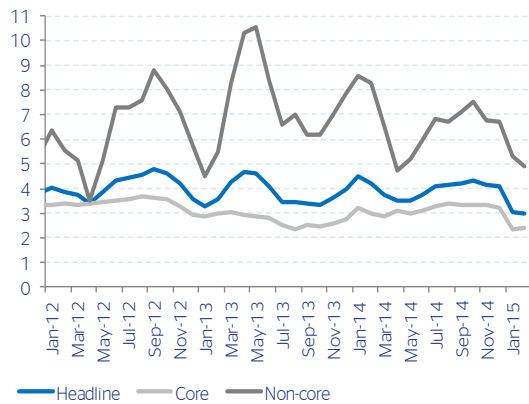
**Bottom line: Today's print supports our view that annual inflation is likely to remain close to Banxico's target (3.0%) throughout 2015, before declining to 2.9% by year-end. Although Peso's continued weakness increases pass-through risks, up to now, the weaker Peso has not created the build-up of inflationary pressures. Even if it is likely that some of the increase in import costs will be passed on to consumers in coming months, the pass-through should remain contained in a context of weak domestic demand.**

Table 1  
**Inflation (MoM and YoY % change)**

| Inflation |              |       |           |              |        |
|-----------|--------------|-------|-----------|--------------|--------|
|           | MoM % change |       |           | YoY % change |        |
|           | Feb-15       | BBVAe | consensus | Feb-15       | Jan-15 |
| Headline  | 0.19         | 0.20  | 0.21      | 3.00         | 3.07   |
| Core      | 0.34         | 0.37  | 0.37      | 2.40         | 2.34   |
| Non Core  | -0.27        | -0.37 | -0.32     | 4.88         | 5.34   |

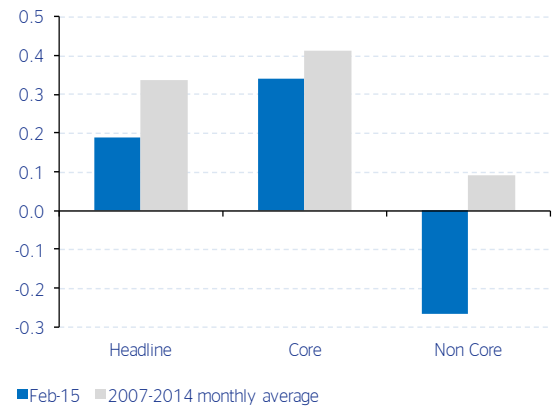
Source: BBVA Research, INEGI

Graph 1  
**Inflation and components (YoY % change)**



Source: BBVA Research, INEGI

Graph 2  
**Inflation and components (MoM % change)**



Source: BBVA Research, INEGI

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