

## Economic Analysis

# Inflation remains under control

Javier Amador Diaz

**Headline: actual: 0.17% MoM (BBVAe: 0.22%; consensus: 0.20%)****Core: actual: 0.21% MoM (BBVAe: 0.25%; consensus: 0.24%)**

- **Both headline and core inflation were slightly lower than anticipated**
- **Annual inflation will accelerate in coming months due to base effects, before decreasing towards 3.7% at the end of the year**

Headline CPI increased 0.17% MoM in June. This print was below expectations (BBVAe: 0.22%; consensus: 0.20%). Annual inflation accelerated to 3.75% from 3.51% in May. Core inflation increased 0.21% MoM, also below market expectations (BBVAe: 0.25%; consensus: 0.24%). In annual terms, core inflation increased to 3.09% from 3.00% in May, confirming the absence of demand-side pressures. Annual inflation will accelerate in coming months due to base effects. Annual inflation is likely to stand close to the upper bound of the inflation target in July-August, and to slightly breach the target range in September-October, before decreasing towards 3.7% by year-end.

**Non-core inflation continues to register low inflation prints.** Non-core inflation was 0.04% MoM (BBVAe: 0.10% MoM). The increase came from administered and regulated prices (0.32% MoM; BBVAe: 0.30% MoM) and meat and egg prices (0.38% MoM; BBVAe: 0.48% MoM). Fruit and vegetable prices surprised us on the downside, decreasing 1.95% MoM (BBVAe: -1.60%).

**Core inflation surprised us slightly on the downside, mainly driven by the core goods component.** We were expecting a slightly higher core inflation print. However, core inflation increased 0.21% MoM, four basis points below our forecast. Core goods prices increased 0.17% MoM (BBVAe: 0.22% MoM) while services prices registered a 0.25% MoM increase (BBVAe: 0.27% MoM). We continue to expect the annual rate to accelerate slightly to 3.2% in coming months (BBVAe: 3.23% on average in H2 2014), if as expected the economy strengthens.

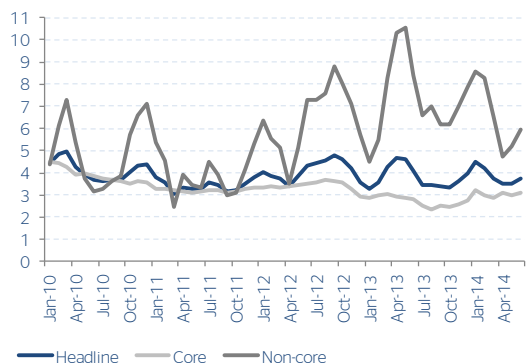
**Bottom line: Because of base effects, we expect annual headline inflation to continue to accelerate in coming months. Annual inflation is likely to stand close to the upper bound of the inflation target in July, and to run slightly above 4.0% in September-October, before decreasing towards 3.7% at the end of the year. Core inflation should remain under control the rest of the year but is likely to accelerate slightly in H2 2014 if as expected the economy strengthens.**

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

Inflation					
	MoM % change			YoY % change	
	Jun-14	BBVAe	consensus	Jun-14	May-14
CPI	0.17	0.22	0.20	3.75	3.51
Core	0.21	0.25	0.24	3.09	3.00
Non Core	0.04	0.12	0.07	5.96	5.19

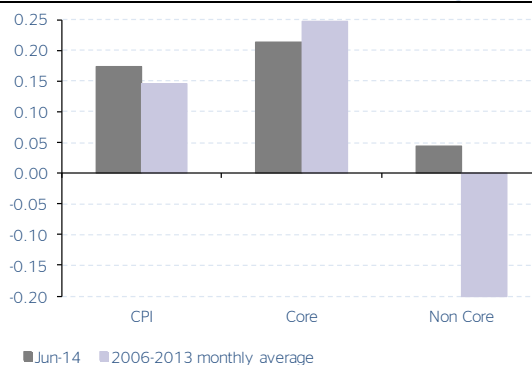
Source: BBVA Research, INEGI

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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